DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DON HOWELL

DATE: JANUARY 20, 2005

RE: AVISTA'S APPLICATION TO INCLUDE ITS RECENT PURCHASE OF COYOTE SPRINGS 2 FROM MIRANT IN ITS IDAHO RATE BASE, CASE NO. AVU-E-05-1

On January 19, 2005, Avista filed an Application requesting authority to increase its Idaho electric rate base by $62.5 million based upon its recent purchase of Mirant-Oregon's half of the Coyote Springs 2 generating plant. Prior to the purchase, Avista and Mirant-Oregon each owned half of the plant. Avista calculates that the addition to rate base would increase the Company's annual revenue requirement by approximately 1.89%, or $3.235 million. Rather than increasing its rates, Avista proposes a $3.2 million reduction in the customer PCA surcharge. Consequently, purchase of the plant would result in no net rate change to customers. The proposed reduction in the PCA surcharge would extend recovery of the deferred power cost balance by approximately 12 months to September 2007. Application at 7.

BACKGROUND

A. The Plant and Initial Operations

Coyote Springs 2 is a 280 MW natural gas-fired, combined-cycle combustion turbine plant located in Morrow County, Oregon. The Coyote Springs site was originally developed by Portland General Electric (PGE) and was designed for two gas-fired units. Coyote Springs 1 was completed in 1995 and is owned and operated by PGE. Avista began construction of adjacent Coyote Springs 2 in January 2001 in conformance with its 2000 Integrated Resource Plan (IRP). Avista has an operating agreement with PGE for PGE to operate both units at Coyote Springs. Application at 11-12.

In November 2004, Avista also submitted a Section 203 petition to FERC requesting permission to transfer the plant from Mirant to Avista. No person commented or intervened in the FERC proceeding. Consequently, FERC approved the transfer to Avista on December 30, 2004. On January 20, Avista assumed ownership and began operating the entire plant. *Id.*

C. Benefits from the Purchase

As previously stated, Avista maintains that the purchase of the plant was very advantageous to ratepayers. Avista retained Navigant Consulting to conduct an analysis of the transaction. Exhibit K. As part of its analysis, Navigant reviewed other comparable transactions of combined cycle plants and determined that the average value of comparable natural gas plants in the western United States was $569/kW – well in excess of Avista's cost of $439/kW for Mirant's share. Application at 6; Table at 24. Navigant also concluded that Avista's purchase price was below the economic value of the plant which was in the range of $67 million.

Avista asserts that the purchase is also in compliance with the Company's most recent IRP from April 2003. In its IRP, the Company identified a need to acquire approximately 149 aMW from natural gas-fired combined-cycle resources. Thus, acquiring the remaining half of Coyote Springs (140 MW) is consistent with the Company's 2003 IRP long-term resource strategy. Application at 14-15. In terms of the Company's annual loads and resources, acquisition of Mirant's share of Coyote Springs 2 covers the forecasted supply deficits identified in the first, third, and fourth quarters of CYs 2005-2007. *Id.* at 15-19; Exh. H.

Next, Avista insists full ownership of Coyote Springs 2 improves the Company's ability to economically operate the plant. Full ownership allows Avista to now make dispatching decisions days and months ahead of actual operations. In addition, decisions can be made faster in the event of unexpected plant outages or in the event capital upgrades or repairs are necessary. *Id.* at 21.

Finally, as of January 20, 2005, 90% of any margins earned from the recently purchased half will be credited to customers through the PCA. The proposed operating results and net power supply expenses, are contained in Exhibits A and M, respectively.

D. No Net Change in Rates

The Company states in its Application that it "is not seeking an increase in overall rates presently in effect." Application at 2. Avista maintains that adding the $62.5 million purchase price to rate base would increase its base rates by $3.235 million, or 1.89%. To offset

Finally, Avista does not seek any net increase to its existing rates because the Company intends to offset the proposed increase in base rates by an equal decrease in its PCA surcharge. Given these factors, the Staff believes it is reasonable for the Commission to process this case via Modified Procedure.

In summary, Avista requests authority to: (1) increase its Idaho rate base and expenses associated with the purchase; (2) increase its base rate tariffs to reflect the purchase; (3) modify its PCA tariff to reflect a corresponding decrease in rates (so there is no net change in rates).

COMMISSION DECISION

1. Does the Commission wish to process this case under Modified Procedure?
2. Although there is no proposed net rate increase, does the Commission desire for the Staff to conduct workshops to disseminate information regarding the Company's Application?
3. Does the Commission find the suggested extended comment cycle reasonable?
4. Does the Commission wish to require anything else?

Don

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