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IDAHO PUBLIC
UTILITIES COMMISSION

WELDON B. STUTZMAN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 3283

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AN ORDER APPROVING RECOVERY OF DEFERRED POWER COSTS.	)	**CASE NO. AVU-E-05-6** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, in response to Order No. 29861, the Notice of Application and Notice of Modified Procedure in Case No. AVU-E-05-6 issued on September 1, 2005, and submits the following comments.

BACKGROUND

On August 11, 2005, Avista Corporation filed an Application for a Commission Order approving recovery of power costs deferred through June 30, 2005. Avista explains in its Application that, pursuant to Commission Order No. 29605 entered in Case No. AVU-E-04-3, its Application serves as the PCA Status Report for 12 months ended June 30, 2005. The deferral balance was $26.1 million at June 30, 2004, but the deferral balance was reduced to $5.9 million as of June 30, 2005. The existing PCA surcharge produces annual revenues of approximately

$4,268,000. The Company requests that the Commission process its Application by Modified Procedure.

The PCA surcharge for Avista currently is 2.448%, and was approved by the Commission in Order No. 29752, effective April 15, 2005. The Company proposes that the existing surcharge remain in place and that the surcharge rates be reviewed again when the PCA Status Report is filed next year covering the July 2005 through June 2006 period. Avista also suggests in its Application that its annual PCA Status Report be filed on or before August 15 each year, rather than by a variable schedule as occurred in recent years.

STAFF REVIEW

Audit Results

Staff has performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2004 through June 2005. Staff was able to look at a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), CT Fuel account (FERC 547) and the Power Sales account (FERC 447). Based on its review of these transactions, Staff concludes that the transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2005.

Deferral Balance Components

The Company is requesting Commission approval for recovery of the Unrecovered Deferral Balance of $5,935,324 as of June 30, 2005. The Unrecovered Deferral Balance at June 30, 2005 is calculated by starting with the unrecovered balance at June 30, 2004, adding in the net deferral activity for the current period of July 1, 2004 through June 30, 2005, and subtracting the amortizations related to surcharge revenues, interest on the deferral balance, plus other items as directed by Commission orders. In this deferral year, two other items affected the deferral balance: the Write-offs of Deal A and B along with the applicable interest, and the Intervenor Funding Amount from the recent general rate case (Case No. AVU-E-04-1, Order No. 29602 and Order No. 29638).

• Unrecovered Balance at June 30, 2004	$26,105,927
• Net Deferral Activity (July 2004 - June 2005)	3,337,109
• Amortizations Related to Surcharge Revenues (July 2004 - June 2005)	-11,877,581
• Intervenor Funding Amount	12,263
• Write-offs (Deal A and Deal B)	-11,378,011
• Interest (net of Deal A and Deal B interest)	-264,743
• Unrecovered Balance at June 30, 2005	$5,935,324

Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the excess power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ended June 30, 2005. The main component of the net deferral activity is the Net Increase in Power Supply Costs. Because power plants are economically dispatched, these PCA accounts also reflect additional power purchases when market prices are lower than generation costs. The associated reduced generation costs are also captured along with off-system sales revenues. The total net increase in power supply cost, $3,979,211, is comprised of the following items:

1. FERC Account 555 - Purchased Power	$33,764,327
2. FERC Account 501 - Thermal Fuel	-534,629
3. FERC Account 547 - CT Fuel	2,431,660
4. FERC Account 447 - Sales for Resale	-23,243,382
5. All Potlatch Revenues and Expenses	-4,828,503
6. Net Fuel Expense - Loss on Natural Gas Resold	502,408
7. Idaho Retail Revenue Adjustment	-4,289,070
8. Wood Power Inc. Amortized Expense	176,400
Total	$3,979,211

1. Purchased Power costs are the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. In the review period the Company incurred more purchased power costs than are included in base rates. The positive amount represents a cost to ratepayers.

2. Thermal Fuel, primarily coal, is used to produce electricity. The amount is the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. In the review period the Company used less coal than is currently included in base rates. The negative amount represents a benefit to ratepayers.

3. CT Fuel is natural gas burned in the Company's combustion turbines. This amount represents the difference in costs the Company incurred for CT fuel compared to the amount included in normalized base rates. In the review period the Company burned more natural gas than is currently included in base rates. The positive amount is a cost to ratepayers.

4. Sales for Resale are long-term and short-term off-system sales. The negative amount represents an increase in off-system sales revenues above the amounts included in base rates. This negative amount represents a decrease in costs during the review period and is a benefit to customers.

5. The Potlatch component is a direct assignment to Idaho of the difference in Potlatch costs and revenues (Lewiston facility) relative to the normalized Potlatch costs and revenues established in the Company's last general rate case. The negative net amount indicates that, during the review period, the cost of serving Potlatch was less than the amount included in base rates and that produces a PCA benefit to Idaho customers.

6. Net Fuel Expense results when natural gas purchased for use in generating plants is sold because it is less expensive to sell the gas and purchase electricity than is to generate power with the gas. The gain or loss on the sale of the gas is included in the PCA. The loss during the review period is a cost to Idaho customers.

7. The Idaho Retail Revenue Adjustment has three components. The load change adjustment is an adjustment to revenues to reflect the cost of serving loads that differ from normalized base loads. If the load grows, revenue is added, if the load declines, there is an adjustment to reflect the decreased load. The revenue credit for retail load growth is computed using the marginal cost of power supply. This amount is established whenever base power supply costs are reset. The current review period includes three different base periods with corresponding marginal power supply costs of 21.23, 36.38 and 36.31 mills/kWh. Marginal power supply costs are multiplied by the growth in load to produce the credit. The other two revenue credits are a credit associated with Schedule 95 wind revenue and a credit for the purchase of Potlatch generation. The negative amount represents a benefit to ratepayers.

8. Wood Power operated a PURPA qualified wood waste powered generation facility at Plummer, Idaho. Washington Water Power, Avista's predecessor, entered into a power sales agreement with Wood Power on August 19, 1982 to purchase the energy and capacity from that facility. On September 30, 1996, Washington Water Power entered into an agreement with Wood Power and Rayonier terminating the 1982 agreement. In Order No. 26751, Case No. WWP-E-96-8, the Company received authorization for ratemaking and accounting treatment of the buy-out of the Wood Power, Inc. contract. The Commission found that PCA deferral and amortization of the buy-out over eight years was reasonable. This amount is the current year's amortization of the buy-out of that contract. The amortization was completed in December 2004.

In the Company's Application, the deferral activity detail that goes into the Net Deferral Activity (July 2004 - June 2005) is $3,337,109. The net deferral activity is comprised of the follow items and amounts:

• Net Increase in Power Supply Costs (detailed above)	$3,979,211
• Coyote Springs II Transmission Credit	-109,814
• Centralia Capital and O&M Credit (Order No. 28876)	-532,288
Total	$3,337,109

The Coyote Springs II Transmission Credit began after the Company purchased the second half of Coyote Springs II and began including it in the PCA calculation in April 2005. The transmission credit for the second half of Coyote Springs II is equal to the transmission cost for the second half of Coyote Springs II that is included in base rates. This credit is included because the transmission for the second half of Coyote Springs II is not being provided through the purchase of transmission, but rather through a sale and purchase arrangement. The net cost of the sale and purchase arrangement is included in the actual power supply expenses in the PCA deferral. If the credit were not included, the Company would collect twice for transmission costs for the second half of Coyote Springs II.

The Centralia Capital and O&M Credit reflects the Centralia capital costs such as return on investment and Centralia O&M expense. After base rates were set in August of 1999 (WWP-E-98-11), the Centralia power plant was sold. The Centralia credit is designed to offset the Centralia revenue requirement that was still part of base rates until rates were reestablished in the

Company's most recent general rate case, Case No. AVU-E-04-01, Order No. 29602. As of the implementation of the new rates on September 9, 2004, that do not include Centralia costs, the Centralia Capital and O&M credit is no longer a part of the PCA deferral calculation. The Centralia credit is not subject to 90/10 sharing.

Amortizations Related to Surcharge Revenues

During different portions of the July 2004 through June 2005 review period three different PCA surcharges were in effect. A 19.4% surcharge was originally authorized by the Commission in Order No. 28876, Case No. AVU-E-01-11. The surcharge was extended by Order No. 29130, Case No. AVU-E-02-6, and again by Order No. 29377, Case No. AVU-E-03-6.

The surcharge was reduced to 4.385% effective September 9, 2004 as a result of the general rate increase authorized in Case No. AVU-E-04-1, Order No. 29602 and Order No. 29588. The surcharge was reduced to partially offset an increase in base rates.

The surcharge was again reduced to the existing level of 2.448% effective April 15, 2005, Case No. AVU-E-05-1. This second reduction of the PCA rate coincided with the approval for purchase and rate base treatment of the second half of the Coyote Springs II generating facility. The reduction allowed the facility to be included in base rates with no overall increase to customers.

The amount for amortizations related to surcharge revenues represents the amount of surcharge revenues for the twelve months ended June 30, 2005 net of the revenue related expenses of commission fees and uncollectibles. Staff reviewed the amount of monthly surcharge revenues and found them to be appropriately calculated and recorded. Staff notes that the amount of surcharge revenues decreased significantly over prior years due to the previously described decrease in PCA rates. The Company estimates that the existing surcharge rates will produce annual revenues of approximately $4,268,000.

Intervenor Funding

In Case No. AVU-E-04-01, Order No. 29602, page 47, the Commission approved intervenor funding in the amount of $12,623 and assigned the recovery of that amount to the Residential Customer Class. This amount is included in the review period as a cost that is normally recovered from all ratepayers. Since neither the Company nor Staff proposed that rates change as a result of this proceeding, Staff proposes that treatment of this amount be carried over to the next PCA case that changes rates. The intervenor funding amount is quite small and would only cause a single digit change in the last decimal place of the residential rate. The Company's current accounting practices are not set up to track a PCA deferral that is assigned to a specific customer class. Staff recommends that the Company make a proposal for treatment of the amount in its next PCA filing.

Write-offs (Deal A and Deal B)

The Company has removed the amount of the losses associated with Deal A and Deal B from the PCA deferral balance. These amounts were excluded from PCA recovery as directed in Order No. 29602 and Order No. 29638. Staff has reviewed the amounts presented in the Company's filing and believes they are accurate.

Interest

The Company calculates interest on the deferral balance per Commission Order No. 29323, Case No. AVU-E-03-4. Staff reviewed the calculation of the interest, including the amount of the interest associated with Deal A and B that was reversed and found the amounts included in the filing to be correct. The Company uses the Customer Deposit Rate on current year deferrals and the Customer Deposit Rate plus 2% on carryover balances from one year to the next. The Customer Deposit Rate for 2004 was 1% and the Customer Deposit Rate for 2005 is 2%.

CONSUMER ISSUES

Avista filed its electric Power Cost Adjustment (PCA) on August 11, 2005. Ordinarily, the Company would include a copy of its Customer Notice with the filing but because Avista is not proposing to raise or lower its rates with this filing, it is not required to notify customers through the customer notice procedure as required by IDAPA 31.21.02.102.

Customers were given until September 22, 2005 to file comments. Three comments were received. However, none of the comments related to Avista's proposal. One customer wrote about being upset that rates were being increased; unfortunately, the customer misunderstood what the Company was proposing with this year's PCA filing.

RECOMMENDATIONS

Staff proposes that the Commission accept the deferral balances presented in the Company's filing. Staff recommends that the PCA surcharge, currently 2.448%, and the associated customer class rates, be continued for one year. Staff also recommends any actual remaining deferral balance at June 30, 2006 be reviewed by the Commission prior to establishing a new surcharge or continuing the current surcharge for an additional period of time. In that filing Staff recommends that the Company be directed to address ratemaking treatment of the $12,263 of intervenor funding included in this review period. Staff also recommends approval of the Company's proposal that its next status report be filed on or before August 15, 2006, and address the review period July 1, 2005 through June 30, 2006.

Respectfully submitted this 22nd day of September 2005.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Keith Hessing
Kathy Stockton
Marilyn Parker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF SEPTEMBER 2005, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-05-6, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J. MEYER
SR VP AND GENERAL COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
E-mail dmeyer@avistacorp.com

KELLY NORWOOD
VICE PRESIDENT – STATE & FED. REG.
AVISTA UTILITIES
PO BOX 3727
SPOKANE WA 99220-3727
E-mail Kelly.norwood@avistacorp.com

Jo Nelson
SECRETARY