

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF)	
THE POWER COST ADJUSTMENT (PCA))	CASE NO. AVU-E-06-05
STATUS REPORT OF AVISTA)	
CORPORATION AND REQUEST FOR)	
RECOVERY OF POWER COSTS)	ORDER NO. 30161
<u>DEFERRED THROUGH JUNE 30, 2006</u>)	

On August 15, 2006, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an Order approving continuation of the existing 2.448% PCA surcharge and authorizing recovery of power costs deferred through June 30, 2006. Avista's Application serves as a PCA Status Report for the 12 months ended June 30, 2006 and complies with the Commission's directive in Avista PCA Order No. 29881, Case No. AVU-E-05-6. The Commission in this Order authorizes a continuation of the surcharge until June 30, 2007 and announces a review of Avista's PCA methodology and method of recovery.

The Company filing identifies the power cost deferrals during the July 1, 2005 through June 30, 2006 review period, and explains the primary factors causing the PCA deferrals. The unrecovered deferral balance at June 30, 2005 was \$5,935,324. The unrecovered balance at June 30, 2006 is \$1,517,103. While the annual amount of revenue under the existing surcharge (approximately \$4.3 million) is greater than the unrecovered surcharge balance at June 30, 2006, the Company contends the unrecovered surcharge balance is expected to grow. Richard Storro, Director of Avista Power Supply, in testimony filed with the Application explains the reasons that actual power costs are expected to exceed authorized power costs and provides the forecasted effect on the deferral balance. At July 31, 2006, the deferral balance had grown to \$3.2 million. The Company estimates that the deferral balance by the end of August 2006 will be higher than the annual surcharge revenue level of \$4.3 million. With the existing surcharge remaining in place, the deferral balance is expected to approximate \$8.7 million at the end of the year.

On August 30, 2006, the Commission issued Notices of Application and Modified Procedure in Case No. AVU-E-06-5. The deadline for filing written comments or protests was September 29, 2006. Comments were filed by Commission Staff and one of the Company's

customers. The customer recommends that the Company's Application be denied. Staff proposes that the Commission accept the audited 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. Staff also recommends that the Commission establish one or more public workshops to develop future PCA filing criteria and a transition to equal cents per kWh PCA rates for presentation to the Commission prior to the next annual PCA filing. Finally, Staff recommends that the Company's next status report be filed on or before August 15, 2007 to address a review period no longer than one year beginning July 1, 2006, to apply a new PCA methodology if available and implement new PCA rates if necessary. Staff's comments can be summarized as follows:

PCA Deferral Balance – June 30, 2006

Staff in its comments notes that it performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff notes that the Company is requesting Commission approval for recovery of the unrecovered deferral balance of \$1,517,103 as of June 30, 2006 and calculated as follows:

• Unrecovered Balance at June 30, 2005	\$5,935,324
• Net Deferral Activity (July 2005 - June 2006)	-98,317
• Amortizations Related to Surcharge Revenues (July 2005 - June 2006)	-4,599,432
• Interest	279,528
• Unrecovered Balance at June 30, 2006	<u>\$1,517,103</u>

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 12 months ended June 30, 2006.

Deferral Balance Projection

In its filing Avista projects the PCA deferral balance for July through December 2006. The projection shows an additional accumulation of approximately \$7.6 million. Based on this projection the Company recommends that PCA rates not be reduced to recover only the June 30, 2006 deferral balance of approximately \$1.5 million, but that rates remain at current levels, rates that are expected to generate approximately \$4.3 million in PCA revenue during the coming year. Staff notes that the Company's proposal to continue the existing 2.448% PCA surcharge seems to be more generally based on the expectation of higher deferral balances and

the principle of rate stability. Staff points out that the Avista PCA methodology approved by the Commission does not include recovery of projected costs or costs deferred after the PCA filing. It is designed to recover costs after they are deferred, requested for recovery and fully audited.

Staff does not oppose the Company's proposal in this case to continue the existing surcharge. In assessing the reasonableness of the Company's proposal, Staff used the unaudited July (\$2,032,949) and August (\$3,606,778) PCA deferrals as known and measurable, subject to audit and correction in the Company's next PCA filing. Continuation of the existing surcharge, Staff states, will assure smaller deferral balances and interest charges for recovery later. Keeping the PCA rate at the present level will also offer rate stability to customers. It will further assure that the deferral balance will not increase to the level it might otherwise attain if the PCA rate is lowered to only collect the deferral balance as of June 30, 2006.

PCA Methodology

Staff notes in its comments that Avista's current PCA filing is made under temporary criteria established by the Commission in 2001 when regional power supply costs and PCA deferral balances reached unprecedented levels. At that time an annual PCA cap amount of \$12 million or about 10% of base revenues was established along with an annual PCA review and potential rate adjustment.

The PCA filing methodology that was in place prior to the Commission's 2001 Order called for the Company to make PCA filings when the deferral balance reached a trigger amount of \$3 million. Avista's PCA also included a rate cap of no more than two triggers being incorporated in rates at any one time. The \$3 million trigger was established at approximately 2.5% of Idaho jurisdictional revenue. The Company, Staff states, views this as the more permanent methodology approved by the Commission and plans to return to it once the deferral balance reaches zero. Also, when that balance reaches zero the Company is required to implement a new rate design changing from an equal percentage to an equal cents per kWh increase or decrease for each customer class.

In this filing the deferral balance at June 30, 2006 was approximately \$1.5 million that is relatively close to zero. Staff's concern is that even with the continuation of the current PCA rates, designed to recover \$4.3 million annually, the PCA deferral balance is expected to grow through the end of the year. Staff believes that these circumstances leave several unanswered questions.

1. When will the PCA deferral balance reach zero?
2. Should the Commission wait until the balance reaches zero to return to trigger and cap PCA filings and/or implement equal cents per kWh rates?
3. Should the Company return to trigger and cap PCA filings or should a single annual filing be made that would drive a single annual rate change? This is the methodology used in recent years.
4. If Avista's PCA returns to trigger and cap filings, what should the trigger and cap be?

In this case Staff recommends that the existing PCA surcharge be continued as proposed by the Company. However, Staff believes that the Commission should authorize one or more public workshops to discuss the unanswered questions identified by Staff and concerns that other interested participants might have. It is Staff's hope that participants could reach an agreement to be presented to the Commission regarding a permanent future PCA methodology.

Financial Assistance for Paying Heating Bills

Although Avista's rates for residential customers under the Company's proposal may remain the same this year, many customers, Staff notes, still struggle to make ends meet. Staff encourages those customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding assistance programs, Staff reports that customers may call the local Community Action Partnership agency (CAPAI), Avista Utilities, the Idaho Public Utilities Commission, or for other community resources call the 2-1-1 Idaho Care Line.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. AVU-E-06-5 including the comments and recommendations of Commission Staff. We have also reviewed the comments filed by one of the Company's fixed income customers recommending denial of the Company's Application. We have also reviewed our 2001 Order No. 28775 in Case No. AVU-E-01-1 modifying the PCA methodology and subsequent PCA Orders.

The temporary changes in Avista's PCA methodology authorized in 2001 were triggered by dramatic increases in prices on the wholesale market. In October 2001 the Commission approved a 19.4% PCA surcharge to enable the Company to pay down a \$78

million power cost debt incurred during the 2000-2001 western states energy crisis. The Commission in 2004 reduced the surcharge to 4.38%, and in April 2005 reduced it again to its current level of 2.448%. The existing PCA surcharge produces annual revenues of approximately \$4,268,000, which is greater than the \$1,517,103 June 30, 2006 unrecovered balance. To justify continuation of the surcharge the Company proposes that the Commission recognize an intervening increase in deferral activity. Although unaudited, the Commission is apprised that the PCA deferral balance booked by Avista for the three months of July through September 2006 is \$7,100,927.

The Commission in its Order No. 28775 in 2001 approving modifications to the PCA methodology agreed with Potlatch that the changed methodology approved in that case merited close monitoring. Order No. 28775 p. 15. Potlatch had recommended that the Commission “restrict the adoption of the proposed changes to a limited period of time, perhaps two years, with a thorough review of the new methodology thereafter. . . .” Order No. 28775 p. 14. The Commission found that a two-year review seemed appropriate and stated:

After two years of operation with these changes we will expect the Company to file a report with this Commission detailing the operation of the modified PCA. The report should include total surcharge and rebate amounts recovered over the period, significant events that have impacted power supply expenses, changes in the long-term (greater than one year) supply/demand situation *and mechanism modifications that may be justified.* (Emphasis added.)

On August 8, 2003, the Company filed a Status Report together with Company testimony. In the testimony of Ron McKenzie, the Company estimated that the PCA deferral balance would reach zero in mid-2005. McKenzie Testimony p. 5, Case No. AVU-E-03-6.

The Commission has continued to monitor the Company’s PCA and the Company’s declining deferral balance and finds that the balance declined in 2006 to a level near zero. We find that the events that justified implementation of changes in PCA methodology, however, cannot be used to support an unending continuation of the charges. A thorough review and examination is required. In this filing the Company uses a projected increase in deferral to justify its request to continue rather than reduce the existing surcharge level. This recommended use of projections is a significant departure from the approved PCA methodology. We find it appropriate at this time to conduct the thorough review of PCA methodology envisioned when we approved changes to the methodology in 2001. We find Staff’s suggestion to hold one or

more workshops to be an acceptable vehicle for reviewing the Company's PCA methodology and expect the Company at the conclusion of that review to file a report with the Commission assessing the PCA methodology and providing justification for mechanism modifications. It is only with this review of PCA methodology that we authorize and continue the existing PCA surcharge of 2.448%.

The PCA Status Report filed by Avista and the audit by Staff in this case of the deferrals through June 30, 2006 indicate that the Company is properly accounting for PCA revenues and appropriately applying them to excess power costs. On the record developed in this case and as qualified above we find it reasonable to continue the current PCA surcharge of 2.448% until the deferral balance reaches zero or June 30, 2007, whichever occurs first. By leaving the PCA surcharge in place, Avista will be able to further reduce the power cost deferral balance and customers will not experience a change in existing rates.

ORDER

In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED that the Application of Avista for an Order to continue the current PCA surcharge of 2.448% until the deferral balance reaches zero or June 30, 2007, whichever occurs first, is approved.

IT IS FURTHER ORDERED that one or more PCA methodology workshops are to be held and a report filed with the Commission by Avista on or before August 15, 2007, recommending continuation or proposed changes to the PCA methodology and method of recovery.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

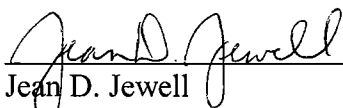
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 31st
day of October 2006.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


DENNIS S. HANSEN, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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