DECISION MEMORANDUM

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

FROM: SCOTT WOODBURY

DATE: OCTOBER 24, 2006

SUBJECT: CASE NO. AVU-E-06-8 (Avista)
PROPOSED ELIMINATION OF CENTRALIA GAIN RATE CREDIT

On September 14, 2006, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting authority to eliminate or zero-out the temporary rate adjustment credits (tariff Schedule 65) that have been used to pass through the customer portion of the gain on the sale of the Centralia Power Plant. The Company expects that the customer portion of the gain on the sale of the Centralia Power Plant will be fully refunded to customers by November 1, 2006. The proposed effective date is November 1, 2006.

Elimination of the rate credit will result in an overall annual increase in Idaho electric revenue of approximately $2.5 million or 1.45% and will affect all electric customers. Energy charges for the individual rate schedules are to be increased by the following amounts:

Schedule 1	0.091¢
Schedule 11 and 12	0.124¢
Schedule 21 and 22	0.085¢
Schedule 25	0.059¢
Schedule 31 and 32	0.073¢

Flat rate charges for Street and Area Lighting Service (Schedules 41-49) are to be increased by 1.777%.

BACKGROUND

On March 7, 2000, the Commission approved the sale of the Company's interest in the Centralia Power Plant. Reference Order No. 28297, Case No. AVU-E-99-6. The customer portion of the gain was deferred and was originally to be passed on to customers over an eight-year period. Potlatch's Lewiston facility was initially exempted from receiving any portion of the gain as the facility was served under a special service contract. The Centralia gain rate credits contained on Original Sheet 65 were effective August 1, 2000. Beginning January 1, 2002, Potlatch began receiving service under Schedule 25 – Extra Large General Service and began receiving and has continued to receive the Centralia gain credit applicable to Schedule 25.

In 2004 the Commission approved the sale of Avista's interest in the Skookumchuck hydroelectric generation facility, which is operated to supply cooling water to the Centralia Power Plant. Reference Order No. 29484, Case No. AVU-E-04-2. As proposed by the Company and approved by the Commission, the customer portion of the gain on the sale of Skookumchuck was deferred and added to the deferred gain on the Centralia Power Plant.

The customer portion of the net of tax Centralia gain amounted to approximately $7,507,000 and the customer portion of the net of tax Skookumchuck gain amounted to approximately $154,000. The Company expects that the total amount of the net of tax gains of approximately $7,661,000, and the benefit of a carrying cost on the unamortized gains, will have been passed on to customers at the end of October 2006. The shorter pass-through period is due primarily to having Potlatch receive the gain credit applicable to Schedule 25 beginning January 1, 2002. In addition, customer loads have grown since the gain credits were made effective on August 1, 2000, also resulting in a shorter pass-through period. The Company proposes that any under-refunded or over-refunded balance on November 1, 2006 be transferred to the deferred Power Cost Adjustment (PCA) deferral account as well as the remaining balance of associated deferred federal income tax.

Avista proposes that the Centralia gain temporary rate credits be eliminated effective November 1, 2006. Elimination of the temporary rate credits will result in an overall increase in annual revenue of approximately $2.5 million. A residential customer using 1,000 kilowatt-hours per month will see an increase of $0.91 or 1.45% in their monthly bill due to the elimination of the temporary rate credit.

On September 28, 2006, the Commission issued Notices of Application and Modified Procedure in Case No. AVU-E-06-8. The deadline for filing written comments was October 19, 2006. Comments were filed by a customer of the Company who is retired and on a fixed income and cannot afford continuous rate increases. Comments were also filed by Commission Staff. Staff performed an on-site audit of the journal entries associated with the Centralia gain credit. Staff contends that the calculation of the monthly Centralia gain credit was properly calculated and accounted for. Staff concurs in the Company's proposal to eliminate or zero out the temporary Centralia (Skookumchuck) tariff Schedule 65 rate adjustment credit for a November 1, 2006 effective date. Staff recommends that any under-refunded or over-refunded balance on November 1, 2006 be transferred (as well as the remaining balance of associated deferred federal income tax) to the deferred PCA deferral account. Staff further recommends that the Company include the Centralia gain credit balance as a line item in the PCA deferral account.

COMMISSION DECISION

Avista has filed an Application seeking to eliminate or zero out the temporary rate adjustment credits (tariff Schedule 65) that have been used to pass through the customer portion of the gain on the sale of the Centralia power plant (also Skookumchuck). The proposed effective date is November 1, 2006. Elimination of the credit results in an increase to customers and an increase in annual revenue of approximately $2.5 million. Staff recommends approval. One customer opposes the resultant increase in rates. Does the Commission find it reasonable to grant the Company's proposal? Does the Commission find it reasonable that any under-refunded or over-refunded balance on November 1, 2006 be transferred (as well as the remaining balance of associated deferred federal income tax) to the deferred PCA deferral account and that gain credit balance be included as a line item in the PCA deferral account?

Scott Woodbury

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