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VIA OVERNIGHT MAIL

April 26, 2007

State of Idaho
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702-5983

Attention: Ms. Jean Jewell, Secretary

Case No. AVU-E-07-01
Avista Corporation's Report Related to the Review of
Avista's Power Cost Adjustment (PCA) Methodology

Enclosed for filing with the Commission are an original and seven copies of the Report of Avista Corporation in the above referenced case related to the review of Avista's Power Cost Adjustment (PCA) methodology. Also enclosed is a Certificate of Service.

Please direct any questions regarding this filing to Ron McKenzie at (509) 495-4320.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood
Vice President, State and Federal Regulation

Enclosure
RM

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1 David J. Meyer
2 Vice President and Chief Counsel of
3 Regulatory and Governmental Affairs
4 Avista Corporation
5 1411 E. Mission Avenue
6 P. O. Box 3727
7 Spokane, Washington 99220
8 Phone: (509) 489-0500, Fax: (509) 495-8851

9 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

10 IN THE MATTER OF THE REVIEW OF THE)
11 POWER COST ADJUSTMENT (PCA)) CASE NO. AVU-E-07-01
12 METHODOLOGY OF AVISTA CORPORATION)

13 AVISTA'S REPORT
14 RECOMMENDING PROPOSED
15 CHANGES AND REQUEST FOR
16 CONTINUATION OF EXISTING
17 SURCHARGE THROUGH
18 SEPTEMBER 30, 2007

19 I. INTRODUCTION

20 Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at
21 1411 East Mission Avenue, Spokane, Washington, respectfully files its report in the above
22 referenced case, and requests the Commission issue an order approving proposed changes in the
23 method of PCA recovery, and the continuation of the existing PCA surcharge through September 30,
24 2007.

25 Communications in reference to this Application should be addressed to:

26 Kelly O. Norwood
27 Vice President
28 State and Federal Regulation
29 Avista Corporation
30 1411 E. Mission Avenue
31 Spokane, Washington 99220
32 Phone: (509) 495-4267
33 Fax: (509) 495-8851

David J. Meyer
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1 **II. BACKGROUND**

2 On October 31, 2006, the Idaho Public Utilities Commission (Commission) in Case No.
3 AVU-E-06-05 issued Order No. 301691 announcing a review of Avista Corporation's Power
4 Cost Adjustment (PCA) methodology and method of recovery. In that Order Avista was
5 authorized to continue the existing surcharge of 2.448% until the deferral balance reaches zero or
6 June 30, 2007, whichever occurs first. The Commission further ordered that one or more PCA
7 methodology workshops were to be held and a report filed with the Commission by Avista on or
8 before August 15, 2007 recommending continuation or proposed changes to the PCA
9 methodology and method of recovery.

10 The Commission opened Case No. AVU-E-07-01 to establish a vehicle for review of
11 Avista's PCA methodology and method of recovery and issued a "Notice of Workshop." A
12 workshop was held on March 19, 2007, at the Commission's Hearing Room in Boise, Idaho.
13 The workshop was attended by representatives from Avista, Commission Staff, Potlatch
14 Corporation, and Idaho Power Company.

15 **III. PROPOSALS DISCUSSED AT WORKSHOP**

16 At the workshop the Company discussed a proposed modification to the PCA
17 methodology, and proposed modifications to the method of recovery. The proposed modification
18 to the PCA methodology was with regard to the rate used in calculating the retail revenue credit.
19 The Company discussed using the average cost of production rather than the marginal cost of
20 production. The Company is not proposing a change to the retail revenue credit rate in this
21 proceeding. If the Company decides to address this issue, it will do so in its next general rate
22 case filing.

1 The proposed modifications to the method of PCA recovery discussed at the workshop can be
2 broken down into three main categories: 1) single annual PCA rate adjustments rather than returning
3 to triggers and a cap, 2) annual schedule for rate adjustments and review of PCA deferrals, and 3)
4 rate spread for the October 1, 2007 and October 1, 2008 rate adjustments. Each main category is
5 discussed separately below. It is our understanding that there was agreement among the parties on
6 the proposals presented below.

7 **A. SINGLE ANNUAL PCA RATE ADJUSTMENTS**

8 The Company is proposing single annual PCA rate adjustments rather than returning to
9 triggers and a cap. Order No. 28775 in Case No. AVU-E-01-1, dated July 12, 2001, approved
10 modifications to the PCA effective January 1, 2001. The modifications included approval of a cap of
11 \$12 million, or about 10% of base revenue at the time, with a continuation of \$3 million triggers.
12 Rather than a hard and fast rule, the Company was given the latitude to request and seek a higher
13 amount, if circumstances justified a higher amount. Such a request occurred due to the 2000-2001
14 western energy crisis, with a 19.4% surcharge being approved effective October 12, 2001. The
15 surcharge was later reduced to 4.385% on September 9, 2004, to partially offset a general rate
16 increase, and again reduced to its current level of 2.448% on April 15, 2005, to offset the increase in
17 general rates to recover costs associated with the acquired second half of Coyote Springs 2, a natural
18 gas-fired generating unit.

19 The Company has not been using triggers to determine PCA rate adjustments since 2001.
20 Rather, pursuant to Commission orders, the annual PCA status report to review deferrals has also
21 included annual approvals for the continuation of the PCA surcharge rates.

1 The Company is proposing that the PCA procedures be modified to require annual PCA rate
2 adjustment filings to recover or rebate the deferrals being reviewed in the annual PCA status report
3 filing. Annual PCA rate adjustment filings will eliminate multiple PCA rate changes occurring
4 within a year under a triggering mechanism. Having annual PCA rate adjustment filings is consistent
5 with how the annual review of the PCA rates has been occurring. However, the existing practice of a
6 rate adjustment remaining in place as long as there is a deferral balance larger than annual revenues
7 from the PCA rate adjustment would be discontinued. Rather, the PCA rate adjustment would be set
8 each year on October 1st to recover the previous June 30th deferral balance, would remain in place for
9 twelve months, and would be replaced by a new rate adjustment that is set based on the next twelve
10 months of deferrals. The deferrals for each July –June, twelve-month period and the PCA rate
11 adjustment associated with that period will be accounted for separately. Any over- or under-
12 recovered surcharge or over- or under-refunded rebate balance will be transferred to the deferral
13 balance that will be subject to the next rate adjustment.

14 **B. SCHEDULE FOR RATE ADJUSTMENTS AND REVIEW OF PCA DEFERRALS**

15 The Company has been making annual PCA review filings on or before August 15th of each
16 year. The review filings cover power costs and the associated PCA deferrals that were recorded
17 during the immediately preceding twelve-month period of July through June. The Company
18 proposes that these filings continue to be made. The Company is proposing that an annual PCA rate
19 adjustment be part of the filing with the rate adjustment being based on deferrals for the same July
20 through June twelve-month period that the PCA review filing covers.

1 Listed below are the proposed dates for the Company filing, review and comments by Staff
2 and other interested parties, Commission order, and effective date of the PCA rate adjustment for
3 2007:

4 August 1, 2007	Company filing for July 2006 – June 2007 deferral period
5 September 1, 2007	Review and comments by Staff and other interested parties
6 October 1, 2007	Commission order
7 October 1, 2007	Effective date of PCA rate adjustment

8 Under the Company's proposal the current PCA surcharge of 2.448% would be extended and
9 would expire on September 30, 2007. The PCA surcharge would be replaced by an October 1, 2007
10 rate adjustment designed to recover deferrals for the July 2006 – June 2007 period that would expire
11 on September 30, 2008, which, in turn, would be replaced by a October 1, 2008 rate adjustment
12 designed to recover deferrals for the July 2007 – June 2008 period that would expire on September
13 30, 2009. The process would continue in the future, unless it is modified.

14 **C. RATE SPREAD FOR OCT. 1, 2007 AND OCT. 1, 2008 RATE ADJUSTMENTS**

15 The Company proposes that the October 1, 2007 rate adjustment be spread on a uniform
16 percentage basis and that the October 1, 2008 rate adjustment and subsequent adjustments be spread
17 on a uniform cents per kilowatt-hour basis. Order No. 29602 issued October 8, 2004 in Avista's last
18 general rate case, Case Nos. AVU-E-04-1 and AVU-G-04-1, at page 48 states:

19 "The Commission finds that a cents per kWh recovery method for the PCA is superior to the
20 percentage basis currently used. While we recognize the difficulties pointed out by Potlatch,
21 we find the cents per kWh rate more equitable to all customers than the percentage allocation.
22 We recognize that the variable cost of energy fluctuates from year to year based on the
23 amount of energy consumed and should therefore be surcharged or credited on an equal cents
24 per kWh basis. We authorize the change to an equal cents per kWh when the present deferral
25 balance is eliminated. We reject Potlatch's proposal to seasonalize PCA recovery amounts
26 on a monthly or quarterly basis as being administratively burdensome and unnecessary to

1 achieve fairness and equity.”

2 Under the annual rate adjustment method being proposed, the Company will be setting PCA
3 rates based on deferrals recorded for specific twelve-month periods. Since this proposal is a
4 modification to the old revenue adjustment mechanism of triggers, and since the deferral balance did
5 not actually reach zero, the Company is proposing that the October 1, 2007 rate adjustment be spread
6 on a uniform percentage basis. Thereafter, the rate adjustments would be spread on a uniform cents
7 per kilowatt-hour basis.

8 **IV. REQUEST FOR CONTINUATION OF EXISTING SURCHARGE**

9 The Company requests that the existing 2.448% PCA surcharge not expire on June 30, 2007,
10 but be allowed to continue through September 30, 2007. Based on current estimates, it is likely that
11 the PCA surcharge rate will increase from 2.448% to about 4% on October 1, 2007. Rather than
12 have the PCA surcharge go to zero on July 1, 2007, leaving the existing surcharge in place through
13 September 30, 2007 will minimize the rate increase impact that occurs on October 1, 2007. Also, if
14 the existing surcharge is allowed to continue, the October 1, 2007 rate adjustment will be lessened by
15 the amount of revenue received from the existing surcharge during the months of July, August, and
16 September of 2007. In other words, if the existing surcharge continues, the October 1, 2007 rate
17 adjustment will be based on the deferral balance at June 30, 2007, less the surcharge revenue to be
18 received from the existing surcharge during the months of July, August, and September.

19 **V. RATE MECHANISM FLEXIBILITY**

20 If circumstances arise, the Company proposes that it be allowed the flexibility to seek a
21 departure from the procedures. Examples that were discussed at the workshop were: 1) maintain
22 flexibility to do rate adjustments in addition to the annual adjustment if the situation warrants,

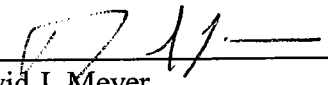
1 2) maintain flexibility to not do a rate adjustment if the adjustment is too small, and 3) maintain
2 flexibility to recover or rebate the deferral balance over more than one period. Of course, the
3 Company would be required to request authorization and provide justification for any departure from
4 the PCA rate mechanism procedures.

5 **VI. REQUEST FOR RELIEF**

6 The Company respectfully requests the Commission approve the previously discussed
7 changes to the method of PCA recovery, and the continuation of the existing PCA surcharge rates
8 through September 30, 2007. The Company requests that the matter be processed under the
9 Commission's Modified Procedure rules through the use of written comments. The Company
10 requests that the Commission set a deadline for written comments or protests and issue the required
11 notice in this proceeding. Since the Company is requesting that the existing PCA surcharge,
12 otherwise set to expire on June 30, 2007, be continued through September 30, 2007, an order would
13 need to be issued prior to June 30, 2007, if continuation is approved.

14
15 Dated at Spokane, Washington this 26th day of April 2007.

16
17 AVISTA CORPORATION

18
19 BY 
20 David J. Meyer
21 Vice President and Chief Counsel of
22 Regulatory and Governmental Affairs
23

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VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

David J. Meyer, being first duly sworn on oath, deposes and says: That he is the Vice President and Chief Counsel of Regulatory and Governmental Affairs of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized; That he has read the foregoing filing, knows the contents thereof, and believes the same to be true.

[Handwritten signature]

SIGNED AND SWORN to before me this 26th day of April 2007, by David J. Meyer.



[Handwritten signature]

NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

Commission Expires: 2/22/10

CERTIFICATE OF SERVICE


I HEREBY CERTIFY that I have served Avista Corporation's Report in Case No. AVU-E-07-01 related to the review of Avista's Power Cost Adjustment (PCA) Methodology, by mailing a copy thereof, postage prepaid to the following:

Ms Jean D Jewell, Secretary
Idaho Public Utilities Commission
472 W. Washington St.
Boise, ID 83702-5983

Pamela Mull
Vice President & General Counsel
Potlatch Corporation
601 W. Riverside Ave.
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Howard Ray
Technical Services Manager
Potlatch Corporation
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PO Box 1126
Lewiston, ID 83501-1126

Dated at Spokane, Washington this 26th day of April 2007.



Patty Olsness
Rates Coordinator