Office of the Secretary
Service Date
March 2, 2007

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE REVIEW OF THE POWER COST ADJUSTMENT (PCA) METHODOLOGY OF AVISTA CORPORATION DBA AVISTA UTILITIES	**CASE NO. AVU-E-07-01** **NOTICE OF PCA METHODOLOGY REVIEW** **NOTICE OF WORKSHOP**

On October 31, 2006, the Idaho Public Utilities Commission (Commission) in Case No. AVU-E-06-05 issued Order No. 30161 announcing a review of Avista Corporation's Power Cost Adjustment (PCA) methodology and method of recovery. Avista's PCA is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary prices and changes in power contract revenues and expenses.

YOU ARE HEREBY NOTIFIED that the Commission opens this case docket AVU-E-07-01 to establish a vehicle for review of Avista Corporation dba Avista Utilities' (Avista; Company) PCA methodology and method of recovery.

Background

The context for the present docket is set forth in the Commission's Order No. 30161, Case No. AVU-E-06-05. In that Order the Commission made the following findings:

> The Commission has reviewed and considered the filings of record in Case No. AVU-E-06-5. . . . 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%.

In our Order No. 30161 we authorized Avista to continue the current PCA surcharge of 2.448% until the deferral balance reaches zero or June 30, 2007, whichever occurs first. We further ordered that one or more PCA methodology workshops were 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.

YOU ARE FURTHER NOTIFIED that a workshop in Case No. AVU-E-07-01 to review Avista's PCA methodology and method of recovery is scheduled for **MONDAY, MARCH 19, 2007 COMMENCING AT 9:30 A.M. AT THE COMMISSION'S HEARING ROOM, 472 WEST WASHINGTON STREET, BOISE, IDAHO**.

DATED at Boise, Idaho this 2nd day of March 2007.

PAUL KJELLANDER, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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