DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **SCOTT WOODBURY**

DATE: **JUNE 5, 2007**

SUBJECT: **CASE NO. AVU-E-07-01 (Avista)**
POWER COST ADJUSTMENT (PCA) METHODOLOGY – PROPOSED CHANGES &
REQUEST FOR CONTINUATION OF EXISTING SURCHARGE

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 (Avista; Company) 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.

On March 2, 2007, the Commission opened Case No. AVU-E-07-01 to establish a vehicle for review of Avista's 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:

> . . . 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 Order No. 30161 the Commission authorized Avista to continue the current PCA surcharge of 2.448% until the deferral balance reaches zero or June 30, 2007, whichever occurs first. The Commission 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.

On March 19, 2007, a workshop in Case No. AVU-E-07-01 was held in Boise, Idaho to review Avista's PCA methodology and method of recovery. The workshop was attended by representatives from Avista, Commission Staff, Potlatch Corporation and Idaho Power Company.

AVISTA REPORT AND RECOMMENDATIONS

On April 27, 2007, Avista filed a report in Case No. AVU-E-07-01 recommending proposed changes to the PCA methodology and requesting a continuation of the existing 2.448% PCA surcharge beyond the scheduled June 30, 2007 expiration (Order No. 30161, p. 6) through September 30, 2007.

Avista in its report recommends three modifications to the PCA methodology and method of recovery:

1. Single annual PCA rate adjustments rather than returning to triggers and a cap.

2. Annual schedule for rate adjustments and review of prior PCA deferrals.

3. Method of recovery – rate spread for October 1, 2007 and October 1, 2008 PCA rate adjustments.

The Company proposes that it be allowed the flexibility to seek a departure from the PCA methodology procedures adopted. Examples discussed at the workshop were (1) maintain flexibility to do rate adjustments in addition to the annual PCA adjustment if the situation warrants, (2) maintain flexibility to not do a PCA rate adjustment if the adjustment is too small, and (3) maintain flexibility to recover or rebate the PCA deferral balance over more than one period. Of course, the Company concedes that it would be required to request authorization and provide justification for any departure from the PCA rate mechanism procedures.

Single annual PCA rate adjustments

Avista proposes that the PCA methodology be modified to require an annual PCA adjustment filing to recover or rebate the deferrals being reviewed in the annual PCA status report filing. The PCA rate adjustment would be set each year on October 1 to recover the previous June 30 deferral balance, would remain in place for 12 months, and would be replaced by a new rate adjustment that is set based on the next 12 months of deferrals. Any over- or under-recovered surcharge or over- or under-refunded rebate balance will be transferred to the deferral balance that will be subject to the next rate adjustment.

Schedule for rate adjustments and review of PCA deferrals

Avista has been making annual PCA review filings on or before August 15 of each calendar year. The review filings cover power costs and the associated PCA deferrals that were recorded during the immediately preceding 12-month period of July through June. The Company proposes that these filings continue to be made and form the basis of the annual PCA rate adjustment.

Avista proposes the following dates for the Company filing, review and comments by Staff and other interested parties, Commission Order, and effective date of the PCA rate adjustment for 2007:

August 1, 2007	Company filing for July 2006 - June 2007 deferral period
September 1, 2007	Review and comments by Staff and other interested parties
October 1, 2007	Commission Order and effective date of PCA rate adjustment

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

Method of Recovery – Rate spread for October 1, 2007 and October 1, 2008 rate adjustments

The Company proposes that the October 1, 2007 rate adjustment be spread on a uniform percentage basis and that the October 1, 2008 rate adjustment and subsequent adjustments be spread on a uniform cents per kilowatt-hour basis. In supporting its recommended delay in switching from uniform percentage to cents per kilowatt-hour the Company notes that the deferral balance did not actually reach zero.

Request for continuation of existing surcharge

Avista requests that the existing 2.448% PCA surcharge not expire on June 30, 2007 (as per Order No. 30161) but be allowed to continue through September 30, 2007. Based on current estimates, Avista contends that it is likely that the PCA surcharge rate will increase from 2.448% to about 4% on October 1, 2007. Rather than have the PCA surcharge go to zero on July 1, 2007, leaving the existing surcharge in place through September 30, 2007, the Company contends, will minimize the rate increase impact that occurs on October 1, 2007. Also, if the existing surcharge is allowed to continue, the October 1, 2007 rate adjustment will be lessened by the amount of revenue received from the existing surcharge during the months of July, August, and September 2007.

On May 10, 2007, the Commission in Case No. AVU-E-07-01 issued Notices of Proposed Changes to PCA Methodology and Request for Continuation of Existing Surcharge. Also issued in this case on May 10 was a Notice of Modified Procedure. The deadline for filing comments was May 31, 2007. Comments were filed by Commission Staff and two of the Company's residential customers. The comments can be summarized as follows:

Customer Comments

The first customer objects to both the continuation of the existing surcharge and the requested increase. The customer notes that she has read the articles regarding executive bonuses and recommends that if the Company needs better cash flow, it should look in-house and not to customers.

The second customer queries why Idaho Power customers received a $120 million rate reduction last year while Avista which experienced a substantial profit credits the profit to good management and now requests to extend an increase and surcharge. It seems to this customer that the two service areas are similar in many ways, but not to their customers.

Commission Staff Comments

Staff agrees with the Company proposal to replace the trigger and cap mechanism in the PCA methodology with an annual PCA adjustment filing and concurs with the Company scheduling proposal for PCA filings. Staff believes these changes will provide for longer periods of rate stability, will benefit customer planning, and will provide greater ease in tariff administration. Staff also agrees that the Company should be provided the flexibility to request authorization and provide justification for any departure from the PCA rate mechanism procedures.

Staff **disagrees** with the Company's recommendation to delay changing until year 2008 the method of PCA deferral recovery from a uniform percentage basis to a uniform cents per kWh basis. Staff contends that the change should occur with the Company's next PCA rate change on October 1, 2007.

As reflected in its comments, Staff notes that:

> In Order No. 29602 issued in Case No. AVU-E-04-1 the Commission ordered Avista to change PCA rates from equal percentage increases/decreases to equal cents per kWh increases/decreases when the PCA deferral balance reached zero. In that order the Commission said:
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> > The Commission finds that a cents per kWh recovery method for the PCA is superior to the percentage basis currently used. While we recognize the difficulties pointed out by Potlatch, we find the cents per kWh rate more equitable to all customers than the percentage allocation. We recognize that the variable cost of energy fluctuates from year to year based on the amount of energy consumed and should therefore be surcharged or credited on an equal cents per kWh basis. We authorize the change to an equal cents per kWh when the present deferral balance is eliminated. Order No. 29602, p. 48.

Staff believes that when the Commission ordered this change in recovery method to occur when the deferral balance reached zero, it was done for the purpose of allowing the relatively large deferral balance that existed at that time to be passed on to customers under the rate spread methodology that was in place at the time the balance accumulated. Reference Order No. 30161, p. 6. Staff believes that for all practical purposes that occurred March 30, 2006 when the deferral balance dropped from a high of $45.6 million to $1.5 million.

Staff supports the Company proposal to continue the existing surcharge beyond June 30, 2007 through September 30, 2007. Staff states it has no reason to believe that Company reported PCA deferral balances are incorrect. Through April 30, 2007 the deferral balance has grown to $11,143,952. The average monthly surcharge collected from October 2006 through April 30, 2007 is $410,141. Ending the surcharge early means a delay in paying down the surcharge, and incurring additional interest on the amount in the deferral balance that would have been paid if the surcharge were kept in place.

COMMISSION DECISION

Avista recommends proposed changes to its PCA methodology and requests a continuation of the existing surcharge beyond the scheduled expiration date of June 30, 2007 through September 30, 2007. Both customers commenting object to continuation of the existing surcharge. Commission Staff concurs with the proposed PCA methodology changes with the exception of the Company proposed delay in moving to a cents per kWh method of recovery. Staff concurs in the Company's proposal to continue the existing surcharge through September 30, 2007.

- Does the Commission concur in the PCA methodology changes proposed by Avista and agreed to by Staff?
- Does the Commission find that the method of PCA deferral recovery should change from uniform percentage to cents per kWh with the October 1, 2007 PCA change as recommended by Staff or as recommended by the Company not be implemented until October 1, 2008?
- Does the Commission based on the level of accumulated deferrals find it reasonable to continue the existing surcharge beyond the scheduled June 30, 2007 expiration through September 30, 2007?
- Does the Commission find it reasonable to grant the Company the flexibility to request authorization and provide justification for any departure from the PCA rate mechanism procedures?

Scott Woodbury

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