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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S ANNUAL POWER COST ADJUSTMENT (PCA) FOR RECOVERY OF POWER COSTS DEFERRED THROUGH JUNE 30, 2008.

CASE NO. AVU-E-08-5

COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on August 7, 2008 in Case No. AVE-E-08-5, submits the following comments.

BACKGROUND

On July 28, 2008, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an order approving a Power Cost Adjustment (PCA) surcharge of 0.610¢/kWh to be effective October 1, 2008. (Tariff Schedule 66 - Temporary Power Cost Adjustment). The PCA surcharge currently in place and set to expire September 30, 2008 is 0.267¢/kWh for all customer classes.

Avista's PCA mechanism is used to track variations from normal power supply costs. Some of these variations are: a) changes from normal revenues and costs associated with variations in electric generation, market prices, thermal fuel costs, and b) changes in power contract revenues and expenses. The Company's existing PCA methodology was approved in 2007 in Case No. AVU-E-07-01 (Order No. 30361). In that case, the Commission approved a change in the PCA methodology from a trigger and cap mechanism to a single annual PCA filing requirement. The Commission also approved a change in the method of PCA deferral recovery moving from a uniform percentage increase in rates to a uniform cents per kWh rate.

Avista is requesting that the Commission issue an order approving recovery of power costs deferred by the Company for the period July 1, 2007 through June 30, 2008. The proposed 0.610¢/kWh PCA surcharge will replace an existing 0.267¢/kWh surcharge that expires on September 30, 2008. Order No. 30429. The proposed rate is designed to recover an estimated $21.7 million in above normal power supply costs. This is an average 5.94% increase over existing rates. However, the size of the increase differs by customer class. For example the Company has requested a 5.35% increase for residential customers (Company Exhibit RLM-1, Page 1). The principal factors contributing to the higher than normal power supply expense during the deferral period are below normal hydro-generation and above normal natural gas fuel costs.

STAFF REVIEW

Audit Results

The Commission Staff (Staff) has performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff's review covered revenues and expenses incurred for the period July 2007 through June 2008. Staff was able to look at a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), Combustion Turbine Fuel account (FERC 547) and the Power Sales account (FERC 447). In addition, Staff audited the transactions included in Resource Optimization (FERC 557) such as the sale of natural gas and the expenses for the purchase of renewable energy credits from Potlatch. The Company booked the expenses from the sale of renewable energy credits in this account, and booked the revenues from the sale of the renewable energy credits, along with the corresponding energy, in Power Sales. Staff verified the amount reported by the Company from the sale of the renewable energy credits. Idaho's share of the revenues are approximately $2.9 million and are included in the deferral balance.

Based on our review of these transactions, Staff concludes that the accounting transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2008.

Net Deferral Activity

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 twelve months ended June 30, 2008. The main component of the net deferral is the Net Increase in Power Supply Costs, FERC Accounts 555, 501, 547, and 447. Along with the costs of serving load using Company owned resources, these PCA accounts include additional power purchase costs when market prices are lower than generation costs. Generation costs associated with off-system sales are offset by the revenue from those sales. The total net increase in power supply cost, $20,966,915, is comprised of the following nine items; an explanation of each item also follows:

1. FERC Account 555 - Purchased Power	$51,041,605
2. FERC Account 501 - Thermal Fuel	2,315,207
3. FERC Account 547 - CT Fuel	12,292,311
4. FERC Account 447 - Sales for Resale	-24,050,238
5. All Potlatch Revenues and Expenses	-6,403,024
6. FERC Account 557 - Resource Optimization	468,320
7. Idaho Retail Revenue Adjustment	-15,301,748
8. Second Half Coyote Springs 2 Transmission Credit	-14,059
Subtotal	$20,348,374
9. Interest on Deferral	618,541
Total Deferrals plus Interest	$20,966,915

1. "Purchased Power" costs reflect 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. In the review period, the Company incurred more

purchased power costs than are included in base rates. The positive amount represents a cost to customers.

2. "Thermal Fuel", primarily coal, is used to produce electricity. The amount included in the deferral is 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. During the review period the Company incurred more coal costs than are currently included in base rates. The positive amount represents a cost to customers.

3. "CT Fuel" is natural gas burned in the Company's gas fired generators. This amount represents 90% of the Idaho jurisdictional share of the difference in costs the Company incurred for gas generator fuel compared to the amount included in normalized base rates. In the review period, the Company incurred more natural gas costs than are currently included in base rates. The positive amount represents a cost to customers.

4. "Sales for Resale" are long-term and short-term off-system sales. The negative amount represents 90% of the Idaho jurisdictional share of the increase in off-system sales revenues above the amounts included in base rates. The revenues from the sale of renewable energy credits are reflected in this account. This negative amount represents a decrease in costs during the review period and is a benefit to customers.

5. The Potlatch component is a direct assignment to Idaho of the difference in Potlatch costs and revenues (for its Lewiston facility) relative to the normalized Potlatch costs and revenues established in the Company's last general rate case. The negative net amount indicates that, during the review period, the cost of serving Potlatch was less than the amount included in base rates. This negative amount is a PCA benefit to Idaho customers.

6. "Resource Optimization" costs result when natural gas purchased in advance for use in generating plants is later sold because it is less expensive to sell the gas and purchase electricity than it is to generate electricity with the gas. At the time the natural gas was initially purchased, the optimal use of the Company's resources was to buy gas to utilize for generating electricity, as it was less costly to generate using natural gas than to purchase electricity on the market. When the gas is sold, the optimal use of the Company's resources is to sell the natural gas and purchase electricity from the market. Staff has verified that at the time the gas was initially purchased, the cost of producing electricity at Avista's natural gas plants, primarily the Coyote Springs facility, was less expensive than purchasing electricity on the open market to meet native load.

Furthermore, Staff has verified that at the time the gas was resold, and electricity purchased to meet native load, that the resale of the gas and corresponding electricity purchased was the least expensive and most cost-effective alternative, hence the optimal use of the Company's resources. This account also includes the cost to purchase renewable energy credits for resale. Ninety percent of the Idaho jurisdictional share of the gain or loss on the sale of the gas is included in the PCA. The loss during the review period, shown as a positive amount, is a cost to Idaho customers.

7. The Idaho Retail Revenue Adjustment has three components. First, the load change adjustment is an adjustment to revenues that removes the power supply cost of serving new load from PCA calculations. Increases in power supply costs associated with load growth are reserved for consideration in general rate cases. The revenue adjustment for retail load growth is computed using the marginal cost of power supply. This amount is established whenever base power supply costs are reset. The marginal power supply cost for the current review period is $36.31/MWh. Marginal power supply costs are multiplied by the growth in load to produce the adjustment. The other two retail revenue components include a customer credit associated with Schedule 95 wind revenue and a customer credit for the purchase of Potlatch generation. Ninety percent of the Idaho Retail Revenue Adjustment is included in the PCA. The negative amount represents a benefit to customers.

8. The Coyote Springs 2 Transmission Credit began after the Company purchased the second half of Coyote Springs 2 and began including it in the PCA calculation in April 2005. The transmission credit for the second half of Coyote Springs 2 is equal to the transmission cost for the second half of Coyote Springs 2 that is included in base rates. This credit is included because the transmission for the second half of Coyote Springs 2 is not being provided through the purchase of transmission, but rather through a sale and purchase arrangement. The net cost of the sale and purchase arrangement is included in the actual power supply expenses in the PCA deferral. If the credit were not included, the Company would collect twice for transmission costs for the second half of Coyote Springs 2. This credit was eliminated effective August 2007, due to an additional purchase of transmission for Coyote Springs 2, and is only included in this PCA calculation for the month of July 2007. The negative amount is a benefit to customers.

9. The Company calculates interest on the deferral balance per Order No. 29323 in Case No. AVU-E-03-4. Staff reviewed the calculation of the interest and found the amounts included

in the filing to be correct. The Company uses the Customer Deposit Rate on current year deferrals and on carryover balances from one year to the next. The Customer Deposit Rate for 2007 and 2008 is 5%. Interest on the deferral balance accumulates during the deferral period at the customer deposit rate, and in this case, is a cost to customers.

SURCHARGE RATE CALCULATION

Avista calculates the proposed rate on page 2 of Exhibit No. RLM-1. The rate calculation starts with the unrecovered deferral balance of $20,966,915 (deferrals of $20,348,374 and interest of $618,541). The Company then adjusts the amount to include the expected interest during the recovery period, and further adjusts this balance to account for uncollectible expense and regulatory fees, as these amounts are calculated based on revenues. This resulting revenue requirement (the amount of revenue needed to recover the deferral balance and interest) is then divided by expected kWh sales to arrive at the proposed rate of 0.610 ¢/kWh. The proposed rate is an estimate of the rate required to recover the balance. To the extent that the rate does not recover the approved deferral balance, the difference is carried into a subsequent PCA filing and thus trued-up.

In previous PCA periods, this calculation included the amount from the previous year's deferral balance that was not collected. However, with the change in the PCA methodology in Case No. AVU-E-07-01, this step is not necessary in this filing. While there is still a deferral balance from the previous PCA period, there is also still in place a surcharge rate that is intended to recover this prior period PCA deferral balance. The PCA reporting period runs from July to June; however, the recovery period runs from October to September. The current surcharge of $0.267¢/kWh began October 1, 2007 and will expire September 30, 2008. At that time, any over or under collection of the prior surcharge will be recorded in the October 2008 PCA report and be subject to review and recovery in the 2009 PCA case.

CONSUMER ISSUES

Customer Notice and Press Release

The Press Release and Customer Notice included in Avista's PCA Application were reviewed and deemed to meet the requirements of Rule 102, Utility Customer Information Rules

(UCIR), IDAPA 31.21.02.102. The customer notice was mailed with cyclical billings beginning August 5, 2008 and ending September 4, 2008.

Customer Comments

Customers were given until September 17, 2008 to file comments. As of September 10, 2008, three comments had been received, all opposing the increase to rates.

Financial Assistance for Paying Heating Bills

Staff encourages customers who qualify for energy assistance to apply for the federally funded Low Income Home Energy Assistance Program (LIHEAP). Bill payment assistance is also available from organizations such as Project Share. For more information regarding assistance programs, customers should contact the local Community Action Agency, Avista Utilities, the Idaho Public Utilities Commission, or the 2-1-1 Idaho Care Line.

STAFF RECOMMENDATION

Staff recommends the Commission accept the audited deferral balance of $20,966,915 presented in the Company's filing and approve the Company proposed PCA surcharge rate of 0.610 ¢/kWh effective for the period of October 1, 2008 through September 30, 2009.

Respectfully submitted this 17th day of September 2008.

Scott D. Woodbury

Scott Woodbury
Deputy Attorney General

Technical Staff: Kathy Stockton
Keith Hessing
Marilyn Parker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 17^{TH} DAY OF SEPTEMBER 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-08-05, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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