

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
JEAN JEWELL
RON LAW
LOU ANN WESTERFIELD
BILL EASTLAKE
DON HOWELL
RANDY LOBB
DAVE SCHUNKE
KEITH HESSING
KATHY STOCKTON
BEV BARKER
TONYA CLARK
GENE FADNESS
WORKING FILE

FROM: SCOTT WOODBURY

DATE: SEPTEMBER 30, 2002

RE: CASE NO. AVU-E-02-06 (Avista)
POWER COST ADJUSTMENT (PCA) SURCHARGE
APPLICATION FOR EXTENSION

Last year, on July 18, 2001, Avista Corporation dba Avista Utilities (Avista) filed an Application with the Idaho Public Utilities Commission (Commission) in Case No. AVU-E-01-11. The Company requested authority to implement an electric Schedule 66 Power Cost Adjustment (PCA) surcharge to recover accrued PCA deferral balances resulting from a combination of record-low hydroelectric generation and unprecedented high wholesale market prices and volatility. The balance in the Company's PCA deferral account for the Idaho jurisdiction at June 30, 2001 was \$30 million. The Company estimated that absent rate recovery, the deferral balance would increase to \$69 million by December 2001, \$72 million by the end of 2002 and \$88 million by the end of 2003. The Company requested a 27-month surcharge period through December 2003. The Commission in Order No. 28876 approved a 12-month surcharge of 19.4% (\$23.6 million) and directed the Company to file a status report 60 days prior to expiration of the authorized surcharge period, October 11, 2002. In its Order, the Commission

stated, “if the status report and our review of the actual PCA deferral balance (at the end of 12 months) support continuation of the surcharge, we anticipate continuation of the surcharge for an additional period.”

STATUS REPORT – APPLICATION FOR EXTENSION

On August 9, 2002, Avista Corporation filed the status report required by Commission Order No. 28876 and an Application requesting a continuation of the PCA surcharge of 19.4% (\$23.6 million). As reflected in its filing, Avista states that the current status of the unrecovered PCA deferral balance as of June 30, 2002, is \$45,600,228 for its Idaho jurisdiction. Avista is requesting that the Commission continue the PCA surcharge for an additional 12 months, through October 11, 2003.

As reported by the Company the PCA deferral balance was \$45.6 million as of June 30, 2002. The deferred cost balances as reflected in the Company’s PCA account are as follows:

Deferral balance as of June 30, 2001	\$30,007,057
Deferrals July 2001 through June 2002	48,442,371
Transfer of under-rebate	(49,073)
Transfer of under-surcharge	342,069
PGE monetization accelerated amortization	(20,783,521)
Interest	<u>2,764,590</u>
SubTotal—Account 186.38 balance as of June 30, 2002	60,723,493
Revenues collected October 12, 2001—June 30, 2002	<u>(15,123,265)</u>
Unrecovered balance as of June 30, 2002	\$45,600,228

As reflected in the Company’s previous PCA filing, hydroelectric generation through June 2001 for Avista was the lowest in the 73 years of record. The Company reports that it continued to experience those very low stream flow conditions through the remainder of 2001. The record low hydroelectric conditions in 2001, the Company states, required it to purchase energy in the forward short-term wholesale market to replace the lost generation and cover its energy deficiencies. These purchases, the Company contends, were made at unprecedented high wholesale market prices and caused deferral balances to increase substantially. The extraordinary power supply circumstances through mid-2001, especially the record low stream flows, the Company contends, continued to impact the Company’s power cost deferral balances for the remainder of the year and into 2002. In fact, the Company states that of the deferrals of

\$48.4 million recorded between July 2001 and June 2002, approximately \$46 million occurred during the last half of 2001 with the remaining \$2 million occurring in the first half of 2002.

To mitigate the increased power costs, Avista states that it has increased operation of its thermal resources and has aggressively pursued conservation and load curtailment programs. However, the Company states that the costs associated with the hydroelectric conditions, the cost of short-term power market purchases and increased thermal fuel costs have exceeded the benefits these measures provided.

The Company contends that investor concern surrounding its cash flows, deferral balances and the ability to recover costs in a timely manner have had an impact on the Company's finances that continues today. Avista's credit ratings, it states, are presently below investment grade and the rating agencies characterize the Company's outlook as negative. Avista contends that it is important for the Company to regain an investment grade rating as soon as possible so that longer-term debt can be refinanced on more reasonable terms, benefiting customers with lower debt-related costs. Credit ratings, the Company contends, will take time to be restored and continuation of the current surcharge, the Company contends, is one of the keys for Avista to continue to improve its financial condition.

Avista requests that the carrying charge applied to the unamortized PCA deferral balance be increased from the current customer deposit rate to a level that it contends is more reflective of the longer-term nature of the recovery period. Avista reports that the Company's embedded cost of debt as of June 30, 2002, is 8.88% , incorporating both long- and short-term debt. The Company proposes that the carrying charge be increased to a rate of 6%, as was recently authorized for Idaho Power.

The rates set forth under the proposed PCA Schedule 66 reflect an annual revenue surcharge amount of \$23.6 million, or 19.4%. As proposed by the Company, the Schedule 66 rates would not change. The use of the deferred credit related to the monetization of the Portland General Electric (PGE) Sale Agreement as an offset to the power deferral balance to reduce the overall rate impact to customers, the Company notes, will continue through the end of 2002. After that point, the ongoing PCA deferral entries will be adjusted to reflect the fact that the PGE credit has been fully returned to customers.

MODIFIED PROCEDURE – PUBLIC WORKSHOP – COMMENTS

On August 28, 2002, the Commission issued a Notice of Application in Case No. AVU-E-02-6. The Commission in its Notice determined that the public interest in this matter may not require a hearing to consider the issues presented and that the issues raised by the Company's filing may be processed under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The Commission established a September 18, 2002 deadline for filing written comments or protests.

On September 6, 2002, the Commission issued a second Notice scheduling a September 18, 2002 public workshop in Sandpoint, Idaho for Commission Staff to discuss the Company's Application and for Staff and the Company to answer questions from customers and interested parties. The Commission in its Notice extended the deadline for filing written comments on the Company's Application to September 20, 2002.

Written comments in this case were filed by Potlatch Corporation, Commission Staff, Stimson Lumber Company (Coeur d'Alene and Priest River), J D Lumber, Inc. (Priest River), Regulus Stud Mills (St. Maries), the County of Shoshone, Tri-Pro Cedar Products (Old Town), Senator Shawn Keough, and a number of the Company's electric customers. Idaho Legislators who attended the public workshop were Senator Shawn Keough and Representatives John Campbell and George Eskridge. The comments filed with the Commission can be summarized as follows:

Potlatch Corporation

Potlatch contends that Modified Procedure is not appropriate. Avista's Application, it states, raises a number of very significant issues that are well beyond the scope of a traditional PCA pass-through case. Potlatch recommends that the Commission conduct an evidentiary hearing.

Potlatch contends that Avista's deferred purchased power costs are not the result of high market prices. Potlatch contends that the real reason for Avista's enormous power cost deferrals during the period from July 2001 through June 2002 was its decision to lock-in forward prices shortly before the market's rapid price decline. Avista's natural gas fuel purchases, Potlatch contends, constitutes an almost perfect parallel to its poorly timed electricity purchases. The Company's deferred thermal fuel expenses are not the result of high market prices, Potlatch contends, but are the result of Avista's decision to lock-in forward gas prices at or near the

market peak. The result was monthly natural gas costs far above market levels that prevailed during the deferral period.

Potlatch next notes that Avista's losses from hedging comprise more than 25% of the PCA request. This expense was for natural gas purchases intended for use in generating electricity, but not actually used for generation and therefore resold into the open market. Potlatch states that this natural gas was resold by Avista at an enormous loss equal to more than 40% of the original purchase price. On its face, Potlatch contends that this huge purchasing mistake cries out for a prudence investigation.

Perhaps the most audacious aspect of Avista's Application, Potlatch contends, is the Company's attempt to recover capital costs for both failed and completed generating projects. Avista's attempt to recover nearly \$750,000 in net turbine costs for the cancelled Othello project, Potlatch contends, is objectionable because the turbine is not "used and useful" in the service of Idaho ratepayers. In addition, Potlatch notes that Avista proposes to recover "lease payments, maintenance agreement payments, and incremental, non-labor, installation costs for Devil's Gap and Kettle Falls Bi-Fuel." Such costs, Potlatch contends, cannot be deferred for PCA recovery, whether or not prudently incurred. Reference Idaho Power Case No. IPC-E-02-7. Such plant costs must be recovered, if at all, Potlatch contends, in a general rate case. Potlatch is uncertain as to the exact amount of capital costs included in the Company's PCA filing and suggests that evidentiary proceedings will be required in order to resolve this question.

Potlatch also contends that Avista in its Application may be allocating the cost of serving Potlatch inappropriately. Avista's Application, it states, contains an unusual direct assignment to the Idaho jurisdiction of the cost of serving Potlatch. If Avista directly assigned a pro rata share of the system cost of service to Potlatch to the Idaho jurisdiction, then Potlatch concedes that the assignment appears to be proper. If, on the other hand, Avista assigned anything other than a pro rata share of system costs, then Potlatch contends that the assignment is improper and potentially detrimental to Idaho ratepayers. Without further proceedings, Potlatch states that it cannot determine whether this assignment is proper or not.

Potlatch requests that the Commission either (1) deny Avista's request for continuation of the PCA surcharge or (2) limit refundable recovery to the PCA amounts that would have been incurred had Avista made its electric and natural gas purchases at actual

contemporaneous wholesale market prices, as measured by prices at Mid-C and at Sumas, Washington.

Commission Staff

Staff filed both original and supplemental comments. Staff's review covered expenses incurred for the period July 2001 through June 2002 and included a representative sampling or cross section of transactions in the Purchased Power (FERC 555) and Power Sales (FERC 447) accounts. Specifically reviewed was the price of a transaction when executed compared to other relevant purchase/sales prices (Mid-Columbia index and futures) available at the time. Based on its review, Staff concludes that the Company's purchases and sales transactions appear reasonable and competitive with other alternatives based on information available to the Company at the time of the transaction.

Staff notes that the PGE credit monetization previously approved by the Commission is \$2,309,280 per month and will expire at the end of 2002. The monetization accelerates the amortization and offsets the current impact of the Company's PCA surcharge.

Also included in the previous PCA period were the Buy-back programs approved by the Commission. Buy-back expenditures of \$2,169,263 were incurred during July through December 2001 in this PCA period. Staff verified that the amounts are correct and were recorded appropriately. At Avista's request, the programs were cancelled when they became uneconomical.

The largest component of the above normal power supply costs deferred during the July 2001 through June 2002 time period, Staff notes, were purchase/sales transactions. The Company quantifies above normal purchase power costs of approximately \$39 million with offsetting market sales of approximately \$8.4 million. These market transactions, Staff notes, net to approximately \$30.6 million of the \$48.4 million of the above normal power supply deferrals booked in the year currently being reviewed. Staff reviewed the reasons for the additional power supply costs provided by the Company, poor water conditions and high market prices, and found them to be generally true.

Staff notes that day-ahead market prices peaked in December 2000 and declined to less than \$100 per megawatt hour in June 2001, the month before the current period being audited began. It took several more months for the price to return to the \$20 to \$30 per megawatt hour level that was normal before the price run up. During the first two months of the

current PCA period, Staff notes that Avista continued to purchase energy from the day-ahead market at abnormally high prices. The Company also continued to incur abnormally high-energy costs associated with forward energy purchases made prior to market price declines that began in June 2001. The Company's current risk management policy, in place at the time the forward energy purchases were made, establishes specific deadlines for addressing load/resource imbalances. Projected imbalances 1) can be fairly large one year ahead of need, 2) must be significantly reduced six months ahead of need and 3) must be completely eliminated one day ahead of need. This risk management policy, Staff notes, required the Company to make substantial energy purchases to serve needs for the second half of 2001 at pre-June 2001 prices. Staff reviewed the Company's Risk Management Policy, a sample of the Company's "Position Reports" showing load/resource positions and "Deal Tickets" that identify purchase and sales quantities, prices and dates. Staff believes that the Company's market purchase and sales decisions were reasonably based on good utility practice and information available at the time the decisions were made. In addition, Staff believes that the 90/10 sharing of the above normal power supply costs in this PCA filing provide the Company with an economic incentive to make the best possible decision for customers since it is also the best decision for shareholders.

Interest

Avista requests a 6% interest rate on deferral balances. In support of its request, Avista notes that the Commission authorized Idaho Power to use a 6% interest rate on deferral balances. Reference Order No. 29026. Staff notes that the Company is currently using the customer deposit rate to calculate the interest on the deferral balance. Staff recommends that the Company continue to use the customer deposit rate. The customer deposit rate is currently 4% and is adjusted annually on the first of January.

Staff notes that while Idaho Power and Avista have similar PCAs, Idaho Power's PCA deferral balance has interest that accumulates only when the power supply costs are being deferred. Once those costs are subject to recovery, interest is no longer calculated on the remaining deferral balance. Avista's PCA deferral balance continues to accrue interest while the deferred power costs are being recovered in addition to receiving interest when the costs were being deferred. Receiving interest on the deferral balance during the recovery period provides Avista with additional compensation for costs incurred. This difference in PCA mechanisms,

Staff contends, provides Avista with sufficient carrying charge recovery, making a change from the customer deposit rate unnecessary.

Small Generation Options

Staff notes that Avista pursued various generation projects that enabled it to avoid additional high-cost purchases of energy from the short-term wholesale markets when the projects represented the lowest cost resource options available at the time. These projects included Boulder Park – \$8,423 (six gas-fired reciprocating engines –25 MW), Devil’s Gap – \$2,593,656 (lease costs for 20 diesel generators), Kettle Falls Bi-Fuel – \$384,856 (lease costs for temporary generators), and Othello – \$892,131 (23-MW combustion turbine – cancelled). In addition to adding generation, the Company, Staff notes, was also able to increase its operation of the Northeast Combustion Turbines (\$36,320). The Company also stopped the spill at its Monroe Street generating station on the Spokane River thereby increasing its hydro generation. In so doing, the Company incurred liability to Spokane for loss of revenue at the City’s gondola ride (\$4,666). With the exception of the included capital costs related to Kettle Falls (\$56,598), Devils Gap (\$96,743), and the Othello project (\$744,884), Staff believes the expenses incurred to operate these projects should be included in the PCA and recommends approval of expense recovery through the PCA subject to the 90/10 customer/company sharing provisions. See Staff Revised Attachment A showing these changes with the interest impact. The adjustments, Staff notes, do not change the proposed surcharge rate.

Net Fuel Expense

Staff notes that the Company’s filing also includes net fuel expense for the natural gas combustion turbine fuel sold rather than burned. The Company purchased natural gas on the forward market for use in its leased and owned combustion turbine units. The Company’s decision to purchase natural gas was made at a time when the forward market price for energy was much higher than the cost of gas fired generation. Based on information available at the time, Staff concludes that the Company’s forward gas purchases were reasonable. To the extent purchased gas was not used to generate electricity, it was sold into the market. After the purchases were made, Staff notes that market energy prices began to decline. It became more cost effective to purchase energy from the market than to generate using previously purchased gas.

Staff does not dispute the Company's decision to purchase gas to meet future needs. Nor does Staff dispute the Company's decision to sell unused gas and rely on purchases from the energy market when declining prices made it more cost effective. However, Staff believes that it is necessary for Avista to better explain elements of its risk evaluation methodology that drives the Company's short-term resource acquisition decision-making. For example, Staff contends that the Company needs to describe the criteria used to first establish its natural gas fuel portfolio and then to determine the timing of its divestiture. Staff proposes further investigation by working with the Company to identify and document the process used in this area of decision-making.

In addition, Staff continues to have questions regarding the circumstances surrounding acquisitions and then dispensation of natural gas to fuel the Coyote Springs CCCT. The Company maintains that at the time natural gas was purchased, it was anticipated that Coyote Springs would be operational and more economical to operate than making market energy purchases. As it turns out, Coyote Springs was neither operational nor economical given the price of gas previously purchased. The effect was an abnormally high percentage of hedged gas to serve available resources at prices found to be uneconomical when compared to energy purchased from the market. Consequently, Staff proposes that the Commission withhold judgment on net gas costs of \$578,748 incurred in June 2002 to serve Coyote Springs until a more complete evaluation is conducted regarding anticipated online dates, reasons for the operational delay and timing of the sale of gas acquired for use at the plant. Staff believes that the additional evaluation can be conducted by Staff and included for review in the next PCA.

Gas Swaps and Financial Accounting Standards (FAS) 133

Staff recommends the removal of the line item labeled gas swaps and FAS 133. Avista includes two equal and opposite entries in the deferral balance, one in December 2001, and one in January 2002. Staff contends that the entries are a tracking mechanism for derivative accounting with FAS 133 and are not appropriate PCA items. There is no change in the deferral balance as a result of these entries or Staff's adjustment.

Rate Decision—Extension of Deferral Period

Staff notes that at the public workshop three commercial customers involved in the timber industry voiced concerns about the PCA rate impact on their costs. One customer (J D Lumber, Inc.) suggested that spreading PCA costs over two to three years would be more

beneficial. Staff recognizes this as a rate design option but does not recommend this option to the Commission for the following reasons. Quantified PCA deferrals will require two years to recover under the Staff and Company proposals in this case. Delaying recovery of these deferrals further into the future brings the possibility of additional years of poor water conditions, which could increase the deferral balance. The carry-over balance would accrue additional interest charges, which would increase PCA rates for those customers. It is also a concern that these customers only represent three customers in one or more classes. It is not known whether or not other customers in the same customer class or classes would want PCA costs spread over additional time periods.

Staff Calculation of the Deferral Balance

Staff revised Attachment A shows the deferral balance as a result of Staff's adjustments. The Company reports a total unrecovered balance at June 20, 2002 of \$45,600,228. Total Staff adjustments are \$1,499,932. By Staff calculation the Company's total unrecovered balance at June 30, 2002 is \$44,100,296. Staff supports the Company's proposal to leave current rates in place for another year and proposes to re-examine PCA deferrals next year. Staff proposes that the Company be required to file a PCA status report 60 days prior to the expiration of the PCA rate.

Consumer Issues

Staff in its comments summarizes the written comments received from customers, comments presented in the September 18 workshop in Sandpoint and details the different types of programs available to customers for energy assistance and payment.

Staff Recommends:

1. That the current surcharge of 19.4% be continued for another 12 months and the Company be required to file a PCA status report 60 days prior to the expiration of the PCA rate next year.
2. That the Company's request to change the interest rate be denied and the existing rate be continued. The interest rate mechanism as originally applied in the PCA modification case – using the customer deposit rate, continues to be the appropriate rate in determining the carrying charge.
3. That the variable costs for the small generation options be included in the deferral balance for recovery. The costs included in the deferral balance that represent capital costs, i.e. for the Kettle Falls small generation

option, should be excluded from deferral balance and subsequent recovery.

4. That the net fuel expense for natural gas CT fuel sold rather than burned be included in the deferral balance for recovery, with the exception of the net expenses that were specifically related to fuel expenses for the Coyote Springs plant. Staff recommends these expenses along with similar expenses incurred after June 2002 be subject to a more detailed evaluation to be completed by Staff and reflected in the next PCA review.

Staff also proposes a complete review of Avista's risk management and mitigation policies on an ongoing basis. A review of these types of transactions is timely given the changes in electric and gas markets along with changes in the electric industry. It is also consistent with reviews conducted with other utilities.

5. That the line item titled Gas Swaps, FAS 133 included by the Company in the deferral calculation be removed.
6. That the deferral balance be modified to include Staff's adjustments and the corresponding adjustments to the carrying charges.

Company Reply

Avista contends that Potlatch's request for evidentiary hearings should be rejected. Avista states that the issues raised by Potlatch in their comments are premised on inappropriately applying "hindsight" to power purchase, gas purchase and small generation project decisions made by Avista to serve its customers. The appropriate standard, Avista contends, is whether the Company made a reasonable decision based on the information available to the Company at the time the decision was made. Avista contends that it is not appropriate to compare purchase prices to historical indexes and prices.

Avista also disagrees with Potlatch's comments with regard to capital costs for completed and cancelled small generation projects. Capital costs associated with the recently completed Company-owned Boulder Park generating project, Avista contends, are not included in the PCA. The Kettle Falls Bi-Fuel units, the Company states, are leased units which addressed resource needs that cost less than then prevailing market prices and, the Company contends, are appropriately included in the PCA.

The Devil's Gap small generation option, the Company states, was for the lease of diesel generators. The lease was cancelled due to the subsequent decline in market prices. The

Company disagrees with Staff's proposal to remove site preparation and setup costs associated with the lease units under the premise that such costs are capital costs. These costs, the Company states, were necessary in siting the lease units. The Company submits that the costs were necessary, prudently incurred, and should remain in the PCA deferral.

The Othello small generation project, the Company states, was originally planned to be owned by the Company, but the project was cancelled and the costs included in the PCA represents the write-down of the value of the unit. Othello project write-down costs, the Company contends, are not capital costs from the standpoint of being a completed plant that is currently in service. The Company contends that the Staff mischaracterizes the Othello project as lease costs. The Company believes that regardless of how the write-down is characterized, the costs were reasonably incurred by the Company to reduce the overall power costs based on conditions at the time and should be included in the PCA.

Should the Commission decide that it is appropriate to remove the Othello write-down costs from the PCA deferral balance the Company requests that the Commission permit the Company to record the costs in Account 182.30 Other Regulatory Assets to be held for review until its next general rate case. Absent Commission authority for deferral as a regulatory asset, the Company notes that it could be put in a position of expensing the Othello write-down as a current period cost.

Avista maintains that Potlatch's contention that the direct assignment to Idaho of the cost in serving Potlatch may be inappropriate is without merit. With the exception of the previous Potlatch contract on December 31, 2001, Avista states that Potlatch received service under the Idaho Extra Large Service – Schedule 25 rate schedule. The direct assignment of 25 aMW of Potlatch load to Idaho, the Company contends, is necessary, as the production/transmission allocation does not reflect the new service under Schedule 25. Reference Application, Norwood Testimony pp. 19-21. Mr. Norwood's testimony, the Company states, shows the Idaho PCA benefit of the Potlatch contract change to be \$1,365,540. The cost of \$30 per megawatt hour was used for the direct assignment cost for the 25 average megawatts. The \$30 per megawatt hour price, the Company contends, is close to the average system cost of power. Therefore, contrary to Potlatch's allegations, Avista contends that the \$30 price per megawatt hour is a fair representation of average system cost and that there is substantial benefit to Idaho customers.

Customer Comments

The following is a representative sampling of customer comments filed in this case:

- It doesn't do the State or Avista's Idaho customers any good if in the process of making Avista financially well that you've left a trail of sawmill closures behind you.
- I've enclosed recent articles from the Idaho Spokesman Review that outline that the Federal Energy Regulatory Commission (FERC) launched an investigation into electricity trading by Avista Corp. and a subsidiary, Avista Energy, Inc. Clearly, there appears to be a direct tie to Avista's subsidiary's actions and the increase in electric costs that were passed on to the consumer. (Senator Shawn Keough.)
- With the snowpack last winter, there is no justification for a continuation of the rate increase.
- Say no to Avista. Say no to "Ricochet." Say no to "Megawatt Laundering." Say no to "Death Star." Say no to "Fat Boy." While you're at it, ask for the return of any bonus checks given to upper management due to stock price performance.
- I haven't had a wage increase for two years and there isn't one in the budget for the coming year. I don't feel the public should have to pay for poor management on Avista's part.
- So long as Avista does not come for another rate increase while this surcharge is in effect, I support the surcharge through 2003.
- Corporate America needs to be responsible for their own mishandling of finances.
- It seems like there are a lot of so-called temporary rate increases that never seem to go away.
- It is hard to believe that Avista has the nerve to ask for more money. It is all about greed and ego. Pure and simple. What do the top five executives at Avista take off the top for income and expenses? Do they wear tattered clothes, skip meals to get by, share one newspaper with three other people on the block, and live in homes desperately in need of paint and new roofing? I live in a neighborhood with many elderly residents and it is appalling how carefully they must count every nickel and dime, literally. Personally, I wish utilities, telephone and airlines were all regulated by government. Deregulation has only caused suffering and hardship for the little guy. The free market system doesn't apply to businesses that require massive infrastructure.

- There should be a break for those who use electricity for everything, including heat.
- Someone must be held accountable. Whatever happened to free enterprise in this county? You know, good old fashion risk and reward.
- For Stimson Lumber Company, the existing 19.4% surcharge is a material financial burden. Based upon an average monthly billing for our mills in Coeur d'Alene and Priest River, the surcharge cost the company over \$400,000. Stimson has 479 employees in Idaho.
- Why should the ratepayers be punished for management's transgressions? J D Lumber, Inc. did not put a surcharge on its employees because of faulty managerial decisions. No, who took the hit was the stockholders. Why should Avista's case be any different? Avista needs to put their time and effort into some introspective management cost cutting decisions.
- I propose as an honest show of the Company's sincerity and as a true example to us customers, that the CEO of Avista and other top executives take a reduction in their bonuses, stock options and other benefits. Avista should stay committed to being a utility company and stay away from other money deals, which may be harmful.
- My wife and I are in favor of extending the current rate surcharge. It is very important to get the Company back on sound financial footing.
- Our concern (Board of County Commissioners, County of Shoshone) is enhanced by the concerns expressed by our staff members who deal on a daily basis with Avista staff. We hear that Avista staff is getting very difficult to work with. There is no sense of community or cooperation with Avista staff or policy. Some comments we have heard during the past year – “Avista just threatens customers and shuts them off” – “Avista sure has gotten heartless” – “Avista collection people are just hateful” – “Pretty soon we will be burying people who have to choose between their light bill and their medications.” These are not comments from Avista customers with account problems, these are comments from clergymen, volunteers, and social workers who volunteer their time to help the indigent.
- Tri-Pro Cedar is Avista's number one customer in Bonner County, Idaho and the effects of the 19.4% increase are staggering. Try absorbing an extra \$80,000 a year in added energy cost. . . . Maybe Avista should rethink the way they do business or let a more efficient competitor supply electric service to our area.
- North Idaho needs its own PUC . . . separate from Boise.

- Am I angry about the rubber-stamping of Avista's rate hike request? Bet the farm on it. If this extension is granted I intend to ask my legislators to begin an investigation of the IPUC to find out why Avista has so much clout.
- I do not like the surcharge and would like to see it gone.

COMMISSION DECISION:

Avista has filed its PCA Status Report and requested an extension of the existing 19.4% (\$23.6 million) surcharge.

Staff recommends:

- 1) That the one-year surcharge extension be approved;
- 2) That the Company be required to file a Status Report 60 days prior to expiration of the surcharge;
- 3) That the requested change in the interest rate on the deferred balance be denied;
- 4) That the capital costs included by the Company in the variable costs for small generator options be excluded from any PCA recovery;
- 5) That the Company be made to better explain those elements of its risk evaluation methodology that drive the Company's short-term resource acquisition decision-making;
- 6) That the net fuel expense for natural gas CT fuel sold rather than burned be included in the deferred balance for recovery, with the exception of fuel expense for Coyote Springs;
- 7) That the Commission withhold judgment on net gas costs incurred to serve Coyote Springs until a more complete evaluation can be conducted (for review in next PCA);
- 8) That the line item titled Gas Swaps, FAS 133 included in the deferral calculation be removed;
- 9) That the deferral balance be modified to include Staff's adjustments and the corresponding adjustments to the carrying charges (see Attachment A).

Potlatch contends that Modified Procedure is inappropriate and requests an evidentiary hearing. Potlatch requests that the Commission either: 1) deny Avista's request for

continuing the PCA surcharge or 2) limit refundable recovery to the PCA amounts that would have been incurred had Avista made its electric and natural gas purchases at actual contemporaneous wholesale market prices, as measured by prices at Mid-C and Sumas.

Avista customers “do not like the surcharge and would like to see it gone.”

How does the Commission wish to proceed? Grant the requested extension of the surcharge? With or without adjustment? Subject to further review and refund? Allow for continued investigation during the surcharge period? Establish a hearing? Something else?

Scott D. Woodbury

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**Idaho Public Utilities Commission
Staff Attachment A
Avista Idaho PCA Deferred Cost Balances
Case No. AVU-E-02-06**

1	Deferral balance at June 31, 2001	\$ 30,007,057
2	Deferrals July 2001 through June 2002	\$ 48,442,371
3	Transfer of under-rebate	\$ (49,073)
4	Transfer of under-surcharge	\$ 342,069
5	PGE monetization accelerated amortization	\$ (20,783,521)
6	Interest	<u>\$ 2,764,590</u>
7	Subtotal - Account 186.38 balance at June 30, 2002	\$ 60,723,493
8	Revenues collected October 12, 2001 - June 30, 2002	\$ (15,123,265)
9	Unrecovered balance at June 30, 2002	<u>\$ 45,600,228</u>

(Avista Application; Page 4, Lines 8 through 16)

Staff Adjustments to Deferrals July 2001 through June 2002

10	Remove the Kettle Falls Bi-Fuel Capital Costs	\$ 56,598
11	Remove the Devil's Gap Capital Costs	\$ 96,743
12	Remove the Othello Capital Costs	<u>\$ 744,884</u>
13	Subtotal - Capital Costs	\$ 898,225
14		
15	Defer the review of the Net Fuel Expense for June 2002 for fuel purchased specifically for Coyote Springs	\$ 578,748
16		
17	Adjustment to Interest balance as a result of Staff Adjustments	<u>\$ 22,959</u>
18	(July 2002 will reflect the interest adjustment for the June 2002 Staff Adjustments)	
19		
20	Total Staff Adjustments	<u>\$ 1,499,932</u>
21		
22	Staff Unrecovered Balance at June 30, 2002	<u>\$ 44,100,296</u>

Corrected Revised
Attachment A
Supp Reply Comments
Case No. AVU-E-02-6
10/02/02