

(PCA) mechanism at actual fuel costs and actual generation levels. At that time the generating station was new and its costs were not included in the Company's base rates or its PCA calculations. Staff supported the Company's Application but the Commission denied the request in Order No. 25637.

On December 18, 1998, The Washington Water Power Company filed a general rate case, Case No. WWP-E-98-11, with the Commission. Final Order No. 28097 was issued in that case on July 29, 1999, and the resulting rates were effective August 1, 1999. The general rate case updated the Company's base power supply costs and in that process captured the normalized fixed and variable costs of the Rathdrum turbines.

On January 14, 2000, Avista Utilities notified the Commission that the PCA accounting balance exceeded the \$2.2 million trigger for the actual month ending November 1999. On March 1, 2000, the Company filed Case No. AVU-E-00-2 requesting that it be allowed to refund the amount in the balancing account. During Staff's review of that filing, Staff concluded that now that Rathdrum was included in base rates it needed to be included in the PCA calculation and that this should have started with the month of August 1999. Staff informally notified the Company of its position and the Company informally countered that Rathdrum should be included in the PCA but not for past time periods and not without some offsetting adjustments. The offsetting adjustments involved fuel constraints at the Centralia and Kettle Falls generating stations. It was the Company's position that ratepayer benefits associated with including Rathdrum in the PCA model were being replaced with ratepayer benefits associated with the unrealistic over-generation at Centralia and Kettle Falls due to high market prices and unrecognized fuel constraints in the model.

Staff Recommendation for the Period August 1, 1999 to Present

As mentioned previously, Staff's position in Case No. AVU-E-00-2 regarding the Rathdrum generating station was that it needed to be included in the PCA. The Company has since calculated the benefit of including Rathdrum in the PCA on an actual generation and fuel cost basis.

Also as previously mentioned, it is the Company's position that the exclusion of the Rathdrum benefits is offset by ratepayer benefits associated with the PCA modeled dispatch of Centralia and Kettle Falls that goes beyond the fuel constrained operating limits of the generating

stations. When Avista's PCA was initially developed it was understood by the Commission Staff and the Company that the PCA model included a simplified version of the Company's power supply dispatch model used in general rate cases to establish base rates. As long as the simplified version reasonably approximated the Company's actual operations it could be used. One of the simplifications was to not include in the PCA model the actual Centralia coal pile constraints that are included in the dispatch model. Higher northwest prices have caused the PCA model to dispatch Centralia well beyond fuel constrained operating levels. The profits realized from these imaginary sales have accrued to ratepayers through the PCA mechanism and real dollars have been returned.

The Company has provided Staff with calculations showing the ratepayer benefit of not having a PCA Centralia coal pile constraint as slightly greater than the ratepayer benefit of including Rathdrum in the PCA for the period of time between August 1, 1999 and June 30, 2000. For PCA purposes Centralia operation has been included at normalized levels starting in May of 2000 since the plant has been sold. Including Centralia at normalized operating levels is consistent with paying rates based on normalized Centralia operation.

The Kettle Falls fuel constraint is more a matter of cost. There is more fuel available for Kettle Falls, which burns wood waste, if the Company is willing to pay to have it brought in from farther away. The Company also provided the quantification of this cost.

The Company has been willing to live with these three partially offsetting adjustments in the past, therefore, the Staff proposes that past PCA calculations be allowed to stand unchanged.

Recommended PCA Modifications Going Forward

Staff believes that changes need to be made to the PCA on a going-forward basis to make the PCA more representative of actual Company operations. Rathdrum needs to be added to reflect all of the benefit accrued by a resource now included in base rates and Centralia needs to be addressed. The Centralia concern is no longer a fuel constraint concern. As of May 5, 2000, Centralia is no longer an Avista resource although its costs remain in rates at normalized operating levels.

Staff also believes that the \$2.2 million trigger needs to be adjusted. The trigger was set at approximately 2.5 percent of the Company's Idaho jurisdictional revenue requirement when the

PCA was established in 1989. The trigger amount needs to be increased to at least 2.5 percent of today's Idaho revenues, which would be approximately \$3 million.

The following is a summary of the Staff's proposed PCA modifications:

- a) Include the Rathdrum generating station at actual generation and actual fuel costs.
- b) Centralia should no longer be dispatched in the PCA model but should be included at normalized levels.
- c) The PCA trigger should be reset to \$3 million, which is approximately 2.5 percent of today's Idaho jurisdictional revenue requirement.

Staff's initial position is that there should be no change in the PCA operation of Kettle Falls or Colstrip generating stations.

Staff recommends that any PCA changes approved by the Commission be effective with the operating month of September 2000, which requires a final Order prior to the end of October 2000, because that is when the September accounting entries are made.

Staff anticipates further discussions with the Company and other interested parties as this case proceeds.

RESPECTFULLY submitted this day of August 2000.

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