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IDAHO PUBLIC
UTILITIES COMMISSION

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7 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

8 APPLICATION OF AVISTA CORPORATION FOR)
9 DETERMINATION OF THE INTEREST RATE TO)
10 APPLY TO THE POWER COST ADJUSTMENT)
11 (PCA) DEFFERAL BALANCE)

CASE NO. AVU-E-03-04

12 **I. INTRODUCTION**

13 Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at
14 1411 East Mission Avenue, Spokane, Washington, respectfully requests that the Commission issue
15 an order setting forth the interest rate to apply to the Power Cost Adjustment (PCA) deferral balance.

16 Communications in reference to this Application should be addressed to:

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18 Vice President, Rates and Regulation
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24 **II. PROXY CURRENTLY BEING USED FOR INTEREST RATE**

25 The Customer Deposit Rate is currently being used as the proxy for determination of the
26 interest rate that is applied to the Company's PCA deferral balance. The Customer Deposit Rate for
27 calendar year 2002 was 4% and for calendar year 2003 is 2%. Pursuant to Rule 106.02 the Customer
28 Deposit Rate is determined for each calendar year based on the twelve-month average of one-year
29 Treasury Bills for the previous November 1 through October 31 period, rounded to the nearest whole

1 percent. The 2% Customer Deposit Rate for 2003 was approved at the Commission's Decision
2 Meeting held on Monday, November 25, 2002. The Company submitted a letter via fax prior to the
3 Decision Meeting addressing its concerns about applying the 2% Customer Deposit Rate to the PCA
4 and Purchased Gas Adjustment (PGA) balances. The Commission determined that an exception for
5 the rate to apply to the PCA and PGA balances could be addressed in a separate proceeding. In this
6 filing the Company is requesting an exception to the Customer Deposit Rate for the PCA deferrals
7 due to the size and the multi-year recovery of the PCA deferrals. The Company is not requesting an
8 exception for the interest rate that applies to PGA deferrals, since those deferrals are smaller and are
9 expected to be fully recovered sometime during 2003.

10 **III. A 2% RATE IS WELL BELOW AVISTA'S COST OF BORROWING**

11 The 2% Customer Deposit Rate for 2003 is much lower than Avista's cost of borrowing.
12 The Company cannot borrow funds at Treasury Bill rates. The Company's weighted cost of debt at
13 December 31, 2002 is 8.88%. The PCA deferral balance is being recovered over multiple years to
14 mitigate the rate impact on customers and the Company has issued long-term debt to finance the
15 deferral balance. Even if the Company was able to finance the PCA deferral balance under its short-
16 term credit arrangement, the most recent borrowing on April 25th was at a 5% interest rate plus 40
17 basis points for fees.

18 The net PCA deferral balance was approximately \$30.9 million at December 31, 2002. An
19 interest rate drop from the rate for 2002 of 4% to the Customer Deposit Rate for 2003 of 2% amounts
20 to a reduction of approximately \$618,000 annually in interest on a \$30.9 million balance. Interest
21 amounts on the PCA deferral balance are significant and the Company requests an interest rate that
22 is closer to Avista's cost of borrowing.

1 The Company submits that this filing is limited in scope and respectfully requests expedited
2 processing under the Commission's Modified Procedure rules.

3 Dated at Spokane, Washington this 15th day of May 2003.
4

5 AVISTA CORPORATION

6 *Kelly Norwood*
7 BY _____

8 Kelly O. Norwood

9 Vice President, Rates and Regulation

