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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF )  
AVISTA CORPORATION FOR DETERMINATION ) CASE NO. AVU-E-03-4  
OF THE INTEREST RATE TO APPLY TO THE )  
POWER COST ADJUSTMENT DEFERRAL ) COMMENTS OF THE  
BALANCE. ) COMMISSION STAFF  
)**

**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, John R. Hammond, Deputy Attorney General, and submits the following comments in response to Order No. 29264, the Notice of Application, Notice of Intervention Deadline, Notice of Modified Procedure, and Notice of Comment Deadlines issued on June 12, 2003.

### THE APPLICATION

On May 16, 2003, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application requesting that the Commission issue an Order setting the interest rate that applies to the Company's Power Cost Adjustment (PCA) deferral balance at a higher level than the current rate for customer deposits. Avista also requests that the effective date be January 1, 2003. Typically, the interest rate for customer deposits is applied to PCA deferral balances of utilities in Idaho. The annual customer deposit rate is established using the average of one-year Treasury bill rates for the previous November 1 through October 31 period rounded to the nearest whole number. Utility Customer Relations Rule 106, IDAPA 31.21.01.106. The average is calculated using the

one-year Treasury Bills as reported weekly in the "Wall Street Journal." For the calendar year 2003, the customer deposit rate was set at 2%, GNR-U-02-2, Order No. 29158.

Avista makes this request for an exception to applying the customer deposit rate to its PCA deferral balance for the following reasons: 1) the current interest rate applicable to its PCA deferral balance is far below its cost of borrowing; 2) the large size of the Company's deferral balance; and 3) the use of a multi-year process to fully recover the balance. Avista requests that a 2% adder or 200 basis points above the customer deposit rate be applicable to any PCA deferral balance until that balance is fully recovered. The 2003 interest rate with the requested adder would be 4%. Avista currently expects the deferral balances to be fully recovered sometime in 2005. At that time, Avista contends the interest rate applicable on the PCA balance would again be the customer deposit rate. Avista also requests that the effective date of the exception be January 1, 2003.

#### STAFF ANALYSIS

Avista states that the 2% customer deposit rate is much lower than its cost of borrowing. Avista states its weighted cost of debt at December 31, 2002 is 8.88% and the cost of its April 25, 2003 short-term credit arrangement is 5% plus 40 basis points for fees. Avista claims long-term debt has been issued to finance the PCA deferral. Staff acknowledges that Avista's cost of borrowing is greater than 2%. However, very few financing dollars are designated for a specific purpose so targeting a specific interest rate attributed to the PCA deferral balance is subject to interpretation of uses and judgment. This interpretation process justifies using the customer deposit rate as a set interest rate methodology to limit PCA issues. The normal PCA process allows deferrals to be accumulated and then recovered over a specified recovery period. Usually this recovery period is based on a one-year period. Staff believes short-term borrowing rates continue to be representative of the interest rate to use for the PCA calculations. Avista's short-term borrowing rate is influenced by risks in the utility industry in general and by risks specific to Avista. It could be argued that some of these risks and therefore the higher interest rates associated with those risks are not all the responsibility of customers. Beyond this acknowledgement, Staff doesn't believe that a detailed risk evaluation is necessary for this case since Avista is requesting a temporary adder rather than a change in methodology.

Avista requested in Case No. AVU-E-01-11 that the recovery period along with changes in the deferral balance be evaluated over a longer time frame to reduce the rate impact on customers. Staff's evaluation of the PCA request in that case and its recommendation, utilized the current PCA

deferral balance rather than projected balances to justify the PCA recovery rate. The PCA rate approved in Order No. 28876 was for a one-year time period to better match the actual deferred balance at that time. The rate was extended for an additional year in Case No. AVU-E-02-6, Order No. 29130. It continues to be Staff's position that the actual deferral balances rather than projected amounts be used to establish PCA rates. This position is also a basis for the Staff recommendation in this case. The actual PCA deferral balance carried from one year to the next is less than the net PCA deferral balance of approximately \$30.9 million at December 31, 2002. The PCA surcharge rate collects approximately \$23.6 million dollars (AVU-E-02-6), resulting in approximately \$7 million to be carried forward to the next PCA year. Staff acknowledges that the actual amount that will be carried forward will vary and that the PCA schedule in each PCA case should separately show the actual amounts carried forward from the currently accrued balance.

Staff believes it is appropriate to consider using a different interest rate for balances carried forward for recovery beyond a one-year time frame. This reflects the additional time, beyond the normal one-year, required for Avista to carry the PCA balance to mitigate the impact on customer rates. This is also consistent with the treatment afforded Idaho Power Company in Case No. IPC-E-02-3, Order No. 29026 when PCA balances were carried beyond the normal recovery period where the interest rate in place during the deferral period was extended to the period of carry forward. In IPC-E-02-3 the 6% rate on the PCA carry-over balance was extended when the current customer deposit rate had declined to 4%. In this case, AVU-E-03-4, Avista's request is equivalent to the 4% rate on the PCA being extended when the current customer deposit rate declined to 2%. Interest rates, including the one-year Treasury bill rates, have dropped substantially. However utility costs to borrow funds did not drop as quickly and have not generally reached the same low rate. This difference makes it reasonable to accept a 2% adder for the limited time when PCA recovery is extended. However the higher interest rate should only be applied to carry-over amounts and not the net PCA balance. This will require Avista to specifically identify the carry-over amounts separate from the new deferrals in its PCA calculation and reconciliation schedules. Since the actual carry-over periods for recovery are estimated at this time to be sometime in 2005, Staff recommends that the exception of a 2% adder to the customer deposit rate on carry-over balances be authorized for the 2003 and 2004 years. Staff also recommends that in the 2005 PCA year the interest rate applicable to all of Avista's PCA deferral balance revert back to the interest rate on customer deposit rate. IDAPA 31.21.01.106.

## STAFF RECOMMENDATIONS

1. Allow the 2%, 200 basis point, adder to be applied to PCA accrued balances that are carried forward to a subsequent recovery period longer than one year.
2. Avista should be required to separate the PCA balances to be carried forward beyond the one-year recovery period from the net PCA balance and apply the higher interest rate only to those carry forward deferrals.
3. The 2%, 200 basis point, adder should be for the 2003 and 2004 years. In the 2005 PCA year the interest rate applicable to of all Avista's PCA deferral balance should revert back to the interest rate on customer deposits.

Respectively submitted this *22* day of July 2003.



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John R. Hammond  
Deputy Attorney General

Technical Staff: Terri Carlock

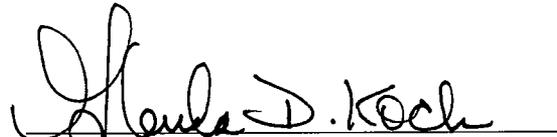
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF JULY 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-03-4, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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