

Avista Corp.
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August 8, 2003

IDAHO PUBLIC
UTILITIES COMMISSION

State of Idaho
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720

Attention: Ms. Jean Jewell, Secretary

Submission of PCA Status Report and
Application for Continuation of PCA Surcharge

AVU-E-03-06

Enclosed for filing with the Commission are an original and seven copies of the Status Report of Avista Corporation and Application for a Continuation of a Power Cost Adjustment (PCA) Surcharge. The surcharge was originally authorized by the Commission in Order No. 28876 in Case No. AVU-E-01-11. Also enclosed are an original and nine copies of supporting testimony and three copies of associated workpapers.

The existing tariff sheet Sixth Revision Sheet 66 sets forth a 19.37% surcharge to recover power costs in excess of costs presently included in base rates. The Company requests that the current PCA surcharge be authorized for another 12 months, from October 12, 2003 through October 11, 2004. If continuation of the 19.37% surcharge is approved, there would be no change to existing electric rates.

In addition to the items listed above, please find enclosed a Certificate of Service, a copy of the Press Release the Company will be issuing on August 11, 2003, as well as a copy of the Customer Notice. The Company will begin mailing the notice of the proposed surcharge continuation to electric customers on August 12, 2003.

Please direct any questions regarding this filing to Don Falkner at (509) 495-4326 or Ron McKenzie at (509) 495-4320.

Sincerely,

Kelly Norwood
Vice President, State and Federal Regulation

Enclosures
RM

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's filing related to the Company's submission of a status report and request for the continuation of a power cost adjustment (PCA) surcharge in retail electric rates, by mailing a copy via overnight mail thereof, postage prepaid to the following:

Ms Jean D Jewell, Secretary
Idaho Public Utilities Commission
PO Box 83702
West 472 Washington
Boise, ID 83720-5983

Ralph Davisson
Potlatch Corporation
601 W. Riverside Ave.
Suite 1100
Spokane, WA 99201
(workpapers not included)

Conley Ward
Givens Pursley, LLP
277 North 6th Street, Suite 200
P.O. Box 2720
Boise, ID 83701

Dated at Spokane, Washington this 8th day of August 2003.



Patty Olsness
Rates Coordinator



News Release

Contact: Media: Catherine Markson (509) 495-2916 catherine.markson@avistacorp.com

FOR RELEASE:

August 11, 2003

7:05 a.m. EST

Avista Files to Extend Current Power Cost Adjustment Surcharge in Idaho *Existing electric rates for Idaho customers would not change*

Spokane, Wash.: Avista Corp. (NYSE:AVA) has filed with the Idaho Public Utilities Commission (IPUC) a request to continue the existing power cost adjustment (PCA) electric surcharge of 19.4 percent for an additional twelve months. If approved, there would be no change to existing electric rates.

In the fall of 2001, the IPUC approved the current PCA and directed Avista to file annual status reports related to continuing the 19.4 percent surcharge. This is the second status report Avista has filed. Avista is requesting the surcharge be extended until Oct. 11, 2004, in order to continue recovering excess power costs that Avista has incurred to serve its customers.

Avista makes no profit from surcharge revenues and is required to absorb the first 10 percent of excess power costs. The PCA is designed to recover or rebate changes in certain power supply costs that differ from those costs included in Avista's base rates.

"The extension of the PCA in Idaho would allow Avista to continue recovery of power costs while offering our customers some of the lowest residential electric rates in the country," said Kelly Norwood, Avista vice president of state and federal regulation.

Avista's request to extend the electric surcharge is a proposal, subject to both public review and a decision by the IPUC. A copy of Avista's application is available for review at the offices of both the IPUC and the company. A copy of the application is also available on the Avista Utilities website at www.avistautilities.com/prices/rates.

For more information on conservation tips, energy assistance programs, and bill payment plans, visit the Avista Utilities website at www.avistautilities.com, or call (800) 227-9187.

—more—

Avista Corp. is an energy company involved in the production, transmission and distribution of energy as well as other energy-related businesses. Avista Utilities is a company operating division that provides electric and natural gas service to customers in four western states. Avista's non-regulated subsidiaries include Avista Advantage and Avista Energy. Avista Corp.'s stock is traded under the ticker symbol "AVA" and its Internet address is www.avistacorp.com.

Avista Corp. and the Avista Corp. logo are trademarks of Avista Corporation. All other trademarks mentioned in this document are the property of their respective owners.

This news release contains forward-looking statements regarding the company's current expectations. Forward-looking statements are all statements other than historical facts. Such statements speak only as of the date of the news release and are subject to a variety of risks and uncertainties, many of which are beyond the company's control, which could cause actual results to differ materially from the expectations.

These risks and uncertainties include, in addition to those discussed herein, all of the factors discussed in the company's Annual Report on Form 10-K for the year ended Dec. 31, 2002, and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.

Important Notice for Idaho Electric Customers

August/September 2003

Avista has filed with the Idaho Public Utilities Commission (IPUC) a request to continue the existing power cost adjustment (PCA) electric surcharge of 19.4 percent for an additional twelve months. If the request is approved, there would be no change to your existing electric rates; they will remain the same as they are now.

Last fall, the IPUC approved continuation of the 19.4 percent electric surcharge for each major customer class to expire on Oct. 11, 2003. On an annual basis the surcharge amounts to approximately \$24 million. The IPUC directed Avista to file a status report to support continuation of the 19.4 percent surcharge for an additional twelve-month period. Avista has filed the status report and is requesting that the 19.4 percent surcharge be extended until Oct. 11, 2004, to recover excess power costs that Avista has experienced to serve its customers. Avista makes no profit from surcharge revenues and actually is required to absorb 10 percent of excess power costs.

The PCA mechanism was originally approved by the IPUC in 1989. The mechanism allows the company to surcharge or rebate changes in costs to customers on a temporary basis based on the difference between actual power supply costs and the level of those costs reflected in base retail rates.

Avista's request to extend the electric surcharge is a proposal, subject to public review and a decision by the IPUC. A copy of the company's application is available for public review at the offices of both the IPUC and the company. A copy of the application is also available at our website at www.avistautilities.com under "Energy Prices", "Rates and Tariffs".

If you would like information on conservation tips, energy assistance programs, and bill payment plans, visit our website at www.avistautilities.com, or call us at 1-800-227-9187.



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UTILITIES COMMISSION

1 Kelly O. Norwood
2 Vice President, State and Federal Regulation
3 1411 E. Mission Avenue
4 P. O. Box 3727
5 Spokane, Washington 99220
6 Phone: (509) 495-4267, Fax: (509) 495-8856
7
8
9

10 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION
11

12 IN THE MATTER OF THE SUBMISSION OF THE)
13 STATUS REPORT OF AVISTA CORPORATION) CASE NO. AVU-E-03-06
14 AND APPLICATION FOR A CONTINUATION OF)
15 A POWER COST ADJUSTMENT (PCA))
16 SURCHARGE)
17

18 I. INTRODUCTION

19 Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at
20 1411 East Mission Avenue, Spokane, Washington, respectfully files the status report as required by
21 the Commission¹, and requests the Commission issue an order approving recovery of power costs
22 deferred through June 30, 2003 and granting continuation of the PCA surcharge of 19.4% currently
23 scheduled to expire on October 11, 2003. The 19.4% surcharge was originally authorized by this
24 Commission in Order No. 28876 dated October 11, 2001 in Case No. AVU-E-01-11 with a
25 continuation of the surcharge extended in Order No. 29130 dated October 11, 2002 in Case No.
26 AVU-E-02-6.

¹ As stated by the Commission at page 16 of its Order No. 29130 dated October 11, 2002 in Case No. AVU-E-02-6: "As we did last year, we find it reasonable to continue a close monitoring of the Company's PCA decisions and thus require the Company to file a PCA Status Report 60 days prior to the expiration of the PCA surcharge. As before, if the Status Report and our review of the actual PCA deferral balance supports continuation of the surcharge, we anticipate continuation of the surcharge for an additional term."

1 Pursuant to Order No. 29130, this filing, along with the attached testimony and associated
2 workpapers (incorporated herein by reference) serve as the status report, which is required to be filed
3 60 days prior to the expiration of the term of the surcharge. The Company has developed a
4 straightforward filing and requests that the status report and continuation request be processed under
5 the Commission's Modified Procedure rules. As the Company will explain in this filing,
6 continuation of the current surcharge is not only justified by the current level of unrecovered power
7 cost deferrals, but is essential to the continued improvement in the financial health of the Company.
8 The Company's credit ratings were lowered by credit rating agencies to below investment grade in
9 October of 2001, and continuation of the surcharge is an important element in the Company's efforts
10 to regain an investment grade credit rating as soon as possible.

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

12 Kelly O. Norwood
13 Vice President
14 Avista Corporation
15 1411 E. Mission Avenue
16 Spokane, Washington 99220
17 Phone: (509) 495-4267
18 Fax: (509) 495-8856
19

David J. Meyer
Senior Vice President and General Counsel
Avista Corporation
1411 E. Mission Avenue
Spokane, Washington 99220
Phone: (509) 489-0500
Fax: (509) 495-4361

20 II. CONTINUATION REQUEST

21 On page 16 of Order 29130, the Commission directed the Company to file a "Status Report"
22 60 days prior to the expiration of the PCA surcharge term and went on to state, "As before, if the
23 Status Report and our review of the actual PCA deferral balance supports continuation of the
24 surcharge, we anticipate continuation of the surcharge for an additional term." The current status
25 of the unrecovered Idaho PCA deferral balance as of June 30, 2003 is \$27,843,108.

1 Through this filing, the Company is requesting that the Commission continue the PCA
 2 surcharge for an additional 12 months, through October 11, 2004. Continuing the existing surcharge
 3 for an additional 12 months would provide recovery of approximately \$24 million.

4 **III. DEFERRAL ACTIVITY AND REPORTING**

5 The deferral balance of \$27.8 million at June 30, 2003 is shown below, together with the
 6 changes in the balance since June 30, 2002. Mr. McKenzie's testimony explains the changes in the
 7 deferral balance and Mr. Storro's testimony provides additional explanation of the factors causing
 8 the deferral entries related to the net increase in power supply costs for the period July 2002 through
 9 June 2003.

10	Unrecovered balance at June 30, 2002	\$45,600,228
11	Net Deferral Activity (July 2002 - June 2003)	6,789,503*
12	Amortizations Related to Surcharge Revenues (July 2002 – June 2003)	<u>-24,546,623</u>
13	Unrecovered balance at June 30, 2003	<u>\$27,843,108</u>

14 *Deferral Activity Detail

15	Net Increase in Power Supply Cost	\$23,383,629
16	Centralia Capital and O&M Credit	-2,817,996
17	PGE Monetization Accelerated Amortization	-13,855,680
18	Transfer Small Generation Capital Costs and Interest	-921,184
19	Intervenor Funding Payment	1,138
20	Interest	<u>999,596</u>
21	Net Deferral Activity (July 2002 – June 2003)	<u>\$6,789,503</u>

22 Monthly reports have been filed with the Commission Staff regarding actual PCA deferral
 23 entries to date. To facilitate Staff's review, additional copies of those reports have been included
 24 with this filing and have also been provided to Potlatch Corporation who intervened in AVU-E-01-
 25 11 and AVU-E-02-6. As already noted, the Company requests that this filing be processed under
 26 Commission's Modified Procedure rules noting that the request is for a continuation of a previously

1 authorized surcharge under the long-standing PCA mechanism. The rates associated with this
2 surcharge would not change as a result of this filing.

3 Current projections indicate that with the continuation of the 19.4% surcharge, the PCA
4 deferral balance would reach zero in mid 2005.² Therefore, Avista currently anticipates the need to
5 extend the surcharge for at least an additional, partial period beyond October 2004.

6 IV. FINANCIAL IMPLICATIONS

7 The unrecovered deferral balance has declined from the \$45.6 million balance at June 30,
8 2002 to the \$27.8 million balance at June 30, 2003. Investor concerns surrounding cash flows,
9 deferral balances and the ability to recover costs in a timely manner have had an impact on the
10 Company's financings that continues today.

11 As stated earlier, Avista's credit ratings are below investment grade. Because of Avista's
12 present credit ratings, debt is more expensive. It is imperative for both the Company and our
13 customers that Avista continue to improve its financial condition so that investment grade credit
14 ratings can be restored. The Company's current credit ratings are summarized in the table below:

	<u>Standard & Poor's</u>	<u>Moody's</u>	<u>Fitch, Inc.</u>
15 Avista Corporation			
16 Corporate/Issuer rating	BB+	Ba1	BB+
17 Senior secured debt	BBB-	Baa3	BBB-
18 Senior unsecured debt	BB+	Ba1	BB+
19 Preferred stock	BB-	Ba3	BB
20			
21			

22 On a positive note, the Company entered into a new committed short-term line of credit on
23 May 13, 2003, with various banks in the total amount of \$245.0 million. The line of credit expires
24 on May 11, 2004 and replaced the committed line of credit of \$220.0 million line that would have

² The actual point when the deferral balance reaches zero is dependent upon factors such as hydroelectric conditions, wholesale market prices, contract changes, etc., during the relevant period.

1 expired on May 20, 2003. It is important for the Company to regain an investment grade credit
2 rating as soon as possible so that longer term debt can be refinanced on more reasonable terms,
3 benefiting customers with lower debt-related costs. Credit ratings will take time to be restored and
4 continuation of the current surcharge is one of the keys for the Company to continue to improve its
5 financial condition.

6 The Company needs continued access to capital on reasonable terms to continue operations,
7 to refund maturing debt, and to pay for facilities to serve customers. Commission support and action
8 through continuation of the surcharge is important in that regard.

9 **V. NO TARIFF CHANGES**

10 The rates set forth under the proposed PCA Schedule 66 reflect an annual revenue surcharge
11 amount of approximately \$24 million, or 19.4%. As proposed by the Company, the Schedule 66
12 rates would not change. The existing Schedule 66 contains the currently effective surcharge rates
13 that the Company is requesting be extended for an additional twelve months. Under the Special
14 Terms and Conditions on the tariff is a statement that, "The rates set forth under this Schedule are
15 subject to periodic review and adjustment by the IPUC based on the actual balance of deferred power
16 costs."

17 The Company proposes the continuation of the surcharge for a 12-month period, beginning
18 October 12, 2003 and continuing through October 11, 2004. The Company will file prior to the
19 expiration of that term and propose continuation of the surcharge, as necessary, to allow recovery
20 of any unrecovered PCA balance at that time.

21 The Company continues to offer a number of customer bill paying assistance options. These
22 assistance options are identified and explained in Mr. McKenzie's direct testimony.

1 **VI. REQUEST FOR RELIEF**

2 The Company respectfully requests the Commission for an order approving recovery of
3 power costs deferred through June 30, 2003 and granting continuation of the PCA surcharge of
4 19.4% through October 11, 2004. The Company submits that this status report filing and request
5 for the continuation of the existing surcharge is straightforward and warrants expedited processing
6 under the Commission's Modified Procedure rules so that the surcharge would continue to allow
7 recovery of power supply costs incurred to serve our customers and thereby reduce the size of the
8 PCA deferral balance.

9
10 Dated at Spokane, Washington this 8th day of August 2003.

11
12 AVISTA CORPORATION

13 BY Kelly O. Norwood
14 Kelly O. Norwood
15 Vice President, State and Federal Regulation
16
17
18

