

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: AUGUST 21, 2003

SUBJECT: CASE NO. AVU-E-03-6 (Avista)
CONTINUATION OF POWER COST ADJUSTMENT (PCA) SURCHARGE

On August 11, 2003, Avista Corporation dba Avista Utilities (Avista; Company) filed a Power Cost Adjustment (PCA) Schedule 66 Status Report with the Idaho Public Utilities Commission (Commission) and an Application requesting approved recovery of excess power costs deferred through June 30, 2003 and further continuation of a 19.4% (\$23.6 million) PCA surcharge currently scheduled to expire on October 11, 2003. The 19.4% surcharge was originally authorized by the Commission in Order No. 28876 dated October 11, 2001 in Case No. AVU-E-01-11. A 12-month continuation of the surcharge was authorized in Order No. 29130 in Case No. AVU-E-02-6. In its Order continuing the surcharge, the Commission stated:

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.

Order No. 29130, p. 16. The current status of the unrecovered Idaho PCA deferral balance as of June 30, 2003 is \$27,843,108 for its Idaho jurisdiction.

Status Report – Application for Extension

The details of the deferred cost balance as reflected in the Company's PCA account are as follows:

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

*Deferral Activity Detail

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

During the review period, Avista reports that Idaho's share of power supply expenses exceeded the authorized level by \$25,924,662. The Company states that power supply expenses were higher than the authorized level due to several factors:

The largest factor was the sale of fixed price gas. Based on the average purchase and sale price, the fixed price gas purchases added approximately \$13.1 million to Idaho's share of power supply expense. Hydro-generation was approximately 12.9 aMW below the authorized level, which would account for approximately \$2.1 million of increased expense. Colstrip and Kettle Falls together generated approximately 8 aMW above the authorized. Rathdrum generated approximately 21 aMW below the authorized level due in part to the relatively low price of electricity compared to natural gas costs. The Company's other gas-fired generating plants, North East Turbine, Boulder Park, and the Kettle Falls Combustion Turbine generated 2 aMW during the period.

Other power supply expenses during the review period include a payment to terminate a long-term power purchase with Enron and the final lease payments of \$3.7 million (\$1.3 million Idaho share) related to the Kettle Falls Bi-Fuel generating units. The \$2.9 million Enron buy-out payment (\$960,000 Idaho share) occurred in October 2002, and was recorded as a power purchase expense. The Kettle Falls Bi-Fuel lease payments began in September 2001 and were included in the prior filing for the review period ending June 2002.

Another factor driving the deferrals is the age of the authorized case. The authorized case is based on loads, contracts and resources in place for the period July 1999 through June 2000. During that period, the Company had several large off-system power sales that generated significant revenue. Almost all of the sales have ended and, as such, the revenue is reduced which

is reflected in a reduction in Account 447, Sale for Resale, revenue of \$72 million on a system basis (\$24 million Idaho share). Purchased power expense has also decreased from the authorized level due in part to several long-term contracts ending. Purchased power expense, however, has decreased by only \$24 million on a system basis (\$8 million Idaho share). The Company plans to file a general rate case within the next year to reset the authorized level of power supply revenues and expenses.

Avista contends that continuation of the current surcharge is not only justified by the current level of unrecovered power cost deferrals, but is essential to the continued improvement in the financial health of the Company. Investor concerns surrounding cash flows, deferral balances, and the ability to recover costs in a timely manner have had an impact on the Company's financings. The Company's credit ratings were lowered by credit rating agencies to below investment grade in October 2001. Because of Avista's present credit ratings, debt is more expensive. Avista contends that it is imperative for both the Company and its customers that Avista continue to improve its financial condition so that investment grade credit ratings can be restored and so that longer-term debt can be refinanced on more reasonable terms.

Current projections indicated that with continuation of the 19.4% surcharge, the PCA deferral balance would reach zero in mid-2005. 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.

The Company requests that the Commission continue the PCA surcharge for an additional 12 months, beginning October 12, 2003 and continuing through October 11, 2004. The Company requests that its Application be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

Commission Decision

Avista has requested a one-year continuation of an existing 19.37% surcharge to recover power costs in excess of costs presently included in base rates. Staff intends to audit the Company's books the first week of September 2003. The Commission is apprised that public workshops for the Company's proposed Purchased Gas Adjustment (PGA) are scheduled September 8 and 9 in northern Idaho. Reference Case No. AVU-G-03-1. Does the Commission believe that a public workshop is required in this PCA case? Staff recommends that the matter be

processed pursuant to Modified Procedure. Staff recommends a comment deadline of September 18 for customers, September 23 for Commission Staff and a Company reply date of September 30. How does the Commission wish to process the Company's filing?

Scott Woodbury

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