

IDAHO PUBLIC UTILITIES COMMISSION

Case No. AVU-E-05-1, Order No. 29752

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Commission allows Coyote Springs II costs in Avista rates

Boise – Avista Utilities will be able to increase its base rates by \$3.23 million to account for the purchase of the Coyote Springs II generating plant, according to an order issued today by the Idaho Public Utilities Commission.

However, the added revenue for the company will not mean a change to customer bills. While Avista was allowed to include 1.9 percent more revenue to account for the new plant, the company, will, at the same time, reduce its power cost surcharge revenue by an equal amount, resulting in no change to the customer's overall bill. To make up for the lost revenue to the surcharge, the commission accepted Avista's proposal to extend the surcharge another 12 months beyond its September 2006 expiration date. The power cost surcharge will now expire in September 2007.

A power cost adjustment is typically an annual change to customer bills to account for the extraordinary costs of power supply. During low water years, when the company is forced to acquire more power than usual from other sources to meet demand, the cost of that excess power is paid for by a surcharge on customer bills. When water and market conditions are positive, customers can get a power cost credit subtracted from their overall bill. Currently, the surcharge is 0.286 cents per kWh for a residential customer. That is added to a residential customer's base rate of 5.7 cents per kWh for 600kWh or under and 6.5 cents for each kWh beyond that. Effective Friday, that surcharge will decrease to 0.163 cents per kWh for residential customers. The base rate, however, increases to 5.84 cents for use of 600kWh or under and 6.61 cents for all use more than 600 kWh.

Coyote Springs 2 is a 280-megawatt natural gas-fired plant in Morrow County, Oregon. Avista began construction of Coyote Springs 2 (the adjacent Coyote Springs 1 plant is owned by Portland General Electric) in January 2001. Low-water conditions and record-high wholesale energy prices during the West-wide energy crisis of 2000-01 resulted in Avista not being able to secure financing for Coyote Springs 2. Avista subsequently entered into an agreement with Mirant Corporation to sell half the plant to Mirant-Oregon. In July of 2003, Mirant filed for Chapter 11 bankruptcy protection and Avista negotiated to buy the plant for \$62.5 million. The transaction was finalized on Dec. 30, 2004.

Data collected in 2004 shows that the company will be short on energy supply during the first, third and fourth quarters beginning as early as this year. The commission's order said Avista has "adequately demonstrated a need for additional generation resources to meet its projected load."

Full ownership of Coyote Springs II will allow Avista to make unilateral energy dispatching decisions based on its own day-to-day needs, the commission said. That is especially critical given the poor water conditions anticipated in the Pacific Northwest this year. During those times when there is a surplus of supply, customers would benefit from off-system sales by Avista to other energy providers. The sales would be credited to customers through the company's power cost adjustment mechanism.

Avista's purchase cost of \$62.5 million equates to \$439 per kilowatt, which compares favorably to other natural gas plants in the Western United States, the commission said. An analysis by Navigant Consulting determined that the average value of plants in the western United States was \$569 per KW. Navigant also determined that Avista's purchase price was below the economic value of the plant, which was in the range of \$67 million.

A full text of the commission's order, along with other documents related to this case, are available on the commission's Web site. Click on "File Room" and then on "Electric Cases" and scroll down to Case No. AVU-E-05-1.

Interested parties may petition the commission for reconsideration by no later than May 3. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted.

Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.