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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) **CASE NO. AVU-E-06-3**
AUTHORIZATION TO DEFER THE COST)
OF A LOAN RELATED TO GRID WEST.)
)
) **COMMENTS OF THE**
) **COMMISSION STAFF**
)

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30081 on June 29, 2006, submits the following comments.

BACKGROUND

On April 27, 2006, Avista Corporation filed an Application requesting an accounting Order from the Commission authorizing the deferral of costs the Company incurred relating to the development of a regional transmission organization (RTO). Avista alleges it participated in efforts to develop an RTO, now called Grid West, pursuant to Orders issued by the Federal Energy Regulatory Commission (FERC). The Application states that Pacific Northwest electric utilities have been involved in the RTO development process since 2000, and that the costs incurred by the utilities were to be repaid through surcharges on customers after the RTO

became operational. It now appears the development of Grid West is unlikely, and Avista requests authorization to defer the amounts it loaned to Grid West, with interest, in the development process. An accounting Order authorizing deferral of costs does not represent the final determination of reasonableness or the amount of the costs ultimately recovered in rates.

Avista states it provided startup costs to the RTO to retain experts and facilitators, and that the current balance of Avista's loan to Grid West is \$1,217,499.26, which includes interest of \$188,187.34. Avista estimates that the amount of the total that applies to the Idaho jurisdiction would be \$421,620.

STAFF REVIEW

Staff has reviewed the Company's Application as well as FERC Order No. 888 and FERC Order No. 2000. FERC Order No. 888 instructs utilities to open their transmission lines to competitors in an effort to reduce wholesale electricity prices and ultimately bring lower prices to ratepayers. FERC Order No. 2000 placed the impetus on transmission owners to develop an RTO or explain why such an organization could not be created. Staff is satisfied that Avista's participation in Grid West was compliant with FERC's Orders and FERC's attempt to protect and provide additional benefits to customers.

On a case-by-case basis, this Commission has allowed deferred accounting treatment for expenses that are extraordinary and unusual in nature, mandated by regulatory authority and which provide benefits to customers. Though Grid West ultimately provided no benefits to customers, the expenses were extraordinary and unusual in nature and were mandated by FERC. For those two reasons, Staff recommends that the Commission authorize Avista to book the principal amount of the funding agreements with Grid West to account 182.3 (Other Regulatory Assets). A separate sub-account should be maintained for the \$1,029,311.92 total system cost, \$356,450.72 for the Idaho jurisdiction, facilitating Staff's audit of these expenses in a future rate case. Staff also recommends that the recovery of these costs and the amortization period used for recovery be addressed in the Company's next general rate case filing. As the Commission has previously noted on numerous occasions, a deferred accounting Order does not constitute Commission approval to recover these costs from ratepayers.

The interest on the funding agreements with Grid West, carrying charges on deferred balances, and amortization period absent a rate case are discussed separately below.

Interest on Funding Agreements

Avista accrued interest on the loan amounts provided to Grid West at the rates established by FERC for refunds, pursuant to 18 CFR 35.19a. The total interest accrued through March 31, 2006 is \$188,187.34. Avista ceased accruing interest on the loans after that date. Staff believes that Avista should not be allowed to defer for future recovery the amount of interest accrued on the promissory notes to Grid West for two reasons. First, had Grid West been successful, the interest on these loans would have been paid by Grid West as a return on Avista's investment in the RTO. Since Grid West was not successful, customers should not be requested to pay for Avista's return on a failed investment. Furthermore, Avista never had any cash outlay for the interest portion, and the return of the actual expenditure is sufficient recovery for the utility without interest accrual.

Carrying Charges

Avista does not request a carrying charge on the deferred balance. Deferred accounting will allow Avista to request recovery of its prudent costs at a future date. Absent deferral, Avista would not have an opportunity for recovery. Staff believes the opportunity for Avista to recover these costs without interest is sufficient to the Company, thus eliminating the necessity of accruing carrying costs on the deferred balance. If the deferral were not approved, no interest would accrue and the recovery of any underlying costs would be questionable. The deferral method facilitates later recovery of the amortization of these costs in rates.

Amortization Period

To prevent excessive deferrals from building up on the balance sheet, Staff recommends that the Company begin amortization of the deferred balance at the conclusion of its next general rate case or on January 1, 2010, whichever occurs first. Amortization beginning no later than January 1, 2010 is warranted since the expenditures were incurred in response to FERC directives. Immediate amortization would be appropriate for expenditures directly under the Company's control. An amortization period beginning no later than 2010 will also allow any continued efforts for an RTO to be better known. Staff believes that the initial amortization period should be five years unless a different time period is supported by a party in a general rate case and is approved by the Commission.


CONSUMER ISSUES

Staff received comments from one customer opposing the deferral on the grounds that Avista is using its knowledge gained from Grid West for the new RTO Columbia West. The customer believes that Columbia West should reimburse Avista for some of those costs. While Staff finds some merit in the comment, Staff will further review the progress of Columbia West when Avista files for rate relief.

STAFF RECOMMENDATIONS

1. Staff recommends that the Commission authorize Avista to book the principal amount of the funding agreements for the Grid West start up costs into account 182.3 (Regulatory Assets and Liabilities), utilizing a separate sub-account specifically for these amounts.
2. Staff recommends the Commission not allow the deferral of accrued interest on the Grid West loans.
3. Staff recommends the Commission not approve any carrying charges on the amounts deferred.
4. Staff recommends that the Commission order amortization of the deferred amounts to begin no later than January 1, 2010 absent a rate case Order establishing different treatment.

Respectfully submitted this 14th day of August 2006



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF AUGUST 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-06-3, BY E-MAILING A COPY THEREOF AND BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

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