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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE SUBMISSION OF THE POWER COST ADJUSTMENT (PCA) STATUS REPORT OF AVISTA CORPORATION AND REQUEST FOR RECOVERY OF POWER COSTS DEFERRED THROUGH JUNE 30, 2006	**CASE NO. AVU-E-06-5** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on August 30, 2006, submits the following comments.

BACKGROUND

On August 15, 2006, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for an Order approving continuation of the existing 2.448% PCA surcharge and authorizing recovery of power costs deferred through June 30, 2006. Avista's Application serves as a PCA Status Report for the 12 months ended June 30, 2006 and complies with the Commission's direction in Avista PCA Order No. 29881, Case No. AVU-E-05-6.

The Company in its filing identifies the power cost deferrals during the July 1, 2005 through June 30, 2006 review period, and explains the primary factors causing the PCA deferrals. The unrecovered deferral balance at June 30, 2005 was $5,935,324. The unrecovered balance at June 30, 2006 is $1,517,103. While the annual amount of revenue under the existing surcharge (approximately $4.3 million) is greater than the unrecovered surcharge balance at June 30, 2006, the Company contends the unrecovered surcharge balance is expected to grow. Richard Storro, Director of Avista Power Supply, in testimony filed with the Application explains the reasons that actual power costs are expected to exceed authorized power costs and what the effect is forecasted to be on the deferral balance. At July 31, 2006, the deferral balance had grown to $3.2 million. In all likelihood, the Company estimates that the deferral balance by the end of August 2006 will be higher than the annual surcharge revenue level of $4.3 million. With the existing surcharge remaining in place, the deferral balance is expected to approximate $8.7 million at the end of the year. However, should conditions turn out to be more favorable than expected, resulting in the deferral balance reaching zero at some point, Avista will make a filing to either zero-out the surcharge rates, or to continue or modify the rates depending upon actual and expected power supply conditions at the time. Should the surcharge rates not be modified prior to filing the next PCA Status Report covering the July 2006 through June 2007 12-month period, the surcharge rates will be reviewed as a part of that filing.

STAFF REVIEW

Audit Results

Staff has performed a review and audit of the amounts that went into the deferral balance in the current filing. Staff's review covered expenses incurred for the period July 2005 through June 2006. Staff was able to look at a representative cross section of transactions included in the Purchased Power account (FERC 555), Thermal Fuel account (FERC 501), CT Fuel account (FERC 547) and the Power Sales account (FERC 447). Based on its review of these transactions, Staff concludes that the transactions appear reasonable at the time they were made. Staff also reviewed the other PCA calculations and amounts. Staff finds the amounts recorded to be correct and recommends that they be included in the deferral balance as of June 30, 2006.

Deferral Balance Components

The Company is requesting Commission approval for recovery of the Unrecovered Deferral Balance of $1,517,103 as of June 30, 2006. The Unrecovered Deferral Balance at June 30, 2006 is calculated by starting with the unrecovered balance at June 30, 2005, adding in the net deferral activity for the current period of July 1, 2005 through June 30, 2006, subtracting the amortizations related to surcharge revenues, and including interest on the deferral balance as directed by Commission orders.

- Unrecovered Balance at June 30, 2005 — $5,935,324
- Net Deferral Activity (July 2005 - June 2006) — -98,317
- Amortizations Related to Surcharge Revenues (July 2005 - June 2006) — -4,599,432
- Interest — 279,528
- Unrecovered Balance at June 30, 2006 — $1,517,103

Net Deferral Activity

The net deferral activity represents the Idaho jurisdictional share of the excess power costs and associated revenue adjustments deferred under the PCA mechanism by Avista for the twelve months ended June 30, 2006. The main component of the net deferral activity is the Net Increase in Power Supply Costs. Because power plants are economically dispatched, these PCA accounts also reflect additional power purchases when market prices are lower than generation costs. The associated reduced generation costs are also captured along with off-system sales revenues. The total net decrease in power supply cost, $98,317, is comprised of the following items:

1.	FERC Account 555 - Purchased Power	$59,937,058
2.	FERC Account 501 - Thermal Fuel	1,200,884
3.	FERC Account 547 - CT Fuel	-90,536
4.	FERC Account 447 - Sales for Resale	-45,281,259
5.	All Potlatch Revenues and Expenses	-6,793,833
6.	Net Fuel Expense - Loss on Natural Gas Resold	-210,494
7.	Idaho Retail Revenue Adjustment	-8,339,961
8.	Second Half Coyote Springs 2 Transmission Credit	-520,176
	Total	-$98,317

1. Purchased Power costs reflect the difference in costs the Company incurred for power purchases in the review period compared to normalized purchased power costs included in base rates. In the review period the Company incurred more purchased power costs than are included in base rates. The positive amount represents a cost to customers.

2. Thermal Fuel, primarily coal, is used to produce electricity. The amount is the difference in costs the Company incurred for thermal fuel compared to the normalized amount included in base rates. In the review period the Company incurred more coal cost than is currently included in base rates. The positive amount represents a cost to customers.

3. CT Fuel is natural gas burned in the Company's gas fired generators. This amount represents the difference in costs the Company incurred for gas generator fuel compared to the amount included in normalized base rates. In the review period the Company incurred less natural gas costs than is currently included in base rates. The negative amount is a benefit to customers.

4. Sales for Resale are long-term and short-term off-system sales. The negative amount represents an increase in off-system sales revenues above the amounts included in base rates. This negative amount represents a decrease in costs during the review period and is a benefit to customers.

5. The Potlatch component is a direct assignment to Idaho of the difference in Potlatch costs and revenues (Lewiston facility) relative to the normalized Potlatch costs and revenues established in the Company's last general rate case. The negative net amount indicates that,

during the review period, the cost of serving Potlatch was less than the amount included in base rates and that produces a PCA benefit to Idaho customers.

6. Net Fuel Expense results when natural gas purchased for use in generating plants is sold because it is less expensive to sell the gas and purchase electricity than is to generate power with the gas. The gain or loss on the sale of the gas is included in the PCA. The gain during the review period, shown as a negative amount, is a benefit to Idaho customers.

7. The Idaho Retail Revenue Adjustment has three components. The load change adjustment is an adjustment to revenues to reflect the cost of serving loads that differ from normalized base loads. If the load grows, revenue is added, if the load declines, there is an adjustment to reflect the decreased load. The revenue credit for retail load growth is computed using the marginal cost of power supply. This amount is established whenever base power supply costs are reset. The marginal power supply cost for the current review period is $36.31/MWh. Marginal power supply costs are multiplied by the growth in load to produce the credit. The other two revenue credits include a credit associated with Schedule 95 wind revenue and a credit for the purchase of Potlatch generation. The negative amount represents a benefit to customers.

8. The Coyote Springs 2 Transmission Credit began after the Company purchased the second half of Coyote Springs 2 and began including it in the PCA calculation in April 2005. The transmission credit for the second half of Coyote Springs 2 is equal to the transmission cost for the second half of Coyote Springs 2 that is included in base rates. This credit is included because the transmission for the second half of Coyote Springs 2 is not being provided through the purchase of transmission, but rather through a sale and purchase arrangement. The net cost of the sale and purchase arrangement is included in the actual power supply expenses in the PCA deferral. If the credit were not included, the Company would collect twice for transmission costs for the second half of Coyote Springs 2. This credit will continue until base rates are reset.

Amortizations Related to Surcharge Revenues

During the July 2005 through June 2006 review period, rates associated with a single PCA surcharge were in effect. The surcharge level of 2.448% was effective April 15, 2005 and established in Case No. AVU-E-05-1. This PCA rate level coincided with the approval for purchase and rate base treatment of the second half of the Coyote Springs 2 generating facility.

Those PCA rates were continued by the Commission in Order No. 29881, Case No. AVU-E-05-6, the Company's annual PCA review.

The amount for amortizations related to surcharge revenues represents the amount of surcharge revenues for the twelve months ended June 30, 2006 net of the revenue related expenses of commission fees and uncollectibles. Staff reviewed the amount of monthly surcharge revenues and found them to be appropriately calculated and recorded. The Company estimates that the existing surcharge rates will produce annual revenues of approximately $4,268,000.

Interest

The Company calculates interest on the deferral balance per Commission Order No. 29323, Case No. AVU-E-03-4. Staff reviewed the calculation of the interest and found the amounts included in the filing to be correct. The Company uses the Customer Deposit Rate on current year deferrals and the Customer Deposit Rate plus 2% on carryover balances from one year to the next. The Customer Deposit Rate for 2005 was 2% and the Customer Deposit Rate for 2006 is 3%.

Deferral Balance Projection

In its filing Avista projects the PCA deferral balance for July through December 2006. The projection shows an additional accumulation of approximately $7.6 million. Based on this projection the Company recommends that PCA rates not be reduced to recover only the June 30, 2006 deferral balance of approximately $1.5 million, but that rates remain at current levels, rates that are expected to generate approximately $4.3 million in PCA revenue during the coming year.

While the Company has not proposed to use the projection of deferral balances through December 2006 to set the PCA surcharge amount, neither has it proposed to establish the surcharge amount based on existing deferral balances at the time of the PCA filing. The Company's proposal seems to be more generally based on the expectation of higher deferral balances and the principal of rate stability.

Staff does not oppose the company's proposal in this case. While unaudited, Staff views the July and August deferrals as known and measurable and subject to audit and correction in the next PCA filing. Furthermore, continuation of the existing surcharge will assure smaller deferral balances and interest charges for recovery later. However, Staff must point out that the Avista PCA methodology approved by the Commission does not include recovery of projected costs or costs deferred after the PCA filing. It is designed to recover costs after they are deferred, requested for recovery and fully audited.

Given the current balance, Staff believes the Company's recommendation to continue existing rates is reasonable for two reasons. First, keeping the PCA rate at the present level will offer rate stability to customers. Secondly, the deferral balance will not increase to the level it might otherwise attain if the PCA rate is lowered to only collect the deferral balance as of June 30, 2006. This decrease in the deferral balance also decreases the amount of interest that customers will eventually have to pay, helping to keep rates lower in future PCA filings.

PCA Methodology

Avista's current PCA filing is made under temporary criteria established by the Commission in 2001 when regional power supply costs, and PCA deferral balances, reached unprecedented levels. At that time an annual PCA cap amount of $12 million dollars was established along with an annual PCA review and potential rate adjustment. This is the filing and review criteria that has been followed since that time.

The PCA filing methodology that was in place prior to the Commission's 2001 order called for the Company to make PCA filings when the deferral balance reached a trigger amount of $3 million dollars. Avista's PCA also included a rate cap of no more than two triggers being incorporated in rates at any one time. The $3 million dollar trigger was established at approximately 2.5% of Idaho jurisdictional revenue. The Company views this as the more permanent methodology approved by the Commission and plans to return to it once the deferral balance reaches zero. Also, when that balance reaches zero the Company is required to implement a new rate design. Rate design is to be changed from an equal percentage increase or decrease for each customer class to an equal cents per kWh increase or decrease for each customer class.

In this filing the deferral balance at June 30, 2006 is approximately $1.5 million, which is relatively close to zero. Staff's concern is that even with the continuation of the current PCA rates, designed to recover $4.3 million annually, the PCA deferral balance is expected to grow through the end of the year. Staff believes that these circumstances leave several unanswered questions.

1) When will the deferral balance reach zero?

2) Should the Commission wait until the balance reaches zero to return to Trigger and Cap PCA filings and/or implement equal cents per kWh rates?

3) Should the Company return to Trigger and Cap PCA filings or should a single annual filing be made that would drive a single annual rate change? This is the methodology used in recent years.

4) If Avista's PCA returns to Trigger and Cap filings, what should the trigger and cap be?

In this case Staff recommends that existing PCA rates be continued as proposed by the Company. However, Staff believes that the Commission should set one or more workshops to discuss these and any other PCA questions or concerns that interested participants might have. It is Staff's hope that participants could reach an agreement to be presented to the Commission regarding permanent future PCA methodology.

CONSUMER ISSUES

Customer Notice and Press Release

Avista filed its electric Power Cost Adjustment (PCA) on August 15, 2006. Ordinarily, the Company would include a copy of its Press Release and Customer Notice with the filing but because Avista is not proposing to raise or lower its rates with this filing, they are not required to notify customers as required by IDAPA 31.21.02.102. Avista chose to not include a Customer Notice with customer's bills this year.

Customer Comments

Customers were given until September 29, 2006 to file comments. By September 27, 2006, no comments had been received.

Financial Assistance for Paying Heating Bills

Although Avista's rates for residential customers may remain the same this year, many customers still struggle to make ends meet. Staff encourages those customers who qualify for energy assistance to apply for the federally-funded Low Income Home Energy Assistance Program (LIHEAP) and other non-profit fuel funds such as Project Share. For more information regarding assistance programs, customers may call the local Community Action Partnership agency (CAPAI), Avista Utilities, the Idaho Public Utilities Commission, or for other community resources call the 2-1-1 Idaho Care Line.

STAFF RECOMMENDATION

Staff proposes that the Commission accept the audited deferral balances presented in the Company's filing. Staff recommends that the PCA surcharge, currently 2.448%, and the associated customer class rates, be continued. Staff also recommends that the Commission establish one or more workshops to develop future PCA filing criteria and the transition to equal cents per kWh PCA rates for presentation to the Commission prior to the next annual filing. Finally, Staff recommends that the Company's next status report be filed on or before August 15, 2007, to address a review period no longer than one year beginning July 1, 2006, to apply new PCA methodology if available and implement new PCA rates if necessary.

Dated at Boise, Idaho, this 29th day of September 2006.

Scott Woodbury
Deputy Attorney General

Technical Staff: Kathy Stockton
Keith Hessing
Marilyn Parker

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF SEPTEMBER 2006, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-E-06-05, BY E-MAILING A COPY THEREOF AND BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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