

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE REVIEW OF THE)
POWER COST ADJUSTMENT (PCA)) **CASE NO. AVU-E-07-01**
METHODOLOGY OF AVISTA)
CORPORATION DBA AVISTA UTILITIES) **NOTICE OF**
) **PROPOSED CHANGES TO PCA**
) **METHODOLOGY**
)
) **NOTICE OF REQUEST**
) **FOR CONTINUATION OF**
) **EXISTING SURCHARGE**
)
) **NOTICE OF**
) **MODIFIED PROCEDURE**
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) **NOTICE OF**
) **COMMENT/PROTEST DEADLINE**

On October 31, 2006, the Idaho Public Utilities Commission (Commission) in Case No. AVU-E-06-05 issued Order No. 30161 announcing a review of Avista Corporation's (Avista; Company) Power Cost Adjustment (PCA) methodology and method of recovery. Avista's PCA is used to track changes in revenues and costs associated with variations in hydroelectric generation, secondary prices and changes in power contract revenues and expenses.

On March 2, 2007, the Commission opened Case No. AVU-E-07-01 to establish a vehicle for review of Avista's PCA methodology and method of recovery.

Background

The context for the present docket is set forth in the Commission's Order No. 30161, Case No. AVU-E-06-05. In that Order the Commission made the following findings:

. . . We find it appropriate at this time to conduct the thorough review of PCA methodology envisioned when we approved changes to the methodology in 2001. We find Staff's suggestion to hold one or more workshops to be an acceptable vehicle for reviewing the Company's PCA methodology and expect the Company at the conclusion of that review to file a report with the Commission assessing the PCA methodology and providing justification for

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mechanism modifications. It is only with this review of PCA methodology that we authorize and continue the existing PCA surcharge of 2.448%.

In Order No. 30161 the Commission authorized Avista to continue the current PCA surcharge of 2.448% until the deferral balance reaches zero or June 30, 2007, whichever occurs first. The Commission further ordered that one or more PCA methodology workshops were to be held and a report filed with the Commission by Avista on or before August 15, 2007 recommending continuation or proposed changes to the PCA methodology and method of recovery.

On March 19, 2007, a workshop in Case No. AVU-E-07-01 was held in Boise, Idaho to review Avista's PCA methodology and method of recovery. The workshop was attended by representatives from Avista, Commission Staff, Potlatch Corporation and Idaho Power Company.

YOU ARE HEREBY NOTIFIED that on April 27, 2007, Avista filed a report in Case No. AVU-E-07-01 recommending proposed changes to the PCA methodology and requesting a continuation of the existing 2.448% PCA surcharge through September 30, 2007.

Avista in its report recommends three modifications to the PCA methodology and method of recovery:

1. Single annual PCA rate adjustments rather than returning to triggers and a cap.
2. Annual schedule for rate adjustments and review of prior PCA deferrals.
3. Method of recovery – rate spread for October 1, 2007 and October 1, 2008 PCA rate adjustments.

The Company proposes that it be allowed the flexibility to seek a departure from the PCA methodology procedures adopted. Examples discussed at the workshop were (1) maintain flexibility to do rate adjustments in addition to the annual PCA adjustment if the situation warrants, (2) maintain flexibility to not do a PCA rate adjustment if the adjustment is too small, and (3) maintain flexibility to recover or rebate the PCA deferral balance over more than one

period. Of course, the Company concedes that it would be required to request authorization and provide justification for any departure from the PCA rate mechanism procedures.

Single annual PCA rate adjustments

Avista proposes that the PCA methodology be modified to require an annual PCA adjustment filing to recover or rebate the deferrals being reviewed in the annual PCA status report filing. The PCA rate adjustment would be set each year on October 1 to recover the previous June 30 deferral balance, would remain in place for 12 months, and would be replaced by a new rate adjustment that is set based on the next 12 months of deferrals. Any over- or under-recovered surcharge or over- or under-refunded rebate balance will be transferred to the deferral balance that will be subject to the next rate adjustment.

Schedule for rate adjustments and review PCA deferrals

Avista has been making annual PCA review filings on or before August 15 of each year. The review filings cover power costs and the associated PCA deferrals that were recorded during the immediately preceding 12-month period of July through June. The Company proposes that these filings continue to be made and form the basis of the annual PCA rate adjustment.

Avista proposes the following dates for the Company filing, review and comments by Staff and other interested parties, Commission Order, and effective date of the PCA rate adjustment for 2007:

August 1, 2007	Company filing for July 2006 - June 2007 deferral period
September 1, 2007	Review and comments by Staff and other interested parties
October 1, 2007	Commission Order and effective date of PCA rate adjustment

Under the Company's proposal the current PCA surcharge of 2.448% would be extended and would expire on September 30, 2007. The PCA surcharge would be replaced by an October 1, 2007 rate adjustment designed to recover deferrals for the July 2006 - June 2007

period that would expire on September 30, 2008, which, in turn, would be replaced by a October 1, 2008 rate adjustment designed to recover deferrals for the July 2007 - June 2008 period that would expire on September 30, 2009. The process would continue in the future, unless it is modified.

Method of Recovery – Rate spread for October 1, 2007 and October 1, 2008 rate adjustments

The Company proposes that the October 1, 2007 rate adjustment be spread on a uniform percentage basis and that the October 1, 2008 rate adjustment and subsequent adjustments be spread on a uniform cents per kilowatt-hour basis. In supporting its recommended delay in switching from uniform percentage to cents per kilowatt-hour the Company notes that the deferral balance did not actually reach zero.

Request for continuation of existing surcharge

Avista requests that the existing 2.448% PCA surcharge not expire on June 30, 2007 (as per Order No. 30161) but be allowed to continue through September 30, 2007. Based on current estimates, Avista contends that it is likely that the PCA surcharge rate will increase from 2.448% to about 4% on October 1, 2007. Rather than have the PCA surcharge go to zero on July 1, 2007, leaving the existing surcharge in place through September 30, 2007, the Company contends, will minimize the rate increase impact that occurs on October 1, 2007. Also, if the existing surcharge is allowed to continue, the October 1, 2007 rate adjustment will be lessened by the amount of revenue received from the existing surcharge during the months of July, August, and September 2007.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. AVU-E-07-01, the proposed changes to the PCA methodology and the Company's request to continue the present surcharge and has preliminarily found that the public interest in this matter may not require a hearing to consider the issues presented, and that issues raised by the Company's filing may be processed under **Modified Procedure**, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204.

YOU ARE FURTHER NOTIFIED that the **deadline for filing written comments or protests** in Case No. AVU-E-07-01 with respect to the Company's PCA proposal and the use of Modified Procedure is **Thursday, May 31, 2007**.

YOU ARE FURTHER NOTIFIED that if no written comments or protests are received within the deadline, the Commission may consider the matter on its merits and may enter its Order without a formal hearing. If comments or protests are filed within the deadline, the Commission will consider them and in its discretion may set the matter for hearing or may decide the matter and issue its Order based on the written positions before it. Reference IDAPA 31.01.01.204.

YOU ARE FURTHER NOTIFIED that written comments concerning Case No. AVU-E-07-01 should be mailed to the Commission and the Company at the addresses reflected below.

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5983

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All comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to Avista at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that the filings in Case No. AVU-E-07-01 may be viewed at the Commission's website, www.puc.idaho.gov by clicking on "File Room" and

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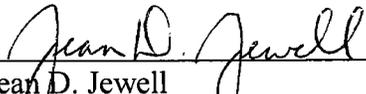
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“Electric Cases,” or can be viewed during regular business hours at the Idaho Public Utilities Commission, 472 W. Washington Street, Boise, Idaho and at the Idaho offices of Avista Corporation dba Avista Utilities.

DATED at Boise, Idaho this *10th* day of May 2007.



Jean D. Jewell
Commission Secretary

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