

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL

**FROM:** SCOTT WOODBURY

**DATE:** MAY 4, 2007

**SUBJECT:** CASE NO. AVU-E-07-01 (Avista)  
POWER COST ADJUSTMENT (PCA) METHODOLOGY –  
PROPOSED CHANGES &  
REQUEST FOR CONTINUATION OF EXISTING SURCHARGE

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 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 this case docket, AVU-E-07-01, to establish a vehicle for review of Avista Corporation dba Avista Utilities' (Avista; Company) 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:

The Commission has reviewed and considered the filings of record in Case No. AVU-E-06-5. . . . We have also reviewed our 2001 Order No. 28775 in Case No. AVU-E-01-1 modifying the PCA methodology and subsequent PCA Orders.

The temporary changes in Avista's PCA methodology authorized in 2001 were triggered by dramatic increases in prices on the wholesale market. In October 2001 the Commission approved a 19.4% PCA surcharge to enable the Company to pay down a \$78 million power cost debt incurred during the 2000-2001 western states energy crisis. The Commission in 2004 reduced

the surcharge to 4.38%, and in April 2005 reduced it again to its current level of 2.448%. The existing PCA surcharge produces annual revenues of approximately \$4,268,000, which is greater than the \$1,517,103 June 30, 2006 unrecovered balance. To justify continuation of the surcharge the Company proposes that the Commission recognize an intervening increase in deferral activity. Although unaudited, the Commission is apprised that the PCA deferral balance booked by Avista for the three months of July through September 2006 is \$7,100,927.

The Commission in its Order No. 28775 in 2001 approving modifications to the PCA methodology agreed with Potlatch that the changed methodology approved in that case merited close monitoring. Order No. 28775 p. 15. Potlatch had recommended that the Commission “restrict the adoption of the proposed changes to a limited period of time, perhaps two years, with a thorough review of the new methodology thereafter. . . .” Order No. 28775 p. 14. The Commission found that a two-year review seemed appropriate and stated:

After two years of operation with these changes we will expect the Company to file a report with this Commission detailing the operation of the modified PCA. The report should include total surcharge and rebate amounts recovered over the period, significant events that have impacted power supply expenses, changes in the long-term (greater than one year) supply/demand situation *and mechanism modifications that may be justified.* (Emphasis added.)

On August 8, 2003, the Company filed a Status Report together with Company testimony. In the testimony of Ron McKenzie, the Company estimated that the PCA deferral balance would reach zero in mid-2005. McKenzie Testimony p. 5, Case No. AVU-E-03-6.

The Commission has continued to monitor the Company’s PCA and the Company’s declining deferral balance and finds that the balance declined in 2006 to a level near zero. We find that the events that justified implementation of changes in PCA methodology, however, cannot be used to support an unending continuation of the charges. A thorough review and examination is required. In this filing the Company uses a projected increase in deferral to justify its request to continue rather than reduce the existing surcharge level. This recommended use of projections is a significant departure from the approved PCA methodology. 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 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.

On April 27, 2007, Avista filed a report in Case No. AVU-E-07-01 recommending proposed changes and requesting a continuation of the existing surcharge through September 30, 2007. Report attached.

#### **COMMISSION DECISION**

Avista has filed a Report with the Commission recommending proposed changes to its PCA methodology and requesting a continuation of the existing surcharge through September 30, 2007. Avista and Commission Staff recommend that this matter 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. Does the Commission agree with the recommended procedure?

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Scott Woodbury

b1s/M:AVU-E-07-01\_sw

Avista Corp.  
1411 East Mission P.O. Box 3727  
Spokane, Washington 99220-0500  
Telephone 509-489-0500  
Toll Free 800-727-9170



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IDAHO PUBLIC  
UTILITIES COMMISSION

VIA OVERNIGHT MAIL

April 26, 2007

State of Idaho  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, ID 83702-5983

Attention: Ms. Jean Jewell, Secretary

Case No. AVU-E-07-01  
Avista Corporation's Report Related to the Review of  
Avista's Power Cost Adjustment (PCA) Methodology

Enclosed for filing with the Commission are an original and seven copies of the Report of Avista Corporation in the above referenced case related to the review of Avista's Power Cost Adjustment (PCA) methodology. Also enclosed is a Certificate of Service.

Please direct any questions regarding this filing to Ron McKenzie at (509) 495-4320.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood  
Vice President, State and Federal Regulation

Enclosure  
RM

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IDAHO PUBLIC UTILITIES COMMISSION

1 David J. Meyer  
2 Vice President and Chief Counsel of  
3 Regulatory and Governmental Affairs  
4 Avista Corporation  
5 1411 E. Mission Avenue  
6 P. O. Box 3727  
7 Spokane, Washington 99220  
8 Phone: (509) 489-0500, Fax: (509) 495-8851

9 BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

10 IN THE MATTER OF THE REVIEW OF THE )  
11 POWER COST ADJUSTMENT (PCA) ) CASE NO. AVU-E-07-01  
12 METHODOLOGY OF AVISTA CORPORATION )

13 AVISTA'S REPORT  
14 RECOMMENDING PROPOSED  
15 CHANGES AND REQUEST FOR  
16 CONTINUATION OF EXISTING  
17 SURCHARGE THROUGH  
18 SEPTEMBER 30, 2007

19 I. INTRODUCTION

20 Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at  
21 1411 East Mission Avenue, Spokane, Washington, respectfully files its report in the above  
22 referenced case, and requests the Commission issue an order approving proposed changes in the  
23 method of PCA recovery, and the continuation of the existing PCA surcharge through September 30,  
24 2007.

25 Communications in reference to this Application should be addressed to:

26 Kelly O. Norwood	David J. Meyer
27 Vice President	Vice President and Chief Counsel of
28 State and Federal Regulation	Regulatory and Governmental Affairs
29 Avista Corporation	Avista Corporation
30 1411 E. Mission Avenue	1411 E. Mission Avenue
31 Spokane, Washington 99220	Spokane, Washington 99220
32 Phone: (509) 495-4267	Phone: (509) 489-0500
33 Fax: (509) 495-8851	Fax: (509) 495-8851

1 | **II. BACKGROUND**

2 | On October 31, 2006, the Idaho Public Utilities Commission (Commission) in Case No.  
3 | AVU-E-06-05 issued Order No. 301691 announcing a review of Avista Corporation's Power  
4 | Cost Adjustment (PCA) methodology and method of recovery. In that Order Avista was  
5 | authorized to continue the existing surcharge of 2.448% until the deferral balance reaches zero or  
6 | June 30, 2007, whichever occurs first. The Commission further ordered that one or more PCA  
7 | methodology workshops were to be held and a report filed with the Commission by Avista on or  
8 | before August 15, 2007 recommending continuation or proposed changes to the PCA  
9 | methodology and method of recovery.

10 | The Commission opened Case No. AVU-E-07-01 to establish a vehicle for review of  
11 | Avista's PCA methodology and method of recovery and issued a "Notice of Workshop." A  
12 | workshop was held on March 19, 2007, at the Commission's Hearing Room in Boise, Idaho.  
13 | The workshop was attended by representatives from Avista, Commission Staff, Potlatch  
14 | Corporation, and Idaho Power Company.

15 | **III. PROPOSALS DISCUSSED AT WORKSHOP**

16 | At the workshop the Company discussed a proposed modification to the PCA  
17 | methodology, and proposed modifications to the method of recovery. The proposed modification  
18 | to the PCA methodology was with regard to the rate used in calculating the retail revenue credit.  
19 | The Company discussed using the average cost of production rather than the marginal cost of  
20 | production. The Company is not proposing a change to the retail revenue credit rate in this  
21 | proceeding. If the Company decides to address this issue, it will do so in its next general rate  
22 | case filing.

1           The proposed modifications to the method of PCA recovery discussed at the workshop can be  
2 broken down into three main categories: 1) single annual PCA rate adjustments rather than returning  
3 to triggers and a cap, 2) annual schedule for rate adjustments and review of PCA deferrals, and 3)  
4 rate spread for the October 1, 2007 and October 1, 2008 rate adjustments. Each main category is  
5 discussed separately below. It is our understanding that there was agreement among the parties on  
6 the proposals presented below.

#### 7 **A. SINGLE ANNUAL PCA RATE ADJUSTMENTS**

8           The Company is proposing single annual PCA rate adjustments rather than returning to  
9 triggers and a cap. Order No. 28775 in Case No. AVU-E-01-1, dated July 12, 2001, approved  
10 modifications to the PCA effective January 1, 2001. The modifications included approval of a cap of  
11 \$12 million, or about 10% of base revenue at the time, with a continuation of \$3 million triggers.  
12 Rather than a hard and fast rule, the Company was given the latitude to request and seek a higher  
13 amount, if circumstances justified a higher amount. Such a request occurred due to the 2000-2001  
14 western energy crisis, with a 19.4% surcharge being approved effective October 12, 2001. The  
15 surcharge was later reduced to 4.385% on September 9, 2004, to partially offset a general rate  
16 increase, and again reduced to its current level of 2.448% on April 15, 2005, to offset the increase in  
17 general rates to recover costs associated with the acquired second half of Coyote Springs 2, a natural  
18 gas-fired generating unit.

19           The Company has not been using triggers to determine PCA rate adjustments since 2001.  
20 Rather, pursuant to Commission orders, the annual PCA status report to review deferrals has also  
21 included annual approvals for the continuation of the PCA surcharge rates.

1           The Company is proposing that the PCA procedures be modified to require annual PCA rate  
2 adjustment filings to recover or rebate the deferrals being reviewed in the annual PCA status report  
3 filing. Annual PCA rate adjustment filings will eliminate multiple PCA rate changes occurring  
4 within a year under a triggering mechanism. Having annual PCA rate adjustment filings is consistent  
5 with how the annual review of the PCA rates has been occurring. However, the existing practice of a  
6 rate adjustment remaining in place as long as there is a deferral balance larger than annual revenues  
7 from the PCA rate adjustment would be discontinued. Rather, the PCA rate adjustment would be set  
8 each year on October 1<sup>st</sup> to recover the previous June 30<sup>th</sup> deferral balance, would remain in place for  
9 twelve months, and would be replaced by a new rate adjustment that is set based on the next twelve  
10 months of deferrals. The deferrals for each July –June, twelve-month period and the PCA rate  
11 adjustment associated with that period will be accounted for separately. Any over- or under-  
12 recovered surcharge or over- or under-refunded rebate balance will be transferred to the deferral  
13 balance that will be subject to the next rate adjustment.

#### 14       **B. SCHEDULE FOR RATE ADJUSTMENTS AND REVIEW OF PCA DEFERRALS**

15           The Company has been making annual PCA review filings on or before August 15<sup>th</sup> of each  
16 year. The review filings cover power costs and the associated PCA deferrals that were recorded  
17 during the immediately preceding twelve-month period of July through June. The Company  
18 proposes that these filings continue to be made. The Company is proposing that an annual PCA rate  
19 adjustment be part of the filing with the rate adjustment being based on deferrals for the same July  
20 through June twelve-month period that the PCA review filing covers.

1 Listed below are the proposed dates for the Company filing, review and comments by Staff  
2 and other interested parties, Commission order, and effective date of the PCA rate adjustment for  
3 2007:

4 August 1, 2007	Company filing for July 2006 – June 2007 deferral period
5 September 1, 2007	Review and comments by Staff and other interested parties
6 October 1, 2007	Commission order
7 October 1, 2007	Effective date of PCA rate adjustment

8 Under the Company's proposal the current PCA surcharge of 2.448% would be extended and  
9 would expire on September 30, 2007. The PCA surcharge would be replaced by an October 1, 2007  
10 rate adjustment designed to recover deferrals for the July 2006 – June 2007 period that would expire  
11 on September 30, 2008, which, in turn, would be replaced by a October 1, 2008 rate adjustment  
12 designed to recover deferrals for the July 2007 – June 2008 period that would expire on September  
13 30, 2009. The process would continue in the future, unless it is modified.

#### 14 **C. RATE SPREAD FOR OCT. 1, 2007 AND OCT. 1, 2008 RATE ADJUSTMENTS**

15 The Company proposes that the October 1, 2007 rate adjustment be spread on a uniform  
16 percentage basis and that the October 1, 2008 rate adjustment and subsequent adjustments be spread  
17 on a uniform cents per kilowatt-hour basis. Order No. 29602 issued October 8, 2004 in Avista's last  
18 general rate case, Case Nos. AVU-E-04-1 and AVU-G-04-1, at page 48 states:

19 "The Commission finds that a cents per kWh recovery method for the PCA is superior to the  
20 percentage basis currently used. While we recognize the difficulties pointed out by Potlatch,  
21 we find the cents per kWh rate more equitable to all customers than the percentage allocation.  
22 We recognize that the variable cost of energy fluctuates from year to year based on the  
23 amount of energy consumed and should therefore be surcharged or credited on an equal cents  
24 per kWh basis. We authorize the change to an equal cents per kWh when the present deferral  
25 balance is eliminated. We reject Potlatch's proposal to seasonalize PCA recovery amounts  
26 on a monthly or quarterly basis as being administratively burdensome and unnecessary to

1 | achieve fairness and equity.”

2 | Under the annual rate adjustment method being proposed, the Company will be setting PCA  
3 | rates based on deferrals recorded for specific twelve-month periods. Since this proposal is a  
4 | modification to the old revenue adjustment mechanism of triggers, and since the deferral balance did  
5 | not actually reach zero, the Company is proposing that the October 1, 2007 rate adjustment be spread  
6 | on a uniform percentage basis. Thereafter, the rate adjustments would be spread on a uniform cents  
7 | per kilowatt-hour basis.

#### 8 | **IV. REQUEST FOR CONTINUATION OF EXISTING SURCHARGE**

9 | The Company requests that the existing 2.448% PCA surcharge not expire on June 30, 2007,  
10 | but be allowed to continue through September 30, 2007. Based on current estimates, it is likely that  
11 | the PCA surcharge rate will increase from 2.448% to about 4% on October 1, 2007. Rather than  
12 | have the PCA surcharge go to zero on July 1, 2007, leaving the existing surcharge in place through  
13 | September 30, 2007 will minimize the rate increase impact that occurs on October 1, 2007. Also, if  
14 | the existing surcharge is allowed to continue, the October 1, 2007 rate adjustment will be lessened by  
15 | the amount of revenue received from the existing surcharge during the months of July, August, and  
16 | September of 2007. In other words, if the existing surcharge continues, the October 1, 2007 rate  
17 | adjustment will be based on the deferral balance at June 30, 2007, less the surcharge revenue to be  
18 | received from the existing surcharge during the months of July, August, and September.

#### 19 | **V. RATE MECHANISM FLEXIBILITY**

20 | If circumstances arise, the Company proposes that it be allowed the flexibility to seek a  
21 | departure from the procedures. Examples that were discussed at the workshop were: 1) maintain  
22 | flexibility to do rate adjustments in addition to the annual adjustment if the situation warrants,

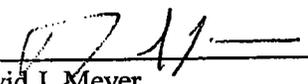
1 | 2) maintain flexibility to not do a rate adjustment if the adjustment is too small, and 3) maintain  
2 | flexibility to recover or rebate the deferral balance over more than one period. Of course, the  
3 | Company would be required to request authorization and provide justification for any departure from  
4 | the PCA rate mechanism procedures.

5 | **VI. REQUEST FOR RELIEF**

6 | The Company respectfully requests the Commission approve the previously discussed  
7 | changes to the method of PCA recovery, and the continuation of the existing PCA surcharge rates  
8 | through September 30, 2007. The Company requests that the matter be processed under the  
9 | Commission's Modified Procedure rules through the use of written comments. The Company  
10 | requests that the Commission set a deadline for written comments or protests and issue the required  
11 | notice in this proceeding. Since the Company is requesting that the existing PCA surcharge,  
12 | otherwise set to expire on June 30, 2007, be continued through September 30, 2007, an order would  
13 | need to be issued prior to June 30, 2007, if continuation is approved.

14 |  
15 | Dated at Spokane, Washington this 26<sup>th</sup> day of April 2007.

16 |  
17 | AVISTA CORPORATION

18 | BY   
19 | David J. Meyer  
20 | Vice President and Chief Counsel of  
21 | Regulatory and Governmental Affairs  
22 |  
23 |



## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Report in Case No. AVU-E-07-01 related to the review of Avista's Power Cost Adjustment (PCA) Methodology, by mailing a copy thereof, postage prepaid to the following:

Ms Jean D Jewell, Secretary  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, ID 83702-5983

Pamela Mull  
Vice President & General Counsel  
Potlatch Corporation  
601 W. Riverside Ave.  
Suite 1100  
Spokane, WA 99201

Howard Ray  
Technical Services Manager  
Potlatch Corporation  
803 Mill Road  
PO Box 1126  
Lewiston, ID 83501-1126

Dated at Spokane, Washington this 26th day of April 2007.

  
\_\_\_\_\_  
Patty Olsness  
Rates Coordinator