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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE REVIEW OF THE)
POWER COST ADJUSTMENT (PCA)) CASE NO. AVU-E-07-1
METHODOLOGY OF AVISTA CORPORATION)
DBA AVISTA UTILITIES)
)
) **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 Proposed Changes to PCA Methodology, Notice of Request for Continuation of Existing Surcharge, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on May 10, 2007, submits the following comments.

BACKGROUND

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.

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 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 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 also proposed that it be allowed the flexibility to seek departure from the PCA methodology approved by the Commission. The Company concedes that it would be required to request authorization and provide justification for any such departure.

SINGLE ANNUAL PCA RATE ADJUSTMENTS

Company Proposal

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 would be transferred to the deferral balance that would be subject to the next PCA rate adjustment.

Staff Comments

Staff agrees with the Company's proposal. Previously approved methodology that was based on triggers and caps and allowed two surcharges or rebates to be in place at any given time often required two PCA cases per year that produced two rate adjustments per year. The Company's proposal in this filing provides for longer periods of rate stability and reduces the administrative burden on all participants.

SCHEDULE FOR RATE ADJUSTMENTS AND REVIEW OF PCA DEFERRALS

Company Proposal

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.

Staff Comments

Staff agrees with the proposed schedule. Staff also agrees that the proposed schedule be adopted for all future years. The certainty of a permanent schedule provides administrative advantages to both the Commission and the Company and benefits customer planning.

METHOD OF RECOVERY - RATE SPREAD FOR OCTOBER 1, 2007 AND OCTOBER 1, 2008 RATE ADJUSTMENTS

Company Proposal

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.

Staff Comments

In Order No. 29602 issued in Case No. AVU-E-04-1 the Commission ordered Avista to change PCA rates from equal percentage increases/decreases to equal cents per kWh

increases/decreases when the PCA deferral balance reached zero. In that order the Commission said;

The Commission finds that a cents per kWh recovery method for the PCA is superior to the percentage basis currently used. While we recognize the difficulties pointed out by Potlatch, we find the cents per kWh rate more equitable to all customers than the percentage allocation. We recognize that the variable cost of energy fluctuates from year to year based on the amount of energy consumed and should therefore be surcharged or credited on an equal cents per kWh basis. We authorize the change to an equal cents per kWh when the present deferral balance is eliminated. (Pg. 48)

Staff proposes that the change to equal cents/kWh occur with the next PCA rate change that is proposed to occur on October 1, 2007. The Company proposes that the change not take place until a year later. Staff believes that when the Commission ordered this change to occur when the deferral balance reached zero, it was done for the purpose of allowing the relatively large deferral balance that existed at that time to be passed on to customers under the rate spread methodology that was in place at the time the balance accumulated. Staff believes that for all practical purposes that occurred March 30, 2006 when the deferral balance dropped from a high of \$45.6 million to \$1.5 million. Attachment A to these comments shows the rise and fall of the balance. Attachment A also shows that the balance is rising again. Even if the Commission waits another year there are no guarantees that the balance will reach zero. Staff sees no advantage in further delaying the change to equal cents/kWh PCA rates.

REQUEST FOR CONTINUATION OF EXISTING SURCHARGE

Company Proposal

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, 2008 rate adjustment will be lessened

by the amount of revenue received from the existing surcharge during the months of July, August, and September 2007.

Staff Comments

Staff supports the Company proposal to continue the existing surcharge through September 30, 2007.

The Company files monthly Power Cost Adjustment reports and through April 30, 2007 the deferral balance has grown to \$11,143,952. Although this amount is un-audited, Staff has no reason to believe that this amount is incorrect. The average monthly surcharge collected from October 2006 through April 30, 2007 is \$410,141. Ending the surcharge early means a delay in paying down the surcharge, and incurring additional interest on the amount in the deferral balance that would have been paid if the surcharge were kept in place.

The customers are likely facing an increase in the PCA surcharge percentage in September due to higher power supply costs. Stopping the surcharge at the end of June will simply increase the PCA deferral balance that customers ultimately will be responsible for at that time.

RATE MECHANISM FLEXIBILITY

Company Proposal

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 approved PCA methodology.

Staff Comments

Staff agrees with the Company that it would be required to request authorization and provide justification for any departure from Commission approved PCA methodology. Staff would evaluate any filings that departed from the Commission approved PCA mechanism and make recommendations to the Commission on a case-by-case basis.

SUMMARY OF RECOMMENDATIONS

In summary, Staff believes that the workshop held as part of this proceeding and that the report filed with the Commission in this proceeding satisfy the requirements for PCA review and reporting established in Commission Order No. 30161. Staff agrees with the Company's PCA recommendations as summarized above except for the recommendation to not implement equal cents per kWh rates until October 1, 2008. For reasons previously stated in these comments Staff believes that the change should occur on October 1, 2007.

Respectfully submitted this 30th day of May 2007.

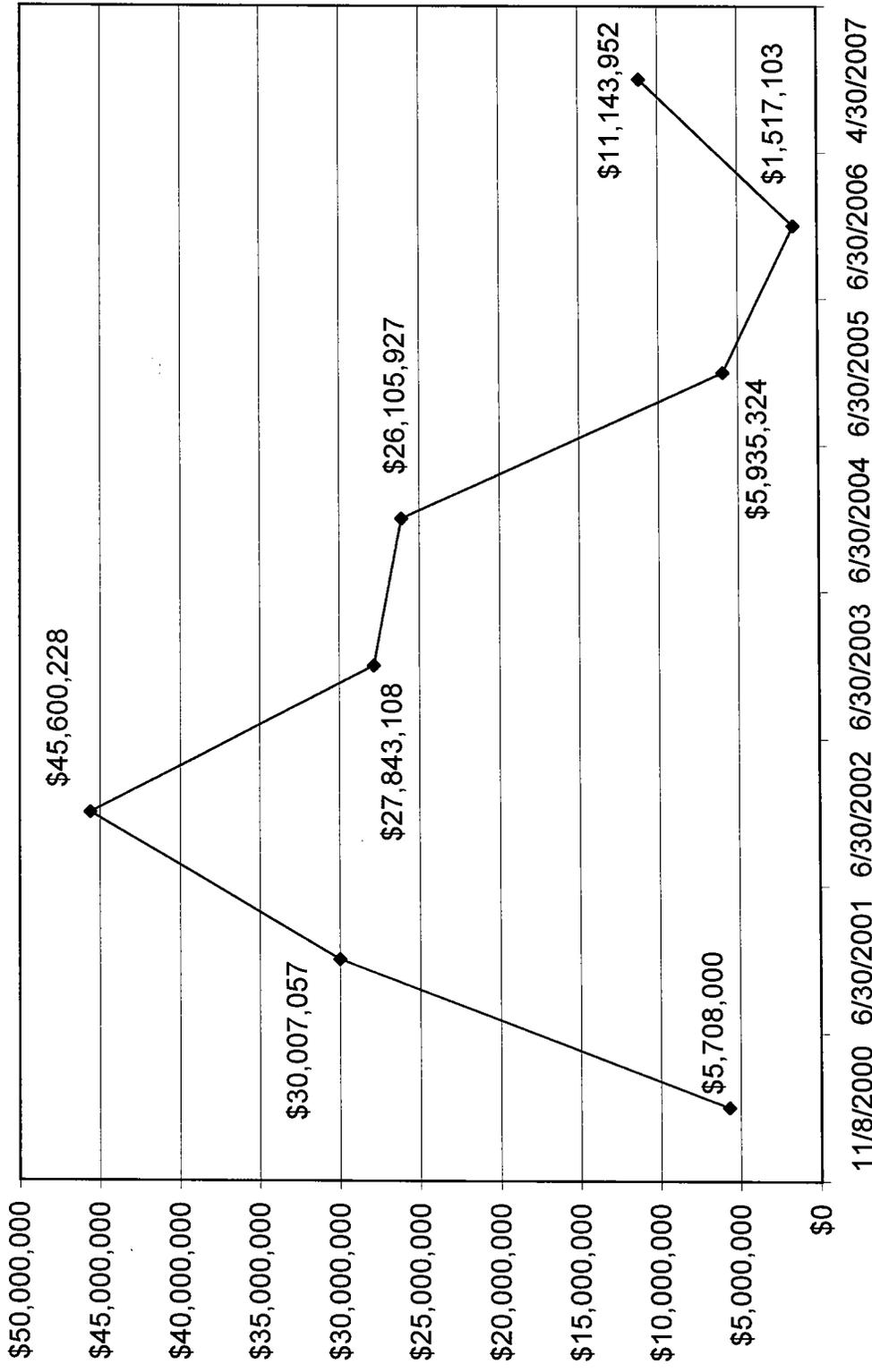


Scott Woodbury
Deputy Attorney General

Technical Staff: Keith Hessing
Kathy Stockton

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Avista PCA Deferral Balance



CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF MAY 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-07-01, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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