

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF AVISTA )  
CORPORATION'S ANNUAL POWER COST ) CASE NO. AVU-E-07-07  
ADJUSTMENT (PCA) FOR THE PERIOD )  
JULY 1, 2007 TO JUNE 30, 2008 ) ORDER NO. 30429  
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On July 31, 2007, Avista Corporation dba Avista Utilities filed its annual Power Cost Adjustment (PCA) Application. Since 1989 the PCA mechanism has permitted Avista to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Because of its reliance on hydroelectric and natural gas-fired generation, Avista's actual cost of providing electricity (its power supply costs) varies from year to year depending on changes in streamflows, natural gas prices, and the market price of power. The annual PCA surcharge or credit is combined with the Company's "base" rates to produce a customer's overall energy rate. In its Application, Avista calculated that its annual power cost adjustment should be approximately \$4.6 million more than the existing PCA surcharge of about \$5.0 million. The Company estimated that this results in an overall PCA rate increase of 2.22%.

On August 10, 2007, the Commission issued a Notice of Application and Notice of Modified Procedure. Order No. 30402. The Commission requested that interested persons submit written comments no later than September 7, 2007. Comments were filed by seven members of the public and Commission Staff. After reviewing the Application and comments, we approve the PCA Application and authorize new rates to be effective on October 1, 2007.

**THE PCA MECHANISM**

Avista's PCA mechanism captures the difference between "normalized" power costs and actual power costs. The PCA rate is designed to move upward or downward based upon available streamflows and fuel prices. Ninety percent of the difference between normalized costs and actual costs are charged or credited to customers. The remaining ten percent of the cost difference is attributed to or absorbed by the Company. This 90/10 sharing mechanism moderates the PCA increase in years (such as the current year) when actual power costs exceed normalized power costs. The PCA mechanism stabilizes Company earnings and does not affect the Company's overall earnings or authorized rate of return.

During the recently completed PCA year (July 1, 2006 through June 30, 2007), Avista reported that its unrecovered deferral balance after the 90/10 split is \$10,573,518. Application at 3. The Company attributed the higher power supply costs to higher natural gas fuel costs and slightly reduced hydro generation. Further adjustments reduce the PCA balance to approximately \$9.6 million. *Id.* at 4.

Consistent with the Commission's prior Order No. 28108, Avista proposes to recover the PCA surcharge on a uniform cents-per-kilowatt-hour (kWh) basis. As portrayed in the Company's PCA tariff (Schedule 66), Avista seeks a uniform surcharge of 0.267¢ per kWh. Under the Company's proposal, the PCA surcharge rate for residential customers will increase from 0.163¢ per kWh to 0.267¢ per kWh, an increase of 0.104¢ per kWh. Avista estimates that the monthly bill for the average residential customer using 1,000 kWh per month would increase by \$1.04. Application at 4. Because the PCA rate is being changed from a percentage basis to a uniform cents-per-kilowatt-hour basis, the percentage increase will vary by customer class. The table below shows the proposed increase in the PCA rates for the major customer classes:

<b>CUSTOMER GROUP (SCHEDULE)</b>	<b>PERCENTAGE CHANGE</b>
Residential (1)	1.53%
General Services (11 & 12)	0.98%
Large General Services (21 & 22)	2.04%
Extra Large General Services (25)	3.86%
Pumping Services (31 & 32)	1.83%
Street and Area Lights (41-49)	-0.89%

Source: McKenzie, Exh. RLM-1, Page 1 of 3

The Company proposes that the PCA rate change included in Schedule 66 become effective on October 1, 2007.

## **COMMENTS**

### ***A. Public Comments***

The Commission received seven comments from customers or interested persons. All the public commenters opposed the PCA rate increase. Three commenters were on fixed

incomes or retired. Several customers suggested that the Company absorb the PCA rate increase by reducing officer salaries or tightening “their belts like everyone else.”

A commenter from Boise asserted that the PCA mechanism is biased in favor of known energy resources instead of intermittent resources such as wind. He suggested that ratepayers should not be responsible for the volatility of power costs “when they have no say in ways to limit or reduce” the risk of the volatility.

### **B. Staff Comments**

The Staff performed an audit of the PCA accounts and concluded that the amounts recorded are correct. The Staff agreed with the Company that the unrecovered deferral balance in this year’s PCA account is \$10,573,518 as of June 30, 2007. Staff Comments at 3-4.

Staff also reviewed the calculation of the interest and found the amounts included in the Company’s Application to be correct. The Company uses the customer deposit rate on current year deferrals plus two percent on carry-over balances from one year to the next. Consistent with the Commission’s Order No. 30361, the Staff recommended that the additional two percent interest be eliminated effective October 1, 2007. Subsequent PCA calculations should not contain the additional two percent in interest. The Company concurs that this change should become effective October 1, 2007. *Id.* at 8.

The table below shows the individual PCA components and the calculation of the unrecovered deferral balance.

Unrecovered Balance at June 30, 2006	\$ 1,517,103
Net Deferral Activity (July 2006-June 2007)	13,239,763
Amortizations Related to Surcharge Revenues (July 2006-June 2007)	-4,691,623
Interest	501,895
Centralia gain over-refund (recorded in November 2006)	<u>6,380</u>
Unrecovered Balance at June 30, 2007	\$10,573,518

The deferral of \$10.57 million is then adjusted to reflect: (1) expected surcharge revenues for July, August and September; (2) expected interest; and (3) other adjustments. These three offsetting adjustments result in a PCA recovery balance of \$9,609,989. *Id.* at 2.

In conclusion, the Staff recommended that the Commission accept the audited deferral balances presented in the Company’s filing and approve the proposed PCA rate surcharge of 0.267¢/kWh effective October 1, 2007. Staff further recommends that the

Company discontinue the additional 2% interest calculation for carry-over balances effective October 1, 2007.

### **DISCUSSION**

After reviewing the PCA Application and the comments filed in this case, we find it reasonable to grant Avista's Application to increase its PCA rate. We note that no commenter objected to the PCA calculations and the rate such calculations produce. We find the PCA rate of 0.267¢ per kWh is fair, just and reasonable. Although we approve the PCA rate increase, we are sympathetic to those public comments that suggest the Company forego rate increases. However, we recognize that the 90/10 sharing mechanism does assign at least ten percent of the PCA power costs to the Company. The PCA methodology is designed so customers will pay no more or no less than 90% of actual variance in power supply costs over the base. It does not increase the company's overall earnings. We urge those customers who are eligible for energy assistance under the Low Income Home Energy Assistance Program (LIHEAP) and other assistance programs to apply to those programs. Information about the assistance programs may be obtained from Avista, local community action agencies, our Consumer Assistance staff, or by calling the "211" Idaho Care Line.

### **ORDER**

IT IS HEREBY ORDERED that Avista Utilities' PCA Application is approved.

IT IS FURTHER ORDERED that from October 1, 2007 through September 30, 2008, the PCA rate shall be 0.267¢ per kWh for all customer classes.

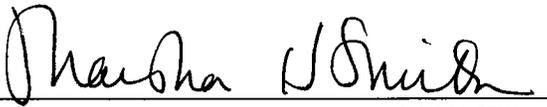
IT IS FURTHER ORDERED that the PCA rate contained in this Order shall be effective for service on October 1, 2007. The Company's proposed PCA tariff Schedule 66 included in its Application is approved.

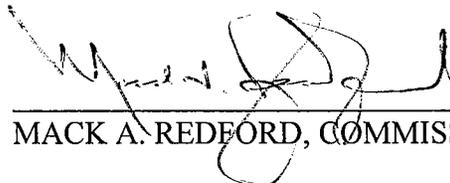
IT IS FURTHER ORDERED that subsequent PCA calculations discontinue adding two percent interest on the unrecovered carry-over balance from prior years.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. AVU-E-07-07 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

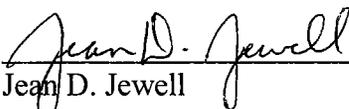
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 14<sup>th</sup>  
day of September 2007.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDEFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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