

DECISION MEMORANDUM

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

FROM: DON HOWELL

DATE: AUGUST 2, 2007

SUBJECT: AVISTA'S ANNUAL POWER COST ADJUSTMENT (PCA)
APPLICATION, CASE NO. AVU-E-07-07

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 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 this PCA Application, Avista calculates that its annual power costs have increased approximately \$4.6 million more than the existing PCA surcharge of about \$5.0 million. The Company estimates that this results in an overall PCA rate increase of 2.22%. Application, Exhibit RLM-1 at page 1. The Company proposes an effective date of October 1, 2007.

BACKGROUND

A. Recent PCA Changes

In Order No. 30361 issued June 29, 2007, the Commission approved two major changes to Avista's PCA methodology. First, the Commission changed Avista's PCA from a "trigger and cap" mechanism to a single annual PCA rate adjustment. Order No. 30361 at 6. Under the trigger-and-cap mechanism, a PCA rate change was not "triggered" until the deferral exceeded a certain threshold, and the rate change was "capped" at 5%. Order No. 28108 at 1. Second, the Commission changed the PCA rate from a uniform "percentage" basis to a uniform "cents per kilowatt hour (kWh)" basis. *Id.* The Commission also authorized continuation of the

existing 2.448% PCA surcharge until September 30, 2007. The Commission directed that these changes be implemented in this docket.

B. The PCA Application

During the PCA year (July 1, 2006 through June 30, 2007) the Company reports 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. Storro Direct at 2. Consequently, Avista seeks a PCA surcharge of 0.267¢ 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. If approved, the monthly bill for the average residential customer using 1,000 kWh per month would increase by \$1.04. The average monthly bill for a residential customer using 1,000 kWh would increase from \$69.38 to \$70.42, or an increase of approximately 1.5%.

Because the PCA rate is being changed from a percentage basis to a cents-per-kilowatt 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:

CUSTOMER GROUP (SCHEDULE)	PERCENTAGE CHANGE
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%

McKenzie, Exhibit No. RLM-1, Page 1 of 3

The Company's Application is supported by the testimony of Richard Storro, the Director of Power Supply, and Ronald McKenzie, Manager of Regulatory Accounting. The Company submitted proposed tariff changes to its Schedule 66 (Temporary Power Cost Adjustment). The Company proposed an effective date of October 1, 2007 and requests that its PCA Application be processed under Modified Procedure.

STAFF ANALYSIS

At this time, Staff believes that the Company's PCA Application is straightforward and recommends that it be processed under Modified Procedure. Staff suggests that the Commission use a 28-day comment period so that the new rate may become effective by October 1, 2007.

COMMISSION DECISION

Does the Commission find that Avista's PCA Application should be processed under Modified Procedure with a 28-day comment period?



Don Howell

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