Exhibit KLE-6 (______)
Docket No. UE-010395
Witness: Kenneth L. Elgin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Avista Corporation's) Petition for Recovery of Expenditures) Related to Electric Deferral Mechanism) ____)	DOCKET NO. UE-010395

EXHIBIT OF

KENNETH L. ELGIN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
RE: AVISTA PETITION FOR 37% ENERGY SURCHARGE

August 24, 2001

WUTC DOCKET NO. UE-010395
EXHIBIT NO. 456
ADMIT ☒ W/D ☐ REJECT ☐

SERVICE DATE
JAN 2 4 2001

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of AVISTA CORPORATION for an Order Regarding the Accounting Treatment of Certain Wholesale Power Costs to Serve Firm Load Obligations	))))))))))))	DOCKET NO. UE-000972 ORDER GRANTING REQUEST TO MODIFY POWER COST DEFERRAL MECHANISM

MEMORANDUM

1 On December 21, 2000, Avista Corporation ("Avista" or "Company") filed a request for modification of the deferral mechanism to defer certain power supply costs. The Commission's Order dated August 9, 2000, in Docket No. UE-000972 granted authorization of the original deferral mechanism. As explained in the Petition, the Company is requesting an amendment to how power cost deferrals are calculated. The Company asserts that the cost of short-term market prices has resulted in the situation where the Company is forced to purchase power at prices that are higher than the price received when the power is sold to meet increased system load requirements. Power supply expenses associated with meeting increased system load requirements are not included in the power cost deferral mechanism currently approved by the Commission. The Company asserts that because of the extremely high short-term market prices, the cost of power to meet increased system load requirements is substantial and needs to be reflected in the power cost deferral mechanism. The Company proposes that the deferral mechanism be amended effective December 1, 2000. The first deferral under the amended mechanism would be made in January 2001, to record the estimate for the month of December 2000.

2 After review of the Company's petition, Commission Staff identified concerns with Avista's proposal, including the compounding effect on the deferred power cost level that could expose the Company to a greater potential of write-offs if full recovery of total amounts deferred is not granted. Staff also stated that the modified deferral mechanism would defer costs not related to power supply and that the mechanism resembles those that were either rejected, found inappropriate, or terminated in the past because of failure to satisfy certain criteria enunciated by this Commission. These criteria include equitable balancing of risk between ratepayers and shareholders. Staff stated that it cannot conclude that the proposal is in the public

interest and recommended setting the matter for hearing. As alternative recommendation, Staff recommended granting Avista's request, conditioned on Avista's filing by mid-March 2001, a proposal to address certain specific issues which are detailed below. The unusual current power environment in the West and the resulting extremely high short-term market prices presenting financial pressure to Avista, necessitate a timely examination of the effects on Avista.

FINDINGS

THE COMMISSION FINDS:

3 1. Avista Corporation is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.

4 2. On December 21, 2000, Avista filed with the Commission a request for modification of the deferral mechanism to defer certain power supply costs.

5 3. Staff's alternative recommendation is reasonable. It would grant the modification to the deferral mechanism, conditioned on the Company's filing by mid-March 2001, a proposal that will address:

a. the prudency of the incurred power costs,
b. the optimization of Company-owned resources to the benefit of retail customers,
c. the appropriateness of recovery of power costs through a deferral mechanism,
d. a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers, and
e. Company plan to mitigate the deferred power costs.

ORDER

THE COMMISSION ORDERS:

6 1. Authorization is hereby given to Avista to amend the power cost deferral mechanism as explained in the Company's Petition.

7 2. This authorization is conditioned on Avista's filing by March 20, 2001, a proposal that will address:

a. the prudency of the incurred power costs,
b. the optimization of Company-owned resources to the benefit of retail customers,

c. the appropriateness of recovery of power costs through a deferral mechanism,
d. a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers, and
e. Company plan to mitigate the deferred power costs.

8 3. The Company shall continue to prepare and submit reports to the Commission on a monthly basis related to the deferrals. The reports will include all calculations and accounting entries.

9 4. This order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of cost or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs claimed or asserted.

10 5. The Commission retains jurisdiction over the subject matter and Avista Corporation to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 24th day of January, 2001.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

Agenda Date: January 24, 2001
Item Number : **2B**

Docket: **UE-000972**
Company: Avista Corporation

Staff: Roland C. Martin, Energy Regulatory Consultant
Lisa A. Steel, Energy Assistant Director
Dixie Linnenbrink, Regulatory Services Division Director

Recommendation:

Set for hearing Avista Corporation's request to amend the current power cost deferral mechanism authorized in Docket No. UE-000972 **or** grant Avista's request and order the Company to file by mid-March 2001, a proposal that will address: a) the prudency of the incurred power costs, b) the optimization of Company-owned resources to the benefit of retail customers, c) the appropriateness of recovery of power costs through a deferral mechanism, d) a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers, and e) the Company plan to mitigate the deferred power costs.

Discussion:

On December 21, 2000, Avista Corporation ("Avista" or "Company") filed a request for modification of the deferral mechanism to defer certain power supply costs. The original deferral mechanism was authorized on August 9, 2000 in Docket No. UE-000972. As explained in its petition, the Company is requesting an amendment to how power cost deferrals are calculated. Power supply expenses associated with meeting increased system load requirements are not included in the deferral mechanism presently in effect. The Company states that because of the extremely high short-term market prices, the cost of power to meet increased system load requirements is substantial and needs to be reflected in the power cost deferral mechanism. Based on information from the Company, the estimated rate of return on electric system rate base for the 12 month period ending December 2000 (11 months actual/ 1 month estimate) is –1.623% with an implied return on equity of –14.198%. The Company forecasts significant improvements to earnings by June 2001 under both the current and proposed deferral mechanisms. The Company proposes that the deferral mechanism be amended effective December 1, 2000 with the first deferral under the amended mechanism made in January 2001 to record the estimate for the month of December 2000.

Analysis and Findings:

A- The proposed revised mechanism would compound the magnitude of deferred expenses that are yet to be scrutinized. Staff is concerned that further build up of deferred expenses whose future recovery is uncertain, is causing current financial relief when in fact the Company has not been granted rate relief. As the deferral mechanism operates, current period expenses are not

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recognized as current deductions to income, thereby improving current earnings. When disposition of the deferred amounts come, the escalated level of such deferred expenses exposes the company to a greater potential of write-offs if full recovery of total amounts deferred is not granted. Information from the Company shows that for the period December 2000 through June 2001 which is the timeframe that the revised mechanism is proposed to operate, the original estimate of deferred expenses would increase significantly if the new mechanism is authorized. The following table portrays the magnitude of deferred expenses under the current and revised mechanisms:

Table A
Estimated Washington Allocated Deferred Expenses*
December 1, 2000 Through June 30, 2001

Deferred Expenses- Proposed Mechanism	$13,186,125
Deferred Expenses- Existing Mechanism	$ 8,692,579
Increase in Deferrals	$ 4,493,546

*December deferrals based on actual data, January through June based on budget data

As shown above, the estimated deferral under the proposed mechanism is approximately **$13.2** million which is approximately 5.7% of total retail revenues. When this is added to the recorded **$33.7 million** actual amounts deferred from July through November 2000 under the existing mechanism, the total amount of deferred expenses for the twelve month period ending June 30, 2001 will be approximately **$46.9** million. This total would compare to an approximate annual amount of **$42.4** million if the original mechanism is unchanged. Had the proposed mechanism operated since the inception of deferrals, the annual deferred amount would be approximately **$55** million. Staff notes that at the time of the filing of the original mechanism in June 2000, the estimated annual deferred amount was approximately **$19.7** million.

B- The proposed replacement mechanism would defer costs other than power supply related costs.

(1) The power costs for deferral purposes under the existing mechanism are limited to three power cost variables, including short-term market prices, thermal generation, and hydroelectric generation. The proposed amended mechanism would include the impact of changes in system retail and wholesale requirements, such as increases due to load growth, colder than normal weather and increased takes under contract options. Although the company views the proposed amendment as a change in power cost calculation for deferral purposes, the replacement mechanism is actually capable of capturing costs other than those related to power supply. Under the proposed new mechanism, if actual retail revenue in a given month is lower than the level of revenues authorized in the last general rate case, the negative adjustment is added to that month's power cost deferral. The above is compounded by a distribution cost adjustment that

further increases the deferral level. In effect, the proposed mechanism under the circumstance mentioned provides relief for shortfall in distribution cost recovery. For example, the Company estimates that in June 2001, a $313,000 distribution adjustment would increase the level of deferred power cost by this amount.

(2) The distribution cost adjustment mentioned above is based on data from the Company's cost of service study presented in its last general rate case. That cost of service study was disputed by various parties in the rate case. Staff is concerned that the proposed revised deferral mechanism uses such disputed study that employed an allocation method specifically found by the Commission to be of no sufficient basis for approval. If the distribution cost adjustment is inaccurate, then the deferred power costs would be inaccurate.

C. The proposed mechanism resembles power cost adjustment mechanisms that were either rejected, found inappropriate, or terminated by this Commission in the past because of their failure to satisfy certain requisites enunciated by this Commission. These requisites include equitable balancing of risk between ratepayers and shareholders. In Avista's recent general rate case, Staff pointed that the mechanism proposed in that case by the Company corrects for changes in revenue(which are not necessarily related to weather), rather than changes in physical generation(which is related to weather). The Commission noted this to be a compelling point and stated that linkage of the adjustment to changes in both the value of hydro-generation and variation in market prices at the mid-Columbia could cause customers to face directly the risks of both weather and lack of regional system capacity which may or may not be correlated with hydro system performance. In finding that the power cost adjustment mechanism proposed by Avista was not appropriate, the Commission noted that mechanisms that simply shift risk from shareholders to ratepayers without compensating benefits do not meet the equitable balancing of risk objective.

D. The Company has informed Staff of a filing by mid-March 2001, of a rate plan that includes a proposal to address the prudency of net deferred power expenses and the mechanism for possible recovery. Avista's testimony in that filing will outline why the Company anticipates that, by the fourth quarter of 2001, the deferral balances will begin to materially decline because of known and forecasted changes in load/resource balances and proposed accounting adjustments. Avista believes that allowing time to pass to reach the anticipated changes in Avista's financial and resource situation and continuing the balancing account will result in the Company's customers experiencing little or no rate increases in spite of the unprecedented energy prices that have been occurring in the West. The Company's view is that achieving such a result would be a significant achievement and is worth the effort that must be expended to implement the proposed balancing account, especially in light of the rate increases being experienced by other regional utilities. Staff agrees that the current power environment in the West is unusual and that the resulting extremely high short term market prices present financial pressure to the company that needs to be examined and dealt with accordingly.

Conclusion and Recommendation:

Based on the above analysis and considerations, Staff cannot conclude that the Company's proposal is in the public interest. Therefore, Staff recommends that the Commission set the matter for hearing. As alternative recommendation, Staff recommends the Commission grant Avista's request with conditions. The conditions Staff recommends are to order the Company to file by mid-March 2001, a proposal that will address: a) the prudency of the incurred power costs, b) the optimization of Company-owned resources to the benefit of retail customers, c) the appropriateness of recovery of power costs through a deferral mechanism, d) a proposal for cost of capital offsets to recognize the shift in risk from shareholders to ratepayers, and e) Company plan to mitigate the deferred power costs.