

Office of the Secretary
Service Date
October 8, 2004

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION FOR THE) CASE NO. AVU-E-04-1
AUTHORITY TO INCREASE ITS RATES AND) AVU-G-04-1
CHARGES FOR ELECTRIC AND NATURAL)
GAS SERVICE TO ELECTRIC AND NATURAL)
GAS CUSTOMERS IN THE STATE OF IDAHO.) ORDER NO. 29602
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ISSUED OCTOBER 8, 2004

BOISE, IDAHO

of computing the expense savings and revenue enhancements associated with transmission investment. We accept as reasonable Staff's proposed Beacon-Bell adjustment and the proposal to update the Beacon-Rathdrum and Pine Creek construction estimates to actuals. Rather than deny the Company's annualizing plant rate base adjustment outright or require the Company to wait for its next rate case to include the plant in rates, we accept Staff's proxy proposal for calculating imputed revenues and expense reductions. We do so reluctantly, however, because the Company has not adequately attempted to calculate expense savings and revenue producing effects. We put the Company on notice that this is not a method we want to use in the future. Henceforth, if the Company seeks full recovery of plant investment as if the plant had been in operation a full year, it must present a corresponding adjustment to revenues and expenses.

2. Boulder Park Small Generation Project

Avista witness Lafferty contends that the 25 MW Boulder Park natural gas-fired reciprocating engine generation project was a reasonable addition to Avista's energy resource portfolio and was economic compared to market alternatives at the time the decision to build was made during the "energy crisis." The project was fast-tracked, Lafferty states, in order to mitigate the high prices and volatility in the electric power market in the 2000-2001 energy crisis. Lafferty contends that the Company reasonably managed Boulder Park project costs under the circumstances even though costs were higher than projected due to the fast-track design and construction approach. The May 2001 construction cost estimate was \$21 million; the total actual cost was approximately \$31.9 million. Contractor costs were approximately \$4.7 million over budget due to such factors as the additional design scope, change orders, overall project complexity and project management costs due to the extra time required to complete the project. Avista construction costs were over budget by approximately \$2.2 million due to changes in project scope and complexity. Tr. at 541; 592-598.

Staff witness Sterling believes the Company's decision to pursue the Boulder Park project during the 2000-2001 energy crisis was a reasonable response to extremely low water conditions and high market prices. Completion of "fast-track" construction, however, was delayed by eight months, from September 2001 until May 2002. There were also considerable cost overruns. The final cost of Boulder Park was \$32.1 million, \$11 million over the \$21 million construction cost estimate, a greater than 50% cost overrun. Although not new technology for the power industry, the natural gas fuel reciprocating engine generators were the

first project of its kind for Avista, a factor which Avista states contributed in part to actual construction costs being higher than original estimates. Tr. at 1220; Avista summary of cost variations, Exh. 129. It is common, Sterling contends, to include a contingency amount in the cost estimate for large construction projects to insure that funds are available in the event of unplanned problems, circumstances or conditions. Contingency amounts for projects similar to this one, Sterling estimates, are typically in the range of 5-15%. Sterling believes ratepayers should be able to expect a utility to have the ability to construct projects at least cost. Staff recommends 10% of the final project cost be disallowed, that equates to a \$205,000 reduction in annual Idaho revenue requirement and a \$1,085,000 reduction in rate base. Tr. at 1082-1083; Tr. at 1218-1224; Exh. 129.

On rebuttal Avista contends that Staff's recommended 10% Boulder Park disallowance is not appropriate given the challenges presented by the market conditions and the project's unique characteristics. Avista also contends that the slow down of the project was justified by a change in circumstances, lower market energy prices in the summer of 2001 and a financial need to preserve cash. Tr. at 632-633.

Commission Findings

The Commission has considered the testimony regarding Boulder Park and finds that a 53% construction cost overrun is unreasonable. We expect a utility such as Avista to have the expertise and experience to plan, construct and manage any project it undertakes at a reasonable cost. This project was planned as a "fast track" response to poor water and a volatile energy market. It was not completed on time and was 53% over budget. The Company must assume some responsibility for the excessive cost. Staff recommends a 10% disallowance and identifies specific cost category overruns. We believe that the Company should be held to a higher standard. Ratepayers will not be asked to pay for what we find to be a Company learning experience. Staff notes that the CS2 and Kettle Falls overruns totaled 16% and 8%, respectively. We find it reasonable to limit the authorized rate base amount for Boulder Park to the project construction estimate plus a 15% contingency. The original construction estimate for Boulder Park was \$21,000,000 (Exh. 8, Sch. 35; Exh. 129). An additional 15% increases the total rate base allowed to \$24,150,000. The final cost of Boulder Park was approximately \$32 million. The total disallowed amount is \$7.62 million on a system basis. The Idaho jurisdictional share of the disallowance is \$2.6 million.