

Exhibit _____ (MRL-4)
Docket No. UE-010395
Witness: Merton R. Lott

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

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STATE OF WASH.
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EXHIBIT OF

MERTON R. LOTT

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

RE: AVISTA PETITION FOR 37% EMERGENCY SURCHARGE

August 24, 2001

WUTC DOCKET NO. UE-010395
EXHIBIT NO. 504
ADMIT W/D REJECT

WUTC PUBLIC MEETING
August 9, 2000
Transcript

Tape 1 of 4

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Item 2B – UE 000972 – Avista Corporation

Showalter: Now we're ready for 2B

Kilpatrick: Good morning Commissioners, I'm Doug Kilpatrick with Regulatory Division Staff. The Item 2B is a filing by Avista Corporation under Docket UE-000972 to request deferral of certain power cost expenses by the Company during the period of July 1, 2000 through June 30, 2001. In June of this year, Avista filed this accounting petition requesting authority to defer certain power cost expenses related to short-term wholesale power market prices and the Company has said that it needs to defer these costs because of recent dramatic increases in short-term wholesale market pricing. Their proposal would look at three power cost variables, in terms of determining the deferral amount. Those variables include short-term market prices, their thermal generation and their hydro-electric generation. The Application as filed, estimated that their potential deferrals for Washington during the timeframe could be on the order of \$20 million. The Company proposes to make monthly reporting to the Commission that includes all calculations and deferrals and they have proposed that at the end of the timeframe, the Company would bear the burden of proof that the deferrals and these costs were prudently incurred.

Staff agrees with the general proposal by the Company to set up the accounting for the deferral, however, we do have some general policy issues that we believe need to be addressed before the Commission would consider granting recovery of those deferrals. And those include when and to what extent should power supply costs be considered extraordinary versus ordinary, in terms of variation from normalized power supply? Does such a consideration first require that a company show that the standard for emergency relief has been met? And third, should the responsibility for the recovery of any extraordinary costs be somehow split between retail customers and wholesale customers?

These are issues that we're not asking you to decide today, but are issues that we believe are pertinent for the long-terms in terms of making an ultimate decision.

Staff recommends that you grant the Company's request to establish these deferrals. The Company is here. I believe there are other parties from Public Counsel and ICNU, who are also here to speak to this issue today. And I'm available for questions.

Hemstad: One, in your memo you indicate that at the time that the deferral balance be recovered in rates that would be sort of three broad criteria that would be considered. There would be the prudency obligation(?), the Company resources, and then something that's more broad – a deferral mechanism that's appropriate for recovery of those costs. With regard to the last one, could you expand upon more what are the general principles and criteria that would be recommended?

Kilpatrick: Well, Staff has not made any complete analysis of this issue at this point. However, we do believe that some of the issues involved there include – the situation, or one of the issues that are raised as these policy questions, and that is: What is a “normal variation” in power supply costs? A normalized power supply level will arrive from some evaluation of a fluctuation over the course of the year and what the Company has claimed here is that these costs are above and beyond what would be considered normal fluctuation. So, in order to establish whether or not something is extraordinary you need to know from what you are comparing that to.

Hemstad: Thank you.

Showalter: This would be an inquiry or a discussion we would have at a later point.

Kilpatrick: That's correct. That would be part of the consideration when the Commission were to consider whether or not the recovery of these deferred expenses was appropriate.

Showalter: So, today's action is simply setting up an account or a tracking mechanism and we determine how to treat it at a later point.

Kilpatrick: That's correct. We are asking for only the deferral mechanism, or the deferral accounting to be established at this point. Staff does have . . . we have talked with the Company about one other issue and that has to do with notification to shareholders and other interested parties by the Company. We have asked, and the Company has agreed that they would include a footnote disclosure in all regulatory reporting or financial disclosure statements that include these deferrals that regulatory approval of their recovery hasn't been received, but it will require a showing of prudence, including a demonstration that Company-owned facilities have been operated to the benefit of retail customers.

Showalter: Thank you. Mr. Steuerwalt.

Steuerwalt: Good morning Commissioners. Matt Steuerwalt for Public Counsel. I believe we sent in a letter on this . . .

Showalter: An e-mail . . . oh, ok.

Steuerwalt: And I did send e-mail to Staff yesterday. I think our position is relatively unchanged. We are recommending that you deny the petition. We appreciate that the Company is attempting to shield itself and it's ratepayers from some California-style price spikes that the market's been incurring, but we have some of the same questions that the Staff has raised on how to tell the difference between what's an "extraordinary price" and what is a "normal market price." I believe that question is teed-up before the Power Planning Council right now, it's teed-up before the California ISO, it is in some form, teed-up before this Commission in the Puget complaint by Bellingham Cold Storage and Georgia-Pacific over, excuse me, what a "normal" power supply cost is. And, perhaps most important to you, it's teed-up in the Avista rate case, where the question of what is a reasonable power supply cost is a hotly contested issue.

Without first coming to some conclusion about what a normal cost is, the real danger of approving a mechanism like this is that you will have only the high and extraordinary costs put into the deferred account, and the otherwise low or at-market costs, which would balance those out, would be left out, and you would end up deferring a very high set of costs for future ratepayers to pay. To grant the petition now would be implementing a partial solution to a problem you have not yet defined. I think Public Counsel appreciates the Staff's distinction in trying to set up the difference between a regulatory asset and a deferred accounting mechanism. For those of us who aren't accountants, that may be a distinction without a difference. When you allow the costs to be put into the account, you are creating, I think, some unreasonable pressures on the Commission to approve those costs and there's really no reason to defer those costs unless you are going to seek recovery.

I would suggest that if the Company wants to track those costs, it's free to do so. And if it wants to bring those costs back in a future rate case, it's also free to do that, but there is really no reason for you folks approve that today.

If you have any questions, I'm happy to answer them.

Showalter: Well on your point about whether this puts a pressure on us to do something later, it's my understanding, and maybe Mr. Cedarbaum should correct me if I'm wrong, but all we're doing here today is setting up the

account. It's standard and general and it's in the proposed order before us that we are not making any judgments about extraordinary costs or prudence, or anything else, and one reason that's standard is that you avoid single issue ratemaking and those sorts of things, so that it seems to me that your concerns are legitimate concerns but they are probably issues that would be raised at a later point in time and that are not precluded or even I don't even think this creates a presumption in one way or the other. It is a mechanism, though, that allows us to look backwards at a later point in time.

Steuerwalt: I would agree with that and I would certainly hope that it wouldn't create a presumption that these would be recovered in future rates. I think as a practical matter what it means is that you will see this before you again. I think our position is if the Company wants to bring this before you at a later date when we have defined what is a "normal power cost," either through the rate case or through some other proceeding, and these are test year power costs for some future test year, then the Company is free to make that showing. But, to do this now is at some point unnecessary tracking of costs that may or may not be put back in.

Showalter: One of the problems that we've had in sort of the other way, is if there is no deferred accounting mechanism, then like a few years later an action or an issue gets raised, we say, well, how are we supposed to look back in time. And that presents it's own little difficulties.

Steuerwalt: I would agree that that certainly has presented its difficulties. I think the burden rests on the Company to do that. They can, as I said, track these costs independent of an order allowing them to incur the costs in accounting.

Showalter: Are there any other questions, comments?

Hemstad: Is it your position, then, that with this order, if we approve it, we are somehow committing the Commission in a way that would not be the case otherwise? But beyond that, there is no substantive bite to this order?

Steuerwalt: If I understand the proposed order correctly, it is to create a system of accounts and not a presumption that there is a regulatory asset. And I understand that there is a distinction between those two things. I believe that if you were to create a mechanism for the Company to book these accounts, you are only allowing them to track this in such a way that they can come back and demonstrate that in fact these were prudent costs. I don't understand why they need an approval order from you to do that for some future rate proceeding.

Does that get . . . ?

Showalter: Any other questions? Thank you. Mr. Van Cleve.

Van Cleve: Good morning Commissioners. I'm Brad Van Cleve on behalf of the Industrial Customers of Northwest Utilities. We also urge that the Commission reject this Application, and I'm going to raise a few issues that Public Counsel did not.

First is the relationship of the Application to the pending rate case. It might be that it would be appropriate to have this type of deferred accounting mechanism in place, absent the rate case. But I think that you need to consider that the rate case is ongoing. Avista filed the case last November and it's currently in the briefing stage. But I think we need to remember that the purpose of the rate case is to determine "just and reasonable" rates on a forward-going basis. And that's based on normalized results of operations, and normally the utilities bear the risk of any deviation from the normalizing assumptions. And I think in answer to Commissioner Hemstad's question, what you are committing to here by this order, is that this is the right mechanism to deal with those costs.

I think that's troublesome for two reasons. First it implies that the power cost assumptions that are in the Company's filing in the rate case are incorrect. And I think if there are issues regarding what are the appropriate power costs on a forward-looking basis, that the appropriate place to look at that is in the rate case.

I think another way to look at this request is that in effect, it is a request for a PCA-type mechanism, which is a hotly disputed issue in the rate case. I think it bears mentioning that the Application doesn't appear to satisfy the requirements in this State for a PCA mechanism, because: 1) the adjustment factors are not solely weather related; and 2) there is no adjustment to the Company's cost of capital.

Second, as Public Counsel noted today and in its letter, this is really single issue ratemaking. It really appears to be one-sided. You have to ask yourself whether the Company would be in filing an application if power prices had fallen to 10 mils and were significantly below what had been filed in the rate case. In addition, the Company is not proposing to track any types of costs that may be declining, and I would just point you to Appendix 8 to the Company's Application where there is a press release that Mr. Matthews notes that "the Company is undertaking company-wide reductions in administrative expenses in order to offset its increasing power costs." These will be lost. They're not going to be tracked.

The next issue I would like to talk about is the types of costs which are being deferred here. If the Commission does grant the Application, we

think we need some more definition of what exactly what type of costs can be booked into deferred accounts. You'll recall at the beginning of the rate case, the Company stated that it was going to conduct commercial trading in the utility but exclude the costs and revenues of that from rates. More recently, the Company has stated that it was going to cease its commercial trading activity. But what's unclear to us is whether that activity has stopped and whether the Company is keeping accurate records to distinguish between what is a transaction to serve native load and what is a transaction that is commercial trading. At least early on in the rate case, we found that the Company was not color coding transactions and identifying them as either for commercial trading or to serve native load. So we think there needs to be more definition of the type of costs that are being deferred.

Next I would like to comment on Staff report. I think it's good that Staff is proposing conditions on approval of the Application. The first is the prudence test. The Company has suggested that it's made some errors in its trading operations and again, I think it's unclear that the record keeping might not be in place to determine whether these costs are prudent down the road, and that we need some assurance that there will be a way to evaluate whether the costs that are being booked into deferred account were or were not prudent. I think one issue that will certainly be raised, potentially down the road on the prudence issue is whether the Company should have hedged the risk that it was facing in the power markets and I would just note that the Commission said in its recent order in the GP-BCS complaint case that the companies . . . the customers there, the management of those companies had to bear the risk for the decisions that they were making regarding market prices and whether they hedged the risk or whether they took the risk, and I would suggest that the Company be held to the same standard.

Staff also suggests certain conditions related to FAF 71(?) and the accounting treatment of these costs. Not being an accountant, I'm sure whether those conditions go far enough. It may be more appropriate to simply state that the Company shall not capitalize these expenses as regulatory assets because their recovery is uncertain.

The final thing that I would note about the Staff report is that it does discuss informal discovery that has gone on between the Staff and the Company and other parties have not had an opportunity to conduct discovery or had the benefit of Staff's discovery.

Next I would like to talk about what the mechanism is for placing these costs in rates. I think the Commission should try to define that if it does decide to approve this Application. There isn't a deferred accounting statute in Washington so the process is really undefined. It's not clear

whether this would be a contested case proceeding or whether it would be a rate case proceeding. We think that it should be a rate case-type proceeding where issues like reductions in the Company's administrative costs could be raised. Or another example would be if the costs of capital of the Company declines between now and when it seeks to recover these costs, that would be a relevant factor that could be considered too.

Next, the Company has proposed in its Application that these costs be amortized over ten years. We would object to that because we think it requires future ratepayers for a very long period of time to pay for past power purchase costs and that that would violate the principle of cost causation and it would also send inappropriate price signals to customers. I would say at the least a ten-year rate increase based on this Application would certainly be confusing to customers.

So to summarize, we suggest that the Commission suspend the Application and conduct an investigation on the following issues: 1) whether increasing power costs should be dealt with in the current rate case or through some other mechanism like an application for immediate rate relief; 2) what the standards and record keeping requirements should be for cost deferrals under the application; 3) whether the Company should be required to track other types of costs that may be decreasing, such as administrative costs; 4) what process should be used and what standards should apply in considering whether to incorporate the deferred costs and rates; and finally, given the well-publicized power trading losses, we think that the Company should be required to demonstrate and keep records that will demonstrate that the costs are prudent. Thank you.

Showalter: You've raised a lot of issues and I guess what I would like to clarify, maybe with Mr. Cedarbaum, and then you may have a comment, but the question is with what's being proposed . . . with the action proposed today, if we approve it, what are we or are we not doing? My understanding from looking at the order is that we're doing nothing more than simply establishing a tracking mechanism and that the proposed order of the third part . . . third paragraph of the order itself, well, let's see, the fourth says "this order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates or determination of costs 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." And then the previous paragraph, Number 3, says that "the company bears the burden of proof in any such proceeding regarding these matters to show that the costs were prudently incurred, that company owned resources have been optimized to the benefit of the retail customers and that recovery of these costs through a deferral mechanism is appropriate." So that all of those issues which relate to Mr. Van Cleve's

comments, it seems to me, are not before us today. They would arise at a different point. Am I right on that?

Cedarbaum: Well, I think as a general matter, yes. All you would be doing today would be to approve the Company's proposal to set up this deferred accounting mechanism for these power costs and that all of the rate case issues, prudence issues, all of that would be deferred to another proceeding, whether that's the general rate proceeding or something else that has not been determined yet. The only other point I would make is that as I understand the petition, the Company is asking to record these costs in account 186, which as I read from the Staff memo on page 3, by definition says that "the proper final disposition is uncertain" with respect to the deferred costs, so even the accounting definition for that account itself leaves the ratemaking treatment and the final resolution of this issue up in the air.

Showalter: And if the Company comes back at a later time and does request us to take some kind of action or incorporate these expenses, at that time, can't we look at basically a broader picture of what had just happened or happened a year ago, in a rate case, for example, or what kinds of expenses were not tracked. Can't we take all of that sort of thing into account at a later stage.

Cedarbaum: I think you can. I think you have fairly wide viewpoints on what can be considered in terms of determining prudence of the incurrence of these costs.

Showalter: Mr. Van Cleve, do you have any comments on that answer?

Van Cleve: Well, I think that that suggestion you made is a good one and maybe that should be incorporated in any order on this. That in any future proceeding, that issues like declining costs in other areas could be raised, because I'm not sure that that's necessarily clear from existing precedent that I've seen. Often these deferred costs become self-fulfilling prophecies and they don't really get close examination later.

I think the other point that I had raised was whether the Company is going to be keeping records that will allow a determination of prudence later.

Showalter: I don't know, but it seems to me that the proposed order for us to sign here, it has exactly those very broad qualifications on this action. It seems to me it's saying we are not deciding anything on the merits today.

Van Cleve: I think the other thing that the order would foreclose is raising these issues in the current rate case, and that is certainly an option to in effect open the case back up and take new evidence because you're being asked to determine that the Company's power costs are just and reasonable in the

current rate case, and this petition suggests that maybe that isn't true. And that maybe that is a better forum to address the issue in than deferring it until later.

Hemstad: But isn't that the real issue here? We have had spiking in power costs, and on a going forward basis, the question is will we now see that spike become the norm or is it an aberration and we'll return to something like the historical pattern. We don't know that, at the present time. So your proposal is in effect to reopen and take more evidence in the rate case would be to take evidence on a question to which we don't know the answer.

Van Cleve: I think what you'd try to do in that case is take the current market conditions into consideration in setting future rates and not have a mechanism like this.

Hemstad: But from your perspective in representing customers, the risk of that would be, wouldn't it, that the rates are too high?

Van Cleve: That's certainly a risk.

Showalter: You were suggesting that if we approve this petition today it would preclude us from taking it up in the ongoing rate case. But, Mr. Cedarbaum, strictly speaking is that true? If we decided in the current rate case to start looking at new things, including these issues, do we have the authority? Does this particular order today preclude that, I guess is the question?

Cedarbaum: I guess the way to answer that is that currently, the current rate case is in the briefing stage, with a suspension period ending, I think September 30th – October 1st. So to introduce this issue and all of the prudence issues related to it in that case would certainly be difficult and probably be impossible without a waiver by the Company of the suspension period. So I don't see how, as a practical and perhaps legal matter, you could incorporate these issues into the current rate case.

Showalter: That's not an issue of whether we sign this application or issues this order today, it's a matter of the clock ticking on the rate case, isn't it?

Any other comments or questions? Thank you. Mr. Norwood.

We'll note also that Mr. Matthews is in the audience but he has not signed up to comment.

Norwood: Good morning Chairwoman Showalter and Commissioners. I am Kelly Norwood with Avista Corporation. I would like to respond to some of the

statements that have been made today and I will keep my comments fairly brief, and I'll respond to questions. There are others here today from the Company that are available to respond to questions, including Mr. Matthews. We also have representatives from our finance department as well as a power supply department.

I'll get straight to the point. The recent discussion that you've just finished regarding what we are doing here today and what we are asking you to do today. What we're asking you to do is to allow us to defer these power supply expenses that we're incurring today because of this event that we're experiencing and set those costs aside and then at a later time we will come back to you and it will be incumbent upon us to demonstrate to you that the costs are reasonable and that the costs were prudently incurred and that they should be recovered. So the actual recovery decision is not being made today and there will be an issue of prudence at some point in the future and at that point and time the Company will be prepared to respond to questions and to demonstrate and provide information that shows that the costs are prudent and reasonable.

With regard to record keeping, we have proposed to provide monthly reports to the Commission and we can certainly provide those to any other interested party that would include all of the calculations that go into calculating the deferrals that occur on a monthly basis. Those reports would be provided in the month following the month where the deferral occurred.

With regard to commercial trading, the Company has made a decision to cease trading within the utility. Those transactions have ceased and so that really should not be an issue to the future. There may be a few in just the near term months, but those can easily be separated out, we can identify those, and those obviously would be something that we could discuss in that future time when we address recovery of our costs.

There has been a lot of discussion about general rate case. This is really not a general rate case issue. In the general rate case we set costs there that are based on normal conditions. What we are experiencing today are abnormal conditions. There has been a dramatic change in the marketplace. I don't think that's any secret. We are seeing it everywhere in the Northwest as well as in the WSCC area. There are a number of parties that are being impacted pretty significantly and in the past this method of deferred accounting has been used for those types of costs that are related to extraordinary events or unusual events or unpredictable events. And because these costs are unknown at this time, we know that right now that we are experiencing significantly higher costs. We don't know how long that is going to last or what the totals will be, and that's why deferred accounting makes sense. To set these costs aside, defer them

and then later come back to you and say this is the total, and this is why we incurred these expenses, this is why they are reasonable and prudent to recover. We're asking you to allow us to defer the costs over a 12 month period, through June of next year, and we would anticipate being back before you either within that 12 month period or immediately following that deferral period to address the prudence of the costs and recovery of the costs.

In the Commission Staff's memo, they mention that there are questions in their mind and information that would need to be provided in order to address the recovery of these costs. And the Company is agreeable to providing the necessary information to answer those questions, and we'll work with the Staff and other parties to respond to the questions and provide information that they believe is necessary to evaluate recovery at that time.

Mr. Kilpatrick also mentioned the footnote that Staff is recommending that the Company include in our reporting and we are agreeable to include that footnote in the reporting.

Those are my comments and I would be glad to respond to any questions that you might have.

Showalter: Have you reviewed the draft of the proposed order for us to sign?

Norwood: I have reviewed the draft order and I believe you read it earlier. It makes it very clear that the decision today is not a decision which guarantees recovery of these costs in the future. It leaves open the question for us to come back and to demonstrate to you to demonstrate that the costs are prudent and reasonable and should be recovered. So that question is to be decided to the future.

Showalter: And you are agreeable to the wording of the order?

Norwood: Yes.

Showalter: Any other questions?

Hemstad: What do you say is the nature of the proceeding in which this issue would be taken up in a future rate case or in a special proceeding?

Norwood: What we would have is a set of dollars and it could either be dealt with in a single proceeding or it could be dealt with in the next general rate case, where you would have all of the dollars to look at.

Hemstad: But as Mr. Van Cleve points out, the issues could be quite different in a general rate case as against a single issue proceeding, such as looking at all of the costs of the Company, up and down.

Norwood: Right, there would be opportunity regardless of the filing that we make before, whether we want to make a single issue filing or a general rate case filing, there is opportunity to open that up and look at all of the costs at that time.

Hemstad: Assume for the purpose of discussion that next July prices are still high. What will that tell us with regard to this deferred accounting and what response the Company or the Commission should then take?

Norwood: The deferral that we are requesting today goes through June of next year and so if there is still high power prices in July of next year, that would be a subject of some separate filing that would need to come before you either through a general rate case or through some other filing to address those future higher costs.

Hemstad: How then, would we deal with the question of whether these are extraordinary costs?

Norwood: The ones that are being deferred here?

Hemstad: Yes.

Norwood: Right. That's where it's up to us to demonstrate to you when the time comes for us to ask you for recovery, to demonstrate to you that these are extraordinary costs. If you look, I want to be careful, I guess, about talking to the rate case, but in the rate case, these kinds of excursions or changes in costs were not anticipated, even in the range of costs that we . . .

Hemstad: But there we are looking historically at a test year.

Norwood: That's right.

Hemstad: If now we have a permanently changed environment, I'm speaking purely hypothetically, then all of the sudden, these costs then are not really extraordinary, are they?

Norwood: If this is normal to the future, I can assure you, we will be back in to see you soon on a general ratemaking basis, because if this is normal, then we would need to substantially increase what's normal and we will be seeing you again soon.

Hemstad: But if that was the case, then we would be looking at rate increases and rate adjustments and we wouldn't really be looking at a special proceeding to deal with one year of extraordinary costs, would we?

Norwood: In that proceeding you would be looking at what you would consider to be normalized costs. The issue that we have before us today, is that right now – today, we are experiencing significantly higher power costs. We know that and what we need is the opportunity to defer these costs in order to allow us to deal with these costs that we believe are extraordinary. This type of accounting petition is the method that has been used in the past for these types of costs.

Now, to the future, like I said before, we will have to demonstrate to you that they are reasonable and prudent and that they were extraordinary and its reasonable to recover those. For the next general rate case, that's a different issue in deciding what is normal to the future and what should be built in to base rates and then there is obviously going to be extraordinary events that are going to come from time to time where we have to deal with those as they come.

Showalter: It seems to me that Commissioner Hemstad's hypothetical raises an issues we probably haven't seen before, which is what happens if there is an extraordinary jump in the normalized cost. So, it would be that this year's costs were extraordinary if related to the past, but actually reflect the new paradigm and we just haven't addressed that kind of issue before, because I think in the past, extraordinary was presumed to be a blip and then you got back to ordinary.

Norwood: Well, it would be pretty scary to, and it could be normal, but I hope it's not normal for us to see \$100-150 prices on a monthly basis and \$700-1,000 per megawatt hour prices on a daily basis. I hope that to the future, and we've seen these kinds . . . not to this extent, but we're going to have periods where market is going to have some weird things happening, but hopefully to the RFP that we've filed with you, and others, are building resources. Hopefully we can get to the point where the prices will come down at some point.

Hemstad: This is a bit of a different topic . . . I was wondering if you have any additional comment on Mr. Van Cleve's suggestion that these issues should be handled within the current rate case.

Norwood: I don't believe that this really is a general rate case issue, and as Mr. Cedarbaum mentioned, that case is basically, for the most part, closed. I don't think it really is a rate case issue. We've got a situation now that we need to deal with from an accounting standpoint and this is the method to allow us to defer these costs, and then at a later point, either in a general

case or some other filing, we'll be back before you to deal with the prudence of them.

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Norwood: Yes, ceasing commercial trading does not mean we are going to cease hedging and trying to get the best price for our customers. For some of these transactions, we know that we're short out for the first quarter and the second quarter, and we've already bought some for that, and we'll buy more for that. The question is, do you buy now or do you buy later. We are still hedging our short positions, but at some point,

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Showalter: Does Staff or Mr. Cedarbaum want to make any other responses to the discussion? Nope? Any other discussions?

I think I have already indicated, I take the words in the proposed order to mean what they say, that we are not determining anything here today. The prudence and the appropriateness of this mechanism on the merits are deferred to another day, if that comes before us. I don't think that this order itself is precluding any of the issues that either ICNU or Public Counsel, and those are appropriate issues to be raised another day. So I'm prepared to support the Staff recommendation.

Gillis: I agree with those comments and would add, in addition, that I find it useful to implement an accounting mechanism at this time so that we are not left in the future trying to struggle with getting the appropriate information that's necessary to make these determinations. So it's not only something that I don't see any trade off of options, but in addition, I find it useful. So I would support as well.

Hemstad: I'm prepared to support the Staff recommendation for the reasons already stated, I suppose it can be argued that all of this could be done anyway, but the Staff and Company are working to come up with the data and information that would be needed and I think we will probably, on balance, be in a better circumstance with this mechanism than if the Company were simply to do it without an order. So, accordingly, in view of the other remarks, I am prepared to make the motion in Docket UE-000972 with regard to Avista Corporation, I move that the Commission grant Avista's request to defer certain power costs and expenses in the period of July 1, 2000 through June 30, 2001. An order that recovery of these deferrals will not be allowed until a demonstration of the prudence of the costs is made in a future filing, and in that filing a determination of the recovery of such costs through a deferral mechanism is in fact appropriate. Direct Avista to include a footnote disclosure in all regulatory reporting or financial

disclosure statements that include these deferrals and regulatory approval of their recovery will not be received until this showing of prudence, including a demonstration that the Company-owned facilities were optimized to the benefit of retail ratepayers.

Gillis: I'll second that motion.

Showalter: Motion carries.