**Avista Corp.**
1411 East Mission P.O. Box 3727
Spokane. Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA Corp.

June 26, 2012

***Sent via Electronic Mail***

Mr. David Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: Comments of Avista Corporation
Docket No. UE-120432 - Energy Recovery Mechanism (ERM)
Avista's Annual Filing to Review Deferrals (2011 Calendar Year)

Dear Mr. Danner:

Avista respectfully requests that the Commission not consolidate the Energy Recovery Mechanism (ERM) annual review filing for 2011 (Docket No. UE-120432) with Avista's pending general rate cases in Docket Nos. UE-120436/UG-120437/UE-110876/UG-110877. Avista requests that the Commission issue an order finding that the 2011 ERM deferrals were prudent. While the Commission Staff has indicated that they have concluded their review, if the Commission Staff, or other parties, need additional time to review the Company's ERM filing, Avista is not opposed to the Commission granting additional time.

In the Commission Staff's memo, it raises concerns regarding the accounting treatment of Renewable Energy Credits (RECs). Staff does not, however, otherwise take issue with the prudence of ERM deferrals made in 2011.

The purpose of the ERM annual review is to "provide opportunity for the Commission and interested parties to review the prudence of and audit the ERM deferral entries for the prior calendar year." It is not appropriate, after the fact, to consider new accounting treatment for certain revenues or expenses for prior periods, and then propose that new accounting treatment be applied retroactively to prior periods.

With regard to Avista's accounting treatment of REC revenues and expenses, these revenues and expenses are included in base retail rates through general rate case filings, and any difference between the after-the-fact actual amounts and the amounts included in base retail rates is tracked through the ERM. At the time general rate case filings are prepared, all known revenues and expenses related to RECs are included in the filing. Following the time that new base retail rates are in effect, any variation in REC revenues and expenses are tracked through the ERM. The FERC accounts to which the REC revenues and expenses are recorded are FERC accounts that have historically, and continue to be, included in the ERM calculations, and therefore, any variation in REC revenues and expenses from that included in a general rate case are tracked in the ERM. Interest is calculated on all ERM deferrals, and a separate rate schedule (Schedule 93) is in place to rebate or surcharge deferred amounts to customers.

Avista has filed general rate cases every year for the last several years. Avista has also made ERM deferral review filings every year since the beginning of the ERM. No party in either a general rate case or an ERM filing has proposed a different method of accounting for REC revenues for Avista in any of these filings. The filing at issue here is consistent with past practice for Avista.

It is very common for the accounting treatment for certain revenues and expenses approved by the Commission for each of the three electric utilities (Avista, Puget & PacifiCorp) to be different. For example, Puget has a Power Cost Only Rate Case (PCORC) mechanism – Avista does not; Puget has a deferral mechanism for extraordinary storm damage – Avista does not; and Avista and Puget have power cost adjustment mechanisms (which are different in design), and PacifiCorp does not. The prior Commission orders in 2010 and 2011 related to the accounting for RECS for Puget (Docket No. 070725) and PacifiCorp (Docket No. 100749) specifically addressed the REC accounting treatment for <u>those two companies</u>, and <u>not Avista</u>. In fact, the treatment for each of the companies was different in that, among other differences, Puget was allowed to retain a portion of the REC benefits for shareholders based on the circumstances explained in the Commission's order. It would be inappropriate at this time to retroactively change the ratemaking treatment of these revenues and expenses for Avista. Avista is not opposed to addressing proposed changes in accounting for REC revenues and expenses on a <u>prospective basis</u>, in Avista's pending general rate case. All parties in Avista's pending electric general rate case already have the opportunity to make such a proposal in that case, and it is not necessary for the ERM filing to be consolidated with the general case for the parties to have that opportunity. The ERM filing at issue here, however, is for a <u>prior</u> period (2011) and should be handled in accordance with the accounting treatment that has been in place for Avista.

It is noteworthy that if the Commission were to go down the path of retroactively revisiting the ratemaking treatment of REC revenue for 2011 for Avista, of which the Company strongly objects, the change in benefits to customers would be relatively small:

> For 2011, the difference in actual vs. base REC revenues (actual REC revenues vs. REC revenues in base retail rates) was $2,069,000 on a system basis. The Washington jurisdictional share of the $2,069,000 at 64.87% is $1,342,000. Because Avista was in the 90% customer/10% shareholder sharing band of the ERM for 2011, 90% of the $1,342,000, or $1,208,000, has already been deferred in 2011 for customers. The amount that was not deferred for customers in 2011 was $134,000.
>
> For 2012, the difference in actual vs. base REC revenues is estimated to be $1,058,000 on a system basis. The Washington jurisdictional share of the $1,058,000 at 64.87% is $686,000. Because Avista is expecting to be in the 90% customer/10% shareholder sharing band of the ERM for 2012, 90% of the $686,000, or $617,000, would be deferred in 2012 for customers. The amount that would not be deferred for customers in 2012 is $69,000.

For 2013, as noted earlier, all parties in Avista's pending general rate case have the opportunity to propose different accounting treatment for REC revenues and expenses prospectively, beginning in 2013.

Avista respectfully requests that the Commission not consolidate the Energy Recovery Mechanism (ERM) annual review filing for 2011 with Avista's pending general rate cases in Docket Nos. UE-120436/UG-120437/UE-110876/UG-110877. Staff has indicated that they have conducted their review of the ERM filing, and they are satisfied the Company provided adequate documentation of its ERM-related revenues and expenses. Avista requests that the Commission issue an order finding that the 2011 ERM deferrals were prudent. Any prospective modifications to the ERM can be addressed in Avista's pending general rate cases. Finally, if the Commission Staff, or other parties, need additional time to review the Company's ERM filing, Avista is not opposed to the Commission granting additional time.

Sincerely,

Kelly Norwood

Kelly Norwood
VP, State & Federal Regulation

Enclosures

cc: See attached service lists