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November 12, 2014

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Attention: Mr. Steven King, Executive Director and Secretary

RE: Docket Nos. UE-140188 and UG-140189

On August 18, 2014, Avista Corporation ("Avista" or "Company") filed with the Commission the Full Settlement Stipulation in the above referenced dockets. Included in paragraph 6 of the Full Settlement Stipulation is the following requirement:

Effective January 1, 2015, the Parties agree to adjust, up or down, Washington electric revenues related to updated power supply costs. The current estimate is a \$6.3 million increase for power supply costs. A new power supply model run on November 1, 2014, will determine the final power cost increase and ERM baseline. As in past proceedings, and as noted in Staff testimony (Ball Exhibit No. JLB-1T, page 6), the purpose of this power supply update will be to: 1) update the three-month average of natural gas and electricity market prices; 2) include new short-term contracts for gas and electric; and 3) update or correct power and transmission service contracts for the 2015 rate year. Staff's \$500,000 power supply reduction to expense will be reflected in the updated net power supply costs. In addition, the 2015 REC expenses of \$725,000, excluded from the REC rebate calculation, will also be added to the updated net power supply costs.

The net power supply costs resulting from this power supply update, including the two adjustments of \$500,000 and \$725,000, referenced immediately above, will be compared with the net power supply costs in Avista's original filing in this case to determine the adjustment to Washington revenues on January 1, 2015 related to the power supply update. The net power supply costs in Avista's original filing are shown in Appendix 3.¹

The updated level of net power supply costs will also be used to determine the new base set of power supply revenues and expenses for ERM calculations beginning January 1, 2015, as further explained in Section B below.

If the November 2014 power supply update results in an increase in net power supply costs, the increase will be offset with available ERM deferral balance dollars for the 12-month period January 1, 2015 through December 31, 2015.²

¹ These net power supply costs, from the original filing, have been adjusted to reflect 2015 system retail loads, per Paragraphs 9 and 12 of this settlement stipulation.

² The ERM deferral balance as of June 30, 2014 is \$16.7 million, and is currently estimated to be \$13.9 million by December 31, 2014.

The Company will file on or before November 17, 2014, revisions to the appendices to this settlement stipulation to reflect the power supply update. The Parties are free to seek discovery on, and examine the prudence of, the updated power supply items identified above.

While the estimated power supply increase in revenue requirement was estimated to be \$6.3 million, the actual updated power supply increase is \$5.6 million as shown on Revised Page 1 of Appendix 2. The increase of \$5.6 million includes:

1. Updated three-month average of natural gas and electricity market prices through October 31, 2014;
2. Includes short-term contracts for gas and electric through October 31, 2014;
3. Updated power and transmission service contracts for the 2015 rate year;
4. Staff's \$500,000 (system) power supply reduction; and
5. Addition of \$725,000 of 2015 Washington REC expenses.

Therefore, in compliance with the above referenced settlement conditions, Avista hereby submits an original and seven (7) copies of revised Appendix 2 (including revised pages 1-3), Appendix 3, and Appendix 4 to the Full Settlement Stipulation. These revised Appendices reflect not only the agreed upon electric revenue requirement from August Settlement filing, but also the power supply update. Also enclosed, and provided to all parties, are the electronic workpapers supporting the Company's filing.

Level of Avista's Planned Hedging

In addition, at the Settlement Hearing held on September 23, 2014, Judge Friedlander requested the Company provide in this filing the "level of the Company's planned hedging for the rate year and what has been included in the ERM baseline rates, baseline power costs". (Tr. p. 232, ll. 24 – p. 233, ll 2)

The Company's hedging strategy manages the Company's resources for future operating periods with the intent of reducing the financial exposure to price movements in the power and natural gas markets. The starting point is the expected loads and the baseline resources. Baseline resources include hydroelectric, coal, biomass, wind generation, and long term purchases. Together these resources amount to approximately 80% of the load on an annual average basis. The remaining 20% of the load is met by either purchasing power or purchasing natural gas for use in the Company's combined cycle turbines. The amount of power or natural gas that has not yet been purchased (or sold in surplus months) at a fixed price is referred to as the financial open position, and represents the dollar value of the amount of power or natural gas that needs to be purchased and/or sold in future periods.

The acceptable size of the open financial position is dependent on the time between now and the future forward position period. The further out the period, the greater the allowed open financial position. For months more than one year in the future, the open position cannot exceed \$10 million. The open position limits narrow down (like a funnel) until the forward month, where the Company's hedging plan is to enter a month with no more than \$0.5 million of financial open position.

As of October 31, 2014 the total financial open position for the 2015 rate year was \$17.8 million. The ERM baseline for power purchase expense, fuel expenses and power sales revenue is \$173 million. The value of the power and/or natural gas that still needs to be purchased for 2015 is, therefore, approximately 10 % of the total expected expense (\$17.8 million / \$173 million).

The hedging strategy is described in the Company's Energy Resources Risk Policy. A copy of the Risk Policy was included in this Docket as Exhibit ____ (SJK-4) (Confidential) to the testimony of Scott Kinney. The current Risk Policy document, which was updated to reflect the financial position limits described above, is attached as Attachment A to this filing. This Risk Policy document is confidential, per the Protective Order in this Docket.

This November Compliance Filing update to power supply expense includes all the power and natural gas fixed-price transactions entered into as of October 31, 2014 for the 2015 rate year. The ERM baseline includes all of these transactions entered into for 2015.

A service list is attached, with the parties on the service list receiving a complete copy of this filing by overnight mail.

Please direct questions regarding this filing to Pat Ehrbar at (509) 495-8620 or Liz Andrews at (509) 495-8601.

Sincerely,



David J. Meyer
Vice President and Chief Counsel for
Regulatory and Governmental Affairs

Enclosures

cc: See attached service list