

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	
AVISTA Corporation)	DOCKET NO. UE-06 _____
(dba Avista Utilities))	
)	
For an Order Approving Avista's)	PETITION OF AVISTA CORPORATION
Update of Its Base Power Supply and)	
<u>Transmission Costs</u>)	

I. PETITIONER

1 In accordance with WAC 480-07-370 and -395, the name and address of Petitioner, Avista Corporation ("Avista Corp." "Avista," or "Company"), is as shown below. Please direct all correspondence related to this Petition as follows:

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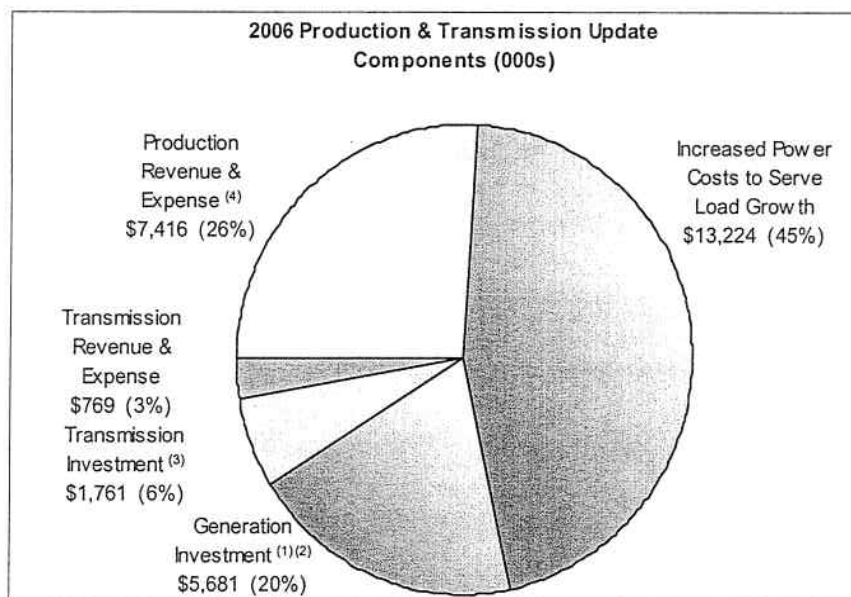
II. SUMMARY

2 Pursuant to WAC 480-07-370 and -395, Avista Corp. hereby requests that the Commission issue an order approving this petition and Avista's request for an update to the Company's base power supply (production) and transmission costs. This update will be referred to, in Avista's prefiled testimony, as a Production/Transmission Update or P/T Update. Avista's request is similar in form to Puget's Power Cost Only Rate Case (PCORC)

in that it requests an update to production and transmission costs that are related to Avista's Energy Recovery Mechanism (ERM).

3 The updated production and transmission costs result in a proposed rate increase request of \$28.9 million or 8.8%. The proposed increase is driven primarily by additional investments in Avista's hydroelectric and thermal generating plants, and transmission system, together with the continuing high power supply costs to serve growing retail load requirements. A breakdown of the primary factors driving the proposed revenue increase is shown in Illustration 1 below:

Illustration 1: Production & Transmission Update Components



- (1) Net of reduced interest costs from lower cost of debt.
- (2) Reflects investment to upgrade Cabinet Gorge Unit 4, Noxon Unit 4, Colstrip Units 3 & 4, and the buyout of the Rathdrum CT lease.
- (3) Reflects investment to upgrade transmission system.
- (4) Primarily increased fuel costs (includes reduction due to Rathdrum lease).

4 Avista's filing is based on a 2007 calendar-year pro forma period, which means that adjustments have been made to production and transmission related revenue, expense and rate

base components from the last rate case to reflect known and measurable changes for the period beginning January 1, 2007.

5 The Company's filing also includes pro forma period retail loads for the 2007 calendar year. This provides for a proper matching of revenues and expenses during the pro forma period, i.e., production and transmission costs for the pro forma period are matched with the expected retail load and retail revenues for the same period.

6 Additionally, the Company is continuing to work toward buying down debt, especially the higher-cost debt. This has resulted in a reduction in Avista's average cost of debt from 8.44% in the last rate case to 8.22%. Although this reduction in interest expense is not power supply related, the Company is proposing to pass on to customers this reduction in interest expense. The effect of this adjustment is a reduction to the Company's revenue request of approximately \$1.0 million. The average cost of debt of 8.22%, together with the previously approved common equity ratio of 40% and 10.4% return on equity, results in a reduction in the Company's rate of return from 9.11% to 8.99%.

III. LIMITED NATURE OF REQUEST

7 Avista's last general rate case (Docket Nos. UE-050482 and UG-050483) concluded with the Commission's Order issued December 21, 2005 with rates effective on January 1, 2006. Although four of the six parties to the case presented a settlement for the Commission's consideration, there was extensive discovery, prefiled testimony, cross-examination of witnesses, and opportunity for a thorough review of the Company's costs, in the context of a contested settlement.

8 Furthermore, in the recent general rate case Avista agreed to increase the annual funding for low-income energy bill-paying assistance from approximately \$3.0 million per year to \$3.6 million per year for a two-year period, and made modifications to the program rules to provide more flexibility for community action agencies to better meet the needs of those requiring bill-paying assistance. Avista also increased the funding for low-income demand-side management (DSM) from approximately \$900,000 per year to \$1.1 million per year.

9 In addition, as part of the order in that case the Commission directed the Company to make a filing by January 31, 2006 that would allow all interested parties the opportunity to further review the ERM. All Parties in that case, Docket No. UE-060181, reached a settlement that resulted in certain modifications to the ERM, which was approved by the Commission on June 16, 2006.

10 Because of the recent review of cost issues through the general rate case, the review of the ERM mechanism, and the recent revisiting of the funding and operation of the Company's customer assistance programs, we believe it would not be administratively efficient or necessary to re-litigate many of the same issues that the Commission has so recently decided.

11 The Company's request in its current filing is limited to updating those production and transmission related cost items that are related to the ERM—with one exception. As noted earlier, the Company is continuing to work toward buying down debt, especially the higher-cost debt. This has resulted in a reduction to Avista's average cost of debt. Although this reduction in interest expense is not power supply related, the Company is proposing in this filing to pass on to customers the reduction in interest expense of approximately \$1.0 million (Washington Share).

12 The Company is not proposing changes to the capital structure, the cost of equity, or O&M and A&G expenses. Although increases in O&M and A&G costs, such as labor costs, have occurred since the last rate case and are expected to continue to occur, the Company has chosen to limit the scope of the case to enable the opportunity to expeditiously process its request. Avista is also not proposing to update distribution-related investment or expenses, nor the retail revenues associated with these costs. It is up to the Company to manage these costs until the next general rate case.

13 In addition, with regard to hydroelectric generation and the determination of wholesale electric and natural gas prices in its filing, the Company has employed methodologies that were previously approved by the Commission in recent cases. Avista has used the 1929-78 50-year streamflow period for hydroelectric normalization, and a three-month average of forward natural gas prices in the determination of wholesale market prices.

IV. CUSTOMER IMPACT

14 Avista is proposing to spread the revenue increase in a manner similar to the rate spread approved by the Commission in the Company's last general rate case (Docket No. UE-050482) as shown below. Avista is proposing no change in rate design within the schedules.

<u>Service Schedule</u>	<u>Proposed Increase</u>
Residential Service Schedule 1	9.7%
General Service Schedules 11 & 12	7.0%
Large General Service Schedules 21 & 22	7.8%
Extra Large General Service Schedule 25	9.6%
Pumping Service Schedules 31 & 32	8.8%
Street & Area Lighting Schedules 41-49	<u>8.8%</u>
Overall Increase	8.8%

The monthly bill for a residential customer using an average of 1,000 kWhs per month would increase from \$60.16 to \$65.96 per month, or an increase of \$5.80 or 9.6%.

V. TIMING OF THE REQUEST

15 Avista requests that the Commission set a date for a prehearing conference at its earliest convenience, and establish a procedural schedule that would provide for a Commission decision and new rates to become effective on or before February 1, 2007. Such a procedural schedule would be comparable to that used in the review of PSE's PCORC filings.¹

IV. AVISTA'S REQUEST

16 The Company respectfully requests that the Commission issue an order approving the Company's request for an increase in its base electric retail rates, effective on or before February 1, 2007, as explained in this Petition. Additionally, Avista is requesting the Commission set a pre-hearing conference at its earliest convenience and establish an expedited procedural schedule for adjudication of the Company's filing.

DATED this 30th day of August 2006

By: Kelly Norwood
Kelly Norwood
Vice President, Avista Corp.

¹ The review period for the PCORC is described as follows: "It is contemplated that this review would be completed within four months. Within 30 days following the four-month review, the Commission would issue an order determining the appropriateness of all power costs to be included in the Power Cost Rate and the prudence of any new resource (with a term greater than two years) acquisition." (Page 6, Paragraph 11 of Exhibit A to Settlement Stipulation, Docket Nos. UE-011570 and UG-011571)

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.



SIGNED AND SWORN to before me on this 30th day of August 2006



NOTARY PUBLIC in and for the State of
Washington, residing at Spokane.

Commission Expires: 10/24/06

