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April 29, 2013

SENT VIA E-MAIL & ABC LMI

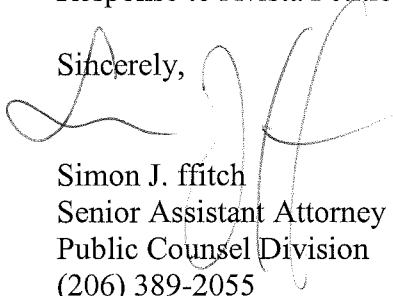
Steven V. King
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: In the Matter of the Petition of Avista Corporation, d/b/a Avista Utilities, For an Accounting Order Authorizing Accounting Treatment of: 1) Transmission Revenues Associated with a Settlement between Avista and the Bonneville Power Administration, and 2) Reardan Wind Project Development Costs
Docket UE-130536

Dear Mr. King:

Enclosed please find an original and ten (10) copies of the Comments of Public Counsel In Response to Avista Petition for filing in the above-entitled docket.

Sincerely,



Simon J. Fitch
Senior Assistant Attorney General
Public Counsel Division
(206) 389-2055

SJf:cjb
Enclosures

cc: David Meyer, Attorney for Avista (Email & U.S.)
Donald Trotter, Commission Staff (E-mail & U.S. Mail)
Melinda Davison, Attorney for ICNU (E-mail & U.S. Mail)

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

Avista Corporation, d/b/a Avista
Utilities

For an Accounting Order Authorizing
Accounting Treatment of: 1)
Transmission Revenues Associated
with a Settlement between Avista and
the Bonneville Power Administration,
and 2) Reardan Wind Project
Development Costs.

DOCKET UE-130536

COMMENTS OF PUBLIC
COUNSEL IN RESPONSE TO
AVISTA PETITION

I. INTRODUCTION

1. Public Counsel files these comments in response to the Petition of Avista Corporation (Petition) in this docket.¹ Because Public Counsel believes that Avista's customers are entitled to the benefits of the Bonneville settlement payments for the 2005-2012 period, and does not agree with the Petition's request that Avista be allowed to retain payments for its own benefit, Public Counsel did not join in support of the filing.

2. It is Public Counsel's understanding, as the Petition reflects, that Staff and ICNU support the petition. The parties have agreed that Public Counsel will file its objections to the Petition in this initial filing and that Avista and other parties may file a response on May 7, 2013. It is Public Counsel's understanding that Avista and Staff will then request the matter be addressed at

¹ This is Avista's second filing regarding these same matters. Avista first filed an accounting petition on January 28, 2013, in Docket UE-130115 (Initial Petition). That petition was withdrawn on April 11, 2013. A copy of the first petition is attached as Appendix A, for reference.

the May 9, 2013, Commission Open Meeting. Public Counsel is not requesting suspension. If acceptable to the Commission, the parties believe the matters are amenable to resolution on the written filings of the parties.

II. COMMENTS

A. Description of Petition.

3. Avista's petition addresses two matters: (1) the proposed accounting and ratemaking treatment for the Bonneville transmission settlement² (Bonneville Settlement) payments; and (2) proposed accounting treatment of costs for Avista's terminated Reardan wind project. While Avista chose to juxtapose these two unrelated matters in one filing, there is no necessity for the Commission to address the two items as inter-related. Public Counsel recommends that the Commission evaluate each part of the petition on its own merits.

B. The Bonneville Settlement.

The payments Avista will receive under the Bonneville Settlement consist of two parts: (1) payments to Avista for the past period 2005-2012, and (2) prospective payments to Avista which Bonneville will make beginning in 2013. The Washington allocated amount for the past period is \$7.6 million. The prospective payments, in the amount of \$266,000 per month, begin January 2013 and continue through September 30, 2042.³

5. The Petition provides that Avista's customers will receive the benefit of the prospective payments beginning in 2013, although via two different vehicles. Public Counsel agrees that customers are entitled to the benefit of the prospective payments, and does not oppose this aspect

² The Bonneville Settlement is formally titled the Parallel Operation Agreement and is attached as Appendix A to the petition. It was signed on December 12, 2012, and approved by the Federal Energy Regulatory Commission on February 5, 2013. Petition, ¶ 15.

³ Petition, ¶ 9.

of the filing. However, for the past period amounts, the Petition states that Avista “proposes to retain Washington’s allocated amount of the BPA incremental firm transmission revenues of \$7.604 million attributable to the 2005-2012 period.”⁴ For the reasons discussed below, Public Counsel recommends the Commission reject this request and return 100 percent of these revenues for the benefit Avista’s Washington customers.

1. Customers are entitled to the benefits of the Bonneville Settlement for the 2005-2012 period.

6. As a general proposition, there is no dispute that Avista’s customers are entitled to receive the benefits of the Bonneville payments to Avista for transmission services, as a matter of ratemaking principle. The petition itself recognizes this in its provision for treatment of the payments going forward after 2014, stating “the Bonneville transmission revenues will be used to offset the revenue requirement for future rate cases and will not flow through the ERM.”

7. The petition also provides that the payments for 2013 and 2014 will be credited to customers. As noted above, Public Counsel does not object to this portion of the petition, since it appropriately provides the benefit of the payments for customers. Avista’s unclear position on the 2013-2014 settlement revenues is discussed below.

8. The Idaho Public Utilities Commission recently approved a settlement agreement in Avista’s 2012 Idaho general rate case under which Avista agreed to provide customers the benefit of Bonneville Settlement revenues for the past use period.⁵ Avista’s position here is inconsistent with that result.

⁴ Petition, ¶ 8.

⁵ *In the Matter of the Application of Avista Corporation d/b/a Avista Utilities for Authority to Increase its Rates and Charges for Electric and Natural Gas Service in Idaho*, Case Nos. AVU-E-12-08 and AVU-G-12-07, Order No. 32769 (March 27, 2013) p. 4. In the Idaho rate case, the past period was described as 2005-February 2013, p. 4, n.2. Avista’s Reardan costs were recovered in the Idaho case.

9. Finally, Avista's initially filed petition on these two matters provided, similar to its position in the Idaho rate case, that its customers would see a portion of the benefits of the Bonneville Settlement payments for the 2005-2012 period.⁶ Nothing in Avista's initial petition suggested an assertion of a Company claim to retain the revenues for that period for shareholder benefit.

10. In its second petition, Avista apparently now claims a right to retain all of the Bonneville Settlement revenues for the past period. Since Avista has not yet presented any arguments to the Commission to support this claim, Public Counsel will attempt to address possible points Avista or other parties may raise in support of the petition.

2. Allowing customers to retain the proceeds for the 2005-2012 period does not constitute retroactive ratemaking under Washington precedent.

11. In the event that Avista argues that the benefit of 2005-2012 revenues is barred to customers by the rule against retroactive ratemaking, the Commission should reject the argument as inapplicable in this case.

12. Returning the Bonneville proceeds to customers does not constitute retroactive ratemaking. The Commission need look no further for governing precedent than the rulings regarding the Coeur d'Alene Settlement payments in the 2008 Avista General Rate Case (GRC) and appeal.⁷ In that case, Avista sought to include in rates \$35.4 million in payments to the Coeur d'Alene Tribe pursuant to a settlement for past trespass damages related to Avista's use of Lake Coeur d'Alene for water storage over a period of many decades. Public Counsel argued in the case that charging current customers in rates for the past activities of the Company violated

⁶ Initial Petition, ¶ 4.

⁷ *Washington Utilities & Transportation Commission v. Avista Corporation*, Dockets UE-080416/UG-080417, Order 08 (2008 GRC Order), ¶¶ 67-78.

the rule against retroactive ratemaking. The Commission rejected Public Counsel's argument and allowed Avista to recover the settlement payments in rates, holding that:

Retroactive ratemaking involves the *current* collection, through rates, of *past* obligations. [footnote omitted]. Until Avista reached a settlement earlier this year, it had no obligation to the Tribe. This case represents the first opportunity to recover the charges associated with that obligation.⁸

Public Counsel appealed the decision on this and other grounds.⁹

13. On appeal, relying heavily on the Commission's analysis, Avista argued that "the issue of recovery of the [settlement] costs could not have been brought to the commission earlier than in the general rate case" because Avista "did not know if there would be a settlement" and "how much it would have to pay for either prior or future damages." Avista argued it would have therefore have been "premature" to raise the issue and seek recovery before "it had a legal obligation to pay" or knew "the extent of the obligation."¹⁰

Avista went on to state:

Accordingly, the Commission appropriately recognized that the obligation under the Coeur d'Alene settlement was not a past obligation, but arose only after a settlement was reached...Before that time, there was no obligation whatsoever...and nothing to bring before the Commission.¹¹

14. The Commission brief on appeal reiterated this point, made in its final order, that retroactive ratemaking was not an issue because Avista could not have sought rate recovery from the Commission at any earlier point, prior to the settlement.¹²

⁸ *Id.* ¶ 78. (emphasis in original)

⁹ *Washington Attorney General's Office, Public Counsel Section v. Washington Utilities and Transportation Commission, et al.*, Case No. 09-2-00171-2 (Thurston County Superior Court)(appeal).

¹⁰ Appeal, Responding Brief of Avista Corporation, p 15.

¹¹ *Id.* p. 16 (emphasis in original).

¹² Appeal, Brief of Respondent WUTC, p. 14.

15. The Commission pointed to situations that had been found to be impermissible retroactive ratemaking, citing a case where a company failed to seek an accounting order for storm damage, instead waiting three years to request it in a general rate case.¹³ The Commission also cited the example of a case where a company sought to retroactively undo a previously agreed upon credit.¹⁴

16. The court agreed with the Commission and Avista that asking current customers to pay for the costs claims for past use of tribal waters under the Coeur d'Alene settlement did not violate the rule against retroactive ratemaking. The Commission's decision was upheld.¹⁵

17. The facts of this case are essentially a mirror image of the Coeur d'Alene case. Both involve settlement agreements entered into by Avista just prior to the request for rate treatment. Both involve payment streams that affect revenues and rates. In both cases, there is no dispute that the prospective revenue effect has to be recognized in rates – in the Coeur d'Alene case, recovered in rates (added to revenue requirement), in this case offset against revenue requirement.

18. In the Coeur d'Alene case, Avista had an ongoing dispute with the Coeur d'Alene tribe regarding payment for improper use of tribal waters. Here, Avista had an ongoing dispute with Bonneville about Bonneville's obligation to pay for transmission services.¹⁶ The dispute with the Coeur d'Alene tribe had not resulted in any definite obligation or liability on the part of

¹³ Here, by contrast, the company has immediately sought an accounting order to address the treatment of the settlement payments.

¹⁴ Appeal, Brief of Respondent WUTC, pp. 16-17.

¹⁵ Appeal, Order Affirming Final Order of Washington Utilities and Transportation Commission In All But Two Respects, And Reversing and Remanding in Part, February 2, 2010. *See also*, Transcript, Judicial Review of Final Agency Order, pp. 57-85.

¹⁶ Petition, ¶ 16.

Avista until a settlement agreement was entered into immediately prior to the 2008 GRC. Similarly, in this case, Avista's dispute with Bonneville did not result in a definite right to receive revenue (or i.e., an obligation or liability on Bonneville's part) until immediately prior to the filing of the Petition.¹⁷ In both cases, Avista came to the Commission as soon as it could to seek rate treatment.

19. The Commission's 2008 Avista GRC order and the appellate decision, are precedent squarely on point with the current Bonneville Settlement issue. The Commission should reject any argument made in this case that retroactive ratemaking rules bar Avista's customers from receiving the benefit of the Bonneville Settlement revenues for the 2005-2012 period.

3. Customers are entitled to the benefit of the 2013-2014 Bonneville Settlement payments.

20. Although the Petition agrees to provide all prospectively received Bonneville payments from 2013 forward for customer benefit, Avista appears to view the \$4.2 million in payments for 2013-2014 (\$4.2 million) as different in some fashion, stating that in one part of the Petition that the 2013-2014 payment "*would* not otherwise occur" and in another that the benefit "*might not* otherwise occur absent this Petition."¹⁸

21. As with the pre-2012 revenues, Avista does not explain why it believes customers "would not" or "might not" be entitled to benefit from these funds. In Avista's previous petition, it did not carve out 2013-2014 revenues for different treatment. In that petition, noting that it was entitled to receive Bonneville Settlement revenue from Bonneville beginning January 2013 and

¹⁷ The settlement agreement between Bonneville and Avista was reached in December of 2012. Avista filed its original Petition with the Commission in January of 2013. However, FERC did not approve the agreement until February 5, 2013.

¹⁸ Petition ¶ 14 and ¶ 33.

extending through September 30, 2042, Avista stated: “[t]hese payments will be recorded by Avista in a manner consistent with other transmission revenues.”¹⁹ The new Petition contains a nearly verbatim version of the language, stating: “[t]hese payments will be recorded by Avista in a manner consistent with other transmission revenues, and will occur outside the ERM for 2013 and 2014 as explained below.”²⁰ In the new petition, Avista summarizes these “existing procedures” for treatment of transmission revenues as follows: “In other words, the Bonneville transmission revenues will be used to offset the revenue requirement for future rate cases and will not flow through the ERM.”²¹ This clearly contemplates treatment of the prospective transmission payments, beginning 2013, as reducing Avista’s revenue requirement, in keeping with ordinary ratemaking principles.

22. It is possible that Avista may differentiate the 2013 and 2014 BPA Settlement revenues because it believes it could argue that the 2012 rate case settlement bars customers from benefitting from new 2013 and 2014 revenues, although it does not so state in the Petition. Avista does state in the Petition that “the likelihood of [the Bonneville Settlement] ... was known to the Company and the parties to Company’s last general rate case, and although that rate case was resolved through a Commission-approved rate plan,²² the Company understood it would need to bring this settlement to the Commission for disposition.”²³ This would have been an opportunity for Avista to state a position that the rate case settlement was a bar. The quoted

¹⁹ Initial Petition, ¶ 9.

²⁰ Petition, ¶ 17. It is Public Counsel’s understanding that the ERM language is intended to make treatment of the 2013-2014 settlement revenues consistent with the prospective revenue, which are also outside the ERM. Petition at ¶ 11.

²¹ Petition, ¶ 11.

²² Avista refers to the 2012 GRC settlement as a “rate plan.” The Commission order does not describe the settlement in that fashion. The settlement essentially phases in an agreed rate increase over two years, and Avista agrees to a “stay out” period.

²³ This statement did not appear in the withdrawn initial petition.

language instead implies that the “disposition” is yet to be decided, which would mean that the settlement does not address it. Public Counsel has been unable to find anything in the 2012 rate case settlement agreement itself, the supporting testimony, or the order that addresses the treatment of the Bonneville funds. Since Avista and the other settling parties were concededly aware of this issue, but chose not to address it any fashion, Avista can hardly now argue that the settlement agreement clearly resolves it.²⁴

C. Cost For Terminated Reardan Wind Project.

23. Public Counsel’s chief concern in this docket is with the correct treatment of the Bonneville Settlement revenues. Public Counsel has determined that it will not contest the prudence of Avista’s decision to terminate the Reardan project.²⁵ However, Public Counsel does have some comments and concerns about the Petition’s approach to Reardan costs.

24. The status of the Reardan cost recovery request is somewhat unclear in the new petition. Avista states that “Avista will write off its investment in the Reardan Wind Plant without regard to any finding of prudence.”²⁶ It appears that Avista is withdrawing its request for a prudence determination, and for recovery of any costs related to the terminated project. The Petition includes representations designed to support a prudence finding, but the Request for Relief does not include a request for a prudence finding, stating only that Avista requests the Commission to “[d]irect the Company to expense in 2013 the entire Washington share of costs associated with

²⁴ Its also worth noting that the 2012 GRC settlement agreement by its terms leaves Avista the option to change rates outside the rates agreed to in the settlement both for certain specified reasons (ERM, PGA, DSM/LIRAP riders) as well as for “other similar adjustments.” These exceptions to the “stay out” indicate it was contemplated that rate changes other than the specified increases could occur during the rate case stay-out period.

²⁵ Public Counsel had some initial prudence concerns and investigated Avista’s decision to terminate Reardan through discovery. Ultimately Public Counsel decided not to contest prudence.

²⁶ Petition, ¶ 6.

the Reardan project of \$2.586 million, and to not include any of the Reardan-related costs in any future rate filing in Washington.”²⁷

25. However, the Petition effectively provides Avista full recovery of all Reardan costs. The Petition states “the proposed accounting treatment associated with the Reardan costs [the write off] is directly related to the proposed accounting treatment of the Bonneville Settlement transmission revenue.” The Petition goes on to explain that “the Company would, in essence, use a portion of the 2005-2012 Bonneville revenue to offset the Reardan costs.” This was also the result proposed in the initial petition, where the Reardan costs were offset against the Bonneville proceeds for the past period.

26. This is a somewhat unconventional approach to recovery of plant investment. Ordinarily, such costs are presented, supported by prudence evidence, in a general rate case. Public Counsel is not aware of an example of a company seeking immediate recovery of plant investment costs in an accounting petition. For stated reasons,²⁸ Avista did not seek these costs in the 2012 GRC. The 2012 settlement did not address the treatment of the costs. Presumably Avista was aware that it might seek Reardan cost recovery in the event the Kettle Falls request was granted, but chose not to put any language in the rate case settlement to deal with the potential issue. It is also unconventional for Avista to seek full recovery for a plant investment without a finding that the investment was prudent.

27. Avista’s standard ratemaking option would be to wait until the next GRC to recover the costs, or to request an accounting order to create a regulatory asset for that purpose. Avista

²⁷ Petition, ¶ 34.

²⁸ Petition, ¶¶ 30-31.

would not normally have the option of receiving immediate recovery of Reardan plant costs outside of a general rate case. It can only do so here because of the coincidental occurrence of the Bonneville Settlement.

28. Public Counsel does not oppose Avista's recovery of its Reardan costs. However, the recovery should take place through the application of the proper rules of ratemaking.

III. CONCLUSION

29. For the foregoing reasons, Public Counsel respectfully requests that the Commission deny Avista's request that it be permitted to retain the benefit of the Bonneville Settlement revenues for the period 2005-2012, and further rule that Avista customers are entitled to the settlement revenues for the 2013 and 2014. Public Counsel does not object to Avista recovering the Reardan termination costs in an appropriate fashion.

30. If the Commission determines that customers are entitled to the full benefit of the 2005-2012 Bonneville Settlement revenues, Public Counsel recommends that the Commission order a compliance filing within 30 days of its order which would require the parties to make recommendations on the appropriate accounting treatment for returning the BPA Settlement revenues as well as accounting treatment for Reardan costs. This could either be a joint filing of the parties with an agreed accounting treatment or individual proposals.

31. DATED this 29th day of April, 2013.

ROBERT W. FERGUSON
Attorney General



Simon J. Ffitch
Senior Assistant Attorney General
Public Counsel Division

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

Avista Corporation, d/b/a Avista Utilities

For an Accounting Order Authorizing Accounting Treatment of: 1) Transmission Revenues Associated with a Settlement between Avista and the Bonneville Power Administration, and 2) Reardan Wind Project Development Costs.

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) Docket No. UE-13 _____
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PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 In accordance with WAC 480-07-370(1)(b), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an order that authorizes the accounting treatment detailed in this Petition related to two issues. The first issue relates to transmission revenues associated with a settlement between Avista and the Bonneville Power Administration ("Bonneville"). The second issue relates to costs the Company has incurred over the past several years for the development of a wind generation project site near Reardan, Washington.

2 Avista is a utility that provides service to approximately 362,000 electric customers and 226,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 96,000 natural gas customers in Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

Please direct all correspondence related to this Petition as follows:

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3 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040,
RCW 80.28.020, and WAC 480-07-370(1)(b).

II. SUMMARY OF PETITION

4 In December 2012, Avista and Bonneville reached a settlement that pertains to the use of
Avista's transmission system by Bonneville. As explained later in this Petition, Avista will
receive \$11.692 million from Bonneville in early 2013, as settlement for past use of Avista's
system by Bonneville, of which the Washington jurisdictional share is \$7.604 million. The
Company proposes to allocate Washington's share as follows: a) \$4.554 million would be
allocated to benefit customers as discussed below, and b) \$3.049 million would be retained by
the Company. This sharing between customers and the Company was determined by
reviewing the applicable deadbands and sharing bands within the Company's Energy Recovery
Mechanism ("ERM") for each of those past years in which the Company should have received
revenue from Bonneville for use of its system.

5 This Petition also addresses the termination of Avista's development of the Reardan
Wind Project ("Reardan"), and the proposed recovery of the development costs spent to date
for this Project. With regard to the recovery of costs for Reardan, the Company proposes to

use a portion of the customers' share of the Bonneville settlement proceeds, described above, to fully offset the Reardan costs.

6 The Company incurred approximately \$4.0 million for the development of the Reardan wind site, which will be more fully explained in this Petition. Washington's share of these costs is approximately \$2.586 million. The Company proposes to offset the Reardan wind development costs of \$2.586 million with the customers' share of the Bonneville settlement of \$4.554 million. The remaining \$1.968 million would be credited to the ERM balancing account for the benefit of customers, without being subject to the deadband or sharing bands.

III. SETTLEMENT BETWEEN AVISTA AND BONNEVILLE

A. Background

7 In December 2012, Avista and Bonneville reached a settlement that pertains to the use of Avista's transmission system by Bonneville. The Parallel Operation Agreement between Avista Corporation and Bonneville Power Administration ("Agreement") was signed December 12, 2012. Avista filed the Agreement with FERC on December 31, 2012. The Agreement will not become effective unless and until Avista attains FERC acceptance of the Agreement. A copy of the Agreement between Avista and Bonneville, and a copy of the filing with FERC, is provided as Attachment A to this Petition.

8 Avista and Bonneville each own and operate transmission systems that are interconnected at various points. Between June 1998 and December 2009, Bonneville integrated four generation projects onto its 115 kV transmission system in the Walla Walla, Washington area. Bonneville sold transmission capacity to wind projects totaling 336 MW. The transmission path for these four projects follows a single Bonneville line that has a rated capacity of only

203 MW. Upon Avista's discovery of this situation, Avista asserted that Bonneville requires the use of up to 133 MW of parallel capacity support through the Avista system in order to fulfill Bonneville's transmission service obligations for these wind projects. The Settlement Agreement was intended to resolve the issue of compensation to Avista for the prior use of its transmission system, as well as provide Bonneville with continuing cost-effective parallel capacity support in lieu of constructing additional transmission facilities at this point in time.

9 The Agreement with Bonneville reflects a payment to Avista totaling \$11.692 million for the past use of Avista's transmission system for the period 2005 through 2012, as follows:

<u>Payments for Parallel Capacity Support</u>	
<u>Due to Avista from Bonneville</u>	
<u>By Year</u>	
Year	Amount
2005	\$696,185
2006	660,407
2007	615,633
2008	600,242
2009	783,533
2010	2,488,000
2011	2,656,000
2012	3,192,000
	<u>\$11,692,000</u>

In addition, Avista is entitled to receive monthly system transmission revenue payments of \$266,000¹ from Bonneville beginning January 2013 and extending through September 30, 2042, unless earlier terminated under the terms of the Agreement². These payments will be recorded by Avista in a manner consistent with other transmission revenues.

¹ This represents the initial monthly Parallel Capacity Allocation Compensation Amount as stated in Exhibit A to the Agreement. In the event the amount of parallel capacity support allocated to Bonneville changes or Avista's Transmission Rate is revised, the monthly Parallel Capacity Allocation Compensation Amount in Exhibit A shall be adjusted to reflect such revisions.

² The Agreement may be terminated by mutual agreement or Bonneville may terminate this Agreement upon no less than one (1) year prior written notice, per the terms of the Agreement.

10 Assuming no issues are raised by FERC, the Company expects to receive an order accepting the agreement from FERC within 30 to 40 days of our filing, which would be mid-February 2013. Upon FERC acceptance, the Company would bill Bonneville for the \$11.692 million. Washington's share of the past-use payment is \$7,604,044.

B. Proposed Accounting and Ratemaking Treatment for Bonneville Settlement

11 The Company proposes to allocate \$4,554,575 of the \$7,604,044 Washington share to customers. The Company also proposes to use a portion of the \$4,554,575 to offset the costs spent to date in the development of the Reardan Wind Project, which will be more fully explained later in this Petition. The remaining customer portion of \$1,968,251 would be credited to the ERM balancing account, FERC Account 186.28 - Miscellaneous Deferred Debits. One-hundred percent of the \$1,968,251 would be credited to the ERM balancing account for the benefit of customers and would not be subject to the deadband or sharing bands. The \$3,049,469 proposed to be retained by the Company would be recorded in FERC Account 456.12 – Revenues from the Transmission of Electricity for Others³. A summary of the accounting entry to record the Bonneville revenues and the Reardan wind development costs follows:

<u>Accounting Entries to Record Bonneville Settlement and Reardan Development Costs</u>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
143.00 Accounts Receivable	7,604,044	
186.28 Miscellaneous Deferred Debits (ERM)		1,968,251
456.12 Revenue from the Transmission of Electricity of Others		3,049,469
183.00 Preliminary Survey & Investigations (Reardan Project)		2,586,324

³ The Company's share of these transmission revenues would not flow through the ERM.

The sharing of the Bonneville settlement dollars between customers and the Company was determined by reviewing the applicable deadbands and sharing bands within the ERM for each of the past years, as if payments had actually been received from Bonneville during this prior period. The ERM allows Avista to defer a portion of net power supply and transmission costs that are above or below the level of authorized costs reflected in base rates, subject to a deadband and sharing bands. The proposed sharing of the Bonneville settlement benefit between customers and the Company is based on the sharing that would have occurred if the annual Bonneville dollar amounts had flowed through the ERM during each year 2005 through 2012, as incremental dollar amounts to what actually occurred each year. The results are summarized in the table below:

<u>Allocation of Payments for Parallel Capacity Support</u>				
<u>Year</u>	<u>Amount</u>	<u>WA Share</u>	<u>Customers</u>	<u>Company</u>
2005	\$696,185	\$461,501	\$415,351	\$46,150
2006	660,407	430,321	-	430,321
2007	615,633	401,146	361,031	40,115
2008	600,242	395,139	355,625	39,514
2009	783,533	506,084	-	506,084
2010	2,488,000	1,606,999	-	1,606,999
2011	2,656,000	1,722,947	1,550,652	172,295
2012	3,192,000	2,079,907	1,871,916	207,991
	<u>\$11,692,000</u>	<u>\$7,604,044</u>	<u>\$4,554,575</u>	<u>\$3,049,469</u>

13 The details of the calculations are provided in Attachment B to this Petition. Line 1 on Attachment B shows the payment amounts under the Bonneville Agreement by year for the years 2005 through 2012 totaling \$11,692,000. The Washington allocated share by year totaling \$7,604,044 is shown on Line 3. Lines 4-9 show the year-by-year dollar amounts actually absorbed by the Company and deferred to customers under the ERM, and Lines 10-15

show the year-by-year ERM amounts restated to include the Bonneville settlement payments. The analysis shows, based on the applicable deadbands and sharing bands within the ERM for each of those years, that, of the Washington portion of the Bonneville settlement payments, the share due customers would be \$4,554,575 (line 16), and the Company share would be equal to \$3,049,469 (line 17).

14 The proposed accounting treatment is similar to the accounting treatment the Company agreed to with the Staff of the Washington Utilities and Transportation Commission (Staff), and the Industrial Customers of Northwest Utilities (ICNU) related to a multi-year purchase power contract with Enron in 2002. During the first ERM deferral period of July 1, 2002 through December 31, 2002, the Company proposed to recover the net cost associated with a buyout of a multi-year purchase power contract with Enron. The Company had recorded the termination cost as a current purchased power expense for the month of October 2002. Staff and ICNU recommended that the termination costs be amortized over the original delivery period of the energy contract (2004 to 2006), rather than be recorded in the single month of the settlement transaction. The Company agreed to the Staff/ICNU approach, and the Settlement Stipulation approved in Docket No. UE-030751 at page 6 provided for an amortization of the termination payment over the original 2004 to 2006 delivery period of the contract. Thus, the amortization of the Enron termination payment was subject to the ERM sharing bands during the 2004 to 2006 period.

15 The Company's proposal to apply the Bonneville contract settlement payments to the specific years that the revenue relates to, and to apply the ERM deadband and sharing bands for those years to determine the amount allocable to customers and the Company, is consistent with the methodology previously adopted for the Enron termination payment.

Approval of the proposed sharing of revenue from the Bonneville settlement would provide multiple benefits through, 1) providing additional dollar amounts in the ERM balancing account for the benefit of customers, and 2) fully offsetting the development costs incurred to date for the Reardan wind project.

IV. REARDAN WIND PROJECT

A. Background

While Attachment C contains a more expansive discussion of the history of the Reardan Wind Project, what follows is a brief narrative in support of this Petition. Energy Northwest, a joint-operating agency and municipal corporation, began in 2001 to investigate the wind potential of an area along Magnison and Hanning Buttes, located about twenty miles west of Spokane, near Reardan, Washington. In 2002, Energy Northwest acquired the land rights to develop the project, and in 2003, contracted for a series of wind studies to determine the preliminary design and projected output for the site. The preliminary design projection, released in January 2004, included a project configuration with 33 General Electric machines, each with a 1.5 MW capacity, and an expected project capacity factor of 33.6 percent. In February 2004, Energy Northwest signed a large generator interconnection agreement under Avista's FERC transmission tariff to study the transmission interconnection feasibility with Avista, and in 2005, filed a similar application with the Bonneville Power Administration. Energy Northwest continued development of the site and acquired the necessary Conditional Use Permits from Lincoln County, and completed baseline studies for wildlife, cultural resources, geotechnical conditions, communications system impacts and microwave beam-path impacts.

18 In 2007, Avista began discussions with Energy Northwest about the possible purchase of the Reardan project. These discussions continued through early 2008, however, Energy Northwest decided to sell the project in a sealed bid auction. Avista submitted a bid for the project, which was selected as the winning offer. Avista and Energy Northwest negotiated a final purchase price of \$2.28 million, and executed a purchase agreement for the project in May 2008. Shortly after its acquisition, Avista commenced the next phase of activities needed to optimize the project and ready it for construction. These included updating the micro-siting studies, renegotiating land leases, conducting community outreach, initiating contracting discussions with project constructors and wind turbine suppliers, and developing preliminary designs for the substation and transmission lines.

19 When the Reardan project was compared against 29 competing proposals for renewable energy offered by third-parties to Avista, it was demonstrated as the Company's least-cost option for securing a renewable resource for its customers, consistent with its 2007 Integrated Resource Plan⁴. Avista's acquisition of the Reardan project was consistent with the renewable requirements in the State of Washington.

20 The Company's acquisition of the Reardan project provided Avista significant control over its renewable-acquisition decisions because Avista had locked-in the ability to develop a high-value wind resource as needed. Prudence was demonstrated by the Reardan project's first-place scoring against 29 proposals as Avista's least-cost renewable option in its 2009 RFP for meeting the acquisitions called for in its 2007 Integrated Resource Plan. Avista's decision to delay the construction of the Reardan project was also prudent. Reardan gave the Company physical optionality over its resource acquisition decisions, and was able to delay

⁴ April 21, 2010 Analysis of RFP Responses to 2009 Renewables RFP.

acquiring renewables in 2010 and take advantage of much-lower costs for wind projects that emerged in 2011, while continuing to provide a renewable resource option into the future.

21 On February 22, 2011, Avista issued a Request for Proposals for up to 35 aMW of qualifying renewable energy with delivery to commence on or before December 31, 2012. The Request for Proposals process was fast-tracked to identify projects that could be completed and online prior to the end of 2012, when the significant state and federal tax benefits were set to expire. After completing the subsequent rounds of screenings, negotiations, and final price and term offerings from the participating developers, Avista announced it had negotiated a 30-year power purchase agreement with Palouse Wind, LLC for the output of its 105 MW capacity Palouse Wind project. Located approximately 30 miles south of Spokane, the project interconnects directly with Avista's 230 kV transmission system and qualified for the renewable incentives set to expire in 2012. In addition, the project wind data indicated that it had an attractive capacity factor, and the cost of generation from this project is among the lowest in the northwest, for wind projects completed in recent years.

22 In addition, in March of 2012, Avista announced a legislative achievement that significantly changed its long-term need for new renewable resources. The Company's Kettle Falls Generating Station, completed in 1983, was constructed to both take advantage of an abundant and inexpensive wood-waste fuel supply, and to help reduce the pollution caused by burning this waste in 'wigwam' burners at regional sawmilling sites. And, even though Kettle Falls was a pioneering biomass project that had already delivered significant environmental benefit to the region, the project was excluded from eligibility under the Washington Energy Independence Act, because it was built before March 31, 1999. After five years of diligent work with a host of parties, Avista was successful in having legacy biomass energy projects

included as qualifying renewable resources under the Washington law. The biomass energy bill (SB 5575) was signed into law on March 7, 2012.

23 In the final analysis, Avista developed a resource portfolio that hedged the risk of potential federal requirements for greenhouse gases and renewable energy standards, provided reasonable and prudent portfolio diversity and risk reduction against volatility in electricity and natural gas markets, cost-effectively met the requirements of the Washington Energy Independence Act. It delivered this benefit at a nominal rate impact to its Washington and Idaho customers while reducing future uncertainty and avoiding significant future costs. That Avista did not ultimately develop the Reardan project does not detract from the basis of its acquisition, the significant value derived for its customers, or the reasonableness of recovering the costs of acquisition and preliminary development.

B. Proposed Accounting and Ratemaking Treatment of Reardan Wind Project Costs

24 With Avista's successful qualification of its Kettle Falls project as a qualifying renewable project under Washington law, and the resulting lack of any definitive future need for the Reardan Project (as explained in Attachment C), the Company has chosen to terminate the Project. The costs for the development of the Reardan Wind Project are \$3,964,322 on a system basis, or \$2,586,324 for the Washington jurisdiction. A summary of the costs follows:

Summary of Reardan Wind Project Development Costs

Costs Incurred through December 31, 2012:	
Initial purchase cost of Reardan Project	\$ 2,278,850
Construction Costs of Towers	189,740
Professional Services	990,722
Legal Costs	312,534
Employee Costs, Contract Labor and Other	122,476
Total Costs Incurred Through December 31, 2011	<u>3,894,322</u>
2013-2015 Lease Costs	60,000
Removal Costs of Towers	10,000
Total Costs of Reardan Wind Project (system)	<u>\$ 3,964,322</u>
Washington's Share	\$ 2,586,324

25 As explained earlier in this Petition, the Company proposes to use a portion of the customers' share of the Bonneville settlement proceeds to fully offset Washington's share of the Reardan wind development costs of \$2,586,324. The accounting entry to record the Bonneville settlement revenues and the Reardan wind development costs was provided above. The Company proposes that any future sales proceeds from the Project would be credited in their entirety back to customers.

V. REQUEST FOR RELIEF

26 WHEREFORE, Avista respectfully requests that the Commission issue an Order approving the accounting treatment proposed above and summarized as follows:

- a. Allocate Washington's share of the Bonneville settlement proceeds with \$4.554 million going to customers and \$3.049 million to the Company;
- b. Use a portion of the customers' share of the Bonneville settlement proceeds to fully offset Washington's share (\$2,586,324) of the Reardan wind development costs; and

- c. Credit the remaining customer share of the Bonneville proceeds of \$1,968,251 (\$4,554,575 less Washington's share of the prudently incurred Reardan wind development costs of \$2,586,324) to the ERM deferral balance at 100% for the benefit of customers, without being subject to the ERM deadband or sharing bands.

DATED this 28th day of January 2013

By: _____
Kelly Norwood
Vice President, Avista Corp.

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 28th day of January 2013

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

Commission Expires: _____