Exhibit No. ___ (EMA-4)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11________

DOCKET NO. UG-11________

EXHIBIT NO._____(EMA-4)

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

Review of Accounting Procedures Relating to Optional Renewable Power Rate Program

March 2011

Provided Pursuant to Order 07
Dockets UE-100467 & UG-100468

Avista Utilities

Background

This report is being provided pursuant to the Settlement Stipulation that was approved by the Washington Utilities and Transportation Commission in Order No. 7 in Dockets UE-100467 & UG-100468. Paragraph 24 of the Settlement Stipulation states:

> Review of Accounting Procedures Relating to Optional Renewable Power Rate Program.
> Avista shall perform an internal review of its Optional Renewable Power Rate Program ("Buck-a-Block") and prepare a report to be provided to all parties before its next Washington general rate case that describes the accounting for all costs associated with the program. These costs will include shared and overhead costs, such as labor, information services, and supplies that are used in the administration of the program. The report will provide a narrative explanation of how shared costs are allocated to the program. The report will also provide a breakdown of the 2010 actual costs allocable to Washington for each program component (costs of RECs, advertising/administration, internal labor-related overhead, and all other costs). Going forward, Avista will account for all Buck-a-Block program costs separate from other utility operations. The Company will maintain records of the cost of performing this internal review and preparing the subsequent reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

Avista's Optional Renewable Power Rate Program, also known as the "Buck-a-Block" program, is an optional program available to all customers receiving electric service who agree to purchase blocks of renewable power under the Company's tariff Schedule 95. The program offers blocks of 300 kWh of environmental offsets from renewable energy sources for one dollar per block. The environmental offsets, or renewable energy certificates (RECs), are purchased separately from Avista's regular resource mix through a Power Purchase Agreement (PPA), or purchased on the open market. The separate PPA used to source the majority of this program includes RECs that accompany generation totals from 35MW of wind at the Stateline energy center. The total program RECs are from wind power and other green-e certified resources such as biomass, geothermal and non-Avista low-impact certified hydro to source the program.

Issues Addressed

1. Program Accounting Review: Describe the accounting for all costs associated with the program including shared and overhead costs, such as labor, information services, and supplies that are used in the administration of the program.
2. 2010 Program Costs: Breakdown of the 2010 actual costs allocable to Washington for each program component (costs of RECs, advertising/administration, internal labor-related overhead, and all other costs).
3. Cost of Performing Internal Review: The Company will maintain records of the cost of performing this internal review and preparing the subsequent reports.

1. Program Accounting Review

During the discovery process in Dockets UE-100467 & UG-100468, it was determined that not all of the Company's Buck-a-Block program net benefits were being passed through to the actual program participants as required. The excess revenues that the Company received from program participants, after accounting for the cost of the renewable energy credits and program administration, were applied against power supply costs in the ERM, resulting in slightly lower overall power supply costs for customers who did not participate in the Buck-a-Block program. As a result, 100% of the costs and benefits were not being accrued to just the voluntary program participants.

In order to ensure that all program costs and benefits flow through to program participants, the Company revised the Buck-a-Block program accounting. Below is accounting for all Buck-a-Block program costs separate from other utility operations in the 186200 balancing account identified as Project No. 77703016. The accounting is as follows:

1) Revenues received from customers for Schedule 95 optional commitments are recorded in the customer service and revenue systems the same as any other retail revenue. On the operating statement, Schedule 95 revenue received from residential customers is recorded in FERC Account 440000; Schedule 95 revenue received from commercial customers is recorded in FERC Account 442200; and Schedule 95 revenue from industrial customers is recorded in FERC Account 442300.

2) A monthly revenue offset expense debit is recorded to FERC Account 407395 equal to the Schedule 95 revenue recorded in FERC Accounts 440 and 442 less revenue related expenses associated with the revenue. The corresponding credit will be recorded in project 77703016 FERC Account 186210.

3) A monthly power supply expense offset credit is recorded to FERC Account 557395 equal to the embedded cost of REC's (presently $1.75) times the MWhs purchased through the relevant power purchase contract (recorded in FERC Account 555). The corresponding debit will be recorded in project 77703016 FERC Account 186200.

4) All administrative labor as well as all other incremental expenses associated with the program are charged directly to project 77703016 FERC Account 186200. Labor loading overheads are automatically charged to the same project as direct labor. A charge of approximately $65 per month is made to Account 922 (Administrative Expense Transferred-Credit) to account for the office space and workstation associated with the administrative labor. These overheads are calculated in exactly the same way that they are for DSM operations.

Prior to the revised accounting, the accounting for the Buck-a-Block program was as follows:

- Revenues received from customers for Schedule 95 optional commitments were recorded in the customer service and revenue systems the same as any other retail revenue (same as item #1 above).

- At month end closing, a journal entry was made debiting FERC Account 909000 and crediting the balance sheet suspense FERC Account 186200 by 27.5% times the total Schedule 95 revenue received in each state. The purpose of these entries was to place in a balancing account funds to be used for incremental advertising or administrative costs associated with the program.
- The remaining 72.5% of the revenue was allowed to offset power supply costs embedded in Account 555 for the acquisition of RECs purchased by the Schedule 95 customers as well as any non-incremental costs such as administrative labor.
- The retail revenue credit in the Energy Recovery Mechanism (ERM) tracked the Schedule 95 revenue as an offset against variable power costs to ensure that all benefits of the program accrued to customers.
- Incremental costs such as advertising invoices or program related travel expenses were charged against the FERC Account 186200 suspense (balancing account) that contained the funds for administrative costs of the program.
- Non-incremental costs such as labor hours spent on administering the program were charged to FERC Account 912000 in a CDAN (common service, allocated north jurisdiction) project.

Allowing the revenue from Buck-a-Block to offset the incremental power supply and embedded labor costs had resulted in a slight benefit (decrease in rates) to non-participating customers, i.e., not all of the costs and benefits of the program accrued only to participants.

The settlement stipulation in Docket Nos. UE-100467 and UG-100468 required an adjustment that was made to 2009 results of operations to entirely eliminate the impact of the Buck-a-Block program from the Company's filed case. This adjustment increased electric revenue requirement by $19,000 and decreased natural gas revenue requirement by $8,000 for a net effect of $11,000 in increased revenue requirement approved in those Dockets.

2. 2010 Program Costs

The following table shows the itemized costs associated with the Buck-a-Block program during 2010.

2010 Total Buck-a Block Costs

	Washington	Idaho	Total
Renewable kWhs	53,624,112	17,829,345	71,453,457
Schedule 95 Funds	($171,014.57)	($59,153.08)	($230,167.65)
REC Cost	$96,710.10	$32,154.90	$128,865.00
Advertising Cost	$22,633.30	$7,525.29	$30,158.59
Labor Cost	$14,126.20	$4,696.79	$18,822.99
Conference/Travel Cost	$895.05	$297.59	$1,192.64
Indirect/Other	$833.04	$276.98	$1110.02
Total	**($35,816.87)**	**($14,201.54)**	**($50,018.41)**

The changes to the accounting process for the Buck-a-Block program became effective in July 2010. Therefore, January through June activity will require an adjustment to remove the impact from 2010 results of operations. To eliminate all Buck-a-Block Costs from Washington 2010 results requires the addition of $11,500 in net expense before taxes to electric results and the removal of $2,300 from natural gas results, which the Company will do in its next general rate case filing.

3. Cost of Performing Internal Review

A total of 48 hours were spent performing the internal review and preparing this report. Therefore, the total estimated cost for performing the internal review was approximately $3,600.