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**Corp.**

May 22, 2007

Ms. Carole J. Washburn, Executive Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive, S.W.  
P.O. Box 47250  
Olympia, Washington 98504-7250

Re: Tariff WN U-28, Electric Service  
Residential and Small Farm Energy Rate Adjustment Credit

Dear Ms. Washburn:

Attached for filing with the Commission is one copy of the following tariff sheet:

Sixth Revision Sheet 59 Canceling Fifth Revision Sheet 59

The revised tariff sheet eliminates the residential and small farm energy rate adjustment credit and establishes a proposed charge of 0.146¢ per kilowatt-hour rate to recover the over-refunded exchange credit balance over a twelve-month period. The proposed tariff would be effective June 22, 2007, under the thirty-days, statutory notice requirement. However, the Company requests that the proposed tariff be approved on less than statutory notice and that the matter be scheduled as soon as possible.

The Bonneville Power Administration (BPA) has suspended Residential Exchange Program (REP) payments as a result of the recent rulings from the 9<sup>th</sup> U.S. Circuit Court of Appeals. Avista has been passing through its share of REP benefits it has been receiving from BPA to Avista's qualifying electric customers by means of the rate credit on Sheet 59. Since BPA has terminated REP payments, it is necessary for Avista to eliminate the Sheet 59 rate credit. Avista and the other affected shareholder-owned electric utilities will pursue all available options to restore the REP benefit payments.

Avista uses a balancing account to account for the receipt of REP benefits from BPA and the amounts passed through to customers. At the end of April 2007, there is an over-refunded balance and associated interest amounting to approximately \$1.7 million for Washington operations. The over-refunded balance will continue to grow since BPA has stopped benefit payments, and the existing Sheet 59 rate credit of 0.523¢ per kilowatt-hour will continue until the credit is eliminated. The longer the existing rate credit remains in place, the larger the over-refunded balance becomes. Assuming a mid-June effective date, the over-refunded balance is expected to be approximately \$3.4 million. Approval of the proposed tariff on less than statutory notice will help minimize the amount of the over-refunded balance.

Avista is proposing a charge of 0.146¢ per kilowatt-hour rate to recover the over-refunded exchange credit balance over a twelve-month period. The terms and conditions of Schedule 59 provide that: "In the event the credits applied under this schedule vary from the benefits, the Company will adjust the rate on this schedule to recover or pass through that difference."

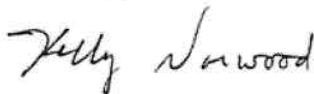
When the existing rate credit was established it was projected that the balancing account would reach zero at the end of October 2007. During winter months the REP benefit payments were less than amounts refunded to customers under the existing rate credit, resulting in an over-refund balance in the balancing account. During summer months the REP benefit payments would have been greater than amounts refunded to customers. Termination of the REP benefits from BPA before the end of the contract year has caused the over-refund situation. Attached are workpapers that show the calculation of the proposed charge of 0.146¢ per kilowatt-hour to recover that difference over a twelve-month period. Avista will monitor the recovery of the over-refunded balance of REP benefits and file for termination of the charge in a future filing. Or, if circumstances change and Avista begins to receive REP benefits, the rate would be modified.

The existing rate credit is a uniform cents per kilowatt-hour decrease of 0.523¢ and applies to residential and small farm customers served under Schedules 1, 12, 22, 32, and 48. For a residential customer using 1,000 kilowatt-hours per month, eliminating the credit and implementing the charge of 0.146¢ per kilowatt-hour would result in an increase of \$6.69 per month. Residential customers' bills will be about 11.31% higher than they were with the existing rate credit. The actual increase will vary based on customer usage.

The proposed rate change will have no effect on Avista's net income. The proposed rate change will result in an annual increase in Washington electric revenue of approximately \$16.4 million.

In addition to the proposed tariff and workpapers, also attached are the following items: 1) an affidavit, 2) a certificate of service, 3) a copy of the letter from BPA notifying Avista that it has suspended payments of REP benefits, and 4) a press release. Please direct any questions regarding this filing to Ron McKenzie at (509) 495-4320.

Sincerely,



Kelly Norwood  
Vice President State and Federal Regulation

RM  
Attachments