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September 30, 2008

Mr. David Danner, Executive Director and 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 Mr. Danner:

Attached for filing with the Commission is one copy of the following tariff sheet proposed to be effective November 1, 2008:

Eighth Revision Sheet 59 Canceling Seventh Revision Sheet 59

The proposed tariff sheet reflects a rate adjustment related to residential exchange program benefits that Avista will receive under a contract agreement with the Bonneville Power Administration (BPA). The residential exchange program benefit relates to BPA's 2009 fiscal year. Avista's share of the benefit applicable to Washington qualifying residential and small farm customers amounts to approximately \$2.0 million.

It is an understatement to say that Avista is extremely disappointed with BPA's decision to provide significantly-reduced benefits for Avista customers for 2009. BPA's decision is particularly troubling in light of BPA's February 2008 forecast of net benefits for Avista customers of \$23.3 million for fiscal year 2009 (after the application of all of its proposed repayment amounts for 2009). Additionally, BPA failed to deliver the benefits to Avista and the region's other investor utilities that were detailed in the Joint Recommendations of November of 2007, and as committed to by the majority of the region's public and investor utilities to resolve the Residential Exchange debacle.

The benefit amount to be received from BPA for fiscal year 2009 is based on Avista's Average System Cost and BPA's Final Record of Decision (Final ROD) posted September 22, 2008. BPA has reduced Avista's gross benefit amount of \$22.091 million for 2009, by \$16.531 million, to extinguish the "Deemer Account" assigned to Avista by BPA under the 1981 Residential Exchange contract. Of the remaining balance of \$5.56 million, BPA then assigns \$2.571 million to BPA's "Lookback Amount" calculated for Avista, leaving a balance of \$2.989 million to be distributed to electric customers we serve in both our Idaho and Washington jurisdictions. A copy of the Residential Purchase and Sale Agreement with BPA is enclosed. Attachment A is a sheet detailing BPA's assignment of benefits and deductions from the WP-07S Final ROD.

Importantly, the agreement Avista signed with BPA to provide the nearly \$3.0 million benefit to customers includes a provision that preserves “any arguments or claims it [Avista] has made or may make, or any rights or obligations it has or may have” related to the appropriate level of benefits to Avista’s customers under the Exchange Program.

One key issue to resolve with BPA that will have a significant impact on the level of benefits to be provided our customers is settlement of the long-standing dispute we have had with BPA over the “Deemer Account” assigned to Avista under the 1981 Residential Exchange contracts. Avista and BPA reached settlement of Avista’s “Deemer Account” in February, 2007, in connection with an overall Residential Exchange agreement between BPA and the region’s investor utilities. Since the Ninth Circuit decisions of May, 2007, Avista has repeatedly approached BPA to settle the outstanding Deemer Account issue and BPA has repeatedly committed in public forums to settle this issue. While BPA stated it did not have staff time to devote to settlement of the Deemer issue during the Supplemental rate case, it did commit to re-engage with us to work toward an agreement once the Final ROD was released. Avista is scheduling follow-up discussions with BPA, and is developing a proposal for settlement to review with BPA in October 2008. If Avista and BPA are able to settle the Deemer Account issue, such settlement will have a significant impact on the level of benefits to be provided to Avista’s customers in the future.

Another significant issue that Avista and the other investor utilities will work to settle in the fall of 2008, has to do with contract certainty for the upcoming Regional Dialogue contract period of 2011-2027. Not only did BPA fall short of the mark in providing benefits to customers of the investor utilities for fiscal year 2009, but there is absolutely no certainty related to the level of benefits to be provided in 2010 and beyond. In stark contrast to the contract and benefit certainty that public utilities will receive under their Regional Dialogue contracts, the investor utilities will have to re-negotiate benefit amounts with BPA and the public utilities in each and every BPA rate case. This result represents a complete failure to provide long-term stability for all the region’s utilities related to the Residential Exchange Program. Avista and other utilities will attempt once again to formalize the terms of the November 2007 Recommendations in the form of long-term contracts. In the event this further settlement effort proves futile, then Avista and others will have to seriously consider other options to secure a reasonable and stable level of benefits for our customers in the future.

Enclosed is a set of workpapers that shows the derivation of the proposed 0.087¢ per kilowatt-hour rate credit to pass through the program benefit amount during the period of November 1, 2008 through October 31, 2009. The proposed rate credit of 0.087¢ is 0.203¢ less than the existing rate credit of 0.290¢, which the new credit will replace. Implementing the new, lower rate credit of 0.087¢ per kilowatt-hour would result in a monthly increase of \$2.03, or a 2.99% increase for a customer using 1,000 kilowatt-hours per month. The actual increase will vary based on customer usage.

The proposed rate credit will have no effect on Avista's net income. The proposed rate credit would result in a reduction to revenue of approximately \$2.2 million. In addition to the proposed tariff and workpapers, also enclosed are the following items: 1) an affidavit, 2) a certificate of service, and 3) a copy of the customer notice. A press release will be sent to the Commission when it is issued. Please direct any questions regarding this filing to Scott Reid at (509) 495-4893.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood
Vice President State and Federal Regulation

RM
Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's residential and small farm energy rate adjustment tariff filing, by mailing a copy thereof, postage prepaid, to the following:

Mr. David Danner, Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250

Sally Johnston
Senior Assistant Attorney General
PO Box 40128
1400 S. Evergreen Park Dr. SW
Olympia, WA 98504-0128

Mary Kimball
Office of the Attorney General
Public Counsel Section
800 Fifth Avenue, Suite 2000
Seattle, WA 98104-3188

Dated at Spokane, Washington this 30th day of September 2008.



Patty Olsness
Rates Coordinator

Table 15.6
Summary of FY 2009 REP Benefits
 \$ millions

	Before Deemer <u>Adjustment</u>	After Deemer <u>Adjustments</u>	FY 09 Benefits applied to <u>Lookback</u>	REP Benefits After Lookback <u>Adjustment</u>	Percent of REP Benefits <u>Retained</u>	Remaining Lookback Amount at the <u>End of FY 09 1/</u>
Avista	\$ 22.091	\$ 5.560	\$ 2.571	\$ 2.989	54%	\$ 76.517
Idaho	\$ -	\$ -	\$ -	\$ -	NA	\$ 106.861
Northwestern	\$ 6.888	\$ 6.888	\$ -	\$ 6.888	100%	\$ -
Pacific	\$ 55.515	\$ 55.515	\$ 26.252	\$ 29.264	53%	\$ 229.680
PGE	\$ 66.527	\$ 66.527	\$ 16.811	\$ 49.716	75%	\$ 89.917
Puget	\$ 114.671	\$ 114.671	\$ 25.135	\$ 89.536	78%	\$ 134.220
Total	\$ 265.691	\$ 249.161	\$ 70.769	\$ 178.392	72%	\$ 637.195

1/ Includes approximate FY 2009 Interest accruals totaling \$28.95 million

15.3.3 Accrual of Interest on Lookback Balances

BPA will accrue interest on unamortized Lookback balances. The rate of interest will be determined each rate period. The interest rate applied for FY 2009 is the T-Bill rate for terms equal to the number of years that BPA expects it will take for each IOU to return its respective Lookback Amounts. For example, a 7-year amortization period assumes a 7-year T-Bill rate. The average daily T-Bill rates are computed for the period starting October 1, 2001. The terms are those corresponding to the projected years Lookback Amounts are amortized from Table 15.8 below. The rate corresponding to a 20-year term is used for Idaho Power. Table 15.7 shows the terms and interest rates.



Important Notice for Washington Electric Residential and Small Farm Customers

October 2008

On September 30, 2008, Avista filed with the Washington Utilities and Transportation Commission (WUTC) a request to reduce a rate credit to qualifying residential and small farm customers. The credit results from a residential exchange program aimed at giving electric customers a share of benefits from federal hydroelectric projects located in the Northwest supplied by the Bonneville Power Administration (BPA). Avista uses the rate credit to pass on to its qualifying electric customers the residential exchange benefits it receives from BPA.

The proposed rate credit is a reduction from the existing credit of 0.290¢ per kilowatt-hour to 0.087¢ per kilowatt-hour effective November 1, 2008. The proposed credit of 0.087¢ is designed to pass through the expected level of benefits to be received from BPA during the period November 1, 2008 through October 31, 2009.

The proposed rate credit is a uniform cents per kilowatt-hour decrease of 0.087¢ and would apply 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 the reduction in the credit would result in an increase of \$2.03 per month, or about 3.0%.

Avista's request is a proposal, subject to public review and a decision by the WUTC. A copy of Avista's filing is available for public review at the offices of both the WUTC and Avista. A copy of the filing is also available on our website at www.avistautilities.com under "Energy Prices," "Rates and Tariffs."

If you would like information on energy conservation tips, energy assistance programs, and bill payment plans, visit our website at www.avistautilities.com, or call us at 1-800-227-9187.

AVA611



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