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November 9, 2007

Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket No. UE-011595, Monthly Power Cost Deferral Report, October 2007

Dear Ms. Washburn:

Enclosed are an original and five copies of Avista Corporation's Power Cost Deferral Report for the month of October 2007. The report includes the monthly energy recovery mechanism (ERM) accounting journal together with backup workpapers. In October actual net power costs were higher than authorized costs by \$1,781,475. The year to date difference is \$17,726,646 in the surcharge direction, with \$9,953,981 being deferred and \$7,772,665 being absorbed by the Company.

Actual power supply expense was higher than the authorized level primarily due to higher cost for natural gas fuel and thermal fuel for Colstrip and Kettle Falls. Hydro generation was 5 aMW above the authorized level. The average market purchase price was \$56.74/MWh and the average market sales price was \$57.60/MWh.

Coyote Springs 2 generated 26 aMW above the authorized level. Other gas fired resources generated 16 aMW below the authorized level due to economics. Colstrip and Kettle Falls generated 13 aMW above and 3 aMW below the authorized levels, respectively. Net transmission expense (transmission expense less transmission revenue) was below the authorized level. The average price of gas for Coyote Springs 2 was \$7.30/dth. Washington retail sales were 1 aMW below the authorized level.

In October 2007 the deferral balance decreased by \$396,451. The October deferral amounted to \$1,603,327, interest amounted to \$240,310, and amortization amounted to -\$2,240,088. The actual deferral balance at the end of October is \$57.2 million. The deferral balance would reach zero in the November-December 2009 timeframe based on the following assumptions:

1. The current forecast of higher costs for November through December 2007 resulting in additional deferrals of \$5.9 million.
2. No deferrals beyond December 2007.
3. Forecasted amortizations assuming no change in the existing surcharge rate.

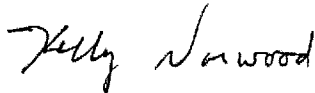
In order to recover the deferral balance by the end of 2008, using the same assumptions, the surcharge rate would need to be increased on January 1, 2008 to approximately 18.65% from the present surcharge of 10.76%. These projections are based on currently available forecasted information, which is periodically updated.

At December 31, 2007 the deferral balance is forecasted to be \$57.9 million. By comparison, the annual amortization or recovery at the 10.76% surcharge rate is approximately \$32.0 million.

Interest is calculated pursuant to the Settlement Stipulation approved by the Commission's Fifth Supplemental Order in Docket No. UE-011595, dated June 18, 2002. Interest is applied to the average of the beginning and ending month deferral balances net of associated deferred federal income tax. The Company's weighted cost of debt is used as the interest rate. The interest rate is updated semi-annually and interest is compounded semi-annually. The January and July reports contain the supporting workpapers for the semi-annual updates of the weighted cost of debt used in the interest calculations.

There were no forward long-term contracts of one year or longer entered into in the month of October 2007. If you have any questions, please contact Bill Johnson at (509) 495-4046 or Ron McKenzie at (509) 495-4320.

Sincerely,

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

Kelly Norwood
Vice President State and Federal Regulation
RM
Enclosure
C: Mary Kimball, S. Bradley Van Cleve