

2007 Electric Integrated Resource Plan

August 31, 2007



EXECUTIVE SUMMARY



Bull River Valley, Montana

Avista's 2007 Integrated Resource Plan (IRP) will guide utility resource acquisitions over the next two years and beyond. Besides providing a snapshot of its current resources and loads, the IRP shows where our resource portfolio is heading through the Preferred Resource Strategy (PRS). The PRS is made up of renewable resources, conservation, efficiency upgrades at existing facilities and new gas-fired generation. The most significant change from the 2005 IRP is the exclusion of coal-fired generation due to changing economics and recent legislation effectively barring its use.

Conservation acquisition is forecast to rise approximately 25 percent over the 2005 IRP level and by more than 85 percent from the 2003 IRP.

The IRP balances low cost, reliable service and reasonable future rate volatility. Avista's management and stakeholders from the Technical Advisory Committee (TAC) play a key role in directing the IRP process. TAC members include customers, Commission Staff, consumer advocates, academics, utility peers, government agencies and interested internal parties. The TAC provides significant input on modeling, planning assumptions and the general direction of the planning process.

RESOURCE NEEDS¹

Plant upgrades and conservation acquisition are inadequate to meet all future load growth. Annual energy deficits begin in 2011, with loads exceeding resource capabilities by 83 aMW. Energy deficits rise to 272 aMW in 2017 and to 513 aMW in 2027. The company will be short 146 MW of capacity in 2011. In 2017 and 2027, capacity deficits rise to 300 MW and 835 MW, respectively. Table 1 presents the company's net position forecast during the first 10 years of the study.

Increasing deficits are a result of 2.3 percent energy and capacity load growth through 2017. Expirations of certain long-term contracts also add to the deficiencies. Figures 1 and 2 provide graphical presentations of Avista's load and resource balances. The annual forecasted load is the summation of our peak forecast plus planning and operating reserve obligations.

Table 1: Net Position Forecast

Net Position	2008	2009	2010	2011	2012	2015	2017
Energy (aMW)	121	79	33	-83	-170	-228	-272
Capacity (MW)	148	94	5	-146	-251	-357	-300

¹ Energy and Capacity positions exclude the acquisition of Lancaster. The impact of Lancaster on the company's L&R position is detailed later in this chapter.

Table 2: 2007 Preferred Resource Strategy Selections (Nameplate MW)

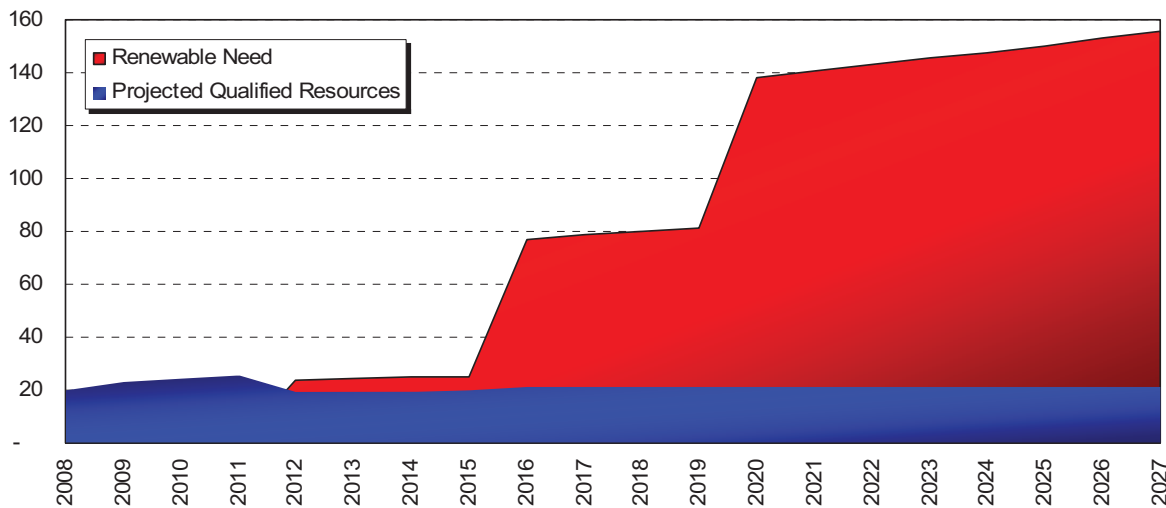
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
CCCT	0	0	0	280	280	280	350	350	350	350
Coal	0	0	0	0	0	0	0	0	0	0
Wind	0	0	0	0	0	0	100	100	200	300
Other Renewables	0	0	0	20	30	30	35	35	35	35
Conservation	6	13	20	27	36	46	56	66	76	87
Total	6	13	20	327	346	356	541	551	661	772

through the IRP process. The PRS is reviewed by management and the Technical Advisory Committee. The 2007 plan relies on conservation, system efficiency upgrades, renewable resources and gas-fired combined-cycle combustion turbines (CCCTs). Figure 7 illustrates the company's Preferred Resource Strategy for the 2007 IRP.

The specific resources contained within the PRS, in nameplate capability, are shown in Table 2. The PRS requires between \$1.0 and \$1.5 billion in new investments over the next 10 years.⁶ The 2007 IRP contains lower amounts of wind and other renewable resources than were included in the 2005 IRP. Conditions have changed since the 2005 IRP which have and will impact the cost of renewable resources relative to traditional thermal alternatives. Recent

legislation promoting renewable resources in Washington and throughout the West have reduced the amount of cost-effective renewable resources available to Avista by increasing and accelerating demand in the short run. Wind generation costs have increased by more than 100 percent over the past six years and by more than 50 percent since the 2005 IRP. Renewable resources are being acquired to meet the Washington Energy Independence Act, Initiative 937 (I-937), passed in November 2006. This legislation requires larger utilities in Washington to serve 15 percent of retail load with renewables by 2020; intermediate targets are 3 percent in 2012 and 9 percent in 2016. Under I-937, Avista must acquire renewable resources regardless of physical resource balance. We forecast that by 2017 approximately 90 aMW of I-937-qualifying resources will serve customers loads, as shown in Figure 8.

Figure 8: Amount of Renewable Energy Forecasted to Meet RPS (aMW)



⁶ The range reflects the possibility that the company might need to invest approximately \$0.5 billion to fix the long-term price of its natural gas (e.g., purchase of coal gasifier to create pipeline-quality natural gas).