

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

Avista Corporation, d/b/a Avista Utilities

For an Accounting Order Authorizing Accounting
Treatment of: 1) Transmission Revenues Associated
with a Settlement between Avista and the Bonneville
Power Administration, and 2) Reardan Wind Project
Development Costs.

)
)
) Docket No. UE-13_____
)
) PETITION OF AVISTA
) CORPORATION
)

I. INTRODUCTION

1 In accordance with WAC 480-100-203(3), Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington, hereby petitions the Commission for an order that authorizes the accounting treatment detailed in this Petition related to two issues. The first issue relates to transmission revenues associated with a settlement between Avista and the Bonneville Power Administration ("Bonneville"). The second issue relates to costs the Company has incurred over the past several years for the development of a wind generation project site near Reardan, Washington¹.

2 Avista is a utility that provides service to approximately 362,000 electric customers and 226,000 natural gas customers in a 26,000 square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 96,000 natural gas customers in

¹ By letter dated April 11, 2013, the Company advised the Commission that it was withdrawing its previous Petition (Docket UE-130115) relating to these matters, and would be submitting a new Petition (this Petition) that would alter the proposed accounting treatment.

Oregon. The largest community served by Avista is Spokane, Washington, which is the location of its corporate headquarters.

Please direct all correspondence related to this Petition as follows:

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3 Rules and statutes that may be brought at issue in this Petition include RCW 80.01.040,
RCW 80.28.020, and WAC 480-07-370(1)(b).

4 Following the Company's previous Petition related to these same issues, filed with the
Commission on January 28, 2013, parties, including the Staff of the Washington Utilities and
Transportation Commission ("Staff"), Industrial Customers of Northwest Utilities ("ICNU"),
and the Public Counsel Section of the Washington Attorney General's Office (Public
Counsel), engaged in discussions regarding the accounting treatment proposed by the
Company related to the Bonneville Settlement and Reardan. The Commission Staff, ICNU
and Public Counsel conducted informal discovery and Avista responded to the requests for
information. This revised Petition reflects these discussions. Although they will provide
separate comments, the Company's understanding is Staff and ICNU are supportive of this
Petition.

5 The Company is not proposing that the accounting treatment requested in this Petition be
precedent setting, or used in any way to resolve other issues in any current or future
proceedings before the Commission.

6 Avista is submitting this revised Petition as a result of reaching an understanding with Staff and ICNU on the resolution of the issues presented in this Petition². Specifically, Avista has been advised that Staff and ICNU will support this Petition based on the following understanding:³

1. Avista will write off its investment in the Reardan Wind Plant without regard to any finding of prudence, which amounts to \$2.586 million (Washington basis).
2. Avista will retain the BPA transmission settlement dollars from 2005-2012.
3. Customers will see the benefit of the 2013 and 2014 BPA transmission settlement dollars as a direct credit of \$4.2 million applied against the scheduled 2014 rate increase under the rate plan.
4. The parties find this resolution as set forth in the Petition to result in fair, just, reasonable and sufficient rates. No party is agreeing to any methodology utilized in reaching this agreement for any other matter other than the one presented here. In addition, no party agrees that the methods and principles contained in the Petition should be utilized in any other proceeding or docket.
5. The parties urge approval of this Petition at the next open meeting on April 25, 2013.

II. SUMMARY OF PETITION

7 In December 2012, Avista and Bonneville reached a settlement that pertains to the use of Avista's transmission system by Bonneville. The likelihood of this settlement between Avista and Bonneville was known to the Company and the parties to the Company's last general rate

² The Parties have engaged in informal discovery and the Company has provided data responses to Staff, ICNU and Public Counsel. Public Counsel was included in the ongoing discussions, but declined to support this Petition.

³ Staff and ICNU, of course, will independently speak to their position on these issues.

case⁴, and although that rate case was resolved through a Commission-approved rate plan, the Company understood it would need to bring this settlement to the Commission for disposition.

8 As explained later in this Petition, Avista received \$11.692 million from Bonneville in early 2013 as settlement for past use of Avista's system by Bonneville, of which the Washington jurisdictional share is \$7.604 million. The Company proposes to retain Washington's allocated amount of the BPA incremental firm transmission revenues of \$7.604 million attributable to the 2005-2012 time period.

9 In addition, Bonneville will pay Avista \$266,000 per month beginning January 2013 and extending through September 30, 2042. As it relates to the Bonneville settlement revenues for 2013 and 2014, Avista proposes to separately defer and track, for its customers' benefit, Washington's allocated amount of incremental firm transmission revenues as Avista receives the revenue from Bonneville. The estimated annual Washington allocated share is \$2.1 million. At the time Avista files tariffs to increase rates for 2014 pursuant to the Company's last general rate case, the Company will file a tariff with the same January 1, 2014 effective date that refunds to customers, during 2014, the entire 2013 and 2014 revenue associated the Bonneville settlement (approximately \$4.2 million). To the extent there is a difference between the actual revenues from Bonneville for 2013 and 2014 and the amount refunded to customers in 2014, 100% of the difference would be added to, or subtracted from, the Energy Recovery Mechanism ("ERM") deferral balance without being subject to the deadband and sharing bands.

10 The 2013 and 2014 refund would be spread to all rate schedules in 2014, to offset the scheduled rate increase, using the same rate spread/rate design methodology as other

⁴ Dockets UE-120436 and UG-120437.

transmission costs and revenues were allocated to customers in the Company's last general rate case⁵. Further, within each rate schedule the refund will be applied to the volumetric blocks on a uniform cents per kWh basis, or on an energy basis.

11 In Avista's next general rate case, for 2015 and beyond, Avista would follow existing procedures and include the firm transmission revenue related to the Bonneville settlement in the calculation of proposed base retail rates by including the Bonneville revenues in normalized transmission revenues, as well as the determination of the new base numbers for the ERM. In other words, the BPA transmission revenues will be used to offset the revenue requirement for future rate cases and will not flow through the ERM.

12 This Petition also addresses the termination of Avista's planned development of the Reardan Wind Project ("Reardan"). The Company incurred approximately \$4.0 million for the development of the Reardan wind site, which will be more fully explained later in this Petition. Washington's share of these costs is \$2.586 million.

13 The proposed accounting treatment associated with the Reardan project is directly related to, and dependent upon, the proposed accounting treatment of the Bonneville Settlement transmission revenue and is part of the parties' reaching resolution of the issues contained in this Petition. The Company proposes to expense the entire Washington share associated with the Reardan project in 2013, if the proposed accounting for the Bonneville revenues is granted, and would not include any of the \$2.586 million Reardan-related costs in any future rate filing in Washington. The Company would, in essence, use a portion of the 2005-2012 Bonneville revenue to offset the Reardan costs.

⁵ In Docket Nos. UE-120436 and UG-120437, transmission costs and revenues in the cost of service study were spread to rate schedules based on 34.2% demand and 65.8% energy.

14 Although Avista would benefit from the difference between the prior 2005-2012 Bonneville revenue of \$7.6 million and the prior Reardan cost of \$2.6 million, as part of the proposed accounting treatment in this Petition, the Company is also proposing \$4.2 million of revenue benefit to customers during 2014 that would not otherwise occur. This is the essence of the parties' resolution of the issues in this Petition. In addition, the parties reached an agreement for the treatment of future BPA transmission revenues. No party supporting this Petition is deemed to have accepted or consented to the facts, principles, methods or theories employed, except for the specific treatment of the costs and revenues described in the Petition. No party supporting this Petition shall be deemed to have agreed that the treatment of the issues herein is appropriate for resolving any issues in any other proceeding.

III. SETTLEMENT BETWEEN AVISTA AND BONNEVILLE

A. Background

15 In December 2012, Avista and Bonneville reached a settlement that pertains to the use of Avista's transmission system by Bonneville. The Parallel Operation Agreement between Avista Corporation and Bonneville Power Administration ("Agreement") was signed December 12, 2012. Avista filed the Agreement with FERC⁶ on December 31, 2012, and received acceptance on February 5, 2013. A copy of the Agreement between Avista and Bonneville, and a copy of the filing with FERC, and the acceptance letter from FERC, is provided as Attachment A to this Petition.

16 Avista and Bonneville each own and operate transmission systems that are interconnected at various points. Between June 1998 and December 2009, Bonneville integrated four

⁶ FERC Docket ER13-689-000

generation projects onto its 115 kV transmission system in the Walla Walla, Washington area. Bonneville sold transmission capacity to wind projects totaling 336 MW. The transmission path for these four projects follows a single Bonneville line that has a rated capacity of only 203 MW. Upon Avista's discovery of this situation, Avista asserted that Bonneville requires the use of up to 133 MW of parallel capacity support through the Avista system in order to fulfill Bonneville's transmission service obligations for these wind projects. The Settlement Agreement was intended to resolve the issue of compensation to Avista for the prior use of its transmission system, as well as provide Bonneville with continuing cost-effective parallel capacity support in lieu of constructing additional transmission facilities at this point in time.

17 The Agreement with Bonneville reflects a payment to Avista totaling \$11.692 million for the past use of Avista's transmission system for the period 2005 through 2012, as follows:

<u>Payments for Parallel Capacity Support</u>	
<u>Due to Avista from Bonneville</u>	
<u>By Year</u>	
Year	Amount
2005	\$696,185
2006	660,407
2007	615,633
2008	600,242
2009	783,533
2010	2,488,000
2011	2,656,000
2012	3,192,000
	<u>\$11,692,000</u>

In addition, Avista is entitled to receive monthly system transmission revenue payments of \$266,000⁷ from Bonneville beginning January 2013 and extending through September 30, 2042, unless earlier terminated under the terms of the Agreement⁸. These payments will be recorded by Avista in a manner consistent with other transmission revenues, and will occur outside the ERM for 2013 and 2014 as explained below.

B. Proposed Accounting and Ratemaking Treatment for Bonneville Settlement

18 The Company recorded the receipt of funds from Bonneville in February 2013 and deferred the revenue in FERC Account 184.055 – Resource Clearing Account, until the Company receives Commission approval of this Petition. A summary of the accounting entries follows:

February 2013 Actual		
<u>Accounting Entries to Record Bonneville Settlement</u>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
143.000 Accounts Receivable	7,604,044	
456.120 Parallel Capacity Support Revenue*		7,604,044
407.331 Regulatory Debit - BPA	7,604,044	
184.055 Resource Clearing Account		7,604,044

* The BPA revenue would not flow through the ERM.

19 The Company proposes to retain Washington’s allocated amount of the BPA incremental firm transmission revenues of \$7.604 million attributable to the 2005-2012 time period. As

⁷ This represents the initial monthly Parallel Capacity Allocation Compensation Amount as stated in Exhibit A to the Agreement. In the event the amount of parallel capacity support allocated to Bonneville changes or Avista’s Transmission Rate is revised, the monthly Parallel Capacity Allocation Compensation Amount in Exhibit A shall be adjusted to reflect such revisions. Any such revision will not impact Avista’s commitment to credit customers with the entire amount of revenues from Bonneville on a Washington basis.

⁸ The Agreement may be terminated by mutual agreement or Bonneville may terminate this Agreement upon no less than one (1) year prior written notice, per the terms of the Agreement.

discussed below, the Company has also proposed to expense the Reardan project costs. The proposed accounting entries follows:

2013 Proposed		
<u>Accounting Entries to Record Bonneville Settlement and Reardan Development Costs</u>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
184.055 Resource Clearing Account	7,604,044	
407.331 Regulatory Debit - BPA		7,604,044
557.XXX Other Power Supply Expense*	2,586,324	
183.000 Preliminary Survey & Investigations (Reardan Project)		2,586,324

* The Reardan project costs would not flow through the ERM.

20 As it relates to the monthly Bonneville revenues for 2013 and 2014, Avista will separately defer and track for customer benefit Washington’s allocated amount of incremental firm transmission revenues as Avista receives the revenue from Bonneville. The estimated annual Washington allocated share is \$2.1 million, or approximately \$175 thousand per month⁹. No interest would accrue on the deferred balance for the 2013 and 2014 revenues due to the short duration. At the time Avista files tariffs to increase rates for 2014 pursuant to the Company’s last general rate case¹⁰, the Company would file a tariff with the same January 1, 2014 effective date that refunds to customers, during 2014, the entire 2013 and 2014 revenue associated the Bonneville settlement (approximately \$4.2 million). To the extent there is any difference in the transmission revenue actually received from Bonneville in 2013 and 2014 versus the amount refunded to customers, 100% of the difference would be added to, or

⁹ \$266,000 per month times the current Washington jurisdictional allocation of 65.01% equals \$172,927 per month. For deferral purposes in 2013 and 2014, the Production/Transmission (“P/T”) ratio in effect for 2013 and 2014 would be used to determine the Washington jurisdictional share.

¹⁰ Dockets UE-120436 and UG-120437.

subtracted from, the ERM deferral balance without being subject to the deadband and sharing bands.

21 Washington's monthly share of revenues for 2013 and 2014 related to the Bonneville agreement would be credited to FERC Account 254.3XX – Regulatory Liability – WA BPA¹¹.

2013 and 2014 Proposed		
<u>Monthly Accounting Entries to Record Bonneville Settlement Revenues</u>		
<u>(Dollar Amounts are Estimates)</u>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
143.000 Accounts Receivable	175,000	
456.120 Parallel Capacity Support Revenue*		175,000
407.331 Regulatory Debit - BPA	175,000	
254.3XX Regulatory Liability - WA BPA		175,000

Note: Washington's share of BPA Settlement would be determined using the P/T (Production/Transmission) ratio in effect during 2013 and 2014 applied to the monthly payments from BPA of \$266,000.

* The BPA revenue would not flow through the ERM.

22 As customers are refunded the BPA revenues in 2014, FERC Account 254.3XX (Regulatory Liability – WA BPA) would be debited, and FERC Account 407.XXX (Regulatory Amortization – WA BPA) would be credited.

2014 Proposed		
<u>Monthly Accounting Entries to Rebate 2013/2014 Bonneville Revenues to Customers</u>		
<u>(Dollar Amounts are Estimates)</u>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
254.3XX Regulatory Liability - WA BPA	350,000	
407.XXX Regulatory Amortization - WA BPA		350,000

¹¹ The Company's monthly accounting entries will include the standard calculations, including adjusting for revenue-related expenses (i.e. uncollectible customer accounts, commission fees, and Washington excise taxes) and deferred federal income taxes.

23 In Avista's next general rate case, for 2015 and beyond Avista would follow existing procedures and include the firm transmission revenue related to the Bonneville settlement in the calculation of proposed base retail rates by including the Bonneville revenues in normalized transmission revenues, as well as the determination of the new base numbers for the ERM. To the extent there are any differences in the transmission revenue actually received from Bonneville versus that included in the ERM base, those differences would be tracked and deferred in the ERM just like any other change in transmission revenue. In the event Avista does not file a general rate increase with proposed new rates to take effect after January 1, 2015, the Company will recognize these incremental BPA revenues for the benefit of customers within the ERM.

C. Proposed Rate Spread for the Bonneville Settlement Rate Refund

24 The Company proposes that the 2013 and 2014 Bonneville settlement revenue be spread to all rate schedules in the same manner as transmission costs and revenues were allocated to customers in the Company's last general rate case¹². Further, within each rate schedule the refund would be applied to the volumetric blocks on a uniform cents per kWh basis¹³, or on an energy basis. Page 1 of Attachment B shows the proposed rate spread and rate design calculation. Page 2 of Attachment B shows the draft form of tariff that the Company would file with the compliance filing required as a part of the Company's last general rate case.

¹² In Docket Nos. UE-120436 and UG-120437, transmission costs and revenues in the cost of service study were spread to rate schedules based on 34.2% demand and 65.8% energy.

¹³ The Company would use the 2014 load forecast of retail kWh sales for purposes of developing the rebate rate by service schedule.

IV. REARDAN WIND PROJECT

A. Background

25 While Attachment C contains a more expansive discussion of the history of the Reardan Wind Project, what follows is a brief summary in support of the Project. Energy Northwest, a joint-operating agency and municipal corporation, began in 2001 to investigate the wind potential of an area along Magnison and Hanning Buttes, located about twenty miles west of Spokane, near Reardan, Washington. In 2002, Energy Northwest acquired the land rights to develop the project, and in 2003, contracted for a series of wind studies to determine the preliminary design and projected output for the site. The preliminary design projection, released in January 2004, included a project configuration with 33 General Electric machines, each with a 1.5 MW capacity, and an expected project capacity factor of 33.6 percent. In February 2004, Energy Northwest signed a large generator interconnection agreement under Avista's FERC transmission tariff to study the transmission interconnection feasibility with Avista, and in 2005, filed a similar application with Bonneville. Energy Northwest continued development of the site and acquired the necessary Conditional Use Permits from Lincoln County, and completed baseline studies for wildlife, cultural resources, geotechnical conditions, communications system impacts and microwave beam-path impacts.

26 In 2007, Avista began discussions with Energy Northwest about the possible purchase of the Reardan project. These discussions continued through early 2008, however, Energy Northwest decided to sell the project in a sealed bid auction. Avista submitted a bid for the project, which was selected as the winning offer. Avista and Energy Northwest negotiated a final purchase price of \$2.28 million, and executed a purchase agreement for the project in May 2008. Shortly after its acquisition, Avista commenced the next phase of activities needed

to optimize the project and ready it for construction. These included updating the micro-siting studies, renegotiating land leases, conducting community outreach, initiating contracting discussions with project constructors and wind turbine suppliers, and developing preliminary designs for the substation and transmission lines.

27 When the Reardan project was compared against 29 competing proposals for renewable energy offered by third-parties to Avista, it was demonstrated in Avista's view as the Company's least-cost option for securing a renewable resource for its customers, consistent with its 2007 Integrated Resource Plan¹⁴.

28 The Company's acquisition of the Reardan project provided Avista significant control over its renewable-acquisition decisions because Avista had locked-in the ability to develop a high-value wind resource as needed. Reardan gave the Company physical optionality over its resource acquisition decisions, and was able to delay acquiring renewables in 2010 and take advantage of much-lower costs for wind projects that emerged in 2011, while continuing to provide a renewable resource option into the future.

29 On February 22, 2011, Avista issued a Request for Proposals for up to 35 aMW of qualifying renewable energy with delivery to commence on or before December 31, 2012. The Request for Proposals process was fast-tracked to identify projects that could be completed and online prior to the end of 2012, when the significant state and federal tax benefits were set to expire. After completing the subsequent rounds of screenings, negotiations, and final price and term offerings from the participating developers, Avista announced it had negotiated a 30-year power purchase agreement with Palouse Wind, LLC for the output of its 105 MW capacity Palouse Wind project. Located approximately 30 miles south of Spokane, the project

¹⁴ April 21, 2010 Analysis of RFP Responses to 2009 Renewables RFP

interconnects directly with Avista's 230 kV transmission system and qualified for the renewable incentives set to expire in 2012. In addition, the project wind data indicated that it had an attractive capacity factor, and according to Avista's analysis, the cost of generation from this project is among the lowest in the northwest, for wind projects completed in recent years.

30 In addition, in March of 2012, Avista announced a legislative achievement that significantly changed its long-term need for new renewable resources. The Company's Kettle Falls Generating Station, completed in 1983, was constructed to both take advantage of an abundant and inexpensive wood-waste fuel supply, and to help reduce the pollution caused by burning this waste in 'wigwam' burners at regional sawmilling sites. And, even though Kettle Falls was a pioneering biomass project that had already delivered significant environmental benefit to the region, the project was excluded from eligibility under the Washington Energy Independence Act, because it was built before March 31, 1999. After five years of diligent work with a host of parties, Avista was successful in having legacy biomass energy projects included as qualifying renewable resources under the Washington law. The biomass energy bill (SB 5575) was signed into law on March 7, 2012.

B. Proposed Accounting Treatment of Reardan Wind Project Costs

31 With Avista's successful qualification of its Kettle Falls project as a qualifying renewable project under the Washington Energy Independence Act, and the resulting lack of any definitive future need for the Reardan Project (as explained in Attachment C), the Company has chosen to terminate the Project. The costs for the development of the Reardan Wind Project are \$3,964,322 on a system basis, or \$2,586,324 for the Washington jurisdiction. A summary of the costs follows:

Summary of Reardan Wind Project Development Costs

Initial purchase cost of Reardan Project	\$ 2,278,850
Construction Costs of Towers	189,740
Professional Services	990,722
Legal Costs	312,534
Employee Costs, Contract Labor and Other	122,476
Total Costs Incurred Through December 31, 2012	<u>3,894,322</u>
2013-2015 Lease Costs	60,000
Removal Costs of Towers	10,000
Total Costs of Reardan Wind Project (system)	<u>\$ 3,964,322</u>
Washington's Share	\$ 2,586,324

32 The proposed accounting treatment associated with the Reardan Project is directly related to the proposed accounting treatment of the Bonneville Settlement transmission revenue. The Company proposes to expense the entire Washington share associated with the Reardan project in 2013 if the proposed accounting for the Bonneville revenue is granted, and would not include any of the \$2.586 million Reardan-related costs in any future rate filing in Washington. The Company would, in essence, use a portion of the 2005-2012 Bonneville revenue to offset the Reardan costs.

33 Although Avista would benefit from the difference between the prior 2005-2012 Bonneville revenue of \$7.6 million and the prior Reardan cost of \$2.6 million, as part of the proposed accounting treatment in this Petition, the Company is also proposing \$4.2 million of revenue benefit to customers, to offset the 2014 rate increases that might not otherwise occur.

V. REQUEST FOR RELIEF

34 WHEREFORE, Avista respectfully requests that the Commission issue an Order approving the accounting treatment proposed above and summarized as follows:

- a. Approve \$7.604 million related to the 2005 – 2012 Bonneville settlement proceeds, to be recorded for the benefit of the Company;
- b. Direct Avista to separately defer and track, for the benefit of customers, Washington’s allocated amount of firm transmission revenues Avista receives from Bonneville for 2013 and 2014 related to the settlement (approximately \$4.2 million), with no interest accrued on the balance;¹⁵
- c. Direct the Company to file a tariff, at the same time as it files compliance tariffs pursuant to its last general rate case, with the same January 1, 2014 effective date, that refunds to customers, during 2014, the entire 2013 and 2014 revenue associated the Bonneville settlement (approximately \$4.2 million);
- d. Direct the Company to include the Bonneville revenue from the settlement, for 2015 and beyond, in its normalized revenues for ratemaking purposes in its next general rate case, and
- e. Direct the Company to expense in 2013 the entire Washington share of costs associated with the Reardan project of \$2.586 million, and to not include any of the Reardan-related costs in any future rate filing in Washington.

DATED this 12th day of April 2013

By: Kelly Norwood
Kelly Norwood
Vice President, Avista Corp.

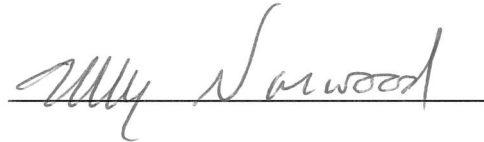
¹⁵ Avista understands that Commission Staff and ICNU only support the “no interest” aspect of the Petition due to the short duration of the deferral. As a general matter, both parties have represented that they would otherwise oppose such treatment.

VERIFICATION

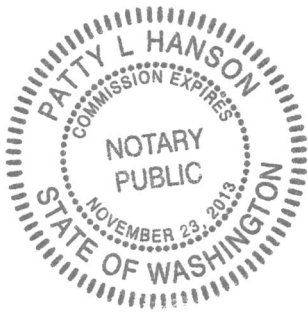
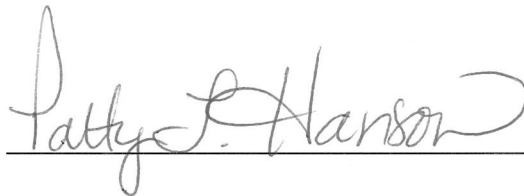
STATE OF WASHINGTON)
)
 County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.



SIGNED AND SWORN to before me on this 12th day of April 2013

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 11/23/2013