

**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.

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) Docket No. UE-13\_\_\_\_\_  
)  
) PETITION OF AVISTA  
) CORPORATION  
)

**I. INTRODUCTION**

1           In accordance with WAC 480-07-370(1)(b), 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, Washington.

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

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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).

## II. SUMMARY OF PETITION

4 In December 2012, Avista and Bonneville reached a settlement that pertains to the use of  
Avista's transmission system by Bonneville. As explained later in this Petition, Avista will  
receive \$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 allocate Washington's share as follows: a) \$4.554 million would be  
allocated to benefit customers as discussed below, and b) \$3.049 million would be retained by  
the Company. This sharing between customers and the Company was determined by  
reviewing the applicable deadbands and sharing bands within the Company's Energy Recovery  
Mechanism ("ERM") for each of those past years in which the Company should have received  
revenue from Bonneville for use of its system.

5 This Petition also addresses the termination of Avista's development of the Reardan  
Wind Project ("Reardan"), and the proposed recovery of the development costs spent to date  
for this Project. With regard to the recovery of costs for Reardan, the Company proposes to

use a portion of the customers' share of the Bonneville settlement proceeds, described above, to fully offset the Reardan costs.

6           The Company incurred approximately \$4.0 million for the development of the Reardan wind site, which will be more fully explained in this Petition. Washington's share of these costs is approximately \$2.586 million. The Company proposes to offset the Reardan wind development costs of \$2.586 million with the customers' share of the Bonneville settlement of \$4.554 million. The remaining \$1.968 million would be credited to the ERM balancing account for the benefit of customers, without being subject to the deadband or sharing bands.

### **III. SETTLEMENT BETWEEN AVISTA AND BONNEVILLE**

#### **A. Background**

7           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 FERC on December 31, 2012. The Agreement will not become effective unless and until Avista attains FERC acceptance of the Agreement. A copy of the Agreement between Avista and Bonneville, and a copy of the filing with FERC, is provided as Attachment A to this Petition.

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

9 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:

<b><u>Payments for Parallel Capacity Support</u></b> <b><u>Due to Avista from Bonneville</u></b> <b><u>By Year</u></b>	
<b>Year</b>	<b>Amount</b>
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 \$266,000<sup>1</sup> from Bonneville beginning January 2013 and extending through September 30, 2042, unless earlier terminated under the terms of the Agreement<sup>2</sup>. These payments will be recorded by Avista in a manner consistent with other transmission revenues.

<sup>1</sup> 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.

<sup>2</sup> 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.

10 Assuming no issues are raised by FERC, the Company expects to receive an order accepting the agreement from FERC within 30 to 40 days of our filing, which would be mid-February 2013. Upon FERC acceptance, the Company would bill Bonneville for the \$11.692 million. Washington's share of the past-use payment is \$7,604,044.

**B. Proposed Accounting and Ratemaking Treatment for Bonneville Settlement**

11 The Company proposes to allocate \$4,554,575 of the \$7,604,044 Washington share to customers. The Company also proposes to use a portion of the \$4,554,575 to offset the costs spent to date in the development of the Reardan Wind Project, which will be more fully explained later in this Petition. The remaining customer portion of \$1,968,251 would be credited to the ERM balancing account, FERC Account 186.28 - Miscellaneous Deferred Debits. One-hundred percent of the \$1,968,251 would be credited to the ERM balancing account for the benefit of customers and would not be subject to the deadband or sharing bands. The \$3,049,469 proposed to be retained by the Company would be recorded in FERC Account 456.12 – Revenues from the Transmission of Electricity for Others<sup>3</sup>. A summary of the accounting entry to record the Bonneville revenues and the Reardan wind development costs follows:

<b><u>Accounting Entries to Record Bonneville Settlement and Reardan Development Costs</u></b>		
<u>FERC Account</u>	<u>DR</u>	<u>CR</u>
143.00 Accounts Receivable	7,604,044	
186.28 Miscellaneous Deferred Debits (ERM)		1,968,251
456.12 Revenue from the Transmission of Electricity of Others		3,049,469
183.00 Preliminary Survey & Investigations (Reardan Project)		2,586,324

<sup>3</sup> The Company’s share of these transmission revenues would not flow through the ERM.

The sharing of the Bonneville settlement dollars between customers and the Company was determined by reviewing the applicable deadbands and sharing bands within the ERM for each of the past years, as if payments had actually been received from Bonneville during this prior period. The ERM allows Avista to defer a portion of net power supply and transmission costs that are above or below the level of authorized costs reflected in base rates, subject to a deadband and sharing bands. The proposed sharing of the Bonneville settlement benefit between customers and the Company is based on the sharing that would have occurred if the annual Bonneville dollar amounts had flowed through the ERM during each year 2005 through 2012, as incremental dollar amounts to what actually occurred each year. The results are summarized in the table below:

<b><u>Allocation of Payments for Parallel Capacity Support</u></b>				
<b><u>Year</u></b>	<b><u>Amount</u></b>	<b><u>WA Share</u></b>	<b><u>Customers</u></b>	<b><u>Company</u></b>
2005	\$696,185	\$461,501	\$415,351	\$46,150
2006	660,407	430,321	-	430,321
2007	615,633	401,146	361,031	40,115
2008	600,242	395,139	355,625	39,514
2009	783,533	506,084	-	506,084
2010	2,488,000	1,606,999	-	1,606,999
2011	2,656,000	1,722,947	1,550,652	172,295
2012	3,192,000	2,079,907	1,871,916	207,991
	<u>\$11,692,000</u>	<u>\$7,604,044</u>	<u>\$4,554,575</u>	<u>\$3,049,469</u>

The details of the calculations are provided in Attachment B to this Petition. Line 1 on Attachment B shows the payment amounts under the Bonneville Agreement by year for the years 2005 through 2012 totaling \$11,692,000. The Washington allocated share by year totaling \$7,604,044 is shown on Line 3. Lines 4-9 show the year-by-year dollar amounts actually absorbed by the Company and deferred to customers under the ERM, and Lines 10-15

show the year-by-year ERM amounts restated to include the Bonneville settlement payments. The analysis shows, based on the applicable deadbands and sharing bands within the ERM for each of those years, that, of the Washington portion of the Bonneville settlement payments, the share due customers would be \$4,554,575 (line 16), and the Company share would be equal to \$3,049,469 (line 17).

14           The proposed accounting treatment is similar to the accounting treatment the Company agreed to with the Staff of the Washington Utilities and Transportation Commission (Staff), and the Industrial Customers of Northwest Utilities (ICNU) related to a multi-year purchase power contract with Enron in 2002. During the first ERM deferral period of July 1, 2002 through December 31, 2002, the Company proposed to recover the net cost associated with a buyout of a multi-year purchase power contract with Enron. The Company had recorded the termination cost as a current purchased power expense for the month of October 2002. Staff and ICNU recommended that the termination costs be amortized over the original delivery period of the energy contract (2004 to 2006), rather than be recorded in the single month of the settlement transaction. The Company agreed to the Staff/ICNU approach, and the Settlement Stipulation approved in Docket No. UE-030751 at page 6 provided for an amortization of the termination payment over the original 2004 to 2006 delivery period of the contract. Thus, the amortization of the Enron termination payment was subject to the ERM sharing bands during the 2004 to 2006 period.

15           The Company's proposal to apply the Bonneville contract settlement payments to the specific years that the revenue relates to, and to apply the ERM deadband and sharing bands for those years to determine the amount allocable to customers and the Company, is consistent with the methodology previously adopted for the Enron termination payment.

16 Approval of the proposed sharing of revenue from the Bonneville settlement would provide multiple benefits through, 1) providing additional dollar amounts in the ERM balancing account for the benefit of customers, and 2) fully offsetting the development costs incurred to date for the Reardan wind project.

#### IV. REARDAN WIND PROJECT

##### A. Background

17 While Attachment C contains a more expansive discussion of the history of the Reardan Wind Project, what follows is a brief narrative in support of this Petition. 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 the Bonneville Power Administration. 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.



18 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.

19 When the Reardan project was compared against 29 competing proposals for renewable energy offered by third-parties to Avista, it was demonstrated as the Company's least-cost option for securing a renewable resource for its customers, consistent with its 2007 Integrated Resource Plan<sup>4</sup>. Avista's acquisition of the Reardan project was consistent with the renewable requirements in the State of Washington.

20 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. Prudence was demonstrated by the Reardan project's first-place scoring against 29 proposals as Avista's least-cost renewable option in its 2009 RFP for meeting the acquisitions called for in its 2007 Integrated Resource Plan. Avista's decision to delay the construction of the Reardan project was also prudent. Reardan gave the Company physical optionality over its resource acquisition decisions, and was able to delay

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<sup>4</sup> April 21, 2010 Analysis of RFP Responses to 2009 Renewables RFP.

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.

21 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 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 the cost of generation from this project is among the lowest in the northwest, for wind projects completed in recent years.

22 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.

23 In the final analysis, Avista developed a resource portfolio that hedged the risk of potential federal requirements for greenhouse gases and renewable energy standards, provided reasonable and prudent portfolio diversity and risk reduction against volatility in electricity and natural gas markets, cost-effectively met the requirements of the Washington Energy Independence Act. It delivered this benefit at a nominal rate impact to its Washington and Idaho customers while reducing future uncertainty and avoiding significant future costs. That Avista did not ultimately develop the Reardan project does not detract from the basis of its acquisition, the significant value derived for its customers, or the reasonableness of recovering the costs of acquisition and preliminary development.

#### **B. Proposed Accounting and Ratemaking Treatment of Reardan Wind Project Costs**

24 With Avista's successful qualification of its Kettle Falls project as a qualifying renewable project under Washington law, 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**

Costs Incurred through December 31, 2012:	
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, 2011	3,894,322
2013-2015 Lease Costs	60,000
Removal Costs of Towers	10,000
Total Costs of Reardan Wind Project (system)	\$ 3,964,322
Washington's Share	<b>\$ 2,586,324</b>

25 As explained earlier in this Petition, the Company proposes to use a portion of the customers' share of the Bonneville settlement proceeds to fully offset Washington's share of the Reardan wind development costs of \$2,586,324. The accounting entry to record the Bonneville settlement revenues and the Reardan wind development costs was provided above. The Company proposes that any future sales proceeds from the Project would be credited in their entirety back to customers.

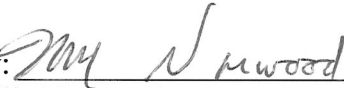
**V. REQUEST FOR RELIEF**

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

- a. Allocate Washington's share of the Bonneville settlement proceeds with \$4.554 million going to customers and \$3.049 million to the Company;
- b. Use a portion of the customers' share of the Bonneville settlement proceeds to fully offset Washington's share (\$2,586,324) of the Reardan wind development costs; and

- c. Credit the remaining customer share of the Bonneville proceeds of \$1,968,251 (\$4,554,575 less Washington's share of the prudently incurred Reardan wind development costs of \$2,586,324) to the ERM deferral balance at 100% for the benefit of customers, without being subject to the ERM deadband or sharing bands.

DATED this 28<sup>th</sup> day of January 2013

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

