

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
)	Docket No. UE-13_____
Avista Corporation, d/b/a Avista Utilities)	
)	PETITION OF AVISTA
For an Accounting Order Authorizing Accounting)	CORPORATION
Treatment of Costs Related to Improving Dissolved)	
Oxygen Levels in Lake Spokane.)	

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 authorizing the accounting treatment detailed in this Petition related to costs the Company has incurred to model, analyze, and develop a plan to improve the dissolved oxygen levels in Lake Spokane¹; activities that stemmed from the Company's Spokane River FERC license.

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.

¹ Lake Spokane is a reservoir created by the Company's Long Lake Hydroelectric Project.

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).

II. SUMMARY OF PETITION

4 Avista requests Commission approval to defer for later possible recovery in rates \$871
thousand (Washington's share of approximately \$1.34 million) in costs incurred related to
meeting certain regulatory requirements to improve dissolved oxygen levels in Lake Spokane,
the reservoir created by Avista's Long Lake Hydroelectric Development. As Avista was
incurring these costs, to comply with the provisions of the Spokane River relicensing
agreement, it was exploring multiple alternatives which could potentially provide for the same
level of benefits to Lake Spokane as the more expensive capital project option.

5 In the final analysis, while Avista could have chosen to move forward with the more
expensive capital project to address oxygen levels, the Company's additional efforts in
evaluating alternatives resulted in the opportunity to choose a solution that is much less
expensive for customers. Although the Company believes that the costs incurred that led to
the ultimate decision to avoid the more expensive capital option were prudently incurred, the
Company is not requesting a determination of prudence at this time.

6 Absent a Commission order allowing for the deferral of these costs, the Company would
be forced to write-off these costs, resulting in a loss to the Company and its shareholders.
Avista proposes to address the prudence and the timing of recovery of these costs in its next
general rate case filing or other future proceeding, as appropriate. The purpose of this petition
is to request Commission approval of deferred accounting treatment to preserve these costs, so
that the prudence and recovery of these costs can be addressed in a future proceeding.

III. BACKGROUND

7 The Long Lake development is one of five Avista hydroelectric developments that are a
part of Avista’s Spokane River Project. The Spokane River Project consists of five
hydroelectric developments between Coeur d’Alene Lake in Idaho and Long Lake Dam in
Washington (Post Falls, Upper Falls, Monroe Street, Nine Mile and Long Lake). The Spokane
River Project is the subject of Federal Energy Regulatory Commission (“FERC”) Project
License 2545, a 50-year license issued by FERC on June 18, 2009. Attached as Attachment A
is a picture of the Spokane River Project. Lake Spokane is located in-between Nine Mile Dam
upstream (to the east) and Long Lake Dam downstream (to the west).

8 Simultaneous to Avista’s work on its Spokane River relicensing process (2002-2009), the
Washington Department of Ecology (“Ecology”) undertook a Dissolved Oxygen Total
Maximum Daily Load (“TMDL”) process to address impaired water quality in the Spokane
River due to low dissolved oxygen levels. A TMDL is a requirement under the State of
Washington’s Clean Water Act obligations. One of the areas listed as “impaired” for low
dissolved oxygen under the Clean Water Act includes Lake Spokane.

9 The TMDL, which is essentially a water quality cleanup plan, was a multi-year process that involved public and private entities that discharge wastewater into the Spokane River², and many stakeholders, including Ecology, the United States Environmental Protection Agency (“EPA”), Washington Department of Fish and Wildlife, Idaho Department of Environmental Quality, Native American tribes and other parties. The TMDL process was ongoing when FERC issued the Project License in 2009 for the Spokane River Project.

10 The 2009 FERC Project License incorporated in its Appendix B the conditions of Washington State’s Water Quality Section 401 Certification (“401 Certification”) as mandatory conditions under the authority of the Clean Water Act, consistent with the Federal Power Act. Condition 5.6C relates to dissolved oxygen in Lake Spokane. The 401 Certification and FERC License require Avista to develop a Water Quality Attainment Plan (“Attainment Plan”) to “improve oxygen conditions in Lake Spokane....sufficient to address its proportional level of responsibility, based on its contribution to the dissolved oxygen problem in the Lake.” Condition 5.6C requires that the Attainment Plan be implemented over a 10-year period, with the potential of “alternative action[s]” being required should the Plan’s results be insufficient after the initial 10-year period.

11 At the time the 401 Certification and FERC License were issued, the TMDL process was still ongoing, so Condition 5.6C served essentially as a placeholder until such time as the TMDL was completed.

12 The TMDL process continued subsequent to the issuance of the FERC License for Avista’s Spokane River projects. In the TMDL discussions and negotiations, many

² While Avista does not discharge into the Spokane River, Ecology, EPA, and others believe that the presence of the Long Lake Hydroelectric Facility increases the opportunity for algae growth. Algae absorbs oxygen when it decomposes.

stakeholders, including Department of Ecology staff, sought to require Avista to oxygenate or aerate Lake Spokane as a means to address low dissolved oxygen levels. Avista, for its part, was actively engaged in the TMDL process both to ensure that the determination of Avista's proportionate responsibility for the impairment issue was not overstated, as well as to promote alternatives to the oxygenation or aeration capital project – alternatives that would serve to provide for long-term benefits to the Spokane River and Lake Spokane at a lower cost to the Company and its customers.

13 In early 2012, Ecology issued the final TMDL. As the TMDL was now complete, Condition 5.6C of the Section 401 Certification was amended, as was the 2009 FERC license. The issuance of the TMDL and FERC License amendment also started Avista's timeline for developing and submitting the Attainment Plan to Ecology. Avista developed the Attainment Plan in consultation with Ecology and, after Ecology's approval, submitted it to FERC for approval in October 2012. FERC subsequently approved the Attainment Plan.

14 As was discussed earlier, Avista actively participated in the TMDL process. In the final TMDL, the methodology for how Avista should address the low dissolved oxygen levels in Lake Spokane was left open for exploration in the Attainment Plan (i.e, it was not prescriptive in how Avista must address the issue). One of the methodologies to address this problem was to aerate or oxygenate the Lake. Such a facility would have either used trucked in liquid oxygen or ambient air, bubbled or pressurized respectively, through an extensive distribution system installed through much of the 23-mile long lake. Avista had estimated this project could have cost up to \$8.0 million dollars to model, design and construct (not including additional property rights that may have been required), plus an additional \$200-300 thousand

dollars per year in ongoing operations and maintenance, including liquid oxygen delivery and use.

15 Through extensive modeling efforts, and through ongoing negotiation over a period of several years through the TMDL process, Avista was able to avoid being ordered to construct such an aeration facility. As an alternative, Avista developed a 10-year implementation plan under which Avista is undertaking a number of smaller-scale efforts, including such items as removing non-native carp, removing non-native aquatic vegetation, educating shoreline landowners on proper vegetation management, and a number of other elements.

16 Avista incurred approximately \$1.34 million in costs through December 2012 related to determining the best course of action to address the low dissolved oxygen levels in Lake Spokane. These costs primarily relate to: data gathering, analysis and computer modeling to create a sound scientific basis for the calculation of Avista’s proportionate responsibility; review and technical analysis of agency modeling efforts and draft documents; legal and facilitation support to build consensus; and development of alternatives to oxygenation, including the scientific basis for “crediting” dissolved oxygen improvements to these alternatives. As summary of the expenditures is included in Table 1 below:

Summary of Lake Spokane TMDL Project Costs		
Costs Incurred through December 31, 2012:		
Professional Services		\$ 657,414
Legal Costs		\$ 383,824
Employee Costs, Contract Labor and Other		\$ 298,840
Total Costs Incurred		\$ 1,340,077
Washington's Share (65.01%)*		\$ 871,184
Idaho's Share (34.99%)*		\$ 468,893
		\$ 1,340,077
* Allocations based on 12/31/2012 Production/Transmission Ratio		

17 Avista recorded these costs in “Construction Work in Progress”, which would have been capitalized upon completion of the aeration project based on the original expectation that Avista would be required to construct a facility to add oxygen to the Lake.

18 However, Avista was able to successfully address stakeholders issues related to the low dissolved oxygen levels through the smaller scale efforts noted above. While the estimated cost of the larger capital project could have been as high as \$8.0 million, with \$200-\$300 thousand ongoing annual O&M costs, it is our belief that the small scale efforts will only cost approximately \$100 - \$150 thousand per year, and that the Company may be able to integrate these efforts with other plans required under our FERC license.

IV. PROPOSED ACCOUNTING TREATMENT

19 In this filing, the Company is requesting an order allowing for the deferral of \$871 thousand (Washington’s share of approximately \$1.34 million) related to the Lake Spokane TMDL process and Attainment Plan. Avista will address the prudence and recovery of these costs in its next general rate case filing or other future proceeding, as appropriate. Absent a Commission order allowing for the deferral of these costs, the Company, having foregone the construction of the oxygenation facility, would be forced to write-off these costs, resulting in a loss to the Company and its shareholders.

20 The Company requests to defer the TMDL costs in Account 182.3 – Other Regulatory Assets. Upon approval, the Company will transfer the costs from Account 107.0 – Construction Work in Progress to Account 182.3. A summary of the accounting entry follows:

<u>FERC Account</u>	<u>Account Description</u>	<u>Debit</u>	<u>Credit</u>
182.3	Other Regulatory Assets (Washington)	\$ 871,184	
182.3	Other Regulatory Assets (Idaho)	\$ 468,893	
107.0	Construction Work in Progress		\$ 1,340,077

21 The Company does not seek to accrue interest on the Washington share of the deferrals.

V. REQUEST FOR RELIEF

22 WHEREFORE, Avista respectfully requests that the Commission issue an Order approving the deferred accounting treatment proposed above. Avista will address the prudence and recovery of these costs in its next general rate case filing or other future proceeding, as appropriate.

DATED this 27th day of August 2013

By: 
 Kelly Norwood
 Vice President, Avista Corp.

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.

Kelly O. Norwood

SIGNED AND SWORN to before me on this 27 day of August 2013



Patty L. Hanson

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

Commission Expires: 11/23/2013