Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170

AVISTA Corp.

VIA OVERNIGHT MAIL

January 11, 2008

Ms. Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702-5983

Re: Case No. AVU-E-07-10
Comments of Avista Corporation

Dear Ms. Jewell:

Enclosed are an original and seven copies of Avista's comments in the above referenced case. Avista's comments are in response to Commission Staff's filed comments, dated December 18, 2007. Please forward Avista's comments to the appropriate individuals involved in this case.

Please direct any questions regarding this filing to Ron McKenzie at (509) 495-4320.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State and Federal Regulation

Enclosure

c: Scott Woodbury

Kelly Norwood
Vice President, State and Federal Regulation
Avista Corporation
1411 East Mission Ave.
Spokane, WA 99202
Phone: (509) 495-4267
Fax: (509) 495-8851
kelly.norwood@avistacorp.com

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES FOR AN ACCOUNTING ORDER AUTHORIZING DEFERRAL OF SETTLEMENT LEASE PAYMENTS.	CASE NO. AVU-E-07-10 COMMENTS OF AVISTA CORPORATION

Avista Corporation ("Avista" or "Company") hereby submits comments in response to the Commission Staff's filed comments, dated December 18, 2007, in this Case.

On November 1, 2007, Avista filed an Application with the Idaho Public Utilities Commission (Commission) requesting an accounting Order authorizing deferral of settlement lease payments. The deferred accounting request pertains to costs to be incurred as a result of the recent settlement of a lawsuit in the State of Montana over the use of the riverbed (Riverbed Settlement) resulting from the Company's ownership of the Noxon Rapids and Cabinet Gorge hydroelectric projects located on the Clark Fork River.

Under the Riverbed Settlement, Avista will pay the State of Montana an annual payment of $4.0 million beginning February 1, 2008. As the Company explained in its Application, the level of the payments, the start date of the payments, as well as other terms and conditions of settlement, were all integral to the resolution of these claims. Because of the State's insistence

on an initial payment in February 2008 for the year 2007, it is necessary to have deferred accounting to address recovery of these costs.

Avista has requested that the Idaho share of the $4.0 million payment ($1.37 million) be deferred, and the prudence and recovery of the lease payment be addressed in the Company's upcoming general rate case. The Company proposed to accrue interest[1] on the payment at the same rate the Company pays for customer deposits (5.0%), and to begin amortization of the payment at the conclusion of the general rate case.

On December 18, 2007 the Commission Staff filed comments related to Avista's Application. In its comments, Staff recommends Commission approval of the Company's proposed request, with the exception of accruing interest on the payment. We acknowledge and appreciate Staff's recommendation which recognizes the need for deferred accounting to address recovery of these costs.

With regard to the interest component, we understand there are past instances where, in the discretion of the Commission, interest was not accrued on a deferred balance. However, it is also true that the Commission has recognized the need to provide recovery of prudent investment in utility assets, and a return on investment, for assets that will be used in providing service to customers. This is also the case where dollars are spent that will either provide future benefits to customers, or will result in lower costs than would otherwise occur. As explained in the Company's request, that is the case here where the prudent resolution of the litigation would, in the Company's best judgment, result in lower costs than otherwise would have occurred.

[1] Other terms are sometimes used synonymously with "accrual of interest," such as "carrying charge," "carrying cost," or return on investment.

Dollars spent historically on conservation or energy efficiency is another example. Even though the dollars spent did not result in an asset owned by the Company to provide service to customers, the dollars spent on energy efficiency resulted in lower overall costs to customers than would otherwise occur. Historically the Commission has provided recovery of the costs associated with energy efficiency, including a carrying charge. This aligns the Company's "interests" (recovery of costs) with those of its customers (overall lower costs). On page 2 of Order No. 25917 in Case Nos. WWP-E-94-10 and WWP-G-94-5, the Order states, "Traditionally, a utility defers the costs of its DSM programs and then recovers its expenditures in a general rate proceeding when accumulated DSM expenditures, plus interest (accrued as an allowance for funds used during construction—AFUDC), become a component of rate base."

In other instances, it is important to note that when the Company has a balance of dollars that are owed to its customers, a carrying cost is accrued and paid to its customers. This is true for ongoing Customer Deposits, as well as the one-time gain from the sale of the Centralia generating project. The customer portion of the gain from the sale of Centralia was deferred and credited back to customers over a period of 6.25 years, including a carrying cost. It is reasonable and appropriate for a carrying charge to be applied in this case, when the dollars are owed to the Company. In its comments on Page 4, Commission Staff recognized that the Commission has in some instances approved a carrying charge and stated that, "When the Commission has ordered a carrying charge for a deferred expense, the carrying charge has been at the customer deposit rate. The customer deposit rate for 2007 and 2008 is 5%." The carrying cost at issue in this filing is for the time period between the time the payment is made to the State of Montana and the point in time that the Company begins recovering the cost from customers at the conclusion of the

upcoming rate case. Avista agrees that a short-term interest rate of 5% would be appropriate for this short-term period.

With regard to the settlement payment at issue in this case, we believe the settlement achieved by the Company will result in lower costs to customers than would otherwise occur. In this lawsuit, the State of Montana asserted claims of $200 million for prior trespass back to the 1950s, and future payments of $8.4 million per year. Through negotiations, Avista was able to eliminate any prior payments, and reduce future payments to $4.0 million per year with some escalation. As noted earlier, the level of the payments, the start date of the payments, as well as other terms and conditions of settlement, were all integral to the resolution of the litigation. For its part, the State of Montana was adamant that payment should begin immediately – i.e., on February 1, 2008 – if it were to forego any payment for $200 million of prior payments. Clearly, it would have cost the Company more elsewhere in negotiations to have delayed the implementation of the first payment.

If accrual of interest in not approved in this proceeding, the Company will not recover the cost of resolving this litigation.[2] The payment must be financed until the costs are recovered from customers, which is a direct cost to the Company.

If accrual of interest is not allowed on early payments in settlement agreements such as these, the Company would be penalized in the future for negotiating deals that would involve up-front payments – even though that outcome may be the most favorable for the Company and its customers. Regardless of the resolution of this issue in this case, however, Avista will, in any event, vigorously defend the ownership and operation of its low-cost generation resources for the

[2] It is important to note that Avista has not requested in this filing deferral of the legal costs associated with the litigation and settlement of this lawsuit. Avista has already absorbed those costs, which totaled approximately $760,000.

benefit of its customers, at the lowest possible cost. The Company simply believes that, when pursuing the best deal it can get on behalf of its customers, it is appropriate to have the opportunity to recover the prudently incurred costs, including financing costs.

For those investment and expense items which can be anticipated, the Company has some opportunity to plan ahead for cost recovery through some form of regulatory filing, such as a general rate case or limited-scope filing for known cost changes. For example, when a new power plant is being constructed we know approximately how much we will spend and when the plant will be completed, and can plan a rate case accordingly, in order to better match the in-service date with rate relief. Lawsuits, however, can linger for years until a change in circumstances can create an opportunity for successful resolution through settlement. These opportunities, and the ultimate outcomes, are difficult to predict, and therefore, it is also difficult to plan for timely rate treatment apart from deferred accounting with a carrying cost.

While the financing costs in this case are admittedly not major, we have other litigated matters pending that may be resolved through negotiated settlements, and which may involve dollars that are significantly higher than those in this filing. It would of great concern if accrual of interest were disallowed for other settlements that may involve much larger up-front dollars to successfully resolve the litigation.

In conclusion, the Company appreciates the position of Staff in its memorandum which does recognize the need for an accounting order deferring the costs of resolving the litigation for later recovery, as well as commencing the amortization at the conclusion of the upcoming general rate case. Nevertheless, the proposed disallowance of a carrying cost – although small in this instance – deprives the Company of the opportunity to recover its costs, and more

importantly, if applied in future instances where larger dollars are involved, may penalize the Company for pursuing the most favorable outcome for its customers in resolving litigation.

Respectfully submitted this 11th day of January 2008.

AVISTA CORPORATION

Kelly Norwood

KELLY NORWOOD
Vice President, State and Federal Regulation