

Avista Corp.
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IDAHO PUBLIC
UTILITIES COMMISSION

VIA OVERNIGHT MAIL

May 21, 2008

AVU-E-08-02

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

Re: Case No. AVU-E-08-02
Application of Avista Corporation for an Order Authorizing Deferral
of Net Revenues from Sales of Carbon Financial Instruments

Dear Ms. Jewell:

Enclosed is Avista's Application for an Order Authorizing Deferral of the Net Revenues from Sales of Carbon Financial Instruments. The filing consists of an original and seven copies of Avista's Application.

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

Sincerely,

A handwritten signature in cursive script that reads "Kelly Norwood".

Kelly Norwood
Vice President, State and Federal Regulation

Enclosure

c: See attached service list

David J. Meyer, Esq.
Vice President and Chief Counsel of
Regulatory and Governmental Affairs
Avista Corporation
1411 E. Mission Avenue
P. O. Box 3727
Spokane, Washington 99220
Phone: (509) 425-4316, Fax: (509) 495-8851

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)
AVISTA CORP., dba AVISTA UTILITIES, FOR) Case No. AVU-E-08-02
AN ORDER AUTHORIZING DEFERRAL OF) APPLICATION OF
NET REVENUES FROM SALES OF CARBON) AVISTA CORPORATION
FINANCIAL INSTRUMENTS)

I. INTRODUCTION

1. Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, pursuant to Section 61-524 Idaho Code and Rule 52 of the Idaho Public Utilities Commission (“Commission Rules of Procedure”), hereby applies to the Commission for an order authorizing the deferral of net revenues from the sale of Carbon Financial Instruments (“CFIs”)¹ on the Chicago Climate Exchange (“CCX”). Pursuant to Commission Rule of Procedure 201, the Company requests that this filing be processed under the Commission’s Modified Procedure rules.
2. Avista is a utility that provides service to approximately 352,000 electric customers and 215,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves 95,000 natural gas customers in Oregon. The largest community served in the area is Spokane, Washington, which is the location of the

¹ The commodity traded at the Chicago Climate Exchange (CCX) is the CFI contract, each of which represents 100 metric tons of CO₂ greenhouse gas equivalents.

corporate headquarters. Communications in reference to this Application should be addressed to:

Kelly O. Norwood
Vice President
State and Federal Regulation
Avista Corporation
1411 E. Mission Avenue
Spokane, Washington 99220
Phone: (509) 495-4267
Fax: (509) 495-8851
E-mail: kelly.norwood@avistacorp.com

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II. BACKGROUND

3. Avista is seeking to defer the revenues from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange (“CCX”). CCX is an emission registry, reduction and trading system for greenhouse gases (“GHGs”), including carbon dioxide (CO₂). CCX is a self-regulated, rules-based exchange designed and governed by CCX members. Avista became a member in November 2007 for Phase I and Phase II of the program, described below.
4. The CCX GHG reduction commitment is divided into two phases: Phase I commits members to emission reductions from 2003 to 2006; and Phase II commits members to emission reductions between 2007 and 2010. Members pledge to reduce emissions by 1% per year for Phase I, for a total 4% reduction in four years. For Phase II, members pledge to reduce 0.5% per year during 2007-2010, for a 6% total reduction through 2010. Membership in CCX is wholly voluntary (for Phase I or Phase II); however, the pledge for emissions reductions is legally binding under the terms of the *CCX Accord*.
5. The emission reductions any member must make are made against a calculated baseline. The baseline for Phase I equals the emissions average for the period beginning

1998 to the end of 2001. The baseline for Phase II can be either the 1998 – 2001 average or year 2000 emissions.

6. The CCX has built-in provisions that protect members from being overly penalized if they miss their reduction targets by growing too rapidly, and it also has built-in provisions or safety valves to prevent members from gaming or unfairly capitalizing the market. As a result, there is a maximum amount of credits that Avista will be allowed to sell each year. Starting in 2003, members do not have to purchase more than 3% over their baseline and also cannot sell more than 3% of any reductions under their baseline. These caps increase to 9% by 2010. Reductions that exceed the sales cap in Phase I are deemed as Super Reductions, which can be used to offset a portion of Phase II emissions or may be sold outside of the normal CCX trading system to the general public.

7. Under Phase I of the program, Avista is able to trade a certain number of credits banked from Phase I years. The CCX allows members to bank credits each year based on the allowed growth provisions minus the annual sales amount. Avista's banked credits for 2003 to 2006 total 4,007 Carbon Financial Instruments (CFIs), and are shown in Exhibit A attached to this Petition. Avista has sold 4,007 surplus Phase I CFIs for \$2,557,065, net of the CCX commissions.

8. Under Phase II of the program, the CFIs that will be earned in the years 2007 through 2010 will be available for sale by Avista in each of the subsequent years after completion of an audit.

9. Initial membership fees to join the CCX amounted to \$200,000 and were paid in 2007. Ongoing membership fees will amount to \$35,000 per year for each of the years 2008 through 2010. Total fees for Phase I and II amount to \$305,000, and are shown in Exhibit B

attached to this Petition. CCX membership fees paid by Avista in 2007 were recorded in FERC Account 186 – Miscellaneous Suspense Account.

10. In this filing, the Company is requesting an order allowing for the deferral of the net revenue (revenues from sale of CFIs, less cost, including membership fees paid) for both Phase I and Phase II. Avista will address the proposed method of ultimate ratemaking treatment in its next general rate case filing or other proceeding, as appropriate.

III. PROPOSED ACCOUNTING TREATMENT

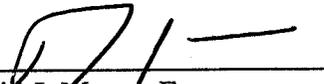
11. The Company requests authority to defer the CFI revenues in Account 254 – Other Regulatory Liabilities. Upon approval, the Company will transfer the membership fees paid in 2007 from FERC Account 186 to Account 254. In addition, the Company requests authority to defer the future annual membership dues payments for 2008 – 2010 in Account 254. The net revenues will be allocated to the Washington and Idaho jurisdictions based on the current Production/Transmission allocation of 64.59% to Washington and 35.41% to Idaho, and placed in separate Washington and Idaho 254-accounts. Interest would accrue on the Idaho share of the deferrals at the customer deposit rate. The Company would propose a method of ratemaking treatment of the net revenues and accrued interest in its next general rate case filing or other proceeding.

IV. REQUEST FOR RELIEF

12. WHEREFORE, Avista respectfully requests that the Commission issue an Order allowing the deferral of net revenues from the sale of CFIs. The ultimate ratemaking treatment of the net revenues would be addressed in its next general rate case filing or other proceeding.
13. The Company requests that the matter be processed under the Commission's Modified Procedure rules through the use of written comments.

Dated at Spokane, Washington this 21st day of May 2008.

AVISTA CORPORATION

BY 
David J. Meyer, Esq.
Vice President and Chief Counsel of
Regulatory and Governmental Affairs

AVISTA UTILITIES
Credits in CCX
2003 - 2006

| | 2003 | 2004 | 2005 | 2006 | Total |
|--------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Emissions Baseline | 20,273 | 20,273 | 20,273 | 20,273 | |
| Emissions Reduction Objective | 20,070 | 19,868 | 19,665 | 19,462 | |
| Actual Direct Emissions | 16,328 | 15,710 | 18,496 | 17,618 | |
| Gross Surplus CFIs | 3,742 | 4,158 | 1,169 | 1,844 | 10,913 |
| Reclassification to Super Reductions | (3,134) | (3,347) | - | (425) | (6,906) |
| Net CFIs | 608 | 811 | 1,169 | 1,419 | 4,007 |

All quantities are in CFIs, each of which represents one hundred metric tons carbon dioxide.

AVISTA UTILITIES
Membership Fees for CCX
2003 - 2010

| | <u>Phase I</u> | <u>Phase II</u> | <u>Total</u> |
|------------------|------------------|------------------|------------------|
| Enrollment Fee | \$15,000 | \$10,000 | \$25,000 |
| 2003 Annual Dues | 35,000 | - | 35,000 |
| 2004 Annual Dues | 35,000 | - | 35,000 |
| 2005 Annual Dues | 35,000 | - | 35,000 |
| 2006 Annual Dues | 35,000 | - | 35,000 |
| 2007 Annual Dues | - | 35,000 | 35,000 |
| 2007 Payment | 155,000 | 45,000 | 200,000 |
| 2008 Annual Dues | - | 35,000 | 35,000 |
| 2009 Annual Dues | - | 35,000 | 35,000 |
| 2010 Annual Dues | - | 35,000 | 35,000 |
| | <u>\$155,000</u> | <u>\$150,000</u> | <u>\$305,000</u> |

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Application for an Order Authorizing Deferral of Net Revenues from Sales of Carbon Financial Instruments by mailing a copy thereof, postage prepaid to the following:

Ms. Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83720-5983

Scott Woodbury
Deputy Attorney
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702-0074

Pamela Mull
Vice President & General Counsel
Potlatch Corporation
601 Riverside Ave., Suite 1100
Spokane, WA 99201

Dated at Spokane, Washington this 21st day of May 2008.



Patty Olsness
Rates Coordinator