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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF AVISTA CORPORATION DBA AVISTA )** **CASE NO. AVU-E-08-2**  
**UTILITIES FOR AN ORDER AUTHORIZING )**  
**DEFERRAL OF NET REVENUES FROM SALES )**  
**OF CARBON FINANCIAL INSTRUMENTS. )** **COMMENTS OF THE**  
**)** **COMMISSION STAFF**  
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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 30580 on June 25, 2008, submits the following comments.

**BACKGROUND**

On May 22, 2008, Avista Corporation filed an Application requesting an Order from the Commission authorizing the Company to defer net revenues from the sale of carbon financial instruments (CFIs). The revenues result from the sale of credits relating to the reduction in greenhouse gas emissions through a pilot program offered through the Chicago Climate Exchange. Participants in the Exchange are required to reduce greenhouse gas emissions during two phases. The Exchange allows members to sell greenhouse gas credits based on greenhouse

gas reductions compared to a baseline. Avista banked credits for 2003 through 2006, and was able to sell surplus Phase 1 CFIs for \$2,557,065, net of the Exchange commissions.

In this filing, the Company is requesting an Order allowing for the deferral of the net revenue (revenues from sales of CFIs, less cost, including membership fees paid to the Exchange). The net revenues will be allocated to the Company's Washington and Idaho jurisdictions based on the current production/transmission allocation of 64.59% to Washington and 35.41% to Idaho. The Company requests authority to defer the CFI revenues in Account 254 – Other Regulatory Liabilities. The Company proposes to accrue interest on the Idaho share of the deferrals at the customer deposit rate. The Company will propose ratemaking treatment of the net revenues and accrued interest in its next general rate case filing or some other proceeding.

## **STAFF REVIEW**

The Chicago Climate Exchange (CCX) is an emission registry, reduction and trading system for greenhouse gases. Membership in CCX is voluntary for Phase I and Phase II, although the emission reduction pledges are legally binding under the CCX Accord. Currently members represent various industries with emission sources and offset projects worldwide. In the Electric Power Generation industry there are 17 members. Avista became a member in November 2007.

The Carbon Financial Instrument (CFI) is the traded commodity. Each CFI contract represents 100 metric tons of CO<sub>2</sub> equivalents (CO<sub>2</sub>e). Emissions from six greenhouse gases (GHGs) are converted to metric tons CO<sub>2</sub>e using the one-hundred-year Global Warming Potential values established by the Intergovernmental Panel on Climate Change. The six GHGs include carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulfur hexafluoride (SF<sub>6</sub>).

Members participating in Phase I and Phase II commit to meet emission reduction targets for Phase I of 1% per year for 2003 - 2006 and Phase II of 0.5% per year for 2007 - 2010 or a 6% reduction. Members joining during Phase II commit to a 6% reduction by 2010. Exhibit A to the Application shows Avista's qualifying reductions for Phase I, 2003 - 2006. CCX has built-in provisions to protect members from extreme penalties or gains. Members are not required to purchase more than 3% of its baseline to cover missed reduction targets if its operation grew rapidly. A cap on sales of 3% is established to prevent gaming or unfair capitalization of the market. These caps increase to 9% by 2010. Reductions that exceed the sales cap in Phase I are

reclassified to Super Reductions that may be banked to offset a portion of Phase II reductions or may be sold outside of the normal CCX trading system to the general public. Avista qualified for 6906 CFI Super Reduction credits leaving 4007 CFI banked credits in Phase I as shown on Exhibit A. These Phase I banked credits are the 4007 surplus CFIs sold by Avista for \$2,557,065, net of CCX commissions.

Avista requests authority for deferred accounting in Account 254 – Other Regulatory Liability. The deferred accounting treatment covers booking of the net revenues, revenues from the sale of CFIs less costs including commissions and fees during both Phase I and Phase II of the CCX. The total CCX fees paid in 2007 or to be paid in 2008 – 2010 amounts to \$305,000 as shown on Exhibit B to the Application. Avista proposes to address the ultimate ratemaking treatment in its next general rate case filing or other proceeding, as appropriate. Staff intends to address the ratemaking treatment in the current rate case AVU-E-08-1 when it verifies the expenses are not included in the base year.

Deferred accounting is appropriate to provide customers benefits from the sale of CFIs. Deferred accounting is consistent with the authority granted by this Commission for sulfur dioxide (SO<sub>2</sub>) credits. The revenues are derived from utility property and should be allocated to customers paying for that property.

Avista proposes to establish separate Washington and Idaho accounts using the current Production/Transmission allocator of 64.59% to Washington and 35.41% to Idaho. Staff believes this allocation factor is appropriate. For future Phase II activity the percentage allocation will change reflecting the then current Production/Transmission allocator.

## **STAFF RECOMMENDATIONS**

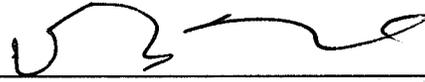
Staff recommends the Commission grant Avista's request for deferred accounting treatment authority utilizing the following components:

The revenues should be deferred in Account 254 – Other Regulatory Liability with an offset shown for associated CCX commissions and fees.

Separate regulatory sub account will be established for Washington and Idaho based on the Production/Transmission allocator.

Ratemaking treatment will be established in a separate case. Staff intends to make its recommendation in the current rate case, Case No. AVU-E-08-1.

Respectfully submitted this 16<sup>th</sup> day of July 2008.



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Weldon B. Stutzman  
Deputy Attorney General

Technical Staff: Terri Carlock

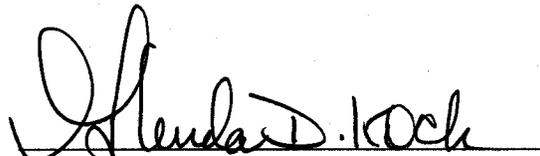
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16<sup>TH</sup> DAY OF JULY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-08-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY