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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-08-4
UTILITIES FOR AN ORDER AUTHORIZING)
THE ACCOUNTING OF WIND GENERATION)
SITE COSTS AS CONSTRUCTION WORK IN) COMMENTS OF THE
PROGRESS.) COMMISSION STAFF
)**

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. 30581 on June 25, 2008, submits the following comments.

BACKGROUND

On June 4, 2008, Avista Corporation filed an Application requesting an order “allowing for costs associated with wind generation site land, land rights, reservation costs, and other incremental costs associated with site evaluation, selection and acquisition to be accounted for as construction work in progress (CWIP), and allowing for the accrual of allowance for funds used during construction (AFUDC).” Avista’s Integrated Resource Plan calls for the acquisition of 300 MW of wind generation capacity.

The Application states that in May the Company purchased permits, studies, lease assignments and wind data for the development of a wind generation site near Reardan, Washington. The Company is requesting to have all reservation payments and other costs associated with development of the site accounted for as CWIP. According to the Application, Commission authorization is required to account for wind generation site costs in FERC Account 107-CWIP, because normally this account is used when plant is in the process of construction. Construction at the site is expected to begin in 2011. Given the lead time between the expenditures for site costs, the ordering of equipment and start of construction, Avista states it is necessary to obtain Commission approval to account for these costs in Account 107-CWIP.

STAFF REVIEW

Avista requests authority to account for wind generation site land, land rights, reservation costs and other incremental costs associated with site evaluation, selection and acquisition as construction work in progress and allow the accrual of allowance for funds used during construction. Since construction has not started on the project, these expenditures are typically booked in asset accounts as land, plant held for future use, research and development or as ordinary expenses. The asset accounts accrue costs that may be included for recovery in future rates. However, the normal treatment would not accrue AFUDC until the assets become part of a work order where actual construction has started. The ordinary expenses would not normally be recovered in rates as they would be booked in the year the costs are incurred.

Avista's Electric Integrated Resource Plan (IRP) filed August of 2007 included 300 megawatts of wind generation capacity. Avista believes wind generation is currently the most commercially viable technology to meet renewable portfolio standards (RPS). At this time Avista's electric RPS requirements are directed by Washington. When the wind resource is part of the least cost/least risk portfolio, the allocation of the renewable attributes and associated value to meet the RPS is the issue when resources are placed in service. When the Washington requirements result in acquisitions that are no longer in the least cost/least risk portfolio, cost allocation of the plant also becomes an issue. The above issues will need to be resolved in the future before or when the generation facilities or contracts are included in rates.

Current high demand for wind sites and equipment for the industry to meet various RPS requirements creates one reason why the normal accounting treatment for these expenditures may not be sufficient. To fulfill the wind resources in the IRP and meet the RPS requirements in

the most cost effective and efficient manner, Avista has been actively seeking wind sites and rights. Avista believes increasing demand for turbines and limitations on site locations will only continue to increase the costs of wind generation. Therefore, Avista believes it is cost effective and prudent to secure land rights and equipment now for anticipated construction to begin in 2011.

Although somewhat speculative, Staff believes Avista's advanced site acquisition activity has merit and its rationale is reasonable justification to deviate from traditional accounting treatment. Staff believes there are two reasonable options to encourage Avista to continue pursuing cost effective wind resources while reasonable options exist. The options Staff considered are treating expenditures as CWIP or treating them as a regulatory asset. Both are acceptable accounting treatments.

Staff recommends Avista be required to file a cost/benefit analysis where the actual total cost of the wind project including AFUDC is justified and compared to the all-in-cost of alternatives prior to the total costs being included in rates. AFUDC is not normally accrued on the preliminary costs so the analysis of the total actual costs is necessary to evaluate the reasonableness of AFUDC recovery. This review can be completed under both alternative accounting treatments. To facilitate this project review, Staff recommends Avista record the AFUDC in a separate subaccount from the other project costs. Staff also recommends Avista maintain workpapers separately identifying the various components of AFUDC, specifically the borrowed funds.

One option Staff believes is reasonable is to book the expenditures in CWIP as requested by Avista. This method follows the normal construction process but allows booking the accrual of AFUDC sooner. Depreciation will begin when the project is placed in service. The benefits of this method are that it more closely utilizes normal construction accounting processes and depreciation will automatically begin when the project is placed in service.

Another option Staff believes is reasonable allows Avista to book the described expenditures as a regulatory asset. This method does not follow the normal construction accounting and requires specific authorization to begin depreciation. It also requires more specific regulatory authorization for the facility to be included in rate base and rates. Staff recommends this method if the Commission desires a more formal regulatory review and approval process.

Staff believes adequate review of actual project costs including AFUDC and authorization for inclusion in rates is required under either method. Therefore unless the Commission desires a more formal process, Staff recommends the expenditures be recorded as CWIP with a demonstration of prudence and cost effectiveness before inclusion of the costs in rates.

STAFF RECOMMENDATIONS

Staff recommends the following:

The Commission authorize Avista to book the described costs associated with wind generation site land, land rights, reservation costs and other incremental costs as CWIP. If the Commission desires greater formal regulatory review, booking the costs as a regulatory asset would be recommended.

Avista be required to utilize a separate subaccount for the AFUDC and maintain workpapers identifying the components of AFUDC.

Avista be required to demonstrate the actual all-in-costs of the project including AFUDC are reasonable compared to other alternatives in a cost/benefit analysis prior to the inclusion of the total costs in rates.

Respectfully submitted this 16th day of July 2008.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Terri Carlock

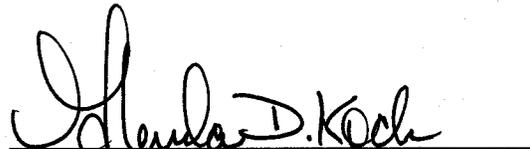
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 16TH DAY OF JULY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-E-08-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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