

## Submitted Electronically

June 13, 2005

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Subject: Supplemental Comments of Avista Corporation, BPA Regional Dialog  
Process – Second Phase

Dear Helen:

Please find enclosed the supplemental comments of Avista Corporation pertaining to phase two of Bonneville's Regional Dialog Process. Thank you for the opportunity to provide input on the Bonneville Power Administration's policy development for the energy future of the Pacific Northwest.

Sincerely,

Kelly Norwood  
Vice President

# AVISTA CORPORATION COMMENTS ON LONG-TERM BPA REGIONAL DIALOGUE POLICY ISSUES

June 13, 2005

## Introduction

Avista Corporation ("Avista") has joined with other Pacific Northwest Investor-owned Utilities in filing comments on Long-term Regional Dialogue Policy issues. Additionally, Avista submits its own comments, herein, with respect to Bonneville Power Administration's ("BPA") Residential Exchange obligations.

## Discussion

Avista has joined with the other Northwest utilities in making recommendations intended to facilitate the negotiation of long-term contracts that mutually settle BPA's obligations to its customers. Avista certainly favors a settlement-oriented process, and commends to BPA the comments filed by the PNW Investor-owned Utilities toward that goal. A successful mutual comprehensive settlement will render unnecessary a judicial determination of each party's legal rights and obligations as to the Residential Exchange during the term of the settlement agreement and will not disturb any party's rights, (or legal theories) subsequent to the term of the settlement agreement

Avista supports the Regional Dialogue process as a means to reach a settlement of the rights of Avista and its residential and small farm customers under the Residential Exchange Program. Absent a mutually acceptable settlement, Avista asserts, as it has in the past, the following:

1. The Residential Exchange Program ("REP") can be legally and fairly administered under the Northwest Power Act only if BPA employs an Average System Cost Methodology that truly reflects the investor-owned utilities' average system cost (ASC).
2. BPA is required by law to abandon the use of "deemer" accounts in the manner they were administered between 1981 and 2001, because, in the opinion of Avista, the Administrator acted in an arbitrary and capricious manner in the interpretation and administration of the statute. In this regard, BPA should not attempt to apply "deemer" balances that have accumulated in the past to future REP contracts. Avista disputes the "deemer" account balances computed by BPA, and will contest any effort to carry these balances over to post 2001 contracts.
3. Under the statute, BPA must fairly apply any surcharge under section 7(b)(2) of the Northwest Power Act (i.e., a pro rata reduction in benefits) in order to avoid any geographical disparity in administration of benefits.

Avista's position on these issues is summarized and discussed in earlier proceedings. By executing the settlement agreement for the period through FY 2011, Avista did not waive its right to assert these contentions with respect to the post FY 2011 time period, (or if the settlement agreements are prematurely terminated or invalidated). If, contrary to our understanding, BPA intends to make policy determination respecting these issues in the context of this Regional Dialogue, Avista reiterates the contentions that it made in the earlier proceedings, and refers BPA to Avista's comments filed therein. *See Administrator's Record of Decision, Residential Purchase and Sale Agreements with Pacific Northwest Investor-owned Utilities*, dated October 4, 2000. p. 41-42, and *Administrator's Record of Decision, Residential Exchange Program Settlement Agreements with Pacific Northwest Investor-owned Utilities*, dated October 4, 2000. p. 114-117.

In the foregoing Records of Decision, the Administrator determined that Avista's contentions concerning the 7(b)(2) Rate Test could only be resolved in a hearing conducted pursuant to Section 7(i) of the Northwest Power Act. *Id. at* 114. Additionally, the Administrator determined that BPA would hold any "deemer" accounts in abeyance during the term of an Investor-owned Utilities' ("IOU") Settlement Agreement. *Id. at* 120.

Avista is willing to participate in mutually acceptable settlements that result in a beneficial compromise for the term of the settlement. However, if the Regional Dialogue results in an adverse determination of any of the legal issues discussed herein, Avista does not waive any of its rights and will assert its remedies in court. In any event, the comments that Avista submitted in past proceedings to encourage BPA to legally and equitably treat residential and small farm customers should be considered by the Administrator when developing policies to apply after the expiration or termination of existing REP related settlement agreements. If BPA makes determinations respecting the determination of the ASC, the ASC Methodology, the 7(b)(2) rate surcharge, or the "deemer" accounts, as a result of the Regional Dialogue, BPA should consider Avista's comments, herein.