

**Avista Corp.**

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May 11, 2007

Oregon Public Utility Commission  
550 Capitol Street NE  
Salem, Oregon 97310-1380

Attention: Ms. Vikie Bailey-Googins

Avista Utilities hereby requests the reauthorization of certain deferral accounts used to account for the costs of the company's Demand Side Management (DSM) programs. Current authorization of these accounts is set to expire at the end of June 2007 under the 12-month allowance of ORS 757.259(4). In order to extend the authorization of these accounts the following application is made.

The accounts that reauthorization is requested for are used to defer the actual program costs incurred for the installation and acquisition of DSM measures, approved advertising expenses and applicable taxes related to the company's DSM investments. Additionally, due to improved energy efficiencies achieved through the DSM programs the company loses margin revenue. This revenue represents the natural reduction in customer usage that occurs as the DSM programs are implemented; customers consume less natural gas than they would normally consume absent the programs. This lost margin revenue is deferred for future recovery from customers. Interest is also calculated at 8.88% on the average net balance of the accounts and included in the deferral accounts.

Previously the company had used sub-accounts of Account 182 and sub-accounts of Account 186 to account for the net investment in the DSM programs. With this application the company requests permission to only use sub-accounts of Account No. 186 to record the net investment related to the DSM programs. After approval of this application the remaining balances in the sub-accounts of Account 182 will be transferred and netted against the balances included in the sub-accounts of Account 186.

It is estimated that approximately \$760,000 - \$860,000 in conservation costs and \$110,000 - \$120,000 in lost margin revenue will be deferred during the 12-month period ending June 30, 2008.

The outstanding balances at April 30, 2007 for the various programs are:

Commercial Energy Efficiency (Work Order 1819)	\$291,377
Residential High Efficiency Water Heating (Work Order 1831)	\$283,686
Residential High Efficiency Space Heating (Work Order 1832)	\$2,365,478
Residential High Efficiency Homes (Work Order 5008)	\$183,627
Residential High Efficiency Manufactured Homes (W.O. 5009)	\$10,119
Residential High Efficiency Washing Machines (Work Order 5010)	\$68,691

Additionally, the outstanding balances at April 30, 2007 for the state mandated programs are:

Commercial State Mandated Program (Work Order 1817)	\$25,492
Residential State Mandated Program (Work Order 1838)	\$292,461

Deferral of conservation costs and associated lost margin revenue is consistent with the Commission's policy to remove disincentives to acquire DSM relative to supply-side resources. Absent reauthorization of deferred accounting, standard accounting practices would be utilized for the recording of conservation costs. These costs would be expensed until such time as they could be incorporated into rates and would act as a disincentive to DSM program continuation.

Deferral of conservation costs and lost margin revenue were originally authorized by the Public Utility Commission of Oregon on February 9, 1995 by Order No. 95-184 and reauthorization of the previously mentioned accounts was approved on July 7, 2006 by Order No. 06-354.

This application will have no effect on current company revenue or customer rates.

If you have any questions regarding this information please contact Craig Bertholf at (509) 495-4124.

Sincerely;



Kelly O. Norwood  
Vice President, Rates and Regulation

CC/Bruce Folsom  
Jon Powell  
Kerry Shroy  
Karen Schuh

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BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

IN THE MATTER OF THE APPLICATION OF ) NOTICE OF APPLICATION  
AVISTA UTILITIES FOR REAUTHORIZATION ) FOR REAUTHORIZATION  
OF CERTAIN DEFERRAL ACCOUNTS USED TO ) OF CERTAIN DEFERRAL  
RECORD DEMAND SIDE MANAGEMENT COSTS ) ACCOUNTS

Avista Utilities pursuant to ORS 757.259 applies to the Oregon Public Utility Commission ("Commission") for an order reauthorizing the use of certain deferral accounts used to account for the net investment of the company in Demand Side Management (DSM) programs.

Item 1 - DSM Program Accounts

Avista currently uses sub-accounts of Account 182 and sub-accounts of Account No. 186 to record the net investment related to the DSM programs. With this application the company requests reauthorization of the sub-accounts of Account 186 only and plans to discontinue the use of the sub-accounts of Account 182. The remaining balances in these sub-accounts will be transferred and netted against the balances included in the sub-accounts of Account 186. After this transfer the sub-accounts of Account 186 will be used to record the costs incurred for the installation and acquisition of DSM measures, approved advertising expenses, applicable taxes related to the company's DSM investments, lost margin revenue incurred by the company, interest and the amortization of previously approved DSM costs currently being collected from customers.

Deferral of conservation costs and associated lost margin revenue is consistent with the Commission's policy to remove disincentives to acquire DSM relative to supply-side resources. Absent reauthorization, standard accounting practices would be utilized for the recording of conservations costs. These costs would be expensed until such time as they could be incorporated into rates and would act as a disincentive to DSM program continuation.

It is appropriate that reauthorization of the sub-accounts of Account 186 be approved in order to minimize both the frequency of rate changes and the fluctuation of rate levels pursuant to subsection (2)(C) of ORS 757.259 and to encourage the company to continue it's long-standing support of DSM measures.

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Deferral of conservations costs and lost margin revenue were originally authorized by the Public Utility Commission of Oregon on February 9, 1995 by Order No. 95-184 and reauthorization of the previously named accounts was approved on July 7, 2006 by Order No. 06-354.

Avista seeks, with this application, to receive reauthorization of the sub-accounts of Account No. 186 for the next 12 months or until July 1, 2008.


Item 2 - Notification

The attached Notice of Application was sent to all parties and interested persons that participated in Avista Utilities most recent Oregon general rate case.

WHEREFORE, Avista Utilities respectfully requests that reauthorization of the sub-accounts of Account No. 186 described above be appropriately approved.

DATED this 11th day of May 2007.

Respectfully submitted,  
Avista Utilities

By:   
Kelly O. Norwood, Vice President  
State and Federal Regulation

## CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that I have this day served Avista Utilities', a division of Avista Corp, application for Reauthorization of Certain Deferral Accounts Used to Record Demand Side Management Costs upon the parties listed below by mailing a copy thereof, postage prepaid.

Mr. Edward Finklea  
Cable Huston Benedict  
Haagensen & Lloyd, LLP  
1001 SW 5th, Suite 2000  
Portland, OR 97204-1136

Citizens' Utilities Board  
610 SW Broadway, Suite 308  
Portland, OR 97205-3404

Ms. Paula Pyron  
Executive Director  
Northwest Industrial Gas Users  
4113 Wolfberry Court  
Lake Oswego, OR 97035

I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 11th day of May 2007.



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Patty Olsness  
Rates Coordinator