

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903/AR 357

In the Matter of)
)
AVISTA CORPORATION) ORDER
)
2008 Spring Earnings Review.)

DISPOSITION: NO EARNINGS SHARED

On April 30, 2008, Avista Corporation (Avista) filed its 2007 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2007. Avista represented that the report was developed in a manner consistent with Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272. Avista further states that it makes no adjustment to normalize for weather per the stipulation approved in Commission Order No. 98-543.

At its July 8, 2008, public meeting, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the adjusted earnings fall below the earnings threshold established in docket UM 903, resulting in no shared earnings.

ORDER

IT IS ORDERED that Staff's recommendation, as stated in Appendix A, is adopted.

Made, entered and effective JUL 11 2008

BY THE COMMISSION:



Becky L. Beier

BECKY L. BEIER
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA4

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 8, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 24, 2008

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

THROUGH: *W* Lee Sparling, *EB* Ed Busch, and *JJ* Judy Johnson

SUBJECT: AVISTA CORPORATION: (Docket Nos. UM 903/AR 357) 2008 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Avista Corporation's earnings for the 12 months ended December 31, 2007, fall below the earnings threshold established in UM 903 that determines when earnings must be shared with customers.

DISCUSSION:

Background

Commission Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357) established the role and structure of earnings reviews for the Purchased Gas Adjustment (PGA) for Oregon's three regulated natural gas distribution companies (LDCs): Avista Corporation (Avista or Company), Cascade Natural Gas Corporation and Northwest Natural Gas Corporation. These reviews were originally scheduled to sunset in 2002, but were extended twice, first in Commission Order No. 03-198 (Docket AR 449) and then again in Commission Order No. 07-019 (Docket AR 512), which extended the spring earnings review process through 2009.

The Commission adopted OAR 860-022-0070 along with a list of issues agreed upon by the parties in a Statement of Stipulated Issues. The Commission adopted various resolutions to apply to earnings reviews. These resolutions are summarized below.

Avista UM 903 2008 spring earnings review

June 24, 2008

Page 2

Relationship of Earnings Review to PGA Filings

Each spring a general earnings review will be held; a portion of revenues above a specified return on equity (ROE) level will be booked to a deferred account.

Avista rate schedule 461, Purchased Gas Cost Adjustment Provision – Oregon includes the provision that the company will defer 90 percent of the difference between its monthly actual and estimated commodity cost of gas. Since this sharing level is less than the 67/33 percentage sharing prescribed under OAR 860-022-0070(8), the company is also subject to a fall earnings review. The purpose of the fall earnings review is to determine whether or not Avista should absorb any of its deferrals.

Structure of Earnings Reviews

By May 1 each year, LDCs will file results of operations for the 12 months ending the prior December 31. Staff will complete a review and distribute summary conclusions by June 10 to all parties. Staff will present the results of the earnings review for each LDC at the first regular public meeting in July. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission will issue its decision by August 15. Unless otherwise directed by the Commission, LDCs file annual gas cost tracking filings by August 31 for November 1 rate changes. These rate changes include amortization of deferred credit amounts that may result from the spring earnings review.

Earnings Adjustments

Results of operations reports will be adjusted for the Type 1 adjustments set forth in Order No. 99-272. Avista made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.

ROE Earnings Threshold

For the spring 2008 review, Avista's earnings threshold was calculated as the sum of 10.25 percent (the ROE authorized for Avista by Commission Order No. 03-570) plus 200 basis points authorized by Commission Order No. 05-1053, and an adjustment for inflation as specified in Order No. 04-203, resulting in a threshold of 12.45 percent.

Earnings Sharing

Revenue representing 33 percent of the test year earnings that exceed the threshold level will be shared with customers. There is no sharing if the adjusted earnings are below the earnings threshold.

Avista UM 903 2008 spring earnings review
June 24, 2008
Page 3

Effective Date of Rate Adjustment

Revenue amounts that are to be returned to customers will be booked to a deferred account with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

Avista's Earnings Review

On April 30, 2008, Avista submitted its 2007 Results of Operations report for the 12 months ending December 31, 2007. The Company states that its report was developed in a manner consistent with Commission Order No. 99-272 and reflects adjustments appropriate to the Stipulated Agreement attached to Order 99-272. The Company further states that it did not include a weather normalization adjustment in its Type I adjustments per the stipulation approved by Commission Order No. 98-543.

Avista calculates its ROE as 3.65 percent after the application of its Type I adjustments (excluding weather normalization), 4.08 percent after all Type 1 adjustments, and 4.07 percent after Type II adjustments.

Staff reviewed the Company's earnings report and concludes that Avista's reported ROE has been calculated correctly. Because Avista's adjusted ROE is below the authorized threshold of 12.45 percent, Avista should not be required to share earnings with its customers.

As required by OAR 860-022-0070(6), Staff submitted these findings to the parties in Docket No. UM 903 and received no comments in response.

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Avista Corporation's earnings for the 12 months ended December 31, 2007, fall below the earnings threshold established in UM 903 that determines when earnings must be shared with customers.

Avista UM 903 2008 spring earnings review