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AVISTA
Corp.

October 9, 2000

Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Attention: Ms. Carole Washburn, Executive Secretary

Avista Corporation respectfully petitions the Commission for reconsideration of its Third Supplemental Order, pursuant to WAC 480-09-810, as it relates to certain adjustments associated with the monetization of the Portland General Electric contract, as well as the calculation of pro forma debt interest related to preferred stock. Please find enclosed 20 copies of the Company's Petition For Reconsideration of Third Supplemental Order in Docket Nos. UE-991606 and UG-991607.

Questions regarding this filing should be directed to Don Falkner at (509) 482-4326.

Sincerely,

Thomas D. Dukich
Manager, Rates and Tariff Administration

Enclosures

c: See attached service list

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	DOCKET NO. UE-991606
	)	DOCKET NO. UG-991607
Complainant,	)	
v.	)	PETITION FOR RECONSIDERATION OF THIRD SUPPLEMENTAL ORDER
AVISTA CORPORATION,	)	
Respondent.	)	

Avista Corporation (hereinafter "Avista") respectfully petitions the Commission for reconsideration of its Third Supplemental Order, pursuant to WAC 480-09-810, as it relates to certain adjustments associated with the monetization of the Portland General Electric contract, as well as the calculation of pro forma debt interest related to preferred stock. Avista respectfully requests expedited treatment of its Petition for Reconsideration.

I. THE COMMISSION HAS CREDITED BENEFITS TO RATEPAYERS IN EXCESS OF THE BENEFITS AVAILABLE FROM THE PGE MONETIZATION AGREEMENT

In the Commission's treatment of the PGE Monetization Transaction, in its Third Supplemental Order, the Commission has credited benefits to customers in excess of the benefits available from the PGE Agreement. These excess benefits to customers result from 1) an incorrect calculation of interest on the PGE Monetization balance for the period ending January 1999 through September 2000, and 2) crediting customers twice for a portion of the value of the PGE Agreement.

At page 27 of its Order (¶73), the Commission observed that "the Company has demonstrated that the combination of the original PGE contract and the Rathdrum Turbine provided substantial benefits to customers (i.e., the contract generated more revenue than the sum of the lease payments and operating costs of the turbine)." (Emphasis added). As will be explained below, unless the Commission grants the Company's requested reconsideration, customers will be credited with excess benefits at the expense of the Company.

A. **Incorrect Calculation of Interest on the PGE Monetization Balance.**

On page 28 of the Commission's Order, in paragraph 76, the Commission ordered that the time value of money (interest) on the PGE Monetization lump sum payment be reflected in the balance of funds available on October 1, 2000, to be used for certain offsets. In its Order, the Commission adopted an interest calculation of $14.2 million for Washington operations for the twenty-one month period January 1999 through September 2000. This amount is reflected in Appendix A to the Order, on Line 2, and is entitled "Interest Over 21 Months." This figure is overstated because the interest amount is calculated based entirely on the beginning balance of $143,400,000 (system), at December 31, 1998, and not on a declining balance. The calculation of the interest amount included in the Order based on the beginning balance is shown below:

Beginning Balance at 12/31/98	$143,400,000
Annual Interest Rate	8.45%
Annual Interest	$12,117,300
Divided by 12	12
Monthly Interest	$1,009,775
Times 21 Months	21
Total Interest (System)	$21,205,275
Total Interest (Washington)	$14,205,414

This calculation ignores the amortization of the balance that occurred on a monthly basis over the twenty-one month period. In its Order, the Commission expressly allowed the monthly amortization to reduce the Lump Sum balance of $143.4 million as reflected in Table 6 on page 29. The amortization for the twenty-one month period of $13.9 million (system) and $9.3 million (Washington) is shown on the third line of Table 6 and is labeled as "Expenses Incurred January

1999 through September 2000." The Commission's Order did not recognize the amortization that has already occurred during the twenty-one month period from January 1, 1999, to September 30, 2000 (the approximate date of the new rate effective period) wherein the deferred revenue balance had declined to $129,486,000. (See Exh. T-205; see also Exh. T-203, p. 17, ll. 1-8).

Accordingly, if one were to correct the interest calculation to reflect the amortization that has already occurred during this twenty-one month period and if one used the Commission's adopted rate of 8.45% (see Note at Appendix A), this would produce a corrected amount of interest over twenty-one months of $13,549,728 — instead of the $14,205,414 otherwise shown in Appendix A. For ease of reference, the Company has attached as Exhibit A to this Petition, a revised Appendix A which shows, side by side, on line 2, the necessary correction to the entry entitled "Interest Over 21 months." The revised interest calculation that takes into account the amortization is reflected on page 2 of Exhibit A.

The appropriate reference points for calculating interest are the monthly balances of unamortized "Contract Buydown Revenue" during the twenty-one month period. The Company requests that the Commission revise on reconsideration the calculated interest amount from $14,205,414 (Washington) in its Order to $13,549,728 (Washington) with regard to this issue.

B. Customers Would Be Credited Twice for Interest, or the Time Value of Money.

In addition to the necessary correction to calculated interest on the declining balance, the Commission's directive in the Order to credit customers with all of the interest on the Lump Sum balance for the twenty-one month period, January 1999 through September 2000, will result in crediting customers twice for a portion of the PGE Contract value. The amount of interest reflected in Appendix A at line 2, ("Interest Over 21 months") should be reduced by the time value of money already received by ratepayers of $8.599 million for Washington operations. This is shown on line 3. Beginning January 1, 1999, the Company began amortizing the deferred revenue balance at an annualized rate of $8.865 million per year, as shown in Exhibit No. 205. Avista continued to provide an annual revenue credit to customers of $18 million per year on a system basis. Because the annual revenue was reduced to $1.8 million and the amortization of deferred revenue amounted to $8,865,000, the remaining revenue credit of $7,335,000 reflected the time value of money on the buydown payment. This is summarized in the attached Exhibit B which illustrates that Washington customers' share of the time value of money already received for the twenty-one month period amounts to $8.599 million. Essentially, without the $8.599 million offset, customers would be credited twice for the interest: first by means of the time value of money already received by customers in Washington of $8.599 million, and secondly, by the inclusion of interest on line 2 of Appendix A.

Revised Appendix A, attached to this Petition, shows an entry on line 3 which would correct, by means of an offsetting entry, for the interest already received by customers of $8.599 million. Simply put, going back retroactively to January 1, 1999, for the interest calculation in order to provide a benefit for customers, while not also recognizing the current benefits customers were already receiving (by means of PGE contract revenues as a credit in rates) results in providing too much benefit to customers.

In summary, if one were to correct the interest amount for the overstatement caused by not recognizing the amortization that had already occurred prior to October 1, 2000 (see discussion in Section A above) and recognize the interest already received by ratepayers (see Section B above), this would result in a corrected entry for "Interest Over 21 months" on a net basis of approximately $5 million ($13,549,728 minus $8,599,004). These entries are shown on lines 2 and 3 of the revised column of Appendix A. The combined impact on revenue requirement of these adjustments would be $2,472,804, as also shown at the bottom of revised Appendix A.

Exhibit B, by way of summary, depicts each of the elements of ratepayer benefits which total to $18 million per year, and shows the time value of money already received by customers over the twenty-one month period. Customers would receive additional, excessive benefits at the expense of the Company, if the Commission's Order is not revised on reconsideration to recognize a revised interest calculation that is based on the monthly balances of unamortized deferred revenue and an offset for interest already received by customers.

II. CORRECTION TO PRO FORMA DEBT INTEREST CALCULATION

The pro forma debt interest calculation, both for electric and gas, incorrectly assumes that 100% of the Preferred Stock component is deductible for federal income tax purposes. Calculations done by the Company to recreate the electric and gas pro forma debt interest amounts found on pages 15 and 16 of the Order, show that a rate of 4.34% was used. That rate is the total of the weighted cost components of Long-term debt, Short-term debt and Preferred Stock, as found on Table 13 of the Commission Order.

	Rate of Return Component
Long-term Debt	3.35%
Short-term Debt	0.26%
Preferred Stock	0.73%
Total	4.34%

Historically, Preferred Stock has not been deductible for federal income tax purposes and has been excluded from the pro forma debt interest calculations. An illustration of this practice can be found in the Third Supplemental Order of the Company's Cause No. U-85-36. There the pro forma debt interest rate of 4.73%, used on page 27 of the Order, excludes all Preferred Stock. It can be seen by referring to page 41 of the same Order, that the Weighted Cost of Debt is 4.73% and the 1.71% Weighted Cost of Preferred is completely excluded from the pro forma debt interest calculation. If the assumption is that the Preferred Stock component found in Table 13, page 100, of the Commission Order in this current case represents theoretical standard Preferred Stock, then the appropriate rate for the pro forma debt interest calculation should 3.61% (3.35% + 0.26%), not 4.34%. If this is the case, the electric and gas pro forma debt adjustments should be revised to $(4,045,000) and S(393,000), respectively. Adoption of these calculations would increase the electric revenue requirement by $2,270,000 ($6,515,000-$4,245,000) and the gas revenue requirement by $499,000 ($634,000-$135,000). Exhibit C shows the revised rate of return components as well as the resulting revised revenue requirement amounts.

It should be noted that the Company's actual capital structure includes standard Preferred Stock that is not tax deductible and a hybrid Preferred Trust Securities that is tax deductible. The actual breakdown of the balance outstanding for these two capital structure components, which can be found in Dr. Avera's Exhibit 102, page 5 of 6 of Schedule WEA-2, is shown below.

	Amount Outstanding	Percentage of Total
Preferred Stock	$ 35,000,000	24%
Preferred Trust Securities	110,000,000	76%
Total	$145,000,000	100%

By taking the actual Preferred Stock components of the Company into account, the Preferred Stock component of the approved Capital Structure, found on Table 13 of the Commission Order, should be *split* between a tax deductible and a non-tax deductible piece for purposes of the pro forma debt interest calculation by using the actual percentages shown above. That calculation is shown below.

	Rate of Return Component	Percentage of Total
Preferred Stock	0.18%	24%
Preferred Trust Securities	0.55%	76%
Total	0.73%	100%

This results in the tax deductible component of Preferred Stock being 0.55%. By effecting this correction, the appropriate rate for the pro forma debt interest calculation would be 4.16% (3.35% + 0.26% + 0.55%), not 4.34%. In this case, the electric and gas pro forma debt adjustments should be revised to $(2,980,000) and $(163,000), respectively. Adoption of these calculations would increase the electric revenue requirement by $555,000 ($4,800,000-$4,245,000) and the gas revenue requirement by $127,000 ($262,000-$135,000). Again, these figures are shown on Exhibit C.

The Company is unable to determine from the information available to it, which of the above scenarios is what the Commission intended. However, the Commission should recognize that 100% of the Company's Preferred Stock is not tax deductible and 100% of the cost should not be included in the pro forma debt interest calculation.

Additionally, a pro forma debt interest adjustment related to the change in rate base resulting from the PGE contract corrections explained in Part I is required. Page 2 of Exhibit C shows the calculations and amounts associated with the pro forma debt interest impacts of the PGE contract corrections.

III. SUMMARY

The Company requests that the Commission revise on reconsideration the interest amounts to be reflected in the PGE contract balance at 10/1/2000. The revised interest amounts should reflect interest calculated on the declining balance of the PGE deferred revenue with revised interest being $13,549,728 for Washington and should reflect the fact that Washington customers received interest totaling $8,599,004 for the twenty-one month period January 1, 1999, through September 30, 2000. The revised interest amounts related to the PGE deferred revenues will also result in a change in the pro forma debt interest adjustment. The Company also requests that the Commission revise the pro forma debt interest adjustment to reflect the fact that 100% of the Company's preferred stock is not tax deductible.

The Company's filing of this Petition will not affect our preparation of the compliance filing for new tariffs required by October 13, 2000. Avista respectfully requests expedited treatment of its Petition for Reconsideration.

RESPECTFULLY SUBMITTED this 9th day of October, 2000.

AVISTA CORPORATION

By: ______________________________
David J. Meyer
Senior Vice President & General Counsel

EXHIBIT A

APPENDIX A - Original and Revised

PGE Contract Test Year Buydown: Rate Base Adjustment

Line No.		ORIGINAL System	ORIGINAL 66.99% Washington	REVISED System	REVISED 66.99% Washington
1	Contract Buydown Revenue	$143,400,000	$96,063,660	$143,400,000	$96,063,660
2	Interest over 21 months	21,205,275	14,205,414	20,226,493	13,549,728
3	Less interest received by ratepayers			(12,836,250)	(8,599,004)
4	Amortization 21 months	(13,900,000)	(9,311,610)	(13,900,000)	(9,311,610)
5	Total net Funds 10/1/2000	$150,705,275	$100,957,464	$136,890,243	$91,702,774
	Balances Eliminated:				
6	Wood Power Contract Buyout	(5,046,868)	(3,380,897)	(5,046,868)	(3,380,897)
7	Nez Perce Up-front Payment	(2,402,800)	(1,609,636)	(2,402,800)	(1,609,636)
8	Subtotal		$95,966,931		$86,712,241
	Rate Base Reductions				
9	Rate Base Reduction Equal to Rathdrum Lease Balance		(37,030,583)		(37,030,583)
10	DSM Weatherization Balance		(21,407,750)		(21,407,750)
	Buydown Balance Residual:				
11	Reduce Rate Base Amortized over 8 years		(37,528,598)		(28,273,908)
12	Subtotal		($95,966,931)		($86,712,241)
	8-year annual amortization of PGE				
13	Buydown Balance Residual		4,691,075		3,534,239
14	Annual DSM amortization		2,939,000		2,939,000
15	2001 half-year amortization		2,345,537		1,767,119
16	**Total Rate Base reduction**		$93,621,394		$84,945,122
17	**NOI effect of amortization**		$4,959,549		$4,207,605

Line No.	**Change in Revenue Requirement**		
18	Original rate base reduction	$93,621,394	
19	Revised rate base reduction	84,945,122	
20	Difference	$8,676,272	
21	Authorized rate of return	9.03%	
22	NOI effect - decrease		$783,467
23	NOI effect of original amortization	$4,959,549	
24	NOI effect of revised amortization	4,207,605	
25	NOI difference - decrease		751,944
26	Total decrease in NOI		$1,535,411
27	Conversion factor		0.620919
28	Increase in revenue requirement		$2,472,804

Note: Does not reflect impact of change in proform debt interest.

Avista Corporation

PGE Contract
Corrected Interest Calculation Based on Unamortized Balances
State of Washington
January 1, 1999 - September 30, 2000 (21 months)

Note: Interest is calculated on the balance at the beginning of the month.

Line No.		Date	Balance	Interest @ 8.45% Annual 0.704167% Monthly	Washington Share @ 66.99%
1	Beginning Balance	01-01-1999	$143,400,000		
2	Amortization/Interest		-661,905	$1,009,775	$676,448
3	Balance	02-01-1999	142,738,095		
4	Amortization/Interest		-661,905	1,005,115	673,327
5	Balance	03-01-1999	142,076,190		
6	Amortization/Interest		-661,905	1,000,454	670,204
7	Balance	04-01-1999	141,414,285		
8	Amortization/Interest		-661,905	995,793	667,082
9	Balance	05-01-1999	140,752,380		
10	Amortization/Interest		-661,905	991,132	663,959
11	Balance	06-01-1999	140,090,475		
12	Amortization/Interest		-661,905	986,471	660,837
13	Balance	07-01-1999	139,428,570		
14	Amortization/Interest		-661,905	981,810	657,715
15	Balance	08-01-1999	138,766,665		
16	Amortization/Interest		-661,905	977,149	654,592
17	Balance	09-01-1999	138,104,760		
18	Amortization/Interest		-661,905	972,488	651,470
19	Balance	10-01-1999	137,442,855		
20	Amortization/Interest		-661,905	967,827	648,347
21	Balance	11-01-1999	136,780,950		
22	Amortization/Interest		-661,905	963,166	645,225
23	Balance	12-01-1999	136,119,045		
24	Amortization/Interest		-661,905	958,505	642,102
25	Balance	01-01-2000	135,457,140		
26	Amortization/Interest		-661,905	953,844	638,980
27	Balance	02-01-2000	134,795,235		
28	Amortization/Interest		-661,905	949,184	635,858
29	Balance	03-01-2000	134,133,330		
30	Amortization/Interest		-661,905	944,523	632,736
31	Balance	04-01-2000	133,471,425		
32	Amortization/Interest		-661,905	939,862	629,614
33	Balance	05-01-2000	132,809,520		
34	Amortization/Interest		-661,905	935,201	626,491
35	Balance	06-01-2000	132,147,615		
36	Amortization/Interest		-661,905	930,540	623,369
37	Balance	07-01-2000	131,485,710		
38	Amortization/Interest		-661,905	925,879	620,246
39	Balance	08-01-2000	130,823,805		
40	Amortization/Interest		-661,905	921,218	617,124
41	Balance	09-01-2000	130,161,900		
42	Amortization/Interest		-661,900	916,557	614,002
43	Balance/Total	10-01-2000	$129,500,000	$20,226,493	$13,549,728

EXHIBIT B

Avista Corporation

PGE Contract
Time Value of Money Received by Ratepayers
State of Washington
January 1, 1999 - September 30, 2000 (21 months)

Line No.		
1	Annual revenue from contract beginning January 1, 1999	$1,800,000
2	Annual amortization of deferred revenue	8,865,000
3	Time value of money	7,335,000
4	Total annual PGE contract revenue credit to ratepayers	$18,000,000

Time value of money for the 21-month period January 1, 1999 through September 30, 2000

5	$7,335,000 /12*21=	$12,836,250	System
6		66.99%	P/T allocation to Washington
7		$8,599,004	Washington share

EXHIBIT C

Avista Corporation

Capital Structure - Rate of Return

Line No.		Capital Structure	Cost	Rate of Return
	Original Commission Order			
	Equity			
1	Common	42.00%	11.16%	4.69%
2	Preferred Stock	0.00%	8.11%	0.00%
3	Total Equity	42.00%		4.69%
	Debt			
4	Long-term	45.00%	7.45%	3.35%
5	Short-term	4.00%	6.39%	0.26%
6	Preferred Securities	9.00%	8.11%	0.73%
7	Total Debt	58.00%		4.34%
8	Total	100.00%		9.03%
	Assuming 100% Preferred Stock and 0% Preferred Securities			
	Equity			
9	Common	42.00%	11.16%	4.69%
10	Preferred Stock	9.00%	8.11%	0.73%
11	Total Equity	51.00%		5.42%
	Debt			
12	Long-term	45.00%	7.45%	3.35%
13	Short-term	4.00%	6.39%	0.26%
14	Preferred Securities	0.00%	8.11%	0.00%
15	Total Debt	49.00%		3.61%
16	Total	100.00%		9.03%
	Assuming 24% Preferred Stock and 76% Preferred Securities			
	Equity			
17	Common	42.00%	11.16%	4.69%
18	Preferred Stock	2.16%	8.11%	0.18%
19	Total Equity	44.16%		4.87%
	Debt			
20	Long-term	45.00%	7.45%	3.35%
21	Short-term	4.00%	6.39%	0.26%
22	Preferred Securities	6.84%	8.11%	0.55%
23	Total Debt	55.84%		4.16%
24	Total	100.00%		9.03%

Avista Corporation

Effect on Revenue Requirement of Proforma Debt Interest

Line No.		Rate Base Amount in Order	Increase in Rate Base from Proposed PGE Contract Interest Changes
	ELECTRIC		
1	Rate Base	$553,316	$8,676
	Per Order		
2	Cost of debt	4.34%	4.34%
3	Restated debt interest	$24,014	$377
4	Test period interest	31,533	0
5	Increase (decrease) in interest expense	($7,519)	$377
6	Federal income tax (FIT) rate	0.35	0.35
7	Increase (decrease) in FIT expense	$2,632	($132)
8	Increase (decrease) in NOI	($2,632)	$132
9	Rounding	(4)	0
10	Increase (decrease) in NOI per Order	($2,636)	$132
11	Conversion factor	0.620919	0.620919
12	Increase (decrease) in revenue requirement	$4,245	($212)
	Assuming 100% Preferred Stock		
13	Cost of debt	3.61%	3.61%
14	Restated debt interest	$19,975	$313
15	Test period interest	31,533	0
16	Increase (decrease) in interest expense	($11,558)	$313
17	Federal income tax (FIT) rate	0.35	0.35
18	Increase (decrease) in FIT expense	$4,045	($110)
19	Increase (decrease) in NOI	($4,045)	$110
20	Rounding	0	0
21	Increase (decrease) in NOI per Order	($4,045)	$110
22	Conversion factor	0.620919	0.620919
23	Increase (decrease) in revenue requirement	$6,515	($177)
	Assuming 24% Preferred Stock		
24	Cost of debt	4.16%	4.16%
25	Restated debt interest	$23,018	$361
26	Test period interest	31,533	0
27	Increase (decrease) in interest expense	($8,515)	$361
28	Federal income tax (FIT) rate	0.35	0.35
29	Increase (decrease) in FIT expense	$2,980	($126)
30	Increase (decrease) in NOI	($2,980)	$126
31	Rounding	0	0
32	Increase (decrease) in NOI per Order	($2,980)	$126
33	Conversion factor	0.620919	0.620919
34	Increase (decrease) in revenue requirement	$4,800	($203)

Avista Corporation

Effect on Revenue Requirement of Proforma Debt Interest

Line No.		Rate Base Amount in Order
	GAS	
1	Rate Base	$119,919
	Per Order	
2	Cost of debt	4.34%
3	Restated debt interest	$5,204
4	Test period interest	5,453
5	Increase (decrease) in interest expense	($249)
6	Federal income tax (FIT) rate	0.35
7	Increase (decrease) in FIT expense	$87
8	Increase (decrease) in NOI	($87)
9	Rounding	3
10	Increase (decrease) in NOI per Order	($84)
11	Conversion factor	0.620919
12	Increase (decrease) in revenue requirement	$135
	Assuming 100% Preferred Stock	
13	Cost of debt	3.61%
14	Restated debt interest	$4,329
15	Test period interest	5,453
16	Increase (decrease) in interest expense	($1,124)
17	Federal income tax (FIT) rate	0.35
18	Increase (decrease) in FIT expense	$393
19	Increase (decrease) in NOI	($393)
20	Rounding	0
21	Increase (decrease) in NOI per Order	($393)
22	Conversion factor	0.620919
23	Increase (decrease) in revenue requirement	$634
	Assuming 24% Preferred Stock	
24	Cost of debt	4.16%
25	Restated debt interest	$4,989
26	Test period interest	5,453
27	Increase (decrease) in interest expense	($464)
28	Federal income tax (FIT) rate	0.35
29	Increase (decrease) in FIT expense	$163
30	Increase (decrease) in NOI	($163)
31	Rounding	0
32	Increase (decrease) in NOI per Order	($163)
33	Conversion factor	0.620919
34	Increase (decrease) in revenue requirement	$262

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, pursuant to WAC 480-09-120(2)(a), I have caused this day to be served the original plus nineteen (19) copies, by Hand Delivery, of the foregoing **PETITION FOR RECONSIDERATION OF THIRD SUPPLEMENTAL ORDER** on Carole Washburn, Executive Secretary for the Washington Utilities & Transportation Commission for filing and have served a copy by FEDEX (or hand delivery as indicated below) postage duly prepaid thereon, upon each person designated on the following service list.

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DATED at Spokane, Washington this 9th day of October, 2000.

David J. Meyer
Senior Vice President & General Counsel
Avista Corporation