

Davison Van Cleve PC

TEL (503) 241-7242 • FAX (503) 241-8160 • mail@dvclaw.com

Suite 2915
1300 SW Fifth Avenue
Portland, OR 97201

S. Bradley Van Cleve

October 19, 2000

Via Federal Express

Carole J. Washburn
Secretary
Washington Utilities and Transportation Commission
1300 SW Evergreen Park Drive S.W.
Olympia, WA 98504-7250

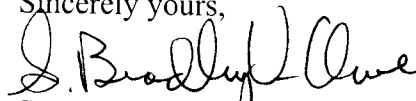
Re: Washington Utilities and Transportation Commission v. Avista Corporation
Docket Nos. UE-991606/UG-991607

Dear Ms. Washburn:

Enclosed please find an original and twenty-five copies of Industrial Customers of Northwest Utilities Answer to Petitions for Reconsideration in the above-captioned matter.

Please return one file-stamped copy of the Answer in the postage-prepaid envelope provided. Thank you for your assistance.

Sincerely yours,



S. Bradley Van Cleve

Enclosure

cc: Service List

Hard Copy

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

Washington Utilities and Transportation Commission,)	
)	
Complainant)	DOCKET NO. UE-991606
)	
v.)	DOCKET NO. UG-991607
)	
Avista Corporation,)	INDUSTRIAL CUSTOMERS OF
)	NORTHWEST UTILITIES'
)	ANSWER TO PETITIONS FOR
Respondent)	RECONSIDERATION
_____)		

The Industrial Customers of Northwest Utilities (“ICNU”) submits the following response to the petitions for reconsideration seeking review of portions of the Commission’s Third Supplemental Order in the above-referenced Dockets filed by Avista Corporation (“Avista”) and the Staff of the Washington Utilities and Transportation (“WUTC” or “Commission”).

ARGUMENT

1. The Commission Should Reject Avista’s Request to Recalculate the Ratepayer Benefits from the PGE Monetization Transaction

In its Petition for Reconsideration, Avista argues that the Commission has credited to customers benefits in excess of the benefits available from the buy out of the PGE Contract. Avista Petition for Reconsideration (“Avista Petition”) at 1. Avista claims that customers will receive excess benefits because: 1) the interest was incorrectly calculated from January 1999 through September 2000; and 2) customers have been credited twice for part of the

value of the buy out of the PGE Contract. Id. The premise for both arguments is that Avista should have been permitted to amortize \$ 18 million per year of the balance received in the buy out of the PGE Contract, beginning on January 1, 1999. Id. at 3-4. Since the Commission has not approved the buy out of the PGE Contract, and the associated affiliate transactions, Avista should not be allowed to amortize any of the balance. Therefore, the Commission correctly calculated the amount available from the buy out of the PGE Contract, and Avista's request should be denied.

A. The Commission Correctly Calculated the Interest on the Lump Sum From the Buy Out of the PGE Contract

Avista argues that the interest on the PGE monetization balance was incorrectly calculated because the Commission ignored the amortization of the balance during the period from January 1999, to September 2000. Avista Petition at 2. Under Avista's calculation, the interest amount would be modified from \$14,205,414 (Washington) to \$13,549,728 (Washington). Id. at 3.

Avista's Petition merely restates an argument that the Commission has previously rejected. Avista previously argued that if the Commission adopted Staff's approach then the lump sum payment should "be adjusted to reflect the actual balance in the deferral account (i.e., net out the amount by which the balance has already been amortized between January 1999 and October 2000). WUTC v. Avista, UE-991606/UG-991607, Third Supp. Order (Sept. 29, 2000) ("Avista Order") at 26 ¶ 66. The Commission rejected this approach, and held that the entire lump sum balance should accrue interest. Id. at 28, ¶ 76. The Commission should reject Avista's proposed re-calculation. The Commission's original decision on this issue was correct

and should be reaffirmed. Since Avista did not have authority to begin amortizing the lump sum payment, there is no need to modify the Commission's calculation of interest.

Another problem with Avista's proposal is that it appears to cherry pick among various calculation methods in order to reduce the overall level of customer benefit. For example, while in its Order the Commission utilized a compounded interest rate, Avista did not compound interest in its calculation. The Commission should reject Avista's self-serving interest calculation.

B. Customers are Not Credited Twice for Interest, or the Time Value of Money

Avista argues in its Petition that crediting customers with all of the interest on the lump sum balance results in a double credit for a portion of the PGE Contract value. Avista Petition at 3. Avista states that the amount of interest due should be reduced by the time value of money already received by ratepayers, which Avista claims is \$8.599 million. *Id.* at 4.

Avista's argument is contrary to the Commission's Order. The Commission recognized that Avista failed to file for Commission approval of either the PGE Contract or the correct methodology for distributing the benefits to ratepayers. Avista Order at 28. As a result, there is no basis to conclude that Avista should have begun amortizing the balance in January of 1999. Furthermore, Avista has never directly included the PGE Contract in any rate calculation or submitted it for Commission approval; therefore, Avista has never provided a credit to customers associated with the PGE Contract. Accordingly, Avista's claim of double counting should be rejected.

Finally, the Commission should take note that the order specifically addresses the fact that Avista's revenues under the PGE Contract were reduced once it received the lump sum

payment. In recognition of this shortfall, the Commission allowed Avista to subtract the expenses associated with the lease of the Rathdrum Turbine from the lump sum balance available for customers. Order at 28, ¶ 76. In fact, the Commission deemed the lease expenses equal to Avista's amortization litigation expense. *Id.* As a result, the Company has already been compensated for its revenue shortfall from the buy out of the PGE Contract, and it is Avista's proposal that would result in double counting.

2. **The Commission Should Adopt a Pro Forma Debt Interest Adjustment the that Minimizes the Adverse Impact on Customers**

Avista argues that the Commission incorrectly assumed that 100% of the Preferred Stock component of the Company's capital structure was deductible for federal income tax purposes. Petition at 5. Avista proposes two potential solutions. Avista's first calculation increases its electric revenue requirement by nearly \$ 2.3 million and its gas revenue requirement by nearly \$.5 million. *Id.* The second calculation raises its electric revenue requirement by over \$.5 million and its gas revenue requirement by \$ 127,000. *Id.* at 6. While Avista's correction to the pro forma interest calculation may have some merit, ICNU urges the Commission to adopt a solution that minimizes the adverse rate impacts on customers.

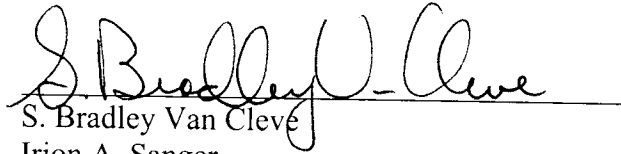
3. **The Commission Staff Raises Valid Issues**

In its Petition for Reconsideration, Commission Staff identifies a number of valid issues with respect to the Commission's Order. The majority of Staff's arguments are either minor textual changes to ensure the Order is internally consistent, or minor requests for clarification. ICNU does not oppose the changes or requests for clarification in Staff's Petition for Reconsideration.

Dated this 19th day of October, 2000.

Respectfully submitted,

DAVISON VAN CLEVE, P.C.

A handwritten signature in cursive script, reading "S. Bradley Van Cleve", is written over a horizontal line.

S. Bradley Van Cleve
Irion A. Sanger
Davison Van Cleve, P.C.
1300 SW Fifth Avenue, Suite 2915
Portland, Oregon 97201
(503) 241-7242 phone
(503) 241-8160 facsimile
mail@dvcclaw.com

Of Attorneys for Industrial Customers of
Northwest Utilities

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing Industrial Customers of Northwest Utilities Answer to Petitions for Reconsideration upon the parties on the official service list in this proceeding by depositing same in the United States Mail at Portland, Oregon, postage prepaid.

DATED this 19th day of October, 2000



S. Bradley Van Cley