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October 19, 2000

Carole Washburn, Secretary
Washington Utilities and
Transportation Commission
P.O. Box 47250
Olympia, WA 98504

Re: Avista, Docket Nos. UE-991606 and UG-991607

Dear Ms. Washburn:

Enclosed for filing in the above-referenced dockets are the originals and 26 copies of Commission Staff's Answer to Avista's Petition for Reconsideration of Third Supplemental Order and Certificate of Service.

Very truly yours,

Krista L. Linley
Legal Secretary to
GREGORY J. TRAUTMAN
Assistant Attorney General

:kll
Enclosure
cc: All Parties (w/enc.)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	DOCKET NOs. UE-991606 and and UG-991607
Complainant,	)	
v.	)	COMMISSION STAFF'S ANSWER TO AVISTA'S PETITION FOR RECONSIDERATION OF THIRD SUPPLEMENTAL ORDER
AVISTA CORPORATION,	)	
Respondent.	)	

In its Petition for Reconsideration of the Commission's Third Supplemental Order ("Order"), Avista argues for reconsideration on two topics that it has entitled:

"1. The Commission has Credited Benefits to Ratepayers in Excess of the Benefits Available from the PGE Monetization Agreement."

"2. Correction to Pro Forma Debt Interest Calculation."

With regard to item no. 1 above, the Company has raised two issues that it has entitled:

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

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

Staff responds to Avista's various requests for reconsideration as set forth below.

Avista's Item 1A. At the outset, Staff accepts as reasonable the results of the Commission's calculation of interest on the PGE monetization balance for the twenty-one months from January 1, 1999 to September 30, 2000. However, Staff objects to the Company's one-sided proposal to change these calculations. The Company argues that the interest on the PGE monetization lump sum payment should be calculated on an amortized balance. But if one were to use the monthly amortized balance as proposed by the Company, then it is entirely appropriate to also use the compounding implied in the interest rate chosen by the Commission.[1] The Commission elected to use the interest rate from the Note in Exhibit 225, with a rate of 8.45%. That exhibit reveals the application of a compounded interest rate.[2] Yet the Company shows no compounding of the interest in its calculation.

Attached is Appendix 1, showing the calculation similar to the Company's Exhibit A, page 2 of 2. The first calculation (Table 1) in Appendix 1 shows the use of the amortization, if the Commission had approved the book amortization that the Company assumes in its petition, with interest applied on the average monthly balance and compounded monthly. (Staff maintains that the Commission did not approve the amortization, as more fully set forth below). The second calculation (Table 2) shows no amortization (as per the Commission's Order) but applies the interest to the average monthly balance, compounded monthly, consistent with the intended application of the interest rate from Exhibit 225. Table 1 shows an October 1, 2000, balance of $151.2

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[1] Staff proposed to use the simple interest methodology, but at the authorized rate of return. The Commission in the past has allowed use of the authorized rate of return, compounded annually, for the calculation of the Allowance for Use During Construction (AFUDC).

[2] The LLC Note in Exhibit 225 provides for payment of "interest on the unpaid principal balance of this Note from time to time outstanding until maturity at the rate of 8.45% per annum and interest on all past due accounts, both principal and accrued interest, at the Default rate . . ."

million and Table 2 shows an October 1, 2000, balance of $166.1 million. These balances are both greater than the $150.7 million balance set forth at Table 6, page 29 of the Commission's Order. Thus, contrary to Avista's claim, there is no basis for replacing the Commission's figure with a lower amount.

Moreover, contrary to the Company's assumption, the Commission did not approve the amortization booked by the Company during the twenty-one months from January 1, 1999, to September 30, 2000. Rather, the Commission Order states, on page 28, paragraph 76, "that the balance available on October 1, 2000, should reflect expenses incurred by the Company for the Rathdrum Turbine that are no longer being covered by PGE Contract revenue. The Commission finds these expenses to be <u>equal to the amortization expense</u>, cited by the Company, of $9.3 million for the Washington jurisdiction." (Emphasis added)

Not allowing the amortization is consistent with including interest on the balance. Since the Company did not file for approval of this transaction under RCW 80.16.020, the Commission accrued interest on the balance until the transaction was accepted by the Commission's Order. By the same token, the Company had no approval to book an amortization of the transaction and, therefore, no amortization could have occurred until the Commission's Order granted approval of the transaction and accounting of the transaction.

<u>Avista's Item 1B.</u> Staff strongly disagrees with the Company's claim that under the Commission's Order, "Customers would be credited twice for interest, or the time value of money." Page three of the Company's petition asserts that the Company provided an annual revenue credit of $18 million per year on a system basis over the

twenty-one month period. This statement is entirely without merit. The Company entered into the original PGE contract on June 26, 1992 (Order, paragraph 39). The Company's last general rate case was in 1990. The $18 million of contract revenue has never been directly included in any rate calculation. Thus, the Company's claim that it has been providing an $18 million benefit over the 21 months is unsupported by any facts or evidence provided in this proceeding.

Had the Company filed the monetization transaction with the Commission as required under RCW 80.16.020, the issue of timing would be moot. The proper disclosure and accounting of the transaction would have taken place at the time the transaction was entered into, rather than through a Commission order issued twenty-one months after the fact. Staff maintains that there has been no double crediting to the customers for interest, and that the Company's feeble argument arises out of its failure to properly file the transaction under RCW 80.16.020. In fact, since the $18 million was never directly credited to rates in any rate proceeding, nor was the monetization transaction, including any amortization, ever used by this Commission in setting rates, there is no basis for the claim that the Company ever provided a credit to the customers of $18 million.

This raises an additional point regarding the Company's contention that the $9.3 million figure in Table 6, page 29 of the Commission's Order is to recover the booked amortization over the twenty-one month period. (See page 2-3 of the Company's Petition for Reconsideration.) The Commission did not authorize the amortization for the period. Rather, the Commission ordered a reduction in the balance available to rate payers on October 1, 2000, to remove expenses of Rathdrum that will no longer be recovered from revenues under the PGE Contract. The expenses incurred by the Company for the Rathdrum Turbine are already in the general operating and maintenance expense booked during the test year, and are therefore already included in the allowed revenue requirement.

Avista's Item 2. The Company's arguments for a correction to the Pro Forma Debt Interest calculation appear to be justified. Staff agrees that the interest on preferred trust securities are tax deductible. However, Staff is unclear as to the actual components the Commission adopted and used in the pro forma debt interest calculation.

The Commission adopted the capital structure proposed by Staff (Order, paragraph 377) which included the preferred trust securities as long-term debt. This would seem to support the Company's first calculations regarding the effect on electric and gas revenue requirement. (See page five, bottom, through page six, top, of Avista's Petition for Reconsideration).

The Commission, however, adopted the long-term debt rate proposed by Public Counsel, which did not include preferred trust securities (Order, paragraph 363), and adopted an 8.11 percent cost of preferred stock, which under Public Counsel's presentation included the preferred trust securities (Order, paragraph 367). This would indicate that a portion of the preferred stock shown in Table 13 of the Order is preferred trust securities which should be included in the weighted cost of debt rate used in the pro forma debt interest calculation. If this was the Commission's intent, then Staff would accept the Company's second calculations regarding the effect on electric and gas revenue requirement as reasonable. (See page six, bottom, through page seven, top of Avista's Petition for Reconsideration.)

Finally, Staff points out that if the weighted cost of debt rate changes from that noted in the Order, the Settlement Exchange Power adjustment also needs to be adjusted to reflect the revised weighted cost of debt rate.

Respectfully submitted this 19th day of October 2000.

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Avista Corporation
Impact of Interest on PGA Monetization
January 1, 1999 - October 1, 2000

			Table 1		Table 2	
			With Amortization Compounded Monthly		Without Amortization Compounded Monthly	
Line No.		Date	Balance	8.45% Interest Rate	Balance	8.45% Interest Rate
1	Beginning Balance	01-01-1999	$143,400,000		$143,400,000	
2	Amortization/Interest		661,905	$1,009,775	0	$1,009,775
3	Balance	02-01-1999	143,747,870		144,409,775	
4	Amortization/Interest		661,905	1,012,225	0	1,016,885
5	Balance	03-01-1999	144,098,190		145,426,660	
6	Amortization/Interest		661,905	1,014,691	0	1,024,046
7	Balance	04-01-1999	144,450,976		146,450,707	
8	Amortization/Interest		661,905	1,017,176	0	1,031,257
9	Balance	05-01-1999	144,806,247		147,481,964	
10	Amortization/Interest		661,905	1,019,677	0	1,038,519
11	Balance	06-01-1999	145,164,019		148,520,482	
12	Amortization/Interest		661,905	1,022,197	0	1,045,832
13	Balance	07-01-1999	145,524,311		149,566,314	
14	Amortization/Interest		661,905	1,024,734	0	1,053,196
15	Balance	08-01-1999	145,887,139		150,619,510	
16	Amortization/Interest		661,905	1,027,289	0	1,060,612
17	Balance	09-01-1999	146,252,523		151,680,123	
18	Amortization/Interest		661,905	1,029,862	0	1,068,081
19	Balance	10-01-1999	146,620,479		152,748,204	
20	Amortization/Interest		661,905	1,032,453	0	1,075,602
21	Balance	11-01-1999	146,991,027		153,823,805	
22	Amortization/Interest		661,905	1,035,062	0	1,083,176
23	Balance	12-01-1999	147,364,184		154,906,981	
24	Amortization/Interest		661,905	1,037,689	0	1,090,803
25	Balance	01-01-2000	147,739,968		155,997,785	
26	Amortization/Interest		661,905	1,040,336	0	1,098,484
27	Balance	02-01-2000	148,118,399		157,096,269	
28	Amortization/Interest		661,905	1,043,000	0	1,106,220
29	Balance	03-01-2000	148,499,494		158,202,489	
30	Amortization/Interest		661,905	1,045,684	0	1,114,009
31	Balance	04-01-2000	148,883,273		159,316,498	
32	Amortization/Interest		661,905	1,048,386	0	1,121,854
33	Balance	05-01-2000	149,269,755		160,438,352	
34	Amortization/Interest		661,905	1,051,108	0	1,129,753
35	Balance	06-01-2000	149,658,957		161,568,105	
36	Amortization/Interest		661,905	1,053,848	0	1,137,709
37	Balance	07-01-2000	150,050,901		162,705,814	
38	Amortization/Interest		661,905	1,056,608	0	1,145,720
39	Balance	08-01-2000	150,445,604		163,851,534	
40	Amortization/Interest		661,905	1,059,388	0	1,153,788
41	Balance	09-01-2000	150,843,087		165,005,322	
42	Amortization/Interest		661,900	1,062,187	0	1,161,912
43	Balance	10-01-2000	**$151,243,374**		**$166,167,234**	

NOTE:
1. Calculations are on a system basis. Washington's allocation is 66.99%
2. Since the monthly amortization and interest calculation are done at the end of the month the average balance is the same as the beginning of the month balance.

CERTIFICATE OF SERVICE
UE-991606 and UG-991607

I certify this day copies of the foregoing Commission Staff's Answer to Avista's Petition for Reconsideration of Third Supplemental Order were sent this date to the parties listed below via US Mail, first class, postage prepaid.

DATED at Olympia, Washington, this 19th day of October, 2000.

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