

Avista Corporation
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



October 19, 2000

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

RE: Docket Nos. UE-991606 and UG-991607

Dear Ms. Washburn:

As previously authorized, Avista Corporation has electronically filed its Answer to Staff's Petition for Clarification pursuant to the Commission's Notice of Opportunity to Answer, dated October 10, 2000. Please find enclosed 20 hard copies of the Answer which have been delivered via overnight mail.

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

Sincerely,

A handwritten signature in black ink that reads "Thomas D. Dukich". The signature is written in a cursive, slightly slanted style.

Thomas D. Dukich
Manager, Rates and Tariff Administration

Enclosures

c: See attached service list

Hard Copy

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served the Company's Answer to Commission Staff's Petition for Clarification regarding WN U 28 Electric Service UE-991606 and WN U 29 Natural Gas Service UG-991607 of Avista Corporation General Rate Case by mailing a copy thereof, postage prepaid to the following:

Gregory J Trautman, Asst Attorney General
Mary M Tennyson, Asst Attorney General
Attorney General of Washington
PO Box 40128
1400 S. Evergreen Park Dr. SW
Olympia, WA 98504-0128

Simon ffitth
Office of the Attorney General
Public Counsel Section
900 Fourth Avenue, Suite 2000
Seattle, WA 98164-1012

C Bradley Van Cleve
Melinda Davison
Michael T Brooks
Industrial Customers of
Northwest Utilities
1300 SW Fifth Avenue Suite 2915
Portland, OR 97201

Nancy Hirsh
Danielle Dixon
Northwest Energy Coalition (NWEC)
219 1st Avenue South, Suite 100
Seattle, WA 98104

Edward Finklea
Energy Advocates, LLP
526 NW 18th Avenue
Portland, OR 97209-2220

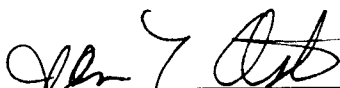
Don Andre'
Spokane Neighborhood Action Programs
212 W Second Avenue #100
Spokane, WA 99201-3501

Roger Colton (SNAPS)
Fisher, Sheehan and Colton
34 Warwick Road
Belmont, MA 02478-2481

Jim Lazar
1063 Capitol Way South
Suite 202
Olympia, WA 98501

Donald W Schoenbeck
Regulatory and Cogeneration Services
900 Washington Street, Suite 1000
Vancouver, WA 98660

Dated at Spokane, Washington this 19th day of October 2000.



Jean T. Osterberg
Rates Coordinator

RECORDED
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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	DOCKET NO. UE-991606
TRANSPORTATION COMMISSION,)	
)	DOCKET NO. UG-991607
Complainant,)	
)	
v.)	COMPANY'S ANSWER TO
)	COMMISSION STAFF'S PETITION FOR
AVISTA CORPORATION,)	CLARIFICATION
)	
Respondent.....)	

Avista Corporation (hereinafter "Avista" or "Company") in response to the Commission's Notice of Opportunity to File Answer, dated October 10, 2000, respectfully files this Answer to Commission Staff's Petition for Clarification. The Company notes that the Commission Staff included nine (9) individual items in their petition seeking wording or intent clarification regarding how certain ordering items in the Commission's Third Supplemental Order ("the Order") should be interpreted for future regulatory treatment. In the formulation of this Answer, the Company also notes that none of the clarification items impact the final electric or natural gas revenue requirement provided for in the Order.

In this Answer, the Company will be addressing only Item 2 of the Staff's petition. Item 2 addresses paragraph 95 of the Order, where the Commission reduced generation rate base by an amount equal to buying out the remaining Rathdrum lease obligation.

OPTION B, AS PROPOSED BY THE COMMISSION STAFF, IS THE ONLY OPTION THAT HAS A REASONABLE THEORETICAL BASIS

Avista concurs with Staff that issues surrounding the rate base reduction (Item 2) needs to be clarified to facilitate proper implementation of the Order in supplemental filings. For ease of reference, those options are listed below:

- A. If the Commission's intent is that the \$37 million be a permanent rate base reduction that will never be eliminated, then the amount can be booked to a generation asset subaccount within the main plant account, or can simply be treated as a rate making adjustment during each rate case.
- B. If the Commission's intent is that the \$37 million adjustment will be eliminated with the end of the PGE contract or the end of the Rathdrum lease, then a ratemaking adjustment can be made during each rate case to reduce rate base by \$37 million until the end of either contract.
- C. If the intent is to reduce generation assets, the amount can be added to Accumulated Depreciation and either spread to the reserve on all assets or a specific generating facility. If the amount is placed in Accumulated Depreciation, this would also affect the Deferred Taxes and not reduce rate base by \$37 million, and would affect the depreciation rate established in future filings. Since this option would essentially reduce future depreciation rates, this should be done only during a future rate case in order to give customers the full effect of the adjustment.

Avista submits that Option B, as identified by Staff, resulting in a \$37 million rate base reduction to the Washington electric jurisdiction until either the end of the PGE contract or the end of the Rathdrum lease, has theoretical support that is lacking in either Option A or C and appears to be consistent with the Commission's explanation as outlined in the Order.

The Order identified the \$37 million rate base reduction as being associated with the Rathdrum lease balance. Further, paragraph 90, of the Order states,

“...The consequence would be that the Rathdrum combustion turbine remains in Avista's resource portfolio and that Rathdrum's operating costs remain in normalized power expense. The cost to finance its acquisition is paid off.” (emphasis added)

Option B produces exactly that result and further provides implicit recognition that the Rathdrum lease is an operating lease for financial reporting purposes, and as such, is an off balance sheet liability that is fully extinguished at the end of the lease period. The lease period ends February 2020. With this in mind, Avista submits that having the rate base reduction stop

at the end of the Rathdrum lease has theoretical support absent in Options A and C. Finally, maintaining the amount as a rate base offset in future regulatory filings until the end of the lease period completely eliminates the cost to finance the turbine's acquisition from customer's rates.

The Staff, in Item 2 of its petition, merely suggested possible options for Commission consideration, and did not indicate any preferred option. With that understanding, the Company offers the following comments on Options A and C. The Company submits that there is no theoretical basis for Option A, which calls for a permanent \$37 million rate base reduction. There is no correlation to the underlying lease or lease period. More to the point, it would put the Company in the untenable position of being worse off financially than if the monetization had never been entered into. There is little argument that both the initial PGE Contract, combined with the acquisition of the Rathdrum Plant, and the later monetization of the contract were beneficial to customers. The only issue was how to reflect those benefits in customer's rates. Essentially, the use of the monetization proceeds as rate base offsets provides customers an up-front benefit. This is contrasted with the Company's treatment in its direct filing whereby the contract benefits remained at a levelized basis over the remaining life of the monetization period.

Regardless of the timing differences, one fact remains: All benefits cease at the end of the lease and contract period. Forcing a continued benefit for customers beyond anything associated with the underlying financial transaction, as implied by Option A, would be inappropriate.

Option C would result in a credit to accumulated depreciation for a specific generation asset or for all assets with an adjustment to deferred taxes and a future adjustment to depreciation rates. Option C suffers from some of the same deficiencies as Option A. It is not reflective of the financial transaction or the remaining life of the lease. Moreover, it introduces very cumbersome accounting and rate making considerations and could ultimately result in distortions of the Company's records for its actual physical generation assets. Option C would leave complicated depreciation rates and deferred tax rate base implications to be clarified and dealt with in future filings, while not reflecting the lease.

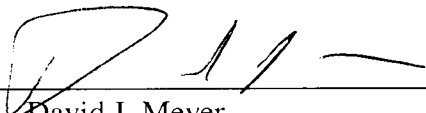
CONCLUSION

In regards to Item 2 of the Staff's petition, Avista submits that Option B, as identified by Staff, resulting in a \$37 million rate base reduction to the Washington electric jurisdiction and being eliminated at the end of the Rathdrum lease, has theoretical support that is lacking in either Option A or C, and appears to be consistent with the Commission's explanation as outlined in the Order. The Rathdrum lease is scheduled to end February 2020. Incorporating Staff's Option B for future regulatory treatment provides customer benefits that exactly coincide with the remaining life of the underlying financial transaction that is referenced by both the Staff and the Commission.

The Company appreciates the opportunity to file this Answer. In compliance with the Notice of Opportunity, it is the Company's understanding that our Answer, as well as those by other parties to the case, was intended to only address the specific clarification issues outlined by Staff and the specific revenue requirement reconsideration issues outlined by the Company.

RESPECTFULLY SUBMITTED this 19th day of October, 2000.

AVISTA CORPORATION

By: 

David J. Meyer
Senior Vice President & General Counsel