

RECEIVED  
OPERATIONS MANAGEMENT

2010 APR 20 AM 9:39

STATE OF WASH  
UTILITY AND TRANSP  
2010

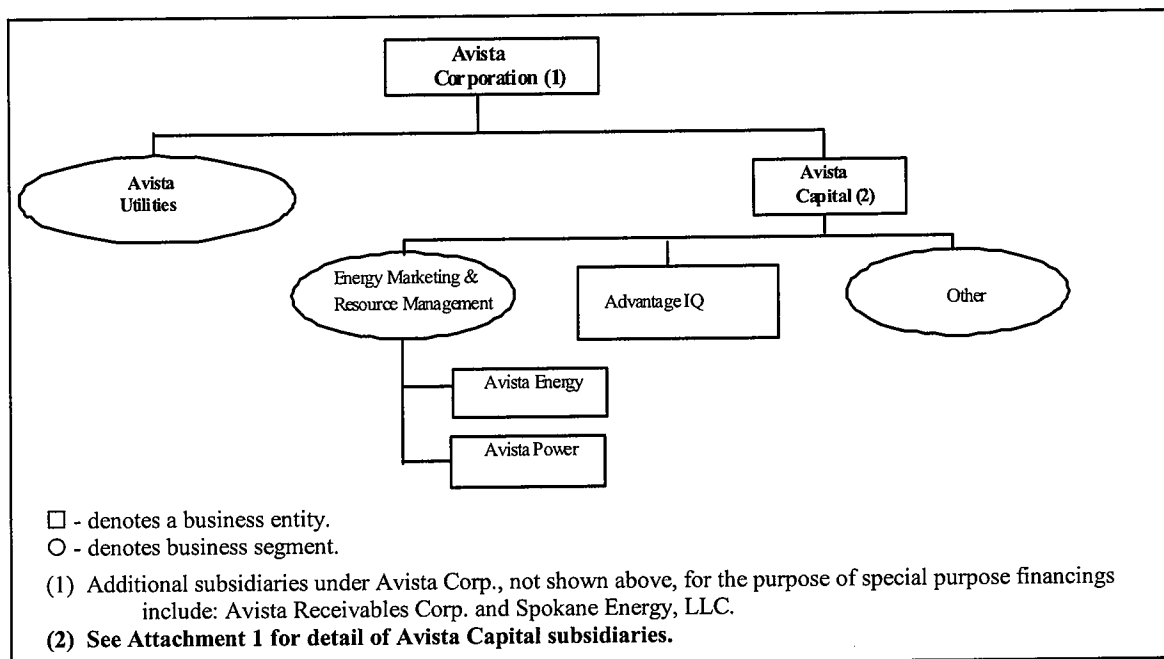
**SUBSIDIARY TRANSACTION REPORT**  
**OF**  
**AVISTA CORPORATION**  
**d/b/a AVISTA UTILITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

Pursuant to WAC 480-100-264 and WAC 480-90-264 Affiliated Interest and Subsidiary Transactions Report, the following report summarizes all transactions, except transactions provided at tariff rates, that occurred between Avista Corporation (hereinafter Avista or Company) and its subsidiaries. The Company operates in its utility service territories as Avista Utilities.

Avista Utilities is a combination utility that provides service to approximately 356,000 electric customers and 221,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves approximately 96,000 natural gas customers in Oregon. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters.

## I. ORGANIZATION INFORMATION

### 1. Organizational Chart



Included in **Attachment 1** is additional detail of Avista Capital subsidiaries.

A 2006 proposal to proceed with a share exchange, which would have changed the Company's organization to a holding company structure, was abandoned by Avista Corp.'s board of directors in August 2009. The proposal had received approval from the Company's

shareholders and conditioned approvals from the Federal Energy Regulatory Commission, as well as the Washington Utilities and Transportation Commission (WUTC) and the Idaho Public Utilities Commission. The Company was unable, however, to reach agreement on acceptable terms and conditions with interested parties in proceedings before the Public Utility Commission of Oregon. On August 28, 2009, the Company requested the WUTC to terminate the holding company formation docket (Docket No. U-060273). Order 04 granting the motion was issued on September 22, 2009.

## 2. Directors and/or Officers

See **Attachment 2** for Officer and Director Listings for Avista Corporation and all wholly owned subsidiaries.

## 3. Narrative Descriptions

**Avista Capital, Inc.**, is a wholly owned subsidiary of Avista Corp. and is the parent corporation of Avista Corporation's non-regulated subsidiary investments and operations.<sup>1</sup> As of December 31, 2009, Avista Capital had the following non-utility investments:

- **Advantage IQ, Inc.** (74.37% ownership) Provides consolidated billing and resource accounting service and related services.
  - \* **Ecos IQ, Inc.** (100% ownership) Provides energy efficiency and related consulting services.
- **Avista Energy, Inc.** and **Avista Energy Canada, Ltd.** (100% ownership – no employees), were energy marketing and resource management companies. On June 30, 2007, Avista completed the sale of the operations of Avista Energy to Coral Energy Holding, L.P., and certain of its subsidiaries, a subsidiary of Shell (Coral).
- **Avista Ventures, Inc.** (100% ownership-no employees, passive income), was formed to manage and market investments.
- **Avista Development, Inc.** (100% ownership-no employees, passive income) was established to manage real estate investments including:
  - \* **Steam Plant Square, LLC** (90% ownership) Manages and operates the Steam Plant Square in Spokane, Washington.

---

<sup>1</sup> The only exceptions relate to Avista Receivables, Inc., a special purpose subsidiary formed in connection with the sale of accounts receivable, and Spokane Energy, LLC, which was formed for the purpose of implementing a long-term capacity contract between Avista Utilities and Portland General Electric Company. At present, these entities are directly owned by Avista Corporation. See page 4 for a further description of Spokane Energy, LLC.

- \* **Court Yard Office Center, LP** (100% ownership) Owns and operates commercial office space rentals.
- **Pentzer Corporation** is a wholly owned private investment company that serves as parent of the non-utility businesses listed below (no employees, passive income):
  - \* **Advanced Manufacturing and Development, Inc., dba METALfx**, (82.95% ownership), located in Willits, California, is a manufacturer and turnkey assembler of electronic enclosures, parts, and systems primarily for the computer and instrumentation industries. This company is held by **Bay Area Manufacturing, Inc.** (100% ownership)
  - \* **Pentzer Venture Holdings II, Inc.** (100% ownership) Holding company for an inactive sewage treatment plant near Spokane Industrial Park.
- **Avista Laboratories, Inc.** (100% ownership-inactive), was formed for the purpose of developing alternative energy resources and/or to engage in related research and development. In 2003, Avista Corp. sold its majority interest in Avista Laboratories, Inc. The purchaser incorporated as AVLB, Inc. has now changed its name to ReliOn, Inc. Avista Laboratories was reported as discontinued operations for fiscal year ending December 31, 2003.
  - \* **ReliOn, Inc.** (5.84% ownership), was formed for the purpose of fuel cell development. Held through Avista Capital's 100% ownership in Avista Laboratories, Inc.
- **Avista Power, LLC** (100% ownership), was created to develop and own generation assets in North America. In 2001, Avista Power ceased active development of additional non-regulated generation projects. Subsidiaries of Avista Power, LLC include:
  - \* **Avista Rathdrum, LLC** (100% ownership), created to develop and own generation assets. It ceased active development of additional non-regulated generation projects.
  - \* **Coyote Springs 2, LLC** (50% ownership-inactive), created to develop and own generation assets. No current assets.
- **Avista Communications, Inc.** (100% ownership-inactive) was a competitive local exchange carrier (CLEC) in small to mid-size markets throughout the Western United States. In 2001 and 2002, Avista Communications assets were sold and the subsidiary was reported as discontinued operations for fiscal years ending December 31, 2001 and 2002. Avista Communications was dissolved on May 9, 2009.
- **Avista Turbine Power, Inc.** (100% ownership-ceased active development of additional projects) was created to receive assignments of power purchase agreements (PPAs). Prior to

the sale of Avista Energy in 2007, it had a PPA with Rathdrum Power, LLC, (RP) which had been assigned to Avista Energy, Inc. In connection with the sale of Avista Energy's business to Coral, an energy conversion agreement was entered into with Coral. Upon the expiration of the energy conversion agreement on December 31, 2009, Avista Turbine Power (ATP) continued to be the purchasing counterparty under the RP-ATP PPA with Rathdrum Power and was entitled to the electric output of the Lancaster facility. Avista Corporation, dba Avista Utilities, became the purchaser under a power purchase agreement (Lancaster PPA) executed December 7, 2009 and that became effective on January 1, 2010, which ultimately transferred the rights and obligations under the RP-ATP PPA from Avista Turbine Power to Avista Corporation, dba Avista Utilities, including entitlement to the electric output of the Lancaster plant through October 31, 2026. Avista Turbine Power and Avista Corporation subsequently secured the consent of lenders in order to allow Avista Turbine Power to directly assign the underlying power purchase agreement to Avista Corporation, and remove Avista Turbine Power entirely from the middle of this arrangement. The Joint Consent and Termination agreement, which was recently executed, would allow Avista Turbine Power, through an Assignment and Assumption Agreement (Assignment), to assign its entire interest in the Lancaster PPA to Avista Corporation, dba Avista Utilities. This Consent and Assignment removes Avista Turbine Power as an intermediary and makes the Utility the direct counterparty to Rathdrum Power under the Lancaster PPA.

For additional information on the assignment of the PPA to Avista Utilities, see Docket No. UE-091902 (Affiliated Interest Agreement between Avista Turbine Power and Avista Corporation) and Company witness Mr. Lafferty's direct testimony (Exhibit No. \_\_\_(RJL-1T)) and supplemental direct testimony (Exhibit No. \_\_\_(RJL-6T)) in Docket No. UE-100467 (General Rate Case).

- **Avista Northwest Resources, LLC** (100% ownership) was formed January 2009 for the purpose of holding investment in the energy industry.

**Spokane Energy, LLC** (Spokane Energy) is a special purpose limited liability company and has 100% of its membership owned by Avista Corp. Spokane Energy was formed on December 30, 1998 to assume ownership of a fixed rate electric capacity contract between Avista and Portland General Electric Company (PGE). Under this contract, Peaker, LLC (Peaker) purchases capacity from Avista Utilities and sells capacity to Spokane Energy. Spokane Energy sells the related capacity to PGE. Peaker acts as an intermediary to fulfill certain regulatory requirements between Spokane Energy and Avista Corp. The transaction is structured such that Spokane Energy bears full recourse risk for a loan (balance of \$70.3 million as of December 31, 2009) that

matures in January 2015. Avista has no recourse related to this loan. Peaker makes monthly payments of approximately \$150,000 to Avista for its capacity purchase.

**AVA Formation Corp.** was a wholly owned subsidiary of Avista Corp. It was formed in February 2006 as a holding company for purposes of completing the holding company implementation. Those plans were abandoned in August 2009, as discussed above; therefore AVA Formation Corp. was dissolved in 2009.

## II. TRANSACTIONS BETWEEN AVISTA CORPORATION AND SUBSIDIARIES

### 1. Transactions with subsidiaries totaling less than \$100,000 for the reporting period ended December 31, 2009:

<u>Subsidiary Name</u>	<u>Account No. &amp; Description</u>	<u>Total Amount</u>
(4) Spokane Energy, LLC	456 Other Electric Revenue	\$ 51,164
(4) Spokane Energy, LLC	234 Interest Payable	\$ 49,792
(5) Steam Plant Square, LLC	931 Rents	\$ 45,596
(5) Steam Plant Square, LLC	107 CWIP	\$ 5,706

See descriptions below, Section II.2. (b), (4) – (5), pages 7 through 8.

### 2. Transactions with subsidiaries totaling or exceeding \$100,000 for the reporting period ended December 31, 2009:

<u>Subsidiary Name</u>	<u>Account No. &amp; Description</u>	<u>Total Amount</u>
(1) Avista Capital II (Trust)	419 Interest Exp.	\$ 952,275
(2) AVA Capital Trust III	419 Interest Exp.	\$ 1,005,160
(3) Avista Capital, Inc. (Nucleus)	557 Amortization Exp.	\$ 129,238
(3) Avista Capital, Inc. (Nucleus)	813 Other Gas Supply Exp.	\$ 55,388
(6) Advantage IQ	146 Accts Rec.	\$ 485,743

See descriptions below, Section II.2. (b), (1) – (6), pages 6 through 8.

**(a) Financial Statements:**

A Balance Sheet and Income Statement for the subsidiaries listed above whose transactions exceeded \$100,000 is included as **Attachment 3**. See descriptions below in section II.2 (b).

**CONFIDENTIALITY REQUEST**

In accordance with WAC 480-07-160, Avista Corporation requests confidential treatment of all statements provided under this section of the Subsidiary Transaction Report. All such statements are marked "CONFIDENTIAL."

**(b) Description of Services or Transactions:**

**(1) Avista Capital II (Trust) Expenses**

In 1997, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures, Series B, with principle amount of \$51.5 million to Avista Capital II, an affiliated business trust formed by the Company. Avista Capital II issued \$50.0 million of Preferred Trust Securities. The interest charges for the trust carried on Avista's books for 2009 totaled \$952,275, and were recorded in account 419 (interest expense). There are no other costs associated with this trust.

**(2) AVA Capital Trust III Expenses**

On March 12, 2004 by Commission Order No. 01, Docket No. UE-040329, the WUTC approved Avista's application to issue \$62 million of Subordinated Debentures for a term of up to 30 to 40 years. And as authorized, these Debentures were issued to a Delaware statutory trust controlled by Avista and consolidated on the Company's books. AVA Capital Trust III then issued \$60 million in Trust Preferred Securities to third-party, institutional investors and \$1.856 million in common securities to Avista. The common securities are approximately 3% equity, which reflects the minimum amount of equity that is required in these types of trusts to establish ownership of the trust.

The interest charges for the trust carried on Avista's books for 2009 totaled \$1,005,160, and were recorded in account 419 (interest expense). There are no other costs associated with this trust. These debt securities were redeemed by the Company in March 2009.

### **(3) Avista Capital, Inc. – Nucleus Software Application**

Nucleus is a software application used to record energy transactions by Avista Utilities and Avista Energy. During 2007, Avista Utilities and Avista Energy used the Nucleus software application independent from one another with completely separate databases. Therefore, no access to data between companies was possible. After the sale of Avista Energy in 2007, Avista Utilities is the sole user of this application.

The Nucleus asset was transferred from Avista Energy's books to Avista Capital's books on December 31, 2003. The asset transferred was of mutual benefit to both Avista Utilities and Avista Energy. Avista Capital paid and recorded all shared costs on its books related to the development of the application and charged a monthly amortization expense to both Avista Utilities and Avista Energy for the original asset transferred and for any development of the application. In November 2004, a software sublicense agreement was entered into between Avista Corporation dba Avista Utilities and Avista Capital, Inc., which granted Avista Utilities a non-exclusive sublicense to the Nucleus software. A copy of this agreement was provided to the WUTC in September 2004.

Avista Utilities' portion of the asset held by Capital at December 31, 2009 to be amortized totaled approximately \$2,929,373. In 2009, amortization expense of \$129,238 and \$55,388 were recorded in accounts 557 and 813, respectively. Electric and gas charges allocated to the Washington jurisdiction are allocated based on the Company's four-factor allocation methodology. *(Please refer to Attachment 4 for the allocation factors.)*

### **(4) Spokane Energy, LLC Transactions**

Avista acts as the servicer of Spokane Energy's commodity contracts. Annual service fees paid by Spokane Energy to Avista were approximately \$51,164 in 2009.

Spokane Energy is required to maintain in trust \$1.6 million. All funds in excess of this amount are transferred to Avista for cash management purposes. During 2009, the amount



transferred was \$49,792. At December 31, 2009 Avista has a liability of \$696,581 payable to Spokane Energy for these funds.

**(5) Steam Plant Square, LLC Lease**

Avista Utilities leases office space from Steam Plant Square, LLC. Avista Corporation assumed the lease in May 2003 from Avista Capital, Inc. Lease payments in 2009 totaled \$51,302 (\$5,706 recorded in FERC account 107 and \$45,596 recorded in FERC account 931).

**(6) Non-Service Transactions**

*Avista Corporation Corporate Services:*

On a regular basis, general office employees of Avista Corporation spend time on corporate service support, such as accounting, federal income tax filing, planning, graphic services, etc. for subsidiaries. Their time is charged to suspense accounts (Deferred Debit 186), loaded for benefits and then established as a receivable (Account 146) when billed to the subsidiary. If other resources are expended during the course of this work such as travel or consulting services, these costs are also charged to suspense accounts and billed to the subsidiary.

All corporate services provided, and costs incurred, are direct billed to subsidiaries at cost. No additional margin or profit is included and no assets are allocated. Suspense and capture of Avista Corporation employee costs, which are then billed back to the subsidiary at cost, serve to reduce the utility expenses.

Such transactions can be generally categorized as corporate support. Specific examples include labor, benefits, postage, supplies, copier and graphic services, legal, travel, lodging, and food.

**(c) Description of pricing basis or costing method for allocating costs, and amounts and accounts charged during the year:**

See individual descriptions above Section II.2, pages 5 through 8.

**(d) Inter-Company Loans:**

During 2009, Avista Corp. recorded short-term note receivables from and payables to Avista Capital, Inc. The year-end note payable amount at December 31, 2009 was \$6,882,247. The maximum note payable amount outstanding during the year, owed to Avista Capital was \$7,672,290 at September 15, 2009. There were no notes receivable amount outstanding during the year owed to Avista Corp.

This revolving short-term cash borrowing between the parties helps to reduce external cash requirements. According to the policy, investment/borrowing rates between Avista Corporation and Avista Capital are:

- a. Upon receiving appropriate approvals, excess Avista Capital cash may be invested with (loaned to) Avista Corp. at a rate equal to Avista Corp.'s avoided short-term borrowing cost, currently estimated at the one-month LIBOR plus 50 basis points. The rate will be reset monthly with the LIBOR rate in effect on the second business day of each month, as reported in the money rate section of the Wall Street Journal.
- b. Avista Capital may borrow from Avista Corp., subject to board-approved limits, at a rate equal to the Prime rate. This rate will be reset at such time as the Agent bank on the Avista Corp. Revolving Credit Agreement changes the Prime rate.<sup>2</sup>

The net associated accrued interest expense totaled \$187,069 in 2009.

**(e) Description of Parent Guaranteed Debt:**

Avista Corporation does not guarantee debt of its subsidiaries. However, there are payment guarantees as noted below in Section III. Miscellaneous Agreements, page 9.

**(f) Description of Activities of Subsidiaries:**

See Section I.3 at pages 2 through 4.

**(g) List of all common officers and directors:**

See Section I.2 at page 2.

---

<sup>2</sup> At times, Avista does not have any outstanding cash borrowings under the credit facility. When there are no outstanding cash borrowings under the credit facility, excess cash is utilized to pay down borrowings on the accounts receivable program (ARP). The avoided short-term borrowing rate on the ARP is reset on the 15th of each month. The rate received on excess cash invested with Avista (that is utilized to pay down the ARP borrowings) will be at the ARP rate plus the ARP utilization fee.

### III. MISCELLANEOUS AGREEMENTS AND TRANSACTIONS

#### *1. Guaranty Agreement*

As previously disclosed, the Company has a “Guaranty Agreement” between Avista Corp. and Rathdrum Power, LLC. This agreement calls for Avista Corp. to act as guarantor of Avista Turbine Power, Inc.’s payment obligation to Rathdrum Power, LLC under a purchase power contract. This contract does not include the purchase or sale of goods, services or securities.

#### *2. Conveyance Agreement*

The Company has a “Conveyance Agreement” between Avista Corp. and Avista Energy that was entered into on October 5, 1998 and amended on October 30, 2002. Under this agreement, Avista conveyed for a term through October 31, 2009 its ownership interest in the Jackson Prairie Expansion Capacity and related withdrawal and injection capacity to Avista Energy. As consideration, Avista Energy paid Avista’s share of capital costs associated with the construction of the Jackson Prairie Expansion Capacity and pays Avista’s share of operating, maintenance and general and administrative expenses associated with the Jackson Prairie Expansion Capacity. In April 2007, in conjunction with the previously discussed sale of Avista Energy, Inc., the term of the Conveyance Agreement was extended to April 30, 2011. A confidential copy of the “Agreement to Extend Agreement to Convey Ownership Interest in Jackson Prairie Storage Project Expansion” was provided to the WUTC in the 2006 Subsidiary Transaction Report.

In addition, the Company made a filing dated March 2, 2010 that included a “Confirmation Agreement” between Avista Corp. and Avista Energy related to the reconveyance of the JP storage capacity (and deliverability) to the utility on May 1, 2011. For additional information on the reconveyance of the Jackson Prairie Storage to Avista Corporation, see Docket No. UG-100370 (Affiliated Interest Agreement) and Company witness Mr. Christie’s direct testimony (Exhibit No. \_\_\_(KJC-1T)) in Docket No. UG-100468 (General Rate Case).

#### *3. GreenVolts, Inc. Investment and Property Lease and Conditional Use Agreement*

In May 2007, Avista Development loaned \$200,000 to GreenVolts, Inc. under a convertible promissory note and executed a Property Lease and Conditional Use Agreement, by and between Avista and GreenVolts. The Agreement allows GreenVolts access to Avista’s Clean Energy Test Site (CETS) on the grounds of its Rathdrum Combustion Turbine property in north Idaho.

GreenVolts, a San Francisco based solar photovoltaic energy firm, will test new solar technology that is expected to deliver electricity as a cost that is potentially competitive with peak natural gas alternatives.

In November 2007, Avista Development invested \$500,000 in Series A Preferred Stock in GreenVolts and converted the \$200,000 promissory note to Series A Preferred Stock. This investment represents approximately 3% ownership in GreenVolts. Based on this, GreenVolts is not an affiliated interest of Avista, however, for informational purposes, a copy of the Property Lease and Conditional Use Agreement was provided in the 2007 Subsidiary Transaction Report.