

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET U-070311
)	
AVISTA CORPORATION,)	ORDER 01
)	
Petitioner,)	
)	
For An Accounting Order Regarding)	ORDER SETTING ACCOUNTING
the Appropriate Treatment of the Net)	PETITION FOR HEARING
Costs Associated with the Repurchase)	
of Debt)	
.....)	

BACKGROUND

- 1 On February 14, 2007, Avista Corporation (Avista or Company), filed with the Washington Utilities and Transportation Commission (Commission) a petition seeking an Accounting Order under WAC 480-07-370(b)(i) requesting retroactive approval to account for certain debt repurchase costs in a manner that deviated from the Commission’s rules.

- 2 As a result of the energy crisis of 2000 and 2001, Avista issued \$400 million of high cost debt to purchase power and natural gas, thereby increasing the Company’s debt ratio (total debt to total capitalization). Avista’s financial position weakened and its credit rating dropped below investment grade, which also triggered increases in the interest rate on other debt issuances. Avista’s interest costs rose to over \$35 million a year, a 52 percent increase. In order to reduce interest expense and improve its financial position, Avista began to reacquire its high cost debt. Based on data supplied by Avista, the Company repurchased a total of \$325,540,000 in debt in 58 separate open market transactions from 2002 to 2006. The total cost of these transactions to be amortized was \$23,709,308.

- 3 Under Federal Energy Regulatory Commission (FERC) accounting rules, specifically General Instruction 17 (FERC 17), when debt is repurchased and new debt is not issued to accomplish the repurchase, the costs to repurchase the debt must be amortized over the remaining life of the original debt that was retired. On the other

hand, if new debt is issued to accomplish the repurchase, then a company can elect to: 1) expense the costs in the current year if the cost is small; 2) amortize the costs over the remainder of the original life of the debt retired; or 3) amortize the costs over the life of the new debt. Any deviation from these options requires prior Commission approval. *See* WAC 480-90-203(3) and WAC 480-100-203(3).

- 4 Avista deviated from FERC 17 without Commission approval by amortizing these debt requisition costs over the average life of all outstanding debt. The Company states that it chose the amortization method based on what it believed was reasonable and appropriate at the time.
- 5 While Commission Staff does not support or condone the actions of Avista with respect to the accounting methods it followed related to the cost of reacquired debt, Staff recommends approving the petition as filed. Staff supports the petition to the extent that Avista acknowledges improper past accounting practices and agrees to follow the Commission's rules in the future, or to seek prior permission to vary from those rules.
- 6 On April 6, 2007, the Industrial Customers of Northwest Utilities (ICNU) filed comments requesting that the petition be suspended and considered in Avista's next general rate case. In the alternative, ICNU requests that the petition be rejected or set for hearing. ICNU asserts that Avista should be required to prove to the Commission that its accounting method will not cause any harm to customers. Further, ICNU argues that Staff does not recommend any corrective action, but did so in an analogous situation involving Puget Sound Energy.
- 7 At the Commission's open meeting on April 11, 2007, Avista argued for the first time, in the alternative to its petition, that it was in compliance with WAC 480-90-203 and WAC 480-100-203.¹ Avista argued that Financial Accounting Standard (FAS) 71 allows a company to choose a reasonable accounting method for an expense if it is probable that the expense will be allowed in rates. Avista asserts that its accounting

¹ Avista's petition states at paragraph 13 that: "following discussions with Staff, the Company agrees that it should have petitioned the Commission for an accounting order related to the accounting for these debt costs." Financial Accounting Standard 71, on which Avista relies for the argument that the Company is in compliance with WAC 480-90-203 and WAC 480-100-203, is not mentioned in Avista's petition.

practice fell within subsection (4) of each respective rule, which provides that each rule “does not supersede any commission order regarding accounting treatment.”

8 After consideration of the issues and arguments presented, the Commission sets the matter for hearing, which may be consolidated with Avista’s next general rate case, as determined by further order.

FINDINGS AND CONCLUSIONS

- 9 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including electric and gas companies. *RCW 80.01.040, RCW 80.04, RCW 80.28, RCW 80.08 and RCW 80.12.*
- 10 (2) Avista Corporation is an electric and gas company and is a public service company subject to the jurisdiction of the Commission.
- 11 (3) Avista deviated from FERC 17 without Commission approval by amortizing \$325,540,000 in debt reacquisition costs over the average life of all outstanding debt.
- 12 (4) Pursuant to WAC 480-07-370(b)(i), Avista petitions for retroactive approval of its accounting methodology as applied to its debt reacquisition costs.
- 13 (5) This matter was brought before the Commission at its regularly scheduled open meeting on April 11, 2007.
- 14 (6) At the April 11, 2007, open meeting, Avista raised for the first time the argument that it had not violated WAC 480-90-203(3) and WAC 480-100-203(3), because its accounting treatment was appropriate under FAS 71 and fell within the terms of subsection (4) of each respective rule.

- 15 (7) After examination of the petition filed in Docket U-070311 by Avista on April 11, 2007, and giving due consideration to all relevant matters, the Commission finds that the petition filed should be set for hearing.

O R D E R

THE COMMISSION ORDERS:

- 16 (1) Avista Corporation's request for retroactive approval of accounting treatment for certain debt repurchase costs is set for hearing for further consideration at a date to be determined by further order.
- 17 (2) The Commission retains jurisdiction over the subject matter and Avista Corporation to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective April 24, 2007.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

MARK H. SIDRAN, Chairman

PATRICK J. OSHIE, Commissioner