

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)
AVISTA Corporation dba Avista Utilities) DOCKET NO. UE-01_____)
For an Order Approving an Interim)
Electric Rate Increase Effective) PETITION OF AVISTA CORPORATION)
March 15, 2002) SEEKING INTERIM RATE INCREASE)

I. INTRODUCTION

1 The name and address of Petitioner is Avista Corporation doing business as Avista Utilities (hereinafter "Avista" or "Company"), at 1411 East Mission Avenue, Spokane, Washington. Please direct all correspondence related to this Petition to the following:

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Kelly O. Norwood
Vice President
Avista Corp.
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II. AVISTA'S REQUEST

2 Pursuant to WAC 480-09-420, the Company requests that the Commission approve an interim electric rate increase as part of its request for an electric general rate increase filed December 3, 2001. The direct testimony and exhibits of the Company's witnesses in the general rate case, in their entirety, are by reference made a part of this request for interim rate relief. Specifically, the testimonies of

witnesses Ely, Morris, Eliassen, Peterson, and Falkner address the Company's request for interim rate relief. Witness Hirschorn addresses the rate adjustment to implement the proposed interim increase contained on Original Sheet 94 – Interim Rate Adjustment. The Company requests approval of an interim rate increase of 10% or \$29.3 million annualized above existing rates (which includes the existing 25% surcharge) effective March 15, 2002. The interim rate increase would be in place until the end of the general rate case proceedings when final rates in the general rate case are approved. The interim rate increase would be subject to refund pending the outcome of the general rate case.

III. NEED FOR AN INTERIM RATE INCREASE

3 The additional interim rate relief is needed to provide Avista with current cash flows that contribute toward recovery of the ongoing costs to provide electric service to its customers, and to demonstrate to investors and lenders that Avista's financial condition will not be permitted to deteriorate further during the time involved in processing a general rate case.

4 In this filing, the Company requests that the Commission grant interim rate relief that will increase cash inflows to the Company during the adjudication of the general rate filing. The downward pressure on the Company's financial condition must be stopped as quickly as possible. Ultimately the cost to serve customers will be higher for an extended future period if the Company's weakened financial condition is not addressed. An interim increase will also improve the Company's ability to renew credit agreements on reasonable terms. As discussed by Mr.

Eliassen in his direct testimony, the Company needs to complete the renegotiations of key terms, including covenants, prior to the expiration of both the bank credit line and the accounts receivable financing facility in early to mid 2002.

5 The Company requests that interim rate relief be approved effective March 15, 2002. The Company simply cannot wait until the fourth quarter of 2002 for positive actions and improvements in cash flows resulting from an action by the Commission on the Company's general rate increase request, especially considering that the Company will be renegotiating its credit lines in the first and second quarters of 2002. The need for financing is more immediate than the fourth quarter of 2002.

IV. AVISTA MEETS THE SIX STANDARDS FOR INTERIM RATE RELIEF

6 The Commission set forth six standards pertaining to interim rate relief as articulated in Cause No. U-72-30, WUTC v. Pacific Northwest Bell Telephone Co. ("PNB"). Avista meets each standard with this request for interim relief. Mr. Peterson addresses each standard in detail in his direct testimony, which is incorporated by reference. The individual standards and a brief summary of how each standard is met are outlined below.

7 *Standard No. 1: The Commission has authority under proper circumstances to grant interim rate relief to a utility, but this should be done only after an opportunity for adequate hearing.* The Company has filed a full set of testimony and exhibits on December 3, 2001, to demonstrate and support the need for rate relief, including interim relief. The Company requests a procedural schedule,

including hearings, that would have the Commission reach a decision on the interim rate relief request by mid-March 2002, which allows opportunity to conduct the process for review and provide for adequate hearings. In addition, the Company is proposing the interim rate relief be granted on a “subject to refund” basis; therefore, during the remaining hearings on the general rate request, the basis for the interim increase can be thoroughly reviewed, with the possibility for a refund as an option. The Company stands ready to address all relevant questions in hearings in an expedited manner. There will be an opportunity for all parties to submit testimony, to conduct cross-examination, and to present their positions prior to a mid-March 2002 decision on interim relief by the Commission.

- 8 *Standard No. 2: An interim rate increase is an extraordinary remedy and should be granted only where an actual emergency exists or where necessary to prevent gross hardship or gross inequity.* It has become clear that it will be difficult to obtain renewal of the Company’s short-term bank line of credit and the accounts receivable financing without interim relief. The short-term financing facilities expire on May 29, 2002 and the Company will need to have access to funds through and beyond that date for normal operations. The negotiations related to these facilities will begin in earnest in March of 2002, and resolution of this interim rate issue is important to the process. To help assure that these facilities can be renewed as needed and that other needed financing can be obtained in the upcoming year, the Company needs a timely and favorable Commission decision allowing interim relief as requested in the present filing. An interim rate increase should be granted to “prevent gross hardship or gross inequity” from being suffered by the Company and

ultimately by its customers. Without interim relief, Avista could be prevented from securing the capital necessary to meet its public service obligations and a gross hardship could be a result. Mr. Peterson addresses this standard in more detail in his direct testimony.

9 *Standard No (3): The mere failure of the currently realized rate of return to equal that approved as adequate is not sufficient, standing alone, to justify the granting of interim relief.* The amount of interim rate relief that Avista is requesting is well below the amount needed to satisfy the revenue requirement that would support earning the rate of return last authorized by this Commission. Even with all of the requested relief, the Company's return on equity in 2002 would be only 9.0%. As Mr. Ely explains in his testimony, the Company is requesting interim relief in an amount of 12.4%, while we have shown that an increase of 22.5% in base rates is otherwise needed to provide a full opportunity to earn an adequate rate of return.

10 The interim increase does not restore the rate of return to the level allowed in the Company's last general rate case, nor does it meet the rate of return supported in the present case. The Company's application for interim rate relief is not predicated solely on the basis of an inadequate rate of return; instead, interim rate relief is necessary for the Company to address its financial needs, restore positive cash flows, preserve its current credit and its access to capital markets under reasonable terms, cover day-to-day operating costs, and to obtain financing. The Company's motivation for interim rate relief is not to create any specific rate of return; rather, to demonstrate to the financial community that a financial turn-around is indeed in

progress during the critical phase of renewing financing arrangements for short-term credit.

11 *Standard No. (4): The Commission should review all financial indices as they concern the applicant, including rate of return, interest coverage, earnings coverage and the growth, stability or deterioration of each, together with the immediate and short term demands for new financing and whether the grant or failure to grant interim relief will have such an effect on the financing demands as to substantially affect the public interest.* This standard essentially requires a review of the financial indicators that reflect on the Company's financial condition and its ability to obtain financing. There are several financial indices in the fourth interim relief standard from the PNB case that will be impacted. Mr. Peterson reviews these indices. The standard also requires a review to determine if there is a near term need for financing.

12 Without the requested relief, Avista's pre-tax interest coverage ratio will continue to deteriorate and will be substantially below that required for an investment grade credit rating. Note that even with the requested rate relief, interest coverage remains below the minimum standard of 2.40x for an investment grade credit rating. However, the trend of improving interest coverage will be viewed as a positive development by banks and rating agencies and thus provide some comfort to banks as we renew our credit facilities in early 2002. Interim rate relief provides a much-needed stabilizing effect on the interest coverage ratio that has been steadily deteriorating to unacceptably weak levels over the last year.

13 The 25% temporary power cost surcharge ordered by the Commission helps to partially recover previously deferred costs, but only those incurred up until September 30, 2001. Through the end of 2001, Avista is continuing to consume more cash in operations than it is bringing in through revenues. An interim rate increase will improve cash flows from earnings to cover necessary expenses of operations, capital requirements and refinancing debt maturities. The interim relief requested will provide a significant additional source of cash to the Company and renewal of the short-term bank facility and accounts receivable facility will be aided by the additional cash flow, earnings improvement, and signal of continued regulatory support to address Avista's financial situation. Failure to grant the necessary interim rate relief would result in significant difficulty when renewing these financing sources and could adversely affect the public interest.

14 *Standard No (5): In the current economic climate, the financial health of a utility may decline very swiftly and interim relief stands as a useful tool in an appropriate case to stay off impending disaster. However, this tool must be used with caution and applied only in a case where not to grant would cause clear jeopardy to the utility and detriment to its ratepayers and stockholders. That is not to say that interim relief should it be granted only after disaster has struck or is imminent, but neither should it be granted in any case where full hearings can be had and the general case resolved without clear detriment to the utility. The Commission has recognized that interim rate relief should not be reserved only for those situations "after disaster has struck or is imminent"; rather, it is an appropriate remedy where one can reasonably anticipate serious consequences. The credit*

warnings of Moody's and Standard & Poor's sound a clear warning concerning Avista's financial situation and the consequences of failure to obtain needed rate relief. The Company has already been downgraded to below investment grade and the outlook on Avista from rating agencies is negative. Neither the Company nor its customers will benefit from the speculative-grade credit ratings that have now been assigned to Avista, either in terms of the Company's access to necessary capital or the cost thereof. The peril to the utility and its customers, absent interim rate relief, should be apparent. Further downgrades are not acceptable and reasonable access to capital on reasonable terms to fund necessary activities to meet customer needs is at stake.

- 15 *Standard No. (6): Finally, as in all matters, we must reach our conclusions with the statutory charge to the Commission in mind, that is to "regulate in the public interest" (RCW 80.01.040). This is our ultimate responsibility and a reasoned judgment must give appropriate weight to all salient factors.* The Company has already experienced significant cost increases and difficulty in accessing capital on reasonable terms as a direct result of its current financial condition. Continuation of these types of cost increases is not in the public interest. The step-by-step process of restoring Avista's financial health is clearly in the public interest. Interim rate relief is an important step in this restoration process. The Company's request for a power cost surcharge was an important step, one that was only partially approved. The prudence determination requested by the Company is another important step. In this proceeding, Avista has proposed relief in the form of temporary deferrals of power costs, and implementation of interim and general rate increases that will move the

Company back toward an investment grade credit rating. This is clearly in the public interest in the long run, as it will ultimately lead to lower costs to customers and a healthier and more stable company.

- 16 In this proceeding, Avista asks that “reasoned judgment” take into consideration the “salient factors”: Avista has incurred substantial costs in the discharge of its public service obligations, bringing financial pressures to bear that require immediate rate relief. The Company needs to cover its ongoing operating and capital costs; needs to be able to refinance and fund maturing debt; needs to cover the costs of carrying substantial deferred power balances; needs to satisfy its bank covenants and renew its expiring credit facilities; and needs to restore its credit ratings to investment grade. These factors all argue strongly for interim rate relief.

V. EXPEDITED ACTION REQUESTED

- 17 The Company requests that the Commission establish an expedited procedural schedule that will allow a Commission order regarding interim rate relief to be issued by mid-March 2002.

VI. REQUEST FOR INTERIM RATE RELIEF

- 18 The Company respectfully requests that the Commission issue an order approving an interim rate increase of 10% or \$29.3 million annualized above existing rates (which includes the existing 25% surcharge) effective March 15, 2002. The interim rate increase would be in place until the end of the general rate case proceedings when final rates in the general rate case are approved. The interim

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is a Vice President of Avista Corporation and makes this verification for and on behalf of said corporation, being thereto duly authorized;

That he has read the foregoing Petition, knows the contents thereof, and believes the same to be true.

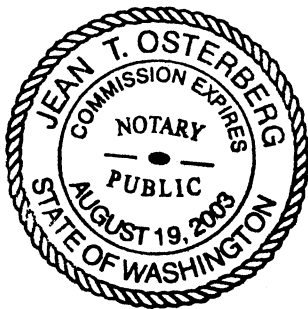
Kelly O. Norwood

SIGNED AND SWORN to before me on this 30th day of November 2001

Jean T. Osterberg

NOTARY PUBLIC in and for the State of Washington, residing at Spokane.

Commission Expires: 8-19-03



AVISTA CORPORATION
d/b/a Avista Utilities

SCHEDULE 94

(N)

INTERIM RATE ADJUSTMENT - WASHINGTON

APPLICABLE:

To Customers in the State of Washington where the Company has electric service available. This Interim Rate Adjustment shall be applicable to all retail customers for charges for electric energy sold and to the flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service. This Rate Adjustment is designed to recover increased costs experienced by the Company associated with the provision of electric service. The revenues collected from customers under this Schedule are subject to refund based on a final determination by the Washington Utilities and Transportation Commission. The rates under this Schedule shall be effective beginning March 15, 2002 and shall terminate October 31, 2002, or on the date ordered by the Commission.

MONTHLY RATE:

The energy charges of the individual rate schedules are to be increased by the following amounts:

Schedule 1	0.583¢ per kwh
Schedules 11 & 12	0.826¢ per kwh
Schedules 21 & 22	0.620¢ per kwh
Schedules 25	0.403¢ per kwh
Schedules 31 & 32	0.524¢ per kwh

Flat rate charges for Company-owned or Customer-owned Street Lighting and Area Lighting Service under Schedules 41 – 48 are to be increased by 12.58%.

SPECIAL TERMS AND CONDITIONS:

Service under this schedule is subject to the Rules and Regulations contained in this tariff.

The above Rate is subject to increases as set forth in Tax Adjustment Schedule 58.

Issued November 30, 2001

Effective March 15, 2002

Issued by Avista Utilities

By

Kelly Norwood, Vice President, Avista Corp.

Kelly Norwood

AVISTA CORPORATION
d/b/a Avista Utilities

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Issued November 30, 2001

Effective March 15, 2002

Issued by Avista Utilities

By

Kelly Norwood

Kelly Norwood, Vice President, Avista Corp.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Petition Seeking An Interim Rate Increase as Part of its Washington Electric General Rate Case Filing, by mailing a copy thereof, postage prepaid to the following:

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Dated at Spokane, Washington this 30th day of November 2001.



Jean T Osterberg
Rates Coordinator