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AVISTA
Corp.

February 13, 2007

Via Overnight Mail

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

Re: Petition for an Accounting Order Regarding the Appropriate Treatment of the Net Costs Associated With the Repurchase of Debt

Enclosed for filing with the Commission are the original and 3 copies of Avista Corporation's Petition for an accounting order regarding the appropriate treatment of the net costs associated with the repurchase of debt. This Petition is also being filed electronically.

If you have any questions regarding this filing, please contact myself at 509-495-4267 or Liz Andrews at 509-495-8601.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State and Federal Regulation
Avista Corporation

Enclosures
cc: Public Counsel and ICNU

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE PETITION OF AVISTA) CORPORATION FOR AN ACCOUNTING ORDER) REGARDING THE APPROPRIATE TREATMENT) OF THE NET COSTS ASSOCIATED WITH THE) REPURCHASE OF DEBT)	DOCKET NO. UE-__ DOCKET NO. UG-__ PETITION OF AVISTA CORPORATION

I. INTRODUCTION

1 Avista Corporation doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, and pursuant to WAC 480-07-370, hereby requests that the Commission issue an order approving accounting treatment related to the costs associated with the repurchase of debt.

2 This filing is in response to issues raised by Commission Staff in recent discussions related to the appropriate amortization of the costs associated with repurchasing debt for the period 2002 to 2006. Following these discussions, Avista agrees with Staff that it is appropriate for the Company to seek an accounting order for approval of the treatment of these costs. Accordingly, Avista requests that the Commission issue an order approving the current and prior accounting treatment for the costs associated with the debt that has been repurchased to date. Furthermore, Avista agrees that the costs associated with any new repurchases of debt will be accounted for in accordance with FERC General Instruction 17 (FERC 17). In the event that Avista desires to account for the cost of new debt repurchases differently than

FERC 17, the Company will request an accounting order from the WUTC prior to the repurchase.

3 In support of this Petition, Avista states that, the Company is a natural gas and electrical company and is subject to the jurisdiction of the Washington Commission with regard to its rates, service and accounting practices. Communication in reference to this Petition should be addressed to:

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II. HISTORY OF DEBT ISSUANCE AND REPURCHASES

4 Historically, Avista has had ready access to economic sources of funds to finance its capital expenditure program, refinance outstanding debt when it matures and meet other corporate purposes. Interest rates were relatively stable over time, which did not make it beneficial to redeem or repurchase debt prior to maturity, unless the debt contained a provision allowing for a call at par. Prior to 2001, Avista's credit rating had been in the investment grade range.

5 During the energy crisis of 2000 and 2001, the Company's access to funds was severely limited. At the same time it was necessary for the Company to issue a significant amount of debt to cover electric and natural gas costs incurred by the Company, but not yet paid for by Avista's customers. Many banks that the Company had utilized for funding withdrew their

support for the Company as our deferral balances grew. With banks withdrawing support, it became necessary for Avista to look at other methods of funding. Avista's credit rating dropped below investment grade in October 2001.

6 In the spring of 2001 Avista issued $400 million of 9 3/4% Senior Notes. A significant portion of the funds were used to purchase power and natural gas at high prices to serve our customers' load. Due to the Company's weak financial position at the time the notes were issued, they carry a number of restrictive covenants, and the Company did not have the ability to add a call provision that would have made it economic to refinance the entire block of notes as conditions improved. Additionally, when Avista's credit rating fell below investment grade, the interest rate increased to 9 1/8% on the 8 5/8% notes due 2003. Accordingly, Avista's annual interest costs rose from approximately $69 million in 2000 to over $105 million in 2001 and 2002. In addition, Avista's debt ratio rose to over 63% by December 2001 and the amount of debt outstanding rose from $715 million in January 2000 to $1,175 million at December 31, 2001.

7 In order to begin the return to investment grade, it was necessary for Avista to reduce the level of interest expense and reduce the debt percentage in relation to total capitalization. As the Company began recovering deferral balances, the access to funds improved and the interest rates that Avista could issue at began to decrease. During the 2002-2006 time frame the Company repurchased over $250 million of high cost debt and also had debt maturing of over $300 million. During the same time period, the Company had cash from a number of sources, including operations, surcharge revenues related to recovery of deferral balances, debt financings, and dividends from subsidiaries.

8 As a part of the plan to reduce interest costs and reduce the total level of debt, Avista began to opportunistically repurchase blocks of the 9 3/4% and 9 1/8% debt. The repurchases consisted of small blocks of bonds that were being traded in the marketplace. Prior to each purchase, an economic analysis was prepared to ensure that the interest cost savings from the repurchase of debt exceeded the costs associated with the repurchase. By repurchasing bonds, in small blocks, when economic to do so, the Company reduced the level of interest expense while also reducing the total level of debt. This method of repurchasing the debt is less costly than a larger tender offer on a significant portion of the bonds, which would inevitably have bid up the premium paid to repurchase the debt. It was likewise inefficient to issue new long term debt in small increments as it would have significantly increased issuance costs. Over this time period (2002-2006), Avista reduced its interest expense by approximately $10.3 million.

III. AMORTIZATION OF COSTS TO REPURCHASE DEBT

9 As Avista repurchased debt during the 2002 – 2006 period, it began amortizing the costs of the repurchases (premiums paid to repurchase the debt) over the average life of all of Avista's outstanding debt. As an example, the amortization period for the debt repurchased in 2002 was 8 years, based on the average life of debt outstanding at that time. At the time Avista began repurchasing the higher-cost debt it chose an amortization method that it believed was reasonable and appropriate at the time.

10 In recent discussions with Commission Staff, Staff raised concerns that the provisions of FERC 17 should have been used in determining the amortization period for the debt repurchase costs. The pertinent provisions of FERC 17 are as follows:

B. Reacquisition, without refunding. When long-term debt is reacquired or redeemed without being converted into another form of long-term debt and when the transaction is not in connection with a refunding operation (primarily redemptions for sinking fund proposes), the difference between the amount paid upon reacquisition and the face value; plus an un-amortized premium less any related unamortized debt expense and reacquisition costs; or less any unamortized discount, related debt expense and reacquisition cost applicable to the debt redeemed, retired and canceled, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. The utility shall amortize the recorded amounts equally on a monthly basis over the remaining life of the respective security issues (old original debt). The amounts so amortized shall be charged to account 428.1, Amortization of Loss on Reacquired Debt, or credited to account 429.1, Amortization of Gain on Reacquired Debt – Credit, as appropriate.

11

C. Reacquisition, with refunding. When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the maturity date of the first issue, the difference between the amount paid upon refunding and the face value; plus any unamortized premium less related debt expense or less any unamortized discount and related expense, applicable to the debt refunded, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. The utility may elect to account for such amounts as follows:

(1) Write them off immediately when the amounts are insignificant.

(2) Amortize them by equal monthly amounts over the remainder of the original life of the issue retired, or

(3) Amortize them by equal monthly amounts over the life of the new issue.

Once an election is made, it shall be applied on a consistent basis. The amounts in (1), (2) or (3) above shall be charged to account 428.1. Amortization of Loss on Reacquired Debt, or credited to account 429.1, Amortization of Gain on Reacquired Debt – Credit, as appropriate.

12 In simple terms, under FERC 17 when debt is repurchased and new debt is not issued to accomplish the repurchase, then the costs to repurchase the debt would 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 the 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.

13 Avista did not account for the debt repurchase costs in accordance with FERC 17, and 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. As part of those discussions, Avista agreed to submit this petition requesting that the Commission issue an order authorizing the continued use of the current accounting treatment for the debt repurchases that have occurred to date. The Company commits that for any new debt repurchases it will use FERC 17, or request an accounting order from the Commission, prior to new repurchases of debt, if it desires to use an accounting method other than FERC 17.

IV. ACCOUNTING ENTRIES

14 Costs to repurchase debt have been charged to Account 189 – Unamortized Loss on Reacquired Debt. Amortization of the costs has been recorded by charging Account 428.1 – Amortization of Loss on Reacquired Debt and crediting Account 189.

V. REQUESTED RELIEF

15 Avista respectfully requests that the Commission issue an order authorizing the continued use of the current accounting treatment for the debt repurchases that have occurred to date, including the prior accounting treatment for these debt repurchase costs. The Company commits that for any new debt repurchases it will use FERC 17, or request an accounting order from the Commission, prior to new repurchases of debt, if it desires to use an accounting method other than FERC 17.

Dated at Spokane, WA, this 13th day of February 2007.

By: Kelly Norwood
Kelly Norwood
Vice President, Avista Corp.

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.

SIGNED AND SWORN to before me on this 13th day of February 2007

TRACY M. TOWNLEY
COMMISSION EXPIRES
NOTARY
PUBLIC
OCTOBER 24, 2010
STATE OF WASHINGTON

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

Commission Expires: 10/24/2010