

Avista Corp.
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Toll Free 800-727-9170



August 31, 2007

Carole Washburn, Executive Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
Olympia, Washington 98504

Re: Avista Corporations' Petition for Order Approving Journal Entries for Repurchase of Office Building (Concerning Order issuing in Cause No. FR-86-150)

Dear Ms. Washburn:

Enclosed for filing are the original and three (3) copies of the Petition of Avista Corporation for an Order Approving Journal Entries for the Repurchase of Office Building.

Previously, on December 18, 1986, under Cause No. FR-86-150, the Washington Utilities and Transportation Commission approved Avista's petition to enter into a sale and leaseback of its general office building. That order required Avista to file with the Commission for its approval of journal entries in the event the building was repurchased. The building was repurchased in November 2005. When the building was repurchased, it was an oversight on Avista's part to not file for prior written approval of the accounting entries as required by the 1986 Order. The Company has procedures in place (i.e. tickler file system) to help ensure continuing compliance with Commission orders. The Company herein petitions the Commission for approval of the journal entries.

We are also filing this electronically today.

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

Very truly yours,

A handwritten signature in cursive script that reads "Kelly O. Norwood".

Kelly O. Norwood

Enclosures

**BEFORE THE
WASHINGTON UTILITIES & TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	
AVISTA Corporation dba Avista Utilities)	Docket No. UE-07 _____
For an Order Approving Journal)	PETITION
Entries for Repurchase of Office Building)	
_____)	

I. INTRODUCTION

1 In accordance with WAC 480-07-885, Avista Corporation (“Avista” or “Company”) respectfully petitions the Commission for an order that approves the journal entries detailed in this Petition related to repurchase of the Avista main office building.

2 Avista is engaged in the business of providing electric and gas service within the State of Washington as a public service company, and is subject to the regulatory authority of the Washington Utilities and Transportation Commission (“Commission”) as to its retail rates, service, facilities and practices. Its full name and mailing address for purposes of this proceeding are:

Avista Corp.
1411 E. Mission Ave. MSC 13
Spokane, WA 99202

Avista's representatives for purposes of this proceeding are:

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Vice President and Chief Counsel
Regulatory & Governmental Affairs
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Kelly Norwood
Vice President
State and Federal Regulation
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3 Rules and statutes that are relevant to this Petition include RCW 80.01.040, RCW
80.04.160, WAC 480-07-880 and WAC 480-07-885.

II. BACKGROUND

4 In December 1986, Avista (then known as "The Washington Water Power Company")
filed an application with the Commission for authority to enter into a sale and leaseback of its
general office building and certain adjacent properties located in Spokane, Washington. The
property was sold for approximately \$19.5 million to a third-party financial institution. The
property was then leased for a 25-year period that was scheduled to expire in December 2011.
As part of the lease, Avista had an option to repurchase the building and land on the last day of
the primary term for \$20.5 million.

5 The Commission issued Order Granting Application in Cause No. FR-86-150 on
December 18, 1986. This Order authorized the Company to enter into a sale and leaseback of its
general office building and certain adjacent properties. The Company had requested and the
Order approved the following: (1) Amortize the gain to ratepayers (i.e. to operating income)
over a specified period. (2) During the period of amortization, apply a credit against the rate
base for ratemaking purposes equal to the unamortized balance of the gain.

6 Each subsequent case filed with the Commission after this Order has included the
amortization of the gain within the test period and a restating adjustment "Deferred Gain on

Office Building” recording the credit against the rate base for ratemaking purposes equal to the unamortized balance of the gain.

7 The Order at Page 3 also stated, “In the event said assets are purchased back, applicant shall file with the Commission for its prior written approval the journal entries by which it will record on its books the repurchase of the assets.”

8 In November 2005, Avista repurchased the office building for approximately \$16.3 million and land for approximately \$1.5 million. The actual purchase price of \$17.8 million was approximately \$2.7 million less than the option to buy at the end of the primary term (\$20.5 million). The accounting entries made to record the repurchase of the building and land are included in Exhibit A.

9 As noted earlier, the Commission’s December 18, 1986 Order in Cause No. FR-86-150 required Avista to file with the Commission for its approval of journal entries in the event the building was repurchased. When the building was repurchased in November 2005, it was an oversight on Avista’s part to not file for prior written approval of the accounting entries as required by the 1986 Order. The Company has procedures in place (i.e. tickler file system) to help ensure continuing compliance with Commission orders.

10 Upon repurchase of the building, Avista determined that there were two accounting options regarding the unamortized deferred gain on the building. One option was to continue to amortize the deferred gain amount over the remaining term of the original 25-year amortization period, which ends December 2011. The other option was to net the unamortized deferred gain amount against the purchase price of the facilities and then depreciate the resulting net amount over the depreciable life of the facilities, which is currently approximately 50 years. Avista opted to continue to amortize the deferred gain amount over the remaining term of the original 25-year amortization period. Avista determined that it was beneficial to customers to pass the remaining benefits to customers over a six-year period rather than over a 50-year period under

the net-against-the-purchase-price option, per Company Interoffice Memorandum dated December 1, 2005, attached as Exhibit B.

11 At the time the building and land was repurchased, Avista had leasehold improvements on the books for approximately \$14.8 million with accumulated depreciation of approximately \$7.6 million. Upon repurchase of the building, Avista transferred the net book value of approximately \$7.2 million in leasehold improvements into FERC Account 390100 – Structures and Improvements from Account 390200 – Leasehold Structures and Improvements. This balance is now being depreciated over the same 50-year period as the repurchased building.

12 On December 5, 2005, Avista reported the termination of the lease agreement and purchase of the building on Form 8-K with the Securities and Exchange Commission.

13 On April 26, 2007, Avista filed with the Commission a request for an electric rate increase in Docket No. UE-070804. As in previous rate cases, Avista included the amortization of the gain within the test period and a restating adjustment “Deferred Gain on Office Building” recording the credit against the rate base for ratemaking purposes equal to the unamortized balance of the gain.

14 On August 1, 2007, WUTC Staff submitted Data Request No. 360 in Docket No. UE-070804 requesting information on the Deferred Gain on the Office Building. When preparing the response to this data request, Avista staff discovered the provision in the 1986 Order requiring prior Commission approval of the journal entries related to the repurchase of the office building, and notified Commission staff.

III. COMPANY’S REQUEST

15 It was an oversight on Avista’s part to not file for prior written approval of the accounting entries as required by the 1986 Order when the building was repurchased in November 2005.

Upon discovering the oversight, Avista contacted the WUTC Staff and it was agreed that Avista would file for approval of the accounting entries pertaining to the repurchase. Avista respectfully requests that the Commission issue an Order approving the Company's journal entries detailed in this Petition related to repurchase of the Avista main office building.

DATED this 31st day of August 2007



Kelly O. Norwood
Vice President
State and Federal Regulation

EXHIBIT A

AVISTA UTILITIES
PURCHASE OF OFFICE BUILDING AND LAND
November 2005

Summary of Journal Entries:

DR 390100 - Building	17,100,000.00	
DR 390100 - Land	1,600,000.00	
CR 232100 - Accounts Payable		18,700,000.00
To record payment to BNY Capital Funding LLC		
DR 300100 - Design/Engineering/Other Costs	338,897.28	
DR 300100 - Design/Engineering/Other Costs	8,115.80	
DR 300100 - Design/Engineering/Other Costs	303.00	
DR 300100 - Design/Engineering/Other Costs	19,152.41	
CR 232100 - Accounts Payable		366,468.49
To record payments for taxes, legal, etc. related to purchase of building		
DR 232150 - Accounts Payable - Office	1,259,966.58	
CR 300100 - Design/Engineering/Other Costs		1,259,966.58
To adjust purchase price of building for final lease payment included in payment to BNY Capital Funding LLC		
DR 300100 - Design/Engineering/Other Costs	893,498.09	
CR 390100 - Building		794,352.86
CR 390100 - Land		99,145.23
To allocate other purchase cost/final lease payment to building and land.		

Allocation of Other Costs to Building/Land:

	<u>Cash Payment</u>	<u>Allocation % for Other Costs</u>	<u>Other Costs</u>	<u>Adjusted Cost - Capitalized</u>
Allocated to Building	17,100,000.00	0.889037	(794,352.86)	16,305,647.14
Allocated to Land	1,600,000.00	0.110963	(99,145.23)	1,500,854.77
	<u>18,700,000.00</u>		<u>(893,498.09)</u>	<u>17,806,501.91</u>

Other Costs:

Tax	338,897.28
Title Ins.	8,115.80
Legal	303.00
Legal	19,152.41
Final Lease Payment	(1,259,966.58)
	<u>(893,498.09)</u>

EXHIBIT B



*Interoffice Memorandum
State and Federal Regulation*

DATE: December 1, 2005
TO: Cheryl Kettner
FROM: Ron McKenzie *RM*
SUBJECT: Deferred Gain on Office Building

COPY

This memo is to confirm the recommendation regarding accounting for the deferred gain on the office building sale/lease in light of the Company's decision to terminate the existing lease and repurchase the facility. The Company originally owned the corporate headquarters office building and central operating facility in Spokane with the building being first occupied in 1958. These facilities were sold in 1986 and leased back for a term of 25 years (expiring in 2011). The gain on the sale was deferred and a 25-year amortization of the gain was implemented to correspond with the term of the lease. On November 29, 2005 the Company terminated the lease and repurchased the facilities for approximately \$18-\$19 million.


Ratepayers receive the benefit of the deferred gain by having the amortization reduce operating expenses and by having the unamortized gain reduce rate base. Annual amortization amounts are credits or reduced expenses of \$196,092 for electric operations and \$65,364 for gas operations. At October 31, 2005 the unamortized gain was a credit balance of \$1,209,234 for electric and \$403,078 for gas.

There are two options regarding the unamortized deferred gain amounts. One is to continue to amortize the deferred gain amounts over the remaining term of the original 25-year amortization period, which ends December 2011. The other option is to net the unamortized deferred gain amounts against the purchase price of the facilities and then depreciate the resulting net amount over the depreciable life of the facilities, which is currently estimated to be 50 years.

I recommend that we continue to amortize the deferred gain amounts over the remaining term of the original 25-year amortization period. Continuation of the current method is consistent with the way the deferred gain amounts are reflected in rates. The current method will pass the remaining benefits on to customers over a six-year period rather than over a 50-year period under the net-against-the-purchase-price option.

If you have any questions, give me a call at extension 4320.

C: Christy Burmeister-Smith
Catherine Mueller
Kelly Norwood
Don Falkner


Approved by
Christy Burmeister-Smith, VP & Controller

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Petition for Order Approving Journal Entries for Repurchase of Office Building (Concerning Order issuing in Cause No. FR-86-150, by mailing a copy thereof, postage prepaid to the following:

Ms. Carole J. Washburn, Executive Secretary
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Ms. Paula Pyron
Executive Director
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4113 Wolfberry Court
Lake Oswego, OR 97035

Dated at Spokane, Washington this 31st day of August 2007.



Patty Osness
Rates Coordinator