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October 30, 2002

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

Re: Docket No. A-021178, Consider Establishing Rules That Would Require
Reporting of Transactions Between Regulated Companies and Their Subsidiaries

Dear Ms. Washburn:

Avista Utilities appreciates the opportunity to submit comments in the above-cited docket. The Commission, as stated in its October 9, 2002 Notice, seeks comment on potential rules applicable to regulated companies that may include, but not be limited to, the following:

1. Require regulated companies to pre-file the following transactions with subsidiaries:
 - a. Management or service contracts (to be defined).
 - b. Maintenance, operation and construction contracts.
 - c. Construction, maintenance, or use of a telecommunications line or service contracts.
 - d. Issuance of evidence of ownership or indebtedness or creation of liens on regulated company property.
2. Require regulated companies to file periodic reports detailing transactions that have already occurred with subsidiaries.
3. Require regulated companies to immediately post-file significant transactions/arrangements with subsidiaries.

Avista Utilities, as it addresses each of these issues in turn, is guided by several principles. The Company wishes to be responsive to the Commission's request for information to assure that a utility purchases services at market rates and does not "overpay" its unregulated subsidiary. At the same time, the Company would like to avoid burdensome administrative filings that do not contribute to this end. Thus, Avista Utilities' following comments intend to provide a reporting process to gain timely information relevant to subsidiary transactions.

Re 1. Requiring regulated companies to pre-file transactions with subsidiaries

Definition is needed on "pre-filing"; specifically the following areas should be addressed: 1) whether pre-filing is intended to be prior to signing or prior to an effective date, 2) the time

frame for filing that is contemplated *vis a vis* the effective date, and 3) any action that may or may not be taken by the Commission prior to the effective date.

The Company proposes that transactions requiring pre-filing (as defined in the Company's comments below) be provided upon thirty days notice prior to the effective date as an informational filing with no action to be taken by the Commission unless the Commission desires to take any action prior to the effective date of the agreement.

Re 1.a. Management or service contracts (to be defined)

The Company proposes a definition, as described in more detail below, for "management or service contracts." Transactions that fall under this category would be presented to the Commission on an individually filed basis before the agreement between the Company and a subsidiary is effective.

Individual filings would not be required for any agreement, whether written or otherwise, between a regulated public utility and its subsidiaries that relates to general corporate support and personnel services that are necessary for the day-to-day operation of the corporation; or if it meets the following criteria (hereinafter "Subsidiary Services"):

- (a) The agreement does not allow or provide a means for the transfer of confidential information from the utility to the subsidiary in a manner that would provide opportunity for unfair competitive advantage;
- (b) The agreement will not lead to customer confusion; or
- (c) The regulated utility has in place procedures for appropriate cost allocation for services rendered to the subsidiary.

Agreements between a regulated utility and its subsidiaries for the following types of services, by way of example, will be presumed to be Subsidiary Services: payroll, taxes, shareholder services, insurance, financial reporting, information technology support services, financial planning and analysis, corporate accounting, corporate security, corporate treasury, human resources (compensation, benefits, employment policies), contract and intellectual property support services, employee records, regulatory affairs, lobbying, legal and pension management, marketing and engineering.

Agreements for Subsidiary Services would be reported in a "Subsidiary Transaction Report." This report would be filed annually and would not need to be filed prior to the effective date of the contract or arrangement. Agreements for services not listed above will not be presumed to be Subsidiary Services, but may be reported as Subsidiary Services if the above criteria are satisfied.

Agreements between a regulated utility and its subsidiaries for services that do not qualify as Subsidiary Services would be pre-filed as a subsidiary transaction.

Re 1.b. Maintenance, operation and construction contracts

Consistent with the three criteria identified with respect to Subsidiary Services in the previous section (i.e., transactions that the Company proposes to be provided in advance), "maintenance, operation and construction contracts" may be pre-filed thirty days prior to the effective date.

Re 1.c. Construction, maintenance, or use of a telecommunications line or service contracts

Avista Utilities generally offers use of its telecommunications lines at Federal Communication Commission tariffed rates or formulae. In instances in which leases are transacted with unregulated subsidiaries, these same lease rates would be available to any similarly situated entity wishing similar service. Therefore, the Company proposes that telecommunication service subsidiary transactions be reported in the Annual Report as described below.

Re 1.d. Issuance of evidence of ownership or indebtedness or creation of liens on regulated company property

Avista Utilities proposes that the Annual Subsidiary Transaction Report as described in the following section include a section on ownership, indebtedness, and/or creation of liens on regulated company property.

Equity ownership by a regulated company in a subsidiary is, from an accounting perspective, achieved through the use of the regulated company's retained earnings. Historically, this has been a management function exclusive to the regulated company's Board of Directors and, as appropriate, reviewed in general rate cases.

Furthermore, there can be modifications to a regulated company's ownership, indebtedness, and/or lien situation with subsidiaries on a weekly basis. To pre-file each change in equity, debt, or lien would be burdensome if not problematic due to frequency and timing.

The Company submits that inclusion of its ownership, indebtedness, and/or creation of liens with unregulated subsidiaries in the Annual Subsidiary Transaction Report would provide the Commission the opportunity to monitor capitalization of subsidiaries by regulated companies.

Re 2. Require regulated companies to file periodic reports detailing transactions that have already occurred with subsidiaries.

Avista proposes that all agreements transacted between a regulated company and its subsidiaries in the previous year be itemized in an Annual Subsidiary Transaction Report. Each agreement

described in the Transaction Report would be available for the Commission Staff to review upon request. In this manner, all subsidiary agreements would be provided or “disclosed” to the Commission with the Staff’s ability for further investigation. Included in the subsidiary report would be a summary of investments, inter-company loans and lien positions, if any, by the regulated utility in unregulated subsidiaries.

Re 3. Require regulated companies to immediately post-file significant transactions/arrangements with subsidiaries.

The Company is not clear on the intent of this section. Is it to have all previously executed significant subsidiary transactions filed? In other words, is this meant to be a “catch up” for transactions that have occurred prior to this rulemaking? Avista Utilities has either previously filed all subsidiary transactions or reported all subsidiary transactions by name and description. Alternatively, this section could be read as an alternative to the pre-filing issues discussed earlier.

In summary, Avista Utilities believes that adoption of the proposed reporting concepts contained herein would provide additional clarity regarding subsidiary transaction reporting.

Thank you for the opportunity to comment in this docket. Please contact Bruce Folsom at (509) 495-8706 or Liz Andrews at (509) 495-8601 with any questions related to this matter.

Sincerely,



Kelly Norwood
Vice President, Rates and Regulation