

Avista Corp.
1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



Corp.

April 26, 2007

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

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

RE: Docket No. U-070311

This Docket involves a Petition by Avista Utilities requesting an accounting order regarding the appropriate treatment of the amortization of costs associated with the repurchase of debt for the period 2002 through 2006. Commission Staff recently raised concerns regarding the accounting method employed by Avista, beginning in 2002, to amortize these costs. Although Avista had the authority to defer the debt repurchase costs, the concerns center around the time period over which the Company chose to amortize these costs.

Under WAC 480-100-203 and WAC 480-90-203, the WUTC adopted the uniform system of accounts as prescribed by FERC. FERC's General Instruction 17 (FERC 17) specifies the accounting treatment related to the costs associated with the repurchase of debt. Under FERC 17, when previously issued debt is repurchased, the premiums paid to repurchase the debt are to be amortized over one of the following time periods: 1) expense the cost in the current year if the cost is small, 2) amortize the cost over the remaining life of the original debt, or 3) amortize the cost over the life of the new debt.

As Avista began repurchasing debt in 2002, it chose to amortize the repurchase costs over the average life of all of Avista's outstanding debt. The Company explained to the Commission at the April 11, 2007 Open Meeting that it relied upon Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (FAS 71), as the basis for the accounting method that it chose.

After further review of FERC General Instruction 17 and SFAS 71, the Company is in agreement with Commission Staff that, beginning in 2002, Avista should have either applied FERC 17, or obtained an order in advance of adopting a methodology other than that prescribed by FERC 17. It was improper to use an amortization period other than that prescribed by FERC 17 without prior authorization of the Commission.

This Docket has been set for hearing. It is the Company's understanding, based on discussions at the April 11th Open Meeting, that this Docket will be consolidated with the Company's upcoming general rate case. Avista will address this issue in its pre-filed testimony in the general rate case, including the effect of the current amortization method on customers, as compared to the application of FERC 17.

In the interim, we believe it is important for the Commission and the participants to this Docket to be aware that Avista is in agreement with Commission Staff on this matter. The Company acknowledges that in the process of evaluating the proper accounting treatment that should have been applied beginning in 2002, it changed its view on the appropriateness of accounting methods. The Company apologizes to the Commission, the Commission Staff and the other participants for the confusion and tension that it caused through this process.

Avista makes the commitment going forward that it will use FERC 17, or will seek approval from the Commission prior to using a method other than FERC 17. The Company commits its full cooperation as we work toward the final resolution of this matter.

Please call me at (509) 495-4267 if you have any questions.

Sincerely,

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

Kelly Norwood
Vice President, State & Federal Regulation

Cc: Chairman Mark Sidran
Commissioner Pat Oshie
Commissioner Phil Jones
Gene Waas
Mike Parvinen
Ken Elgin
Bob Cedarbaum
Brad Van Cleve – ICNU
Judith Krebs – Public Counsel