

Avista Corp.
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Spokane, Washington 99220-3727
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March 11, 2003

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

Re: Docket No. A-021178, Draft Financial Reporting Rules

Dear Ms. Washburn:

Thank you for the opportunity to review the Draft Financial Reporting Rules. Avista has reviewed the electric and natural gas proposed reporting rule revisions and offers the following comments on each section.

(4)(a) Financial Transaction Reports

Avista Utilities suggests three modifications to this section as explained below. The specific edits to Section (4)(a) of this rule are summarized following these explanations.

First, Avista Energy, a subsidiary of Avista Utilities, acquires natural gas for Avista Utilities. Disclosure and submission of all available data in support of this arrangement has been provided to the Commission on a timely basis. To the Company's understanding, reporting of available transactional data has not been an issue of concern. Under this agreement, and as an agent for the operating utility, Avista Utilities provides to Avista Energy cash for the procurement of natural gas in excess of two percent of Avista's latest reported common shareholders equity. Because the Commission has previously approved this arrangement, filing such transfers of cash with twenty days prior notice should not be necessary nor should this count toward a cumulative threshold. Avista Utilities does provide quarterly reports related to the gas procurement mechanism. The Company respectfully requests that the proposed rule provide an exception for transactions previously approved by the Commission.

Second, two percent of Avista's latest reported common shareholders equity is approximately \$14.6 million. Annualized transfers of cash, credit, or any pecuniary interest from Avista Utilities to its subsidiaries are projected, at this time, to be less than this threshold amount but for the gas procurement arrangement. There may be situations

in which dividends or other cash transfers in excess of this threshold amount are provided to Avista Utilities from its subsidiaries. Under the proposed rule, this transfer to Avista Utilities would require twenty days notice and does not appear to serve a broad public interest. The Company requests that the proposed rule be modified accordingly.

Third, Section (4)(a)(ii) requires reporting if the threshold is exceeded for cumulative transactions over a twelve month period. Avista Utilities assumes that "cumulative" includes a netting of incoming and outgoing transfers of cash, credit and pecuniary interests. Transfers to a subsidiary may be made on a short-term basis which are returned thereafter. The Company seeks confirmation that "cumulative" is intended to be on a net basis over the twelve month period. Moreover, the reference in Section (4)(a)(ii) to a "cumulative transaction amount for the prior twelve months [exceeding] two percent..." is understood by the Company to relate to a single transaction with multiple payments. Avista respectfully seeks clarification of this understanding.

Based on the above discussion, the Company respectfully requests that (4)(a) be modified as follows:

(a) **Financial transaction reports.** Twenty days prior to the transfer of cash, credit, or any pecuniary interest from ~~between~~ an electric utility; to its subsidiaries, or its affiliates, the utility must report to the commission, excepting transactions previously approved by the Commission the amount and the details of the transaction when:

(ii) A cumulative net transaction amount for the prior twelve months exceeds two percent of the latest reported common shareholders equity.

Lastly, in the event of a "twenty day prior notice filing" for a transaction in which a relevant financial interest is transferred from the utility to a subsidiary, proprietary information would likely be involved. The Company recognizes that WAC 480-09-015 provides for the submission of confidential information. Avista Utilities notes that this confidentiality provision would likely be utilized if this proposed rule is adopted.

(4)(b) Essential Services Contracts

The proposed essential electric services contracts filing requirement is either redundant to other reporting rules and rate making procedures or overly burdensome.

Some, if not most, of the requested data is currently provided. The Company submits power purchase data through its monthly Energy Recovery Mechanism reports as well as annually in its FERC reports. Utilities report major construction projects through the annual budget filing. Reliability data associated with the operation of the electric system is provided annually per WAC 480-100-398, reliability plans.

All of the information requested in this section of the proposed rule is subject to Commission review and approval for rate making purposes. The Commission Staff

audits essential service expenditures during rate cases. Prudence analysis of such expenditures is a rate case issue.

Avista recommends that Section (4)(b) be deleted. This section is administratively burdensome and redundant to currently established reporting and cost-recovery procedures. "Re-reporting" the requested information or providing such data without related Commission action outside of a rate case is burdensome.

(4)(c) Annual Essential Services Contracts

Avista recommends that Section (4)(c) be deleted for the reasons explained in response to Section (4)(b), above.

(4)(d) Annual Subsidiary Transaction Report

The corporate structure of the Company is such that Avista Corporation is Avista Utilities. Avista Corporation, doing business as Avista Utilities, has one wholly-owned subsidiary, Avista Capital. Avista Capital subsidiaries are shown in Attachment 1.

Avista Corporation has willingly provided the Commission with direct access to the books and records of Avista Corporation's subsidiaries. For example, Avista Energy has provided all available data to the Commission relative to its gas procurement arrangement with Avista Utilities/Corp.

Avista's corporate structure can be compared and contrasted to a corporate holding company structure. In some instances, corporate holding companies may own equity in separate companies that have their own independent board, boards that are not under the control of the holding company. Under this corporate structure, the Commission would not have access to the independent companies' books and records but for explicit statutes and regulations that allow for discovery. This is not the case and is not necessary for Avista Utilities given Avista Utilities corporate structure, insofar as it has a controlling interest in subsidiaries.

The Commission's access to books and records of the Company's subsidiaries has not been an issue contested by Avista Corporation. In fact, the Company has filed an annual subsidiary transaction report similar to what would be required under this section of the proposed reporting rule. Attachment 2, attached, is last year's report.

Given Avista Utilities corporate structure, the Company intends to file annual subsidiary transaction reports to be in compliance with this rule, upon adoption. The Commission Staff has the authority under Commission procedure to seek more information as the Staff processes the annual report.

Avista Comments re A-021178

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(4)(e) Annual Affiliated Interest Transaction Report

For the reasons described in Section (4)(d) above, Avista Utilities has subsidiaries and intends to file an Annual Subsidiary Transaction Report rather than an Annual Affiliated Interest Transaction Report.

Please direct any questions on this matter to Bruce Folsom at (509) 495-8706 or Liz Andrews at (509) 495-8601.

Sincerely,

A handwritten signature in black ink that reads "Kelly Norwood". The signature is written in a cursive, slightly slanted style.

Kelly Norwood,
Vice-President, Rates and Regulation

enclosures

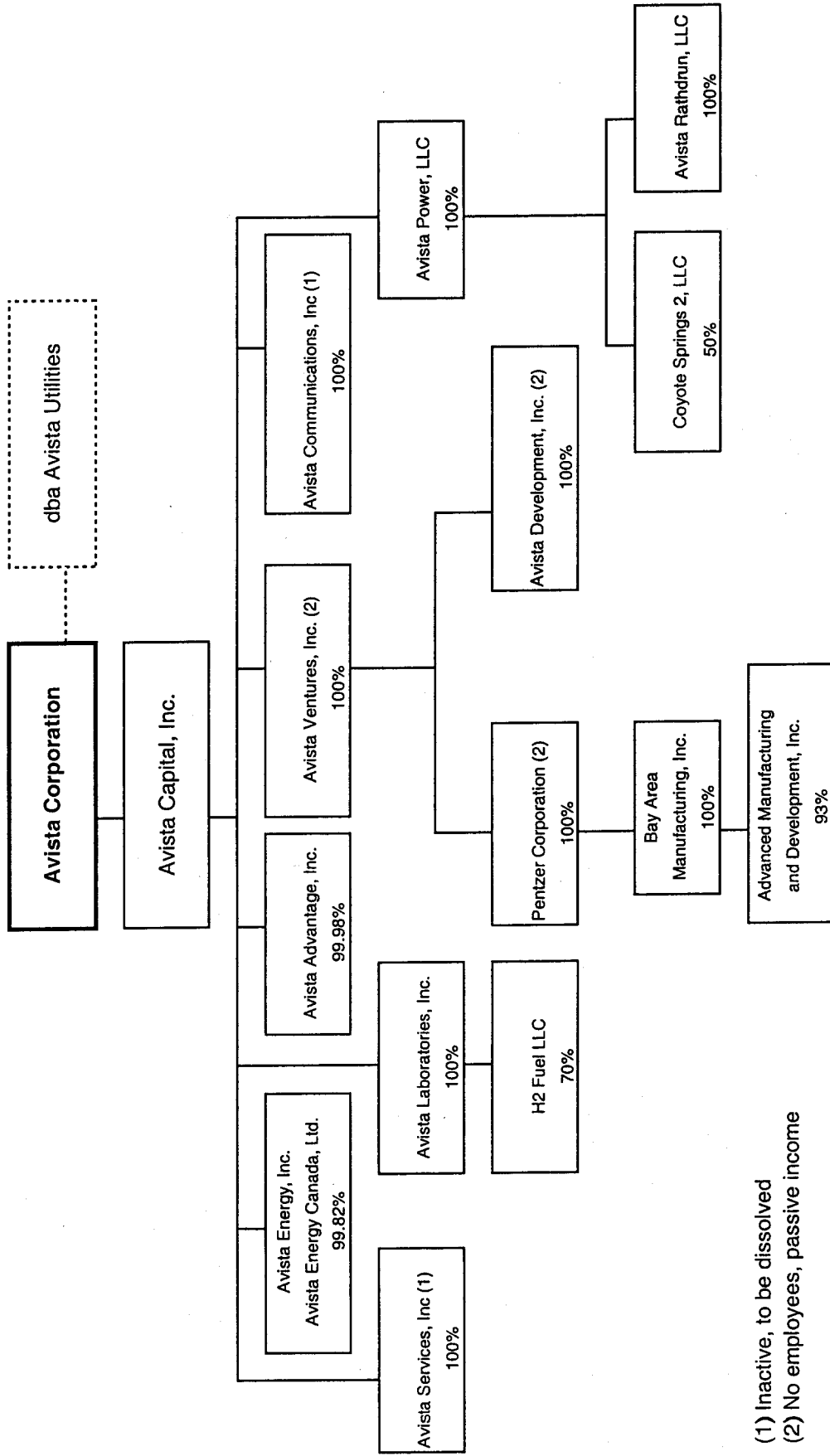
WUTC
Docket No. A-021178
Special Reports Rulemaking

ATTACHMENT 1

Avista Corporation Organizational Structure

Comments of Avista Utilities
March 11, 2003

ATTACHMENT 1
Avista Corporation Organizational Structure
January 1, 2003



(1) Inactive, to be dissolved
 (2) No employees, passive income

WUTC
Docket No. A-021178
Special Reports Rulemaking

ATTACHMENT 2

Avista Annual Subsidiary Transaction Report

Comments of Avista Utilities
March 11, 2003

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



May 31, 2002

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

RE: Avista's Annual Subsidiary Transaction Report

Dear Ms. Washburn:

The Company submits an original and two copies of the attached Subsidiary Transaction Report. This report contains summaries of all transactions or agreements entered into or in effect between Avista and its subsidiaries over the preceding year ending December 31, 2001. The agreements will be available for the Commission Staff to review upon request.

Please direct any questions on this matter to Liz Andrews at (509) 495-8601.

Sincerely,

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

Kelly O. Norwood
Vice President, Rates and Regulation

SUBSIDIARY TRANSACTION REPORT

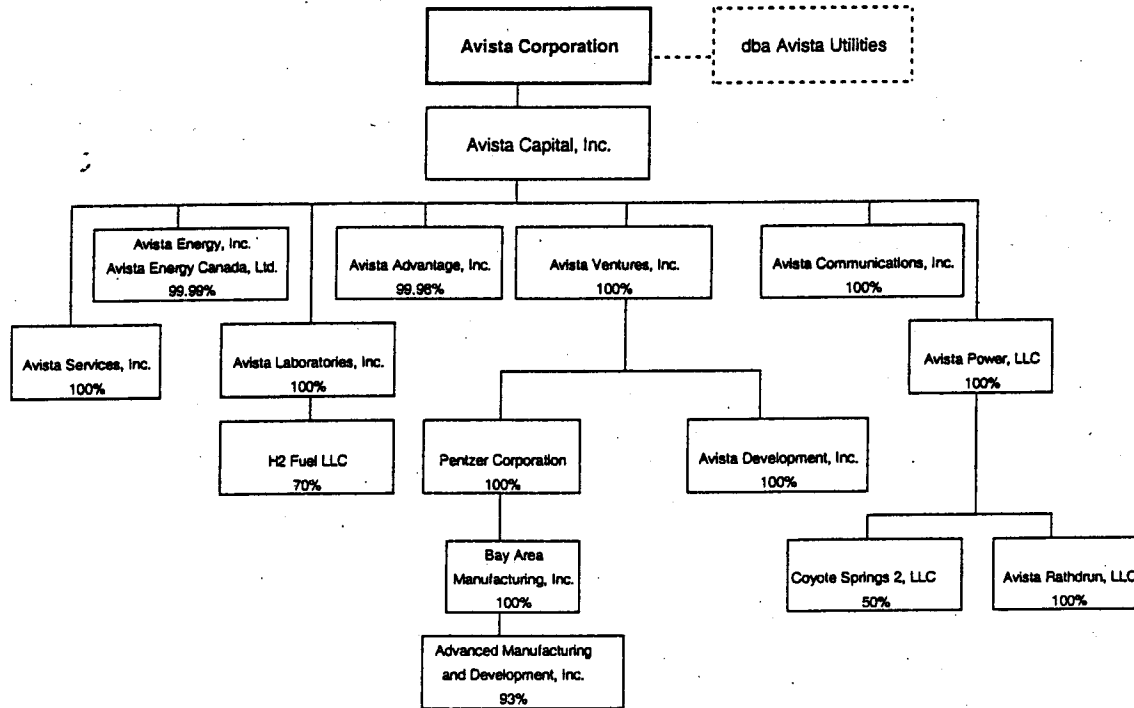
OF

AVISTA CORPORATION

d/b/a AVISTA UTILITIES

FOR THE YEAR ENDED DECEMBER 31, 2001

I. Organization Structure and Description



Avista Utilities is a combination utility that provides service to 317,000 electric customers and 184,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters. In September 1991, the Company completed the purchase of the Oregon and South Lake Tahoe, California natural gas distribution properties of CP National Corporation. At December 31, 2001, the Company served 100,000 gas customers in Oregon and South Lake Tahoe service area, which is being operated as Avista Utilities.

Avista Capital, Inc. holds all of Avista Corporation's subsidiary investments. As of December 31, 2001, Avista Capital had the following non-utility investments:

- Avista Ventures, Inc. (100% ownership), was formed to manage and market investments. Subsidiaries of Avista Ventures, Inc. include:
 - Avista Development, Inc. (100% ownership), was established to manage real estate investments in Avista Corp's service area.

- **Pentzer Corporation** is a wholly owned private investment company that served as the parent of a number of the Company's non-utility businesses. Pentzer's investments as of December 31, 2001 are:
 - **Advanced Manufacturing and Development, Inc.** (93% ownership), located in Willits, California, is a manufacturer and turnkey assembler of electronic and mechanical equipment primarily for the computer and instrumentation industries. This company is held by **Bay Area Manufacturing, Inc.** (100% ownership).
- **Avista Laboratories, Inc.** (100% ownership), was formed for the purpose of developing alternative energy products and/or to engage in related research and development.
 - **H2fuel, LLC** (70% ownership), was formed to develop and commercialize a new technology for manufacturing hydrogen for fuel cells.
- **Avista Advantage, Inc.** (99.98% ownership) The primary services and products include consolidated billing and resource accounting.
- **Avista Communications, Inc.** (100% ownership), is a Competitive Local Exchange Carrier (CLEC) in small to mid-size markets throughout the Western United States. Additionally, Avista Communications provides fiber optic cable leases. (Reported as Discontinued operations for fiscal year end December 31, 2001.)
- **Avista Energy, Inc.** and **Avista Energy Canada, Ltd.** (99.99% ownership), are energy trading and marketing companies.
- **Avista Power, LLC** (100% ownership), created to develop and own generation assets in North America. Subsidiaries of Avista Power, LLC include:
 - **Avista Rathdrum, LLC** (100% ownership), created to develop and own generation assets.
 - **Coyote Springs 2, LLC** (50% ownership), created to develop and own generation assets.
- **Avista Services, Inc.** (100% ownership) The primary products and services center around energy efficiency, power quality and miscellaneous consumer products.

II. Subsidiary Transaction Contract Listing

Below is the individual listing and description of all current agreements entered into or in effect between Avista Corp. (d.b.a. Avista Utilities, previously known as Washington Water Power) and its subsidiaries in effect during fiscal year 2001 and beyond.

Fiber Optic Leases:

The following fourteen contracts listed below are fiber optic lease agreements between Avista Communications (previously known as WWP Fiber, Inc. and Avista Fiber) and Avista Corp. These lease agreements provide Avista Corp. use of Avista Communications' fiber optic communication technology. Avista Corp. uses the fiber optic cable to provide high capacity corporate telecommunication services and requirements for the Spokane corporate headquarters' customer service area and other areas located in the Spokane, Washington and Coeur d'Alene, Idaho areas.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>		<u>Dated as of:</u>	<u>Expires</u>
FL-4-9707	Telecommunications Lease Agreement	WWP	WWP Fiber, Inc.	6/26/97	6/26/02
A-0136-7	Communications Cable Lease Agreement	Avista Corp.	WWP Fiber, Inc.	10/15/97	10/1/02
A-01888	Fiber Cable Lease Agreement	WWP	WWP Fiber, Inc.	3/13/98	3/13/03
A-03548	Fiber Optic Cable Lease Agreement	WWP	WWP Fiber, Inc.	10/20/98	9/21/04
A-05009	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Fiber, Inc.	4/6/99	4/6/02
A-05899	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Fiber, Inc.	6/29/99	6/29/04
A-06769	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Fiber, Inc.	8/30/99	8/30/04
A-08289	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Fiber, Inc.	12/28/99	12/28/02
A-09860	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	4/10/00	4/10/05
A-09870	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	4/25/00	4/25/05
A-09880	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	4/10/00	4/10/05
A-09900	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	4/10/00	4/10/05
A-11350	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	7/24/00	7/24/05

A-11360	Fiber Optic Cable Lease Agreement	Avista Corp.	Avista Communications	7/24/00	7/24/05
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Administrative Support Agreements:

The following four contracts listed below document the administrative support services and direct expenses associated with these services provided by Avista Corp. and charged to the subsidiary listed below as the contracting party. These same services are provided by Avista Corp. to all its subsidiaries and are accounted for in the same manner as described below.

On a regular basis, general office employees, including officers, of Avista Corp. spend time on corporate service support, such as accounting, federal income tax filing, planning, graphic services, etc. for subsidiaries. Their time is charged to suspense accounts (Deferred Debit 186.20 asset account-these accounts do not affect the Utility expenses), loaded for benefits and then established as a receivable (Account 146.00) when billed to the subsidiary. If other resources are expended during the course of this work such as travel or consulting services, these costs are also charged to suspense accounts and billed to the subsidiary.

All corporate services provided, and costs incurred, are billed to each subsidiary at cost. No additional margin or profit is included and no assets are allocated. Suspense and capture of Avista Corporation employee costs, which are then billed back to the subsidiaries at cost, serve to reduce the expenses that must be borne by the utility.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>		<u>Dated as of:</u>	<u>Expires</u>
A-11390	Services Agreement	Avista Corp.	Avista Advantage	10/1/00	on-going
A-17621	Services Agreement	Avista Corp.	Avista Laboratories	8/1/01	on-going
A-12560	Tax Sharing Agreement	Avista Corp.	Avista Advantage	10/23/00	on-going
NA	Tax Sharing Agreement	Avista Corp.	Avista Laboratories	8/1/01	on-going

Natural Gas Related Contracts:

The following three contracts relate to the sale of natural gas for and between Avista Utilities and Avista Energy.

Agency Agreement: This contract is an agreement for Avista Energy to provide Avista Utilities management services for its natural gas supply, transportation and natural gas storage. This contract coincides with the Company's Natural Gas Benchmark Mechanism. (This contract has been previously filed with the Commission.) *Natural Gas Benchmark*

Mechanism: The Company received regulatory approval of its Natural Gas Benchmark Mechanism (Benchmark Mechanism) in 1999 from the Idaho Public Utilities Commission (IPUC), Washington Utilities and Transportation Commission (WUTC) and Oregon Public Utilities Commission (OPUC). The Benchmark Mechanism eliminates natural gas procurement operations within Avista Utilities and consolidates gas procurement operation under Avista Energy. The ownership of the natural gas assets remains with Avista Utilities, however, the assets are managed by Avista Energy through the Agency Agreement. This Benchmark Mechanism was set to expire March 31, 2002 in all three jurisdictions. Avista Utilities provided notice of its intent to continue with a revised Benchmark Mechanism and related Agency Agreement with Avista Energy to the applicable state regulatory agencies in late 2001. In early 2002, the WUTC approved in Docket No. UG-011501 the continuation of the revised Benchmark Mechanism and related Agency Agreement through March 31, 2003. Both the IPUC and OPUC approved the revised Benchmark Mechanism and related Agency Agreement through March 31, 2005.

Base Contract: The purpose of this contract is to facilitate the purchase and sale of natural gas and is intended for interruptible transactions or firm transactions. This contract incorporates by reference the general terms and conditions published by the Gas Industry Standards Board (GISB). This contract acts as an umbrella contract for the purchase of natural gas to fuel the Company's turbines. The Company will provide a listing of these transactions upon request from the Commission.

Jackson Prairie Storage Project: This contract conveyed to Avista Energy from Avista Corp. their one-third share ownership interest in the expanded Jackson Prairie Storage capacity and withdrawal and injection capacity. This agreement called for Avista Energy to contribute monies sufficient to cover Avista Corp.'s share of the capital costs related to this expansion, together with ongoing operating expenses, in return for a limited term ownership in the expanded Storage project. Avista Corp. retains all management and voting rights associated with this project.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>	<u>Dated as of:</u>	<u>Expires</u>
NA	Agency Agreement	Avista Corp. Avista Energy	9/1/99	on-going
NA	Base Contract for ST Sale & Purchase of Natural Gas	Avista Corp. Avista Energy	9/1/99	on-going
NA	Agreement to Convey ownership Interest in Jackson Prairie Storage Project Expansion	WWP Avista Energy	10/5/98	10/5/08

Avista Advantage Related Contracts:

ACIS Agreement: This agreement allowed Avista Corp. to be distributor of Avista Advantage’s ACIS Services to provide utility customers with consolidated billing, resource accounting, energy analysis and load profiling services via Internet web sites. (Note: This contract was previously filed with the Commission in 1998 as an informational filing under Docket Number UE-981024. This contract also has since expired.)

Referral Agreement: This agreement established a program in which Avista Utilities will refer certain of its existing as well as prospective customers to Avista Advantage to provide energy efficiency related products and services (“ACIS Services”). This contract replaces the previous ACIS agreement contract described above. This contract has since been cancelled.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>		<u>Dated as of:</u>	<u>Expires</u>
A-01428	Agreement for Distribution of ACIS Services	WWP	Avista Advantage	7/20/98	7/20/01
A-14010	Referral Agreement	Avista Corp.	Avista Advantage	2/22/01	Cancelled-5/2002

Miscellaneous Contracts:

Joint Use contract: Avista Utilities provides space on its poles and/or in its ducts for use by telecommunication companies. The calculation of pole contact fees is cost based.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>		<u>Dated as of:</u>	<u>Expires</u>
A-07159	Joint Use Master License Agreement	WWP	WWP Fiber, Inc.	4/10/97	1 year successive terms

Construction Agreement: This contract is an agreement between the parties for Avista Utilities to furnish and install fiber optic communication materials and equipment. This agreement was never implemented.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>		<u>Dated as of:</u>	<u>Expires</u>
A-06659	Construction Agreement	Avista Corp.	Avista Fiber, Inc.	8/30/99	12/31/01

Declaration of Intellectual Property: This Declaration of Property was created between Avista Corp. and Avista Laboratories in order to make clear that Avista Corp. believes it has no right, title or interest in certain domestic and foreign patents and patent applications, patent rights, technology or associated intellectual property rights related to the contemplated business of Avista Laboratories and therefore, Avista Corp. assigns all rights to Avista Laboratories it may have.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>	<u>Dated as of:</u>	<u>Expires</u>
A-14860	Declaration Regarding Intellectual Property and Assignment of Intellectual Property	Avista Corp. Avista Laboratories	12/28/00	

Trademark Assignment: With this assignment Avista Corp. sells, assigns and transfers to Avista Capital all right, title and interest in each of the Trademarks listed within the assignment contract.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>	<u>Dated as of:</u>	<u>Expires</u>
A-14660	Trademark Assignment	Avista Corp. Avista Capital	12/13/00	

Guaranty Agreement: This contract provides a payment guarantee to Rathdrum Power, LLC or its assigns with respect to Avista Turbine Power's payment obligations.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>	<u>Dated as of:</u>	<u>Expires</u>
NA	Guaranty Agreement	Avista Corp. Rathdrum Power, LLC	6/1/99	

Office Lease: This contract is between Walter Worthy and Avista Advantage, with Avista Corp. acting as guarantor, to lease building space for Avista Advantage. Avista Advantage pays all expenses related to this office lease.

<u>Contract Number</u>	<u>Contract</u>	<u>Contracting Parties</u>	<u>Dated as of:</u>	<u>Expires</u>
NA	Office Lease – Corporate Facilities Guarantee	Avista Corp for Avista Advantage Walter B. Worthy	2/5/00	4/30/05

Special Purpose Financings: There are many special purpose financing contracts in which a special purpose subsidiary has been created to achieve a desired goal for the benefit of the utility (i.e., trade receivables, account receivable sales, TOPPERS, etc.) All of these special purpose contracts have previously been filed with the Commission at the time of occurrence and therefore are not listed here.