

Avista Corp.

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



May 9, 2007

Oregon Public Utility Commission
Ms. Vikie Bailey-Goggins
Administrator, Regulatory Operations
550 Capitol St. NE, Suite 215
Salem, OR 97301-2551

RE: Application of Avista Corporation

Enclosed for filing with the Commission are the original and one copy of the Company's "Application of Avista Corporation for an Accounting Order Regarding Treatment of Accumulated Other Comprehensive Income for Funded Status of Pension and Other Postretirement Benefit Obligations."

An electronic copy of this application has also been filed pursuant to OAR 860-011-0012.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Kelly O. Norwood".

Kelly O. Norwood
Vice President, State and Federal Regulation

Enclosure

c: See attached service list

**BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON**

In the Matter of the Application of Avista)
Corporation d/b/a Avista Utilities for an)
Accounting Order Regarding Treatment of)
Accumulated Other Comprehensive Income)
for Funded Status of Pension and Other)
Postretirement Benefit Obligations.)

DOCKET NO. _____

APPLICATION OF AVISTA CORPORATION

I. INTRODUCTION

1 Pursuant to Sections 757.120 and 757.125 of the Oregon Revised Statutes (ORS), Avista Corporation, doing business as Avista Utilities (hereinafter Avista, Company or Applicant), at 1411 East Mission Avenue, Spokane, Washington, hereby applies for an accounting order from the Public Utility Commission of Oregon (the "Commission") for authority to record on an ongoing basis, a regulatory asset (or liability), equal to the pretax charge against Accumulated Other Comprehensive Income (AOCI) that would otherwise be required by recognition of the pension funded status under Statement of Financial Accounting Standards (SFAS) No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R).*" Approval of this accounting treatment would be for accounting purposes only and does not impact the level of pension expenses included in the Company's cost of service or net

income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

2 The Commission has plenary authority over Avista's accounting practices. ORS §§757.120 and 757.125. The Commission has adopted the Federal Energy Regulatory Commission's Uniform System of Accounts for use by all electric utilities in Oregon. OAR 860-27-045. The Commission may, however, allow a utility to depart from FERC accounting practices. OAR 860-21-005.

II. GENERAL INFORMATION

3 **Communications in reference to this Application should be addressed to:**

Kelly O. Norwood
Vice President, State and
Federal Regulation
Avista Corporation
P.O. Box 3727
1411 E. Mission Avenue, MSC-13
Spokane, Washington 99220-3727
Phone: (509) 495-4267
Facsimile: (509) 495-8851
kelly.norwood@avistacorp.com

David J. Meyer
Vice President and Chief Counsel for
Regulatory and Governmental Affairs
Avista Corporation
P.O. Box 3727
1411 E. Mission Avenue, MSC-13
Spokane, Washington 99220-3727
Phone: (509) 495-4316
Facsimile: (509) 495-8851
david.meyer@avistacorp.com

4 **Description of Business and Properties:**

Avista Corporation, doing business as Avista Utilities, is a utility that provides service to approximately 346,000 electric customers and 211,000 natural gas customers in a 26,000-square-mile area in eastern Washington and northern Idaho. Avista Utilities also serves 94,000 natural gas customers in Oregon. The largest community served in the area is Spokane, Washington, which is the location of the corporate headquarters.

III. BACKGROUND

5 In September 2006, the FASB issued SFAS No. 158, “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132 (R)*.” SFAS No. 158 required the Company to recognize the overfunded or underfunded status of defined benefit postretirement plans in the Company’s balance sheet measured as the difference between the fair value of plan assets and the benefit obligation as of December 31, 2006. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation. Previously, the Company only recognized the underfunded status of defined benefit pension plans as the difference between the fair value of plan assets and the accumulated benefit obligation. SFAS No. 158 required the overfunded or underfunded status of defined benefit postretirement plans be offset by a charge to Accumulated Other Comprehensive Income (AOCI) in Shareholder’s equity, net of taxes.

6 Since the Company has historically recovered and currently recovers its pension and other postretirement benefit costs related to its regulated operations in retail rates, the Company has recorded a regulatory asset for that portion of its pension and other postretirement benefit funding deficiency, rather than a charge to AOCI at December 31, 2006. This accounting treatment prevented a negative impact to the Company’s equity capitalization.

7 The use of this accounting treatment was based on related guidance from the Federal Energy Regulatory Commission (FERC). In FERC Docket No. AI04-2-000, issued March 29, 2004, the recognition of a regulatory asset for a minimum pension liability was addressed. This guidance allowed entities to record a regulatory asset for the minimum pension liability otherwise chargeable

to AOIC. Avista determined this guidance to be applicable to the underfunded amount recorded under SFAS No. 158.

8 Other utilities in Oregon have received approvals for similar accounting orders in recent years. For example, in 2003, PacifiCorp received approval from the OPUC (Order No. 03-233 in Docket No. UM 1073) of their application for an accounting order authorizing recording of a regulatory asset relating to pension liability. Also in 2007, Northwest Natural Gas Company (Order No. 07-030 in Docket No. UM 1293) and Portland General Electric Company (Order No. 07-051 in Docket No. UM 1292) received approval from the OPUC of their applications for accounting orders regarding treatment of AOCI for the funded status of pension and other postretirement benefit obligations. Avista's application is substantially identical to what was approved for these utilities.

9 On February 16, 2007, OPUC Staff issued Staff Audit Report for Avista Utilities (Audit No. 2006-002). This report included a staff recommendation, as follows: "Avista should file a request for an accounting order to establish a regulatory asset resulting from SFAS 158 within 90 days of this report."

IV. ACCOUNTING TREATMENT

10 The underfunded status of the Company's pension and other postretirement benefit plans under SFAS No. 158 has resulted in the recognition as of December 31, 2006 of (System):

- A liability of \$60.1 million (associated deferred taxes of \$21.0 million) for pensions and other postretirement benefits (recorded in account 228.3),
- A regulatory asset of \$54.2 million (associated deferred taxes of \$19.0 million) for pensions and other postretirement benefits (recorded in account 182.3),
- An increase to accumulated other comprehensive loss of \$3.8 million (net of taxes of \$2.1 million) (recorded in account 219.1),


- The removal of the intangible pension asset of \$3.7 million (was included in other deferred charges) (recorded in account 186.3),
- The total effect on the deferred income tax liability was a net decrease of \$2.1 million,
- The adoption of this statement did not have any effect on the Company's net income.

V. REQUEST FOR APPROVAL

11 Avista respectfully requests an accounting order from the Oregon Commission approving the Company's proposed accounting treatment and granting its request to record and maintain a regulatory asset or liability resulting from the requirement to recognize the funded status of the pension plan under SFAS No. 158. Approval would be for accounting purposes only and does not impact the level of pension expenses included in the Company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

Dated at Spokane, Washington this 9th day of May 2007.

AVISTA CORPORATION

BY 

Kelly O. Norwood

Vice President, State and Federal Regulation

VERIFICATION

STATE OF WASHINGTON)
)
County of Spokane)

Kelly O. Norwood, being first duly sworn on oath, deposes and says: That he is 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 Application, knows the contents thereof, and believes the same to be true.

Kelly O. Norwood

SIGNED AND SWORN to before me this 9th day of May 2007, by Kelly O. Norwood.



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

Commission Expires: 2/22/10

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Application for an Accounting Order, by electronic mail and by mailing a copy thereof or, to the following:

Edward A. Finklea
Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP
1001 SW 5th Avenue, Suite 2000
Portland, OR 97204-1136

Lowrey R. Brown
Jason Eisdorfer
Robert Jenks
Citizens' Utilities Board
610 SW Broadway, Suite 308
Portland, OR 97205

Dated at Spokane, Washington this 9th day of May 2007.



Patty Olshness
Rates Coordinator