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AVISTA Corp.

December 28, 2009

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol St NE #215
Salem, OR 97308-2148

Re: Avista Corporation's Response to Staff Issues List
UG 171(3) 2008 Tax Report

Enclosed are five copies of Avista Corporation's Response to Staff Issues List in the above referenced docket. Avista is also requesting that Staff provide information to support its assertion regarding the interest calculations that have been adopted by the other utilities in their SB 408 filings. (See response to Issue 1). Copies have also been sent to the parties on the enclosed service list.

If you have any questions, please contact Ron McKenzie at (509) 495-4320.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State and Federal Regulation
RM
Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served Avista Corporation's Response to Staff Issues List UG 171(3) 2008 Tax Report, upon the parties listed below by electronic mail or by mailing a copy thereof, where paper service has not been waived.

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Dated at Spokane, Washington this 28th day of December 2009.

Patty Olsness

Patty Olsness, Rates Coordinator

Avista Corporation's Response to Staff's Issues List
UG 171(3) 2008 Tax Report
December 28, 2009

Issue 1. How the capital structure and cost of debt used to calculate the interest deduction for purposes of the stand-alone method was derived.

Staff recommendation:

Staff recommends that interest expense used for the purposes of stand-alone tax liability be revised to reflect the average actual weighted cost of debt multiplied by the average rate base for the tax period. This revision increases Avista's refund for state and federal portion by approximately $78,495.

Avista's response:

Staff's version of OAR 860-022-0041(2)(p) is different than the rule as shown on the Oregon rules website. Staff claims the referenced OAR provides that the interest expense used to calculate the stand-alone method should be calculated "in a manner similar to that used by the Commission in establishing rates." (Emphasis added) The **actual** rule is: "...and calculating interest expense in the manner used by the Commission in establishing rates." (Emphasis added)

Staff asserts "that Avista be required to use the annual average as this method has been adopted by the other utilities filing SB 408 filings..." (Emphasis added) Avista takes issue with this claim and requests that Staff provide the methods used by the other utilities in each of their SB 408 filings for all three tax reporting periods.

Staff correctly observes that, "In its 2006, 2007, and now in its 2008 filing, Avista uses the capital structure ratios for debt and preferred trust securities from its most recent rate case." Avista has continually used this method since the method is consistent with the manner used by the Commission in establishing rates. Avista does not believe that an average capital structure, average cost of debt, and average weighted cost of debt, as proposed by staff, is the manner used by the Commission in establishing rates.

Avista disagrees with Staff's proposed revision to the refund amount. But, even if Staff's proposed revision were to be adopted, it would not increase Avista's refund by $78,495. In Avista's 2008 tax report the federal and state taxes paid amount is the "floor" amount of deferred taxes related to depreciation of public utility property for Oregon regulated operations. Staff's proposed revision does not reduce the floor amount. Hence, Staff's proposed revision would not increase the refund amount.

Issue 2. The calculation of revenues collected when the Commission has authorized a rate change during the tax period.

Staff recommendation:

Staff recommends that the Commission allow the utility to keep its current calculation related to taxes authorized to be collected for SB408 purposes. However, Staff recommends that the Commission consider Staff's issue related to the seasonality of revenues collected and the issue that these collections should be weighted by the amount of revenues collected during the period of months that rates are in effect rather than simply weighting the number of months rates are in effect. Staff recommends that the Commission open a rule-making proceeding to address the weighting method used to determine effective tax rate, net to gross revenue ratio and revenues collected.

Avista's response:

Staff's quotation of OAR 860-022-0041(2)(s)(B) is slightly different than what the rule states as shown on the Oregon rules website. Staff correctly recognizes "that the current rule language requires that the effective tax rate, net to gross revenues ratio and revenues collected are to be calculated considering only the number of months in effect rather than the number of therms or kWh collected during the period of months that those rates were in effect." Avista objects to Staff's recommendation that a rule-making proceeding be opened to decide this issue. The issue has already been decided. Both the Company and Staff agree to the interpretation of the existing rule, i.e. that it requires a weighting on the number of months in effect.

Issue 3. BETC's generated from projects funded by Oregon ratepayers.
Staff recommendation:
Staff recommends Avista remove the add-back on page 6, line12 of the Staff report. According to Staff this will result in an increase of $128,992 to Avista's refund.

Avista's response:
The BETC in dispute relates to the Year 4 credit for Automated Meter Reading (AMR) equipment. AMR equipment was placed in service on 1/1/2005. Rates were not set to recover costs associated with AMR equipment until April 1, 2008. Staff's assertion, "that because the entire project will be recovered through rates; therefore, ratepayers should retain the entire benefit of the BETC" is unfounded. The entire project will <u>not</u> be recovered through rates. The Company did not begin to recover the project through rates until April 1, 2008.

Avista disagrees with Staff's proposed revision to the refund amount. But, even if Staff's proposed revision were to be adopted, it would not increase Avista's refund by $128,992. In Avista's 2008 tax report the federal and state taxes paid amount is the "floor" amount of deferred taxes related to depreciation of public utility property for Oregon regulated operations. Staff's proposed revision does not reduce the floor amount. Hence, Staff's proposed revision would not increase the refund amount.