

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1315

In the Matter of	)	
	)	
AVISTA CORPORATION, dba AVISTA	)	
UTILITIES	)	
	)	
Application for authority to record, on an	)	ORDER
ongoing basis, a regulatory asset (or	)	
liability) equal to the pretax charge against	)	
Accumulated Other Comprehensive Income	)	
for Funded Status of Pension and Other	)	
Postretirement Benefit Obligations.	)	

**DISPOSITION: APPLICATION APPROVED**

On May 9, 2007, Avista Corporation (Avista) filed an application for an accounting order to authorize the treatment for funded status of Pension and other Postretirement Benefit Obligations effective May 9, 2007, pursuant to ORS 757.120 and ORS 757.125. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on July 10, 2007, the Commission adopted Staff's recommendation; however, approval is 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.

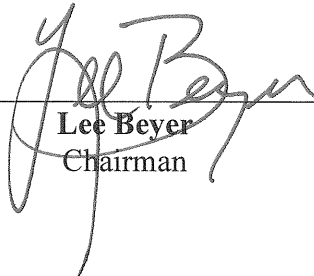
**ORDER**

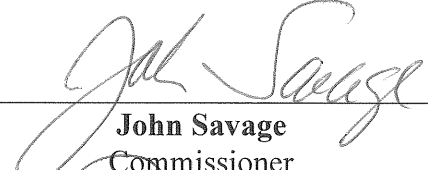
IT IS ORDERED that:

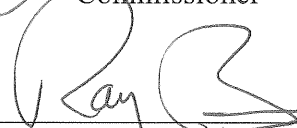
1. Avista Corporation's request for an accounting order regarding the treatment for funded status of Pension and other Postretirement Benefit Obligations effective May 9, 2007, is approved.

2. Approval is for accounting purposes only and does not impact the level of pension expenses included in Avista Corporation'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.

Made, entered, and effective JUL 23 2007.

  
\_\_\_\_\_  
**Lee Beyer**  
Chairman

  
\_\_\_\_\_  
**John Savage**  
Commissioner

  
\_\_\_\_\_  
**Ray Baum**  
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: July 10, 2007**

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE May 9, 2007

DATE: June 11, 2007

TO: Public Utility Commission

FROM: Carla Owings *CO*

THROUGH: *Li* Lee Sparling, *EB* Ed Busch and *JD* Judy Johnson

SUBJECT: AVISTA CORPORATION: (Docket No. UM 1315) Requests Authorization for an Accounting Order Regarding Treatment for Funded Status of Pension and other Postretirement Benefit Obligations.

**STAFF RECOMMENDATION:**

Staff recommends the Commission approve Avista Corporation's request for an Accounting Order regarding the treatment for funded status of Pension and other Postretirement Benefit Obligations effective May 9, 2007.

Approval is 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.

**DISCUSSION:**

On May 9, 2007, Avista Corporation (Avista or Company) submitted an application requesting the Commission authorize an accounting order for the treatment for funded status of Pension and other Postretirement Benefit Obligations effective May 9, 2007.

On September 29, 2006, effective for fiscal years after December 15, 2006, Financial Accounting Standards Board (FASB) issued a Statement of Financial Accounting Standards (SFAS) No. 158 (Employer's Accounting for Defined Benefit Pensions and Other Postretirement Plans) with the intent of improving financial reporting with respect to the overfunded or underfunded status of defined benefit postretirement plans. The SFAS No.158 financial standard changed SFAS No. 87 by requiring that the funded status of postretirement plans be recorded on the balance sheet based on the Projected Benefit

Avista –UM 1315  
June 11, 2007  
Page 2

Obligation (PBO) rather than the Accumulated Benefit Obligation (ABO) as had previously been used.

SFAS No. 158 required the Company to recognize the overfunded or underfunded status of the 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 the defined benefit pension plans as the difference between the fair value of the plan assets and the accumulated benefit obligation. Additionally, 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.

Other Oregon utilities have received approvals for similar accounting orders in recent years. In 2003, PacifiCorp received approval from Commission Order No. 03-233, and in 2007, Northwest Natural received approval in Commission Order No. 07-030. Likewise, PGE has received approval for an accounting order in Commission Order No. 07-051. Approval is 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.

On February 16, 2007, Staff issued Staff's Audit Report No. 2006-002, for Avista Utilities and recommended that Avista file a request for an accounting order to establish a regulatory asset resulting from SFAS No. 158 within 90 days of its report to establish consistency among the utilities on how the benefit obligations associated with pension costs should be booked. Since Avista had already complied with the accounting standard when it was issued in September of 2006 by recording the changes in December of 2006, Staff requested that Avista make this filing so that a record of that accounting treatment has been approved here in Oregon.

#### Pension Accounting:

As of December 31, 2006, on a system-wide basis, Avista recorded a liability of \$60.1 million in FERC Account No. 228.3 and a regulatory asset of \$54.2 million in FERC Account No. 182.3, for pensions and other postretirement benefits. An increase to AOCI of \$3.8 million (net of taxes of \$2.1 million) was recorded in FERC Account No. 219. The removal of the intangible pension asset of \$3.7 million was included in other deferred charges and was recorded in FERC Account No. 186.3. The total effect on deferred

Avista –UM 1315  
June 11, 2007  
Page 3

income tax liability was a net decrease of \$2.1 million. Since the Company has historically recovered 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 benefits 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.

Avista files its request pursuant to ORS 757.120 and 757.125, the Commission's general authority.

**PROPOSED COMMISSION MOTION:**

The Commission approve Avista Corporation's request for an Accounting Order regarding the treatment for funded status of Pension and other Postretirement Benefit Obligations effective May 9, 2007.

Avista UM 1315 Accounting Order for Pension costs