

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of the Application of)	AVISTA CORPORATION'S APPLICATION
Avista Corporation for a Deferred)	FOR DEFERRED ACCOUNTING FOR THE
Accounting Order)	INCOME TAX EFFECT OF NET EXPENSES
	BETWEEN RATE CASES AND REGULATORY
	DISALLOWANCES

I. INTRODUCTION

Under ORS 756.040, ORS 757.259 and OAR 860-027-0300 Avista Corporation ("Avista" or "Company") hereby requests an order authorizing Avista to defer the income tax effect of net expenses between rate cases and regulatory disallowances. This filing is necessitated by the uncertainty about how this issue will be addressed by the Commission in adopting permanent rules in AR 499, implementing Senate Bill 408 relating to utility income taxes.

Communications in reference to this petition should be addressed to the following:

David J. Meyer, Esq. Vice President and Chief Counsel Regulatory & Governmental Affairs Avista Corporation P.O. Box 3727 1411 E. Mission Avenue, MSC-13 Spokane, WA 99220-3727 Phone: (509) 495-4316 Fax: (509) 495-8851	Kelly Norwood Vice President State and Federal Regulation Avista Corporation P.O. Box 3727 1411 E. Mission Avenue, MSC-13 Spokane, WA 99220-3727 Phone: (509) 495-4267 Fax: (509) 495-8851
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DESCRIPTION OF AND REASON FOR DEFERRED ACCOUNTING REQUEST

In Avista's Revised Straw Proposal in AR 499 dated April 24, 2006, the Company stated that the Attorney General's Opinion dated December 27, 2005 gives the Commission discretion to define and implement the term "properly attributed" in developing permanent rules to

implement Senate Bill 408 (SB 408). Avista believes that it is within the discretion of the Commission to allow adjustments for the income tax impacts of net cost changes (revenues and expenses) since the last rate case and for regulatory disallowances. It would not be fair to pass-through the income tax benefit of net expenses incurred by the utility that are not borne by ratepayers. In the case of a disallowed utility cost, it would not be fair to deny the utility the recovery of the cost and, in addition, require the utility to pass-through the tax benefit of the disallowed cost. Adjustments need to be made to the amount of taxes paid that are properly attributed to Oregon regulated utility operations to remove the taxes associated with net expenses between rate cases and for regulatory disallowances.

Avista believes that the adjustments for income taxes associated with net expenses between rate cases and for regulatory disallowances should occur when calculating “properly attributed” taxes paid under the permanent rules yet to be adopted in AR 499. However, due to the uncertainty surrounding the adoption of the permanent rules, Avista is hereby requesting an order authorizing Avista to defer the income tax effect of net expenses between rate cases and regulatory disallowances. Should the AR 499 permanent rules provide for an adjustment for the income tax effect of net expenses between rate cases and regulatory disallowances, then Avista’s request for deferred accounting is moot. If the AR 499 permanent rules do not provide for the adjustments, then the amounts deferred under the current request for deferred accounting would be used to offset any rate SB 408 rate adjustment related to net expenses between rate cases and regulatory disallowances for the appropriate period. Avista believes that its proposal meets the requirement of ORS 757.259(2)(e) in that amounts should be deferred “to match appropriately the costs borne by and benefits received by ratepayers.”

II. PROPOSED ACCOUNTING

If the amount of net expense has increased since the last rate case, the effect will be to lower income tax from the amount in the last rate case. Absent an adjustment for expenses between rate cases in the SB 408 rate adjustment calculation, the accounting entry to record the SB 408 liability related to the lower income tax due to the increase in net expense would be to debit Account 407.3 – Regulatory Debits and to credit Account 254 – Other Regulatory Liabilities. The deferral entry that would result from the present filing would be to debit Account 254 - Other Regulatory Liabilities and credit Account 407.4 – Regulatory Credits, thereby offsetting the SB 408 entry. Like entries would be recorded for the tax effect of regulatory disallowances.

If the amount of net expense has decreased since the last rate case, the effect will be to increase income tax from the amount in the last rate case. Absent an adjustment for expenses between rate cases in the SB 408 rate adjustment calculation, the accounting entry to record the SB 408 receivable related to the increased income tax due to the decrease in net expense would be to debit Account 182.3 – Other Regulatory Assets and to credit Account 407.4 – Regulatory Credits. The deferral entry that would result from the present filing would be to debit Account 407.3 – Regulatory Debits and credit Account 182.3 – Other Regulatory Assets, thereby offsetting the SB 408 entry.

Avista cannot currently provide an estimate of the amounts to be recorded in the deferral account since the permanent rules implementing SB 408 have not yet been established and 2006 actual revenues and expenses are not yet known. The Company requests approval of the accounting treatment beginning in calendar year 2006, the first year that a SB 408 rate adjustment would be recorded on the Company's books. Estimates will likely be recorded in 2006 with the estimates being trued-up in 2007.

III. REQUEST FOR HEARING

Avista hereby requests a hearing on its request for deferred accounting. Avista further requests that the hearing be delayed until after permanent rules are adopted in AR 499. If the permanent rules provide for an adjustment for the income tax effect of net expenses between rate cases and regulatory disallowances, then Avista would withdraw its request for deferred accounting.

IV. CONCLUSION

Avista respectfully requests that the Commission issue an order authorizing Avista to defer the income tax effect of net expenses between rate cases and regulatory disallowances.

DATED: this 6th day of June 2006

Respectfully submitted,



Kelly Norwood
Vice President State and Federal Regulation

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM _____

In the Matter of the Application of)
Avista Corporation for a Deferred) NOTICE OF APPLICATION
Accounting Order)

On June 6, 2006 Avista Corporation applied to the Public Utility Commission of Oregon (the "Commission") for authorization to use deferred accounting, to defer the income tax effect of changes in net expenses between rate cases and regulatory disallowances. The filing is necessitated by the uncertainty about how this issue will be addressed by the Commission in adopting permanent rules in AR 499, implementing Senate Bill 408 relating to utility income taxes. An interested person can obtain a copy of the application by contacting Patty Olsness, Rates Coordinator at (509) 495-4067. Any person may submit to the Commission written comment on the application within 25 days from the date of the application. Comments would be due on or before July 1, 2006. Granting of the application will not authorize a change in rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding.

DATED: this 6th day of June 2006

Respectfully submitted,



Kelly Norwood
Vice President State and Federal Regulation

Avista Corp.
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Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



June 6, 2006

Sent Via email and U.S. Mail

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

Re: **DOCKET UM_____**
Avista Corporation's Application for Deferred Accounting for the Income Tax Effect of Net Expenses between Rate Cases and Regulatory Disallowances

Enclosed for filing is Avista Corporation's Application for Deferred Accounting for the Income Tax Effect of Net Expenses between Rate Cases and Regulatory Disallowances. This filing is necessitated by the uncertainty about how this issue will be addressed by the Commission in adopting permanent rules in AR 499, implementing Senate Bill 408 relating to utility income taxes.

Also enclosed is a "Notice of Application" that will be served to the parties on the enclosed service list that were parties in the Company's last general rate case. Those parties will also receive a copy of the application.

Please direct any questions to Ron McKenzie at (509) 495-4320.

Sincerely,

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

Kelly Norwood
Vice President State and Federal Regulation

Enclosures

C: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's, Application for Deferred Accounting for the Income Tax Effect of Net Expenses between Rate Cases and Regulatory Disallowances, by mailing a copy thereof, postage prepaid, to the following:

Mr. Edward Finklea
Cable Huston Benedict Haagensen &
Lloyd LLP
1001 SW 5th Avenue, Suite 2000
Portland, OR 97204

Ms. Paula Pyron
Executive Director
Northwest Industrial Gas Users
4113 Wolf Berry Court
Lake Oswego, OR 97035

Citizens' Utilities Board
610 SW 5th Ave., Suite 2000
Portland, OR 97204

Marion Anthony
602 Cedar
La Grande, OR 97850

Gordon Bentson
1841 Alcan Dr.
Medford, OR 97504

W. Lou Ellyn Kelly
PO Box 127
Klamath Falls, OR 97601-3260

Ray Linker
2432 Century Loop
La Grande, OR 97850

Dated at Spokane, Washington this 6th day of June, 2006.



Patty Osness
Rates Coordinator