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October 26, 2010

**SENT VIA OVERNIGHT MAIL**

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

**Re: Amended 2009 Tax Report Filing of Avista Corporation, Docket UG 171(4)**

Enclosed is Avista Corporation's amended confidential tax report for calendar year 2009. The amendment results from allocating the amount of the Federal income tax refund to Oregon regulated gas operations that is used to reduce the deferred tax floor for taxes paid, rather than apportioning the tax refund amount. The Staff's template for page 8 of the tax report is not correct. Page 8 of the template, at line 3, incorrectly uses the apportionment factor from page 2, line 9 of the tax report to apportion the tax refund. The tax refund should be allocated as provided for in section (4)(d) of OAR 860-022-0041, which states:

(4)(d) The lowest of the amounts in subsections (4)(a), (4)(b) and (4)(c) of this rule, after making adjustments in paragraphs (4)(d)(A), (4)(d)(B), (4)(d)(C), (4)(d)(D), and (4)(d)(E), but no less than the deferred taxes related to depreciation of public utility property for regulated operations of the utility, except the deferred tax amount must be reduced by any tax refunds recognized in the reporting period and allocated (emphasis added) to the regulated operations of the utility:

At pages 6 and 7 of PacifiCorp's Closing Comments in Docket AR 517 dated August 10, 2007, PacifiCorp addressed the concern that applying apportionment method factors to a tax refund would cause deferred taxes to be reduced by an amount that is not tied to the utility's tax accounting methodologies. In footnote 5 at the bottom of page 7, the reference is made to PacifiCorp's Opening Comments at page 10, where they recommended that the word "apportioned" be replaced with the word "allocated" to address this concern. PacifiCorp also indicated in the footnote that the concern would be alleviated if "apportioned" were interpreted in this context to mean allocated pursuant to the utility's tax allocation methodology. In resolving the deferred tax floor issue at page 6 of Order No. 07-401 dated September 18, 2007, in AR 517, the Commission found that: "In reaching this decision, we acknowledge the utilities' concern about the possible misinterpretation of the use "apportioned" in Staff's proposed rule change and will replace that word with "allocated."

The amended 2009 tax report is being filed under seal and is to be handled as a highly confidential document pursuant to the protective order issued in Order No. 06-033. The Company is also submitting the backup workpapers associated with the amended 2009 tax report, which are to be handled as being highly confidential. Two copies of the report and the workpapers are stamped confidential, copied on green paper, and enclosed in a sealed envelope that is labeled as containing confidential information. Also enclosed are two copies of an electronic version of the amended tax report on two compact disks that

are also marked as being confidential and are subject to the protections for highly confidential information applicable to the tax report. One copy of each of the confidential items is to be designated as the Staff's working copy.

For 2009 the amended amount of federal and state income tax paid, as calculated pursuant to the rule, is more than the amount of taxes authorized to be collected by \$1,267,000. Under SB 408, this difference, plus interest, would be surcharged through the automatic adjustment clause (AAC).

If you have any questions, please contact 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

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served Avista Utilities' letter to the filing Center of the Public Utility Commission of Oregon in connection with its Amended 2009 Tax Report Filing (UG-171(4)), 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 26th day of October 2010.



Patty Olsness, Rates Coordinator