

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: CECELIA A. GASSNER

DATE: JANUARY 19, 2006

SUBJECT: CASE NOS. AVU-G-05-3 AND AVU-E-05-9; AVISTA CORPORATION'S APPLICATION FOR AN ACCOUNTING ORDER REGARDING TREATMENT OF CERTAIN ASSET REQUIREMENT OBLIGATIONS RESULTING FROM IMPLEMENTATION OF SFAS 143

On November 30, 2005, Avista Corporation ("Avista" or "Company") filed an Application with the Idaho Public Utilities Commission ("Commission") seeking an accounting order authorizing the Company to treat certain asset retirement obligations ("AROs") for the current and future fiscal years in accordance with Statement of Financial Accounting Standards (SFAS) 143. Avista is required to implement SFAS 143 as clarified by Financial Accounting Standards Board Interpretation (FIN) 47 in order to comply with Generally Accepted Accounting Principles. Under SFAS 143, entities are required to recognize and account for certain asset retirement obligations in a manner different from the way that Avista and other public utilities have traditionally recognized and accounted for such costs. Specifically, if a legally enforceable ARO, as defined by SFAS 143, is deemed to exist, an entity must measure and record the liability for the ARO on its books.

The Application states that the Company has determined that it will be required to record AROs under SFAS 143 for certain assets. The Company states that the proposed accounting treatment will have no impact for ratemaking purposes. The Company further states that nothing in the Application is intended to request any approval regarding future ratemaking treatment.

STAFF RECOMMENDATION

On December 20, 2005, the Commission issued a Notice of Application and a Notice of Modified Procedure with regards to this matter. During the written comment period allowed by the Commission, only Staff filed written comments.

While Staff's review has identified immaterial inconsistencies in Avista's Application, Staff recommends approval for Avista to record, as a regulatory asset or regulatory liability, the cumulative financial statement impact resulting from the implementation of SFAS 143, and to record the ongoing annual differences between the SFAS 143 depreciation and accretion expenses and the annual depreciation expenses that are currently authorized by the Commission in depreciation rates.

Staff recommends that the Company record in separate sub-accounts the depreciation expense for asset retirement costs and the accretion of the liability for the asset retirement obligations. Staff believes this will aid tracking these items in subsequent cases.

Staff also recommends that the Commission require in its accounting order that Avista file annually and as part of its rate case filings, all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and related dollar amounts. Due to the nature of these entries, Staff will be reviewing the underlying support for them during analyses of assets and depreciation. As a result, Staff recommends that the Company maintain financial records associated with these entries similar to the long-lived assets to which they relate.

Staff acknowledges that Avista has a reasonable opportunity to recover prudently incurred removal costs. Staff recommends that the reasonableness of differences between actual and estimated costs should be addressed when those events occur. Staff recommends that no further confirmation be included in the Commission's accounting order.

Because these new accounting entries will not change the level of the costs included in rates, Staff is making no recommendation regarding the treatment of SFAS 143 regulatory assets and regulatory liabilities in future rate cases. If the assets and liabilities have an affect on rates, then the ratemaking treatment should be determined at the time of a rate case.

Staff has been advised by the Company that the Company consents to and does not oppose Staff's recommendations.

COMMISSION DECISION

Does the Commission authorize Avista to record as a regulatory asset or regulatory liability the cumulative and ongoing financial statement impact resulting from the implementation of SFAS 143 as discussed above?

Does the Commission accept Staff's recommendation that the Company record in separate sub-accounts the depreciation expense for asset retirement costs and the accretion of the liability for the asset retirement obligations?

Does the Commission accept Staff's recommendation that Avista be required to file annually and as part of its rate case filings, all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and related dollar amounts?



Cecelia A. Gassner

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