

February 16, 2005

VIA EMAIL TO: PUC.taxwhitepaper@state.or.us

Mr. Lee Sparling
Director, Utility Program
Oregon Public Utility Commission
550 Capital Street NE
Salem, OR 97310-1380

RE: Oregon PUC Notification and Request for Written Comments
White Paper on Treatment of Income Taxes in Utility Ratemaking
Comments of Avista Corporation

Dear Mr. Sparling:

Avista Corporation is providing comments on the "Treatment of Income Taxes in Utility Ratemaking" White Paper prepared by the Staff of the Oregon Public Utility Commission (Oregon PUC). The White Paper offers a comprehensive overview of the issues and alternatives. Avista is not supportive of any alternative that would violate Internal Revenue Code normalization requirements. As pointed out in the White Paper, a violation of normalization requirements would result in the loss of accelerated tax depreciation benefits and increase the cost of providing service to customers.

Avista does not believe that legislation is a solution in attempting to define how income taxes are treated in utility ratemaking. The Oregon PUC has the authority to establish a fair and reasonable method of treating income taxes in the rate setting process. Legislation cannot be expected to address all of the complex issues and variations that may arise in the rate setting process, nor should it. The Oregon PUC should continue to have the latitude to determine a fair and reasonable level of income taxes in the rate setting process and should be allowed to react to changing circumstances.

Avista does not believe that consolidated tax reporting is unfair to utility customers, nor is it unfair to other corporate operations included in the consolidated tax reporting. Assuming that there are net consolidated taxable earnings, consolidated tax reporting assigns positive tax expense to operations reporting positive taxable income and negative tax expense, or a tax benefit, to operations reporting tax losses. Income taxes are only one component of a utility's cost of providing service. Virtually all revenues and costs incurred differ from what is being collected through customer rates between general rate cases. Variability of income taxes is a product of those differences.

Avista supports the "Utility Stand-Alone" ratemaking option for all of the reasons listed in the White Paper. This approach makes sense and is fair to utility customers. The other options are not acceptable for all of the reasons listed in the White Paper. If you have any questions, please contact Don Falkner at (509) 495-4326.

Sincerely,

Kelly Norwood
Vice President, State and Federal Regulation