

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: August 2, 2005**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 7, 2005

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: AVISTA UTILITIES: (Docket No. UI 240) Application for approval of a payment guaranty for Avista Turbine Power, Inc., an affiliated interest, under a contract with Rathdrum Power, LLC, an affiliated interest.

STAFF RECOMMENDATION:

The Commission should approve the application of Avista Corporation dba Avista Utilities with the following conditions for a payment guaranty for Avista Turbine Power, Inc., an affiliated interest, under a power purchase contract assignment with Rathdrum Power, LLC, an affiliated interest.

1. Avista Utilities shall provide the Commission access to all books of account, as well as all documents, data and records that pertain to any payment guaranty transactions for Avista Turbine Power, Inc.
2. Avista Utilities shall hold customers harmless and remove the effects of any payments, advance charges, and all other costs associated with this guaranty to Rathdrum Power, LLC from rates or any regulatory reporting requirement including the guaranty's effect on the cost of debt if Avista Utilities is required to repay any indebtedness of Avista Turbine Power, Inc. Any payments associated with the guaranty shall be recorded in non-utility accounts.
3. The Commission reserves the right to review, for reasonableness, all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
4. Avista Utilities shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement

from those approved herein shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

Avista Utilities, Avista Turbine Power, Inc., and Rathdrum Power, LLC are affiliates as defined in ORS 757.015. This application was filed May 12, 2005, under ORS 757.440, ORS 757.495(5), and OAR 860-027-0035. The filing was made at Staff's request as a result of a review of the 2003 Affiliated Interest Report, review by the Attorney General's office, and subsequent communications with Avista Utilities. The underlying agreement is dated June 11, 1999, and is confidential.

The following issues were investigated:

- Scope of the Arrangement and Risk Assessment
- Evaluation of Terms and Conditions
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Arrangement and Risk Assessment: Avista Utilities has assumed primary obligation for the electric power purchases of Avista Turbine Power, Inc., averaging \$18,000,000 per annum. That power is sold on the open market. Since Avista Utilities conducts only gas operations in Oregon, there is no specific ratepayer exposure. However, this guaranty and any others of the same type do represent a contingent liability to the corporation. Associated ratepayer risk is negated by the aforementioned Condition No. 2 holding customers harmless and removing any associated costs from rates, regulatory reporting, and cost of debt. Any guaranty payments will be recorded below-the-line.

Evaluation of Terms and Conditions and Determination of Public Interest Compliance: Nothing untoward was noted by Staff in the review of the contract's terms and conditions.

Records Availability, Audit Provisions, and Reporting Requirements: Condition No. 1 affords necessary access to any relevant records.

Based on the review of this application, Staff concludes the following:

1. The arrangement's scope and risk are not unreasonable.

2. Potential transactions will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Avista Utilities' payment guaranty for Avista Turbine Power, Inc., an affiliated interest, under a contract with Rathdrum Power, LLC, an affiliated interest, be approved subject to the four recommended conditions.