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February 9, 2004

Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**RE: Informational Filing of Avista Corporation in Response to Order
No. 2004, Docket No. TS04-_____**

Dear Secretary Salas:

Enclosed please find the Informational Filing of Avista Corporation in Response to Order No. 2004. Pursuant to the Commission's January 27, 2004 Additional Guidance on Electronic Submission of Informational Filings and Requests Under Order No. 2004, this filing has been marked to be docketed in Docket No. TS04-_____.

Please do not hesitate to contact me should you have any questions about this matter.

Sincerely,

/s/ Gary D. Bachman

Gary D. Bachman
Counsel to Avista Corporation

**UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION**

Avista Corporation

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Docket No. TS04-_____

**INFORMATIONAL FILING OF AVISTA CORPORATION
IN RESPONSE TO ORDER NO. 2004**

Pursuant to the Final Rule issued by the Federal Energy Regulatory Commission (“FERC” or “Commission”) setting forth revised standards of conduct for Transmission Providers (“Order No. 2004”),¹ the Commission’s January 16, 2004 Guidance on Informational Filings and Implementation Procedures for Standards of Conduct Under Order No. 2004,² and 18 C.F.R. § 358.4(e)(1), Avista Corporation (“Avista Corp.”) hereby submits an Informational Filing in Response to Order No. 2004.

I. CORPORATE STRUCTURE AND BUSINESS OPERATIONS

Avista Corp. is an investor-owned utility organized and incorporated under the laws of the State of Washington with its principal offices in Spokane, Washington. Among other things, Avista Corp. is engaged in the generation, transmission, and distribution of electric energy in eastern Washington, northern Idaho and portions of Montana, as well as the distribution of natural gas for residential, commercial, and industrial use in parts of Washington, Oregon, Idaho, and California.

Avista Corp. owns and operates facilities that are used for the transmission of electric energy in interstate commerce. Through these facilities, Avista Corp.

¹ FERC Stats. & Regs. Vol. III, Regulation Preambles ¶ 31,155 (2003), 68 FR 69,134 (Dec. 11, 2003) (reh’g pending).

² *Standards of Conduct for Transmission Providers*, 106 FERC ¶ 61,017 (2004).

provides open-access wholesale transmission service pursuant to the terms of its Open Access Transmission Tariff on file with the Commission. Through its utility's wholesale merchant unit and affiliated marketer, Avista Energy, Inc., Avista Corp. sells electric energy at wholesale in interstate commerce. Both Avista Utilities and Avista Energy, Inc., are licensed to sell wholesale power pursuant to their respective market-based rate tariffs. Each entity also sells electric energy pursuant to the terms of the Western Systems Power Pool Agreement.

Avista Corp. also owns an interest in the Jackson Prairie Storage Project, a natural gas storage facility located in Lewis County, Washington that the Commission has found to be non-jurisdictional as to Avista Corp.³ Thus, the company's interest raises no Order No. 2004 compliance issues.

II. COMPLIANCE PLAN

Avista Corp. currently complies with the Commission's existing standards of conduct, and believes that it is fundamentally in compliance with the standards of conduct as revised and set forth in Order No. 2004. Avista Corp. will continue to review the Commission's rulings on rehearing and/or clarification of Order No. 2004 and, by June 1, 2004, will have updated any and all relevant standards of conduct compliance documentation.

At this time, Avista Corp. does not foresee having to implement any organizational or structural changes to establish and maintain compliance with the independent functioning and non-discrimination requirements of Order No. 2004.

However, in the event that Avista Corp. determines, after reviewing Commission

³ See *El Paso Natural Gas Company, et al.*, 47 FPC 1527 (1972) (holding that Avista's ownership interest in Jackson Prairie is not jurisdictional under the Natural Gas Act); *Puget Sound Energy, Inc.*, 84 FERC P 61,347 (1998).

orders on rehearing, clarification, or otherwise, that any organizational or structural change is necessary, Avista Corp. will implement and identify any such change in its detailed written compliance procedures that will be posted on its OASIS on or before June 1, 2004.⁴

While Order No. 2004 technically expands the applicability of the revised standards of conduct to include the relationship between a Transmission Provider and its “Energy Affiliates,”⁵ Avista Corp. has maintained – and continues to maintain – separation between its transmission function and its merchant function and between its transmission function and all Energy Affiliates in observance of the standards of conduct. As a part of its compliance plan, Avista Corp. will update its standards of conduct compliance documentation to address the more comprehensive documentation and posting requirements set forth in Order No. 2004 in order to reflect the continued separation between Avista Corp.’s transmission function and its merchant function and Energy Affiliates.

At this time, Avista Corp. has identified the following affiliates as Energy Affiliates and therefore subject to the revised standards of conduct:

- 1) Avista Energy, Inc.;
- 2) Avista Turbine Power, Inc.;
- 3) Rathdrum Power, LLC; and
- 4) Spokane Energy, LLC.

⁴ See Order No. 2004 at P 135.

⁵ See Order No. 2004 at PP 6 –14 (discussing the extension of the standards of conduct to include a Transmission Provider’s “Energy Affiliates”); 18 C.F.R. § 358.3(d) (defining “Energy Affiliate”).

Prior to June 1, 2004, Avista Corp. will update and post on its OASIS all standards of conduct compliance procedures and documentation to reflect their applicability to the above “Energy Affiliates,” in addition to Avista Corp.’s wholesale merchant function.

In addition to reviewing its compliance documentation, Avista Corp. is reviewing its emergency procedures to ensure compliance with Order No. 2004. Should its review indicate that any change is necessary to comply with Order No. 2004, Avista Corp. will implement any such change and report it in the documentation to be posted on its OASIS on or before June 1, 2004.

As permitted under both the pre-Order No. 2004 and post-Order No. 2004 standards of conduct, Avista Corp. permits its transmission, wholesale merchant, and affiliate marketing operations to share certain employees and facilities. With regard to shared facilities specifically, Avista Corp.’s transmission function is in the same building as its wholesale merchant function, although the transmission function operates in segregated and secured areas.⁶ There are, of course, certain shared facilities, including physical facilities (e.g., cafeteria), as well as electronic facilities, such as a corporate intranet, a corporate e-mail system, and certain other electronic systems, including Avista Corp.’s Energy Management System (“EMS”).⁷

Avista Corp. believes that its current practices governing the sharing of certain employees and facilities among Avista Corp.’s transmission, wholesale merchant, and

⁶ During the course of a recent audit conducted by the Commission’s Office of Market Oversight and Investigations (OMOI), Avista Corp. agreed to undertake minor construction to further limit access to its transmission contracts and planning area, thereby providing further assurance that Avista Corp. is in compliance with the requirements of § 358.4(a)(3)(ii). This construction will be completed on or before June 1, 2004.

⁷ The EMS is shared only by the utility’s transmission and merchant functions, and a firewall is in place to ensure the proper separation of the transmission and wholesale merchant functions in accordance with the standards of conduct.

Energy Affiliate operations are consistent with the Commission's independent functioning and non-discrimination requirements, as revised by Order No. 2004. By June 1, 2004, Avista Corp. will post on its OASIS all of the information required under § 358.4(b), including the names and addresses of its marketing units and Energy Affiliates;⁸ information relating to shared facilities;⁹ and the required organizational charts.¹⁰

In accordance with the procedural requirements of Order No. 2004, and in addition to filing this compliance plan and schedule with the Commission, Avista Corp. has posted this filing on its OASIS.¹¹ Avista Corp. will also post detailed standards of conduct implementation and compliance procedures on its OASIS demonstrating compliance with Order No. 2004 and the revised standards of conduct on or before June 1, 2004, and will distribute those written procedures to all employees of the company's transmission function and the employees of its marketing units and Energy Affiliates.¹²

Avista Corp. is in the process of updating its standards of conduct training program to encompass the new requirements of Order No. 2004, and will complete training of all necessary employees by June 1, 2004.¹³ Upon completion of this training program, each employee will sign an affidavit certifying that he or she has

⁸ See 18 C.F.R. § 358.4(b)(1).

⁹ See 18 C.F.R. § 358.4(b)(2).

¹⁰ See 18 C.F.R. § 358.4(b)(3).

¹¹ See 18 C.F.R. § 358.4(e)(1).

¹² See 18 C.F.R. § 358.4(e)(2)-(4).

¹³ The Commission's requirement under Order No. 2004 that "all employees" receive training relating to the standards of conduct is the subject of several pending rehearing requests. To the extent that the Commission grants rehearing or clarification on this issue, Avista Corp. may modify its training program in accordance with future Commission orders.

been trained regarding the standards of conduct, as revised by Order No. 2004.¹⁴

Finally, Avista Corp. has designated Warren Clark as its Chief Compliance Officer.¹⁵

II. ESTIMATED COSTS

While Avista Corp. expects to incur substantial costs in complying with Order No. 2004, Avista Corp. has found it difficult to estimate those costs, especially in any manner that reflects the costs of compliance broken down for each element of compliance.¹⁶ The chart below identifies the types of compliance costs that Avista Corp. expects to incur and, where possible, an estimate of those costs.

Avista Corp. Estimated Compliance Costs		
Category	Initial cost	Annual cost of compliance
Training	\$250,000-\$300,000	Approx. \$200,000
Procedures Development and Documentation	\$100,000-\$200,000	1.5 full time-equiv. employees
Additional Structural/Physical Separation	N/A	N/A
Information Technology Software Modifications	TBD ¹⁷	TBD
Other (Miscellaneous)	TBD	TBD

¹⁴ See 18 C.F.R. § 358.4(e)(5).

¹⁵ See 18 C.F.R. § 358.4(e)(6).

¹⁶ See 106 FERC ¶ 61,017 at P 5 (2004).

¹⁷ With regard to estimates labeled “TBD,” Avista Corp. expects to incur some costs, but the order and magnitude of those costs will depend on the Commission’s rulings on various requests for clarification and rehearing of Order No. 2004.

III. Conclusion

Avista Corp. respectfully requests that the Commission accept this informational filing in compliance with the requirements of Order No. 2004.

Respectfully submitted,

/s/ Gary D. Bachman

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