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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO.	)))))))))	**CASE NO. AVU-E-04-1/ AVU-G-04-1**

DIRECT TESTIMONY OF DONN ENGLISH

IDAHO PUBLIC UTILITIES COMMISSION

JUNE 21, 2004

Q. Please state your name and business address for the record.

A. My name is Donn English. My business address is 472 W. Washington, Boise, Idaho 83702.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission (Commission) as an auditor in the accounting section.

Q. What is your educational and experience background?

A. I graduated from Boise State University in 1998 with a BBA degree in Accounting. Following my graduation I accepted a position as a Trust Accountant with a pension administration, actuarial and consulting firm in Boise. As a Trust Accountant, my primary duties were to audit the day-to-day financial transactions of numerous qualified retirement plans. In 1999 I was promoted to Pension Administrator. As a Pension Administrator, my responsibilities included calculating pension and profit sharing contributions, performing required non-discrimination testing and filing the annual returns (Form 5500 and attachments). In May of 2001, I became a designated member of the American Society of Pension Actuaries (ASPA). I was the first person in Idaho to receive the Qualified 401(k) Administrator certification and was one of only nine people in Idaho with the Qualified Pension Administrator certification. In 2001 I was promoted to a Pension Consultant, a position I held until 2003 when I joined the Commission Staff.

With the American Society of Pension Actuaries, I served on the Education and Examination Committee for two years. On this committee I was responsible for writing and reviewing exam questions and study materials for the PA-1 and PA-2 exams (Introduction to Pension Administration Courses), DC-1, DC-2 and DC-3 exams (Administrative Issues of Defined Contribution Plans - Basic Concepts, Compliance Concepts and Advanced Concepts) and the DB exam (Administrative Issues of Defined Benefit Plans). I have also regularly attended conferences and training seminars throughout the country on numerous pension issues.

Since joining the Commission Staff (Staff), I have attended workshops at the Institute of Public Utilities at Michigan State University sponsored by the National Association of Regulatory Utility Commissioners. These workshops included many different topics, such as income taxes, depreciation, Sarbanes-Oxley, and rates of return on equity.

Q. Have you previously testified before this Commission?

A. Yes, I have provided written and oral testimony in Idaho Power Company's general rate case (Case No. IPC-E-03-13), primarily regarding treatment of pension expense and pre-paid pension costs for regulatory recovery. My testimony in that case also presented arguments against recovery of miscellaneous organizational dues and charitable contributions, interest expense and legal expenses.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to present Staff's position regarding pension expense, depreciation expense, pro forma deferred income tax adjustments relating to recent accounting methodology changes, legal expenses and certain miscellaneous expenses found in the Company's Application.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes, I will be sponsoring Exhibit Nos. 121-127.

ELECTRIC SECTION

1. Pension Expense

Q. Please describe Avista Corporation's (Avista; Avista Corp.; Company) pension plan.

A. Avista Corp. sponsors a traditional defined benefit pension plan in which participants will receive a set monthly income upon retirement that is based on their years of service and their final average earnings. This plan is fully funded by Avista Corp. Assets in the Plan are secured in a trust and guaranteed by the Pension Benefits Guaranty Corporation.

Q. Please describe the Company's treatment of pension expense in its current rate filing.

A. Avista proposes to use a pension expense of $14,000,000 on a total system-wide basis (Falkner Direct, page 24). The amount of Idaho's electric jurisdiction pension expense proposed to be recovered in this rate case is $2,095,423.

Q. How was this amount calculated?

A. During the 2002 test year, the Company's Net Periodic Pension Cost (NPPC) on a total system-wide basis was $9,277,622. The Company has estimated that for 2004, the NPPC will be $13,600,000 using an estimate of actual rates of return on assets of 3.88%, compensation increases of 5% and a discount rate of 6.25%. In its Application, the Company rounded this estimated $13.6 million amount up to $14 million, and then made a pro forma adjustment to increase pension expense by $4,615,000 system-wide or by $691,039 for the Idaho electric jurisdiction (Exhibit No. 14, page 8 of 10, Column ac). I have included Company witness Falkner's Workpaper No. ac6 that illustrates this calculation in my Exhibit No. 121, page 3 of 4.

Q. Does Staff agree with the Company's pension expense?

A. No. Staff disagrees with the Company's treatment of pension expense. The pro forma adjustment is based on an estimated pension expense that was calculated using speculative assumptions that may or may not hold true. Specifically, the Company uses an 8 percent actuarial assumption of future rates of return on assets; however, for 2004 the Company uses an estimated actual return on assets of only 3.88%. It is impossible to predict with any certainty the actual investment performance of the plan assets for 2004. Therefore, this adjustment is not known and measurable and should be rejected by the Commission. Furthermore, I do not believe that the recovery of FAS 87 expense is appropriate in this case.

Q. Please describe FAS 87 expense.

A. FAS 87 expense is a reference to Statement of Financial Accounting Standard No. 87 and is synonymous with Net Periodic Pension Cost. The Statement was issued by the Financial Accounting Standards Board to alleviate long-standing controversy regarding how to report for pension liability. It mandates the use of Net Periodic Pension Cost for reporting pension expense on a company's financial statements. The NPPC is an accrual of pension expense for a given year, but it is not the actual amount of cash that a company is required to contribute to a pension plan to meet its minimum funding liability and avoid interest and penalties. It is also important to note that FAS 87 makes no mention of regulatory accounting.

Q. Has there been any perceived problems with FAS 87?

A. Yes. There has been a growing concern among accounting professionals regarding the use of FAS 87 and the potential for manipulation of financial statements. Just last year, the Financial Accounting Standards Board agreed to put further review of FAS 87 on its formal agenda. Though the Board has not made any changes to the Statement, the concern is still present.

Q. What was the actual cash amount that Avista was required to contribute to the pension plan during the 2002 test year?

A. The Employee Retirement Income Security Act (ERISA) and section 412 of the Internal Revenue Code mandate the required minimum contribution necessary for a plan sponsor to meet its funding obligations. A completely different calculation is used to determine the minimum cost for a given plan year. Avista's 2002 ERISA required minimum contribution was $7,481,201 on a total system-wide basis.

Q. Please briefly describe ERISA.

A. ERISA was enacted by Congress in 1974 to ensure some level of security in employee benefit plans. Since its enactment, pension plans are subject to intense federal regulation because of the long-term nature of the benefit obligation and the resulting potential for changed circumstances. One of many ERISA requirements is the systematic advanced funding requirements to protect employees against employer default. ERISA mandates the minimum amount that must be funded each year to a pension plan to avoid a funding deficiency.

Q. How is this amount calculated?

A. The first step of the calculation is to determine the Normal Cost for the year. The Normal Cost is the annual cost of the plan using the plan's actuarial cost method as established in the plan document. The Normal Cost is a calculation that takes into consideration the present value of future benefits, the actuarial value of the Plan's assets, any unfunded liabilities and the present value of the Company's future payroll. This information is used to calculate an accrual rate that is then multiplied by the Company's current payroll to produce the Normal Cost. By adding or subtracting any charges or credits to the Normal Cost one can obtain the Annual Cost. The Minimum Required Contribution is the lesser of the Annual Cost or the difference between the Full Funding Limitation and any credit balance. This minimum contribution is the amount that a company must fund in order to avoid a funding deficiency in the Funding Standards Account.

Q. Is this Minimum Required Contribution the amount that Avista Corporation actually contributed to the Plan for the 2002 plan year?

A. No. In its discretion, Avista contributed an additional $4,518,799 beyond the minimum required amount for a total of $12 million.

Q. What amount of pension expense do you believe is appropriate for Avista Corporation to recover in rates?

A. I believe that it is appropriate for the Company in this case to recover only the amount that it was legally required to contribute to the Plan. For the 2002 test year, this amount was $7,481,201 system-wide and $1,120,217 for the Idaho electric jurisdiction. However, Staff has pro formed our adjustment to update the pension expense to 2003 actuals. The 2003 system-wide minimum pension contribution was $8,694,685 with $1,301,921 allocated to Idaho's electric jurisdiction. Staff's adjustment reduces the Company's proposed pension expense from $14,000,000 to $8,694,685, resulting in a decrease to Idaho revenue requirement of approximately $867,000.

Q. Are you suggesting that this Commission adopt a policy that only the ERISA required minimum contribution be accepted for rate recovery?

A. I am not necessarily recommending a strict policy of only accepting the ERISA required minimum amount for rate recovery purposes, but I do believe that the ERISA minimum contribution is the best starting point in determining the amount to allow for recovery. When dealing with the different pension calculations, it is important to remember that these "costs" we are referring to are artificial numbers that have no connection to real-world values. These costs do not accurately estimate the value of the plan's liability to pay benefits, the Company's legal liability should the plan be terminated, or the value of benefits accumulated under the plan. These calculations are simply a means by which the federal Tax Code and the ERISA regulations dictate the level of funding in a plan for purposes of tax deductions and minimum funding rules. The calculation methodologies consist of using inaccurate data and speculative assumptions and running them through an overly precise formula to produce a cost calculation. Therefore, there is no accurate contribution value, and we are forced to rely on a number that is produced by the calculations. Given this speculative nature of pension contributions, I believe it is wise for the Commission to reserve some discretion in determining amounts to be recovered through rates based on the individual facts and circumstances of each case. Given the large requested rate increase in this case, funding at the ERISA minimum level is appropriate.

Q. Please explain Exhibit No. 121.

A. Exhibit No. 121 consists of four pages. The first two pages are simple line graphs that compare Avista's NPPC and the ERISA minimum contributions since 1995. The following two pages are workpapers of Company witness Falkner illustrating Avista's pro forma pension adjustments. As depicted by the graphs, the contributions between 1995-2001 were consistently under $4 million. In 2002, Avista's contributions began trending rapidly upward.

My investigation of Avista's pension contribution history focused on reasons for this upward trend other than poor market performance cited by Company witness Falkner (Falkner direct, pages 24-25). During my review I noticed that the actuarial assumption for future rate of return on assets was lowered from 9% in 2001 to 8% in 2002. Anytime an assumption is changed during a test year, it raises suspicions. The effect of the impact of this assumption change is shown on Exhibit No. 121, page 2 and is approximately $1.35 million in 2002 and $1.56 million in 2003. At the time of the assumption change, the Plan's average actual return since 1995 had been approximately 10 percent. In 2003, the Plan experienced a weighted average return of approximately 24.5%. Though Avista changed the actuarial assumption for the test year and increased FAS 87 pension expense, I do not believe it was an attempt by the Company to manipulate the expense or game the system. I believe the change of the rate of return assumption was the result of short-term uncertainty in the equities market. This reasoning, however, violates the process in which one determines actuarial assumptions. Actuarial Standard of Practice No. 27 written by the Pension Committee of the Actuarial Standards Board states that in determining long-term rate of return assumptions, one should look at expected long-term returns and not give undue weight to recent past history.

To change the rate of return assumption because of poor market performance ignores the fact that the markets have historically always trended back toward their long-term averages. Many companies were compelled to reduce their assumed returns during recent years, but these changes are premature given that the markets have historically always rebounded.

Because the Net Periodic Pension Cost increased by approximately $10 million over a three-year period, and the change in assumptions accounted for only approximately $1.5 million of that increase, it was the downturn in equity markets between 2000-2002 that created the dramatic increase. I do not believe it is appropriate for ratepayers to bear the burden of increased rates to cover a pension expense that is created by a short-term downward trend in the market.

That said, I believe this assumption change issue is not the most important pension concern in this proceeding. The primary issue before the Commission involves the use of the ERISA required minimum expense for rate recovery and not the Net Periodic Pension Cost.

Q. Why do you support the use of the ERISA required minimum expense in this case?

A. I support the ERISA minimum contribution because the funding calculation method uses a smoothed value of plan assets. A smoothed value recognizes gains and losses on plan investments over a five-year period. While the market losses of 2000-2002 are phased into this calculation, so are the market gains of 2003. In contrast, FAS 87 expense accounts for market gains and losses in the year that they occurred. During periods of market volatility, the FAS 87 expense has the potential to fluctuate because it completely captures the gains or losses of a specific year. The ERISA minimum contribution should remain more consistent because only 20% of current market gains or losses are factored into the calculation together with 20% of each of the four previous years' gains and losses. Thus, from a consistency standpoint, the ERISA required minimum contribution is the most reasonable. Allowing Avista to recover more than the ERISA minimum contribution may cause over-recovery of pension costs paid and would not be reasonable.

Q. Has this Commission ever approved a pension expense other than NPPC 87 for ratemaking purposes?

A. Yes. Just recently the Commission issued Order No. 29505 in Case No. IPC-E-03-13 in which the utility was allowed to collect only its cash contribution under ERISA as the pension expense included for rate recovery. The ERISA required minimum contribution had been $0.00 for many years and was expected to remain $0.00 for quite some time. It was this expense level that was included in rates in Order No. 29505 at 21.

2. Depreciation Expense

Q. Please explain Staff's position on the Company's proposed depreciation expense.

A. During the course of it's audit, Staff noticed that the depreciation rates the Company proposed were significantly higher than rates more recently approved by this Commission. The Company has used a depreciation study from 1997, which Staff believes may be outdated.

Q. Did you compare the depreciation rates proposed by Avista to other states that Avista operates in?

A. Yes, I compared Avista's depreciation rates currently in place in Idaho to the rates that were recently approved by the Washington Utilities and Transportation Commission in Docket No. UE-991606. The rates approved in that docket were stipulated to by all parties.

Q. Why are different depreciation rates used in different states?

A. Calculating depreciation rates is very similar to calculating pension expense. The calculations are based on numerous assumptions, such as remaining life, salvage value and removal costs. Though the formulas are quite precise, the result is only as good as the assumptions. Therefore, two different depreciation experts could calculate different depreciation rates. However, logic dictates that plant in Idaho will not depreciate faster than the same plant in Washington.

Q. What is Staff's depreciation expense proposal for the Company in this case?

A. Staff proposes that the Commission adopt the same depreciation rates that are effective in Washington. The result of this adjustment decreases Idaho's electric revenue requirement by approximately $676,000.

Q. How does Staff's proposed overall depreciation rates compare to Idaho's other large utilities?

A. Staff's proposed composite depreciation rate for

Avista's electric utility is 2.47%. This amount is reasonable and within the range of other utilities currently operating in Idaho.

Q. Has the Company expressed its willingness to accept the same depreciation rates in effect in Washington for use in Idaho?

A. Yes. In a meeting on June 2, 2004, the Company gave a verbal agreement to accept Washington rates in Idaho as a means of mitigating the overall rate increase and for consistency of depreciation rates between states.

3. Income Tax

Q. Please explain Staff's position regarding income tax expense and deferred income tax.

A. At issue is the Company's change in methodology when accounting for income taxes. Due to recent changes by the Internal Revenue Service, certain plant and inventory that once were required to be capitalized can now be expensed and deducted. In following the IRS's new allowable methodology, Avista calculated the amount of previously capitalized plant and inventory and deducted those amounts in a single year, resulting in a windfall benefit to the Company.

Q. Does Staff approve of this change in methodology?

A. Yes. Staff believes that the Company prudently applied for approval to change its methodology and receive the benefits that accompanied that change. Since the Company is using a 2002 test year with pro forma adjustments, and the tax benefit was received in 2003, Staff believes it is appropriate to make a pro forma adjustment to reflect deferred income tax. Inclusion of the deferred income tax as a pro forma adjustment to rate base allows customers to receive a portion of this benefit now since the tax expense will increase and the deferred tax balance will decrease in the future as the timing difference turns around.

Q. Is the Company proposing to keep this benefit for shareholders?

A. The Company normalized the benefit and to that extent, ratepayers would have received the proper benefit had this windfall occurred prior to the test year. For this reason deferred income tax is pro formed in Staff's proposal.

Q. Please explain normalization.

A. Normalization is a distinct method of reflecting income tax expense in a regulatory environment. Using this method, all income tax costs related to items in a current period will be computed, whether paid in the current year or paid in a later year. This normalization method creates a deferred income tax expense and the associated accumulated deferred income tax liability is subtracted from rate base. The rate base reduction provides the benefit currently to customers. However, these timing differences will reverse in the future, and at some point the tax expense deductions will turn around and taxes will increase causing customer rates to increase. Without Staff's pro forma adjustment, customers would pay too much in rates for taxes over time.

Q. Are customers going to pay higher rates because of this accounting change?

A. Without Staff's proposed adjustment, yes. Part of the rates paid by prior and current customers included an amount for income tax expense. The Company recalculated its reduced income tax expense for prior years and collected the refund, so customer rates were higher than necessary in past years. However, Staff is not trying to recapture past customer overpayments, but rather prevent customers from having to pay twice when the timing differences reverse themselves. Changes in the deferred income tax account will reflect these differences.

Q. What do you propose to ensure that customers are not harmed by future tax increases resulting from this methodology change?

A. Avista has normalized the 2003 tax methodology change that resulted in a windfall. Therefore, tax expense after 2003 will be properly reflected in the deferred income tax balance and future tax expense. However, the 2002 test year does not reflect normalization of the 2003 tax methodology change going forward. Therefore, Staff has increased the Idaho electric jurisdictional portion of the Company's deferred income tax balance, thus reducing total rate base by $9,966,000. This incorporates the pro forma effect of the tax methodology change in the 2002 rate base. Staff Exhibit No. 122 shows the adjustment amounts as calculated by the Company and provided to Staff in response to Production Request No. 218. The net effect of this adjustment on the Idaho electric revenue requirement is a reduction of $1,442,000.

4. Legal Expenses

Q. Please describe Exhibit No. 123.

A. Exhibit No. 123 is a list of legal expenses that Staff proposes to remove from the electric test year expenses. Line 1 of Exhibit No. 123 removes $14,035 from the test year for legal expenses allocated to Idaho for the operations of Avista Labs. These expenses were incurred by the subsidiary and should be directly assigned to that subsidiary. Line 2 removes $1,326 from the test year legal expenses allocated to Idaho related to the operations of Avista Communications. Again, these expenses were incurred by the subsidiary and should be directly assigned to that subsidiary.

Line 3 of Exhibit No. 123 removes from the test year $74,363 in legal expenses allocated to Idaho that the Company incurred during the bankruptcy proceedings of Enron Corp. Though these expenses were prudently incurred, they were an extraordinary expense that the Company will not incur beyond the test year. Therefore, Staff has removed Idaho's jurisdictional allocation of these expenses.

Line 4 of Exhibit No. 123 removes from the test year $478,980 in legal expenses related to the Federal Energy Regulatory Commission's (FERC) investigation into electricity trading practices. Again, though the Company may have prudently incurred these expenses, the investigation has been completed and these expenses are not likely to recur beyond 2003.

Q. Please explain the FERC investigation and why these expenses should not be included in customers' rates.

A. In February 2002, the FERC initiated a fact-finding investigation of potential manipulation of electric and natural gas prices by Avista Corp. and its affiliate Avista Energy in the California energy markets. The FERC was specifically interested in whether or not Avista Corp. and any of its affiliates participated in trading strategies that were similar to those practiced by Enron. Avista incurred significant legal expenses defending itself and allocated $478,980 to Idaho's electric jurisdiction.

In April of 2004, after filing its Application with this Commission to increase base rates, Avista Corporation received notice from the Federal Energy Regulatory Commission that its investigation into any alleged improprieties committed by Avista Corporation and its affiliates had been concluded. The Federal Energy Regulatory Commission cleared Avista of any wrongdoing. Given that these activities should not be associated with the normal provision of electricity and should not recur in the future, Staff has removed these expenses on the grounds that they are non-recurring. However, the Company's revenue requirement still includes a substantial level of other legal expenses for Idaho's electric jurisdiction.

5. Miscellaneous Expenses

Q. Please explain Exhibit No. 124.

A. Exhibit No. 124 lists several miscellaneous expenses discovered during Staff's audit that Staff believes are inappropriately charged to ratepayers. These expenses include such items as Christmas and Fourth of July parties for employees, and contributions to various charities and social organizations that promote the Company's public image or should be allocated to affiliates.

The largest single expense item on the list is expenses incurred by Avista Corporation pertaining to corporate strategy. A review of this report indicated that approximately 75% of the report dealt with non-regulated operations of Avista Corporation. Staff also reviewed the minutes of the Board of Directors meetings to evaluate the percentage of the Board's time spent discussing non-regulated operations for this report. Staff believes that corporate strategy benefits all subsidiaries of Avista Corp, regulated and non-regulated alike. Therefore, Staff has allocated 75% of these expenses to affiliates.

Q. Does this conclude your testimony regarding Avista Corporation's Application to increase its base rates for electricity in Idaho?

A. Yes.

GAS SECTION

1. Pension Expense

Q. Did Staff make any adjustments to pension expense for Idaho's gas jurisdiction?

A. Yes. Avista included an adjustment increase of $170,068 for Idaho gas operations that reflects the use of the 2004 estimated Net Periodic Pension Cost. Based on the arguments previously mentioned in Section 1 of my electric testimony, Staff has adjusted the Company's proposed 2004 estimated $14 million pension expense to the 2003 ERISA required minimum contribution of $8,694,685. This equates to an Idaho gas jurisdiction amount of $320,409. The effect of this adjustment reduces the Idaho gas revenue requirement by approximately $214,000.

2. Depreciation Expense

Q. Please explain Staff's adjustment to depreciation expense for Idaho's gas jurisdiction.

A. As I discussed in Section 2 of my electric testimony, the Company has accepted rates in other states that are significantly less than those rates booked in Idaho. By applying the rates approved in Washington State to Idaho's gas jurisdiction, the proposed revenue requirement is reduced by $44,000.

3. Income Tax

Q. Did Staff take issue with the treatment of the income tax methodology change and pro form the associated deferred income taxes in this case for Idaho's gas jurisdiction?

A. Yes. The recent change in methodology discussed in Section 3 of my electric testimony also applies to gas plant and inventory. Again, because the test year in this proceeding is 2002, and the tax methodology change was made in 2003, there is a timing difference making a pro forma adjustment necessary for customers to receive any portion of this tax benefit in this case. Staff has pro formed the change in the deferred income tax amount in rate base to reflect known and measurable changes in deferred taxes and therefore capture this tax change on a going forward basis. Staff's adjustment to the deferred tax balance reduces Idaho's gas jurisdictional rate base by $2,639,000. The net effect this adjustment has on revenue requirement is a reduction of $382,000. Exhibit No. 125 prepared by Avista in response to Production Request No. 218 illustrates the calculation for this adjustment.

4. Legal Expenses

Q. Does Staff take exception to any legal expenses proposed to be recovered from Idaho gas customers in this proceeding?

A. Yes. During the course of our audit, Staff discovered several legal expenses that should have been directly assigned to affiliates or were for extraordinary events that will not recur, similar to the arguments listed in Section 4 of my electric testimony. Specifically, Staff discovered $16,537 in legal fees allocated to Idaho's gas jurisdiction related to the bankruptcy filing of Enron Corporation. Other legal fees removed from test year expenses were $3,136 and $303 incurred by Avista Labs and Avista Communications respectively but were allocated to Idaho's gas jurisdiction. These expenses and the total adjustment are shown in Exhibit No. 126. This adjustment reduces the Idaho gas revenue requirement by $19,976.

5. Miscellaneous Expenses

Q. Do you have any other adjustments to Idaho's gas jurisdiction?

A. Yes. There were several miscellaneous expenses pertaining to the promotion of corporate image, holiday lunches and charitable organizations that Staff believes were mistakenly included above-the-line. These expense reductions are listed in Exhibit No. 127 and reduce Idaho's gas revenue requirement by $110,650.

Q. Does this conclude your direct testimony in this proceeding?

A. Yes, it does.

History of Avista Pension Costs

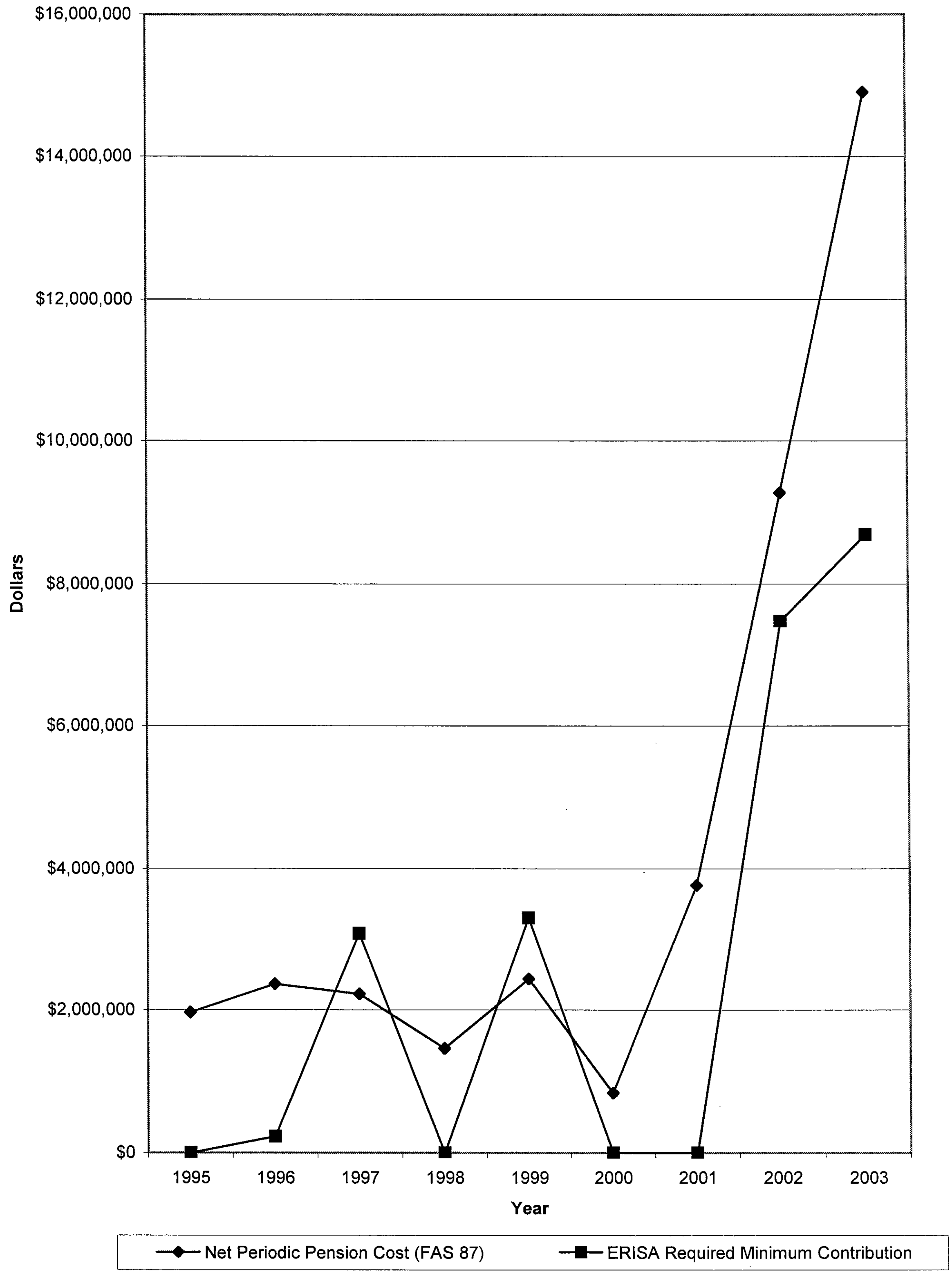

Exhibit No. 121
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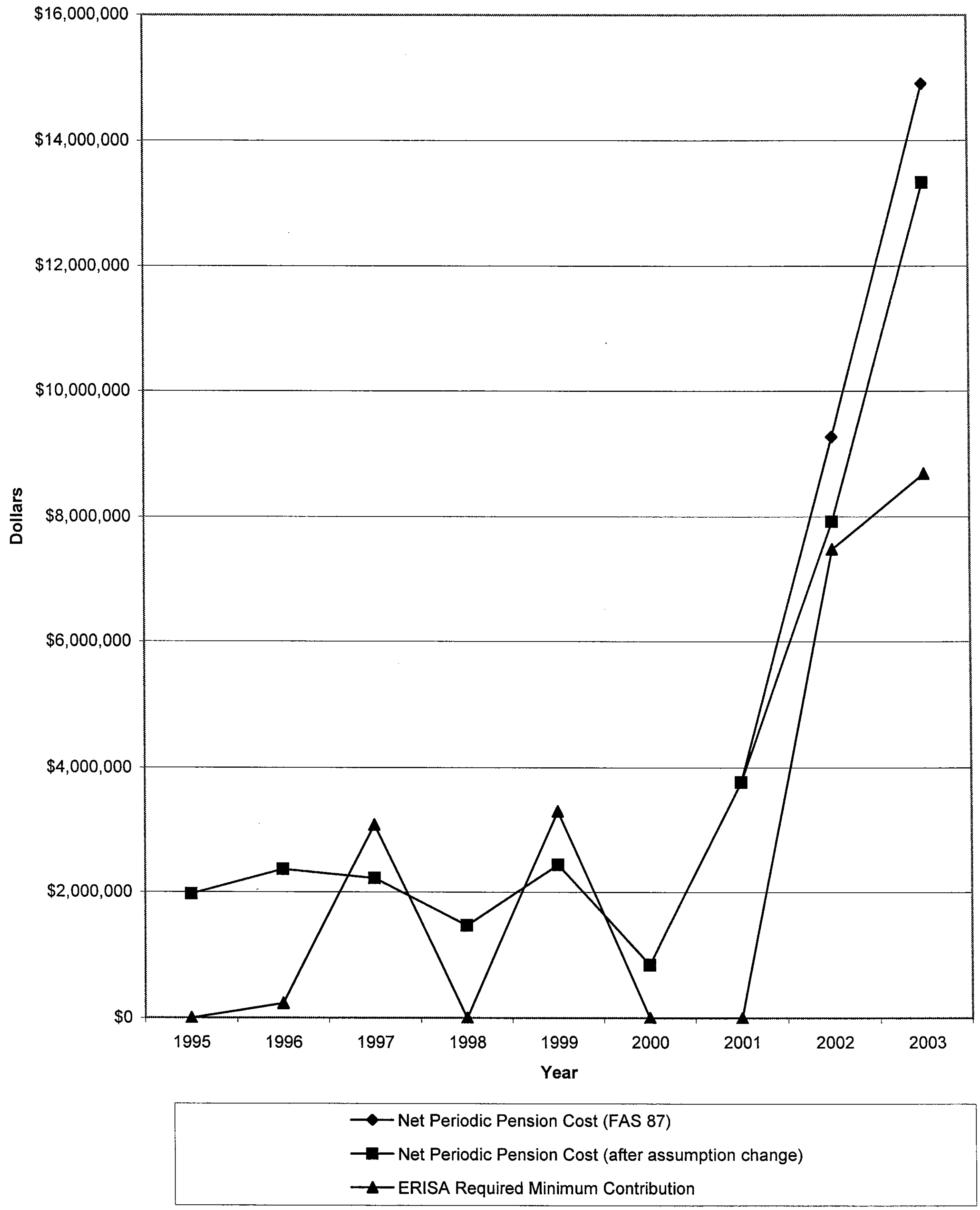
History of Avista Pension Costs
Including Effect of Assumption Changes



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AVISTA UTILITIES

Payroll Loading Adjustment
And Pension Pro Forma
Twelve Months Ended December 31, 2002

	Amount Incurred	Amount Cleared	Difference	Pension Proforma (1)
Payroll benefits	$27,017,214	$25,100,071	$1,917,143	$4,255,953
Payroll taxes	5,898,062	5,552,000	346,062	
Payroll time off	10,735,046	10,303,348	431,698	
Total	$43,650,322	$40,955,419	$2,694,903	$4,255,953

(1) 2004 projected pension costs less 2002 actual pension costs for the utility.

2004 projection	$14,000,000
2002 actual	-9,385,000
Difference	$4,615,000
Allocation to utility	92.22%
Net increase to utility	$4,255,953

2002 Washington Electric Labor	$ 24,615,596.57		
2002 Total Company Labor	$ 79,844,620.00		
% of total		30.829%	
Payroll loading adjustment allocated to Washington Electric		$830,812	$1,312,068
2002 Idaho Electric Labor	$ 12,964,290.93		
2002 Total Company Labor	$ 79,844,620.00		
% of total		16.237%	
Payroll loading adjustment allocated to Idaho Electric		$437,571	$691,039

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AVISTA UTILITIES

Payroll Loading Adjustment
And Pension Pro Forma
Twelve Months Ended December 31, 2002

	Amount Incurred	Amount Cleared	Difference	Pension Proforma (1)
Payroll benefits	$26,075,545	$24,158,402	$1,917,143	$4,255,953
Payroll taxes	5,898,062	5,552,000	346,062	
Payroll time off	10,735,046	10,303,348	431,698	
Total	$42,708,653	$40,013,750	$2,694,903	$4,255,953

(1) 2004 projected pension costs less 2002 actual pension costs for the utility.

2004 projection	$14,000,000
2002 actual	-9,385,000
Difference	$4,615,000
Allocation to utility	92.22%
Net increase to utility	$4,255,953

2002 Washington Gas Labor	$ 7,273,797.08		
2002 Total Company Labor	$ 79,844,620.00		
% of total		9.110%	
Payroll loading adjustment allocated to Washington Gas		$245,506	$387,717
2002 Idaho Gas Labor	$ 3,190,949.80		
2002 Total Company Labor	$ 79,844,620.00		
% of total		3.996%	
Payroll loading adjustment allocated to Idaho Gas		$107,688	$170,068

Exhibit No. 121
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AVISTA UTILITIES
ELECTRIC ADJUSTMENT SUMMARY
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

IDAHO
DFIT - OVERHEADS
ELECTRIC

Line No.	DESCRIPTION	System	Washington	Idaho
	REVENUES			
1	Total General Business	$0		
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue			
6	Total Electric Revenue	0	0	0
	EXPENSES			
	Production and Transmission			
7	Operating Expenses			
8	Purchased Power			
9	Depreciation and Amortization			
10	Taxes			
11	Total Production & Transmission	0	0	0
	Distribution			
12	Operating Expenses			
13	Depreciation			
14	Taxes	0	0	0
15	Total Distribution	0	0	0
16	Customer Accounting			
17	Customer Service & Information			
18	Marketing			
	Administrative & General			
19	Operating Expenses			
20	Depreciation			
21	Taxes			
22	Total Admin. & General	0	0	0
23	Total Electric Expenses	0	0	0
24	Operating Income before FIT	0	0	0
	Federal Income Taxes			
25	Current Accrual (at 35%)	0	0	0
26	Deferred Income Taxes	0	0	0
27	Amortized ITC			
28	SETTLEMENT EXCHANGE POWER			
29	NET OPERATING INCOME	$0	$0	$0
	RATE BASE			
	PLANT IN SERVICE			
30	Intangible			
31	Production			
32	Transmission			
33	Distribution			
34	General			
35	Total Plant in Service	0	0	0
36	ACCUMULATED DEPRECIATION			
37	ACCUM. PROVISION FOR AMORTIZATION			
38	Total Accum. Depreciation & Amort.	0	0	0
39	GAIN ON SALE OF BUILDING			
40	DEFERRED TAXES	(9,966)	0	(9,966)
41	TOTAL RATE BASE	($9,966)	$0	($9,966)

Exhibit No. 122
Case No. AVU-E-04-1/
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AVISTA UTILITIES

Accumulated Deferred Taxes Related to Overheads
Electric
Balance at December 31, 2003

	Alloc Basis	Electric System	Washington	Idaho
Distribution	10	($17,045,977)	($10,665,497)	($6,380,480)
Hydro	1	(4,381,480)	(2,873,813)	(1,507,667)
Kettle Falls	1	(276,112)	(181,102)	(95,010)
Kettle Falls CT	1	(550,810)	(361,276)	(189,534)
Other Production	1	(247,318)	(162,216)	(85,102)
Rathdrum	1	(1,126,676)	(738,987)	(387,689)
Transmission	1	(3,836,293)	(2,516,225)	(1,320,068)
Total		($27,464,666)	($17,499,116)	($9,965,550)
Allocation Notes:				
Production/Transmission	1	100.000%	65.590%	34.410%
Net electric distribution plant - AMA	10	100.000%	62.569%	37.431%

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DMF file: OverheadsDFIT_Bk.xls
Sheet: Elec

AVISTA CORPORATION
STAFF ADJUSTMENTS TO LEGAL EXPENSES
AVU-E-04-01

		Electric	
Line	Adjustment	Amount Allocated to Electric Utility per Avista	Allocated to Idaho Electric Jurisdiction
1	Avista Labs	$ 39,590	$ 14,035
2	Avista Communications	$ 3,742	$ 1,326
3	Enron Corp. Bankruptcy	$ 209,768	$ 74,363
4	FERC Investigations	$ 1,334,950	$ 478,980 *
5			$ 568,704

* Allocated using a 35.880% allocation factor per Avista Response to Audit Request No. 20

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AVISTA CORPORATION
STAFF MISCELLANEOUS ADJUSTMENTS
AVU-E-04-01

VENDOR_DESC	Account No.	Total Transaction	Electric
Memberships Directly Charged to Idaho			
Jobs Plus	930.25	20,000	16,089
Concerned Business Inc	930.25	15,000	12,067
Bonner County EDC	930.25	4,000	3,218
Coeur D'Alene	930.25	1,500	1,207
Silver Valley EDC	930.25	1,500	1,207
Greater Sandpoint Chamber	930.25	1,094	880
St. Joe Development Foundation	930.25	1,000	804
Post Falls Area	930.25	758	610
Greater Hayden/Hayden Lake	930.25	500	402
Less than$500	930.25	2,222	1,787
Total Directly Charged to Idaho		**47,574**	**38,272**
Memberships Allocated to Idaho		**Total**	**Electric**
Spokane Regional	930.25	44,225	35,578
Western Energy Institute	930.25	35,000	25,157
National Hydropower Association	930.25	25,810	25,810
PNUCC	930.25	23,827	23,827
Northwest Gas Association	930.25	22,968	16,509
Valley Vision	930.25	15,000	12,067
Washington Roundtable	930.25	14,844	10,669
Inland Northwest Partners	930.25	14,080	11,320
Inland Northwest HVAC Assn	930.25	7,500	6,034
Foundation for Water	930.25	6,000	6,000
Spokane Area Economic	930.25	5,100	4,103
Downtown Spokane Partnership	930.25	5,000	4,022
Corporate Executive Board	930.25	4,000	2,875
Financial Executives	930.25	3,055	2,196
University of Idaho	930.25	3,000	2,156
Spokane Convention	930.25	2,000	1,609
Better Business Bureau	930.25	1,817	1,462
Spokane Valley	930.25	1,650	1,327
Philanthropy Northwest	930.25	1,400	1,006
Boston College/CCC	930.25	1,200	863
A W B	930.25	1,160	834
Idaho Association of	930.25	1,020	733
CTED/Economic Development	930.25	1,000	719
Pullman Chamber of Commerce	930.25	800	644
Marketing Executives	930.25	750	539
International Economic	930.25	640	460
Forest Resources Assoc Inc	930.25	620	620
Clearwater Economic	930.25	600	483
Kettle Falls Generating	930.25	600	600
Spokane Area	930.25	500	359
Washington Economic	930.25	500	381
Less than $500	930.25	7,341	5,772
Total to be allocated to Idaho		**253,007**	**206,733**
Allocation factors			35.446%
Total Allocated to Idaho			**$ 73,279**
Total of Account 930.25			**$ 111,551**
Charitable, Civic/Community Organizations		**Total**	**Electric**
Anne Marie Axworthy	930.22	725	583
Debbie Simock	930.22	733	590
Wampum	930.22	1,200	965
Spokane Symphony Association	930.22	598	481
Resource Planning Unlimited	930.22	1,060	853
Anne Marie Axworthy	930.22	730	587
Elect Al French for President	930.22	500	402
Kristine Meyer	930.22	566	455
Philanthropy Northwest	930.22	1,000	804
Davenport District Art Board	930.22	500	402
Adventures in Advertising	930.22	1,539	1,238
Adventures in Advertising	930.22	572	460
EDS Corporation	930.22	2,963	2,383
Adventures in Advertising	930.22	636	511
Judith L Cole	930.22	566	455
Judith L Cole	930.22	826	664
Women of Avista Corp	930.22	800	644
Charges $500 or greater	930.22	**$ 15,514**	$ 12,477
Allocation Percentage	930.22		35.446%
Idaho Allocation of Charges $500 or Greater	930.22		**$ 4,423**
Idaho allocation of Charges less than $500	930.22		**$ 5,501**
Idaho Direct Charges of $500 or less	930.22		**$ 5,169**
Total of Account 930.22			**$ 15,093**
Other Miscellaneous			
Bain & Company	923	1,164,835	246,325
Avista Summer Picnic	923	29,246	7,391
Spokane Indians Summer Picnic	923	304	77
Annual Trailblazer Dinner	926	24,318	6,146
Avista Christmas Luncheon	921	7,317	1,849
Total Other Miscellaneous		**$ 1,226,020**	**$ 261,788**
Total Miscellaneous Adjustments		**$ 1,542,115**	**$ 388,431**

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AVISTA UTILITIES
GAS ADJUSTMENT SUMMARY
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

IDAHO
DFIT - OVERHEADS
GAS

Line No.	Description	System	Washington	Idaho
	REVENUES			
1	Total General Business			
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	0	0	0
	EXPENSES			
5	Exploration & Development			
	Production			
6	City Gate Purchases			
7	Purchased Gas Expense			
8	Net Nat. Gas Storage Trans			
9	Total Production	0	0	0
	Underground Storage			
10	Operating Expenses			
11	Depreciation			
12	Taxes			
13	Total Underground Storage	0	0	0
	Distribution			
14	Operating Expenses			
15	Depreciation			
16	Taxes	0		0
17	Total Distribution	0	0	0
18	Customer Accounting			
19	Customer Service & Information			
20	Sales			
	Administrative and General			
21	Operating Expenses			
22	Depreciation			
23	Taxes			
24	Total Admin. & General	0	0	0
25	Total Gas Expense	0	0	0
26	Operating Income before FIT	0	0	0
	Federal Income Taxes			
27	Current Accrual (at 35%)	0	0	0
28	Amort ITC			
29	Deferred FIT			
31	NET OPERATING INCOME	$0	$0	$0
	RATE BASE			
	PLANT IN SERVICE			
32	Underground Storage			
33	Distribution Plant			
34	General Plant			
35	Total Plant in Service	0	0	0
	ACCUMULATED DEPRECIATION			
36	Underground Storage			
37	Distribution Plant			
38	General Plant			
39	Total Accum. Depreciation	0	0	0
40	DEFERRED TAXES	(2,639)	0	(2,639)
41	GAS INVENTORY			
42	GAIN ON SALE OF BUILDING			
43	TOTAL RATE BASE	($2,639)	$0	($2,639)

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AVISTA UTILITIES

Accumulated Deferred Taxes Related to Overheads
Gas
Balance at December 31, 2003

	Alloc Basis	Gas System	Washington	Idaho
Gas - Distribution	NDP	($8,222,196)	($5,583,036)	($2,639,160)
Total		($8,222,196)	($5,583,036)	($2,639,160)

Allocation Notes:					
Net distribution plant - AMA	NDP				
Gross		272,912,059	185,314,508	87,597,551	(1)
A/D		(82,242,578)	(55,845,482)	(26,397,096)	(1)
Net		190,669,481	129,469,026	61,200,455	
Percent		100.000%	67.902%	32.098%	

(1) Source is Gas Utility Plant (G-PLT-12A) from Results of Operations

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DMF file: OverheadsDFIT_Bk.xls
Sheet : Gas

AVISTA CORPORATION
STAFF ADJUSTMENTS TO LEGAL EXPENSES
AVU-G-04-01

		Gas	
Line	**Adjustment**	**Amount Allocated to Gas Utility per Avista**	**Allocated to Idaho Gas Jurisdiction**
1	Avista Labs	$ 10,185	$ 3,136
2	Avista Communications	$ 983	$ 303
3	Enron Corp. Bankruptcy	$ 53,710	$ 16,537
4			$ 19,976

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AVISTA CORPORATION
STAFF MISCELLANEOUS ADJUSTMENTS
AVU-G-04-01

VENDOR_DESC	Account No.	Total Transaction	Gas
Memberships Directly Charged to Idaho			
Jobs Plus	930.25	20,000	3,911
Concerned Business Inc	930.25	15,000	2,933
Bonner County EDC	930.25	4,000	782
Coeur D'Alene	930.25	1,500	293
Silver Valley EDC	930.25	1,500	293
Greater Sandpoint Chamber	930.25	1,094	214
St. Joe Development Foundation	930.25	1,000	196
Post Falls Area	930.25	758	148
Greater Hayden/Hayden Lake	930.25	500	98
Less than$500	930.25	2,222	434
Total Directly Charged to Idaho		**47,574**	**9,302**
Memberships Allocated to Idaho		**Total**	**Gas**
American Gas Association	930.25	137,393	90,825
Spokane Regional	930.25	44,225	8,647
Western Energy Institute	930.25	35,000	6,473
Northwest Gas Association	930.25	22,968	4,247
Valley Vision	930.25	15,000	2,933
Washington Roundtable	930.25	14,844	2,745
Inland Northwest Partners	930.25	14,080	2,752
Inland Northwest HVAC Assn	930.25	7,500	1,466
Spokane Area Economic	930.25	5,100	997
Downtown Spokane Partnership	930.25	5,000	978
Corporate Executive Board	930.25	4,000	740
Financial Executives	930.25	3,055	565
University of Idaho	930.25	3,000	555
Spokane Convention	930.25	2,000	391
Better Business Bureau	930.25	1,817	355
Spokane Valley	930.25	1,650	323
Philanthropy Northwest	930.25	1,400	259
Boston College/CCC	930.25	1,200	222
A W B	930.25	1,160	215
Idaho Association of	930.25	1,020	189
CTED/Economic Development	930.25	1,000	185
Pullman Chamber of Commerce	930.25	800	156
Marketing Executives	930.25	750	139
International Economic	930.25	640	118
Clearwater Economic	930.25	600	117
Spokane Area	930.25	500	92
Washington Economic	930.25	500	95
Less than $500	930.25	7,341	1,331
Total to be allocated to Idaho		**333,543**	**128,111**
Allocation factors			30.791%
Total Allocated to Idaho			**$ 39,447**
Total of Account 930.25			**$ 48,749**
Charitable, Civic/Community Organizations		**Total**	**Gas**
Anne Marie Axworthy	930.22	725	142
Debbie Simock	930.22	733	143
Wampum	930.22	1,200	235
Spokane Symphony Association	930.22	598	117
Resource Planning Unlimited	930.22	1,060	207
Anne Marie Axworthy	930.22	730	143
Elect Al French for President	930.22	500	98
Kristine Meyer	930.22	566	111
Philanthropy Northwest	930.22	1,000	196
Davenport District Art Board	930.22	500	98
Adventures in Advertising	930.22	1,539	301
Adventures in Advertising	930.22	572	112
EDS Corporation	930.22	2,963	580
Adventures in Advertising	930.22	636	125
Judith L Cole	930.22	566	111
Judith L Cole	930.22	826	162
Women of Avista Corp	930.22	800	156
Charges $500 or greater	930.22	$ 15,514	$ 3,037
Allocation Percentage	930.22		30.791%
Idaho Allocation of Charges $500 or Greater	930.22		**$ 935**
Idaho allocation of Charges less than $500	930.22		**$ 1,112**
Idaho Direct Charges of $500 or less	930.22		**$ 1,208**
Total of Account 930.22			**$ 3,255**
Other Miscellaneous Expenses			
Bain & Company		1,164,835	55,045
Avista Summer Picnic		29,246	1,721
Spokane Indians Summer Picnic		304	18
Annual Trailblazer Dinner		24,318	1,431
Avista Christmas Luncheon		7,317	431
Total Other Miscellaneous		**$ 1,226,020**	**$ 58,646**
Total Miscellaneous Adjustments		**$ 1,622,651**	**$ 110,650**

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6/21/04

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF JUNE 2004, SERVED THE FOREGOING **DIRECT TESTIMONY OF DONN ENGLISH,** IN CASE NO. AVU-E-04-1/AVU-G-04-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DAVID J. MEYER
SR VP AND GENERAL COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727

KELLY NORWOOD
VICE PRESIDENT – STATE & FED. REG.
AVISTA UTILITIES
PO BOX 3727
SPOKANE WA 99220-3727

CONLEY E WARD
GIVENS PURSLEY LLP
PO BOX 2720
BOISE ID 83701-2720

DENNIS E PESEAU, PH. D.
UTILITY RESOURCES INC
1500 LIBERTY ST SE, SUITE 250
SALEM OR 97302

CHARLES L A COX
EVANS KEANE
111 MAIN STREET
PO BOX 659
KELLOGG ID 83837

BRAD M PURDY
ATTORNEY AT LAW
2019 N 17TH ST
BOISE ID 83702

Jean D. Koch
SECRETARY