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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE 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-04-01 CASE NO. AVU-G-04-01 EXHIBIT NO. 3 WILLIAM E. AVERA

FOR AVISTA CORPORTATION

(ELECTRIC AND NATURAL GAS)

DISCOUNTED CASH FLOW MODEL

EXPECTED DIVIDEND YIELD

	Sym	Company	(a) Stock Price	(a) Estimated Dividends Next 12 Mos.	Implied Dividend Yield
1	BKH	Black Hills Corp.	$ 28.21	$ 1.24	4.4%
2	HE	Hawaiian Electric	$ 46.16	$ 2.48	5.4%
3	MDU	MDU Resources Group	$ 23.77	$ 0.69	2.9%
4	PNM	PNM Resources Group	$ 27.72	$ 0.95	3.4%
5	PNW	Pinnacle West Capital	$ 38.96	$ 1.83	4.7%
6	PSD	Puget Energy, Inc.	$ 23.10	$ 1.00	4.3%
7	SRE	Sempra Energy	$ 28.30	$ 1.00	3.5%
8	XEL	Xcel Energy	$ 16.97	$ 0.77	4.5%
		Average			**4.2%**

(a) Summary and Index, The Value Line Investment Survey (December 26, 2003).

DISCOUNTED CASH FLOW MODEL

EARNINGS GROWTH RATES

			Projected				Historical	
			(a)	(b)	(c)	(d)	(b)	(b)
	Sym	**Company**	**IBES**	**Value Line**	**First Call**	**Multex Investor**	**Past 10 Yr**	**Past 5 Yr**
1	BKH	Black Hills Corp.	6.0%	0.0%	6.9%	6.2%	9.0%	15.0%
2	HE	Hawaiian Electric	3.0%	0.0%	2.8%	3.9%	2.5%	2.5%
3	MDU	MDU Resources Group	7.0%	7.5%	8.0%	8.0%	9.0%	12.5%
4	PNM	PNM Resources Group	5.0%	NMF	5.0%	5.0%	19.0%	9.5%
5	PNW	Pinnacle West Capital	4.0%	0.5%	4.0%	5.5%	NMF	5.0%
6	PSD	Puget Energy, Inc.	6.0%	4.5%	5.0%	5.3%	NMF	NMF
7	SRE	Sempra Energy	6.0%	3.5%	6.5%	6.0%	3.5%	4.0%
8	XEL	Xcel Energy	4.0%	1.0%	3.0%	3.4%	0.5%	NMF
		Average	**5.1%**	**2.4%**	**5.2%**	**5.4%**	**7.3%**	**8.1%**

NMF -- No Meaningful Figure

NA -- Not Available

(a) I/B/E/S International growth rates from Standard & Poor's Earnings Guide, (December 2003).
(b) The Value Line Investment Survey (November 14, 2003). Negative growth rates recorded as No Meaningful Figure.
(c) First Call Earnings Estimates from www.finance.yahoo.com (January 14, 2004).
(d) Multex Investor earnings growth rates from www.multexinvestor.com (January 14, 2004).

DISCOUNTED CASH FLOW MODEL

PROJECTED "B x R" GROWTH

	Sym	Company	(a) Proj. EPS	(a) Proj. DPS	(a) Proj. BVS	"b"	"r"	"b" x "r" Growth
1	BKH	Black Hills Corp.	$2.75	$1.36	$26.50	50.55%	10.4%	5.2%
2	HE	Hawaiian Electric	$3.00	$2.48	$33.00	17.33%	9.1%	1.6%
3	MDU	MDU Resources Group	$2.00	$0.82	$17.25	59.00%	11.6%	6.8%
4	PNM	PNM Resources Group	$2.00	$1.07	$29.40	46.50%	6.8%	3.2%
5	PNW	Pinnacle West Capital	$3.30	$2.13	$34.95	35.45%	9.4%	3.3%
6	PSD	Puget Energy, Inc.	$2.00	$1.12	$20.50	44.00%	9.8%	4.3%
7	SRE	Sempra Energy	$3.00	$1.00	$24.75	66.67%	12.1%	8.1%
8	XEL	Xcel Energy	$1.50	$0.90	$14.75	40.00%	10.2%	4.1%
		Average						**4.6%**

(a) The Value Line Investment Survey (November 14, 2003).

ANALYSIS OF AUTHORIZED RATES OF RETURN ON EQUITY FOR ELECTRIC UTILITIES

YEAR	(a) ALLOWED ROE	(b) AVERAGE PUBLIC UTILITY BOND YIELD	RISK PREMIUM
1974	13.10%	9.27%	3.83%
1975	13.20%	9.88%	3.32%
1976	13.10%	9.17%	3.93%
1977	13.30%	8.58%	4.72%
1978	13.20%	9.22%	3.98%
1979	13.50%	10.39%	3.11%
1980	14.23%	13.15%	1.08%
1981	15.22%	15.62%	-0.40%
1982	15.78%	15.33%	0.45%
1983	15.36%	13.31%	2.05%
1984	15.32%	14.03%	1.29%
1985	15.20%	12.29%	2.91%
1986	13.93%	9.46%	4.47%
1987	12.99%	9.98%	3.01%
1988	12.79%	10.45%	2.34%
1989	12.97%	9.66%	3.31%
1990	12.70%	9.76%	2.94%
1991	12.55%	9.21%	3.34%
1992	12.09%	8.57%	3.52%
1993	11.41%	7.56%	3.85%
1994	11.34%	8.30%	3.04%
1995	11.55%	7.91%	3.64%
1996	11.39%	7.74%	3.65%
1997	11.40%	7.63%	3.77%
1998	11.66%	7.00%	4.66%
1999	10.77%	7.55%	3.22%
2000	11.43%	8.09%	3.34%
2001	11.08%	7.72%	3.36%
2002	11.16%	7.53%	3.63%
Average		9.81%	3.08%

Regression Output	
Constant	0.07343
Std Err of Y Est	0.00576
R Squared	0.77401
No. of Observations	29
Degrees of Freedom	27
X Coefficient(s)	-0.43462
Std Err of Coef.	0.04520

Current Equity Risk Premium	
Avg. Yield over Study Period	9.81%
Dec. 2003 Avg. Utility Bond Yield	6.36%
Change in Bond Yield	-3.45%
Risk Premium/Interest Rate Relationship	-43.46%
Adjustment to Average Risk Premium	1.50%
Average Risk Premium over Study Period	3.08%
Adjusted Risk Premium	**4.58%**

(a) Major Rate Case Decisions, Regulatory Focus, Regulatory Research Associates (January 22, 2003, January 24, 2001 & January 16, 1990); UtilityScope Regulatory Service, Argus (January 1986).

(b) Moody's Public Utility Manual (2001); Moody's Credit Perspectives (various editions).

RISK PREMIUM METHOD

CAPITAL ASSET PRICING MODEL

Market Rate of Return		
Dividend Yield (a)	1.6%	
Growth Rate (b)	12.1%	
Market Return		13.7%
Less: Risk-Free Rate (c)		
Long-term Treasury Bond Yield		5.2%
Market Risk Premium (d)		8.5%
Electric Utility Proxy Group Beta (e)		
Black Hills Corp.	0.85	
Hawaiian Electric	0.60	
MDU Resources Group	0.80	
PNM Resources Group	0.80	
Pinnacle West Capital	0.80	
Puget Energy, Inc.	0.70	
Sempra Energy	0.85	
Xcel Energy	0.75	
		0.77
Electric Utility Proxy Group Risk Premium (f)		6.5%
Plus: Risk-free Rate (c)		
Long-term Treasury Bond Yield		5.2%
Implied Cost of Equity (g)		11.7%

(a) Average dividend yield for the S&P 500 at month-end December 2003 from www.standardandpoors.com
(b) Average IBES growth rate for the firms in the S&P 500 based on data from Standard & Poor's Earnings Guide (December 2003).
(c) Average of the daily yields on long-term government bonds for December 2003 reported by the U.S. Department of the Treasury at www.treas.gov.
(d) (a) - (b).
(e) Summary and Index, The Value Line Investment Survey (December 26, 2003).
(f) (c) x (d).
(g) (b) + (e).

ANALYSIS OF REALIZED RATES OF RETURN ON EQUITY
FOR THE S&P ELECTRIC POWER COMPANIES

	S&P ELECTRIC COMPANIES (a)			S&P SINGLE-A PUBLIC UTILITY BONDS (b)		
	CLOSE PRICE	DIV	ANNUAL REALIZED RETURN	CLOSE YIELD	PRICE	ANNUAL REALIZED RETURN
1945	$16.34		(c)	2.73%	(d)	
1946	$15.53	$0.73	-0.49%	2.72%	$100.18	2.91%
1947	$12.89	$0.75	-12.17%	3.04%	$94.87	-2.41%
1948	$12.37	$0.71	1.47%	3.05%	$99.82	2.86%
1949	$14.60	$0.80	24.49%	2.70%	$105.88	8.93%
1950	$14.49	$0.88	5.27%	2.81%	$98.05	0.75%
1951	$16.07	$0.92	17.25%	3.31%	$92.16	-5.03%
1952	$18.28	$0.95	19.66%	3.25%	$101.06	4.37%
1953	$18.97	$0.99	9.19%	3.33%	$98.68	1.93%
1954	$22.39	$1.03	23.46%	3.15%	$102.85	6.18%
1955	$24.06	$1.09	12.33%	3.39%	$96.23	-0.61%
1956	$23.61	$1.13	2.83%	4.19%	$88.60	-8.01%
1957	$24.85	$1.19	10.29%	3.97%	$103.20	7.39%
1958	$33.14	$1.24	38.35%	4.51%	$92.42	-3.61%
1959	$33.42	$1.30	4.77%	4.80%	$96.09	0.60%
1960	$39.35	$1.37	21.84%	4.64%	$102.26	7.06%
1961	$49.28	$1.44	28.89%	4.66%	$99.61	4.25%
1962	$48.60	$1.52	1.70%	4.33%	$104.73	9.39%
1963	$51.97	$1.63	10.29%	4.51%	$97.49	1.82%
1964	$58.21	$1.74	15.36%	4.47%	$100.59	5.10%
1965	$58.05	$1.90	2.99%	4.86%	$94.71	-0.82%
1966	$53.49	$2.04	-4.34%	5.61%	$90.59	-4.55%
1967	$49.90	$2.16	-2.67%	6.50%	$89.61	-4.78%
1968	$51.95	$2.27	8.66%	7.01%	$94.25	0.75%
1969	$42.65	$2.33	-13.42%	8.43%	$85.88	-7.11%
1970	$45.62	$2.40	12.59%	8.44%	$99.91	8.34%
1971	$44.18	$2.47	2.26%	7.70%	$107.78	16.22%
1972	$43.50	$2.53	4.19%	7.74%	$99.66	7.37%
1973	$32.85	$2.51	-18.71%	8.10%	$96.25	3.98%
1974	$22.03	$2.49	-25.36%	9.25%	$89.27	-2.63%
1975	$30.56	$2.57	50.39%	9.63%	$96.63	5.89%
1976	$35.17	$2.58	23.53%	8.37%	$112.58	22.21%
1977	$35.67	$2.74	9.21%	8.81%	$95.71	4.08%
1978	$31.38	$2.94	-3.78%	9.75%	$91.55	0.36%
1979	$28.44	$3.10	0.51%	11.47%	$86.31	-3.94%
1980	$27.19	$3.20	6.86%	13.39%	$86.48	-2.05%
1981	$29.33	$3.42	20.45%	15.66%	$86.06	-0.54%
1982	$36.15	$3.62	35.59%	12.21%	$126.20	41.86%
1983	$37.14	$3.84	13.36%	12.95%	$94.63	6.83%
1984	$42.26	$4.06	24.72%	12.39%	$104.16	17.11%
1985	$48.82	$4.15	25.34%	10.54%	$115.76	28.16%
1986	$58.31	$4.21	28.06%	9.12%	$113.37	23.90%
1987	$49.71	$4.34	-7.31%	10.09%	$91.49	0.61%
1988	$53.87	$4.37	17.16%	10.02%	$100.62	10.71%
1989	$66.55	$4.28	31.48%	9.36%	$106.11	16.13%
1990	$63.47	$4.45	2.06%	9.60%	$97.82	7.18%
1991	$77.25	$4.57	28.91%	8.93%	$106.41	16.01%
1992	$76.78	$4.68	5.45%	8.64%	$102.84	11.77%
1993	$81.71	$4.71	12.56%	8.74%	$99.03	7.67%
1994	$66.30	$4.65	-13.17%	8.68%	$100.59	9.33%
1995	$81.62	$4.67	30.15%	7.97%	$107.32	16.00%
1996	$76.75	$4.61	-0.32%	7.57%	$104.26	12.23%
1997	$91.49	$4.47	25.03%	7.07%	$105.55	13.12%
1998	$100.86	$4.39	15.04%	7.00%	$100.78	7.85%
1999	$77.42	$4.35	-18.93%	8.25%	$87.39	-5.61%
2000	$113.00	$4.42	51.67%	8.40%	$98.51	6.76%
2001	$92.51	$3.79	-14.78%	8.46%	$99.40	7.80%
2002	$75.08	$4.11	-14.41%	7.82%	$106.70	15.16%
AVERAGE 1946-2002			**10.28%**			**6.27%**

REALIZED RATE OF RETURN	
S&P ELECTRIC COMPANIES	10.28%
SINGLE-A PUBLIC UTILITY BONDS	6.27%
EQUITY RISK PREMIUM	**4.01%**

(a) S&P's Security Price Index Record (1992), The Analysts' Handbook (1967, 1999, 2001, Monthly Supplement March 2002).
(b) S&P's Security Price Index Record (1996), Current Statistics (Jan. 1997, Mar. 1998 , Dec. 1999, Feb. 2001, Jan. 2002, & Jan. 2003).
(c) Computed by adding gain or loss (ending stock price - beginning stock price) to annual dividends and dividing by beginning stock price.
(d) Computed as sum of capital gain or loss plus interest income, divided by beginning price.

Note: Dividend data not available prior to 1946.

CAPITAL STRUCTURE

			At September 30, 2003 (a)			Value Line Projected 2006-08 (b)		
	Sym	Company	Long-term Debt	Preferred	Common Equity	Long-term Debt	Preferred	Common Equity
1	BKH	Black Hills Corp.	52.2%	0.4%	47.3%	55.0%	0.0%	45.0%
2	HE	Hawaiian Electric	44.9%	9.9%	45.1%	48.0%	1.5%	50.5%
3	MDU	MDU Resources Group	41.2%	0.6%	58.1%	35.0%	0.5%	64.5%
4	PNM	PNM Resources Group	47.4%	0.6%	52.0%	45.0%	0.5%	54.5%
5	PNW	Pinnacle West Capital	65.4%	0.0%	34.6%	47.5%	0.0%	52.5%
6	PSD	Puget Energy, Inc. (c)	54.3%	8.2%	37.4%	55.5%	0.0%	44.5%
7	SRE	Sempra Energy	55.7%	2.3%	42.0%	39.0%	1.5%	59.5%
8	XEL	Xcel Energy	57.4%	1.8%	40.7%	49.0%	0.5%	50.5%
		Average	**52.3%**	**3.0%**	**44.7%**	**46.8%**	**0.6%**	**52.7%**

(a) Company Form 10-Q Reports.
(b) The Value Line Investment Survey (November 14, 2003).

U.S. UTILITIES

Funds from Operations/Total Debt Guidelines (%)

Company business risk profile		AAA	AA	A	BBB	BB	B
		—Rating category—					
Well-above-average business position	1	23	18	15	10	5	—
	2	29	23	19	14	9	—
Above average	3	35	29	23	17	12	7
	4	40	34	28	21	15	9
Average	5	46	37	30	24	18	11
	6	53	43	35	27	19	13
Below average	7	63	52	42	31	21	14
	8	75	61	49	35	23	15
Well below average	9	—	—	57	41	27	17
	10	—	—	69	50	34	22

Total Debt/Capitalization (%)

Company business risk profile		AAA	AA	A	BBB	BB	B
		—Rating category—					
Well-above-average business position	1	47	53	58	64	70	—
	2	43	49	54	60	66	—
Above average	3	39	45	50	57	64	70
	4	35	41	46	53	61	68
Average	5	33	39	44	51	59	67
	6	30	36	43	50	57	65
Below average	7	27	34	41	49	56	64
	8	23	31	39	47	55	62
Well below average	9	—	—	35	43	51	58
	10	—	—	29	37	43	50