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IDAHO PUBLIC
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-04-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-04-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC AND	)	REBUTTAL TESTIMONY
NATURAL GAS CUSTOMERS IN THE STATE	)	OF
OF IDAHO	)	DON M. FALKNER
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

CONTENTS

I. INTRODUCTION

Q. Please state your name, business address, and present position with Avista Corp.

A. My name is Don M. Falkner. My business address is 1411 East Mission Avenue, Spokane, Washington. I am employed by Avista Corp., doing business as Avista Utilities ("Avista" or "Company") and my current position is Manager of Revenue Requirements in the Department of State and Federal Regulation.

Q. Have you previously provided direct testimony in this Case?

A. Yes. My testimony covered accounting and financial data in support of the Company's need for the proposed increase in rates. I explained pro formed operating results including expense and rate base adjustments made to actual operating results and rate base.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit Nos. 26 and 27, which were prepared under my supervision and direction.

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

A. I will be providing a summary of the Company's revised revenue requirement, as well as introducing certain other aspects of the rebuttal testimony sponsored by other Company witnesses. My rebuttal testimony and exhibits will consolidate the Company's rebuttal position on all the general case revenue requirement adjustments proposed by Staff witnesses which impact the Company's proposed results of operations. I will list the adjustments proposed by Staff that the Company is willing to accept for purposes of this case, and will address other proposed adjustments with which the Company does not agree. I will also address the comments of Potlatch witness, Dr. Peseau, regarding the test year utilized in this filing.

II. OVERALL COMPANY REBUTTAL CASE INTRODUCTION

Q. Would you please introduce the other Company witnesses that are sponsoring rebuttal testimony and note the issues that each will be addressing?

A. Certainly. For context, with the exception of Mr. Jon Powell, all the following Company witnesses have previously provided direct testimony in this proceeding. Dr. Avera will be addressing Staff and Intervenor proposals regarding the appropriate Return on Equity ("ROE") for the Company's Idaho utility operations. The Company maintains, through Dr. Avera's testimony, that the initial recommended 11.50% ROE is appropriate given the unique circumstances attendant to Avista.

Staff has proposed for purposes of this case that the capital structure and cost of capital components, other than ROE, should be the embedded December 31, 2003 actual levels. The Company concurs, for purposes of this case, that this is a reasonable recommendation based upon a review of the appropriate utility peer group. The resulting requested authorized Rate of Return, utilizing the cost of capital components recommended by Staff witness Ms. Carlock, with the exception of the Company's continued recommended 11.50% ROE, is 9.72%.

Mr. Lafferty will address Potlatch recommendations on the recoverability of the Company's CS2 investment, Staff recommendations on small generation project Boulder Park investment recoverability, and Staff and Potlatch recommendations regarding the appropriate regulatory treatment of the cost of purchased gas contracts listed in previous direct testimony as "Deal A and Deal B." The Company's position remains that the costs associated with the Deal A and Deal B contracts were prudent at the time and should ultimately be recoverable through the Idaho PCA mechanism. Mr. Lafferty's rebuttal testimony, in response to Dr. Peseau and Mr. Hessing, supports the reasonableness of the costs associated with Deal A and Deal B, and explains that the transactions were consistent with the Company's planning criteria.

Mr. Kopczynski will address the comments and recommendations by Staff regarding customer service and Company Call Center operations, as well as responding to the Staff's adjustment to pro forma vegetation management costs.

Mr. Powell, Avista's Demand Side Management Program Manager, will address Staff and Intervenor proposals regarding Demand Side Management programs and low income program funding.

Ms. Knox will address Intervenor proposals associated with Cost of Service assignment and allocation issues.

Finally, Mr. Hirschkorn will respond to Staff and Intervenor testimony regarding rate spread and rate design. He will also provide guidelines that can be used by the Commission to implement rate spread and rate design, regardless of the approved level of revenue requirement.

III. COMBINED REVENUE REQUIREMENT SUMMARY

Q. What are the Company's revised revenue requirements, for both the electric and natural gas operating systems for its Idaho jurisdiction, after taking into account Staff's proposed adjustments that have been accepted by Avista?

A. After taking into account the Company's acceptance of several of the Staff's proposed revenue requirement adjustments, the Company's revised electric revenue requirement is an increase of $31,070,000, or 21.24%, as detailed in Exhibit No. 26. This should be compared with the original request for an increase of $35,222,000, or 24.08%.

The Company's revised gas revenue requirement is an increase of $4,061,000, or 7.82%, as outlined in Exhibit No. 27. This should be compared with the original request for an increase of $4,754,000, or 9.16%.

On a stand-alone basis, the overall electric percentage request is 21.24%, but after taking into account the Company's original proposed reduction to the power cost surcharge currently in effect, the overall electric increase would be 8.6%, down from the 11.0% originally filed.

IV. ELECTRIC SECTION

UNCONTESTED ADJUSTMENTS

Q. With which adjustments proposed by Staff does the Company concur?

A. The Company concurs with the following adjustments proposed by Staff that are noted by Staff direct column identifier and then followed by the column identifier that I utilized in my Exhibit No. 26:

- Cabinet Gorge E2/ak (estimate updated to actual)
- Boulder Park Depr E3/al (depr synchronized between states)
- Skookumchuck E5/am (sale approved by IPUC 4/28/04)
- Deferred FIT E6/an (appropriate deferred accounting treatment)
- Coyote Springs E7/ao (estimate updated to actual)
- Small Gen Options E8/ap (similar treatment to other unfinished plant)
- Labor-Non-exec E9/aq (estimate updated to actual)

- Labor-Exec E10/ar (estimate updated to actual)
- Depreciation E14/as (depr synchronized between states)
- Corp Fees E15/at (similar treatment for other Idaho utilities)
- Misc Exp E17/au (similar to prior IPUC treatment)
- WECC Exp E18/av (reflects current WECC status)
- Adv. Exp E19/aw (similar to prior IPUC treatment)
- Avista Foundation E20/ax (correctly assigned to non-utility)

By accepting the adjustments proposed by Staff above, the Company's revised revenue requirement is reduced from $35,222,000 to $31,070,000, or $4,152,000.

<u>**CONTESTED ADJUSTMENTS**</u>

Q. Could you please list the various electric revenue requirement adjustments (other than cost of capital) that are still at issue from the Company's original filing; in doing so, please note the impact of Staff's recommended adjustment to Net Operating Income ("NOI") and Rate Base as compared to the Company's original filing.

A. Certainly. Please see the table below. Since the revenue requirement items still at issue have been recommend by Staff, for convenience, I will be using the Column references that can be found in the Staff's summary exhibit sponsored by Ms. Patricia Harms.

Electric Adjustments Still at Issue (Dollars are in thousands)					
COL	**DESCRIPTION**			**Staff NOI**	**Staff Rate Base**
E1	**Transmission**			**$230**	**$(8,518)**
E4	**Boulder Park Disallowance**			**31**	**(1,085)**
E11	**Vegetation Management**			**288**	**-**
E12	**Accts. Rec. Fees**			**357**	**-**
E13	**Pension Expense**			**554**	**-**
E16	**Legal Expenses**			**366**	**-**
E21	**Restate Debt Interest**			**9**	**-**

Transmission

Q. On pages 8 through 11 of Ms. Harms' direct testimony, the Staff recommends that the full test year level of costs associated with the Company's recent transmission investment, as filed by the Company, be reduced to reflect only one month of service for average rate base purposes. Do you agree with Staff recommendation regarding the Company's transmission upgrades?

A. No. The portion of the Company's current multi-year upgrade to our transmission system that we included in our general filing has already been completed and moved to plant-in-service. It is known and measurable and currently providing service to our customers.

The reasons for which the Company has undertaken the transmission upgrade projects, outlined by Mr. Kopcyznski in his direct testimony, are valid and have not been refuted by any party in this proceeding. At the same time, no parties have submitted that the investment included in the Company's filing is imprudent. For these reasons alone, the investment should be included in rate base for a full 12 months.

Q. How does the Company respond to Staff's contention, that by not including any reduced costs or increased revenues associated with the investment, the filing does not provide proper matching of cost and benefits (Harms, Di, pg 8, ll 15-19)?

A. The financial benefits of being able to maintain our ability to import and export energy, either through secondary sales or through transmission capacity revenue, are captured in the Company's power supply model. Additionally, had the Company not moved to improve our 230 kV capabilities, there was the potential of "Hydro Caps" being imposed by the Bonneville Power Administration at the Company's Cabinet/Noxon hydro electric facilities. In other words, we could have been put in the situation of having to reduce generation during certain times of the year, specifically during spring runoff. The financial benefits of being able to continue to optimize the generation capabilities of the Clark Fork projects are also captured in the Company's power supply model.

Q. On pages 10 and 11 of Ms. Harms' direct testimony starting on line 8, Staff has proposed an alternative regulatory treatment that would allow full rate base treatment of the Company's transmission, while imputing an estimated level of increased electric revenues and reduced maintenance costs. What is the Company's position regarding the Staff's proposed alternative transmission investment treatment?

A. Staff notes that this alternative treatment is consistent with the methodology identified in Commission Order No. 29505, from Idaho Power Company's recent general case, Case No. IPC-E-03-13. Ms. Harms goes on to state,

> "Although this methodology does not provide precedential value, it offers the Commission the option to include new transmission investment in rate base while protecting customers from inequities of a mismatch."

We note that this Order was issued in May 2004, approximately 3 months after the Company had made its February 2004 general case filing. Despite the Company's continued stance that the transmission upgrades are currently used, useful, known and measurable and provide customer benefits that are included in the Company's power supply model, if the Commission were to determine in this case that an adjustment to revenues and/or expenses in conjunction with the full rate base treatment of the new transmission adjustment was necessary, Staf'sf proposed alternative of including approximately $270,000 in additional revenues and an expense maintenance reduction of $30,000 would be reasonable. The Staff's recalculated rate base of $7,801,000 also correctly incorporates the updates for actual capital costs and the change in depreciation rates. (Harms, Di, pg. 10, ll. 8-25).

Vegetation Management

Q. On pages 12 through 14 of Ms. Stockton's direct testimony, the Staff lays out their recommendation to reduce the Company's proposed Vegetation Management expense level to a 6-year average of historical expenditures. Do you agree with the Staff recommendation?

A. No. The testimony provided by Mr. Kopczynski supports the utilization of the four-year average for 2004 through 2007 tree trimming expenditures recommended by our Vegetation Management director. As he explains, vegetation management is important to system reliability. Proper vegetation management reduces customer outages, improves safety and enhances system reliability.

Q. How would the Company propose to address the concerns noted by Ms. Stockton in her direct testimony suggesting that the Company may not actually dedicate the resources towards future vegetation management?

A. In response to the Staff's concerns, the Company recommends the use of a "one-way" balancing account. If the Commission were to authorize the level of vegetation management costs outlined in our direct case, $1,771,000 for Idaho electric operations, the Company would agree to commit that level of resources on an annual basis to vegetation management going forward. If the Company were to spend less than the level noted above, the difference would be recorded as a liability and either spent in a future period, or returned to customers through an appropriate tracking mechanism.

Q. What would happen if the Company expended more than the $1,771,000 in vegetation management costs for Idaho electric operations?

A. Unless the Company was making up for a prior period of reduced spending, the Company would absorb that difference as a period cost. It would not be tracked. Implementation of the Company's proposal would ensure that the revenues collected for vegetation management would be spent for that purpose, or returned to customers.

Q. Do you have any comments regarding Staff's specific proposal to use a 6-year historical average?

A. Yes. In some instances a multi-year average may be appropriate, as long as all the years are reasonably representative of what ongoing expenditures might be. In this case, even Staff notes that 2002 vegetation management costs were "abnormally low." (Stockton, Di, page 12, ll 24-25). In fact, the 2002 level of $550,255 is not even half of the 6-year average of $1,322,000 calculated by Staff. If the Commission adopts a multi-year historical average, the actual 2002 level should be excluded.

Q. What level of vegetation management expense would result by modifying Staff's proposal through exclusion of the 2002 period from the average?

A. The result would be $1,477,000 for Idaho electric operations, as compared to Staff's proposed level of $1,322,000.

Accounts Receivable Fees

Q. Do you agree with Staff recommendation regarding the Company's Accounts Receivable Fees?

A. No

Q. Would you please comment on Ms. Stockton's proposal to remove the fees associated with the Company's Accounts Receivable Sale Program?

A. Staff witness Stockton, at page 14, beginning at line 7 discusses the Staff's proposal to remove fees associated with the sale of customer accounts receivable. As Ms. Stockton points out in her testimony, the sale was initiated in 1988 and reduced the Company's need for financing. The Commission has allowed the fees as a recoverable expense previously.

The Account Receivable Sale program is a cost effective approach of funding the cost of carrying customer receivables on the Company's balance sheet. The alternative to selling the accounts receivable would be a working capital addition to rate base at the Company's authorized rate of return.

Staff states that they have calculated working capital for the Company and that it is negative. Then Staff concludes, at page 15, lines 16 through 20 of Ms. Stockton's testimony, that, "Because the Company asserts that the Accounts Receivable Sale Program is a substitute for a working capital requirement and the Company does not have a working capital requirement, I have removed the fees associated with the Accounts Receivable Program."

Q. Have you reviewed Staff's working capital workpapers and what have you found?

A. Staff's workpapers show that working capital is, <u>in fact, positive,</u> not negative. Hence, the Staff's argument for removing the fees associated with the accounts receivable sale is not valid. Also, the workpapers show that Staff included the accounts receivable sale as a reduction to working capital. It is not proper to include the accounts receivable sale as a reduction to working capital in determining whether working capital is positive. Working capital should be calculated without the reduction for the accounts receivable sale. If the result is positive working capital and the positive amount exceeds the accounts receivable sale amount, then including the fees associated with the accounts receivable sale as an operating expense is appropriate. Staff's workpapers show that working capital is, in fact, positive by an amount that exceeds the accounts receivable sale amount.

The purpose of my testimony is not to engage in a debate about working capital or the individual components of working capital. The Company has not included a working capital adjustment in the past due to the complexity of doing such a study and the fact that the Commission has historically otherwise allowed the fees associated with the accounts receivable sale as a recoverable operating expense. Staff has misinterpreted the results of their working capital study. The Commission should continue to allow the fees as a recoverable operating expense.

<u>Pension Expense</u>

Q. Could you please briefly describe the Company's request in this case for pension expense?

A. In my direct testimony (Falkner, Di, pg 24 ll. 11 – pg. 25 ll. 6), I outlined the Company's request in this case to allow for recovery of the Company's 2004 recorded pension expense accrual of $14 million, or $2.1 million to the Idaho electric jurisdiction, as determined in accordance with Financial Accounting Standard 87 ("FAS-87"). This compares to Staff's recommendation for a pension expense level of $8,695,000, or $1,301,921 to the Idaho electric jurisdiction.

Q. Would you please list the main arguments supporting the Company's use of the FAS-87 pension accrual, and why the Staff's proposal should be rejected?

A. Certainly. The following bullet points outline the points I will be making:

- FAS-87 has been the standard for pension expense calculations since its adoption in 1987.
- It has been previously accepted for regulatory purposes in all of Avista's service territories, including Idaho.
- The reduction of the return on asset assumption is supportable by actual fund return history, as well as consistency with return reductions by other Northwest utilities.
- Actual Company contributions to the pension fund have exceeded the level included in Idaho general rates by $29 million since 1999.
- Absent a larger than minimum contribution in 2002, the 2003 minimum contribution level would have been approximately $14 million, which is the FAS-87 accrual level being proposed in this case.

Q. How long has the Company been following FAS-87 in determining its pension expense amount to be included in customer rates?

A. The Company has been calculating and recording pension expense according to FAS-87 since its required implementation date of January 1987.

Q. Was pension expense, as calculated in accordance with FAS-87 financial reporting rules, accepted for regulatory purposes in the Company's last Idaho general rate case?

A. Yes. That was the accepted methodology utilized in the last Idaho general case, electric case WWP-98-E-11. FAS-87 was developed after a long period of review by the accounting profession. Since it has also been adopted by the Securities and Exchange Commission, it is the standard applied by all companies, including regulated utilities, for financial reporting. The fundamental objective of FAS-87 is to recognize the compensation cost associated with pension benefits over employees' approximate service lives. As such, it has been utilized and accepted in previous general filings in <u>all</u> our regulatory jurisdictions.

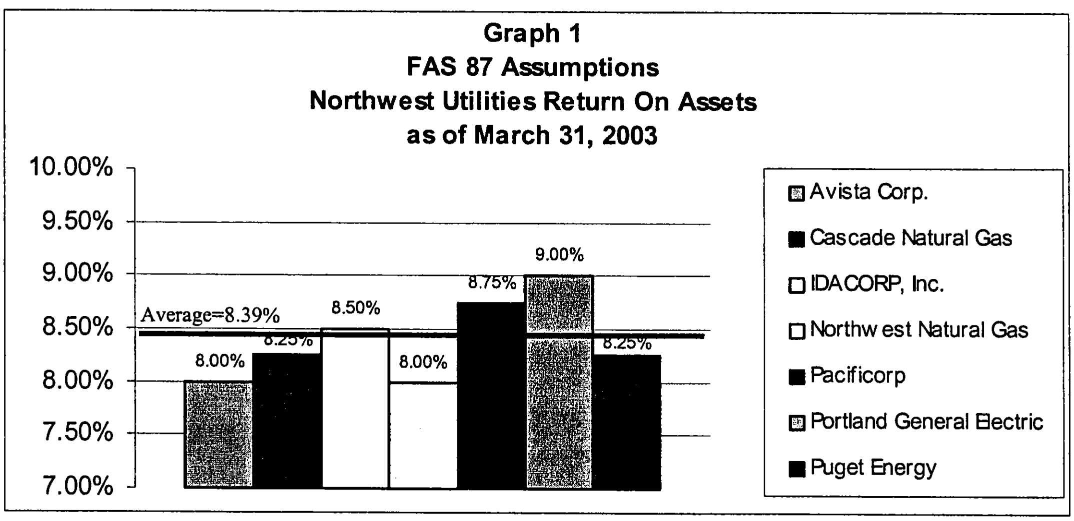
Similar to other expense items that are accrued for accounting purposes, this standard requires the use of some assumptions to measure the Company's pension obligations and annual expense: Assumptions that individually reflect best estimates and are consistent to the extent that each reflects expectations of the same future economic conditions. These assumptions include determinations for such items as future return on fund assets, an appropriate discount rate, and compensation increases, each of which is reviewed annually, and if necessary, adjusted to reflect updated information.

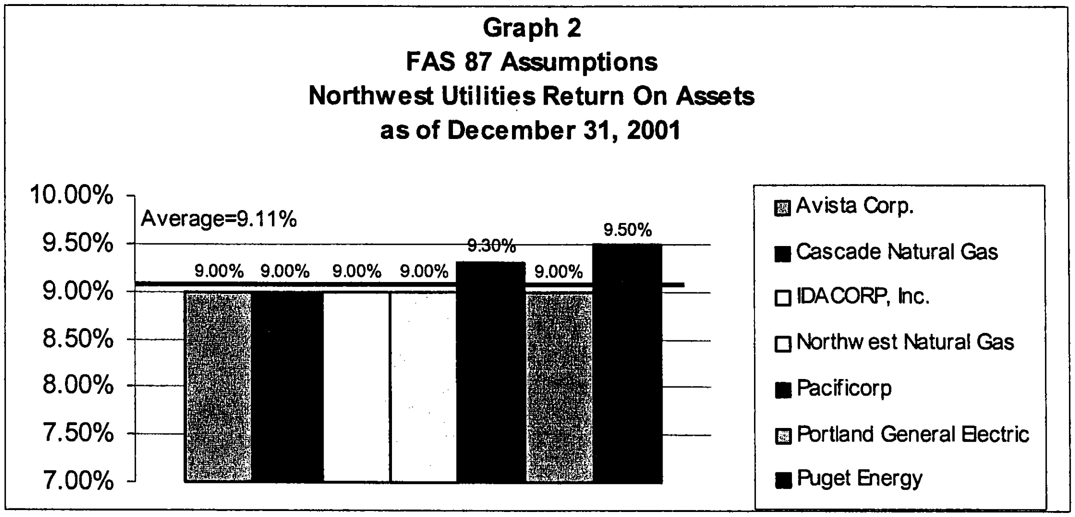
Q. In determining Avista's pension plan expense, the Company uses an 8% actuarial assumption of future rates of return on assets in determining its estimated pension expense. Can you please explain the 8% ROA assumption, and compare this to the 3.88% rate referred to by Staff Witness English?

A. Yes. The assumption of an 8% return on assets ("ROA") used for determining our 2004 pension expense was based on long-term expected pension fund returns taking into account our plan portfolio mix. The 3.88% referred to by Witness English (English, Di, page 5, ll. 7-10), was only incorporated to aid in forecasting pension plan assets in order to determine the appropriate level of cash contributions the Company should make to the current plan year. It was not used in the calculation of determining pension expense to be recorded on Company books in 2004.

Q. In 2002 the Company lowered its ROA from 9% to 8%. Could you please explain the Company's reasoning behind the decision to lower the plan ROA percentage?

A. In 2002, the company lowered its ROA percentage from 9% to 8%. This decision was made in conjunction with a review of our historical returns, advice from external advisors, and our external auditors. This change was in line with changes seen throughout the utility industry and other publicly listed companies. At this same time, the Securities and Exchange Commission communicated to the financial community that they were concerned about ROA assumptions used in publicly listed company filings. As shown below in Graphs 1 and 2 below, for March 31, 2003 and December 31, 2001, respectively, virtually all of the Northwest utility companies lowered their ROA assumptions from their existing levels in 2001.





Graph 2
FAS 87 Assumptions
Northwest Utilities Return On Assets
as of December 31, 2001

Q. Witness English states that at the time of the "assumption" change to lower the plan ROA to 8%, the Company's actual pension fund average return (since 1995) was approximately 10%. Could you please explain this?

A. Yes. Mr. English, without any real explanation, used a 9-year average (1995-2003), which resulted in a 9.23% ROA for the period, which I am assuming was rounded to 10%. If Mr. English had instead used a 10-year average ending with our test period (also ending in the year the assumption change was made (1993-2002)), the resulting average ROA would have been 7.22%. In order to include known and measurable changes, using a 10-year average ending in 2003 (1994-2003), the 10-year average "actual" ROA is 8.28%. Either calculation, in combination with external advice and SEC concerns, supports the Company's decision to reduce the ROA assumption, and that an actuarial 8% ROA assumption is reasonable.

Q. Staff's position is that the appropriate pension expense amount to be included in customer rates "in this case" should be determined by the <u>minimum</u> amount

the Company was legally required to contribute to the plan versus the FAS-87 expense level. Do you agree with this?

A. No. But in fairness, Mr. English is not recommending this as a "strict policy." Rather he goes on to state that,

> "Given the 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." (English, Di, pages 9 and 10, starting on ll 22).

Q. Could you please discuss the contributions historically made to the Company's pension plan and compare this to the minimum contribution calculation required to be paid by the Company?

A. Yes, as described by Mr. English, the minimum contribution is the amount that a company must fund in order to avoid a funding deficiency in the Funding Standards Account. (English, Di, page 8, ll 1-3)

Historically, prior to 2002, Avista made the minimum required contributions to its plan. Starting in 2002, due to expectations of higher annual required minimum contributions extending for the next several years, Avista took a proactive approach by contributing more than the minimum in order to smooth future cash outlays and to achieve a fully funded pension plan incrementally over time. For example, as shown in Table 1 below, in 2002 the Company's estimated calculation for the minimum contribution showed a steady increase in future contributions.

Table 1 – Estimated as of 2002 (millions)	2002	2003	2004	2005	2006	Total
Estimated Minimum Contribution Requirement	**$7.5**	**$14.0**	**$13.5**	**$15.9**	**$17.4**	**$68.3**

Shown below in Table 2 are the actual contributions for 2002 and 2003, planned contributions for 2004, and updated estimated minimum contributions required going forward.

-------ACTUAL PMTS------ ------ESTIMATED MIN------

Table 2 - as of 2004 (millions)	2002	2003	2004	2005	2006	Total
Contribution	**$12.0**	**$12.0**	**$15.0**	**$11.2**	**$17.5**	**$67.7**

Q. Mr. English states at page 8, lines 18-23 that he proposes a reduction to the Company's proposed pension expense amount (utilizing FAS-87 requirements) of $14 million to approximately $8.7 million, calculated as the Company's minimum required contribution for 2003 (utilizing "ERISA" requirements). How does this compare to the tables described above?

A. The $8.7 million as described by Mr. English was the amount estimated <u>in 2003</u> as the minimum contribution to be paid in 2003. However, that 2003 minimum amount was only determined (in 2003) at that level <u>after</u> Avista had already contributed more than the minimum required amount in 2002, or an additional $4.5 million in 2002 ($7.5 minimum + $4.5, totaling $12 million actual payment).

Q. What was the impact of Avista's higher than minimum 2002 pension contribution on the minimum required 2003 contribution that Staff is recommending for inclusion for recovery in rates in this case?

A. The minimum contribution amount required in 2003 was reduced from $14 million to $8.7 million, (down approximately $5.3 million from the original estimate calculated in 2002), <u>because</u> the Company contributed $4.5 million more than the minimum contribution in 2002. <u>In other words, absent the Company's larger than minimum contribution in 2002, the minimum contribution required for 2003, would have been $14 million.</u>

Q. If Avista had not made a larger than minimum required pension fund contribution in 2002, pursuant to ERISA rules, would the 2004 FAS-87 expense level being proposed by the Company and the 2003 minimum contribution being proposed by Staff both have been approximately $14 million, on a system basis?

A. Yes

Q. Have the actual cash contributions made over time by Avista to the employee pension fund been more or less than the system level of FAS-87 pension expense included in Idaho customer rates through 2004?

A. During that time period, cash contributions have <u>exceeded</u> expense included in rates by approximately $29 million.

Q. Would you please explain why the Company still believes the pension expense calculation required by FAS-87 is the appropriate methodology for determining pension expense in this proceeding?

A. Avista has been calculating and recording pension expense according to FAS-87 since its required implementation date of January 1987. FAS-87 was developed over a long period of review and has been <u>consistently</u> applied annually across multiple industries, including the energy sector, since its inception. This Commission as recently as 1999 accepted it for regulatory purposes for Avista and it is the same methodology being utilized in our other contiguous jurisdictions. Minimum contribution calculations can be impacted by any contributions paid by Avista above the minimum, thus penalizing the Company for proactively attempting to fully fund its plan incrementally over time in order to smooth payments, or head off larger future payments.

Based upon my earlier discussion, the Company's decision to lower the ROA assumption was reasonable, and consistent with the actions of other Northwest utilities. Comparisons between the FAS-87 pension expense level included in Idaho customers' rates and the level of cash contributions to the pension plan since 1999 show that Idaho customers have not been disadvantaged. No evidence has been introduced that future cash contributions will be materially different than the FAS-87 level of pension expense being proposed by the Company in this case.

<u>Legal Expense</u>

Q. Staff Witnesses Harms and English sponsor adjustments to legal expenses, arguing that such expenses should either have been directly assigned to unregulated affiliates or were otherwise for extraordinary, non-recurring events. Would you please respond?

A. Yes. In total, this adjustment, according to Staff Witness Harms, would increase Idaho electric net operating income by $366,000 and reduce the Company's electric revenue requirement by $573,000. (Harms, Direct Test. at page 21, lines 2-14) (Similar adjustments were made to increase gas net operating income by $13,000 and decrease the Company's gas revenue requirements by $20,000.) Staff Witness English further elaborates on the components of the adjustment: As shown in his Exhibit 123, he removed $14,035 from test year legal expense, as it relates to Avista Labs, and another $1,326 of expense related to Avista Communications, arguing that these expenses relate to activities of a subsidiary and should be disallowed. (English, Direct Test. at page 18, lines 15-25). With respect to these two adjustments, the Company does not disagree; they were inadvertently included in utility results of operations and should be removed.

The Company does take issue, however, with the balance of this adjustment to legal expenses. Mr. English further removed $74,363 in legal expenses allocated to Idaho that the Company incurred during the bankruptcy proceedings of Enron Corp. He acknowledged that those expenses "were prudently incurred," but maintains that they were an "extraordinary expense that the Company will not incur beyond the test year." (Id., at page 19, lines 1-7). Similarly, Mr. English removes $478,000 in legal expenses relating to FERC's investigation into Avista's trading practices. Here again, Mr. English agrees that these expenses may have been "prudently incurred," but reasons that the investigation has been completed and these expenses are "not likely to recur beyond 2003." (Id., at page 19, lines 8-14.)

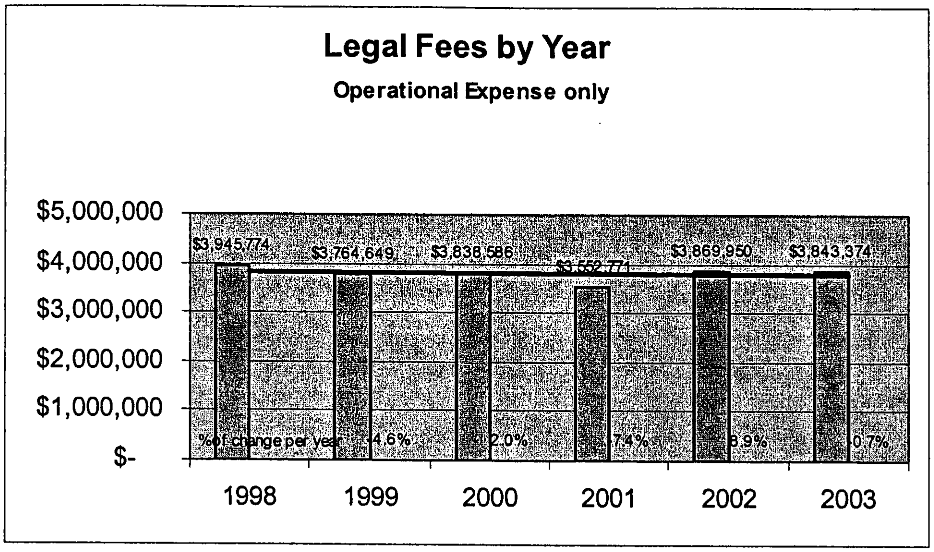
Q. Why does the Company take issue with Staff's disallowance of the legal expenses relating to the Enron bankruptcy and the FERC investigation?

A. By way of further explanation, the legal expenses associated with the Enron bankruptcy were incurred in order to protect the interest of Avista's customers. Avista incurred expense in arriving at settlements with Enron's affiliates over power and gas contracts, as a result of Enron's bankruptcy proceeding and the need to preserve Avista's claims. Similarly, Avista actively participated in FERC's investigation into trading practices, which investigations ultimately "cleared Avista of any wrongdoing," as recognized by Staff Witness English. (Id., at page 20, lines 1-13). Therefore, Staff has raised no concerns about whether these expenditures were either necessary or prudent — only that they maybe non-recurring or extraordinary.

The real question should be whether these expenses were part of a larger pool of legal expenditures that reflect a representative level of ongoing legal expense. (Indeed, unlike "widgets"' every item of litigation could be argued, in the extreme, to be unique unto itself, and non-recurring; it would, however, be nonsensical to remove all legal expenses, nor does Staff so contend.) What we do know is that, through time, the Company will continue to incur some level of representative legal expense that covers a multitude of matters. Therefore, absent a showing of imprudence (of which there is none here) a representative level of expenses should be reflected in rates.

Q. Have you analyzed what would constitute a "representative level of legal expense" over time?

A. Yes, we have. Included below is a tabulation of legal expenses charged to operating expense accounts from 1998 through 2003 (on a "system" basis).



What is especially noteworthy is that the overall level of expense has remained constant through time, with little fluctuation from year to year, notwithstanding the incurrence of expenses relating to the FERC investigation and the Enron bankruptcy. Stated differently, it cannot be said that Avista does not experience a recurring level of legal expense of approximately $3.8 million per year (system).

Q. Would the Company agree to use a six-year average of legal expenses charged to operational accounts, in order to "smooth out" any extraordinary items?

A. Yes. To do so would be consistent with the existing practice of using a six-year average for "injuries and damages." Utilizing the amounts from the tabulation above, the six-year average is $3,803,000 at a system level, while the 2002 test year level was $3,870,000. The Company's weighted Four Factor allocation levels for 2002 are 25.48% for electric and 5.69% for natural gas. Using the "Four Factor" allocators for 2002[1] would produce allocated Idaho reductions to legal expenses of $17,100 and $3,800 for the electric

[1] Idaho Electric weighted Four Factor – 25.48% / Idaho Natural Gas weighted Four Factor - $5.69%.

and natural gas systems, respectively. Combining this adjustment for the use of a 6-year average, with the incorrectly assigned payments for Avista Labs ($14,035-Electric, $3,136-Gas) and Avista Communication ($1,326-Electric, $303-Gas), noted earlier, would make the Idaho allocated reductions to legal expense $32,500 and $7,239 for the electric and natural gas systems, respectively.

<u>Test Year Discussion</u>

Q. Would you please comment on Dr. Peseau's contention at pages 29 through 33 of his direct testimony, that there is a mismatch between revenues and expenses in this case?

A. Yes. Dr. Peseau's contention is unfounded. Avista's adjustments included in this case meet the standard ratemaking procedures that have been historically adopted by the Commission and followed by Avista in this case and previous cases. The Commission's recent Order No. 29505 in Case No. IPC-E-03-13, dated May 25, 2004, in the Idaho Power Company case at page 4, reiterated the three general categories of adjustments as: 1) normalizing adjustments made for unusual occurrences, like one-time events or extreme weather conditions, so they do not unduly affect the test year; 2) annualizing adjustments made for events that occurred at some point in the test year to average their effect as if they had been in existence during the entire year; and 3) known and measurable adjustments made to include events that occur outside the test year but will continue in the future to affect Company income and expenses. Each of Avista's adjustments falls into one of these three categories. The Commission Staff has fully examined the Company's adjustments and have made their recommendations regarding each individual adjustment.

Q. Would you please comment on Dr. Peseau's statement regarding the selection of a 2002 test year?

A. Yes. On page 29 at line 19 of Dr. Peseau's testimony he states, "For unknown reasons, Avista chose a 2002 test year, rather than 2003." Avista had a deadline of March 31, 2004 to file its electric general rate case. Commission Order No. 29377 in Case No. AVU-E-03-6 dated November 18, 2003 regarding Avista's Power Cost Adjustment ("PCA") status report and PCA surcharge continuation established the March 31, 2004 deadline at page 12 in the third ordering paragraph. It takes a number of months to prepare and file a general rate case. There was not enough time for the Company to close it's 2003 financial records, and then for the regulatory group to prepare a case using a 2003 test year and still meet the March 31, 2004 filing deadline. Additionally, much of the information relative to a 2002 test year had previously been prepared and the Commission Staff had already undertaken an audit of the 2002 calendar year by the time Order No. 29377 was issued. Hence, the 2002 test year was chosen for the Company's general rate case filing.

Q. Has the Commission Staff accepted the use of a 2002 test year?

A. Yes. Ms. Stockton's testimony on page 4 at lines 16-18 states, "Staff accepts the average of monthly average 2002 test year, and agrees with the beginning jurisdictional results of operations."

Q. Would you please comment on Dr. Peseau's statement regarding the use of 2004 budget estimates?

A. Yes. On page 31 of his direct testimony, beginning at line 10, Dr. Peseau states, "Avista's pro forma expense adjustments for items like increased labor, insurance, and similar costs are simply 2004 budget estimates." Again, Dr. Peseau's statement is unfounded and not supported by the evidence. The Pro Forma Insurance adjustment reflects the actual cost of all signed, ongoing and renewed policies providing insurance for 2004. I noted this in my direct testimony at page 42 beginning at line 15. Ms. Stockton on page 6 of her direct testimony beginning at line 19 states that the adjustment reflects the actual cost of insurance policies that are in effect for 2004. Likewise, with the labor expense adjustments, Staff verified the amounts and made minor adjustments for information that became known after the case was filed. Staff verified the insurance expense and labor expense amounts, as well as the other adjustment amounts.

Q. Would you please comment on Dr. Peseau's preferred recommendation at page 33 to annualize revenues to 2004 year-end levels to correct what he perceives to be a mismatch between revenue and expense?

A. Yes. First, the 2004 year-end levels of revenue won't be "known and measurable" for another six months. Secondly, if this methodology of adjusting revenues to year-end levels were to be followed, then all expenses and all rate base should also be adjusted to year-end levels. Another major factor, and perhaps the most important, that is overlooked by Dr. Peseau is that revenues from load growth caused by new customers are offset by costs to serve the new customers. Line extension allowances are theoretically established based on the amount of operating margin, revenue less power cost, that is available from new customers to offset the capital costs, return and depreciation, associated with the amount of plant investment that new customers are not required to pay for initially. In other words, additional revenue is offset by additional cost.

In the case of load growth from existing customers, as Mr. Hirschkorn states in his direct testimony on page 7, beginning at line 17, usage per customer appears to have declined significantly for all customer classes. Continuation of this trend would produce a negative load growth adjustment for existing customers, which would result in an increase to the revenue requirement, not a reduction to the revenue requirement.

ELECTRIC REVENUE REQUIREMENT SUMMARY

Q. Referring back to page 1, line 40, of Exhibit No. 26, for identification, what was the actual and pro forma electric rates of return, as revised by the accepted Staff proposed adjustments, realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 8.18%, somewhat below the last authorized rate of return of 8.98%. The test period pro forma rate of return is 5.08% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 9.72% rate of return requested on rebuttal by the Company in this case.

Q. How much additional net operating income would be required for the State of Idaho electric operations to allow the Company an opportunity to earn its proposed 9.72% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $19,862,000, as shown on line 4 of page 2 of Exhibit No. 26. The resulting revenue requirement is shown on line 6 and amounts to $31,070,000, or an increase of 21.24% over pro forma general business revenues, exclusive of the Company's PCA surcharge reduction proposal.

V. NATURAL GAS SECTION

UNCONTESTED ADJUSTMENTS

Q. With which adjustments proposed by Staff does the Company concur?

A. The Company concurs with the following adjustments proposed by Staff that are noted by Staff direct column identifier and then followed by the column identifier that I utilized in my Exhibit No. 27:

•	Deferred FIT	G2/v	(appropriate deferred accounting treatment)
•	Labor-Exec	G3/w	(estimate updated to actual)
•	Labor-Non-exec	G4/x	(estimate updated to actual)
•	Depreciation	G7/as	(depr synchronized between states)
•	Misc Exp	G9/z	(similar to prior IPUC treatment)
•	Corp Fees	G10/aa	(similar treatment for other Idaho utilities)
•	Adv. Exp	G11/ab	(similar to prior IPUC treatment)
•	Avista Foundation	G12/ac	(correctly assigned to non-utility)
•	Actual Therm Usage	G13/ad	(updated to actual)
•	Schedule M Allocator	G14/ac	(conforms to elec system treatment)

By accepting the adjustments proposed by Staff above, the Company's revised revenue requirement is reduced from $4,754,000 to $4,061,000, or $693,000.

CONTESTED ADJUSTMENTS

Q. Could you please list the various natural gas, non-cost of capital, revenue requirement adjustments that are still at issue from the Company's original filing and note the impact of Staff's recommended adjustment to Net Operating Income ("NOI") and Rate Base as compared to the Company's original filing.

A. Certainly. Please see the table below. Since the revenue requirement items still at issue have been recommended by Staff, for convenience, I will be using the Column references that can be found in the Staff's summary exhibit sponsored by Ms. Patricia Harms.

Natural Gas Adjustments Still at Issue (Dollars are in thousands)					
COL	**DESCRIPTION**			**Staff NOI**	**Staff Rate Base**
G1	**Gas Inventory**				**(1,572)**
G5	**Accts. Rec. Fees**			**56**	**-**
G6	**Pension Expense**			**137**	**-**
G8	**Legal Expenses**			**13**	**-**
G15	**Restate Debt Interest**			**(49)**	**-**

Q. Does the Staff also make an adjustment to remove gas inventory from rate base using their working capital reasoning?

A. Yes. Staff uses the same reasoning at page 23, beginning on line 11, of Kathy Stockton's testimony to disallow gas inventory from rate base. Staff claims that since gas inventory is normally considered part of working capital and since Staff claims that working capital is negative, Staff removes gas inventory from rate base. As previously stated above, Staff's interpretation of their working capital analysis is incorrect. Staff workpapers show that working capital is positive, not negative. Also, Staff's classification of gas inventory in their working capital analysis excludes it from working capital. The Commission has historically allowed gas inventory to be included in rate base and should continue to do so in this case.

Q. As the remaining items still at issue in the natural gas case are the same as those for the electric case, are the Company's responses to Commission Staff's proposed adjustments the same as put forth earlier in the electric section?

A. Yes.

NATURAL GAS REVENUE REQUIREMENT SUMMARY

Q. Referring back to page 2, line 40, of Exhibit No. 27, for identification, what was the actual and pro forma natural gas rates of return, as revised by the accepted Staff proposed adjustments, realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 6.26%. The test period pro forma rate of return is 5.43% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 9.72% rate of return requested by the Company in this case.

Q. How much additional net operating income would be required for the State of Idaho natural gas operations to allow the Company an opportunity to earn its proposed 9.72% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $2,596,000, as shown on line 4 of page 2 of Exhibit No. 27. The resulting revenue requirement is shown on line 6 and amounts to $4,061,000, or an increase of 7.82% over pro forma general business revenues and transportation revenues.

Q. Does this conclude your rebuttal testimony?

A. Yes it does.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-04-01
OF AVISTA CORPORATION FOR THE	)	
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC AND	)	EXHIBIT NO. 26
NATURAL GAS CUSTOMERS IN THE STATE	)	
OF IDAHO	)	DON M. FALKNER
	)	

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS-REBUTTAL CASE
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

		WITH PRESENT RATES			WITH PROPOSED RATES	
Line No.	DESCRIPTION	Actual Per Results Report	Total Adjustments	Pro Forma Total	Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	b	c	d	e	f
	REVENUES					
1	Total General Business	$153,639	$ (7,501)	$146,138	$31,070	$177,208
2	Interdepartmental Sales	110		110		110
3	Sales for Resale	22,051	(5,075)	16,976		16,976
4	Total Sales of Electricity	175,800	(12,576)	163,224	31,070	194,294
5	Other Revenue	19,067	(14,370)	4,697		4,697
6	Total Electric Revenue	194,867	(26,946)	167,921	31,070	198,991
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	61,144	(22,897)	38,247		38,247
8	Purchased Power	39,904	6,655	46,559		46,559
9	Depreciation and Amortization	575	9,942	10,517		10,517
10	Taxes	3,619	270	3,889		3,889
11	Total Production & Transmission	105,242	(6,030)	99,212	0	99,212
	Distribution					
12	Operating Expenses	4,887	1,606	6,493		6,493
13	Depreciation	5,670	(348)	5,322		5,322
14	Taxes	6,010	(1,901)	4,109	335	4,444
15	Total Distribution	16,567	(643)	15,924	335	16,259
16	Customer Accounting	4,102	187	4,289	98	4,387
17	Customer Service & Information	4,016	(2,536)	1,480		1,480
18	Sales Expenses	385	(21)	364		364
	Administrative & General					
19	Operating Expenses	16,343	999	17,342	80	17,422
20	Depreciation	3,878	(186)	3,692		3,692
21	Taxes		6	6		6
22	Total Admin. & General	20,221	819	21,040	80	21,120
23	Total Electric Expenses	150,533	(8,224)	142,309	513	142,822
24	OPERATING INCOME BEFORE FIT	44,334	(18,722)	25,612	30,557	56,169
	FEDERAL INCOME TAX					
25	Current Accrual	9,405	(7,985)	1,420	10,695	12,115
26	Deferred Income Taxes	(746)	3,210	2,464		2,464
27	NET OPERATING INCOME	$35,675	($13,947)	$21,728	$19,862	$41,590
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible	$11,353		$11,353		$11,353
29	Production	247,926	57,819	305,745		305,745
30	Transmission	100,112	10,569	110,681		110,681
31	Distribution	257,643	(478)	257,165		257,165
32	General	36,363		36,363		36,363
33	Total Plant in Service	653,397	67,910	721,307	0	721,307
34	ACCUMULATED DEPRECIATION	213,999	4,252	218,251		218,251
35	ACCUM. PROVISION FOR AMORTIZATION	3,368		3,368		3,368
36	Total Accum. Depreciation & Amort.	217,367	4,252	221,619	0	221,619
37	GAIN ON SALE OF BUILDING		(625)	(625)		(625)
38	DEFERRED TAXES		(71,183)	(71,183)		(71,183)
39	TOTAL RATE BASE	$436,030	($8,150)	$427,880	$0	$427,880
40	RATE OF RETURN	8.18%		5.08%		9.72%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Electric System
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)
REVISED REBUTTAL CASE CALCULATION

Line No.	Description	IDAHO
1	Pro Forma Rate Base	$427,880
	Proposed Rate of Return	9.720%
2	Net Operating Income Requirement	$41,590
3	Pro Forma Net Operating Income	$21,728
4	Net Operating Income Deficiency	$19,862
5	Conversion Factor	0.63926135
6	Revenue Requirement	$31,070
7	Total General Business Revenues	$146,248
8	Percentage Revenue Increase	21.24%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO ELECTRIC
TWELVE MONTHS ENDED DECEMBER 31, 2002

Line Number	Description	Factor
1	**Revenue:**	1.000000
	Expense:	
2	Uncollectibles (1)	0.003164
3	Commission Fees (2)	0.002577
4	Idaho Income Tax (3)	0.010780
5	Total Expense	0.016521
6	Net Operating Income Before FIT	0.983479
7	Federal Income Tax @ 35%	0.344218
8	**REVENUE CONVERSION FACTOR**	0.639261

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Gain on Office Building	Colstrip 3 AFUDC Elimination	Colstrip Common AFUDC	Kettle Falls Disallow.
	a	b	c	d	e	f	g
	REVENUES						
1	Total General Business	$153,639					
2	Interdepartmental Sales	110					
3	Sales for Resale	22,051					
4	Total Sales of Electricity	175,800	0	0	0	0	0
5	Other Revenue	19,067					
6	Total Electric Revenue	194,867	0	0	0	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses	61,144					
8	Purchased Power	39,904					
9	Depreciation and Amortization	575			218		
10	Taxes	3,619					
11	Total Production & Transmission	105,242	0	0	218	0	0
	Distribution						
12	Operating Expenses	4,887					
13	Depreciation	5,670					
14	Taxes	6,010					
15	Total Distribution	16,567	0	0	0	0	0
16	Customer Accounting	4,102					
17	Customer Service & Information	4,016					
18	Sales Expenses	385					
	Administrative & General						
19	Operating Expenses	16,343					
20	Depreciation	3,878					
21	Taxes						
22	Total Admin. & General	20,221	0	0	0	0	0
23	Total Electric Expenses	150,533	0	0	218	0	0
24	OPERATING INCOME BEFORE FIT	44,334	0	0	(218)	0	0
	FEDERAL INCOME TAX						
25	Current Accrual	9,405					
26	Deferred Income Taxes	(746)					
27	NET OPERATING INCOME	$35,675	$0	$0	($218)	$0	$0
	RATE BASE						
	PLANT IN SERVICE						
28	Intangible	$11,353					
29	Production	247,926			7,229	1,313	(3,009)
30	Transmission	100,112					
31	Distribution	257,643					
32	General	36,363					
33	Total Plant in Service	653,397	0	0	7,229	1,313	(3,009)
34	ACCUMULATED DEPRECIATION	213,999			4,086		(1,574)
35	ACCUM. PROVISION FOR AMORTIZATION	3,368					
36	Total Accum. Depreciation & Amort.	217,367	0	0	4,086	0	(1,574)
37	GAIN ON SALE OF BUILDING			(625)			
38	DEFERRED TAXES		(60,998)	219			
39	TOTAL RATE BASE	$436,030	($60,998)	($406)	$3,143	$1,313	($1,435)
40	RATE OF RETURN	8.18%					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	MOPS Deferred Costs	Weatherizn and DSM Investment	Customer Advances	Subtotal Actual	Revenue Adjustment	Hydro Relicensing Adj	Eliminate Franchise Fees
	a	h	i	j	-	k	l	m
	REVENUES							
1	Total General Business				$153,639	$15,947		$ (1,682)
2	Interdepartmental Sales				110			
3	Sales for Resale				22,051			
4	Total Sales of Electricity	0	0	0	175,800	15,947	0	(1,682)
5	Other Revenue				19,067			
6	Total Electric Revenue	0	0	0	194,867	15,947	0	(1,682)
	EXPENSES							
	Production and Transmission							
7	Operating Expenses				61,144		257	
8	Purchased Power				39,904			
9	Depreciation and Amortization	(59)			734			
10	Taxes				3,619			
11	Total Production & Transmission	(59)	0	0	105,401	0	257	0
	Distribution							
12	Operating Expenses				4,887			
13	Depreciation				5,670			
14	Taxes				6,010	171	(3)	(1,660)
15	Total Distribution	0	0	0	16,567	171	(3)	(1,660)
16	Customer Accounting				4,102	50		
17	Customer Service & Information				4,016			
18	Sales Expenses				385			
	Administrative & General							
19	Operating Expenses				16,343	41		
20	Depreciation				3,878			
21	Taxes							
22	Total Admin. & General	0	0	0	20,221	41	0	0
23	Total Electric Expenses	(59)	0	0	150,692	262	254	(1,660)
24	OPERATING INCOME BEFORE FIT	59	0	0	44,175	15,685	(254)	(22)
	FEDERAL INCOME TAX							
25	Current Accrual				9,405	5,490	(89)	(8)
26	Deferred Income Taxes	21			(725)			
27	NET OPERATING INCOME	$38	$0	$0	$35,495	$10,195	($165)	($14)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible				$11,353			
29	Production		9,110		262,569			
30	Transmission				100,112			
31	Distribution			(478)	257,165			
32	General				36,363			
33	Total Plant in Service	0	9,110	(478)	667,562	0	0	0
34	ACCUMULATED DEPRECIATION				216,511			
35	ACCUM. PROVISION FOR AMORTIZATION				3,368			
36	Total Accum. Depreciation & Amort.	0	0	0	219,879	0	0	0
37	GAIN ON SALE OF BUILDING				(625)			
38	DEFERRED TAXES				(60,779)			
39	TOTAL RATE BASE	$0	$9,110	($478)	$386,279	$0	$0	$0
40	RATE OF RETURN							

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Property Tax	Uncollect. Expense	Regulatory Expense	Injuries and Damages	FIT	Restate Debt Interest	Idaho PCA
	a	n	o	p	q	r	s	t
	REVENUES							
1	Total General Business							$ (24,862)
2	Interdepartmental Sales							
3	Sales for Resale							
4	Total Sales of Electricity	0	0	0	0	0	0	(24,862)
5	Other Revenue							
6	Total Electric Revenue	0	0	0	0	0	0	(24,862)
	EXPENSES							
	Production and Transmission							
7	Operating Expenses							(11,261)
8	Purchased Power							
9	Depreciation and Amortization							
10	Taxes	35						
11	Total Production & Transmission	35	0	0	0	0	0	(11,261)
	Distribution							
12	Operating Expenses							
13	Depreciation							
14	Taxes		1		1			(266)
15	Total Distribution	0	1	0	1	0	0	(266)
16	Customer Accounting		(66)					(79)
17	Customer Service & Information							
18	Sales Expenses							
	Administrative & General							
19	Operating Expenses			16	(52)			(64)
20	Depreciation							
21	Taxes	1						
22	Total Admin. & General	1	0	16	(52)	0	0	(64)
23	Total Electric Expenses	36	(65)	16	(51)	0	0	(11,670)
24	OPERATING INCOME BEFORE FIT	(36)	65	(16)	51	0	0	(13,192)
	FEDERAL INCOME TAX							
25	Current Accrual	(13)	23	(6)	18	(1,663)	3,184	(8,559)
26	Deferred Income Taxes					112		3,947
27	NET OPERATING INCOME	($23)	$42	($10)	$33	$1,551	($3,184)	($8,580)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible							
29	Production							
30	Transmission							
31	Distribution							
32	General							
33	Total Plant in Service	0	0	0	0	0	0	0
34	ACCUMULATED DEPRECIATION							
35	ACCUM. PROVISION FOR AMORTIZATION							
36	Total Accum. Depreciation & Amort.	0	0	0	0	0	0	0
37	GAIN ON SALE OF BUILDING							
38	DEFERRED TAXES							
39	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0	$0
40	RATE OF RETURN							

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Nez Perce Settlement Adjustment	Remove Misc Tariffs Adjustment	PGE Monetiz Amort Adjustment	Payroll Clearing Adjustment	Coyote Springs 2	Small Generation
	a	u	v	w	x	y	z
	REVENUES						
1	Total General Business		$3,096				
2	Interdepartmental Sales						
3	Sales for Resale						
4	Total Sales of Electricity	0	3,096	0	0	0	0
5	Other Revenue						
6	Total Electric Revenue	0	3,096	0	0	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses	(24)			150	1,296	
8	Purchased Power						
9	Depreciation and Amortization		4,926	$2,887		1,629	232
10	Taxes					24	56
11	Total Production & Transmission	(24)	4,926	2,887	150	2,949	288
	Distribution						
12	Operating Expenses				103		
13	Depreciation						
14	Taxes		61		(5)	(32)	(3)
15	Total Distribution	0	61	0	98	(32)	(3)
16	Customer Accounting		10		54		
17	Customer Service & Information		(2,542)		1		
18	Sales Expenses				7		
	Administrative & General						
19	Operating Expenses		8		122		
20	Depreciation						
21	Taxes						
22	Total Admin. & General	0	8	0	122	0	0
23	Total Electric Expenses	(24)	2,463	2,887	432	2,917	285
24	OPERATING INCOME BEFORE FIT	24	633	(2,887)	(432)	(2,917)	(285)
	FEDERAL INCOME TAX						
25	Current Accrual	8	221		(151)	(1,021)	(100)
26	Deferred Income Taxes			(1,010)			
27	NET OPERATING INCOME	$16	$412	($1,877)	($281)	($1,896)	($185)
	RATE BASE						
	PLANT IN SERVICE						
28	Intangible						
29	Production					39,096	5,453
30	Transmission						
31	Distribution						
32	General						
33	Total Plant in Service	0	0	0	0	39,096	5,453
34	ACCUMULATED DEPRECIATION					1,629	191
35	ACCUM. PROVISION FOR AMORTIZATION						
36	Total Accum. Depreciation & Amort.	0	0	0	0	1,629	191
37	GAIN ON SALE OF BUILDING						
38	DEFERRED TAXES					(502)	81
39	TOTAL RATE BASE	$0	$0	$0	$0	$36,965	$5,343
40	RATE OF RETURN						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Capital Costs Small Gen Options	Pro Forma Power Supply	Pro Forma Pension	Pro Forma Insurance	Pro Forma Labor Non-Exec
	a	aa	ab	ac	ad	ae
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale		(5,075)			
4	Total Sales of Electricity	0	(5,075)	0	0	0
5	Other Revenue		(14,366)			
6	Total Electric Revenue	0	(19,441)	0	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses		(13,915)	237		$390
8	Purchased Power		6,655			
9	Depreciation and Amortization	$184				
10	Taxes					
11	Total Production & Transmission	184	(7,260)	237	0	390
	Distribution					
12	Operating Expenses			163		272
13	Depreciation					
14	Taxes		(131)	(7)	(11)	(12)
15	Total Distribution	0	(131)	156	(11)	260
16	Customer Accounting			85		140
17	Customer Service & Information			2		3
18	Sales Expenses			11		18
	Administrative & General					
19	Operating Expenses			193	1,009	273
20	Depreciation					
21	Taxes					
22	Total Admin. & General	0	0	193	1,009	273
23	Total Electric Expenses	184	(7,391)	684	998	1,084
24	OPERATING INCOME BEFORE FIT	(184)	(12,050)	(684)	(998)	(1,084)
	FEDERAL INCOME TAX					
25	Current Accrual		(4,218)	(239)	(349)	(379)
26	Deferred Income Taxes	(64)				
27	NET OPERATING INCOME	($120)	($7,832)	($445)	($649)	($705)
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					
29	Production	$829				
30	Transmission					
31	Distribution					
32	General					
33	Total Plant in Service	829	0	0	0	0
34	ACCUMULATED DEPRECIATION					
35	ACCUM. PROVISION FOR AMORTIZATION					
36	Total Accum. Depreciation & Amort.	0	0	0	0	0
37	GAIN ON SALE OF BUILDING					
38	DEFERRED TAXES	(290)				
39	TOTAL RATE BASE	$539	$0	$0	$0	$0
40	RATE OF RETURN					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Labor Executive	Pro Forma Vegetation Management	Pro Forma Transmission Project	Pro Forma Cabinet Gorge Project	DIRECT Pro Forma TOTAL
	a	af	ag	ah	ai	aj
	REVENUES					
1	Total General Business					$146,138
2	Interdepartmental Sales					110
3	Sales for Resale					16,976
4	Total Sales of Electricity	0	0	0	0	163,224
5	Other Revenue					4,701
6	Total Electric Revenue	0	0	0	0	167,925
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	$23	$150			38,447
8	Purchased Power					46,559
9	Depreciation and Amortization			$252	$2	10,846
10	Taxes			136	24	3,894
11	Total Production & Transmission	23	150	388	26	99,746
	Distribution					
12	Operating Expenses		1,070			6,495
13	Depreciation					5,670
14	Taxes		(13)	(4)	0	4,097
15	Total Distribution	0	1,057	(4)	0	16,262
16	Customer Accounting					4,296
17	Customer Service & Information					1,480
18	Sales Expenses					421
	Administrative & General					
19	Operating Expenses					17,889
20	Depreciation					3,878
21	Taxes					1
22	Total Admin. & General	0	0	0	0	21,768
23	Total Electric Expenses	23	1,207	384	26	143,973
24	OPERATING INCOME BEFORE FIT	(23)	(1,207)	(384)	(26)	23,952
	FEDERAL INCOME TAX					
25	Current Accrual	(8)	(422)	(285)	(65)	774
26	Deferred Income Taxes			150	56	2,466
27	NET OPERATING INCOME	($15)	($785)	($249)	($17)	$20,712
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					11,353
29	Production				$2,261	310,208
30	Transmission			$9,050		109,162
31	Distribution					257,165
32	General					36,363
33	Total Plant in Service	0	0	9,050	2,261	724,251
34	ACCUMULATED DEPRECIATION			126	1	218,458
35	ACCUM. PROVISION FOR AMORTIZATION					3,368
36	Total Accum. Depreciation & Amort.	0	0	126	1	221,826
37	GAIN ON SALE OF BUILDING					(625)
38	DEFERRED TAXES			(75)	(28)	(61,593)
39	TOTAL RATE BASE	$0	$0	$8,849	$2,232	$440,207
40	RATE OF RETURN					4.71%

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	UNCONTESTED STAFF ADJUSTMENTS Staff Adj Cabinet Gorge E2	Staff Adj Boulder Park Depr - E3	Staff Adj Skookumchuck E5	Staff Adj Deferred FIT E6	Staff Adj Coyote Springs E7
	a	ak	al	am	an	ao
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	0	0	0	0	0
5	Other Revenue			(4)		
6	Total Electric Revenue	0	0	(4)	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses			(2)		(174)
8	Purchased Power					
9	Depreciation and Amortization		(88)	(10)		(94)
10	Taxes	(2)	1	(4)		0
11	Total Production & Transmission	(2)	(87)	(16)	0	(268)
	Distribution					
12	Operating Expenses					
13	Depreciation					
14	Taxes					3
15	Total Distribution	0	0	0	0	3
16	Customer Accounting					
17	Customer Service & Information					
18	Sales Expenses					
	Administrative & General					
19	Operating Expenses					
20	Depreciation					
21	Taxes					
22	Total Admin. & General	0	0	0	0	0
23	Total Electric Expenses	(2)	(87)	(16)	0	(265)
24	OPERATING INCOME BEFORE FIT	2	87	12		265
	FEDERAL INCOME TAX					
25	Current Accrual	3	30	4		93
26	Deferred Income Taxes	(2)				
27	NET OPERATING INCOME	$1	$57	$8	$0	$172
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					
29	Production	(111)		(199)		(3,324)
30	Transmission					1,519
31	Distribution					
32	General					
33	Total Plant in Service	(111)	0	(199)	0	(1,805)
34	ACCUMULATED DEPRECIATION		(44)	(68)		(95)
35	ACCUM. PROVISION FOR AMORTIZATION					
36	Total Accum. Depreciation & Amort.	0	(44)	(68)	0	(95)
37	GAIN ON SALE OF BUILDING					
38	DEFERRED TAXES	1	(31)	27	(9,966)	89
39	TOTAL RATE BASE	($110)	$13	($104)	($9,966)	($1,621)
40	RATE OF RETURN	($17)	($87)	($28)	($1,442)	($504)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Staff Adj Small Gen Options - E8	Staff Adj Labor (Non-Exec) - E9	Staff Adj Labor (Exec) E10	Staff Adj Depreciation E14	Staff Adj Corp. Fees E15
	a	ap	aq	ar	as	at
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	0	0	0	0	0
5	Other Revenue					
6	Total Electric Revenue	0	0	0	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses		(12)	3		
8	Purchased Power					
9	Depreciation and Amortization				(137)	
10	Taxes					
11	Total Production & Transmission	0	(12)	3	(137)	0
	Distribution					
12	Operating Expenses		(2)			
13	Depreciation				(348)	
14	Taxes		1		7	1
15	Total Distribution	0	(1)	0	(341)	1
16	Customer Accounting		(7)			
17	Customer Service & Information		0			
18	Sales Expenses		(1)			
	Administrative & General					
19	Operating Expenses		(19)	(17)		(115)
20	Depreciation				(186)	
21	Taxes					
22	Total Admin. & General	0	(19)	(17)	(186)	(115)
23	Total Electric Expenses	0	(40)	(14)	(664)	(114)
24	OPERATING INCOME BEFORE FIT	0	40	14	664	114
	FEDERAL INCOME TAX					
25	Current Accrual		14	5	232	40
26	Deferred Income Taxes					
27	NET OPERATING INCOME	$0	$26	$9	$432	$74
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					
29	Production	(829)				
30	Transmission					
31	Distribution					
32	General					
33	Total Plant in Service	(829)	0	0	0	0
34	ACCUMULATED DEPRECIATION					
35	ACCUM. PROVISION FOR AMORTIZATION					
36	Total Accum. Depreciation & Amort.	0	0	0	0	0
37	GAIN ON SALE OF BUILDING					
38	DEFERRED TAXES	290				
39	TOTAL RATE BASE	($539)	$0	$0	$0	$0
40	RATE OF RETURN	($78)	($41)	($14)	($676)	($116)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Staff Adj Misc. Exp E17	Staff Adj WECC Exp E18	Staff Adj Adv. Exp E19	Staff Adj Avista Foundation - E20	Rev. Restate Debt Int	Avista Rebuttal TOTAL
	a	au	av	aw	ax	ay	az
	REVENUES						
1	Total General Business						$146,138
2	Interdepartmental Sales						110
3	Sales for Resale						16,976
4	Total Sales of Electricity	0	0	0	0	0	163,224
5	Other Revenue						4,697
6	Total Electric Revenue	0	0	0	0	0	167,921
	EXPENSES						
	Production and Transmission						
7	Operating Expenses		(15)				38,247
8	Purchased Power						46,559
9	Depreciation and Amortization						10,517
10	Taxes						3,889
11	Total Production & Transmission	0	(15)	0	0	0	99,212
	Distribution						
12	Operating Expenses						6,493
13	Depreciation						5,322
14	Taxes						4,109
15	Total Distribution	0	0	0	0	0	15,924
16	Customer Accounting						4,289
17	Customer Service & Information						1,480
18	Sales Expenses			(56)			364
	Administrative & General						
19	Operating Expenses	(388)			(8)		17,342
20	Depreciation						3,692
21	Taxes	4		1			6
22	Total Admin. & General	(384)	0	1	(8)	0	21,040
23	Total Electric Expenses	(384)	(15)	(55)	(8)	0	142,309
24	OPERATING INCOME BEFORE FIT	384	15	55	8	0	25,612
	FEDERAL INCOME TAX						
25	Current Accrual	134	5	19	3	64	1,420
26	Deferred Income Taxes						2,464
27	NET OPERATING INCOME	$250	$10	$36	$5	($64)	$21,728
	RATE BASE						
	PLANT IN SERVICE						
28	Intangible						11,353
29	Production						305,745
30	Transmission						110,681
31	Distribution						257,165
32	General						36,363
33	Total Plant in Service	0	0	0	0	0	721,307
34	ACCUMULATED DEPRECIATION						218,251
35	ACCUM. PROVISION FOR AMORTIZATION						3,368
36	Total Accum. Depreciation & Amort.	0	0	0	0	0	221,619
37	GAIN ON SALE OF BUILDING						(625)
38	DEFERRED TAXES						(71,183)
39	TOTAL RATE BASE	$0	$0	$0	$0	$0	$427,880
40	RATE OF RETURN	($391)	($16)	($56)	($8)	$100	5.08%

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-04-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC AND	)	EXHIBIT NO. 27
NATURAL GAS CUSTOMERS IN THE STATE	)	
OF IDAHO	)	DON M. FALKNER
	)	

FOR AVISTA CORPORATION

(NATURAL GAS ONLY)

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS-REBUTTAL POSITION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

		WITH PRESENT RATES			WITH PROPOSED RATES	
Line No.	DESCRIPTION	Actual Per Results Report	Total Adjustments	Pro Forma Total	Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	*b*	*c*	*d*	*e*	*f*
	REVENUES					
1	Total General Business	$58,983	$ (8,008)	$50,975	$4,061	$55,036
2	Total Transportation	1,198	(254)	944		944
3	Other Revenues	884	(228)	656		656
4	Total Gas Revenues	61,065	(8,490)	52,575	4,061	56,636
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases	42,560	(6,922)	35,638		35,638
7	Purchased Gas Expense	69	10	79		79
8	Net Nat Gas Storage Trans	71	15	86		86
9	Total Production	42,700	(6,897)	35,803	0	35,803
	Underground Storage					
10	Operating Expenses	134	0	134		134
11	Depreciation	111	(6)	105		105
12	Taxes	41	4	45		45
13	Total Underground Storage	286	(2)	284	0	284
	Distribution					
14	Operating Expenses	1,987	220	2,207		2,207
15	Depreciation	2,125	0	2,125		2,125
16	Taxes	2,505	(1,156)	1,349	44	1,393
17	Total Distribution	6,617	(936)	5,681	44	5,725
18	Customer Accounting	2,049	15	2,064	13	2,077
19	Customer Service & Information	530	(270)	260		260
20	Sales Expenses	214	10	224		224
	Administrative & General					
21	Operating Expenses	3,572	94	3,666	10	3,676
22	Depreciation	618	(37)	581		581
23	Taxes	10	3	13		13
24	Total Admin. & General	4,200	60	4,260	10	4,270
25	Total Gas Expense	56,596	(8,020)	48,576	67	48,643
26	OPERATING INCOME BEFORE FIT	4,469	(470)	3,999	3,994	7,993
	FEDERAL INCOME TAX					
27	Current Accrual	3,200	455	3,655	1,398	5,053
28	Deferred FIT	(2,966)	49	(2,917)		(2,917)
29	Amort ITC	(18)	0	(18)		(18)
						0
30	NET OPERATING INCOME	$4,253	($974)	$3,279	$2,596	$5,875
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage	5,041	0	5,041		5,041
32	Distribution Plant	87,598	940	88,538	0	88,538
33	General Plant	6,709	0	6,709		6,709
34	Total Plant in Service	99,348	940	100,288		100,288
	ACCUMULATED DEPRECIATION					
35	Underground Storage	2,294	0	2,294		2,294
36	Distribution Plant	26,397	0	26,397	0	26,397
37	General Plant	2,702	0	2,702		2,702
38	Total Accum. Depreciation	31,393	0	31,393		31,393
39	DEFERRED FIT	0	(9,831)	(9,831)		(9,831)
40	GAS INVENTORY	0	1,572	1,572		1,572
41	GAIN ON SALE OF BUILDING	0	(197)	(197)		(197)
					0	
42	TOTAL RATE BASE	$67,955	($7,516)	$60,439		$60,439
43	RATE OF RETURN	6.26%		5.43%		9.72%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Gas
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000's OF DOLLARS)
REVISED REBUTTAL CASE CALCULATION

Line No.	Description	IDAHO
1	Pro Forma Rate Base	$60,439
	Proposed Rate of Return	9.720%
2	Net Operating Income Requirement	$5,875
3	Pro Forma Net Operating Income	$3,279
4	Net Operating Income Deficiency	$2,596
5	Conversion Factor	0.639261
6	Revenue Requirement	$4,061
7	Total General Business Revenues	$51,919
8	Percentage Revenue Increase	7.82%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO GAS
TWELVE MONTHS ENDED DECEMBER 31, 2002

Line Number	Description	Factor
1	**Revenues**	1.000000
	Expense:	
2	Uncollectibles (1)	0.003164
3	Commission Fees (2)	0.002577
4	Idaho Income Tax (3)	0.010780
5	Total Expense	0.016521
6	Net Operating Income Before FIT	0.983479
7	Federal Income Tax @ 35%	0.344218
8	**REVENUE CONVERSION FACTOR**	0.639261

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Gain on Office Building	Gas Inventory	Weatherization and DSM Investment
	a	b	c	d	e	f
	REVENUES					
1	Total General Business	$58,983				
2	Total Transportation	1,198				
3	Other Revenues	884				
4	Total Gas Revenues	61,065	0	0	0	0
	EXPENSES					
5	Exploration and Development	0				
	Production					
6	City Gate Purchases	42,560				
7	Purchased Gas Expense	69				
8	Net Nat Gas Storage Trans	71				
9	Total Production	42,700	0	0	0	0
	Underground Storage					
10	Operating Expenses	134				
11	Depreciation	111				
12	Taxes	41				
13	Total Underground Storage	286	0	0	0	0
	Distribution					
14	Operating Expenses	1,987				
15	Depreciation	2,125				
16	Taxes	2,505				
17	Total Distribution	6,617	0	0	0	0
18	Customer Accounting	2,049				
19	Customer Service & Information	530				
20	Sales Expenses	214				
	Administrative & General					
21	Operating Expenses	3,572				
22	Depreciation	618				
23	Taxes	10				
24	Total Admin. & General	4,200	0	0	0	0
25	Total Gas Expense	56,596	0	0	0	0
26	OPERATING INCOME BEFORE FIT	4,469	0	0	0	0
	FEDERAL INCOME TAX					
27	Current Accrual	3,200				
28	Deferred FIT	(2,966)				
29	Amort ITC	(18)				
30	NET OPERATING INCOME	$4,253	$0	$0	$0	$0
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage	5,041				
32	Distribution Plant	87,598				941
33	General Plant	6,709				
34	Total Plant in Service	99,348	0	0	0	941
	ACCUMULATED DEPRECIATION					
35	Underground Storage	2,294				
36	Distribution Plant	26,397				
37	General Plant	2,702				
38	Total Accum. Depreciation	31,393	0	0	0	0
39	DEFERRED FIT	0	(7,261)	69		
40	GAS INVENTORY	0			1,572	
41	GAIN ON SALE OF BUILDING	0		(197)		
42	TOTAL RATE BASE	$67,955	($7,261)	($128)	$1,572	$941
43	RATE OF RETURN	6.26%				

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Customer Advances	Subtotal Actual	Eliminate Franchise Fees	Property Tax	Uncollectible Expense
	a	g	-	h	i	j
	REVENUES					
1	Total General Business		$58,983	$ (1,082)		
2	Total Transportation		1,198	(14)		
3	Other Revenues		884			
4	Total Gas Revenues	0	61,065	(1,096)	0	0
	EXPENSES					
5	Exploration and Development		0			
	Production					
6	City Gate Purchases		42,560			
7	Purchased Gas Expense		69			
8	Net Nat Gas Storage Trans		71			
9	Total Production	0	42,700	0	0	0
	Underground Storage					
10	Operating Expenses		134			
11	Depreciation		111			
12	Taxes		41		4	
13	Total Underground Storage	0	286	0	4	0
	Distribution					
14	Operating Expenses		1,987			
15	Depreciation		2,125			
16	Taxes		2,505	(1,148)		1
17	Total Distribution	0	6,617	(1,148)	0	1
18	Customer Accounting		2,049			(113)
19	Customer Service & Information		530			
20	Sales Expenses		214			
	Administrative & General					
21	Operating Expenses		3,572			
22	Depreciation		618			
23	Taxes		10		1	
24	Total Admin. & General	0	4,200	0	1	0
25	Total Gas Expense	0	56,596	(1,148)	5	(112)
26	OPERATING INCOME BEFORE FIT	0	4,469	52	(5)	112
	FEDERAL INCOME TAX					
27	Current Accrual		3,200	18	(2)	39
28	Deferred FIT		(2,966)			
29	Amort ITC		(18)			
30	NET OPERATING INCOME	$0	$4,253	$34	($3)	$73
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage		5,041			
32	Distribution Plant	(1)	88,538			
33	General Plant		6,709			
34	Total Plant in Service	(1)	100,288	0	0	0
	ACCUMULATED DEPRECIATION					
35	Underground Storage		2,294			
36	Distribution Plant		26,397			
37	General Plant		2,702			
38	Total Accum. Depreciation	0	31,393	0	0	0
39	DEFERRED FIT		(7,192)			
40	GAS INVENTORY		1,572			
41	GAIN ON SALE OF BUILDING		(197)			
42	TOTAL RATE BASE	($1)	$63,078	$0	$0	$0
43	RATE OF RETURN					

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Regulatory Expense Adjustment	Injuries and Damages	FIT	Restate Debt Interest	Payroll Clearing	Revenue Gas Supply Adjustment
	a	k	l	m	n	o	p
	REVENUES						
1	Total General Business						$ (6,949)
2	Total Transportation						(240)
3	Other Revenues						(228)
4	Total Gas Revenues	0	0	0	0	0	(7,417)
	EXPENSES						
5	Exploration and Development						
	Production						
6	City Gate Purchases						(6,922)
7	Purchased Gas Expense					2	
8	Net Nat Gas Storage Trans					1	
9	Total Production	0	0	0	0	3	(6,922)
	Underground Storage						
10	Operating Expenses						
11	Depreciation						
12	Taxes						
13	Total Underground Storage	0	0	0	0	0	0
	Distribution						
14	Operating Expenses					42	
15	Depreciation						
16	Taxes		1			(1)	(2)
17	Total Distribution	0	1	0	0	41	(2)
18	Customer Accounting					30	(23)
19	Customer Service & Information					2	(279)
20	Sales Expenses					4	
	Administrative & General						
21	Operating Expenses	6	(83)			27	(19)
22	Depreciation						
23	Taxes						
24	Total Admin. & General	6	(83)	0	0	27	(19)
25	Total Gas Expense	6	(82)	0	0	107	(7,245)
26	OPERATING INCOME BEFORE FIT	(6)	82	0	0	(107)	(172)
	FEDERAL INCOME TAX						
27	Current Accrual	(2)	29	22	576	(37)	(60)
28	Deferred FIT			49			
29	Amort ITC						
30	NET OPERATING INCOME	($4)	$53	($71)	($576)	($70)	($112)
	RATE BASE: PLANT IN SERVICE						
31	Underground Storage						
32	Distribution Plant						
33	General Plant						
34	Total Plant in Service	0	0	0	0	0	0
	ACCUMULATED DEPRECIATION						
35	Underground Storage						
36	Distribution Plant						
37	General Plant						
38	Total Accum. Depreciation	0	0	0	0	0	0
39	DEFERRED FIT						
40	GAS INVENTORY						
41	GAIN ON SALE OF BUILDING						
42	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0
43	RATE OF RETURN						

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Pension	Pro Forma Insurance	Pro Forma Labor Non-Exec	Pro Forma Labor Executive	DIRECT Pro Forma Total
	a	q	r	s	t	u
	REVENUES					
1	Total General Business					$50,952
2	Total Transportation					944
3	Other Revenues					656
4	Total Gas Revenues	0	0	0	0	52,552
	EXPENSES					
5	Exploration and Development					0
	Production					
6	City Gate Purchases					35,638
7	Purchased Gas Expense	3		5	0	79
8	Net Nat Gas Storage Trans	1		2	11	86
9	Total Production	4	0	7	11	35,803
	Underground Storage					
10	Operating Expenses					134
11	Depreciation					111
12	Taxes					45
13	Total Underground Storage	0	0	0	0	290
	Distribution					
14	Operating Expenses	67		111		2,207
15	Depreciation					2,125
16	Taxes	(2)	(2)	(3)		1,349
17	Total Distribution	65	(2)	108	0	5,681
18	Customer Accounting	47		78		2,068
19	Customer Service & Information	3		5		261
20	Sales Expenses	6		10		234
	Administrative & General					
21	Operating Expenses	43	204	60	2	3,812
22	Depreciation					618
23	Taxes					11
24	Total Admin. & General	43	204	60	2	4,441
25	Total Gas Expense	168	202	268	13	48,778
26	OPERATING INCOME BEFORE FIT	(168)	(202)	(268)	(13)	3,774
	FEDERAL INCOME TAX					
27	Current Accrual	(59)	(71)	(94)	(5)	3,554
28	Deferred FIT					(2,917)
29	Amort ITC					(18)
30	NET OPERATING INCOME	($109)	($131)	($174)	($8)	$3,155
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage					5,041
32	Distribution Plant					88,538
33	General Plant					6,709
34	Total Plant in Service	0	0	0	0	100,288
	ACCUMULATED DEPRECIATION					
35	Underground Storage					2,294
36	Distribution Plant					26,397
37	General Plant					2,702
38	Total Accum. Depreciation	0	0	0	0	31,393
39	DEFERRED FIT					(7,192)
40	GAS INVENTORY					1,572
41	GAIN ON SALE OF BUILDING					(197)
42	TOTAL RATE BASE	$0	$0	$0	$0	$63,078
43	RATE OF RETURN					5.00%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

		UNCONTESTED STAFF ADJUSTMENTS				
		Staff Adj	Staff Adj	Staff Adj	Staff Adj	Staff Adj
Line No.	DESCRIPTION	Deferred FIT G2	Labor (Exec) G3	Labor (Non-Exec) - G4	Depreciation G7	Misc Exp G9
	a	v	w	x	y	z
	REVENUES					
1	Total General Business					
2	Total Transportation					
3	Other Revenues					
4	Total Gas Revenues	0	0	0	0	0
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases					
7	Purchased Gas Expense					
8	Net Nat Gas Storage Trans					
9	Total Production	0	0	0	0	0
	Underground Storage					
10	Operating Expenses					
11	Depreciation				(6)	
12	Taxes					
13	Total Underground Storage	0	0	0	(6)	0
	Distribution					
14	Operating Expenses					
15	Depreciation					
16	Taxes					
17	Total Distribution	0	0	0	0	0
18	Customer Accounting			(4)		
19	Customer Service & Information			(1)		
20	Sales Expenses			(1)		
	Administrative & General					
21	Operating Expenses		(3)	(4)		(111)
22	Depreciation				(37)	
23	Taxes					2
24	Total Admin. & General	0	(3)	(4)	(37)	(109)
25	Total Gas Expense	0	(3)	(10)	(43)	(109)
26	OPERATING INCOME BEFORE FIT	0	3	10	43	109
	FEDERAL INCOME TAX					
27	Current Accrual		1	4	15	38
28	Deferred FIT					
29	Amort ITC					
30	NET OPERATING INCOME	0	2	6	28	71
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage					
32	Distribution Plant					
33	General Plant					
34	Total Plant in Service	0	0	0	0	0
	ACCUMULATED DEPRECIATION					
35	Underground Storage					
36	Distribution Plant					
37	General Plant					
38	Total Accum. Depreciation	0	0	0	0	0
39	DEFERRED FIT	(2,639)				
40	GAS INVENTORY					
41	GAIN ON SALE OF BUILDING					
42	TOTAL RATE BASE	($2,639)	$0	$0	$0	$0
43	RATE OF RETURN					

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Staff Adj Corp Fees G10	Staff Adj Adv Exp G11	Staff Adj Avista Foun-dation - G12	Staff Adj Actual Thrm Usage - G13	Staff Adj Scm M Allocator-G14
	a	aa	ab	ac	ad	ae
	REVENUES					
1	Total General Business				$23	
2	Total Transportation					
3	Other Revenues					
4	Total Gas Revenues	0	0	0	23	0
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases					
7	Purchased Gas Expense					
8	Net Nat Gas Storage Trans					
9	Total Production	0	0	0	0	0
	Underground Storage					
10	Operating Expenses					
11	Depreciation					
12	Taxes					
13	Total Underground Storage	0	0	0	0	0
	Distribution					
14	Operating Expenses					
15	Depreciation					
16	Taxes					
17	Total Distribution	0	0	0	0	0
18	Customer Accounting					
19	Customer Service & Information					
20	Sales Expenses		(9)			
	Administrative & General					
21	Operating Expenses	(26)		(2)		
22	Depreciation					
23	Taxes					
24	Total Admin. & General	(26)	0	(2)	0	0
25	Total Gas Expense	(26)	(9)	(2)	0	0
26	OPERATING INCOME BEFORE FIT	26	9	2	23	0
	FEDERAL INCOME TAX					
27	Current Accrual	9	3	1	8	(2)
28	Deferred FIT					
29	Amort ITC					
30	NET OPERATING INCOME	17	6	1	15	2
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage					
32	Distribution Plant					
33	General Plant					
34	Total Plant in Service	0	0	0	0	0
	ACCUMULATED DEPRECIATION					
35	Underground Storage					
36	Distribution Plant					
37	General Plant					
38	Total Accum. Depreciation	0	0	0	0	0
39	DEFERRED FIT					
40	GAS INVENTORY					
41	GAIN ON SALE OF BUILDING					
42	TOTAL RATE BASE	$0	$0	$0	$0	$0
43	RATE OF RETURN					

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS - REBUTTAL
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Revised Restate Debt	Avista Rebuttal Total
	a	af	ag
	REVENUES		
1	Total General Business		$50,975
2	Total Transportation		944
3	Other Revenues		656
4	Total Gas Revenues	0	52,575
	EXPENSES		
5	Exploration and Development		0
	Production		
6	City Gate Purchases		35,638
7	Purchased Gas Expense		79
8	Net Nat Gas Storage Trans		86
9	Total Production	0	35,803
	Underground Storage		
10	Operating Expenses		134
11	Depreciation		105
12	Taxes		45
13	Total Underground Storage	0	284
	Distribution		
14	Operating Expenses		2,207
15	Depreciation		2,125
16	Taxes		1,349
17	Total Distribution	0	5,681
18	Customer Accounting		2,064
19	Customer Service & Information		260
20	Sales Expenses		224
	Administrative & General		
21	Operating Expenses		3,666
22	Depreciation		581
23	Taxes		13
24	Total Admin. & General	0	4,260
25	Total Gas Expense	0	48,576
26	OPERATING INCOME BEFORE FIT	0	3,999
	FEDERAL INCOME TAX		
27	Current Accrual	23	3,655
28	Deferred FIT		(2,917)
29	Amort ITC		(18)
30	NET OPERATING INCOME	($23)	$3,279
	RATE BASE: PLANT IN SERVICE		
31	Underground Storage		5,041
32	Distribution Plant		88,538
33	General Plant		6,709
34	Total Plant in Service	0	100,288
	ACCUMULATED DEPRECIATION		
35	Underground Storage		2,294
36	Distribution Plant		26,397
37	General Plant		2,702
38	Total Accum. Depreciation	0	31,393
39	DEFERRED FIT		(9,831)
40	GAS INVENTORY		1,572
41	GAIN ON SALE OF BUILDING		(197)
42	TOTAL RATE BASE	$0	$60,439
43	RATE OF RETURN		5.43%