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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-08-01 CASE NO. AVU-G-08-01 DIRECT TESTIMONY OF ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

CONTENTS

I. INTRODUCTION

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

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as Manager of Revenue Requirements in the State and Federal Regulation Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991. I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I was hired into the State and Federal Regulation Department as a Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007. I have also attended several utility accounting, ratemaking and leadership courses.

Q. As Manager of Revenue Requirements, what are your responsibilities?

A. As Manager of Revenue Requirements, aside from special projects, I am responsible for the preparation of normalized revenue requirement and pro forma studies for the various jurisdictions in which the Company provides utility services. During the last eight years I have assisted or lead the Company's electric and/or natural gas general rate filings in Idaho, Washington, and Oregon.

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

A. My testimony and exhibits in this proceeding will generally cover accounting and financial data in support of the Company's need for the proposed increase in rates. I will explain pro formed operating results including expense and rate base adjustments made to actual operating results and rate base.

I incorporate the Idaho share of the proposed adjustments of several witnesses in this case. For example, Company witnesses Mr. DeFelice sponsors and describes the Company's pro forma 2007 and 2008 capital additions adjustments and Mr. Howard discusses the Spokane River Relicensing efforts by the Company. Other Company witnesses, for example Mr. Vermillion, explains other issues impacting the Company, like the Clark Fork River dissolved gas issue, the Montana Riverbed lease expense, and the Colstrip mercury emissions O&M expense. Mr. Kinney discusses the transmission net expenses, Asset Management program expenses, and the transmission capital expenditures included in Mr. DeFelice's pro forma capital adjustments, and Mr. Paulson discusses the impact of the completion of the Advanced Meter Reading (AMR) project investment. Lastly, Company witnesses Mr. Johnson, prepared the total system pro forma power supply adjustment, while Ms. Knox sponsors the revenue normalization and pro forma production property adjustments.

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

A. Yes. I am sponsoring Exhibit No. 13, Schedule 1 (Electric) and Schedule 2 (Natural Gas), which were prepared under my direction. These Exhibit Schedules consist of worksheets, which show actual 2007 operating results, pro forma, and proposed electric and natural gas operating results and rate base for the State of Idaho, the Company's calculation of the general revenue requirement, the derivation of the net operating income to gross revenue conversion factor, and the pro forma adjustments proposed in this filing.

II. COMBINED REVENUE REQUIREMENT SUMMARY

Q. Would you please summarize the results of the Company's pro forma study for both the electric and natural gas operating systems for the Idaho jurisdiction?

A. Yes. After taking into account all standard Commission Basis adjustments, as well as additional pro forma and normalizing adjustments, the pro forma electric and natural gas rates of return ("ROR") for the Company's Idaho jurisdictional operations are 4.97% and 5.21%, respectively. Both return levels are below the Company's requested rate of return of 8.74%. The incremental revenue requirement for base retail rates, necessary to give the Company an opportunity to earn its requested ROR is $32,328,000 for the electric operations and $4,725,000 for the natural gas operations. The overall base electric increase is 16.73%, while the proposed <u>bill</u> increase for customers, as explained by Mr. Hirschkorn, is 15.8%. Whereas, the base natural gas increase, as well as the overall bill increase, is 5.77%.

Q. What is the Company's rate of return that was last authorized by this Commission for it's electric and natural gas operations in Idaho?

A. The Company's currently authorized rate of return for its Idaho operations is 9.25%, effective September 9, 2004 for both our electric and natural gas systems.

III. ELECTRIC SECTION

Changes Since the 2002 Test Period

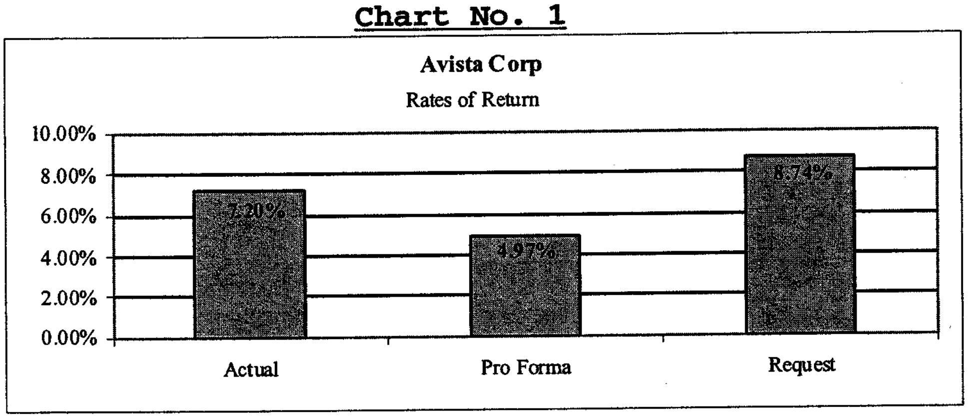
Q. On what test period is the Company basing its need for additional electric revenue?

A. The test period being used by the Company is the twelve-month period ending December 31, 2007, presented on a pro forma basis. Currently authorized rates are based upon the 2002 test year utilized in Case No. AVU-E-04-1, that were later adjusted to include the second half of Coyote Springs 2 generating plant in Case No, AVU-E-05-1.

Q. By way of summary, could you please explain the different rates of return that you will be presenting in your testimony?

A. Yes. As shown in Chart No. 1 below, there are three different rates of return that will be discussed. The actual ROR earned by the Company during the test period, the Pro Forma ROR determined in my Exhibit No.13, Schedule 1, and the requested ROR.

Chart No. 1

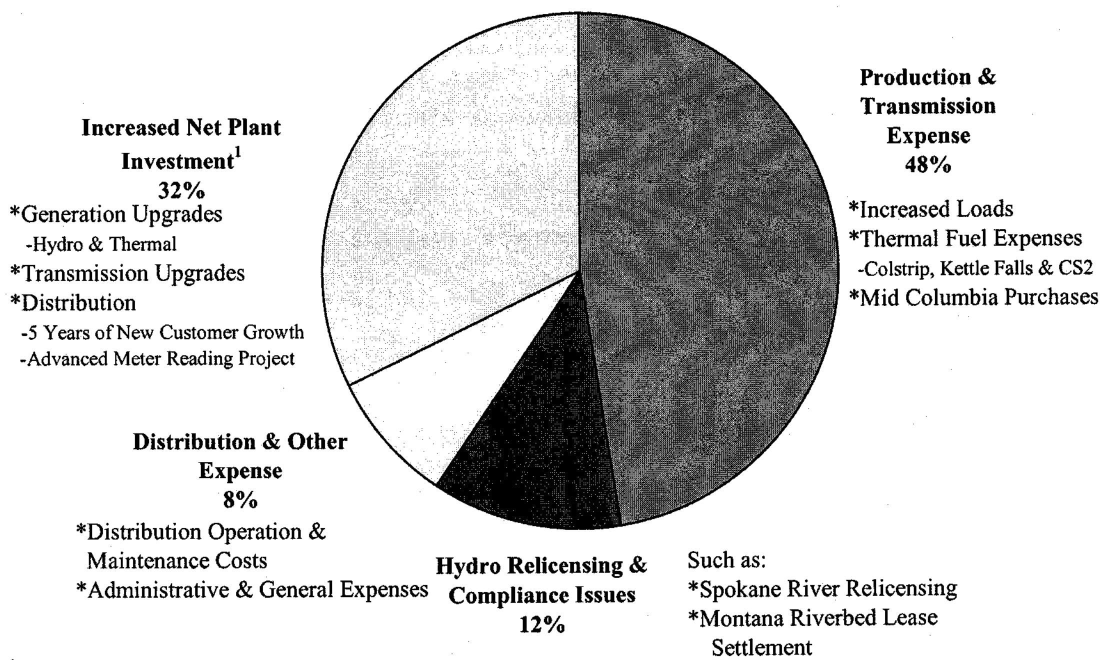


Q. What are the primary factors driving the Company's need for an electric increase?

A. Chart No. 2 below, shows the primary factors driving the electric revenue requirement in this case. Additional detail regarding these items are explained in more detail later in my testimony.

Chart No. 2

Primary Electric Revenue Requirement Factors



[1]Includes return on investment, depreciation and taxes, offset by the tax benefit of interest.

Q. Please describe the primary factors driving the Company's need for an electric increase?

A. There are numerous factors that have impacted the Company's Idaho electric results of operations since the

2002 test year. Net Operating Income ("NOI") has declined approximately $14 million, or 34%, and total rate base has increased approximately $102.5 million, or 23%. During this same time period, the average number of customers has increased approximately 11%. The Company's electric request is driven by changes in various operating cost components, but as shown by the pie chart (Chart No. 2 above), primarily power supply costs, plant investment or rate base growth associated with generation, transmission and distribution plant (including pro forma capital spending requirements during 2008) and by various hydro relicensing efforts impacting the Utility.

Q. Please explain each of the four components or segments shown in Chart No. 2 above.

A. The first segment, Production and Transmission expense increases, as explained below, comprise approximately 48% of the overall request. As already noted, net rate base for the Idaho jurisdiction increased approximately $102.5 million, primarily due to additional plant investment in generation, both hydro and thermal, and transmission plant. In addition, gross distribution plant increased significantly due to the 11% customer growth since the Company's previous general rate case in Idaho and due to the inclusion of rate base in this case of the AMR project investment planned for completion in fourth quarter of 2008. The depreciation recovery, taxes associated with plant, and the return on additional plant investment offset by the tax benefit of interest (excluding rate base associated with hydro relicensing efforts noted below), make up approximately 32% of the Company request.

The hydro relicensing and compliance efforts pro formed into this case make up approximately 12% of the overall request, and include, the intangible and production net rate base and expenses associated with the Spokane River relicensing, and other hydro compliance related issues, for example the Montana Riverbed Settlement lease expense.

The remaining cost category, Distribution and Other expense, which includes increases to all other operating categories, such as distribution expenses, customer service, taxes and administrative and general, total approximately 8% of the overall request.

Q. Please describe the impact of the next segment, increased net power supply expense.

A. As discussed in detail in Mr. Johnson's testimony, the level of Idaho's share of power supply expense has increased by approximately $33.4 million ($94.3 million on a system basis) from the level <u>currently in base rates</u>.

This significant increase in power supply expense over the expense currently in base rates is based on numerous factors, including higher retail loads, reduced hydro generation, increased fuel costs, increased Mid Columbia purchase costs, and increased transmission expense.

Higher retail loads are the most significant factor contributing to higher power supply expense. Pro forma retail loads are 128.6 aMW (system) higher than 2002 loads that current rates are based on. Hydro generation is also lower than the level in current base rates by a reduction of 6.8 aMW (system).

Fuel expense (i.e. thermal fuel expense for coal, wood fuel and natural gas) is approximately 50 percent higher on a dollars per MWh basis in the 2009 pro forma (increasing from $20.26 per MWh in current base rates to $30.33 per MWh in the 2009 pro forma) compared to the fuel expense in current base rates. Mr. Johnson provides additional explanation of these increases.

Finally, transmission expense has increased by approximately $1.0 million (Idaho allocation) related to transmission costs for Coyote Springs 2.

Offsetting these costs, as also further explained by Mr. Kalich and Mr. Johnson, is the approximately $4.5 million "rate mitigation adjustment" being proposed in this case.

Q. Could you please identify the main components of the "Distribution & Other" segment shown in the chart above?

A. Yes. A number of expense items have increased since 2002, which have been included in this case. For example, wages and benefits have increased, as well as other administrative and general expenses.

We are utilizing a 2007 test year since that is the most recent normalized financial information the Company has available, however, new general electric rates resulting from this filing are not expected to go into effect until late 2008. Accordingly, the Company has included a number of pro forma adjustments to capture some of the measurable cost changes that the Company will experience from the 2007 test year.

Q. What were the major components of the $102.5 million increase in total rate base?

A. Looking at the changes to "gross" plant in service shows that gross plant increased almost $236.5 million (Idaho), or 32%, as compared to what is currently included in rates. Included in this "gross" plant total is $27.6 million pro forma capital recorded in intangible and production plant associated with the Spokane River relicensing and compliance issues, or approximately 11.7% of the total change to "gross" plant.

To continue to meet the energy and reliability needs of our customers, the Company has invested additional amounts in thermal and hydro generating facilities (see Table No. 1 below), as well as additional transmission investment (see Table No. 2 below). Excluding the relicensing compliance issues mentioned separately above, the production and transmission plant investment shown in Table Nos. 1 & 2 below, plus additional pro forma production and transmission investment included in this case (discussed later in my testimony) totaled approximately $82.6 million or 35%[1] of the total change to "gross" plant.

Table No. 1 – Generation Project Costs

Generation Projects [1]	Cost: System / ID (000s)	In-Service Date
Cabinet Gorge Unit 4	$6,200 / $2,119	Mar-07
Noxon Rapids Unit 4	$7,189 / $2,456	Sep-07
Colstrip Unit 4	$2,949 / $1,008	Jun-06
Colstrip Unit 3	$3,760 / $1,285	Jun-07
Total	$20,098 / $6,868	

[1] The additional generation from the Cabinet Gorge Unit 4 and Colstrip Units 3 & 4 project upgrades has been included in the AURORA model as discussed by Company witness Mr. Kalich.

[1] Also included in the 35% of gross plant additions is the $19.5 million of Idaho's share of the purchase of the Rathdrum CT project in September 2005, previously leased by the Company. The Rathdrum CT is fully reflected in the Company's 2007 test period results.

Table No. 2– Transmission Project Costs

5-Year Transmission Upgrade Projects completed through December 31, 2007

Transmission Projects	Cost: System / ID (000s) [2]
Pine Creek Substation	$4,745 / $1,637
Beacon-Rathdrum 230 kV	$19,991 / $6,912
Dry Creek Substation	$14,454 / $5,016
Beacon-Bell #4 230 kV	$1,431 / $496
Beacon-Bell #5 230 kV	$3,657 / $1,271
Spokane Valley Reinforcement	$23,623 / $$8,191
WoH Telecom	$8,184 / $2,843
WoH Telecom Line Upgrades	$966 / $$331
Clark Fork RAS	$1,071 / $371
Palouse Reinforcement [1]	$54,658 / $19,016
Lolo Substation [1]	$2,139 / $755
Total	$134,919 / $46,840

[1] Additional costs of approximately $1.5 (System) for Palouse Reinforcement ($800k) and Lolo Substation ($700k) are planned for 2008 and included in the Pro Forma Capital Additions 2008 adjustment (PF7) explained later in my testimony.
[2] Amount allocated to Idaho varies by year costs placed in service.

The specific historical and pro forma capital expenditures undertaken by the Company to upgrade its generation and transmission facilities, and improve operating efficiency and reliability, are discussed further by Mr. Vermillion regarding production assets, and Mr. Kinney regarding transmission assets. Mr. Kinney also discusses the pro forma distribution projects.

Q. What other rate base additions are included in Total Rate Base?

A. Distribution "gross" plant increased $107.2 million or 41.7% above the current level included in rates, mostly due to 11% average customer growth from 2002 through

2007 and the inclusion of the AMR project investment, while general "gross" plant increased $19.1 million or 52.2%[2].

Later in my testimony, I will address each of the relicensing and compliance pro forma adjustments, and the additional net rate base adjustments labeled "Pro Forma Capital Additions 2007" and "Pro Forma Capital Additions 2008" included in Exhibit No. 13, Schedule 1 page 8, which explains the detail behind the normalizing and pro forma net operating income and rate base adjustments.

The figures listed above are "gross" plant investment changes. Again, taking into account increases to Accumulated Depreciation and Amortization and Deferred Federal Income Tax offsets, produces the net $102.5 million, or 23% increase to Total Rate Base. Depreciation expense, which has largely followed the 32% growth in gross plant-in-service, has increased $8.8 million.

Q. Company witness Mr. DeFelice sponsors the pro forma capital adjustments included in this case. Could you please briefly describe the conclusions drawn by Mr. DeFelice on the reasons for increased capital investment?

A. Yes. As described in Mr. DeFelice's testimony,

[2] Included in the $19.1 million of General "gross" plant additions is the $4.5 million of Idaho's share of the purchase of the main office building in November 2005, previously leased by the Company. The main office building is fully reflected in the Company's 2007 test period results.

the Company is facing high levels of capital investment in its electric and gas system infrastructure to address customer growth, replacement and maintenance of Avista's aging system, and increased reliability and safety requirements. As soon as this new plant is placed in service, the Company must start depreciating the new plant and incur other costs related to the investment. However, the Company does not begin to recover the cost of the new plant or a return on that investment in rates until the next rate case after it makes the investment. Unless this new investment is reflected in retail rates in a timely manner, it has a negative impact on Avista's earnings, particularly because the new plant is typically far more costly to install than the cost of similar plant that was embedded in rates decades earlier.

Revenue Requirement

Q. Would you please explain what is shown in Exhibit No. 13, Schedule 1?

A. Yes. Exhibit No. 13, Schedule 1 shows actual and pro forma electric operating results and rate base for the test period for the State of Idaho. Column (b) of page 1 of Exhibit No. 13, Schedule 1 shows 2007 operating results and components of the average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is pro forma results of operations, all under existing rates. Column (e) shows the revenue increase required which would allow the Company to earn an 8.74% rate of return. Column (f) reflects pro forma electric operating results with the requested increase of $32,328,000. The restating adjustments shown in columns *c* through *v*, of pages 4 through 7 of Exhibit No. 13, Schedule 1, are consistent with the treatment reflected in the prior Commission Order in Case No. AVU-E-04-1 and current regulatory principles.

Q. Would you please explain page 2 of Exhibit No. 13, Schedule 1?

A. Yes. Page 2 shows the calculation of the $32,328,000 revenue requirement at the requested 8.74% rate of return.

Q. Would you now please explain page 3 of Exhibit No. 13, Schedule 1?

A. Yes. Page 3 shows the derivation of the net operating income to gross revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Idaho State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 4 through 9 of your Exhibit No. 13, Schedule 1, would you please explain what those pages show?

A. Yes. Page 4 begins with actual operating results and rate base for the 2007 test period in column (b). Individual normalizing adjustments that are standard components of our annual reporting to the Commission begin in column (c) on page 4 and continue through column (v) on page 7. Individual pro forma and additional normalizing adjustments begin in column (PF1) on page 7 and continue through column (PF15) on page 9. The final column on page 9 (PFT) is the total pro forma operating results and rate base for the test period.

Standard Commission Basis Adjustments

Q. Would you please explain each of these adjustments, the reason for the adjustment and its effect on test period State of Idaho net operating income and/or rate base?

A. Yes, but before I begin, I will note that in addition to the explanation of adjustments provided herein, the Company has also provided workpapers outlining additional details related to each of the adjustments.

The first adjustment, column (c) on page 4, entitled **Deferred FIT Rate Base**, reflects the rate base reduction for Idaho's portion of deferred taxes. The adjustment reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or

ACRS, and Modified Accelerated Cost Recovery, or MACRS), bond refinancing premiums, and contributions in aid of construction. These amounts are reflected on the average of monthly average balance basis. The effect on Idaho rate base is a reduction of $80,527,000.

The adjustment in column (d), **Deferred Gain on Office Building**, reflects the rate base reduction for Idaho's portion of the net of tax, unamortized gain on the sale of the Company's general office facility. The facility was sold in December 1986 and leased back by the Company. Although the Company repurchased the building in November 2005, the Company opted to continue to amortize the deferred gain over the remaining amortization period scheduled to end in 2011. The effect on Idaho rate base is a reduction of $196,000.

The adjustment in column (e), **Colstrip 3 AFUDC Elimination**, is a reallocation of rate base and depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-82-10, the Washington Utilities and Transportation Commission (WUTC) allowed the Company a return on a portion of Colstrip Unit 3 construction work in progress ("CWIP"). A much smaller amount of Colstrip Unit 3 CWIP was allowed in rate base in Case U-1008-144 by the IPUC. The Company eliminated the AFUDC associated with the portion of CWIP allowed in rate base in each jurisdiction.

Since production facilities are allocated on the Production/Transmission formula, the allocation of AFUDC is reversed and a direct assignment is made. The rate base adjustment reflects the average of monthly averages amount for 2007. The effect on Idaho net operating income is a decrease of $225,000. The effect of the reallocation on Idaho rate base is an increase of $2,342,000.

The adjustment in column (f), **Colstrip Common AFUDC**, is also associated with the Colstrip plants in Montana, and increases rate base. Differing amounts of Colstrip common facilities were excluded from rate base by this Commission and the WUTC until Colstrip Unit 4 was placed in service. The Company was allowed to accrue AFUDC on the Colstrip common facilities during the time that they were excluded from rate base. It is necessary to directly assign the AFUDC because of the differing amounts of common facilities excluded from rate base by this Commission and the WUTC. In September 1988, an entry was made to comply with a Federal Energy Regulatory Commission ("FERC") Audit Exception, which transferred Colstrip common AFUDC from the plant accounts to account 186. These amounts reflect a direct assignment of rate base for the appropriate average of monthly averages amounts of Colstrip common AFUDC to the Washington and Idaho jurisdictions. Amortization expense associated with the Colstrip common AFUDC is charged directly to the Washington and Idaho jurisdictions through Account 406 and is a component of the actual results of operations. The rate base adjustment reflects the average of monthly averages amount for 2007. The effect on Idaho rate base is an increase of $976,000.

The adjustment in column (g), **Kettle Falls & Boulder Park Disallowances**, decreases rate base. The amounts reflect the Kettle Falls generating plant disallowance ordered by this Commission in Case No. U-1008-18-5 and the Boulder Park plant disallowance ordered by the IPUC in case No. AVU-E-04-1. This Commission disallowed a rate of return on $3,009,445 of investment in Kettle Falls, and $2,600,000 million of investment in boulder Park. The disallowed investment and related accumulated depreciation are removed. These amounts are a component of actual results of operations. The effect on Idaho rate base is a decrease of $2,349,000.

The adjustment in column (h), **Customer Advances**, decreases rate base for moneys advanced by customers for line extensions, as they will most likely be recorded as contributions in aid of construction at some future time. The effect on Idaho rate base is a decrease of $765,000.

Q. Please turn to page 5 and explain the adjustments shown there.

A. Page 5 starts with the adjustment in column (i), **Weatherization and DSM Investment**, which includes in rate base balances (net of amortization) of weatherization grants, the model conservation program costs and electric demand side management (DSM) program costs upon which AFUCE is no longer being accrued and full amortization was implemented beginning August 1994. These amounts are a component of actual results of operations. The effect on Idaho rate base is an increase of $2,630,000.

Q. Would you please explain how energy efficiency-related expenditures impact the revenue requirement in this case?

A. Yes. The unamortized balance of energy efficiency management investment incurred prior to 1995 is included in the results of operations and is a rate base item in the column (i) adjustment just described. DSM expenditures incurred after March 13, 1995 have been offset by revenues from the Company's energy efficiency tariff rider, Schedule 91, and are not included in the revenue requirement.

As the Commission is aware, the Company's tariff rider under Schedule 91 was the first non-bypassable distribution charge in the United States to fund energy efficiency. Mr. Folsom provides additional detail and addresses the prudence of the expenditures under this tariff.

Q. Please continue with your explanation of the adjustments on page 5.

A. The next column entitled **Subtotal Actual** represents actual operating results and rate base plus the standard rate base adjustments that are included in Commission Basis reporting.

The adjustment in column (j), **Depreciation True-up**, reflects a decrease in depreciation expense due to the utilization of new depreciation rates effective January 1, 2008 as approved by Order No. 30498 in Case No. AVU-E-07-11. This adjustment increases Idaho net operating income by $492,000.

The adjustment in column (k), **Eliminate B & O Taxes**, eliminates the revenues and expenses associated with local business and occupation (B & O) taxes, which the Company is allowed to pass through to its Idaho customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to decrease Idaho net operating income by $5,000.

The adjustment in column (l), **Property Tax**, restates the 2007 test period accrued levels of property taxes to the most current information available and eliminates any adjustments related to the prior year. The effect of this particular adjustment is to increase Idaho net operating income by $164,000.

The adjustment in column (m), **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to increase Idaho net operating income by $77,000.

The adjustment in column (n), **Regulatory Expense**, restates recorded 2007 regulatory expense to reflect the IPUC assessment rates applied to revenues for the test period and the actual levels of FERC fees paid during the test period. The effect of this adjustment is to decrease Idaho net operating income by $20,000.

Q. Please turn to page 6 and explain the adjustments shown there.

A. The adjustment in column (o), **Injuries and Damages**, is a restating adjustment that replaces the accrual with the six-year rolling average of actual injuries and damages payments not covered by insurance. A six-year rolling average and the reserve method of accounting for injuries and damages, net of insurance proceeds, is a practical methodology to deal with these normal utility operating expenses that happen to occur on an irregular basis and differ markedly in materiality.

This methodology was accepted by the Idaho Commission in Case No. WWP-E-98-11. The effect of this adjustment is to decrease Idaho net operating income by $22,000.

The adjustment in column (p), **FIT**, adjusts the FIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items, matching the jurisdictional allocation of other Schedule M items to related Results of Operations allocations and to adjust the production tax credits for pro forma qualified generation. This adjustment also reflects the proper level of deferred tax expense for the test period. The net effect of this adjustment, all based upon a Federal tax rate of 35%, is to increase Idaho net operating income by $91,000.

The adjustment in column (q), **Idaho PCA,** removes the effects of the financial accounting for the Power Cost Adjustment (PCA). The PCA normalizes and defers certain power supply costs on an ongoing basis between general rate filings. When the deferral balance reaches a certain trigger level, the balance is either returned (refunded) or charged (surcharged) to customers through a special temporary tariff. Revenue adjustments due to the special tariff and the power cost deferrals affect actual results of operations and need to be eliminated to produce a normal period. Actual revenues and power supply costs are normalized in adjustments in column (u) and column (PF1), respectively. The effect of this adjustment is to decrease Idaho net operating income by $10,888,000.

The adjustment in column (r), **Nez Perce Settlement Adjustment**, reflects a decrease in Production operating expenses. An agreement was entered into between the Company and the Nez Perce Tribe to settle certain issues regarding earlier owned and operated hydroelectric generating facilities of the Company. This adjustment directly assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is necessary due to differing regulatory treatment in Idaho Case No. WWP-E-98-11 and Washington Docket No. UE-991606. The effect of this adjustment is to increase Idaho net operating income by $8,000.

The adjustment in column (s), **Eliminate A/R Expenses**, A/R representing Accounts Receivable, removes expenses associated with the sale of customer accounts receivable. The effect of this adjustment is to increase Idaho net operating income by $337,000.

The adjustment in column (t), **Clark Fork PM&E,** adjusts the level of amortization expense based on the balancing account method currently authorized by the Commission for the Clark Fork Protection, Mitigation, and Enhancement (PM&E) expenses, to the Company's proposed level of expense. In this case, the Company is requesting the

Commission approve its proposed change to the Idaho accounting for Clark Fork PM&E expenses to allow for flow through of actual expenditures, and include a 5-year amortization of the remaining expected outstanding balance in the balancing account at December 31, 2008. The effect of this adjustment is to decrease Idaho net operating income by $336,000.

The adjustment in column (u), **Revenue Normalization**, is a 3-fold adjustment taking into account known and measurable changes that include revenue normalization, weather normalization and a recalculation of unbilled revenue. Revenues associated with the Schedule 91 Tariff Rider and Schedule 59 Residential Exchange are excluded from pro forma revenues, and the related amortization expense is eliminated as well. Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to decrease Idaho net operating income by $632,000.

Q. Please continue on page 7 with your explanations of the adjustments.

A. The adjustment in column (v), **Restate Debt Interest**, restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Company witness Mr. Malquist, and applied to Idaho's pro forma level of rate base, produces a pro forma level of tax deductible interest expense. The

Federal income tax effect of the restated level of interest for the test period decreases Idaho net operating income by $683,000.

The adjustment in the column entitled **Restated Total**, subtotals all the preceding columns (b) through column (v), exclusive of the previously discussed subtotal column. These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its Commission Basis reports except power supply.

Pro Forma Adjustments

Q. Please explain the significance of the 15 columns subsequent to column entitled Restated Total that begin at page 7 in your Exhibit No. 13, Schedule 1.

A. The adjustments subsequent to the Restated Total column are pro forma adjustments that recognize the jurisdictional impacts of items that will impact the pro forma operating period levels for known and measurable changes. They encompass revenue and expense items as well as additional capital projects. These adjustments bring the operating results and rate base to the final pro forma level for the rate year.

Q. Please continue with your explanation of the adjustments starting on page 7, subsequent to the Restated Total column.

A. The adjustment in column (PF1), **Pro Forma Power Supply**, was made under the direction of Mr. Johnson and is explained in detail in his testimony. This adjustment includes pro forma power supply related revenue and expenses (net of the "rate mitigation adjustment" explained by Company witness Mr. Kalich) to reflect the twelve-month period January 1, 2009 through December 31, 2009. Mr. Johnson's testimony outlines the system level of pro forma power supply details that are included in this adjustment. This adjustment calculates the Idaho jurisdictional share of those figures included in the base Results of Operations. The net effect of the power supply adjustments decreases Idaho net operating income by $222,000.

The adjustment in column (PF2), **Pro Forma Production Property Adjustment,** adjusts production and transmission revenues, expenses, and rate base by a factor that is the ratio of 2007 Idaho test year retail load divided by 2009 Idaho pro forma rate year retail load. The adjustment is made to avoid the over-recovery of production and transmission costs, since the revenue requirement associated with those costs is being spread to test year retail load. Ms. Knox sponsors this adjustment and discusses its calculation in more detail in her testimony. The effect of this adjustment on Idaho net operating income is an increase of $3,845,000. The effect on Idaho rate base is a decrease of $15,426,000.

The adjustment in column (PF3), **Pro Forma Labor-Non-Exec**, reflects known and measurable changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in PF4. Test period wages and salaries are restated as if the wage and salary increases through March 2009 were in place during the entire pro forma test period. The methodology behind this adjustment is consistent with that used in the last general case, Case No. AVU-E-04-1. The effect of this adjustment on Idaho net operating income is a decrease of $777,000.

The adjustment in column (PF4), **Pro Forma Labor-Executive**, reflects known and measurable changes to executive compensation, restating their salaries as if wage and salary increases through March 2009 were in place for the entire pro forma test period. This adjustment takes into account changes in executive staffing made during 2007 and includes compensation for the planned executive team in 2009 only. Compensation costs for non-utility operations are excluded as executives routinely charge a portion of their time to non-utility operations, commensurate with the amount of time spent on such activities. The current executives' salary allocations are set at their expected pro forma test period utility/non-utility percentage splits. The methodology behind this adjustment is consistent with that used in the last general case, Case No. AVU-E-04-1. The impact of this adjustment on Idaho net operating income is a decrease of $85,000.

The adjustment in column (PF5), **Pro Forma Transmission Rev/Exp,** was made under the direction of Mr. Kinney and is explained in detail in his testimony. This adjustment includes pro forma transmission-related revenues and expenses to reflect the twelve-month period January 1, 2009 through December 31, 2009. The net effect of the transmission revenue and expense adjustments decreases Idaho net operating income by $265,000.

Q. Please turn to page 8 and explain the adjustments shown there.

A. The adjustment in column (PF6), **Pro Forma Capital Additions 2007**, pro forms in the capital cost and expenses associated with adjusting the 2007 average-monthly-average plant related balances to actual end-of-period balances for plant in service at December 31, 2007. The capital costs have been included for December 31, 2007 pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment was made under the direction of Mr. DeFelice and is described further in his testimony. The production property adjustment is also applied to the production and transmission components of these additions as discussed further by Ms. Knox. This adjustment decreases Idaho net operating income by $120,000 and increases rate base by $17,776,000.

The adjustment in column (PF7), **Pro Forma Capital Additions 2008**, pro forms in the capital cost and expenses associated with pro forming in capital expenditures for 2008. This adjustment includes projects completed during 2008, and thus were normalized to reflect annual amounts, and projects expected to be completed and transferred to plant-in-service by December 31, 2008, near the time of approval of new retail rates in this case. The capital costs have been included for the appropriate pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment also reduces the 2007 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2008 adjusted balance. This adjustment was also made under the direction of Mr. DeFelice and is described further in his testimony. The production property adjustment is also applied to the

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incentive payout that was "not" based on the Customer Satisfaction and Reliability targets. This pro forma adjustment further adjusts incentive expenses to a 6 year average. The impact of this adjustment on Idaho net operating income is a decrease of $137,000.

Q. Please explain how the Company computed its 6-year average.

A. Actual incentives paid and the associated payroll taxes accrued for years 2002 through 2006 were adjusted by the Consumer Price Index (CPI) annual average for the calendar year the incentives were paid, to reflect those costs in 2007 dollars. The computed six-year average of 2002 through 2007 incentives was compared to 2007 test year incentives paid to determine the pro forma adjustment.

Q. Please explain other examples where the use of an average has been used by the Company to determine the appropriate level of revenue or expense to include in its general rate case filings?

A. A few examples come to mind regarding transmission revenue adjustments. For example, the Company uses a five-year average for OASIS wheeling revenues because these revenues vary year to year depending on electric energy market conditions. Avista has, in the current and previous rate cases, used the most recent five-year average as being representative of future expectations unless there are known events or factors that occurred during the period that would cause the average to not be representative of future expectations.

A second transmission revenue example includes the adjustment for Dry Gulch revenue. The current methodology used to normalize Dry Gulch revenue is a five-year average of actual revenue. A five-year average is used since the revenue can vary from year to year. The revenue is calculated using a 12-month rolling ratchet based on monthly peak demands. Load peaks are very sensitive to temperatures, which vary from year to year.

A third example, regarding injuries and damages expense, includes the restating adjustment described earlier in my testimony that replaces the amount accrued in the test period with a six-year rolling average of actual payments for injuries and damages not covered by insurance.

Q. Why did the Company choose to use a 6-year average?

A. Since company incentive plan payouts often can vary year-to-year, the Company has chosen to propose an average of annual pay outs. Besides the other examples noted above where a five or six year average has been used, the deciding factor on the use of a 6-year average is that the Company changed its incentive plan in 2002 to be based on Customer Satisfaction and Reliability targets, and the requirement that O&M savings must occur in order for there to be any pay out. This is significantly different than the plans prior to 2002 based on earnings targets of the Company. Therefore, a 6-year average using years 2002 though 2007 seems most appropriate.

Q. Please continue your explanation of the adjustment columns on page 9.

A. The adjustment in column (PF14), **Pro Forma Idaho Advanced Meter Reading (AMR),** includes the capital costs associated with the Company's Idaho AMR project. These costs include actual life-to-date expenditures from January 2005 through December 31, 2007, and 2008 pro forma expenditures through December 31, 2008. In the IPUC's Order No. 29602, in Case No. AVU-E-04-01, the Commission supported the Company's plans to install AMR and authorized the Company-requested deferral accounting treatment for its related investment. Mr. Paulson provides additional details regarding these costs. This adjustment decreases Idaho net operating income by $689,000 and increases rate base by $21,852,000.

The adjustment in column (PF15), **Pro Forma CS2 Levelized Adjustment**, defers a portion of the return on Coyote Springs 2 (CS2) in early years for recovery in later years in order to levelize the revenue requirement on CS2 plant investment over a ten-year period. In the Company's last electric general rate case, Case No. AVU-E-04-1, this method was approved by the IPUC in Order No. 29602. This adjustment restates the test period amount of negative amortization expense, inclusive of the carrying charge on the deferred return, to the amount that will be recorded in the 2009 rate year. The change in deferred income tax expense from the test period to the rate period is also reflected. In the 2009 rate year the deferred return begins to be recovered, although the carrying cost on the deferred return exceeds the recovery of the deferred return for that period. The levelization adjustment is necessary, since the CS2 net plant upon which the levelization adjustment is based, is proformed to the rate period. Hence, the levelization adjustment also needs to be proformed to the rate period. This adjustment reduces net operating income by $140,000.

The last column, Pro Forma Total, reflects total 2007 pro forma results of operations and rate base consisting of 2007 actual results and the total of all adjustments.

Q. Referring back to page 1, line 42, of Exhibit No. 13, Schedule 1, what was the actual and pro forma electric rate of return realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 7.20%. The pro forma rate of return is

4.97% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.74% 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 electric operations to allow the Company an opportunity to earn its proposed 8.74% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $20,676,000, as shown on line 5, page 2 of Exhibit No. 13, Schedule 1. The resulting revenue requirement is shown on line 7 and amounts to $32,328,000, or an increase of 16.73% over pro forma general business revenues.

IV. NATURAL GAS SECTION

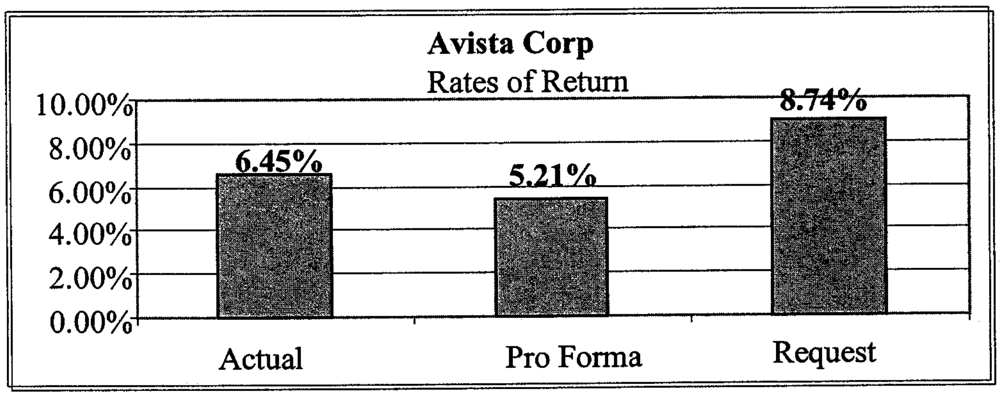
Q. On what test period is the Company basing its need for additional natural gas revenue?

A. The test period being used by the Company is the twelve-month period ending December 31, 2007, presented on a pro forma basis. Currently authorized rates are based upon the 2002 test year utilized in case No. AVU-G-04-1.

Q. Could you please explain the different rates of return shown in your natural gas results presented in your testimony?

A. Yes. As discussed previously in the Electric Section, there are three different rates of return calculated. The actual ROR earned by the Company during the test period, the Pro Forma ROR determined in my Exhibit No. 13, Schedule 2, and the requested ROR. For convenience of comparison, please refer to Chart No. 3 below depicting these results for the Natural Gas Section:

<u>Chart No. 3</u>



Q. What are the primary factors driving the Company's need for additional natural gas revenues?

A. The Company's natural gas request is driven by changes in various operating cost components, but primarily the addition of the Jackson Prairie expansion and the completion of the Advanced Meter Reading projects, both planned for completion in the fourth quarter of 2008. This causes an increase in the fixed costs of providing gas service to customers. Mr. Vermillion further discusses the JP Expansion project in his testimony, while Mr. Paulson discusses the AMR project. I describe the pro forma adjustments included in this case later in my testimony.

Revenue Requirement

Q. Would you please explain what is shown in Exhibit No. 13, Schedule 2?

A. Exhibit No. 13, Schedule 2 shows actual and pro forma gas operating results and rate base for the test period for the State of Idaho. Column (b) of page 1 of Exhibit No. 13, Schedule 2 shows 2007 operating results and components of the average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is pro forma results of operations, all under existing rates. Column (e) shows the revenue increase required which would allow the Company to earn an 8.74% rate of return. Column (f) reflects pro forma gas operating results with the requested increase of $4,725,000.

Q. Would you please explain page 2 of Exhibit No. 13, Schedule 2?

A. Yes. Page 2 shows the calculation of the $4,725,000 revenue requirement at the requested 8.74% rate of return.

Q. Would you now please explain page 3 of Exhibit No. 13, Schedule 2?

A. Yes. Page 3 shows the derivation of the net operating income to gross revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Idaho State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 4 through 7 of your Exhibit No. 13, Schedule 2, would you please explain what those pages show?

A. Yes. Page 4 begins with actual operating results and rate base for the 2007 test period in column (b). Individual normalizing adjustments that are standard components of our annual reporting to the Commission begin in column (c) on page 4 and continue through column (q) on page 6. Individual pro forma and additional normalizing adjustments begin in column (PF1) on page 6 and continue through column (PF7) on page 7. The final column on page 7 is the total pro forma operating results and rate base for the test period. Additional details related to each adjustment described below are provided in accompanying work papers.

Standard Commission Basis Adjustments

Q. Would you please explain each of these adjustments, the reason for the adjustment and its effect

on test period State of Idaho net operating income and/or rate base?

A. Yes, but before I begin, I will note that in addition to the explanation of adjustments provided herein, the Company has also provided workpapers outlining additional details related to each of the adjustments. The restating adjustments shown in columns *c* through *q* are consistent with methodologies employed in our prior cases and current regulatory principles.

The first adjustment, column (c) on page 4, entitled **Deferred FIT Rate Base**, reflects the rate base reduction for Idaho's portion of deferred taxes. The adjustment reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS), bond refinancing premiums, and contributions in aid of construction. These amounts are reflected on the average of monthly average balance basis. The effect on Idaho rate base is a reduction of $13,209,000.

The adjustment in column (d), **Deferred Gain on Office Building**, reflects the rate base reduction for Idaho's portion of the net of tax, unamortized gain on the sale of the Company's general office facility. The facility was sold in December 1986 and leased back by the Company. Although the Company repurchased the building in November

2005, the Company opted to continue to amortize the deferred gain over the remaining amortization period scheduled to end in 2011. The effect on Idaho rate base is a reduction of $63,000.

The adjustment in column (e), **Gas Inventory**, reflects the adjustment to rate base for the average of monthly average value of gas stored at the Company's Jackson Prairie underground storage facility. The effect on Idaho rate base is an increase of $2,171,000.

The adjustment in column (f), **Weatherization and DSM Investment**, includes in rate base the balance (net of amortization) of company investments in natural gas demand side management (DSM) program costs. These amounts are a component of actual results of operations. The effect of this adjustment is to increase Idaho rate base by $355,000.

The adjustment in column (g), entitled **Customer Advances**, decreases rate base for funds advanced by customers for line extensions, as they are generally recorded as contributions in aid of construction at some future time. The effect of this adjustment on Idaho rate base is a decrease of $74,000.

The column labeled **Subtotal Actual**, is a subtotal of columns (b) through (g) and reflects the standard rate base adjustments that are included in Commission Basis reporting.

Q. Please turn to page 5 and explain the adjustments shown there.

A. The first adjustment on page 5 in column (h), entitled **Depreciation True-up**, reflects a decrease in depreciation expense due to the utilization of new depreciation rates effective January 1, 2008 as approved in Order No. 30498 in Case No. AVU-G-07-03. This adjustment increases Idaho net operating income by $97,000.

The adjustment in column (i), entitled **Weather Normalization & Gas Cost Adjustment**, is a 3-fold adjustment taking into account known and measurable changes that include revenue normalization, which reprices customer usage under presently effective rates, as well as weather normalization and an unbilled revenue calculation. Associated gas costs are replaced with gas costs computed using normalized volumes at the currently effective "weighted average cost of gas," or WACOG rates. Revenues associated with the Schedule 191 Tariff Rider are excluded from pro forma revenues, and the related amortization expense is eliminated as well. Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to decrease Idaho net operating income by $42,000.

The adjustment in column (j), **Eliminate B & O Taxes**, eliminates the revenues and expenses associated with local business and occupation taxes, which the Company passes through to customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O Taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to decrease Idaho net operating income by $1,000.

The adjustment in column (k), **Property Tax**, restates the 2007 test period accrued levels of property taxes to the most current information available and eliminates any adjustments related to the prior year. The effect of this particular adjustment is to increase Idaho net operating income by $12,000.

The adjustment in column (l), **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to increase Idaho net operating income by $94,000.

The adjustment in column (m), entitled **Regulatory Expense Adjustment**, restates recorded 2007 regulatory expense to reflect the IPUC assessment rates applied to revenues for the test period. The effect of this adjustment is to increase Idaho net operating income by $1,000.

Q. Please turn to page 6 and explain the adjustments shown there.

A. The first adjustment on page 6 in column (n), entitled **Injuries and Damages**, is a restating adjustment that replaces the accrual with actuals to obtain the six-year rolling average of injuries and damages payments not covered by insurance. This methodology was accepted by the Idaho Commission in Case No. WWP-E-98-11. The effect of this adjustment is to decrease Idaho net operating income by $53,000.

The adjustment in column (o), entitled **FIT**, adjusts the FIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items and matches the jurisdictional allocation of other Schedule M items to related Results of Operations allocations. This adjustment also reflects the proper level of deferred tax expense for the test period. The effect of this adjustment, all based upon a Federal tax rate of 35%, is to increase Idaho net operating income by $9,000.

The adjustment in column (p), **Eliminate A/R Expenses**, A/R representing Accounts Receivable, removes expenses associated with the sale of customer accounts receivable. The effect of this adjustment is to increase Idaho net operating income by $48,000.

The adjustment in column (q), **Restate Debt Interest**, restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Mr. Malquist, and applied to Idaho's pro forma level of rate base, produces a pro forma level of tax deductible interest expense. The federal income tax effect of the restated level of interest for the test period decreases Idaho net operating income by $26,000.

The next column on page 6, entitled **Restated Total**, subtotals all the preceding columns (b) through column (q), exclusive of the previously discussed subtotal column. These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its annual Commission Basis reports.

Pro Forma Adjustments

Q. Please explain the significance of the 7 columns subsequent to the Restated Total column on pages 6 and 7 of your Exhibit No. 13, Schedule 2.

A. The adjustments starting on page 6 are pro forma adjustments to reflect known and measurable changes between the test period and the pro forma period. In this case, they encompass revenue and expense items, and natural gas capital projects. These adjustments bring the operating results and rate base to the final pro forma level for the test year.

Q. Please continue with your explanation of the adjustments on page 6.

A. The adjustment in column (PF1), **Pro Forma Labor-Non-Exec**, reflects known and measurable changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in PF2. Test period wages and salaries are restated as if the wage and salary increases through March 2009 were in place during the entire pro forma test period. The methodology behind this adjustment is consistent with that used in Case No. AVU-G-04-1. The effect of this adjustment on Idaho net operating income is a decrease of $191,000.

The adjustment in column (PF2), **Pro Forma Labor-Executive**, reflects known and measurable changes to executive compensation, restating their salaries as if wage and salary increases through March 2009 were in place for the entire pro forma test period. This adjustment takes into account changes in executive staffing made during 2007 and includes compensation for the planned executive team in 2009 only. Compensation costs for non-utility operations are excluded as executives routinely charge a portion of their time to non-utility operations, commensurate with the amount of time spent on such activities. The current executives' salary allocations are set at their expected pro forma test period utility/non-utility percentage splits. The impact of this adjustment on Idaho net operating income is a decrease of $21,000.

Q. Please turn to page 7 and explain the adjustments shown there.

A. The first adjustment on page 7, in column (PF3), **Pro Forma JP Storage**, decreases Idaho net operating income by $521,000 and increases rate base by $7,238,000.

Q. Could you please explain the purpose and the breakdown of the Jackson Prairie Storage Pro Forma Adjustment components?

A. Yes. The JP Storage adjustment is necessary because the storage capacity and deliverability associated with the Jackson Prairie (JP) Storage facility will increase markedly from the 2007 test year. The increased storage has implications on revenues, expenses, rate base, and inventory levels associated with this filing.

Q. Please describe the capacity portion of the Storage Adjustment.

A. In April of 2007, Avista ended its natural gas storage release contract with Cascade Natural Gas, effectively recouping storage capacity of its JP Storage facility. Similarly, Avista will end its release contract with Terasen Gas in April of 2008. The revenues from these two release contracts have been eliminated from the test period. The net effect of the elimination of these contracts is to decrease Idaho "other revenues" by $695,000.

Q. How much 2009 storage will the Company have and how was the JP Storage inventory valued?

A. The Company will be able to store approximately 5.2 million Dth during the 2009 pro forma period, a significant increase over the 2007 test year. The JP inventory adjustment puts a valuation on the total JP Storage inventory and adjusts the pro forma rate base accordingly. Monthly gas purchases are assumed from April to September, and are based on an estimated daily Dth injection schedule. The cost of the purchased gas is estimated using 60-day historical average (Nov. 16, 2007 to Feb. 14, 2008) forward monthly prices (including fuel cost adders). The acquisition amount/percentage by gas supply basin (AECO, Sumas, Rockies) was estimated using estimated load requirements and available pipeline transportation capacity each day during the injection period. The resulting gas inventory is valued each month using the weighted average cost method.

The net effect of the adjustment is to increase gas inventory by $4 million, from $2.2 million to $6.2 million for the 2009 pro forma period.

Q. Please describe the deliverability portion of the Storage Adjustment.

A. In addition to the recouped storage, a multi-year expansion project at the JP Storage facility is expected to go into service November of 2008. The $16.2 million deliverability component of the project is 75% assignable to the Washington and Idaho service territories, and is allocated to Idaho at 27.91% based on system contract demand. Assuming an in-service date of November 2008 and related depreciation and deferred taxes through the 2009 pro forma period, the Idaho portion of rate base is $3.4 million. Depreciation and property tax expense increased Idaho expense by approximately $115,000.

The benefits to customers associated with the recall of storage from Cascade and Terasen, as well as the deliverability expansion, will be flowed through to customers, dollar-for-dollar, (100%) through the Purchased Gas Adjustment (PGA) mechanism.

Mr. Vermillion discusses the JP Expansion project in more detail in his direct testimony.

Q. Please continue with your explanation of the adjustments on page 7.

A. The adjustment in column (PF4), **Pro Forma Capital Additions 2007**, pro forms in the capital cost and expenses associated with adjusting the 2007 average-monthly-average plant related balances to actual end-of-period balances for plant in service at December 31, 2007. The capital costs have been included for December 31, 2007 pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment was made under the direction of Mr. DeFelice and is described further in his testimony. This adjustment increases Idaho net operating income by $94,000 and decreases rate base by $2,102,000.

The adjustment in column (PF5), **Pro Forma Capital Additions 2008**, pro forms in the capital cost and expenses associated with pro forming in capital expenditures for 2008. This adjustment includes projects completed during 2008, and thus were normalized to reflect annual amounts, and projects expected to be completed and transferred to plant-in-service by December 31, 2008. The capital costs have been included for their appropriate pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment also reduces the 2007 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2008 adjusted balance. This adjustment was also made under the direction of Mr.

DeFelice and is described further in his testimony. This adjustment decreases Idaho net operating income by $183,000 and increases rate base by $1,232,000.

The adjustment in column (PF6), entitled **Pro Forma Incentives,** adjusts 2007 test year incentive expense to the actual 2007 incentive expense paid in 2008 for the 2007 incentive plan and removes any part of the 2007 executive incentive payout that was not based on the Customer Satisfaction and Reliability targets (as further explained in the Electric Section). This adjustment also pro forms in a 6 year average (as further explained in the Electric Section). The impact of this adjustment on Idaho net operating income is a decrease of $32,000.

The adjustment in column (PF7), **Pro Forma Idaho Advanced Meter Reading (AMR),** includes the capital costs associated with the Company's Idaho AMR project. These costs include actual life-to-date expenditures from January 2005 through December 31, 2007, and 2008 pro forma expenditures through December 31, 2008. In the IPUC's Order No. 29602, in Case No. AVU-G-04-01, the Commission supported the Company's plans to install AMR and authorized the Company-requested deferral accounting treatment for its related investment. Mr. Paulson provides additional details regarding these costs. This adjustment decreases

Idaho net operating income by $228,000 and increases rate base by $6,276,000.

The last column on page 7, **Pro Forma Total**, reflects total 2007 pro forma results of operations and rate base consisting of 2007 actual results and the total of all normalizing and pro forma adjustments.

Q. Referring back to page 1, line 43, of Exhibit No. 13, Schedule 2, what was the actual and pro forma gas rate of return realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 6.45%. The pro forma rate of return is 5.21% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.74% 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 gas operations to allow the Company an opportunity to earn its proposed 8.74% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $3,022,000, as shown on line 5, page 2 of Exhibit No. 13, Schedule 2. The resulting revenue requirement is shown on line 7 and amounts to $4,725,000, or an increase of 5.77% over pro forma general business and transportation revenues.

V. ALLOCATION PROCEDURES

Q. Have there been any changes to the Company's system and jurisdictional procedures since the Company's last general electric and natural gas cases, Case Nos. AVU-E-04-01 and AVU-G-04-01?

A. No. For ratemaking purposes, the Company allocates revenues, expenses and rate base between electric and gas services and between Washington, Idaho, and Oregon jurisdictions where electric and/or gas service is provided. The current methodology was implemented in 1994 and has not changed. Consistent with the accepted allocation methodology, starting in 2005, the Company reflected the reallocation of costs resulting from the sale of the Company's California gas distribution properties in April 2005. To accomplish the reallocation, the Company did not change its 4-Factor allocation methodology; it only eliminated the impact of the California jurisdiction from the gas allocations.

Q. Does that conclude your pre-filed direct testimony?

A. Yes, it does.

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UTILITIES COMMISSION

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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-08-01 CASE NO. AVU-G-08-01 EXHIBIT NO. 13 ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	WITH PRESENT RATES: Actual Per Results Report	WITH PRESENT RATES: Total Adjustments	WITH PRESENT RATES: Pro Forma Total	WITH PROPOSED RATES: Proposed Revenues & Related Exp	WITH PROPOSED RATES: Pro Forma Proposed Total
	a	b	c	d	e	f
	REVENUES					
1	Total General Business	$203,600	$ (10,447)	$193,153	$32,328	$225,481
2	Interdepartmental Sales	117		117		117
3	Sales for Resale	49,082	(20,920)	28,162		28,162
4	Total Sales of Electricity	252,799	(31,367)	221,432	32,328	253,760
5	Other Revenue	9,801	(6,574)	3,227		3,227
6	Total Electric Revenue	262,600	(37,941)	224,659	32,328	256,987
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	62,402	(4,279)	58,123		58,123
8	Purchased Power	80,506	(14,480)	66,026		66,026
9	Depreciation and Amortization	12,229	3,372	15,601		15,601
10	Taxes	4,809	(80)	4,729		4,729
11	Total Production & Transmission	159,946	(15,467)	144,479	0	144,479
	Distribution					
12	Operating Expenses	7,924	613	8,537		8,537
13	Depreciation	7,007	2,152	9,159		9,159
14	Taxes	4,045	(2,047)	1,998	368	2,366
15	Total Distribution	18,976	718	19,694	368	20,062
16	Customer Accounting	3,850	(559)	3,291	70	3,361
17	Customer Service & Information	3,892	(2,374)	1,518		1,518
18	Sales Expenses	268	8	276		276
	Administrative & General					
19	Operating Expenses	19,420	689	20,109	81	20,190
20	Depreciation	3,709	133	3,842		3,842
21	Taxes		102	102		102
22	Total Admin. & General	23,129	924	24,053	81	24,134
23	Total Electric Expenses	210,061	(16,750)	193,311	519	193,830
24	OPERATING INCOME BEFORE FIT	52,539	(21,191)	31,348	31,809	63,157
	FEDERAL INCOME TAX					
25	Current Accrual	3,779	(2,749)	1,030	11,133	12,163
26	Deferred Income Taxes	7,044	(3,968)	3,076		3,076
27	Amortized Investment Tax Credit					
28	SETTLEMENT EXCHANGE POWER					
29	NET OPERATING INCOME	$41,716	($14,474)	$27,242	$20,676	$47,918
	RATE BASE					
	PLANT IN SERVICE					
30	Intangible	$11,113	$13,553	$24,666		$24,666
31	Production	353,922	16,173	370,095		370,095
32	Transmission	142,282	19,168	161,450		161,450
33	Distribution	325,452	38,914	364,366		364,366
34	General	46,727	8,806	55,533		55,533
35	Total Plant in Service	879,496	96,614	976,110	0	976,110
36	ACCUMULATED DEPRECIATION	296,956	35,522	332,478		332,478
37	ACCUM. PROVISION FOR AMORTIZATION	3,364	519	3,883		3,883
38	Total Accum. Depreciation & Amort.	300,320	36,041	336,361	0	336,361
39	GAIN ON SALE OF BUILDING		(301)	(301)		(301)
40	DEFERRED TAXES		(91,182)	(91,182)		(91,182)
41	TOTAL RATE BASE	$579,176	($30,910)	$548,266	$0	$548,266
42	RATE OF RETURN	7.20%		4.97%		8.74%

AVISTA UTILITIES
Calculation of General Revenue Requirement
IDAHO - Electric System
TWELVE MONTHS ENDED DECEMBER 31, 2007

Line No.	Description	(000's of Dollars)
1	Pro Forma Rate Base	$548,266
2	Proposed Rate of Return	8.74%
3	Net Operating Income Requirement	$47,918
4	Pro Forma Net Operating Income	$27,242
5	Net Operating Income Deficiency	$20,676
6	Conversion Factor	0.6395623
7	Revenue Requirement	$32,328
8	Total General Business Revenues	$193,270
9	Percentage Revenue Increase	16.73%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO ELECTRIC
TWELVE MONTHS ENDED DECEMBER 31, 2007

Revenue:		*1.000000*
Expense:		
Uncollectibles (1)		*0.002151*
Commission Fees (2)		*0.002491*
Idaho Income Tax (3)		*0.011416*
Total Expense		0.016058
Net Operating Income Before FIT		*0.983942*
Federal Incon	0.35	*0.344380*
REVENUE CONVERSION FACTOR		0.639562

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(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 & Boulder Park Disallow.	Customer Advances
	a	b	c	d	e	f	g	h
	REVENUES							
1	Total General Business	$203,600						
2	Interdepartmental Sales	117						
3	Sales for Resale	49,082						
4	Total Sales of Electricity	252,799	0	0	0	0	0	0
5	Other Revenue	9,801						
6	Total Electric Revenue	262,600	0	0	0	0	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	62,402						
8	Purchased Power	80,506						
9	Depreciation and Amortization	12,229			225			
10	Taxes	4,809						
11	Total Production & Transmission	159,946	0	0	225	0	0	0
	Distribution							
12	Operating Expenses	7,924						
13	Depreciation	7,007						
14	Taxes	4,045						
15	Total Distribution	18,976	0	0	0	0	0	0
16	Customer Accounting	3,850						
17	Customer Service & Information	3,892						
18	Sales Expenses	268						
	Administrative & General							
19	Operating Expenses	19,420						
20	Depreciation	3,709						
21	Taxes							
22	Total Admin. & General	23,129	0	0	0	0	0	0
23	Total Electric Expenses	210,061	0	0	225	0	0	0
24	OPERATING INCOME BEFORE FIT	52,539	0	0	(225)	0	0	0
	FEDERAL INCOME TAX							
25	Current Accrual	3,779						
26	Deferred Income Taxes	7,044						
27	NET OPERATING INCOME	$41,716	$0	$0	($225)	$0	$0	$0
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible	$11,113						
29	Production	353,922			7,452	976	(5,609)	
30	Transmission	142,282						
31	Distribution	325,452						(765)
32	General	46,727						
33	Total Plant in Service	879,496	0	0	7,452	976	(5,609)	(765)
34	ACCUMULATED DEPRECIATION	296,956			5,110		(2,551)	
35	ACCUM. PROVISION FOR AMORTIZATION	3,364						
36	Total Accum. Depreciation & Amort.	300,320	0	0	5,110	0	(2,551)	0
37	GAIN ON SALE OF BUILDING			(301)				
38	DEFERRED TAXES		(80,527)	105			709	
39	TOTAL RATE BASE	$579,176	($80,527)	($196)	$2,342	$976	($2,349)	($765)
40	RATE OF RETURN	7.20%						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Weatherizn and DSM Investment	Subtotal Actual	Depreciation True-up	Eliminate B & O Taxes	Property Tax	Uncollect. Expense	Regulatory Expense
	a	i	-	j	k	l	m	n
	REVENUES							
1	Total General Business		$203,600		$ (2,434)			
2	Interdepartmental Sales		117					
3	Sales for Resale		49,082					
4	Total Sales of Electricity	0	252,799	0	(2,434)	0	0	0
5	Other Revenue		9,801					
6	Total Electric Revenue	0	262,600	0	(2,434)	0	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses		62,402					
8	Purchased Power		80,506					
9	Depreciation and Amortization		12,454	(1,525)				
10	Taxes		4,809			(248)		
11	Total Production & Transmission	0	160,171	(1,525)	0	(248)	0	0
	Distribution							
12	Operating Expenses		7,924					
13	Depreciation		7,007	1,235				
14	Taxes		4,045	9	(2,427)		1	
15	Total Distribution	0	18,976	1,244	(2,427)	0	1	0
16	Customer Accounting		3,850				(119)	
17	Customer Service & Information		3,892					
18	Sales Expenses		268					
	Administrative & General							
19	Operating Expenses		19,420					31
20	Depreciation		3,709	(476)				
21	Taxes					(4)		
22	Total Admin. & General	0	23,129	(476)	0	(4)	0	31
23	Total Electric Expenses	0	210,286	(757)	(2,427)	(252)	(118)	31
24	OPERATING INCOME BEFORE FIT	0	52,314	757	(7)	252	118	(31)
	FEDERAL INCOME TAX							
25	Current Accrual		3,779	265	(2)	88	41	(11)
26	Deferred Income Taxes		7,044					
27	NET OPERATING INCOME	$0	$41,491	$492	($5)	$164	$77	($20)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible		$11,113					
29	Production	2,630	359,371					
30	Transmission		142,282					
31	Distribution		324,687					
32	General		46,727					
33	Total Plant in Service	2,630	884,180	0	0	0	0	0
34	ACCUMULATED DEPRECIATION		299,515					
35	ACCUM. PROVISION FOR AMORTIZATION		3,364					
36	Total Accum. Depreciation & Amort.	0	302,879	0	0	0	0	0
37	GAIN ON SALE OF BUILDING		(301)					
38	DEFERRED TAXES		(79,713)					
39	TOTAL RATE BASE	$2,630	$501,287	$0	$0	$0	$0	$0
40	RATE OF RETURN		8.28%					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Injuries and Damages	FIT	Idaho PCA	Nez Perce Settlement Adjustment	Eliminate A/R Expenses	Clark Fork PM&E	Revenue Normalization Adjustment
	a	o	p	q	r	s	t	u
	REVENUES							
1	Total General Business			$ (5,765)				$ (2,248)
2	Interdepartmental Sales							
3	Sales for Resale							
4	Total Sales of Electricity	0	0	(5,765)	0	0	0	(2,248)
5	Other Revenue							74
6	Total Electric Revenue	0	0	(5,765)	0	0	0	(2,174)
	EXPENSES							
	Production and Transmission							
7	Operating Expenses			11,018	(12)		523	(198)
8	Purchased Power							
9	Depreciation and Amortization							1,401
10	Taxes							
11	Total Production & Transmission	0	0	11,018	(12)	0	523	1,203
	Distribution							
12	Operating Expenses							
13	Depreciation							
14	Taxes					$6	(6)	(11)
15	Total Distribution	0	0	0	0	6	(6)	(11)
16	Customer Accounting			(18)		$ (524)		(6)
17	Customer Service & Information							(2,382)
18	Sales Expenses							
	Administrative & General							
19	Operating Expenses	34		(15)				(5)
20	Depreciation							
21	Taxes							
22	Total Admin. & General	34	0	(15)	0	0	0	(5)
23	Total Electric Expenses	34	0	10,985	(12)	(518)	517	(1,201)
24	OPERATING INCOME BEFORE FIT	(34)	0	(16,750)	12	518	(517)	(973)
	FEDERAL INCOME TAX							
25	Current Accrual	(12)	(54)	(2,006)	4	$181	(181)	(341)
26	Deferred Income Taxes		(37)	(3,856)				
27	NET OPERATING INCOME	($22)	$91	($10,888)	$8	$337	($336)	($632)
	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 RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Restate Debt Interest	Restated TOTAL	Pro Forma Power Supply	Pro Forma Production Property Adj	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Transmission Rev/Exp
	a	v	-	PF1	PF2	PF3	PF4	PF5
	REVENUES							
1	Total General Business		$193,153					
2	Interdepartmental Sales		117					
3	Sales for Resale		49,082	(20,920)				
4	Total Sales of Electricity	0	242,352	(20,920)	0	0	0	0
5	Other Revenue		9,875	(4,624)	(1,550)			(474)
6	Total Electric Revenue	0	252,227	(25,544)	(1,550)	0	0	(474)
	EXPENSES							
	Production and Transmission							
7	Operating Expenses		73,733	(10,719)	(7,465)	446	21	(62)
8	Purchased Power		80,506	(14,480)				
9	Depreciation and Amortization		12,330					
10	Taxes		4,561					
11	Total Production & Transmission	0	171,130	(25,199)	(7,465)	446	21	(62)
	Distribution							
12	Operating Expenses		7,924			320		
13	Depreciation		8,242					
14	Taxes		1,617	(4)		(14)	(2)	(5)
15	Total Distribution	0	17,783	(4)	0	306	(2)	(5)
16	Customer Accounting		3,183			108		
17	Customer Service & Information		1,510			8		
18	Sales Expenses		268			8		
	Administrative & General							
19	Operating Expenses		19,465			319	112	
20	Depreciation		3,233					
21	Taxes		(4)					
22	Total Admin. & General	0	22,694	0	0	319	112	0
23	Total Electric Expenses	0	216,568	(25,203)	(7,465)	1,195	131	(67)
24	OPERATING INCOME BEFORE FIT	0	35,659	(341)	5,915	(1,195)	(131)	(407)
	FEDERAL INCOME TAX							
25	Current Accrual	683	2,434	(119)	2,070	(418)	(46)	(142)
26	Deferred Income Taxes		3,151					
27	NET OPERATING INCOME	($683)	$30,074	($222)	$3,845	($777)	($85)	($265)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible		$11,113					
29	Production		359,371		(15,426)			
30	Transmission		142,282					
31	Distribution		324,687					
32	General		46,727					
33	Total Plant in Service	0	884,180	0	(15,426)	0	0	0
34	ACCUMULATED DEPRECIATION		299,515					
35	ACCUM. PROVISION FOR AMORTIZATION		3,364					
36	Total Accum. Depreciation & Amort.	0	302,879	0	0	0	0	0
37	GAIN ON SALE OF BUILDING		(301)					
38	DEFERRED TAXES		(79,713)					
39	TOTAL RATE BASE	$0	$501,287	$0	($15,426)	$0	$0	$0
40	RATE OF RETURN		6.00%					

CONFIDENTIAL

Avista Utilities
Electric Results of Operations
Idaho Restated Results

This page allegedly contains trade secrets or confidential material and is separately filed.

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Colstrip Mercury Emiss. O&M	Pro Forma Incentives	Pro Forma ID AMR	Pro Forma CS2 Levelized Adj	Pro Forma TOTAL
	a	PF12	PF13	PF14	PF15	PFT
	REVENUES					
1	Total General Business					$193,153
2	Interdepartmental Sales					117
3	Sales for Resale					28,162
4	Total Sales of Electricity	0	0	0	0	221,432
5	Other Revenue					3,227
6	Total Electric Revenue	0	0	0	0	224,659
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	531				58,123
8	Purchased Power					66,026
9	Depreciation and Amortization				215	15,601
10	Taxes					4,729
11	Total Production & Transmission	531	0	0	215	144,479
	Distribution					
12	Operating Expenses					8,537
13	Depreciation			692		9,159
14	Taxes	(6)	(2)	322		1,998
15	Total Distribution	(6)	(2)	1,014	0	19,694
16	Customer Accounting					3,291
17	Customer Service & Information					1,518
18	Sales Expenses					276
	Administrative & General					
19	Operating Expenses		213			20,109
20	Depreciation					3,842
21	Taxes					102
22	Total Admin. & General	0	213	0	0	24,053
23	Total Electric Expenses	525	211	1,014	215	193,311
24	OPERATING INCOME BEFORE FIT	(525)	(211)	(1,014)	(215)	31,348
	FEDERAL INCOME TAX					
25	Current Accrual	(184)	(74)	(325)		1,030
26	Deferred Income Taxes				(75)	3,076
27	NET OPERATING INCOME	($341)	($137)	($689)	($140)	$27,242
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					$24,666
29	Production					370,095
30	Transmission					161,450
31	Distribution			22,253		364,366
32	General					55,533
33	Total Plant in Service	0	0	22,253	0	976,110
34	ACCUMULATED DEPRECIATION					332,478
35	ACCUM. PROVISION FOR AMORTIZATION			332		3,883
36	Total Accum. Depreciation & Amort.	0	0	332	0	336,361
37	GAIN ON SALE OF BUILDING					(301)
38	DEFERRED TAXES			(69)		(91,182)
						0
39	TOTAL RATE BASE	$0	$0	$21,852	$0	$548,266
40	RATE OF RETURN					4.97%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	WITH PRESENT RATES Actual Per Results Report	Total Adjustments	Pro Forma Total	WITH PROPOSED RATES Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	*b*	*c*	*d*	*e*	*f*
	REVENUES					
1	Total General Business	$84,990	$ (3,547)	$81,443	$4,725	$86,168
2	Total Transportation	790	(373)	417		417
3	Other Revenues	28,655	(28,403)	252		252
4	Total Gas Revenues	114,435	(32,323)	82,112	4,725	86,837
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases	89,691	(28,771)	60,920		60,920
7	Purchased Gas Expense	383	18	401		401
8	Net Nat Gas Storage Trans	(162)	162	-		0
9	Total Production	89,912	(28,591)	61,321	0	61,321
	Underground Storage					
10	Operating Expenses	174	0	174		174
11	Depreciation	120	32	152		152
12	Taxes	48	40	88		88
13	Total Underground Storage	342	72	414	0	414
	Distribution					
14	Operating Expenses	3,390	145	3,535		3,535
15	Depreciation	2,663	(45)	2,618		2,618
16	Taxes	2,210	(1,386)	824	54	878
17	Total Distribution	8,263	(1,286)	6,977	54	7,031
18	Customer Accounting	1,937	(167)	1,770	10	1,780
19	Customer Service & Information	1,657	(1,425)	232		232
20	Sales Expenses	207	5	212		212
	Administrative & General					
21	Operating Expenses	4,217	223	4,440	12	4,452
22	Depreciation	689	228	917		917
23	Taxes	12	23	35		35
24	Total Admin. & General	4,918	474	5,392	12	5,404
25	Total Gas Expense	107,236	(30,918)	76,318	76	76,394
26	OPERATING INCOME BEFORE FIT	7,199	(1,405)	5,794	4,649	10,443
	FEDERAL INCOME TAX					
27	Current Accrual	1,915	(428)	1,487	1,627	3,114
28	Deferred FIT	(108)	(34)	(142)		(142)
29	Amort ITC	(18)	0	(18)		(18)
						0
30	NET OPERATING INCOME	5,410	($943)	4,467	$3,022	$7,489
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage	5,327	3,382	8,709		8,709
32	Distribution Plant	111,385	10,374	121,759		121,759
33	General Plant	10,025	2,246	12,271		12,271
34	Total Plant in Service	126,737	16,002	142,739	0	142,739
	ACCUMULATED DEPRECIATION					
35	Underground Storage	2,875	191	3,066		3,066
36	Distribution Plant	36,975	4,813	41,788		41,788
37	General Plant	3,021	1,068	4,089		4,089
38	Total Accum. Depreciation	42,871	6,072	48,943	0	48,943
39	DEFERRED FIT	0	(14,155)	(14,155)		(14,155)
40	GAS INVENTORY	0	6,146	6,146		6,146
41	GAIN ON SALE OF BUILDING	0	(97)	(97)		(97)
42	TOTAL RATE BASE	83,866	$1,824	85,690	$0	$85,690
43	RATE OF RETURN	6.45%		5.21%		8.74%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Gas
TWELVE MONTHS ENDED DECEMBER 31, 2007
(000's OF DOLLARS)

Line No.	Description	IDAHO
1	Pro Forma Rate Base	$85,690
2	Proposed Rate of Return	8.740%
3	Net Operating Income Requirement	$7,489
4	Pro Forma Net Operating Income	$4,467
5	Net Operating Income Deficiency	$3,022
6	Conversion Factor	0.6395623
7	Revenue Requirement	$4,725
8	Total General Business Revenues	$81,860
9	Percentage Revenue Increase	5.77%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO GAS
TWELVE MONTHS ENDED DECEMBER 31, 2007

Revenues	1.000000
Expense:	
Uncollectibles (1)	0.002151
Commission Fees (2)	0.002491
Idaho Income Tax (3)	0.011416
Total Expense	0.016058
Net Operating Income Before FIT	0.983942
Federal Inc 35.00%	0.344380
REVENUE CONVERSION FACTOR	**0.639562**

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED DECEMBER 31, 2007
(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	Customer Advances	Subtotal Actual
	a	b	c	d	e	f	g	-
	REVENUES							
1	Total General Business	$84,990						$84,990
2	Total Transportation	790						790
3	Other Revenues	28,655						28,655
4	Total Gas Revenues	114,435	0	0	0	0	0	114,435
	EXPENSES							
5	Exploration and Development	0						0
	Production							
6	City Gate Purchases	89,691						89,691
7	Purchased Gas Expense	383						383
8	Net Nat Gas Storage Trans	(162)						(162)
9	Total Production	89,912	0	0	0	0	0	89,912
	Underground Storage							
10	Operating Expenses	174						174
11	Depreciation	120						120
12	Taxes	48						48
13	Total Underground Storage	342	0	0	0	0	0	342
	Distribution							
14	Operating Expenses	3,390						3,390
15	Depreciation	2,663						2,663
16	Taxes	2,210						2,210
17	Total Distribution	8,263	0	0	0	0	0	8,263
18	Customer Accounting	1,937			0	0		1,937
19	Customer Service & Information	1,657						1,657
20	Sales Expenses	207						207
	Administrative & General							
21	Operating Expenses	4,217						4,217
22	Depreciation	689						689
23	Taxes	12						12
24	Total Admin. & General	4,918	0	0	0	0	0	4,918
25	Total Gas Expense	107,236	0	0	0	0	0	107,236
26	OPERATING INCOME BEFORE FIT	7,199	0	0	0	0	0	7,199
	FEDERAL INCOME TAX							
27	Current Accrual	1,915						1,915
28	Deferred FIT	(108)						(108)
29	Amort ITC	(18)						(18)
30	NET OPERATING INCOME	$5,410	$0	$0	$0	$0	$0	$5,410
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage	5,327						5,327
32	Distribution Plant	111,385				355	(74)	111,666
33	General Plant	10,025						10,025
34	Total Plant in Service	126,737	0	0	0	355	(74)	127,018
	ACCUMULATED DEPRECIATION							
35	Underground Storage	2,875						2,875
36	Distribution Plant	36,975						36,975
37	General Plant	3,021						3,021
38	Total Accum. Depreciation	42,871	0	0	0	0	0	42,871
39	DEFERRED FIT	0	(13,209)	34				(13,175)
40	GAS INVENTORY	0			2,171			2,171
41	GAIN ON SALE OF BUILDING	0		(97)				(97)
42	TOTAL RATE BASE	$83,866	($13,209)	($63)	$2,171	$355	($74)	$73,046
43	RATE OF RETURN							7.41%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Depreciation True-up	Weather Normalization & Gas Cost Adjust	Eliminate B & O Taxes	Property Tax	Uncollectible Expense	Regulatory Expense Adjustment
	a	h	i	j	k	l	m
	REVENUES						
1	Total General Business		$ (2,042)	$ (1,505)			
2	Total Transportation		(364)	(9)			
3	Other Revenues		(27,708)				
4	Total Gas Revenues	0	(30,114)	(1,514)	0	0	0
	EXPENSES						
5	Exploration and Development						
	Production						
6	City Gate Purchases		(28,771)				
7	Purchased Gas Expense						
8	Net Nat Gas Storage Trans		162				
9	Total Production	0	(28,609)	0	0	0	0
	Underground Storage						
10	Operating Expenses						
11	Depreciation	(23)					
12	Taxes				(11)		
13	Total Underground Storage	(23)	0	0	(11)	0	0
	Distribution						
14	Operating Expenses						
15	Depreciation	(99)					
16	Taxes	2	(1)	(1,512)	(5)	2	
17	Total Distribution	(97)	(1)	(1,512)	(5)	2	0
18	Customer Accounting		(5)	0		(146)	0
19	Customer Service & Information		(1,430)				
20	Sales Expenses						
	Administrative & General						
21	Operating Expenses		(5)				(2)
22	Depreciation	(29)					
23	Taxes				(2)		
24	Total Admin. & General	(29)	(5)	0	(2)	0	(2)
25	Total Gas Expense	(149)	(30,050)	(1,512)	(18)	(144)	(2)
26	OPERATING INCOME BEFORE FIT	149	(64)	(2)	18	144	2
	FEDERAL INCOME TAX						
27	Current Accrual	52	(22)	(1)	6	50	1
28	Deferred FIT						
29	Amort ITC						
30	NET OPERATING INCOME	$97	($42)	($1)	$12	$94	$1
	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 RESTATED RESULTS

TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Injuries and Damages	FIT	Eliminate A/R Expenses	Restate Debt Interest	Restated Total	Pro Forma Labor Non-Exec	Pro Forma Labor Exec
	a	n	o	p	q	-	PF1	PF2
	REVENUES							
1	Total General Business					$81,443		
2	Total Transportation					417		
3	Other Revenues					947		
4	Total Gas Revenues	0	0	0	0	82,807	0	0
	EXPENSES							
5	Exploration and Development					0		
	Production							
6	City Gate Purchases					60,920		
7	Purchased Gas Expense					383	12	6
8	Net Nat Gas Storage Trans					0		
9	Total Production	0	0	0	0	61,303	12	6
	Underground Storage							
10	Operating Expenses					174		
11	Depreciation					97		
12	Taxes					37		
13	Total Underground Storage	0	0	0	0	308	0	0
	Distribution							
14	Operating Expenses					3,390	145	
15	Depreciation					2,564		
16	Taxes	(1)		1		696	(3)	
17	Total Distribution	(1)	0	1	0	6,650	142	0
18	Customer Accounting			(75)		1,711	59	
19	Customer Service & Information					227	5	
20	Sales Expenses					207	5	
	Administrative & General							
21	Operating Expenses	83				4,293	71	26
22	Depreciation					660		
23	Taxes					10		
24	Total Admin. & General	83	0	0	0	4,963	71	26
25	Total Gas Expense	82	0	(74)	0	75,369	294	32
26	OPERATING INCOME BEFORE FIT	(82)	0	74	0	7,438	(294)	(32)
	FEDERAL INCOME TAX							
27	Current Accrual	(29)	25	26	26	2,049	(103)	(11)
28	Deferred FIT		(34)			(142)		
29	Amort ITC					(18)		
30	NET OPERATING INCOME	($53)	$9	$48	($26)	$5,549	($191)	($21)
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage					5,327		
32	Distribution Plant					111,666		
33	General Plant					10,025		
34	Total Plant in Service	0	0	0	0	127,018	0	0
	ACCUMULATED DEPRECIATION							
35	Underground Storage					2,875		
36	Distribution Plant					36,975		
37	General Plant					3,021		
38	Total Accum. Depreciation	0	0	0	0	42,871	0	0
39	DEFERRED FIT					(13,175)		
40	GAS INVENTORY					2,171		
41	GAIN ON SALE OF BUILDING					(97)		
42	TOTAL RATE BASE	$0	$0	$0	$0	$73,046	$0	$0
43	RATE OF RETURN					7.60%		

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED DECEMBER 31, 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma JP Storage	Pro Forma Capital Add 2007	Pro Forma Capital Add 2008	Pro Forma Incentives	Pro Forma AMR	Pro Forma Total
	a	PF3	PF4	PF5	PF6	PF7	-
	REVENUES						
1	Total General Business						$81,443
2	Total Transportation						417
3	Other Revenues	$ (695)					252
4	Total Gas Revenues	(695)	0	0	0	0	82,112
	EXPENSES						
5	Exploration and Development						0
	Production						
6	City Gate Purchases						60,920
7	Purchased Gas Expense						401
8	Net Nat Gas Storage Trans						0
9	Total Production	0	0	0	0	0	61,321
	Underground Storage						
10	Operating Expenses						174
11	Depreciation	$64	(9)				152
12	Taxes	$51					88
13	Total Underground Storage	115	(9)	0	0	0	414
	Distribution						
14	Operating Expenses						3,535
15	Depreciation		(259)	74		239	2,618
16	Taxes	$ (9)	2	47	(1)	92	824
17	Total Distribution	(9)	(257)	121	(1)	331	6,977
18	Customer Accounting						1,770
19	Customer Service & Information						232
20	Sales Expenses						212
	Administrative & General						
21	Operating Expenses				50		4,440
22	Depreciation		121	136			917
23	Taxes			25			35
24	Total Admin. & General	0	121	161	50	0	5,392
25	Total Gas Expense	106	(145)	282	49	331	76,318
26	OPERATING INCOME BEFORE FIT	(801)	145	(282)	(49)	(331)	5,794
	FEDERAL INCOME TAX						
27	Current Accrual	$ (280)	51	(99)	(17)	(103)	1,487
28	Deferred FIT						(142)
29	Amort ITC						(18)
30	NET OPERATING INCOME	($521)	$94	($183)	($32)	($228)	$4,467
	RATE BASE: PLANT IN SERVICE						
31	Underground Storage	$3,399	$ (17)				8,709
32	Distribution Plant		309	3,377		6,407	121,759
33	General Plant		527	1,719			12,271
34	Total Plant in Service	3,399	819	5,096	0	6,407	142,739
	ACCUMULATED DEPRECIATION						
35	Underground Storage	$43	59	89			3,066
36	Distribution Plant		2,307	2,391		115	41,788
37	General Plant		219	849			4,089
38	Total Accum. Depreciation	43	2,585	3,329	0	115	48,943
39	DEFERRED FIT	$ (93)	(336)	(535)		(16)	(14,155)
40	GAS INVENTORY	$3,975					6,146
41	GAIN ON SALE OF BUILDING						(97)
42	TOTAL RATE BASE	$7,238	($2,102)	$1,232	$0	$6,276	$85,690
43	RATE OF RETURN						5.21%