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IDAHO PUBLIC
UTILITIES COMMISSION

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-09-01 CASE NO. AVU-G-09-01 DIRECT TESTIMONY OF ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

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Exhibit No. 10:

Schedule 1 – Electric Revenue Requirement and Results of Operations (pgs 1-11)

Schedule 2 – Natural Gas Revenue Requirement and Results of Operations (pgs 1-8)

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 and a half 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 2008 and 2009 capital additions adjustments, and Mr. Storro explains other issues impacting the Company, such as the increased generation plant capital and operating and maintenance (O&M) expenses, including the Colstrip mercury emissions O&M expense. Company witness Mr. Kinney discusses the transmission net expenses, Asset Management Program expenses, and the transmission and distribution capital expenditures included in Mr. DeFelice's pro forma capital adjustments. Lastly, Company witness Mr. Johnson prepared the total system pro forma power supply adjustment, while Ms. Knox sponsors the revenue normalization adjustment.

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

A. Yes. I am sponsoring Exhibit No. 10, Schedule 1 (Electric) and Schedule 2 (Natural Gas), which were prepared under my direction. These Exhibit Schedules consist of worksheets, which show actual 2008 operating results (twelve-month period ending September 30, 2008), 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 5.34% and 6.87%, respectively. Both return levels are below the Company's requested rate of return of 8.80%. The incremental revenue requirement for base retail rates, necessary to give the Company an opportunity to earn its requested ROR is $31,233,000 for the electric operations and $2,740,000 for the natural gas operations. The overall base electric increase associated with the Company's request is 14.18%[1]. However, as explained by Company witness Mr. Hirschkorn, with the reduction of a portion of the Power cost Adjustment (PCA) surcharge of 5.6% planned at the same time the general rate increase will go into effect for customers, the net impact on the residential customers' bill is anticipated to be approximately 8.6%. The base natural gas increase is 2.99%.

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 8.45%, effective October 1, 2008 for both our electric and natural gas systems.

[1] Percentages reflect the proposed increase to base tariff rates, Mr. Hirschkorn describes the effect based on present billing rates.

III. ELECTRIC SECTION

Changes Since the 2007 Test Period

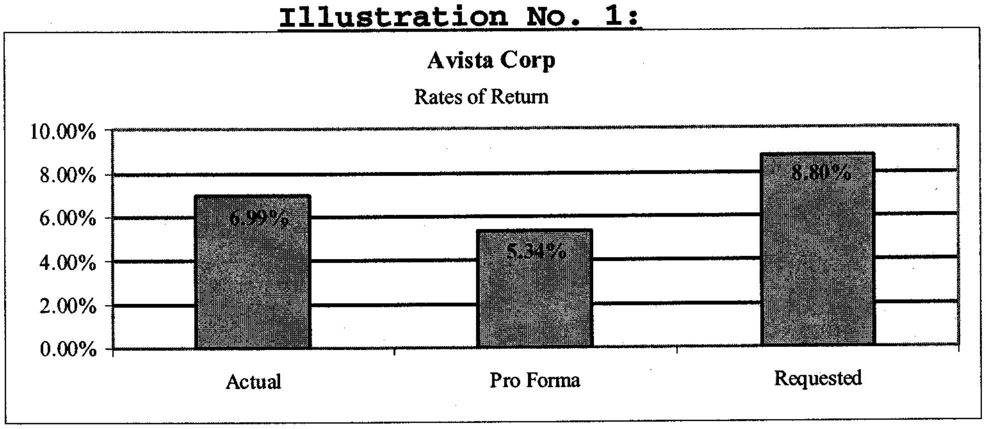
Q. On what test period is the Company basing its need for additional electric revenue?

A. The test period being used by the Company is the twelve-month period ending September 30, 2008, presented on a pro forma basis. Currently authorized rates are based upon the 2007 test year utilized in Case No. AVU-E-08-01, adjusted on a pro forma basis.

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 Illustration 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.11, Schedule 1, and the requested ROR.

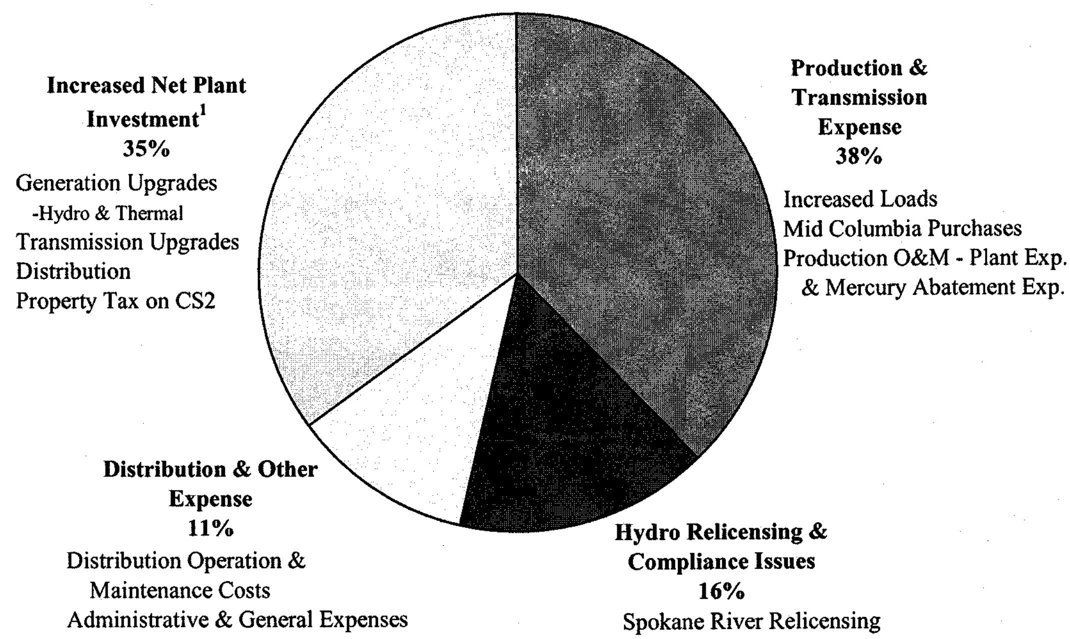
Illustration No. 1:



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

A. Illustration No. 2 below, shows the primary factors driving the electric revenue requirement in this case. Additional details regarding these items are provided later in my testimony.

Illustration No. 2:
Primary Components of Electric Revenue Requirement



[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 last rate case. Net Operating Income ("NOI") has declined approximately $6 million, or 13.4%, and total rate base has increased approximately $47.1 million, or 8.9%. During this same time period, the average number of customers has increased by nearly 2%. The Company's electric request is driven by changes in various operating cost components as shown by the pie chart (Illustration 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 2009) 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 35% of the overall request. The next largest segment is Increased Net Plant Investment. As already noted, net rate base for the Idaho jurisdiction increased approximately $47.1 million, or 8.9%, of which $15.1 million comprise of additional "gross" generation plant, both hydro and thermal, and transmission plant. In addition, gross distribution plant increased $26.2 million, or 7.2%, partially due to the 2% customer growth. 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 35% of the overall Company request.

Additional plant investment relating to the hydro relicensing and compliance efforts pro formed into this case make up approximately 19% of the overall request, and include the intangible net rate base and expenses associated with the Spokane River relicensing and Coeur d'Alene Tribe (CDA Tribe) Settlement agreement. The majority of these charges were reviewed in the Company's previous general electric rate case proceeding, Case No. AVU-E-08-01, and were approved for deferral and later recovery following completion of the agreement with the CDA Tribe, and receipt of the new license for the Spokane River. Specifically, the Company was allowed to defer the amortization of these charges, including a carrying charge on the deferrals and unamortized balance, and include recovery of these costs in its next general rate case. (See Order No. 30647) As explained further in my testimony, these amounts have been included for recovery in this general rate case filing.

The remaining cost category, Distribution and Other Expense, which includes increases to all other operating categories, such as distribution expenses, customer service, and administrative and general, totals approximately 11% of the overall request.

Q. Could you please provide additional details related to the changes in Production and Transmission expense?

A. As discussed in Mr. Johnson's testimony, the level of Idaho's share of power supply expense has increased by approximately $11.8 million ($33.2 million on a system basis) from the level <u>currently in base rates</u>.

This increase in pro forma power supply expense over the expense currently in base rates is based on numerous factors, including higher retail loads, reduced hydro generation due to the elimination of the rate mitigation adjustment (included in the Company's last Idaho electric general rate case in Docket No. AVU-E-08-01) and the expiration of the Mid-Columbia (Wanapum) contract in November 2009.

Pro forma retail loads are 22.7 aMW higher than loads that current rates are based on. The increased loads are due to two factors. One is the natural increase in retail loads of approximately 14.3 aMW. The other 8.4 aMW of load increase is due to the reduction in Potlatch generation. Hydro generation is also lower than the level in current base rates by a reduction of 29.8 aMW (system). Mr.

Johnson discusses these differences in detail in his testimony.

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 2007, which have been included in this case. For example, employee benefits such as wages, pension and medical insurance expenses have increased, as well as other administrative and general expenses such as those related to the Company's information services.

We are utilizing a twelve-month ending September 30, 2008 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 mid-2009. 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 test year.

Q. What were the major components of the $47.2 million increase in total rate base?

A. Looking at the changes to "gross" plant in service shows that gross plant increased almost $75.7 million (Idaho), or 7.9%, as compared to what is currently included in rates. Included in this "gross" plant total is

$28.6 million of pro forma capital recorded in intangible plant, mainly associated with the Spokane River relicensing and Coeur d'Alene Tribe Settlement agreement or approximately 37.8% 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, as well as additional transmission investment. The total production and transmission plant investment included in this case (discussed later in my testimony) totaled approximately $15.1 million or 20% of the total change to "gross" plant.

The specific 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. Storro 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 $26.2 million or 7.2% above the current level included in rates, in part due to the approximate 2% average customer growth from 2007 through 2008, while general "gross" plant increased $5.7 million or 10.3% above the current level included in rates.

Later in my testimony, I will address the Spokane River relicensing and Coeur d'Alene Tribe Settlement agreement pro forma adjustments, and the additional net rate base adjustments labeled "Pro Forma Capital Additions 2008" and "Pro Forma Capital Additions 2009" included in Exhibit No. 10, Schedule 1 pages 8 and 9. This exhibit 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, this produces the net $47.2 million, or 8.9% increase to Total Rate Base. Depreciation expense, which has largely followed the 7.9% growth in gross plant-in-service, has increased $4.2 million.

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

A. Yes. As described in Mr. DeFelice's testimony, the Company is making substantial levels of capital investment in its electric and natural gas system infrastructure to address customer growth, replacement and maintenance of Avista's aging system, and to provide for 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. 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. As plant is completed and is providing service to customers, it is appropriate for the Company to receive timely recovery of the costs associated with that plant.

Revenue Requirement

Q. Would you please explain what is shown in Exhibit No. 10, Schedule 1?

A. Yes. Exhibit No. 10, 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. 10, Schedule 1 shows 2008 (twelve-month ending September 30, 2008) 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 8.80% rate of return. Column (f) reflects pro forma electric operating results with the requested increase of $31,233,000. The restating adjustments shown in columns *c* through *w*, of pages 4 through 7 of Exhibit No. 10, Schedule 1, are consistent with the treatment reflected in the prior Commission Orders in Case Nos. AVU-E-04-01, AVU-E-08-01 and current regulatory principles.

Q. Would you please explain page 2 of Exhibit No. 10, Schedule 1?

A. Yes. Page 2 shows the calculation of the $31,233,000 revenue requirement at the requested 8.80% rate of return.

Q. Would you now please explain page 3 of Exhibit No. 10, 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. 10, Schedule 1, would you please explain what those pages show?

A. Yes. Page 4 begins with actual operating results and rate base for the twelve-month period ending September

30, 2008 test period in column (b). Individual normalizing adjustments consistent with prior regulatory treatment (standard Commission Basis adjustments) begin in column (c) on page 4 and continue through column (w) on page 7. Individual pro forma and additional normalizing adjustments begin in column (PF1) on page 7 and continue through column (PF22) on page 11. The final column on page 11 (PFT) 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 workpapers.

__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 $82,407,000.

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 $164,000.

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 the test period. The effect on Idaho net operating income is a decrease of $202,000. The effect of the reallocation on Idaho rate base is an increase of $1,956,000.

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 the test period. The effect on Idaho rate base is an increase of $925,000.

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 $2,233,000.

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 $885,000.

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 $1,669,000.

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.

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. These rates became effective after the three months (October through December 2007) included in the test period. This adjustment annualizes the current effective rates for the test period. This adjustment increases Idaho net operating income by $119,000.

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 $3,000.

The adjustment in column (l), **Property Tax**, restates the test period accrued levels of property taxes to the most current information available and eliminates any adjustments related to the prior year. This adjustment includes the increase in property taxes in 2009 related to the Company's Coyote Springs plant located in Oregon. Previously the Company had been excluded from this property tax assessment for five years under a tax abatement as a result of the plant being located in the Columbia River Enterprise Zone in Oregon. The effect of this particular adjustment is to decrease Idaho net operating income by $1,171,000.

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 $37,000.

The adjustment in column (n), **Regulatory Expense**, restates recorded 2008 regulatory expense to reflect the IPUC assessment rates applied to expected revenues for the 2008 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 $26,000.

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[2]. 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 $15,000.

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 $454,000.

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[2] Due to the twelve months ending September 30, 2008 test period utilized in this case, the Company computed the six-year average using twelve-months ended actuals through November 2008 (most current data available at time of adjustment) for its 2008 electric and natural gas balances.

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. Certain differences in actual power supply costs, compared to those included in base retail rates are deferred and then surcharged or rebated to customers in a future period. Revenue adjustments due to the PCA 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 $9,591,000.

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 $190,000.

The adjustment in column (t), **Miscellaneous Restating Adjustments,** removes a number of non-operating or non-utility expenses associated with advertising, sponsorships and dues and donations included in error in the test period actual results. The effect of this adjustment is to increase Idaho net operating income by $73,000.

The adjustment in column (u), **Revenue Normalization**, is a 3-fold adjustment taking into account known and measurable changes that include revenue repricing (including the current authorized rates approved in Case No. AVU-E-08-01), weather normalization and a recalculation of unbilled revenue. 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 increase Idaho net operating income by $14,065,000.

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

A. The adjustment in column (v), **Clark Fork PM&E,** adjusts the level of amortization expense included in the test period based on the balancing account method previously authorized by the Commission for the Clark Fork Protection, Mitigation, and Enhancement (PM&E) expenses, to the Company's current authorized level of expense based on the flow through of actual expenditures plus one-fifth of the 5-year amortization of the remaining outstanding balance in the balancing account at September 30, 2008, as approved in Case No. AVU-E-08-01. This adjustment uses the level of PM&E expenses planned for the 2009/2010 rate period for the amount of flow through of actual expenditures. Mr. Storro discusses in his testimony the additional PM&E expenditures planned for the rate period. The effect of this adjustment is to decrease Idaho net operating income by $649,000.

The adjustment in the column (w) **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. Theis, 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 $1,985,000.

The column entitled **Restated Total**, subtotals all the preceding columns (b) through column (w), 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[3].

Pro Forma Adjustments

Q. Please explain the significance of the 22 columns subsequent to the column entitled Restated Total that begins at page 7 in your Exhibit No. 10, 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.

[3] The restated total also includes the additional property tax on CS2 required starting in 2009 included in the property tax restating adjustment column (l), and additional PM&E expenses above the test period planned for the rate period in column (v).

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 to reflect the twelve-month period July 1, 2009 through June 30, 2010. 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 $6,285,000.

The adjustment in column (PF2), **Pro Forma Production Property Adjustment,** adjusts pro formed production and transmission revenues, expenses, and rate base by a factor that reflects the ratio of 2008 Idaho test year retail load divided by the pro forma period Idaho retail load. Capital additions have been pro formed to December 2009 whereas the remainder of the pro forma adjustments reflect costs for the twelve months ended June 2010 level. Therefore a factor reflecting 2009 calendar Idaho retail load was used to determine the factor for pro formed capital costs and the 2009/2010 rate year Idaho retail load was used to determine the factor for all other pro formed production and transmission costs. The adjustment is made to avoid the over-recovery of pro formed production and transmission costs, since the revenue requirement associated with those costs is being spread to test year retail load. The use of a production property adjustment in conjunction with pro forma rate year loads for power supply results in a better matching of revenues and expenses during the period that new retail rates from the case will be in effect. The effect of this adjustment on Idaho net operating income is an increase of $3,336,000. The effect on Idaho rate base is a decrease of $10,202,000.

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 increase in March 2009 were in place for 8 months and the March 2010 increase was in place for 4 months of the pro forma period ending June 30, 2010. The methodology behind this adjustment is consistent with that used in Case No. AVU-E-04-01. The effect of this adjustment on Idaho net operating income is a decrease of $694,000.

The adjustment in column (PF4), **Pro Forma Labor-Executive**, reflects known and measurable changes to executive compensation. Test period wages and salaries are restated to the 2010 expected level. This adjustment takes into account changes in executive staffing made during 2008 and includes compensation for the planned executive team in the pro forma period 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-08-01. The impact of this adjustment on Idaho net operating income is a decrease of $83,000.

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

A. 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 July 1, 2009 through June 30, 2010. The net effect of the transmission revenue and expense adjustments increases Idaho net operating income by $5,000.

The adjustment in column (PF6), **Pro Forma Capital Additions 2008**, pro forms in the capital cost and expenses associated with adjusting the twelve-month ending September 2008 average-monthly-average plant related balances to expected end-of-period balances for plant in service at December 31, 2008. The capital costs have been included for the December 31, 2008 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 is also consistent with that approved in the most recent Idaho general rate case proceeding, Case No. AVU-E-08-01, which approved the Company's expected net rate base balance as of December 31, 2008. 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 $160,000 and increases rate base by $3,658,000.

The adjustment in column (PF7), **Pro Forma Capital Additions 2009**, pro forms in the capital cost and expenses associated with pro forming in capital expenditures for

2009. This adjustment includes projects expected to be completed and transferred to plant-in-service by December 31, 2009, and thus were normalized to reflect annual amounts. 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 2008 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2009 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 production and transmission components of these additions as discussed further by Ms. Knox. This adjustment decreases Idaho net operating income by $1,692,000 and increases rate base by $16,896,000.

The adjustment in column (PF8), **Pro Forma Information Services**, pro forms in the administrative and general (A&G) expenses associated with incremental known and measureable changes for labor and non-labor informational services costs planned for 2009 above the test period. As explained by Company witness Mr. Kopczynski, these expenditures are related to 1) additional labor dollars required to support applications utilized by the Company in recent years, such as the mobile dispatch and outage management applications, improved web application support, and additional required security and compliance requirements; and 2) additional non-labor dollars required for hosting fees, application fees, software maintenance and license fees, and new and replacement software and hardware for business applications. This adjustment decreases Idaho net operating income by $448,000.

The adjustment in column (PF9), **Pro Forma Asset Management**, pro forms in the O&M expense associated with the Asset Management Program as described further by Mr. Kinney. This adjustment is consistent with the methodology approved in Case No. AVU-E-08-01. This adjustment decreases Idaho net operating income by $481,000.

The adjustment in column (PF10), **Pro Forma Spokane River Relicensing,** includes the costs associated with the Company's Spokane River relicensing efforts and the CDA Tribe settlement 4(e) relicensing conditions and accrued interest as described further in my workpapers. These costs include actual life-to-date expenditures from April 2001 through December 31, 2008, and 2009 pro forma expenditures through June 30, 2009. Company witness Mr. Storro provides additional details regarding the status of the Spokane River Relicensing efforts and explains that the

Company anticipates a final license approved by the Federal Energy Regulatory Commission (FERC) by June 30, 2009. The majority of these charges were reviewed in the Company's previous general electric rate case proceeding, Case No. AVU-E-08-01. Through the Settlement agreement approved by the Commission in that case, the Company was allowed to defer the amortization of these charges, including a carrying charge on the deferrals and unamortized balance, and include recovery of these costs in its next general rate case.

Subsequent to the conclusion of Case No. AVU-E-08-01, and during review of the total current actual expenditures to-date for the Spokane River Relicensing efforts, it was discovered that the Company had inadvertently failed to continue to compute and accrue AFUDC after December 31, 2004 on the certain expenditures that had been recorded for the years 1999 to 2004. (In other words, AFUDC was not recorded for the period January 2005 through November 2008 on amounts spent in 1999 through 2004.) This error was discovered in December 2008 and corrected, accruing an additional amount of approximately $3.0 million. This correction caused an increase in costs included in this case, above that approved in Case No. AVU-E-08-01, of approximately $1.1 million (Idaho share) to accrue for the missed AFUDC from January 2005 through November 2008 on the

1999 through 2004 balance. This adjustment, including the AFUDC correction, decreases Idaho net operating income by $1,348,000 and increases rate base by $12,184,000.

Q. Please turn to page 9 and explain the adjustments shown there.

A. The adjustment in column (PF11), **Pro Forma Coeur d' Alene Tribe Settlement,** includes costs associated with the Lake Coeur d' Alene Tribe (CDA Tribe) settlement agreement. Mr. Storro describes further the final agreement between the Company and the CDA Tribe. The settlement includes the payment of $25.0 million in December 2008, $10.0 million in 2009 and $4.0 million in 2010 for resolution of the past trespass and §10(e) charges. The future §10(e) payments are $400,000 flat annual payments for the first 21 years of the new Spokane River license, starting in December 2008, and $700,000 flat annual payments for the remaining years of the license. The agreed upon settlement and payments were reviewed in the company's previous electric general rate case proceeding, Case No. AVU-E-08-01. As approved by the Commission's Order No. 30647, the Company is allowed to defer the amortization of the initial 2008 payments, including a carrying charge on the deferrals and unamortized balance, and include recovery of these costs in its next general rate case. These deferred payments, including a return on the balance, are planned to be amortized over the average remaining life of the Post Falls Project, or 45 years. The pro forma adjustment includes one year amortization of the deferred balance, and the 2009 annual payment of $400,000. This adjustment decreases Idaho net operating income by $257,000 and increases rate base by $7,861,000.

The adjustment in column (PF12), **Pro Forma Montana Riverbed Lease,** includes costs associated with the Montana Riverbed lease settlement. In this settlement, the Company agreed to pay the State of Montana $4.0 million annually beginning in 2007, with annual inflation adjustments, for a 10-year period for leasing the riverbed under the Noxon Rapids Project and the Montana portion of the Cabinet Gorge Project. The first two annual payments were deferred by Avista as approved in Case No. AVU-E-07-10. In Case No. AVU-E-08-01 (see Order No. 30647), the Commission approved the Company's proposed accounting treatment of the deferred payments, including accrued interest, to be amortized over the remaining eight years of the agreement starting October 1, 2008. This adjustment includes one-eighth of the deferred balance amortization and the annual lease payment expense. This adjustment decreases Idaho net operating income by $1,231,000 and increases rate base by $1,583,000.

The adjustment in column (PF13), **Pro Forma Colstrip Mercury Emission O&M,** includes the pro forma period O&M costs associated with the mercury control project at Colstrip as further described by Mr. Storro. This adjustment decreases Idaho net operating income by $383,000.

The adjustment in column (PF14), **Pro Forma Incentives**, adjusts the test year incentive expense to the 2008 incentive expense expected to be paid in 2009 for the 2008 incentive plan. The Company's main employee incentive plan uses Customer Satisfaction and Reliability targets as the initial step in issuing incentive payouts. Actual payouts are dictated by utility O&M cost savings. Since the executive plan is slightly different than the main employee incentive plan, this adjustment removes any part of the 2008 executive 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 $189,000.

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

A. Actual incentives paid and the associated payroll taxes accrued for years 2003 through 2007 were adjusted by the Consumer Price Index (CPI) annual average for the calendar year the incentives were paid, to reflect those costs in 2008 dollars. The computed six-year average of 2003 through 2008 incentives was compared to incentive expense included in the test period to determine the pro forma adjustment.

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

A. Since annual Company incentive plan payouts can often vary year-to-year, the Company has chosen to propose an average of annual pay outs. Often where there are revenues or expenses that can vary significantly from year-to-year and therefore uncertain as to the appropriate level, the Commission has utilized or approved averages to properly reflect a fair and reasonable level of revenue or expense to be included in customers' rates. In 2002 the Company changed its incentive plan 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. Utilizing a 6-year average, using years 2003 through 2008, includes common incentive plans that are comparable from year-to-year, and is consistent with other average methods utilized by this Commission.

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

A. 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 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 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 $129,000.

Q. Please turn to page 10 and explain the adjustments shown there.

A. The adjustment in column (PF16), **Pro Forma Idaho Advanced Meter Reading (AMR),** includes the capital costs associated with the Company's Idaho AMR project. 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 deferred accounting treatment for its related investment. In the Company's most recent case, Case No. AVU-E-08-01 in Order No. 30647, the Commission reviewed and approved these deferred costs associated with the Company's investment in AMR as prudent. This adjustment includes the amortization of the AMR investment, including actual life-to-date expenditures from January 2005 through November 30, 2008 and expected charges for December 2008. This adjustment decreases Idaho net operating income by $689,000 and increases rate base by $21,436,000.

The adjustment in column (PF17), **Pro Forma O&M Plant expense**, adjusts for incremental non-labor generation plant O&M costs planned for 2009/2010 above the test period. As further explained by Mr. Storro, these additional expenditures are mainly due to major O&M expenditures planned for the Company's two thermal generation plants, Colstrip and Kettle Falls, and its Rathdrum CT peaking generation plant. This adjustment decreases Idaho net operating income by $899,000.

The adjustment in column (PF18), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense and decreases Idaho net operating income by $944,000.

Q. Please describe the pension expense portion of the Employee Benefits adjustment and Idaho's share of this expense.

A. The Company's pension expense portion of this adjustment is determined in accordance with Financial Accounting Standard 87 ("FAS-87"), and has increased on a system basis from $12.1 million for the actual test year costs for the twelve months ended September 30, 2008, to $18.4 million for 2009. At this time the amounts included in this case are estimated with the most current available data as of December 2008. Preliminary Pension expense is determined by an outside actuarial firm, in accordance with FAS-87, and provided to the Company late in the first quarter of each year. These calculations and assumptions are reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other companies. Due to the timing of this report, additional information may become known during the course of these proceedings that may require a modification to this adjustment.

As explained by Company witness Mr. Thies, the increase in pension expense is due primarily to the investment performance of plan assets during the major downturn in the financial markets experienced during the past year. In addition, the Pension Protection Act (PPA) of 2006 requires companies to annually increase the funding level of their pension plans in order to eventually achieve a fully funded plan.

As explained by Mr. Thies, Avista is very disciplined in its plan asset allocation and believes that its approach has helped to arrest what could have been an even greater decline in plan assets value. Many companies with Defined Benefit Pension Plans have experienced similar asset value declines and increased funding levels as a result of general market conditions, as discussed by Mr. Thies.

The pension levels noted above are for the Company as a whole. Pension expense, as with other employee benefits, is "loaded" onto actual labor costs, which are then assigned to various functional expense categories and accounts through the payroll process. Historically, approximately 60% of labor is recorded as O&M expense and 40% is recorded as capital. In our adjustment, a detailed analysis of labor charges was performed to more accurately determine the Idaho O&M percentage of overall labor. Based on this analysis, Idaho's share of the electric pension expense (pre-tax) amount included in this adjustment is approximately $940,000.

Q. Please now describe the medical insurance expense portion of the Employee Benefits adjustment and Idaho's share of this expense.

A. The Company's medical insurance expense portion of this adjustment adjusts for the medical insurance costs planned for 2009 above the test period. Medical insurance expense has increased on a system basis from $14.3 million for the actual test year costs for the twelve months ended September 30, 2008 to $17.9 million projected for 2009. This increased cost is mainly due to increased large claims activity driven by various diagnostic categories such as cancer and heart disease, and an increase in the average age of our membership.

Avista has taken measures to decrease its self-funded plan costs. These measures include increasing the stop loss insurance reimbursement level, which decreases the premium expense with Avista's third party administrator. Avista also negotiated a new contract with its prescription benefit administrator and its third party administrator (TPA) to pass through the drug manufacturer rebates (in the past these rebates were left with the TPA). Also, Avista is converting to a Preferred Provider Organization (PPO) program for its dental plan that provides savings to the participant, similar to medical plans with a PPO program. In addition to these current measures, Avista has made changes to co-pay levels and out of pocket maximums over the past five years to help reduce plan costs.

Again, as with other employee benefits, medical insurance expense is "loaded" onto actual labor costs, which are then assigned to various functional expense categories and accounts through the payroll process. Historically, approximately 60% of labor is recorded as O&M expense and 40% is recorded as capital. Idaho's share of the electric medical insurance expense (pre-tax) amount included in this adjustment is approximately $530,000.

Q. Please continue your explanation of the adjustment columns on page 10.

The adjustment in Column (PF19), **Pro Forma Insurance**, adjusts the test period insurance expense for general liability, directors and officers ("D&O") liability, and property to the actual cost of insurance policies that are in effect for 2009. Costs of system-wide insurance policies for 2009 varied from 2008, mainly for General Liability and Property insurance cost, which increased approximately $730,000 (system expense), due to increased coverage, Avista's growth, and higher premium rates.

Property insurance rates were volatile because of extensive energy industry property damage in 2008 and adverse investment returns at insurance companies. Insurance costs that are properly charged to non-utility operations have been excluded from this adjustment. This adjustment decreases Idaho net operating income by $97,000.

The adjustment in Column (PF20), **Pro Forma Chicago Climate Exchange**, adjusts other revenue for Idaho's share of the revenues, net of expenses, from the sales of Carbon Financial Instruments (CFIs) on the Chicago Climate Exchange. In Order No. 30647 (Case No. AVU-E-08-01), the Commission approved the amortization of the net revenues over a two-year period beginning in October 2008. This adjustment increases Idaho net operating income by $273,000.

Q. Please turn to page 11 and explain the adjustments shown there.

A. The adjustment in column (PF21), **Pro Forma Wartsila Amortization**, reflects a five-year amortization of the estimated unrecovered investment in two 4 MW reciprocating engine generators originally planned to be installed at Boulder Park, a small natural gas-fired generating facility. During the period December 2004 through February 2005 Avista and Commission Staff discussed possible accounting treatment related to the planned sale of the Wartsila units. In February 2005 the Staff indicated by letter that it would support a five-year amortization of the unrecovered costs, with no return on the unamortized balance, and that the inclusion of the amortization expense in rates would be addressed in a future proceeding.

In 2008 a buyer agreed to purchase the units for net proceeds to the Company of $1 million, as compared to the book value of $3.65 million. However, the buyer defaulted and only one unit was delivered with net proceeds to the Company of $670,000. The second unit remains unsold. The buyer is trying to raise the remaining $330,000 to purchase the second unit. The amortization amount in the adjustment assumes that the second unit will be sold for the $330,000. Additional information may become known during the course of these proceedings that may require a modification to the adjustment. This adjustment decreases Idaho net operating income by $120,000.

The adjustment in column (PF22), **Pro Forma Colstrip Lawsuit Settlement**, reflects a two-year amortization of the Company's share of the lawsuit settlement amount. On May 22, 2008, the Company filed an application seeking an accounting order to defer the settlement payment. On September 12, 2008, the Commission authorized deferred accounting treatment in Order No. 30638, Case No. AVU-E-08-

03. Staff's recommendation No. 4 on page 3 of the Order recommends delaying any recovery for the amount of the deferral until the next general rate case or other proceeding as the Commission deems appropriate.

Avista may recover a portion of the settlement amount under relevant insurance policies. The amount and timing of any insurance proceeds is not known at this time. The adjustment can be revised as additional information regarding insurance proceeds becomes known. This adjustment decreases Idaho net operating income by $240,000.

The last column, Pro Forma Total, reflects total pro forma results of operations and rate base consisting of test period actual results (twelve-months ending September 30, 2008) and the total of all adjustments.

Q. Referring back to page 1, line 42, of Exhibit No. 10, 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 6.99%. The pro forma rate of return is 5.34% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.80% 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 8.80% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $19,951,000, as shown on line 5, page 2 of Exhibit No. 10, Schedule 1. The resulting revenue requirement is shown on line 7 and amounts to $31,233,000, or an increase of 14.18% 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?

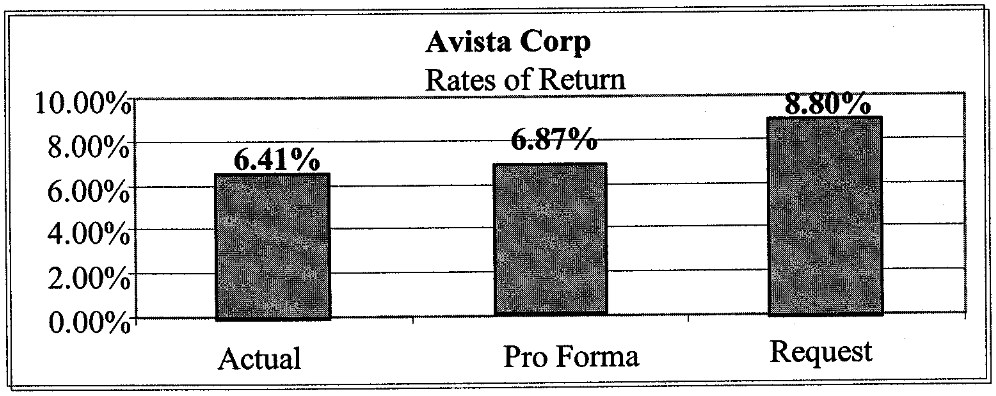
A. The test period being used by the Company is the twelve-month period ending September 30, 2008, presented on a pro forma basis. Currently authorized rates are based upon the 2007 test year utilized in case No. AVU-G-08-01, as adjusted on a pro forma basis.

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. 10, Schedule 2, and the requested ROR. For convenience of comparison, please refer to Illustration No. 3 below depicting these results for the Natural Gas Section:

Illustration No. 3:



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, mainly distribution operation and maintenance and administrative and general expenditures. This causes an increase in the fixed costs of providing gas service to customers. 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. 10, Schedule 2?

A. Exhibit No. 10, 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. 10, Schedule 2 shows test period operating results (twelve-months ended September 30, 2008) and components of the average-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 8.80% rate of return. Column (f) reflects pro forma gas operating results with the requested increase of $2,740,000.

Q. Would you please explain page 2 of Exhibit No. 10, Schedule 2?

A. Yes. Page 2 shows the calculation of the $2,740,000 revenue requirement at the requested 8.80% rate of return.

Q. Would you now please explain page 3 of Exhibit No. 10, 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 8 of your Exhibit No. 10, Schedule 2, would you please explain what those pages show?

A. Yes. Page 4 begins with actual operating results and rate base for the test period (twelve-months ending September 30, 2008) in column (b). Individual normalizing adjustments consistent with prior regulatory treatment (standard Commission Basis adjustments) begin in column (c) on page 4 and continue through column (r) on page 6. Individual pro forma and additional normalizing adjustments begin in column (PF1) on page 6 and continue through column (PF10) on page 8. The final column on page 8 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, the restating adjustments shown in columns *c* through *r* 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 $14,220,000.

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 $53,000.

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 through the test period. The effect on Idaho rate base is an increase of $4,535,000.

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 $279,000.

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 $73,000.

The column labeled **Subtotal Actual**, is a subtotal of columns (b) through (g) and reflects the standard rate base adjustments.

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. These rates became effective after the three months October through

December 2007 included in the test period. This adjustment annualizes the current effective rates for the test period. This adjustment increases Idaho net operating income by $25,000.

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 (including the current authorized rates approved in Case No. AVU-G-08-01), 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 temporary Gas Rate Adjustment Schedule 155 and Schedule 191 Tariff Rider are excluded from pro forma revenues, and the related amortization expenses are eliminated as well. The January 6, 2009 gas cost reduction to customer charges was accomplished through Schedule 155, which is excluded from base revenues. Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to increase Idaho net operating income by $2,359,000.

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 zero to Idaho net operating income.

The adjustment in column (k), **Property Tax**, restates the 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 decrease Idaho net operating income by $104,000.

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 $81,000.

The adjustment in column (m), entitled **Regulatory Expense Adjustment**, restates recorded 2008 regulatory expense to reflect the IPUC assessment rates applied to revenues for the test period. The effect of this adjustment is to decrease Idaho net operating income by $8,000.

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 the six-year rolling average of actual injuries and damages payments not covered by insurance[4]. This methodology was accepted by the Idaho Commission in Case No. WWP-E-98-11. The effect of this adjustment is to increase Idaho net operating income by $1,000.

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 $10,000.

The adjustment in column (p), **Eliminate A/R Expenses**, A/R representing Accounts Receivable, removes expenses associated with the sale of customer accounts receivable.

[4] Due to the twelve months ending September 30, 2008 test period utilized in this case, the Company computed the six-year average using twelve-months ended actuals through November 2008 (most current data available at time of adjustment) for its 2008 balance.

The effect of this adjustment is to increase Idaho net operating income by $27,000.

The adjustment in column (q), **Miscellaneous Restating Adjustment**, removes a number of non-operating or non-utility expenses associated with advertising, sponsorships and dues and donations included in error in the test period actual results. The effect of this adjustment is to increase Idaho net operating income by $31,000.

The adjustment in column (r), **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. Thies, 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 $292,000.

The next column on page 6, entitled **Restated Total**, subtotals all the preceding columns (b) through column (r), exclusive of the previously discussed subtotal column. These totals represent actual operating results and rate base plus the standard normalizing adjustments.

Pro Forma Adjustments

Q. Please explain the significance of the 10 columns subsequent to the Restated Total column on pages 6 through 8 of your Exhibit No. 10, 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 increase in March 2009 were in place for 8 months and the March 2010 increase was in place for 4 months of the pro forma period ending June 30, 2010. The methodology behind this adjustment is consistent with that used in Case No. AVU-G-08-1. The effect of this adjustment on Idaho net operating income is a decrease of $179,000.

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

A. The first adjustment on page 7, in column (PF2) is **Pro Forma Labor-Executive**, which reflects known and measurable changes to executive compensation. Test period wages and salaries are restated to the 2010 expected level. This adjustment takes into account changes in executive staffing made during 2008 and includes compensation for the planned executive team in the pro forma period 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.

The adjustment in column (PF3), **Pro Forma Capital Additions 2008**, pro forms in the capital cost and expenses associated with adjusting the test period average-monthly-average plant related balances at September 30, 2008, to actual end-of-period balances for plant in service at December 31, 2008. The capital costs have been included for December 31, 2008 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 $71,000 and increases rate base by $445,000.

The adjustment in column (PF4), **Pro Forma Capital Additions 2009**, pro forms in the capital cost and expenses associated with pro forming in capital expenditures for 2009. This adjustment includes projects completed during 2009, and thus were normalized to reflect annual amounts, and projects expected to be completed and transferred to plant-in-service by December 31, 2009. 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 2008 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2009 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 $198,000 and decreases rate base by $691,000.

The adjustment in column (PF5), entitled **Pro Forma Information Services,** pro forms in the administrative and general (A&G) expenses associated with incremental known and measureable changes for labor and non-labor informational services costs planned for 2009 above the test period, as further explained in the Electric Section. The impact of this adjustment on Idaho net operating income is a decrease of $101,000.

The adjustment in column (PF6), entitled **Pro Forma Incentives,** adjusts the test year incentive expense to the 2008 incentive expense expected to be paid in 2009 for the 2008 (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 $47,000.

The adjustment in column (PF7), **Pro Forma JP Storage**, pro forms revenues, expenses, capital investment and inventory for the increased storage capacity and deliverability associated with the Jackson Prairie (JP) Storage facility that was approved by the Commission in Order No. 30647 (Case No. AVU-G-08-01). In 2008, Avista ended its natural gas storage release contract with Terasen Gas. The revenues of $1,060,000 from the release of this contract have been eliminated from the test period. Gas inventory has been increased by $289,000, due to the recouped storage. In addition, a multi-year expansion project at the facility was in service in October 2008, which increased deliverability, increasing depreciation and property taxes expense by approximately $117,000, and increasing net rate base by $3,302,000. The total net impact of these adjustments decreases Idaho net operating income by $752,000 and increases rate base by $3,591,000.

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

A. The first adjustment on page 8, in column (PF8) is **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, 2008 (as explained further in the Electric Section). This adjustment decreases Idaho net operating income by $229,000 and increases rate base by $6,142,000.

The adjustment in column (PF9), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense planned for 2009 as further explained in the Electric Section above. This adjustment decreases Idaho net operating income by $242,000

The adjustment in column (PF10), **Pro Forma Insurance**, updates the test period insurance expense for general liability, directors and officer ("D&O") liability, property and other policies, to the actual cost of insurance policies planned for 2009 as described further in the Electric Section above. This adjustment decreases Idaho net operating income by $25,000

The last column on page 8, **Pro Forma Total**, reflects total pro forma results of operations and rate base consisting of twelve-months ended September 30, 2008 actual results and the total of all normalizing and pro forma adjustments.

Q. Referring back to page 1, line 43, of Exhibit No. 10, 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 6.41%. The pro forma rate of return is 6.87% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.80% 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 8.80% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $1,750,000, as shown on line 5, page 2 of Exhibit No. 10, Schedule 2. The resulting revenue requirement is shown on line 7 and amounts to $2,740,000, or an increase of 2.99%

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-08-01 and AVU-G-08-01?

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. The allocation factors used in this case have been provided with my workpapers.

VI. OTHER

Q. Please address the filing requirements as required in Order No. 29962.

A. In Order No. 29962 (Case Nos. AVU-E-05-9 and AVU-G-05-3), the Commission directed the Company to record regulatory assets or liabilities associated with the implementation of Statement of Financial Accounting Standards (SFAS) 143. As a result of the Order, the Company is required to file annually, and as part of any rate case filing, all journal entries made under the requirements of SFAS 143. These ARO transactions have been removed from the test year (twelve months ended September 30, 2008) Results of Operations and have no impact on the Company's earnings or rate request in this case. The journal entries for the calendar year 2008 will be filed with the Commission in our upcoming compliance filing.

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

A. Yes, it does.

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IDAHO PUBLIC
UTILITIES COMMISSION

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-09-01 CASE NO. AVU-G-09-01 EXHIBIT NO. 10 ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

		WITH PRESENT RATES			WITH PROPOSED RATES	
Line No.	DESCRIPTION	Actual Per Results Report	Total Adjustments	Pro Forma Total	Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	*b*	*c*	*d*	*e*	*f*
	REVENUES					
1	Total General Business	$210,968	$9,139	$220,107	$31,233	$251,340
2	Interdepartmental Sales	145		145		145
3	Sales for Resale	69,340	(41,730)	27,610		27,610
4	Total Sales of Electricity	280,453	(32,591)	247,862	31,233	279,095
5	Other Revenue	19,754	(14,456)	5,298		5,298
6	Total Electric Revenue	300,207	(47,047)	253,160	31,233	284,393
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	80,859	(16,459)	64,401		64,401
8	Purchased Power	99,071	(24,407)	74,664		74,664
9	Depreciation and Amortization	11,374	5,260	16,634		16,634
10	Taxes	4,898	1,225	6,123		6,123
11	Total Production & Transmission	196,202	(34,381)	161,822	0	161,822
	Distribution					
12	Operating Expenses	8,580	1,047	9,627		9,627
13	Depreciation	8,351	1,697	10,048		10,048
14	Taxes	4,167	(1,181)	2,986	381	3,367
15	Total Distribution	21,098	1,563	22,661	381	23,042
16	Customer Accounting	3,643	(159)	3,484	79	3,563
17	Customer Service & Information	3,960	(2,414)	1,546		1,546
18	Sales Expenses	261	13	274		274
	Administrative & General					
19	Operating Expenses	19,261	2,296	21,557	78	21,635
20	Depreciation	3,860	1,007	4,867		4,867
21	Taxes		135	135		135
22	Total Admin. & General	23,121	3,438	26,559	78	26,637
23	Total Electric Expenses	248,285	(31,940)	216,345	538	216,883
24	OPERATING INCOME BEFORE FIT	51,922	(15,107)	36,815	30,695	67,510
	FEDERAL INCOME TAX					
25	Current Accrual	2,030	(1,451)	579	10,743	11,322
26	Deferred Income Taxes	7,578	(2,205)	5,373		5,373
27	Amortized Investment Tax Credit					
28	SETTLEMENT EXCHANGE POWER					
29	NET OPERATING INCOME	$42,314	($11,451)	$30,863	$19,952	$50,815
	RATE BASE					
	PLANT IN SERVICE					
30	Intangible	$12,083	$28,661	$40,744		$40,744
31	Production	359,680	11,718	371,398		371,398
32	Transmission	156,662	8,995	165,657		165,657
33	Distribution	341,133	49,000	390,133		390,133
34	General	49,818	11,360	61,178		61,178
35	Total Plant in Service	919,376	109,734	1,029,110	0	1,029,110
36	ACCUMULATED DEPRECIATION	310,555	42,120	352,675		352,675
37	ACCUM. PROVISION FOR AMORTIZATION	3,664	808	4,472		4,472
38	Total Accum. Depreciation & Amort.	314,219	42,928	357,147	0	357,147
39	GAIN ON SALE OF BUILDING		(252)	(252)		(252)
40	DEFERRED TAXES		(94,277)	(94,277)		(94,277)
41	TOTAL RATE BASE	$605,157	($27,723)	$577,434	$0	$577,434
42	RATE OF RETURN	6.99%		5.34%		8.80%

AVISTA UTILITIES
Calculation of General Revenue Requirement
IDAHO - Electric System
TWELVE MONTHS ENDED SEPTEMBER 30, 2008

Line No.	Description	(000's of Dollars)
1	Pro Forma Rate Base	$577,434
2	Proposed Rate of Return	8.80%
3	Net Operating Income Requirement	$50,814
4	Pro Forma Net Operating Income	$30,863
5	Net Operating Income Deficiency	$19,951
6	Conversion Factor	0.63878685
7	Revenue Requirement	$31,233
8	Total General Business Revenues	$220,252
9	Percentage Revenue Increase	14.18%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO ELECTRIC
TWELVE MONTHS ENDED SEPTEMBER 30, 2008

Revenue:		*1.000000*
Expense:		
Uncollectibles (1)		*0.002528*
Commission Fees (2)		*0.002507*
Idaho Income Tax (3)		*0.012216*
Total Expense		0.017251
Net Operating Income Before FIT		*0.982749*
Federal Incon	0.35	*0.343962*
REVENUE CONVERSION FACTOR		0.638787

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(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	$210,968						
2	Interdepartmental Sales	145						
3	Sales for Resale	69,340						
4	Total Sales of Electricity	280,453	0	0	0	0	0	0
5	Other Revenue	19,754						
6	Total Electric Revenue	300,207	0	0	0	0	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	80,859						
8	Purchased Power	99,071						
9	Depreciation and Amortization	11,374			202			
10	Taxes	4,898						
11	Total Production & Transmission	196,202	0	0	202	0	0	0
	Distribution							
12	Operating Expenses	8,580						
13	Depreciation	8,351						
14	Taxes	4,167						
15	Total Distribution	21,098	0	0	0	0	0	0
16	Customer Accounting	3,643						
17	Customer Service & Information	3,960						
18	Sales Expenses	261						
	Administrative & General							
19	Operating Expenses	19,261						
20	Depreciation	3,860						
21	Taxes							
22	Total Admin. & General	23,121	0	0	0	0	0	0
23	Total Electric Expenses	248,285	0	0	202	0	0	0
24	OPERATING INCOME BEFORE FIT	51,922	0	0	(202)	0	0	0
	FEDERAL INCOME TAX							
25	Current Accrual	2,030						
26	Deferred Income Taxes	7,578						
27	NET OPERATING INCOME	$42,314	$0	$0	($202)	$0	$0	$0
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible	$12,083						
29	Production	359,680			7,452	925	(5,609)	
30	Transmission	156,662						
31	Distribution	341,133						(885)
32	General	49,818						
33	Total Plant in Service	919,376	0	0	7,452	925	(5,609)	(885)
34	ACCUMULATED DEPRECIATION	310,555			5,496		(2,693)	
35	ACCUM. PROVISION FOR AMORTIZATION	3,664						
36	Total Accum. Depreciation & Amort.	314,219	0	0	5,496	0	(2,693)	0
37	GAIN ON SALE OF BUILDING			(252)				
38	DEFERRED TAXES		(82,407)	88			683	
39	TOTAL RATE BASE	$605,157	($82,407)	($164)	$1,956	$925	($2,233)	($885)
40	RATE OF RETURN	6.99%						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(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		$210,968		$ (2,515)			
2	Interdepartmental Sales		145					
3	Sales for Resale		69,340					
4	Total Sales of Electricity	0	280,453	0	(2,515)	0	0	0
5	Other Revenue		19,754					
6	Total Electric Revenue	0	300,207	0	(2,515)	0	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses		80,859					
8	Purchased Power		99,071					
9	Depreciation and Amortization		11,576	(377)				
10	Taxes		4,898			1,143		
11	Total Production & Transmission	0	196,404	(377)	0	1,143	0	0
	Distribution							
12	Operating Expenses		8,580					
13	Depreciation		8,351	317				
14	Taxes		4,167	2	(2,510)	656	1	
15	Total Distribution	0	21,098	319	(2,510)	656	1	0
16	Customer Accounting		3,643				(58)	
17	Customer Service & Information		3,960					
18	Sales Expenses		261					
	Administrative & General							
19	Operating Expenses		19,261					40
20	Depreciation		3,860	(125)				
21	Taxes					2		
22	Total Admin. & General	0	23,121	(125)	0	2	0	40
23	Total Electric Expenses	0	248,487	(183)	(2,510)	1,801	(57)	40
24	OPERATING INCOME BEFORE FIT	0	51,720	183	(5)	(1,801)	57	(40)
	FEDERAL INCOME TAX							
25	Current Accrual		2,030	64	(2)	(630)	20	(14)
26	Deferred Income Taxes		7,578					
27	NET OPERATING INCOME	$0	$42,112	$119	($3)	($1,171)	$37	($26)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible		$12,083					
29	Production	1,669	364,117					
30	Transmission		156,662					
31	Distribution		340,248					
32	General		49,818					
33	Total Plant in Service	1,669	922,928	0	0	0	0	0
34	ACCUMULATED DEPRECIATION		313,358					
35	ACCUM. PROVISION FOR AMORTIZATION		3,664					
36	Total Accum. Depreciation & Amort.	0	317,022	0	0	0	0	0
37	GAIN ON SALE OF BUILDING		(252)					
38	DEFERRED TAXES		(81,636)					
39	TOTAL RATE BASE	$1,669	$524,018	$0	$0	$0	$0	$0
40	RATE OF RETURN		8.04%					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Injuries and Damages	FIT	Idaho PCA	Nez Perce Settlement Adjustment	Eliminate A/R Expenses	Misc Restating Adjs	Revenue Normalization Adjustment
	a	o	p	q	r	s	t	u
	REVENUES							
1	Total General Business			$ (9,206)				$20,860
2	Interdepartmental Sales							
3	Sales for Resale							
4	Total Sales of Electricity	0	0	(9,206)	0	0	0	20,860
5	Other Revenue							83
6	Total Electric Revenue	0	0	(9,206)	0	0	0	20,943
	EXPENSES							
	Production and Transmission							
7	Operating Expenses			5,603	(12)			(157)
8	Purchased Power							
9	Depreciation and Amortization							1,515
10	Taxes							
11	Total Production & Transmission	0	0	5,603	(12)	0	0	1,358
	Distribution							
12	Operating Expenses							
13	Depreciation							
14	Taxes					$4	1	268
15	Total Distribution	0	0	0	0	4	1	268
16	Customer Accounting			(29)		$ (296)		53
17	Customer Service & Information							(2,427)
18	Sales Expenses							
	Administrative & General							
19	Operating Expenses	23		(24)			(114)	53
20	Depreciation							
21	Taxes							
22	Total Admin. & General	23	0	(24)	0	0	(114)	53
23	Total Electric Expenses	23	0	5,550	(12)	(292)	(113)	(695)
24	OPERATING INCOME BEFORE FIT	(23)	0	(14,756)	12	292	113	21,638
	FEDERAL INCOME TAX							
25	Current Accrual	(8)	(474)	(3,204)	4	$102	40	7,573
26	Deferred Income Taxes		20	(1,961)				
27	NET OPERATING INCOME	($15)	$454	($9,591)	$8	$190	$73	$14,065
	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 SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Clark Fork PM&E	Restate Debt Interest	Restated TOTAL	Pro Forma Power Supply	Pro Forma Production Property Adj	Pro Forma Labor Non-Exec	Pro Forma Labor Exec
	a	v	w	-	PF1	PF2	PF3	PF4
	REVENUES							
1	Total General Business			$220,107				
2	Interdepartmental Sales			145				
3	Sales for Resale			69,340	(40,557)	(1,173)		
4	Total Sales of Electricity	0	0	289,592	(40,557)	(1,173)	0	0
5	Other Revenue			19,837	(14,818)	(159)		
6	Total Electric Revenue	0	0	309,429	(55,375)	(1,332)	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	$1,010		87,303	(24,350)	(2,628)	399	5
8	Purchased Power			99,071	(21,235)	(3,172)		
9	Depreciation and Amortization			12,714		(549)		
10	Taxes			6,041		(179)		
11	Total Production & Transmission	1,010	0	205,129	(45,585)	(6,528)	399	5
	Distribution							
12	Operating Expenses			8,580			294	
13	Depreciation			8,668				
14	Taxes	$ (12)		2,577	(120)	63	(13)	(2)
15	Total Distribution	(12)	0	19,825	(120)	63	281	(2)
16	Customer Accounting			3,313			93	
17	Customer Service & Information			1,533			7	
18	Sales Expenses			261			7	
	Administrative & General							
19	Operating Expenses			19,239			280	124
20	Depreciation			3,735				
21	Taxes			2				
22	Total Admin. & General	0	0	22,976	0	0	280	124
23	Total Electric Expenses	998	0	253,037	(45,705)	(6,465)	1,067	127
24	OPERATING INCOME BEFORE FIT	(998)	0	56,392	(9,670)	5,133	(1,067)	(127)
	FEDERAL INCOME TAX							
25	Current Accrual	$ (349)	1,985	7,137	(3,385)	1,797	(373)	(44)
26	Deferred Income Taxes			5,637				
27	NET OPERATING INCOME	($649)	($1,985)	$43,618	($6,285)	$3,336	($694)	($83)
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible			$12,083				
29	Production			364,117		(18,691)		
30	Transmission			156,662				
31	Distribution			340,248				
32	General			49,818				
33	Total Plant in Service	0	0	922,928	0	(18,691)	0	0
34	ACCUMULATED DEPRECIATION			313,358		(6,608)		
35	ACCUM. PROVISION FOR AMORTIZATION			3,664				
36	Total Accum. Depreciation & Amort.	0	0	317,022	0	(6,608)	0	0
37	GAIN ON SALE OF BUILDING			(252)				
38	DEFERRED TAXES			(81,636)		1,881		
39	TOTAL RATE BASE	$0	$0	$524,018	$0	($10,202)	$0	$0
40	RATE OF RETURN			8.32%				

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Transmission Rev/Exp	Pro Forma Capital Add 2008	Pro Forma Capital Add 2009	Pro Forma Information Services	Pro Forma Asset Management	Pro Forma Spokane Rvr Relicensing
	a	PF5	PF6	PF7	PF8	PF9	PF10
	REVENUES						
1	Total General Business						
2	Interdepartmental Sales						
3	Sales for Resale						
4	Total Sales of Electricity	0	0	0	0	0	0
5	Other Revenue	13					
6	Total Electric Revenue	13	0	0	0	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses	5				240	1,063
8	Purchased Power						
9	Depreciation and Amortization		(39)	400			1,037
10	Taxes			261			
11	Total Production & Transmission	5	(39)	661	0	240	2,100
	Distribution						
12	Operating Expenses					510	
13	Depreciation		116	572			
14	Taxes		(3)	277	(9)	(9)	(26)
15	Total Distribution	0	113	849	(9)	501	(26)
16	Customer Accounting						
17	Customer Service & Information						
18	Sales Expenses						
	Administrative & General						
19	Operating Expenses				698		
20	Depreciation		172	960			
21	Taxes			133			
22	Total Admin. & General	0	172	1,093	698	0	0
23	Total Electric Expenses	5	246	2,603	689	740	2,074
24	OPERATING INCOME BEFORE FIT	8	(246)	(2,603)	(689)	(740)	(2,074)
	FEDERAL INCOME TAX						
25	Current Accrual	3	(86)	(911)	(241)	(259)	(726)
26	Deferred Income Taxes						
27	NET OPERATING INCOME	$5	($160)	($1,692)	($448)	($481)	($1,348)
	RATE BASE						
	PLANT IN SERVICE						
28	Intangible		$187	$2,948			$13,596
29	Production		9,927	13,610			
30	Transmission		5,023	3,972			
31	Distribution		7,078	20,555			
32	General		4,998	6,362			
33	Total Plant in Service	0	27,213	47,447	0	0	13,596
34	ACCUMULATED DEPRECIATION		19,393	26,313			
35	ACCUM. PROVISION FOR AMORTIZATION						145
36	Total Accum. Depreciation & Amort.	0	19,393	26,313	0	0	145
37	GAIN ON SALE OF BUILDING						
38	DEFERRED TAXES		(4,162)	(4,238)			(1,267)
39	TOTAL RATE BASE	$0	$3,658	$16,896	$0	$0	$12,184
40	RATE OF RETURN						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma CDA Tribe Settlement	Pro Forma Montana Lease	Pro Forma Colstrip Mercury Emiss. O&M	Pro Forma Incentives	Pro Forma CS2 Levelized Adj
	a	PF11	PF12	PF13	PF14	PF15
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	0	0	0	0	0
5	Other Revenue					
6	Total Electric Revenue	0	0	0	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses			596		
8	Purchased Power					
9	Depreciation and Amortization	401	1,917			199
10	Taxes					
11	Total Production & Transmission	401	1,917	596	0	199
	Distribution					
12	Operating Expenses					
13	Depreciation					
14	Taxes	(5)	(23)	(7)	(4)	
15	Total Distribution	(5)	(23)	(7)	(4)	0
16	Customer Accounting					
17	Customer Service & Information					
18	Sales Expenses					
	Administrative & General					
19	Operating Expenses				295	
20	Depreciation					
21	Taxes					
22	Total Admin. & General	0	0	0	295	0
23	Total Electric Expenses	396	1,894	589	291	199
24	OPERATING INCOME BEFORE FIT	(396)	(1,894)	(589)	(291)	(199)
	FEDERAL INCOME TAX					
25	Current Accrual	(139)	(663)	(206)	(102)	
26	Deferred Income Taxes					(70)
27	NET OPERATING INCOME	($257)	($1,231)	($383)	($189)	($129)
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible	$11,930				
29	Production		2,435			
30	Transmission					
31	Distribution					
32	General					
33	Total Plant in Service	11,930	2,435	0	0	0
34	ACCUMULATED DEPRECIATION	219				
35	ACCUM. PROVISION FOR AMORTIZATION					
36	Total Accum. Depreciation & Amort.	219	0	0	0	0
37	GAIN ON SALE OF BUILDING					
38	DEFERRED TAXES	(3,850)	(852)			
39	TOTAL RATE BASE	$7,861	$1,583	$0	$0	$0
40	RATE OF RETURN					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma ID AMR	Pro Forma O&M Plant Expense	Pro Forma Employee Benefits	Pro Forma Insurance	Pro Forma Chicago Climate (CCX)
	a	PF16	PF17	PF18	PF19	PF20
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	0	0	0	0	0
5	Other Revenue					425
6	Total Electric Revenue	0	0	0	0	425
	EXPENSES					
	Production and Transmission					
7	Operating Expenses		1,400	368		
8	Purchased Power					
9	Depreciation and Amortization					
10	Taxes					
11	Total Production & Transmission	0	1,400	368	0	0
	Distribution					
12	Operating Expenses			243		
13	Depreciation	692				
14	Taxes	322	(17)	(18)	(2)	5
15	Total Distribution	1,014	(17)	225	(2)	5
16	Customer Accounting			78		
17	Customer Service & Information			6		
18	Sales Expenses			6		
	Administrative & General					
19	Operating Expenses			769	152	
20	Depreciation					
21	Taxes					
22	Total Admin. & General	0	0	769	152	0
23	Total Electric Expenses	1,014	1,383	1,452	150	5
24	OPERATING INCOME BEFORE FIT	(1,014)	(1,383)	(1,452)	(150)	420
	FEDERAL INCOME TAX					
25	Current Accrual	(325)	(484)	(508)	(53)	147
26	Deferred Income Taxes					
27	NET OPERATING INCOME	($689)	($899)	($944)	($97)	$273
	RATE BASE					
	PLANT IN SERVICE					
28	Intangible					
29	Production					
30	Transmission					
31	Distribution	22,252				
32	General					
33	Total Plant in Service	22,252	0	0	0	0
34	ACCUMULATED DEPRECIATION					
35	ACCUM. PROVISION FOR AMORTIZATION	663				
36	Total Accum. Depreciation & Amort.	663	0	0	0	0
37	GAIN ON SALE OF BUILDING					
38	DEFERRED TAXES	(153)				
39	TOTAL RATE BASE	$21,436	$0	$0	$0	$0
40	RATE OF RETURN					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Wartsila Amortization	Pro Forma Colstrip Lawsuit Stlmnt	Pro Forma TOTAL
	a	PF21	PF22	PFT
	REVENUES			
1	Total General Business			$220,107
2	Interdepartmental Sales			145
3	Sales for Resale			27,610
4	Total Sales of Electricity	0	0	247,862
5	Other Revenue			5,298
6	Total Electric Revenue	0	0	253,160
	EXPENSES			
	Production and Transmission			
7	Operating Expenses			64,401
8	Purchased Power			74,664
9	Depreciation and Amortization	185	369	16,634
10	Taxes			6,123
11	Total Production & Transmission	185	369	161,822
	Distribution			
12	Operating Expenses			9,627
13	Depreciation			10,048
14	Taxes			2,986
15	Total Distribution	0	0	22,661
16	Customer Accounting			3,484
17	Customer Service & Information			1,546
18	Sales Expenses			274
	Administrative & General			
19	Operating Expenses			21,557
20	Depreciation			4,867
21	Taxes			135
22	Total Admin. & General	0	0	26,559
23	Total Electric Expenses	185	369	216,345
24	OPERATING INCOME BEFORE FIT	(185)	(369)	36,815
	FEDERAL INCOME TAX			
25	Current Accrual			579
26	Deferred Income Taxes	(65)	(129)	5,373
27	NET OPERATING INCOME	($120)	($240)	$30,863
	RATE BASE			
	PLANT IN SERVICE			
28	Intangible			$40,744
29	Production			371,398
30	Transmission			165,657
31	Distribution			390,133
32	General			61,178
33	Total Plant in Service	0	0	1,029,110
34	ACCUMULATED DEPRECIATION			352,675
35	ACCUM. PROVISION FOR AMORTIZATION			4,472
36	Total Accum. Depreciation & Amort.	0	0	357,147
37	GAIN ON SALE OF BUILDING			(252)
38	DEFERRED TAXES			(94,277)
				0
39	TOTAL RATE BASE	$0	$0	$577,434
40	RATE OF RETURN			5.34%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(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	$88,848	$2,599	$91,447	$2,740	$94,187
2	Total Transportation	529	(209)	320		320
3	Other Revenues	59,962	(59,815)	147		147
4	Total Gas Revenues	149,339	(57,425)	91,914	2,740	94,654
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases	132,107	(65,859)	66,248		66,248
7	Purchased Gas Expense	356	33	389		389
8	Net Nat Gas Storage Trans	(8,926)	8,926	-		0
9	Total Production	123,537	(56,900)	66,637	0	66,637
	Underground Storage					
10	Operating Expenses	167	0	167		167
11	Depreciation	107	29	136		136
12	Taxes	46	47	93		93
13	Total Underground Storage	320	76	396	0	396
	Distribution					
14	Operating Expenses	3,833	254	4,087		4,087
15	Depreciation	2,807	23	2,830		2,830
16	Taxes	2,396	(1,279)	1,117	33	1,150
17	Total Distribution	9,036	(1,002)	8,034	33	8,067
18	Customer Accounting	1,937	(68)	1,869	7	1,876
19	Customer Service & Information	1,788	(1,538)	250		250
20	Sales Expenses	213	7	220		220
	Administrative & General					
21	Operating Expenses	4,471	531	5,002	7	5,009
22	Depreciation	816	359	1,175		1,175
23	Taxes	11	30	41		41
24	Total Admin. & General	5,298	920	6,218	7	6,225
25	Total Gas Expense	142,129	(58,505)	83,624	47	83,671
26	OPERATING INCOME BEFORE FIT	7,210	1,080	8,290	2,693	10,983
	FEDERAL INCOME TAX					
27	Current Accrual	1,089	670	1,759	943	2,702
28	Deferred FIT	334	3	337		337
29	Amort ITC	(19)	0	(19)		(19)
						0
30	NET OPERATING INCOME	5,806	$407	6,213	$1,750	$7,963
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage	5,549	3,540	9,089		9,089
32	Distribution Plant	120,449	10,109	130,558		130,558
33	General Plant	11,067	3,175	14,242		14,242
34	Total Plant in Service	137,065	16,824	153,889	0	153,889
	ACCUMULATED DEPRECIATION					
35	Underground Storage	3,080	92	3,172		3,172
36	Distribution Plant	39,978	4,802	44,780		44,780
37	General Plant	3,471	1,665	5,136		5,136
38	Total Accum. Depreciation	46,529	6,559	53,088	0	53,088
39	DEFERRED FIT	0	(15,052)	(15,052)		(15,052)
40	GAS INVENTORY	0	4,824	4,824		4,824
41	GAIN ON SALE OF BUILDING	0	(82)	(82)		(82)
42	TOTAL RATE BASE	90,536	($45)	90,491	$0	$90,491
43	RATE OF RETURN	6.41%		6.87%		8.80%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Gas
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000's OF DOLLARS)

Line No.	Description	IDAHO
1	Pro Forma Rate Base	$90,491
2	Proposed Rate of Return	8.800%
3	Net Operating Income Requirement	$7,963
4	Pro Forma Net Operating Income	$6,213
5	Net Operating Income Deficiency	$1,750
6	Conversion Factor	0.63878685
7	Revenue Requirement	$2,740
8	Total General Business Revenues	$91,767
9	Percentage Revenue Increase	2.99%

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO GAS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008

Revenues	1.000000
Expense:	
Uncollectibles (1)	0.002528
Commission Fees (2)	0.002507
Idaho Income Tax (3)	0.012216
Total Expense	0.017251
Net Operating Income Before FIT	0.982749
Federal Inc 35.00%	0.343962
REVENUE CONVERSION FACTOR	**0.638787**

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(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	$88,848						$88,848
2	Total Transportation	529						529
3	Other Revenues	59,962						59,962
4	Total Gas Revenues	149,339	0	0	0	0	0	149,339
	EXPENSES							
5	Exploration and Development	0						0
	Production							
6	City Gate Purchases	132,107						132,107
7	Purchased Gas Expense	356						356
8	Net Nat Gas Storage Trans	(8,926)						(8,926)
9	Total Production	123,537	0	0	0	0	0	123,537
	Underground Storage							
10	Operating Expenses	167						167
11	Depreciation	107						107
12	Taxes	46						46
13	Total Underground Storage	320	0	0	0	0	0	320
	Distribution							
14	Operating Expenses	3,833						3,833
15	Depreciation	2,807						2,807
16	Taxes	2,396						2,396
17	Total Distribution	9,036	0	0	0	0	0	9,036
18	Customer Accounting	1,937			0	0		1,937
19	Customer Service & Information	1,788						1,788
20	Sales Expenses	213						213
	Administrative & General							
21	Operating Expenses	4,471						4,471
22	Depreciation	816						816
23	Taxes	11						11
24	Total Admin. & General	5,298	0	0	0	0	0	5,298
25	Total Gas Expense	142,129	0	0	0	0	0	142,129
26	OPERATING INCOME BEFORE FIT	7,210	0	0	0	0	0	7,210
	FEDERAL INCOME TAX							
27	Current Accrual	1,089						1,089
28	Deferred FIT	334						334
29	Amort ITC	(19)						(19)
30	NET OPERATING INCOME	$5,806	$0	$0	$0	$0	$0	$5,806
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage	5,549						5,549
32	Distribution Plant	120,449				279	(73)	120,655
33	General Plant	11,067						11,067
34	Total Plant in Service	137,065	0	0	0	279	(73)	137,271
	ACCUMULATED DEPRECIATION							
35	Underground Storage	3,080						3,080
36	Distribution Plant	39,978						39,978
37	General Plant	3,471						3,471
38	Total Accum. Depreciation	46,529	0	0	0	0	0	46,529
39	DEFERRED FIT	0	(14,220)	29				(14,191)
40	GAS INVENTORY	0			4,535			4,535
41	GAIN ON SALE OF BUILDING	0		(82)				(82)
42	TOTAL RATE BASE	$90,536	($14,220)	($53)	$4,535	$279	($73)	$81,004
43	RATE OF RETURN							7.17%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(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		$4,171	$ (1,572)			
2	Total Transportation		(200)	(9)			
3	Other Revenues		(58,755)				
4	Total Gas Revenues	0	(54,784)	(1,581)	0	0	0
	EXPENSES						
5	Exploration and Development						
	Production						
6	City Gate Purchases		(65,859)				
7	Purchased Gas Expense						
8	Net Nat Gas Storage Trans		8,926				
9	Total Production	0	(56,933)	0	0	0	0
	Underground Storage						
10	Operating Expenses						
11	Depreciation	(6)					
12	Taxes				(7)		
13	Total Underground Storage	(6)	0	0	(7)	0	0
	Distribution						
14	Operating Expenses						
15	Depreciation	(26)					
16	Taxes		45	(1,581)	168	2	
17	Total Distribution	(26)	45	(1,581)	168	2	0
18	Customer Accounting		10	0		(127)	0
19	Customer Service & Information		(1,546)				
20	Sales Expenses						
	Administrative & General						
21	Operating Expenses		11				13
22	Depreciation	(6)					
23	Taxes				(1)		
24	Total Admin. & General	(6)	11	0	(1)	0	13
25	Total Gas Expense	(38)	(58,413)	(1,581)	160	(125)	13
26	OPERATING INCOME BEFORE FIT	38	3,629	0	(160)	125	(13)
	FEDERAL INCOME TAX						
27	Current Accrual	13	1,270		(56)	44	(5)
28	Deferred FIT						
29	Amort ITC						
30	NET OPERATING INCOME	$25	$2,359	$0	($104)	$81	($8)
	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 SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Injuries and Damages	FIT	Eliminate A/R Expenses	Misc. Restating Adjs	Restate Debt Interest	Restated Total	Pro Forma Labor Non-Exec
	a	n	o	p	q	r	-	PF1
	REVENUES							
1	Total General Business						$91,447	
2	Total Transportation						320	
3	Other Revenues						1,207	
4	Total Gas Revenues	0	0	0	0	0	92,974	0
	EXPENSES							
5	Exploration and Development						0	
	Production							
6	City Gate Purchases						66,248	
7	Purchased Gas Expense						356	12
8	Net Nat Gas Storage Trans						0	
9	Total Production	0	0	0	0	0	66,604	12
	Underground Storage							
10	Operating Expenses						167	
11	Depreciation						101	
12	Taxes						39	
13	Total Underground Storage	0	0	0	0	0	307	0
	Distribution							
14	Operating Expenses						3,833	139
15	Depreciation						2,781	
16	Taxes			1	1		1,032	(3)
17	Total Distribution	0	0	1	1	0	7,646	136
18	Customer Accounting			(43)			1,777	52
19	Customer Service & Information						242	4
20	Sales Expenses						213	4
	Administrative & General							
21	Operating Expenses	(1)			(48)		4,446	67
22	Depreciation						810	
23	Taxes						10	
24	Total Admin. & General	(1)	0	0	(48)	0	5,266	67
25	Total Gas Expense	(1)	0	(42)	(47)	0	82,055	275
26	OPERATING INCOME BEFORE FIT	1	0	42	47	0	10,919	(275)
	FEDERAL INCOME TAX							
27	Current Accrual		(13)	15	16	292	2,665	(96)
28	Deferred FIT		3				337	
29	Amort ITC						(19)	
30	NET OPERATING INCOME	$1	$10	$27	$31	($292)	$7,936	($179)
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage						5,549	
32	Distribution Plant						120,655	
33	General Plant						11,067	
34	Total Plant in Service	0	0	0	0	0	137,271	0
	ACCUMULATED DEPRECIATION							
35	Underground Storage						3,080	
36	Distribution Plant						39,978	
37	General Plant						3,471	
38	Total Accum. Depreciation	0	0	0	0	0	46,529	0
39	DEFERRED FIT						(14,191)	
40	GAS INVENTORY						4,535	
41	GAIN ON SALE OF BUILDING						(82)	
42	TOTAL RATE BASE	$0	$0	$0	$0	$0	$81,004	$0
43	RATE OF RETURN						9.80%	

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Labor Exec	Pro Forma Capital Add 2008	Pro Forma Capital Add 2009	Pro Forma Information Services	Pro Forma Incentives	Pro Forma JP Storage
	a	PF2	PF3	PF4	PF5	PF6	PF7
	REVENUES						
1	Total General Business						
2	Total Transportation						
3	Other Revenues						(1,060)
4	Total Gas Revenues	0	0	0	0	0	(1,060)
	EXPENSES						
5	Exploration and Development						
	Production						
6	City Gate Purchases						
7	Purchased Gas Expense	1					
8	Net Nat Gas Storage Trans						
9	Total Production	1	0	0	0	0	0
	Underground Storage						
10	Operating Expenses						
11	Depreciation		(33)	4			64
12	Taxes			1			53
13	Total Underground Storage	0	(33)	5	0	0	117
	Distribution						
14	Operating Expenses						
15	Depreciation		(222)	32			
16	Taxes		1	17	$ (2)	(1)	(14)
17	Total Distribution	0	(221)	49	(2)	(1)	(14)
18	Customer Accounting						(3)
19	Customer Service & Information						
20	Sales Expenses						
	Administrative & General						
21	Operating Expenses	31			$157	73	(3)
22	Depreciation		145	220			
23	Taxes			31			
24	Total Admin. & General	31	145	251	157	73	(3)
25	Total Gas Expense	32	(109)	305	155	72	97
26	OPERATING INCOME BEFORE FIT	(32)	109	(305)	(155)	(72)	(1,157)
	FEDERAL INCOME TAX						
27	Current Accrual	(11)	38	(107)	$ (54)	(25)	(405)
28	Deferred FIT						
29	Amort ITC						
30	NET OPERATING INCOME	($21)	$71	($198)	($101)	($47)	($752)
	RATE BASE: PLANT IN SERVICE						
31	Underground Storage		$ (67)	$77			$3,530
32	Distribution Plant		2,068	1,428			
33	General Plant		996	2,179			
34	Total Plant in Service	0	2,997	3,684	0	0	3,530
	ACCUMULATED DEPRECIATION						
35	Underground Storage		(55)	70			77
36	Distribution Plant		1,995	2,578			
37	General Plant		605	1,060			
38	Total Accum. Depreciation	0	2,545	3,708	0	0	77
39	DEFERRED FIT		(7)	(667)			(151)
40	GAS INVENTORY						289
41	GAIN ON SALE OF BUILDING						
42	TOTAL RATE BASE	$0	$445	($691)	$0	$0	$3,591
43	RATE OF RETURN						

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS

TWELVE MONTHS ENDED SEPTEMBER 30, 2008
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma ID AMR	Pro Forma Employee Benefits	Pro Forma Insurance	Pro Forma Total
	a	PF8	PF9	PF10	-
	REVENUES				
1	Total General Business				$91,447
2	Total Transportation				320
3	Other Revenues				147
4	Total Gas Revenues	0	0	0	91,914
	EXPENSES				
5	Exploration and Development				0
	Production				
6	City Gate Purchases				66,248
7	Purchased Gas Expense		20		389
8	Net Nat Gas Storage Trans				0
9	Total Production	0	20	0	66,637
	Underground Storage				
10	Operating Expenses				167
11	Depreciation				136
12	Taxes				93
13	Total Underground Storage	0	0	0	396
	Distribution				
14	Operating Expenses		115		4,087
15	Depreciation	239			2,830
16	Taxes	92	(5)		1,117
17	Total Distribution	331	110	0	8,034
18	Customer Accounting		43		1,869
19	Customer Service & Information		4		250
20	Sales Expenses		3		220
	Administrative & General				
21	Operating Expenses		193	38	5,002
22	Depreciation				1,175
23	Taxes				41
24	Total Admin. & General	0	193	38	6,218
25	Total Gas Expense	331	373	38	83,624
26	OPERATING INCOME BEFORE FIT	(331)	(373)	(38)	8,290
	FEDERAL INCOME TAX				
27	Current Accrual	(102)	(131)	(13)	1,759
28	Deferred FIT				337
29	Amort ITC				(19)
30	NET OPERATING INCOME	($229)	($242)	($25)	$6,213
	RATE BASE: PLANT IN SERVICE				
31	Underground Storage				9,089
32	Distribution Plant	6,407			130,558
33	General Plant				14,242
34	Total Plant in Service	6,407	0	0	153,889
	ACCUMULATED DEPRECIATION				
35	Underground Storage				3,172
36	Distribution Plant	229			44,780
37	General Plant				5,136
38	Total Accum. Depreciation	229	0	0	53,088
39	DEFERRED FIT	(36)			(15,052)
40	GAS INVENTORY				4,824
41	GAIN ON SALE OF BUILDING				(82)
42	TOTAL RATE BASE	$6,142	$0	$0	$90,491
43	RATE OF RETURN				6.87%