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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-09-1/ AVU-G-09-1

DIRECT TESTIMONY OF DONN ENGLISH

IDAHO PUBLIC UTILITIES COMMISSION

MAY 29, 2009

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

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

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

A. I am employed by the Idaho Public Utilities Commission as a senior auditor in the Utilities Division.

Q. What is your educational and experience background?

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

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

While with the Commission, I have audited a number of utilities including electric, water and gas companies and provided comments and testimony in several cases that dealt with general rates, accounting issues, pension issues and other regulatory issues. In 2004 I attended the 46th Annual Regulatory Studies Program at the Institute of Public Utilities at Michigan State University sponsored by the National Association of Regulatory Utility Commissioners (NARUC). Since then I have regularly attended NARUC conferences and meetings, primarily the meetings of the Subcommittee of Accounting and Finance.

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

A. The purpose of my testimony in this case is to address system operating costs that are allocated to Idaho's gas and electric jurisdictions. I will also present the Staff recommended revenue increase in base rates for Avista Utilities' Idaho Gas jurisdiction. This increase in base rates will ultimately be offset by a proposed decrease in the weighted average cost of gas (WACOG) in Staff witness Elam's testimony, for no change in the net billing rate for the residential class. First, I will propose adjustments that decrease both gas operating expenses and electric operating expenses included in the Company's filing. Secondly, I will address the Company's proposed gas rate base, and additionally, I will propose adjustments that are related specifically to the Company's proposed Idaho Electric revenue requirement. Finally, I will address the Company's proposed accounting treatment for deferring a carrying charge on the difference between pension expense accrual, as calculated under Statement of Financial Accounting Standards No. 87 (FAS 87), and the actual cash contribution made to the plan by Avista Utilities.

Q. What is the Staff's recommended revenue requirement for Avista's Idaho Gas jurisdiction?

A. Staff recommends an increase in base rates of $1,894,000, or 2.06% on annual revenues of $91,767,000. This revenue increase is calculated with a Return on Equity of 10.5% and an overall rate of return of 8.55% as discussed in further detail in Staff witness Carlock's testimony. Staff's proposed rate base of $90,028,000 is slightly less than the rate base proposed by Avista of $90,491,000. Staff Exhibit No. 109, Schedule 1 compares the results of Staff's recommendations to those proposed by the Company. The adjustments made by Staff to the Company's case will be discussed in greater detail later in my testimony.

Q. Please discuss the difference in the Conversion Factor proposed by the Company and that recommended by Staff as shown on Staff Exhibit No. 109, Schedule 1, line 6.

A. The conversion factor is an additional adjustment needed to account for the increase in revenue that triggers additional increases in the Company's tax liability, and other revenue contingent items like the Commission regulatory fees and the Company's uncollectible expenses. The calculation of the conversion factor is shown on Staff Exhibit No. 109, Schedule 2. The difference in the conversion factors arises from different IPUC assessment rates used to determine the Commission's regulatory fees. At the time of its filing, the Company used the 2008 assessment rate of 0.2507%. However, on May 7, 2009 the Commission issued Order No. 30780 which established an assessment rate of 0.1662% of gross Idaho operating revenue derived from intrastate utility business. Staff updated the new assessment rate on line 4, producing a new conversion factor of 0.639336. Because the conversion factor is the same for both gas and electric operations, this adjustment effects both gas and electric revenue requirements.

Q. Are you sponsoring any other exhibits with your testimony?

A. Yes, I will also be sponsoring Staff Exhibit Nos. 110-115 which will illustrate the adjustments Staff has made to the Company's pro forma case to develop the pro forma net operating income recommended by Staff. Staff Exhibit No. 110 shows ten adjustments that impact both gas and electric operating results. The Idaho Gas Adjustments on Staff Exhibit No. 110 are then displayed in a columnar fashion on Staff Exhibit No. 111. Column B of Staff Exhibit No. 111 is identical to the Pro Forma Total column in Company witness Andrews' Exhibit No. 10, Schedule 2, page 8, which illustrates the Company's request and becomes the starting point for all of Staff's adjustments.

System Adjustments Allocated to Idaho Gas and Electric Jurisdictions

Non-Executive Labor Expense

Q. Please describe the first adjustment on Staff Exhibit No. 110.

A. Line 1 reflects Staff's adjustment to non-executive labor expenses. Executive Labor has been removed and is discussed in a separate adjustment reflected on line 2. In Andrews' adjustment PF-1, the increases paid to employees in March of 2008 are first annualized, and then an adjustment is made to reflect the increase paid in March of 2009. An additional adjustment is made to reflect an increase in wages to be paid in March of 2010, and the Company proposes to recover 8 months of the increased 2009 expense and an additional 4 months of the 2010 increase to reflect what it believes to be the estimated labor expense for the proposed rate year ending June 30, 2010. The Company calculated estimated labor expense increases of 3.8% in 2009 and 2010 for its administrative staff, and used the contractually obligated 4% wage increase for its collective-bargaining union employees. Consistent with Staff's treatment of the proposed test year in this case, I have removed all increases associated with 2010 to reflect the annual labor expenses for the year ending December 31,

2009. Additionally, at the time of its filing, the Board of Directors had not formally approved a wage increase for 2009, so the Company's 3.8% was an estimate of what was believed to be the appropriate increase for 2009. The Board of Directors subsequently approved a wage increase of 2.5% for 2009 for administrative staff, while the union employees received their 4% increase as mandated by contract.

In addition to removing the 2010 increases, I have also reduced the 2009 increases to the amount actually paid in March of 2009, and annualized those increases as if they were in effect for the whole year. The effect of this adjustment reduces Non-Executive Labor expense for the Idaho Gas operation by $75,573 and increases Net Operating Income by $49,000 as shown in Column s-1 of Staff Exhibit No. 111. The effect on Net Operating Income for Idaho Electric Jurisdiction is shown on Staff witness Vaughn's Exhibit No. 118.

Executive Labor Expense

Q. Will you please describe the adjustment on line 2 of Exhibit No. 110 for Executive Compensation?

A. Yes. Line 2 represents Staff's adjustment removing all increases for executive compensation proposed by the Company over the test year amounts. Similar to the Company's approach with non-executive labor, the Company included in its request an increase for 2009 and 2010 for its executives. Subsequent to its filing, the executives of Avista decided to forego any increases in base salary for 2009. I have removed all of the proposed salary increases for executive labor to reflect this decision to forego increases in 2009, and to remove the estimated increase for 2010 to be consistent with Staff's use of the year ending December 31, 2009. Additionally, I annualized the current base salaries of all executives as of March 31, 2009 to reflect a full 12 months of their current pay. The effect of these cumulative adjustments reduces Idaho Gas expenses by $31,051 and increases Net Operating Income for Avista's Idaho Gas jurisdiction by $21,000 as shown in Column s-2 of Staff Exhibit No. 111. Again, the effect of this adjustment on the Idaho Electric Jurisdiction's Net Operating Income is reflected on Staff witness Vaughn's Exhibit No. 118.

Q. Given the number of negative comments from customers regarding executive compensation, is there anything else you would like to add on the topic?

A. Because of the current economic conditions and the multitude of customers expressing their displeasure with the salaries paid to Avista executives, I will explain Staff's critical approach in analyzing the reasonableness of the executive compensation package, and its impact on residential customer rates. The amount of executive labor requested to be included in Idaho Gas rates by the Company is 0.20% of annual revenues. On the average Idaho residential monthly gas bill, this means that 10.78 cents goes toward executive labor under the Company's proposal. For Idaho electric customers, the amount requested to be included in rates by the Company is 0.34% of annual revenues, or 15.84 cents per month on the average residential bill. With Staff's proposed adjustments, Idaho customers using both gas and electricity from Avista will be paying less than 27 cents per month toward executive salaries. Removing all executive salaries from customer rates for gas and electric service would save customers approximately $3.00 per year.

Furthermore, Staff's proposal for executive labor expense, in this case, is 0.76% increase over the executive labor currently embedded in rates based on 2007 expense. This is a relatively small increase considering that an additional executive position was added during 2008. On average, executive compensation actually decreased by over $22,000 per executive since the last general rate case.

Q. Why do you believe customers have a general misunderstanding of the impact executive labor has on their utility rates.

A. On March 24, 2009, Avista issued its annual proxy statement. Within this proxy statement, Avista is required to list the compensation components of its top 5 officers. Many news outlets in northern Idaho and eastern Washington have reported the total compensation of these officers without regard to how that compensation is paid. Total compensation in the proxy statement consists of base salary, stock awards, option awards, incentive plans, death and disability plans, and gains on pension and non-qualified deferred compensation earnings, and a multitude of other benefits. For example, it was reported that Avista President and CEO Scott Morris received total compensation of $2,221,905 in 2008. However, as shown on Staff Exhibit No. 112, Idaho customers only paid approximately 8.3% of that total, while other jurisdictions contributed as well. It should also be noted that approximately three-fourths of the total compensation reported for Mr. Morris in the proxy statement was charged to non-utility operations of Avista.

Adding to the customers' frustration is the current economic conditions of northern Idaho as described in the testimony of Staff witness Thaden. At a time when many customers are experiencing declining incomes, Avista executives are reporting compensation packages that could make people envious. However, when compared to other utility providers of comparable size, Avista executives are paid below average for the management of a business with $1.5 billion annual revenue.

Non-Executive Incentive Expense

Q. Will you please describe the adjustment labeled Non-Executive Incentive Expense on line 3 of Exhibit No. 110?

A. Yes. Line 3 reflects Staff's adjustment to the Company's proposed level of employee bonuses, ultimately reducing employee bonuses for non-executive employees to the level accrued during the historical test period.

Q. Please briefly describe the Company's Employee Incentive Plan.

A. The Company's main employee incentive plan consists of two steps. The initial step in the issuance of bonuses is determined when Standard Performance Expectations are met. These Standard Performance Expectations are based on customer satisfaction ratings, average restoration time and average outage per customer. Once the Standard Performance Expectations have been achieved, the actual payouts are dictated by O&M cost savings.

Q. How did the Company develop its proposed level of incentive payments to be included in rates?

A. Actual incentives paid and the associated payroll taxes for years 2003 through 2007 were adjusted by the

Consumer Price Index (CPI) for the year the incentives were paid to restate those costs in 2008 dollars. The Company then computes a six-year average of incentive payments and compares that to the incentive expense included in the test year to determine its pro forma adjustment. The Company's proposed adjustment increases the incentive expense by $1,175,087 for the total system, or $73,238 for the Idaho Gas jurisdiction and $295,137 for the Idaho Electric jurisdiction.

Q. Why do you object to the Company's proposal for its employee incentive plan?

A. My first objection relates to the use of a six-year average to determine the annual level of incentive expense in this case. As you can see on Staff Exhibit No. 113, the annual incentive payments have continually trended downward over the past four years, and the test-year level of incentive expense represents the lowest amount of any of the previous six years. The use of the six-year average in this case would effectively require customers who are in the midst of a recession to pay for employee bonuses at a level that was incurred during a time when economic conditions were far superior than we are currently experiencing. Furthermore, the Company has not provided any evidence that incentive payments will be increasing in the near future to justify the 30% increase over test-year accruals.

Secondly, because actual payouts are dictated by utility O&M cost savings, bonuses will not be paid unless shareholder earnings are achieved. The Company's Employee Incentive Plan states that this O&M component focuses on the context of cost management. Though not directly stated as such in the Company's Incentive Plan, O&M cost reductions at a time of increasing revenues has a direct positive correlation to shareholder value. Additionally, any incentive payments made due to any type of O&M benchmark should be self-funding to the extent that any O&M savings achieved should be sufficient to fund the incentive payout.

Q. How has the Commission typically dealt with these types of incentive plans?

A. I believe that both Staff and the Commission acknowledge that incentive payments are an appropriate part of a utility company's overall compensation package, provided that the incentive payouts are not based on increasing shareholder value. In Case No. IPC-E-05-28, the parties agreed to a stipulation that stated "it is reasonable to include an employee pay-at-risk or employee incentive component in test-year revenue requirements so long as such incentive component is based on goals that benefit customers." The Stipulation further stated that "senior management pay-at-risk is appropriately excluded from test-year revenue requirement."

Though this stipulation was filed as an agreement between Commission Staff and Idaho Power Company, by accepting the stipulation, the Commission has expressed its intentions with respect to the treatment of employee incentive plans. The Commission also affirmed in Order No. 30722 that "incentive pay is properly included in annual revenue requirement if it is related to identifiable customer benefits." The Commission further stated in that Order that the customer benefits of "O&M management that is reflected in rates set in annual rate cases does not create the necessary nexus between incentive pay and customer benefit."

Finally, I believe that the Commission is cognizant of the public perception of Avista awarding employee bonuses at a time when it is asking to increase the rates it charges for gas and electricity, and especially when many of its customers are struggling financially. If Avista believes that today's financial environment mandates the need for rate increases, those rate increases should be mitigated by a concerted attempt to lower costs and salary. The incentive plan creates the perfect opportunity for Avista to generate funds internally because the Company will undoubtedly experience salary savings through attrition. As employees retire, or leave the Company, voluntarily or not, their replacements will presumably be paid less. Avista could use these salary savings from attrition to fund a portion of its incentive plan.

Q. Given what you just stated about employee incentives, what it your proposal in this case?

A. Because Staff has continually recognized the benefit of an incentive plan in an employee's total compensation package, I do not propose to eliminate 100% of the incentive expense proposed by the Company. Also, because the Company's incentive plan does not have a component that directly relates to O&M savings, but rather states that O&M targets must be attained before incentives can be paid, there is not a specific component of the plan that can be reduced. Therefore, my adjustment limits the amount of employee incentive expense to that which was accrued during the test year ending September 30, 2008. This is a reduction of approximately $1.2 million system-wide to the Company's proposal.

It should be noted that the remaining $2.8 million, with the exception of executive bonuses which I discuss shortly, is comparable to the approximately $3.2 million in incentive expense that the Commission awarded to Idaho Power in Case No. IPC-E-08-10. Because Idaho Power has approximately 2,000 employees compared to Avista's approximately 1,500 employees, on a per employee basis, the amount I recommend for Avista is actually greater than that approved for Idaho Power.

Executive Incentive Expense

Q. Does the test year incentive expense for Avista include bonuses for its executives?

A. Yes, it does. Line 4 of my Staff Exhibit No. 110 illustrates the removal from test year incentive expense the amounts included for Avista executives. This is consistent with the Commission's affirmation that senior management pay-at-risk be excluded from test year revenue requirement, and is also consistent with Staff's treatment of executive incentive expense for all other utilities providing service in Idaho.

The Avista Executive Officer Incentive Plan is similar to the incentive plan for all employees with standard performance measures based on customer satisfaction and reliability. However, the executive incentive plan also has a Capital Spending Budget component as well. Once the standard performance triggers are achieved, 70% of the target award is based on earnings per share targets and the other 30% on O&M cost per customer benchmarks. Because the Executive Officer Incentive Plan does not pay out until shareholder benchmarks are met, this plan should be paid for with shareholder money and not charged to customers. Removing the executive incentive payments from the test year reduces expenses by $311,028 for the total system, or by $19,385 for the Idaho Gas jurisdiction and $78,118 for the Idaho Electric jurisdiction.

Board of Directors Expense

Q. Please explain the adjustment on line 5 of Staff Exhibit No. 110.

A. Line 5 represents the proposed adjustment to remove one-half (50%) of the Board of Directors' retainer fees, travel and meetings expense. The Board of Directors is the highest governing authority within the management structure at any publicly traded company. It is the board's job to select, evaluate, and approve appropriate compensation for the company's chief executive officer (CEO), evaluate the attractiveness of and payment of dividends, recommend stock splits, oversee share repurchase programs, approve the company's financial statements, and recommend or discourage acquisitions and mergers. All of these responsibilities illustrate that the primary responsibility of the Board of Directors is to protect the shareholders' assets and ensure shareholders receive a decent return on their investment.

Because the board of directors' fiduciary responsibility is to protect shareholder value and the board serves at the behest of shareholders, who have the opportunity to elect or retain board members, it is reasonable for shareholders to pay at least half of the expenses associated with board fees, travel and meetings.

Q. Are there other reasons supporting your adjustment to Board of Directors Expense?

A. Yes. During the course of Staff's audit, it was noted that some board members fly to board meetings via first class and receive limousine transportation from the airport. Also, board retreats consisted of extravagantly catered lunches and dinners, along with cruises on Lake Coeur d'Alene. The expenses for these types of activities were charged to ratepayer accounts and included in the Company's test-year revenue requirement. I believe it is inappropriate to pass these types of expenses onto ratepayers, especially because these expenses do not relate to the generation, transportation or distribution of utility services. Staff's removal of one-half of all these expenses acknowledges that as a publicly traded company, Avista is required to have a board of directors and that some level of expense charged to customers may be appropriate. This adjustment reduces expenses by $595,617 system-wide or $37,122 for the Idaho Gas jurisdiction and $149,596 for the Idaho Electric jurisdiction.

Information Services Support Adjustment

Q. Please explain the adjustment listed on line 6 of Exhibit No. 110.

A. This adjustment is a two-part adjustment to the pro forma level of Information Services Support proposed by the Company in Mr. Kopczynski's testimony. The Company proposes to capture an additional $2.6 million system-wide for labor and non-labor informational services costs planned for 2009 above the test period levels. Mr. Kopczynski states that an additional $1.3 million is needed for an additional nine positions to support software applications that have been utilized by the Company in recent years. Five of those positions have currently been filled by the Company, while the other four have not. Two of those positions are not expected to be filled until January 2010.

Many of the software applications the Company is requesting additional labor dollars for were put in place in 2008. Because the Company is currently using these applications, while already providing reliable electric and gas service to customers at its current staffing level, I believe some of these positions may be unnecessary or filling them could at least be delayed. My adjustment removes approximately $560,000 system-wide for the four unfilled positions, or $25,000 for the Idaho Gas jurisdiction and $156,000 for the Idaho Electric jurisdiction.

Q. What is the second part of your adjustment?

A. The second part of my adjustment to Information Services (IS) Support reflects the historical variance between budgeted amounts and actual expenditures. Though Staff generally believes that Avista's forecasts are an accurate representation of the Company's intentions, during the course of Staff's review a large variance existed between 2008 budgets and 2008 actual expenses. The Company's budget or IS Support for 2008 was $2.66 million system-wide, although actual expenses totaled only $2.11 million, for a variance of 20.57%. By applying this variance to the budgeted amounts for 2009, it would be reasonable to reduce 2009 IS support by $550,000 system.

Q. Are there any specific examples in which you believe the Company's estimates for Information Services Support may be too high?

A. Yes. For example, in late 2008, the Company implemented the ARCOS Rostermonster automated crew call out mechanism for after-hour callouts, eliminating the need for one-on-one callouts while creating operational efficiencies. I have reviewed the Company's agreement with

ARCOS, Inc.[1] The agreement calls for a fixed monthly service fee, and a variable charge based on line usage. After reviewing the invoices from ARCOS, Inc. for the first three months of 2009, I believe the Company over-estimated the annual variable charge for line usage. By annualizing the March 2009 line usage data, the most recent data available, it would appear that Avista overestimated the amount it would need to pay to ARCOS by approximately $38,000. Rather than proposing separate adjustments for each of the applications and contracts, this adjustment incorporates an expected variance between budget and actuals for 2009.

It is also important to note that this adjustment is not only a reflection of the budget variance, but also recognizes the operational efficiencies gained but not accounted for in the Company's case.

Q. What are the operational efficiencies that you are referring to?

A. One of the difficulties of dealing with pro forma test years is that forecasting expenses can be done with relative accuracy based on historical trends and additional planned projects. However, the benefits obtained by these

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[1] Details of the agreements were provided confidentially pursuant to the Protective Agreement between Avista and IPUC Staff dated January 8, 2009. Avista claims this information is exempt from public inspection under the Commission's Procedural Rule 067 and 233, and Idaho Code § 9-340D.)

expenditures are not as easily identifiable, even though they do exist. For example, Avista's Outage Management System, as described in Exhibit No. 7, page 11, is a software application utilizing a Geographical Information System (GIS mapping system) that allows distribution facilities to be linked to individual customers service points in a computer based model. Customers can report outages quickly by speaking into the Company's Integrated Voice Response (IVR) system. All customer calls are then plotted in the GIS mapping system. The plotting of all commonly affected customers associated with an outage incident enables the Company to more accurately and expeditiously predict the probable cause of the outage, and thus reduce restoration time. In this specific example, both the Company's IVR system and Outage Management System have created efficiencies that are not quantified in the Company's case.

When asked about the benefits of the IVR system, the Company responded in an email on April 24, 2009 that the efficiencies will be operational and difficult to quantify. Although Avista also stated that it had no means to quantify the benefits of the Outage Management System, the Company did estimate that it would save approximately two to four hours each day performing restoration of service on normal daily outages.

While the Company admits that operational efficiencies will be achieved through nearly all of its IS applications, there is no attempt to quantify any of those benefits that customers should receive. My calculation of the variance between budgeted amounts and actual expenditures, and the resulting adjustment serves as a reasonable proxy to quantify those identified customer benefits.

Legal Expenses

Q. Please explain the adjustment to legal expenses listed on line 7 of Exhibit No. 110.

A. The adjustment on line 7 consists of two separate components: 1) the removal of 10% of legal expenses related to corporate functions such as Securities and Exchange Commission (SEC) compliance, securities litigation and proxy statements and standards; and 2) the amortization of legal expenses associated with the Gas Transmission Northwest Corporation (GTN) natural gas rate case filed with the Federal Energy Regulatory Commission (FERC).

Q. Please explain the adjustment for SEC compliance-type issues.

A. As a publicly traded company, Avista Corporation is required to file reports and comply with the laws and rules set up by the SEC. Because Avista Corporation consists of more than just Avista Utilities, the other subsidiaries that contribute to the Corporation should be required to share in these types of corporate expenses. The pressure for profit creates a risk to customers that corporate management may shift the costs and burdens of corporate operations so that the beneficial aspects flow to the unregulated subsidiary and the burdensome aspects flow to the regulated utility. Without the establishment of a definitive percentage or allocation to be shared by subsidiaries, the customers face the continual risk of shouldering the burden of additional expenses required by publicly traded companies.

Q. How did you determine that 10 percent was the appropriate amount to remove from revenue requirement for SEC compliance issues?

A. The President and Chief Executive Officer, the Chief Financial Officer, the Vice President of Human Resources and Corporate Secretary, the Controller and the Vice President of Finance and Treasures all allocate 10 percent of their time and compensation to non-utility operations. If the corporate executives have deemed that 10% of their time and attention should be assigned to non-utility operations, then it is reasonable to also assign 10% of the securities related expenses to non-utility operations. This adjustment reduces test year legal expenses by $12,000 for the Idaho Electric jurisdiction and

$3,000 for the Idaho Gas jurisdictions.

Q. Please explain the remaining adjustment to legal expenses for the GTN rate case at the FERC.

A. During the test year, Avista paid approximately $47,000 to Portland General Electric for its participation in the GTN rate case with FERC. Staff typically removes non-recurring legal expenses from test year revenue requirement to ensure that the Company is not collecting an annual amount each year for an expense that was incurred for a nonrecurring event. Staff does not believe that GTN will be filing annual rate cases with the FERC, and therefore it would not be reasonable for Avista to recover its legal expenses for this nonrecurring event each year. However, because the Company incurred this expense in response to a regulatory action, and because the expense was prudently incurred to protect Avista customers, it would be inappropriate to exclude this amount in its entirety. Therefore, I propose reducing the Company's legal expense related to the GTN rate case by 66.67%, thereby allowing the Company to recover amounts spent over a three-year period.

IPUC Regulatory Expense

Q. Please explain the adjustment to Regulatory Expense on line 8 of Exhibit No. 110.

A. The IPUC Regulatory Expense included by the

Company in this case was calculated by using the 2008 assessment rate multiplied by test year revenues. As mentioned previously in my testimony, on May 7, 2009 the Commission issued Order No. 30780 which established a new assessment rate of 0.1662% for 2009. This adjustment simply updates the Company's calculation. The effect of this adjustment reduces Regulatory Expense by $62,541 for the Idaho Gas jurisdiction and $139,497 for the Idaho Electric jurisdiction.

Insurance Expense

Q. Will you please explain the adjustment to Insurance Expense listed on line 9 of Exhibit No 110?

A. When the Company was preparing its case, General Liability Insurance Expense for 2009 was estimated to be $4,668,084. However, after the filing was made, the actual insurance contracts were executed and the actual insurance expense was $138,143 less than the Company's estimate. I have reduced the Insurance Expense for the Idaho Gas jurisdiction by $8,610 and for the Idaho Electric jurisdiction by $34,697 to reflect this known and measurable change.

Miscellaneous/Promotional Items

Q. Please explain the adjustment listed as Miscellaneous/Promotional Items listed on line 10 of Exhibit No. 110.

A. This adjustment is a catch-all for many miscellaneous expenses that do not relate to the production, transmission, or distribution of utility services. The Company intended to remove many items that were improperly booked to utility accounts in the miscellaneous restatement adjustment in its Application. However, during my review of test year expenses, I found numerous expenses that should have also been removed. These inappropriate expenses included things such as charitable contributions and donations, sponsorships for tables and booths and fund raising events, golf scrambles, sympathy flowers for employees, retirement and holiday parties, clothing with the Avista logo emblazed, and many other items that, individually, are small dollar amounts. The detailed listing of all these items has been provided to the Company with Staff's workpapers. This adjustment reduces expenses by $11,183 and $68,781 for the Idaho Gas and Electric jurisdictions, respectively.

GAS RATE BASE ADJUSTMENTS

Q. Do you propose any adjustment to the Gas rate base?

A. Yes. I propose an adjustment to decrease Idaho Gas pro-forma rate base by $462,955.

Q. Please describe the basis for this adjustment.

A. The Company proposed a pro-forma rate base that included budgeted annual amounts for recurring certain projects, known internally as ER's (Expenditure Requisitions). The 2009 pro-formed amounts for Idaho were based on an allocation of total system forecasts. Idaho was allocated 21.83% of the forecasted amounts based on the Company's direct plant allocation factor. Staff Exhibit No. 114 illustrates the Company's 2009 system budgets and the Idaho allocation. However, because Avista's non-contiguous Oregon gas distribution system is older and in greater disrepair than the Idaho gas distribution system, the Oregon system actually incurs a greater cost than the allocation factors indicate. Over the four-year period from 2005-2008, approximately 17% of the annual budget for these ER's were incurred by the Idaho system, therefore, I propose to use the historical four-year average for each ER project which, in total, would reduce the Idaho Gas rate base by $462,955 as calculated on Staff Exhibit No. 114. Additionally, the depreciation expense in the amount of $14,000, based on a composite depreciation rate of 3%, associated with this adjustment has been removed.

Q. Why did you limit your historical average to four years?

A. The Company changed its accounting system in January 2005. Though it was not impossible to retrieve data prior to 2005, information subsequent to the conversion is obtained rather easily. The actual transfers to plant for the four-year period since 2005 were readily available and, on average, represent a fair and reasonable amount to include in rate base.

Debt Interest Restatement

Q. Please explain the adjustment to taxes in Column s-12 of Staff Exhibit No 111.

A. This adjustment restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony of Staff witness Carlock. The restated debt interest is then applied to Staff's pro forma level of rate base for Idaho's gas jurisdiction to produce a pro forma level of tax deductible interest expense. The Federal income tax effect of the restated level of interest for the period ending December 31, 2009 increases Idaho Gas net operating income by $5,000.

SPECIFIC ELECTRIC EXPENSE ADJUSTMENTS

Q. Will you please explain Staff Exhibit No. 115?

A. Staff Exhibit No. 115 is a list of four adjustments that I am proposing to reduce the pro forma revenue requirement for Idaho's Electric jurisdiction. These amounts have been provided to Staff witness Vaughn to incorporate into her calculation of Staff's proposed electric revenue requirement for Idaho.

Q. Looking at the first adjustment shown on Staff

Exhibit No. 115, please summarize the Company's proposal for the Asset Management Program.

A. As explained in greater detail in Company witness Kinney's direct testimony, the Asset Management Program attempts to manage key assets throughout their life to provide the best value to customers by minimizing life cycle costs and maximizing system reliability. Though the Asset Management Program is relatively new, many of the aspects of the plan consist of activities that the Company has been doing for years, such as vegetation management, transformer management and wood pole management. Avista launched the program in March 2004 which essentially combined many of the Company's asset conservation activities under one umbrella, and thus allowing the Company flexibility to shift funds from one aspect of the plan to another if the Company deems it necessary.

Staff reviewed the asset management plan and concluded that prudent management of the plan would provide a stream of annual benefits through avoided costs well into the future, and increase system reliability. In evaluating the program, Staff met with Company representatives, reviewed cost calculations, avoided costs and Internal Rates of Return for each project.

Q. Please explain the Internal Rates of Return.

A. The Internal Rate of Return (IRR) is a means of making an investment decision by calculating the IRR and comparing it to a market interest rate (i). By definition, the IRR is the discount rate at which the net present value of future benefits will equal the net present value of the cost, and is expressed by the formula:

$$V_p = E_0 + E_1/(1+r) + E_2/(1+r)^2 + \ldots + E_n/(1+r)^n = 0$$

Where V_p is the value of the costs in the current period and E represents the future benefits which are then discounted back to present value. If the discount rate (r, IRR) is greater than an available market rate, then one would conclude that the project is cost effective.

The Company compared the costs of each project within the Asset Management Program to the potential costs of inactivity, or doing nothing. In each case, it was determined that the program was cost effective.

Q. What annual level of O&M Expenses does the Company request for its Asset Management Program?

A. Company witness Kinney states that the projected 2010 level of O&M expenses for the Asset Management Program are $12,505,000 (system-wide) which is an increase of $4,609,000 over the test year level of $7,896,000 (system-wide.) However, Company witness Andrews' exhibits and workpapers indicate a pro forma adjustment to Idaho's electric jurisdiction of $749,000 which is Idaho's allocated portion of 50% of the 2010 projected expenses. None of the 2009 O&M Expenses for the Program were included in the Company's case. The Company was aware of this, but in an attempt to mitigate the impact of the overall rate increase, decided to omit the 6-months of 2009 from its request. Because Company witness Andrews only included six-months of O&M Expense in her revenue requirement calculation, Staff accepts the Company's pro forma adjustment for the Asset Management Program.

Q. Then please explain your adjustment to the Asset Management Program.

A. My adjustment recognizes that the Asset Management Program will provide benefits to customers that have not been quantified or captured in the Company's case. If the Company is going to pro form a higher level of expenses, it must balance those expenses with the customer benefits that they will achieve. During 2008, by my conservative estimates from information provided to Staff during an on-site audit, the Asset Management Program achieved savings of $920,000 or 11.65% of historical test period expenses. By applying the 11.65% as a proxy for projected customer benefits to the pro forma level of O&M Expenses included in the Company's case, the result is an $87,259 reduction to Idaho's electric jurisdiction pro forma 2009 expense.

Q. Please explain the next adjustment on Staff Exhibit No. 115, line 2.

A. This adjustment reduces the Company's pro forma O&M Expenses for production plant by $2,862,000 (system) or $1,015,000 for the Idaho electric jurisdiction.

Q. What is the basis for this adjustment?

A. The Company's case included $25,721,790 (system) for O&M expenses for production plant for the period from July 1, 2009 through June 30, 2010. Consistent with Staff's use of a pro formed test year ending December 31, 2009, the pro forma O&M Expenses for production plant are $22,859,655 (system). This adjustment caps the level of O&M Expenses for production plant at the projected level for 2009.

Q. Similar to the adjustments you propose to capture efficiencies and benefits for customers for Information Systems Services and the Asset Management Program, do you propose an adjustment to O&M Expenses to capture increased efficiencies in production plant?

A. No. The Company's Production Property Adjustment proposed by Company witness Andrews and described in further detail in Staff witness Vaughn and Hessing's testimonies attempts to capture those benefits, and thus a separate adjustment is not necessary.

Q. Please discuss the next adjustment on Staff Exhibit No. 115, line 3.

A. This adjustment reduces the pro forma O&M expenses associated with the mercury control project at the Colstrip generation facility as further described in the direct testimony of Company witness Storro.

Q. What is the basis for this adjustment?

A. At the time of filing, the Company included in its pro forma revenue requirement an estimated amount for the Colstrip emissions control project, to begin in December 2009. The latest estimates, provided to Staff on May 12 by telephone conversation with Liz Andrews, indicate that the annual expense will be $12.8 million. Because Avista is only a 15% owner of Colstrip, its responsibility towards the annual costs is $1.92 million ($12,800,000*0.15). With the project beginning in December of 2009, only 1/12 of this amount, $160,000 should be included in the revenue requirement. This adjustment reduces the O&M expense for the project by $436,659.

Q. Please explain the adjustment listed as Ross Court Building - Abandoned Project on Exhibit No. 115, line 4.

A. As the Company outgrows is Corporate Headquarters office building, it had planned to build an additional office building on the north end of its campus. The

Company incurred expenses during the test year in the amount of $391,512 for architectural, engineering, and consulting fees along with permits and other expenses. Midway through 2008, the Company decided that the least cost option would be to purchase an existing building off campus, and move its call center to that location. This adjustment recognizes that the project to build the new office building has been abandoned, and that Company should not include these expenses in annual revenue requirement. Idaho's electric jurisdiction expenses have been reduced by $136,649 to reflect that these expenses will not occur on an annual basis.

PENSION EXPENSE

Q. Please summarize the Company's proposal for pension expense.

A. As described in Company witness Thies' direct testimony, the Company intends to contribute a significantly greater amount to the pension plan than the FAS 87 accrual expense included in rates. Though it was originally thought that the Company would make a cash contribution of $67 million to the pension plan in 2009, the actual cash contributions for the year will be $45 million. Mr. Thies' concern was with the timing impact of contributing substantially more to the plan than the expense recognized in rates, and therefore requested deferral accounting treatment to recognize the time value of money on the difference between the cash payment and the level of accrued expense.

Q. Does Mr. Thies recommend the deferral of the difference between the FAS 87 expense and the cash contribution?

A. No. Recognizing that the difference between cash contributions and FAS 87 expense, over time, will trend towards zero, Mr. Thies is only proposing to create a regulatory asset for the carrying costs on the cumulative difference between payments to the plan and expenses recovered in rates. In his direct testimony, he provides an example by taking the difference of the $67 million planned contribution for 2009 and the approximate $12 million expense currently included in rates ($55 million) and multiplying it by the 8.8% requested rate of return to arrive at a $4.8 million carrying charge for 2009. However, that example was intended to only provide a scope of the magnitude of dollars, and the detailed accounting treatment is described further in his testimony.

Updating Mr. Thies' figures to account for the reduced contribution in 2009, and recognizing that new rates will be in effect for half of 2009, $2.55 million, or approximately half of the $4.8 million, is more reflective of the actual impact on a system basis.

Q. How did you calculate the $2.55 million estimated impact?

A. Recognizing that the current level of expense included in rates for 2009 is $12.1 million annually for six months, and the proposed level of expense of $18.2 million annually for six months, the total expense included in rates for calendar year 2009 would be $15.15 million. The Company intends to fund $45 million to the plan for 2009, or $29.85 million greater than collected in rates. Multiplying the difference by Staff's recommended rate of return of 8.55%, the estimated impact of the time value of money would be $2.55 million.

Q. What is your position regarding Avista's proposal in this case to create a regulatory asset for the difference between the contribution and the expense?

A. While Staff recognizes Avista's efforts to maintain a solid pension plan, I do not believe that Avista's proposal is appropriate at this time. Staff would be willing to work with all utilities sponsoring a defined benefit pension plan to discuss the appropriate accounting treatment, or even the necessity, of this type of pension plan.

Q. What is your rationale for rejecting the Company's proposal?

A. First, the Company's pension plan assets experienced an investment return of negative 21% during 2008. This investment return has led to an additional $6 million (system) being requested in rates due to an increased expense. During an economic recession that has an increased impact on northern Idaho, customers are already being asked to cover the Company's increasing pension expense caused primarily by the recession itself. An additional regulatory asset with a carrying charge simply further increases these costs and hits customers with a triple whammy, so to speak.

Secondly, I believe it may be time for companies to evaluate whether or not a defined benefit pension plan is the most prudent form of retirement benefit that a utility can provide for its employees. The basic premise of a defined benefit plan is that the future benefit is defined, and therefore the employer bears all of the investment risk. For a regulated utility that collects pension expense in rates, that investment risk is inherently passed on to customers. Current economic conditions have exacerbated the issue, as witnessed by the Avista Pension Plan's decreasing assets and increasing contributions. The question then becomes whether or not it is prudent for customers to bear the direct burden of the pension assets negative returns during recessionary times, and not receive direct benefits when assets perform well.

This asymmetrical relationship creates a natural imbalance that reduces customer assets at a time when they need them most.

Though Staff recognizes the important and necessary benefit of a plan to provide retirement benefits to utility employees, now is the appropriate time to begin evaluating other alternatives.

Q. Could you please explain the differences between a pension expense and a pension contribution?

A. Certainly. The accrued expense is the Net Periodic Pension Cost as calculated under FAS 87, and is often referred to as FAS 87 expense, or just pension expense. This is the amount accrued on the Company's books and reported on the Company's financial statements. The Financial Accounting Standards Board issued FAS 87 in December of 1985 in an attempt to alleviate investors' concerns regarding accuracy of a company's financial statements and the potential for manipulation of pension costs to affect those statements. The Board's objectives in issuing the statement were:

1. To provide a measure of net periodic pension cost that is more representationally faithful than those used in past practice because it reflects the terms of the underlying plan and because it better approximates the recognition of a cost of an employee's pension over that employee's service period.

2. To provide a measure of net periodic pension cost that is more understandable and comparable and is, therefore, more useful than those used in the past.

3. To provide disclosures that will allow users to understand better the extent and effect of an employer's undertaking to provide employee pensions and related financial arrangements.

4. To improve the reporting of financial position.

The net cost feature of FAS 87 means that the recognized consequences of events and transactions affecting a pension plan are reported as a single net amount on the employer's financial statements. This approach aggregates at least three items that might be reported separately for any other part of an employer's operations: the compensation cost of benefits promised, interest cost resulting from deferred payment of those benefits, and the results of investing what are often significant amounts of assets.

Under normal circumstances, companies have some discretion as to how much they contribute to a pension plan for a given year. There is a cost range and companies can contribute any amount between the Required Minimum Contribution and the Maximum Deductible Contribution. Section 412 of the Internal Revenue Code mandates the minimum funding, while section 404 mandates the maximum funding.

Q. Could you briefly explain how that cost range is determined?

A. The first calculation determines the Normal Cost of the year. The Normal Cost is the annual cost of the pension plan using the plan's actuarial cost method, as established in the plan document. The Normal Cost is a calculation that takes into consideration the present value of future benefits, the actuarial value of the plan's assets, and unfunded liabilities and the present value of the Company's future payroll. With that information, one can then calculate an accrual rate that when multiplied by the Company's current covered payroll will produce the Normal Cost. After the Normal Cost is calculated, any charges or credits are added or subtracted to get the Annual Cost. The Minimum Required Contribution is the lesser of the Annual Cost or the difference between the Full Funding Limitation and any credit balance. The Minimum Required Contribution is the amount that a company must fund in order to avoid a funding deficiency in the Funding Standards Account.

Q. You mentioned the term "Full Funding Limitation." Could you please describe this limitation?

A. The Full Funding Limitation is a calculation that compares the Actuarial Accrued Liability as calculated under the Employee Retirement Income Security Act (ERISA) of 1974, the Current Liability under the Omnibus Budget

Reconciliation Act (OBRA) of 1987, and the Current Liability under the Retirement Protection Act (RPA) of 1994.

Q. Now that the minimum point in the cost range is established, how is the maximum point determined?

A. The Maximum Deductible Contribution is an IRS calculation that determines the deductibility under Section 404(a)(1)(A) of the Internal Revenue Code. This calculation is based on a comparison of any unfunded liabilities and the Full Funding Limitation. A company may choose to contribute to a pension plan any amount that is greater than the Minimum Required Contribution but less than the Maximum Deductible Contribution.

Q. What are the funding levels for the Avista pension plan for 2009?

A. While the FAS 87 expense for 2009 is estimated to be approximately $22 million, the Minimum Required Contribution for 2009 is $0.00. However, because Avista significantly contributed additional funds to the plan over the past few years, the funding standard carryover balance as of December 31, 2008 was nearly $30 million. This amount reduces the Minimum Required Contribution. Without this overfunding, I have estimated that the Minimum Required Contribution for 2009 would be in the range of $16 million - $20 million, which is comparable to the $18.2

million (system) FAS 87 expense being requested in this case. The Maximum Deductible Contribution that Avista could make to the plan for 2009 is in the range of $225 million to $250 million. As mentioned previously, Avista will contribute $45 million to the plan for 2009.

Q. How did Avista determine that $45 million was the appropriate level of funding for 2009?

A. The requirement that accounting information is on an accrual basis does not necessarily mean that accounting information and funding decisions are completely unrelated. Employers may use accounting information along with other factors in making financial decisions. Some employers may decide to change their pension funding policies based in part on the new accounting information, or new pension regulations, such as the Pension Protection Act (PPA) of 2006, and the decision to fund a pension plan to a greater or lesser extent is an economic decision.

The Pension Protection Act of 2006 adjusts the Minimum Required Contribution set forth under ERISA in an attempt to shore up the nation's ailing pension plans. The effect of the PPA is to increase pension contributions in order to eventually achieve a fully funded plan. For 2009, it is required that pension plan assets be equal to 94% of the projected liabilities. If this benchmark is not met, the entire funding deficit must be added to the contribution and amortized over the next seven years in order to be fully funded after the seven year period. Avista has determined that a contribution of $45 million will allow it to meet the 94% funding level benchmark, and avoid additional mandatory contributions.

Q. Given the likelihood of increased pension expense and funding levels in the near future, do you propose any alternatives to a defined benefit pension plan?

A. In this case, my intent is not to propose any changes to the Company's retirement benefits, but rather to open the door for discussion of possible alternatives. One example of an alternative would be a Money Purchase Pension Plan. A Money Purchase Pension Plan is a defined contribution plan where the employer contributions are fixed, typically stated as a percentage of an employee's income. Much like a 401(k) plan, the investment risk would then be shifted away from customers, while company employees would continue to accrue retirement benefits. A Money Purchase Pension Plan with a defined contribution of 10% of an employee's income would provide substantial retirement benefits to the employee when coupled with the existing 401(k) and 401(m) matching contributions. It would also allow economic certainty because the contributions would not fluctuate wildly from year to year.

Given the current levels of funding for the pension plan, customers would actually pay less with the defined contribution Money Purchase Pension Plan. Avista's total covered compensation under IRC 401(a)(17) for 2008 was approximately $132 million. A 10% Money Purchase Pension Plan for 2008 would require a $13.2 million contribution, as opposed to a $45 million contribution, which is greater than one-third of the covered compensation under the plan. Please note that I am not supporting a 10% defined contribution, but rather using it for illustrative purposes only.

Q. To reiterate, are you proposing any adjustments to the current level of retirement benefits in this case?

A. No. However, given the rapidly increasing costs of pension plans, the inherent customer risk associated with them, and annual increases in wages and salaries, Staff will continue to look at other alternatives and may propose adjustments in future rate cases if trends continue in the same direction.

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

A. Yes, it does.

AVISTA UTILITIES
AVU-G-09-01
Calculation of General Revenue Requirement
Idaho - Gas
(000's OF DOLLARS)

Line No.	AVISTA	IDAHO	STAFF	IDAHO
1	Pro Forma Rate Base	90,491	Pro Forma Rate Base	90,028
2	Proposed Rate of Return	8.80%	Proposed Rate of Return	8.55%
3	Net Operating Income Requirement	7,963	Net Operating Income Requirement	7,697
4	Pro Forma Net Operating Income	6,213	Pro Forma Net Operating Income	6,486
5	Net Operating Income Deficiency	1,750	Net Operating Income Deficiency	1,211
6	Conversion Factor	0.638787	Conversion Factor	0.639336
7	Revenue Requirement Increase	2,740	Revenue Requirement	1,894
8	Total General Business Revenues	91,767	Total General Business Revenues	91,767
9	Percentage Revenue Increase	2.99%	Percentage Revenue Increase	2.06%

Exhibit No. 109
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09 Schedule 1

AVISTA UTILITIES
AVU-G-09-01
CALCULATION OF CONVERSION FACTOR: IDAHO GAS

Line No.		AVISTA	STAFF
1	Revenues	1.000000	1.000000
2	Expense:		
3	Uncollectibles	0.002528	0.002528
4	Commission Fees	0.002507	0.001662
5	Idaho Income Tax	0.012216	0.012216
6	Total Expense	0.017251	0.016406
7	Net Operating Income Before FIT	0.982749	0.983594
8	Federal Income Tax @ 35.00%	0.343962	0.344258
9	REVENUE CONVERSION FACTOR	**0.638787**	**0.639336**

AVISTA UTILITIES

AVU-G-09-01 & AVU-E-09-01

Adjustments Allocated to Both Gas and Electric Jurisdictions

Line No.	Adjustment Description	System	Idaho Gas	Idaho Electric
1	Non-Executive Labor		$ 75,573	$ 298,255
2	Executive Labor		$ 31,051	$ 123,548
3	Non-Executive Incentives	$ 1,175,087	$ 73,238	$ 295,137
4	Executive Incentives	$ 311,028	$ 19,385	$ 78,118
5	Board of Directors Expenses	$ 595,617	$ 37,122	$ 149,596
6	Information Services	$ 118,828	$ 59,379	$ 295,135
7	Legal Expenses	$ 140,053	$ 23,377	$ 12,060
8	IPUC Regulatory Expense		$ 62,541	$ 139,497
9	Insurance Expense	$ 138,143	$ 8,610	$ 34,697
10	Miscellaneous/Promotional Items	$ 161,075	$ 11,183	$ 68,781

Exhibit No. 110
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

AVISTA UTILITIES
AVU-G-09-01
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED SEPTEMBER 30, 2008
PRO-FORMED THROUGH DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Total	Staff Non-Exec Labor	Staff Exec Labor	Staff Incentive Exp	Staff Officer Incentive	Staff BoD Exp	Staff Information Services	Staff Legal Exp	Staff Regulatory Exp	Staff Insurance Expense	Staff Misc. Promo Items	Staff Non-Rev Blankets	Staff Debt Int Restatement	Staff Total
	a	b	s-1	s-2	s-3	s-4	s-5	s-6	s-7	s-8	s-9	s-10	s-11	s-12	s-13
	REVENUES														
1	Total General Business	$91,447													$91,447
2	Total Transportation	320													$320
3	Other Revenues	147													$147
4	Total Gas Revenues	91,914													91,914
	EXPENSES														
5	Exploration and Development	0													
	Production														
6	City Gate Purchases	66,248													$66,248
7	Purchased Gas Expense	389	(5)	(1)											$383
8	Net Nat Gas Storage Trans	0													
9	Total Production	66,637	(5)	(1)											66,631
	Underground Storage														
10	Operating Expenses	167													$167
11	Depreciation	136													$136
12	Taxes	93													$93
13	Total Underground Storage	396													396
	Distribution														
14	Operating Expenses	4,087	(24)												$4,063
15	Depreciation	2,830											(14)		$2,816
16	Taxes	1,117	1		1										$1,119
17	Total Distribution	8,034	(23)		1								(14)		7,998
18	Customer Accounting	1,869	(19)												$1,850
19	Customer Service & Information	250	(2)												$248
20	Sales Expenses	220	(2)												$218
	Administrative & General														
21	Operating Expenses	5,002	(25)	(30)	(73)	(19)	(37)	(59)	(23)	(63)	(9)	(11)			$4,653
22	Depreciation	1,175													$1,175
23	Taxes	41													$41
24	Total Admin. & General	6,218	(25)	(30)	(73)	(19)	(37)	(59)	(23)	(63)	(9)	(11)	0		5,869
25	Total Gas Expense	83,624	(76)	(31)	(72)	(19)	(37)	(59)	(23)	(63)	(9)	(11)	(14)		83,211
26	OPERATING INCOME BEFORE FIT	8,290	76	32	72	19	37	58	23	63	9	11	14		$8,703
	FEDERAL INCOME TAX														
27	Current Accrual	1,759												(5)	$1,754
28	Deferred FIT	337	27	11	25	7	13	20	8	22	3	4	5		$482
29	Amort ITC	(19)													$ (19)
30	NET OPERATING INCOME	$6,213	$49	$21	$47	$12	$24	$38	$15	$41	$6	$7	$9	$5	$6,486
	RATE BASE: PLANT IN SERVICE														
31	Underground Storage	9,089													$9,089
32	Distribution Plant	130,558											(463)		$130,095
33	General Plant	14,242													$14,242
34	Total Plant in Service	153,889											($463)		153,426
	ACCUMULATED DEPRECIATION														
35	Underground Storage	3,172													$3,172
36	Distribution Plant	44,780													$44,780
37	General Plant	5,136													$5,136
38	Total Accum. Depreciation	53,088													53,088
39	DEFERRED FIT	(15,052)													$ (15,052)
40	GAS INVENTORY	4,824													$4,824
41	GAIN ON SALE OF BUILDING	(82)													$ (82)
42	TOTAL RATE BASE	$90,491											($463)		$90,028

Exhibit No. 111
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

AVISTA UTILITIES
AVU-G-09-01 & AVU-E-09-01
Allocation of President and CEO Compensation

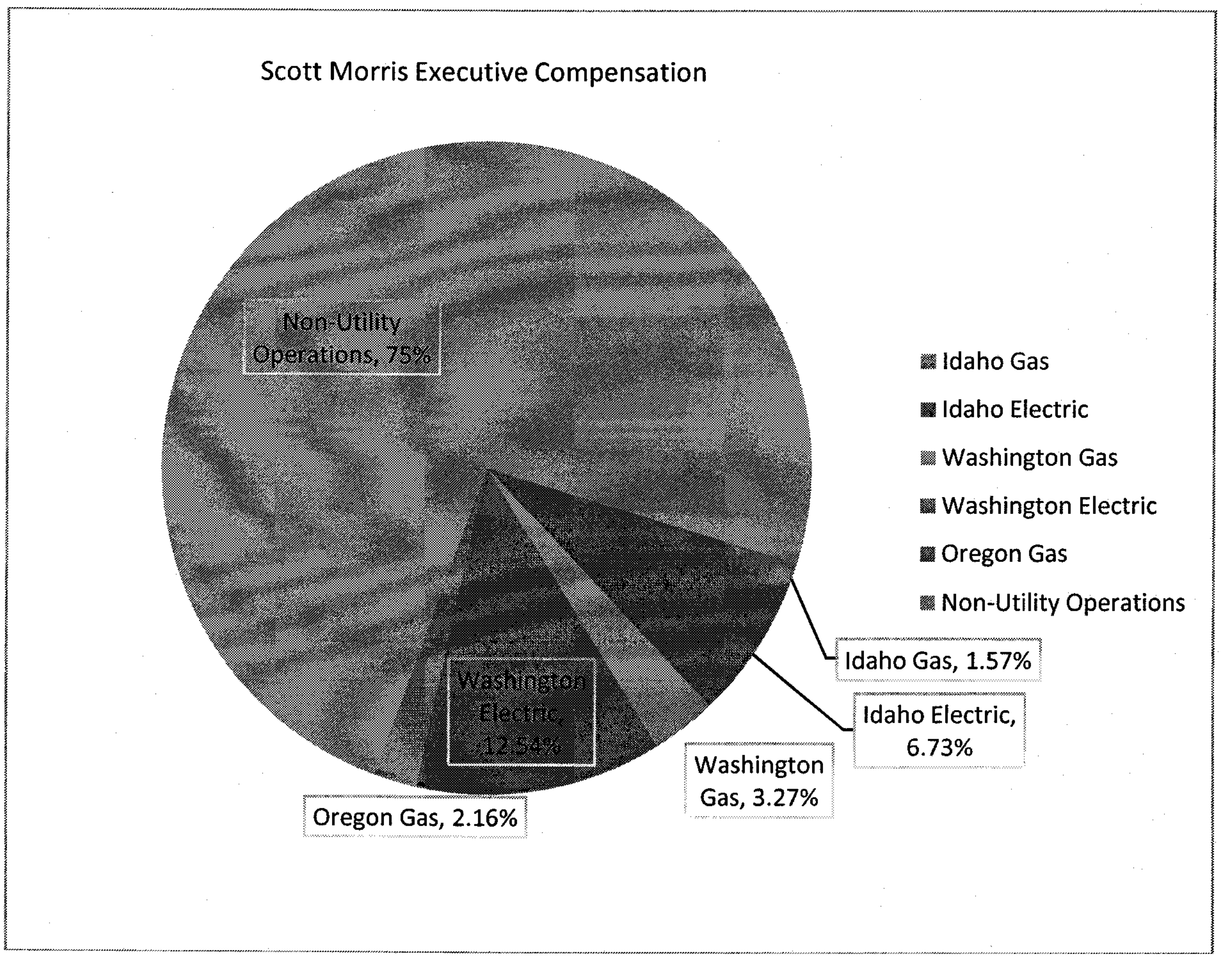

Exhibit No. 112
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

AVISTA UTILITIES
AVU-G-09-01 & AVU-E-09-01
Six Year History of Incentive Payments

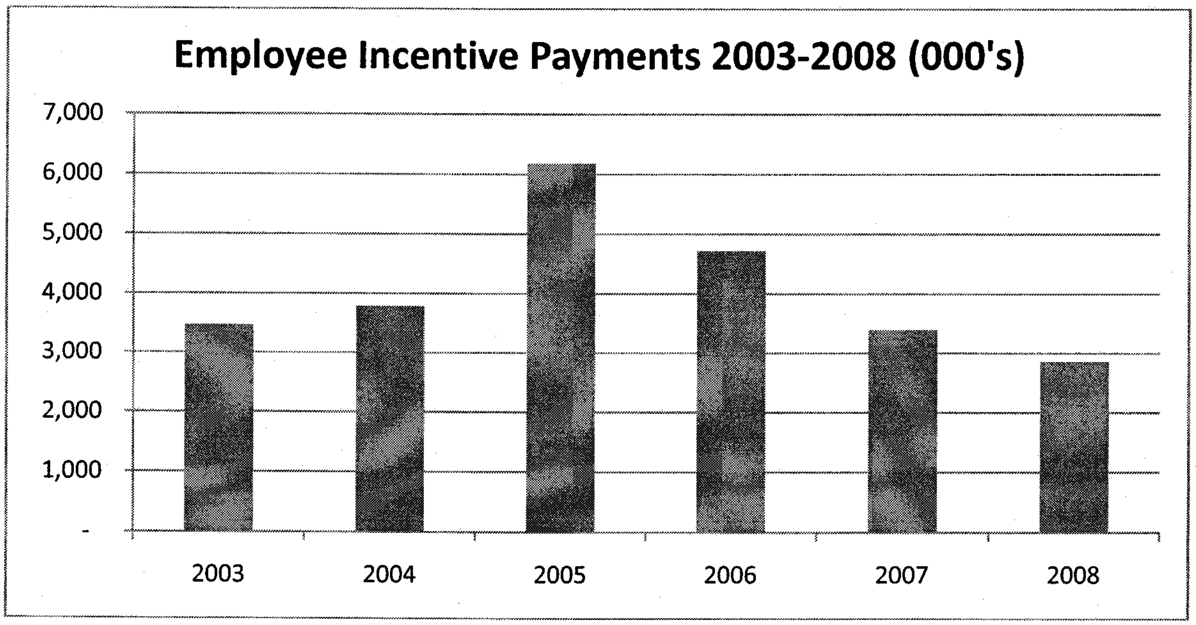

Exhibit No. 113
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

AVISTA UTILITIES

AVU-G-09-01

Adjustment to Gas Non-Revenue Blankets

ER	ER DESCRIPTION	AVISTA PRO-FORMA SYSTEM	AVISTA PRO-FORMA IDAHO	IDAHO 4-YR AVG.	ADJUSTMENT
3000	Gas Reinforce-Minor Blanket	450,000	98,235	38,002	(60,233)
3001	Replace Deteriorating Gas System	1,000,000	218,300	40,622	(177,678)
3002	Regulator Reliable - Blanket	400,000	87,320	37,741	(49,579)
3003	Gas Replace-St&Hwy	1,200,000	261,960	220,613	(41,347)
3004	Cathodic Protection-Minor Blanket	450,000	98,235	68,739	(29,496)
3005	Gas Distribution Non-Revenue Blanket	2,500,000	545,750	550,278	4,528
3006	Overbuilt Pipe Replacement Blanket	500,000	109,150	-	(109,150)
		6,500,000	1,418,950	955,995	(462,955)

Exhibit No. 114
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

AVISTA UTILITIES
AVU-E-09-01
Electric Specific Adjustments

ADJUSTMENT DESCRIPTION	IDAHO ELECTRIC JURISDICTION
1. Pro Forma Asset Management Program	$ 87,259
2. Pro Forma Operations & Maintenance Expenses	$ 1,015,000
3. Pro Forma Colstrip Mercury Emissions Project	$ 436,659
4. Ross Court Building – Abandoned Project	$ 136,649

Exhibit No. 115
Case No. AVU-E-09-1
AVU-G-09-1
D. English, Staff
05/29/09

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF MAY 2009, SERVED THE FOREGOING **DIRECT TESTIMONY OF DONN ENGLISH**, IN CASE NOS. AVU-E-09-1 & AVU-G-09-1, BY ELECTRONIC MAIL TO THE FOLLOWING:

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