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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

| | | |
|----------------------------------|---|----------------------|
| IN THE MATTER OF THE APPLICATION |) | CASE NO. AVU-E-11-01 |
| OF AVISTA CORPORATION FOR THE |) | CASE NO. AVU-G-11-01 |
| AUTHORITY TO INCREASE ITS RATES |) | |
| AND CHARGES FOR ELECTRIC AND |) | |
| NATURAL GAS SERVICE TO ELECTRIC |) | DIRECT TESTIMONY |
| AND NATURAL GAS CUSTOMERS IN THE |) | OF |
| STATE OF IDAHO |) | DAVE B. DEFELICE |
| |) | |

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business
3 address.

4 A. My name is Dave B. DeFelice. I am employed by
5 Avista Corporation as a Senior Business Analyst. My
6 business address is 1411 East Mission, Spokane, Washington.

7 Q. Please briefly describe your educational
8 background and professional experience.

9 A. I graduated from Eastern Washington University in
10 June of 1983 with a Bachelor of Arts Degree in Business
11 Administration, majoring in Accounting. I have served in
12 various positions within the Company, including Analyst
13 positions in the Finance Department (Rates Section and
14 Plant Accounting) and in the Marketing/Operations
15 Departments, as well. In 1999, I accepted the Senior
16 Business Analyst position that focuses on economic analysis
17 of various project proposals as well as evaluations and
18 recommendations pertaining to business policies and
19 practices.

20 Q. As a Senior Business Analyst, what are your
21 responsibilities?

22 A. As a Senior Business Analyst, I am involved in
23 financial analysis of numerous projects within various
24 departments such as Engineering, Operations,
25 Marketing/Sales and Finance.

26 Q. What is the scope of your testimony?

1 A. My testimony and schedules in this proceeding
2 will cover the Company's proposed pro forma adjustments for
3 capital investments in utility plant for the 2010 test
4 period.

5 **Q. Are you sponsoring any exhibits?**

6 A. Yes. I am sponsoring Exhibit 11, Schedules 1
7 through 3 which were prepared under my direction, and have
8 been included to provide supporting information for the pro
9 forma capital investment costs as described in this
10 testimony.

11

12 **II. CAPITAL INVESTMENT RECOVERY**

13 **Q. What does the Company's request for rate relief**
14 **include regarding investment in utility plant to serve**
15 **customers?**

16 A. As in prior rate cases, Avista started with rate
17 base for the historical test year, which for this case is
18 the average-of-monthly-averages (AMA) for the twelve months
19 ended December 31, 2010. Adjustments¹ were made to reflect
20 certain capital additions, as described in detail below:

21 (1.) An adjustment was made to record capital
22 at December 31, 2010, together with the
23 associated accumulated depreciation and
24 deferred federal income taxes at a 2010 end-of-
25 period (EOP) basis. This adjustment includes

¹ Company witness Ms. Andrews incorporates the Idaho share of the adjustments in her revenue requirement calculation.

1 annualizing the associated depreciation expense
2 on the plant-in-service at December 31, 2010.
3 (2.) An adjustment was also made to reflect
4 all 2011 capital additions (excluding
5 distribution related capital expenditures made
6 that are associated with connecting new
7 customers to the Company's system) together
8 with the associated accumulated depreciation
9 and deferred federal income taxes at a 2011 EOP
10 basis. This adjustment included associated
11 expenses (depreciation expense and property
12 taxes) and offsets to expenses for the pro
13 forma additions. These specific capital
14 additions are identified later in my testimony.
15 In addition, the plant-in-service at December
16 31, 2010 was adjusted to a 2011 EOP basis.
17 (3.) An adjustment was also made to reflect
18 all 2012 capital additions (excluding
19 distribution related capital expenditures made
20 that are associated with connecting new
21 customers to the Company's system) together
22 with the associated accumulated depreciation
23 and deferred federal income taxes at a 2012 AMA
24 basis. This adjustment included associated
25 expenses (depreciation expense and property
26 taxes) and offsets to expenses for the pro
27 forma additions. These specific capital

1 additions are identified later in my testimony.

2 In addition, the plant-in-service at December
3 31, 2011 was adjusted to a 2012 AMA basis.

4 The utility plant investment that we have included in
5 this filing represents utility plant that will be "used and
6 useful" in providing service to customers during the period
7 that new retail rates from this filing will be in effect.
8 In addition, the plant investment that was pro formed into
9 this case was matched with offsetting factors. Including
10 the costs associated with this investment in retail rates
11 provides a proper "matching" of revenues from customers,
12 with the costs associated with providing service to
13 customers (including the cost of utility plant to serve
14 those customers).

15 In the Idaho PUC's Order No. 29602, for Case Nos. AVU-
16 E-04-1 and AVU-G-04-1, dated October 8, 2004, the
17 Commission stated, at page 10, that:

18 Once a test year is selected, adjustments are
19 made to test year accounts and rate base to
20 reflect known and measurable changes so that test
21 year totals accurately reflect anticipated
22 amounts for the future period when rates will be
23 in effect. The Idaho Supreme Court has described
24 "rate base" as "the utility's capital investment
25 amount." *Industrial Customers of Idaho Power v.*
26 *Idaho PUC* 134 Idaho 285, 291, 1 P.3d 786, 792
27 (2000). Adjustments to test year accounts
28 generally fall into three categories: 1)
29 normalizing adjustments made for unusual
30 occurrences, like one-time events or extreme
31 weather conditions, so they do not unduly affect
32 the test year; 2) annualizing adjustments made
33 for events that occurred at some point in the
34 test year to average their effect as if they had
35 been in existence during the entire year; and 3)
36 known and measurable adjustments made to include

1 events that occur outside the test year but will
2 continue in the future to affect Company income
3 and expenses.
4

5 If utility plant investment that is being used to
6 serve customers is not reflected in retail rates then the
7 retail rates will not be "just, fair, and reasonable,"
8 i.e., it would not be just or reasonable for customers to
9 receive the benefit provided by the utility investment
10 without paying for it, and the retail rates would not
11 provide revenues sufficient to provide recovery of the
12 costs associated with providing service to customers.

13 **Q. Is the Company's application of these ratemaking**
14 **principles in this filing consistent with prior general**
15 **rate cases?**

16 A. Yes. In prior cases, the objective has been the
17 same -- to include in retail rates the investment, or rate
18 base, that is providing service to customers, and ensure
19 that there is a proper matching of revenues and expenses
20 during the period that rates are in effect.

21 **Q. How are we assured that the capital additions pro**
22 **formed in this case will actually occur for 2011 and 2012?**

23 A. Many of the 2011 projects are already underway or
24 completed either through actual construction, contracts
25 signed, and /or materials ordered. In addition, the actual
26 and planned capital expenditures for the utility for the
27 years 2007 through 2010 are shown in Table 1 below. The
28 table shows that actual capital expenditures have been very
29 close to the planned expenditures on a consistent basis.

1 During the last two years the actual expenditures have been
2 98% to 99% of the planned expenditures. I believe it is
3 fair to conclude that there is a high level of confidence
4 that the planned capital expenditures for 2011 and 2012,
5 which the Company has pro formed into this case, will occur
6 and it is reasonable for them to be included for recovery
7 in retail rates.

8 **Table 1**

9

| | Planned Expenditures (\$millions) | Actual Expenditures (\$millions) | Percentage of Planned (%) |
|---------|-----------------------------------|----------------------------------|---------------------------|
| 10 2007 | \$183.6 | \$198.4 | 108% |
| 11 2008 | \$194.2 | \$205.4 | 106% |
| 12 2009 | \$202.0 | \$199.7 | 99% |
| 13 2010 | \$210.0 | \$206.8 | 98% |

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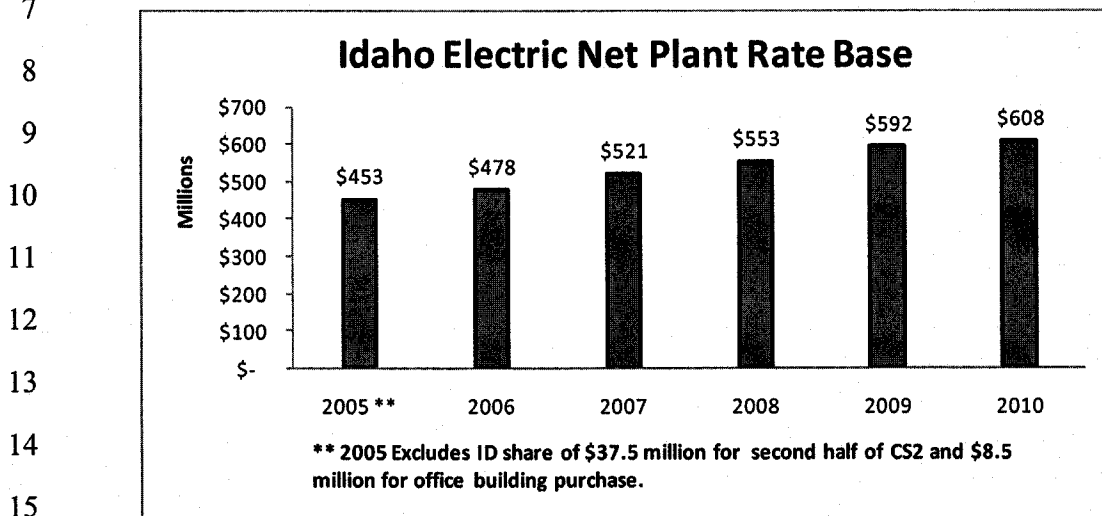
15 **Q. How does new investment in utility plant change**
16 **rate base over time for ratemaking purposes?**

17 A. Historically (until roughly the last five years),
18 the annual dollars spent by the Company on new utility
19 plant was relatively close to the level of depreciation
20 expense, with the exception of years where the Company
21 invested in major new generating projects.² Net rate base
22 stayed at a relatively constant level and the use of the
23 rate base amount from a prior year, i.e., a historical test
24 year, would be adequate for setting rates for the upcoming
25 year, because there was little change in the net plant
26 investment used to serve customers.

² Recognizing that a portion of the costs associated with certain capital additions are offset by additional revenues.

1 In more recent years, however, Avista's investment in
2 utility plant has significantly exceeded depreciation
3 expense. Because of this, rate base in the rate year is
4 significantly greater than the historical test period AMA
5 rate base. This is shown in Illustration 1 below.

6 **Illustration 1**



16 The only way to ensure that retail rates are just,
17 fair, and reasonable is for the utility plant investment
18 that is being used to serve customers be properly reflected
19 in retail rates, net of appropriate offsets. This makes it
20 necessary for the Company to pro forma plant investment that
21 is in service after the historical test year, and will be
22 in service during the rate year so that rate base for the
23 pro forma rate year is representative of the level of
24 investment used to serve customers. The Company's pro
25 forma adjustments in this case properly reflect any
26 offsets, and include adjustments to ensure a proper
27 matching with test period loads.

1 **Q. What is the historical and projected level of**
2 **annual capital spending for Avista?**

3 A. Avista's annual capital requirements have
4 steadily increased from approximately \$130 million in 2005
5 to approximately \$250 million in 2011. Capital
6 expenditures of approximately \$482 million are planned for
7 2011-2012 for customer growth, investment in generation
8 upgrades and transmission and distribution facilities, as
9 well as necessary maintenance and replacements of our
10 natural gas utility systems. Capital expenditures of
11 approximately \$1.2 billion are planned for the five year
12 period ending December 31, 2015. Schedule 1 of Exhibit 11
13 reflects this trend that Avista has experienced and what is
14 planned for in the near future.

15 **Q. What is driving the significant investment in new**
16 **utility plant?**

17 A. As Company witnesses Mr. Kinney and Mr. Lafferty,
18 in particular, explain in their testimony, the Company is
19 being required to add or upgrade new generation facilities,
20 expand transmission and distribution facilities due in part
21 to customer growth in our service area, reliability
22 requirements, and needed capacity upgrades. Other issues
23 driving the need for capital investment include an aging
24 infrastructure, physical degradation, and municipal
25 compliance issues (e.g., street/highway relocations), etc.

26 While the price escalation experienced in recent years
27 for the cost of materials (concrete, copper, steel, etc.)

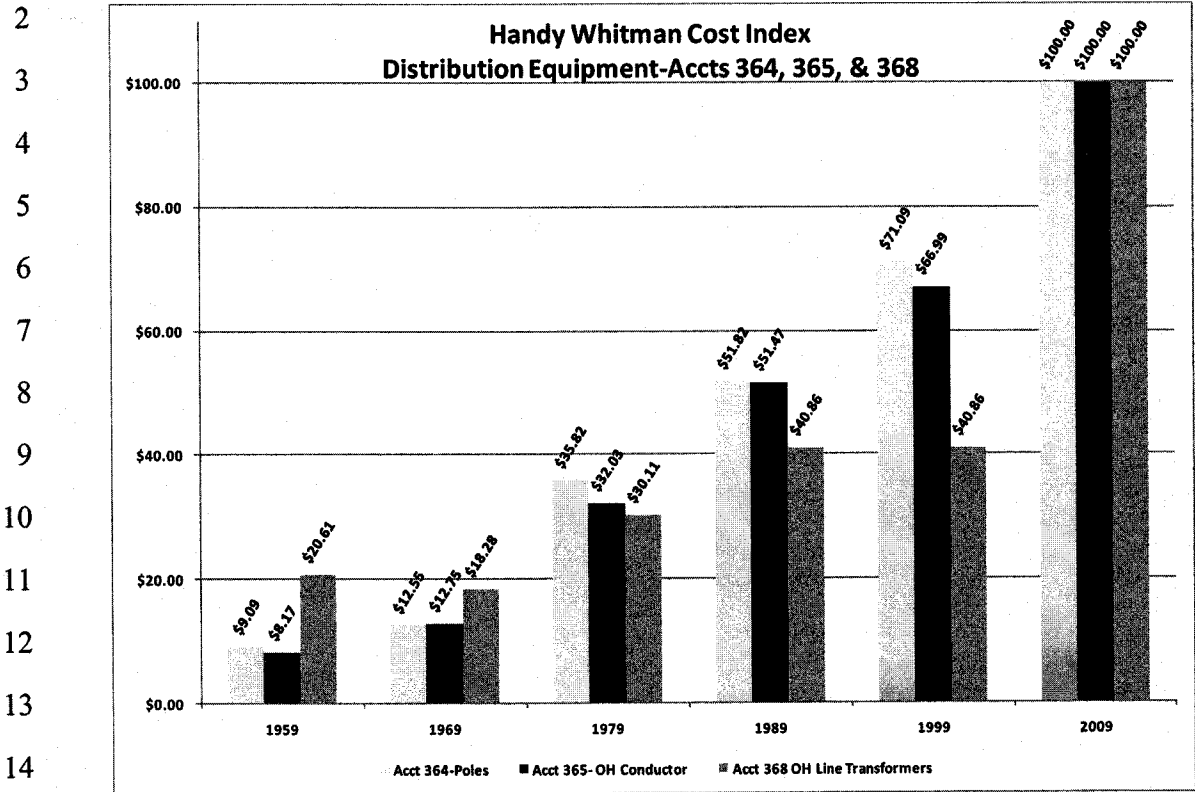
1 has subsided, the cost of materials and equipment is still
2 orders of magnitude higher than what they were even a few
3 years ago, causing the cost of these new facilities to be
4 significantly higher than in the past. Accordingly, the
5 annual costs associated with the new facilities will be
6 significantly higher than the annual costs of the Company's
7 facilities that are being replaced or upgraded.

8 **Q. What data is available that depicts the**
9 **significant increase in the cost of utility plant assets**
10 **that have been added in recent years as compared to the**
11 **cost of the facilities being replaced?**

12 A. Using the Handy-Whitman Index Manual³, the
13 Company analyzed several major categories of plant.
14 Schedule 2 of Exhibit 11 depicts the increases in costs of
15 transmission substations, transmission equipment,
16 distribution substations, and distribution equipment that
17 the utility industry has experienced over the past fifty
18 years. These charts show what these categories of plant
19 have cost historically on a relative scale. For example,
20 on Page 4 of Schedule 2, and also shown in Illustration 2
21 below, distribution poles fifty years ago would have a cost
22 of only 9% of the current replacement cost.

³ "The Handy-Whitman Index of Public Utility Construction Costs", published by Whitman, Requardt and Associates, Baltimore, Maryland. The Handy-Whitman Indexes of Public Utility Construction Costs show the level of costs for different types of utility construction. Separate indices are maintained for general items of construction, such as reinforced concrete, and specific items of material or equipment, such as pipe or turbo-generators. Handy-Whitman Index numbers are used to trend earlier valuations and original cost at prices prevailing at a certain date.

1 Illustration 2



15

16 The chart above, and those on Schedule 2, show that

17 the cost of the same equipment and facilities that are

18 being added today are multiple times more expensive than

19 those facilities installed in the past. Our retail rates

20 are "cost-based" and reflect the low cost of the old

21 equipment serving customers, when the equipment is

22 replaced, it requires an increase in rates to reflect the

23 much higher cost of the new equipment.

24 Q. With respect to Avista's proposed pro forma

25 capital additions, would there be some operation and

26 maintenance (O&M) savings associated with the replacement

27 of some of the aging equipment with new equipment?

1 A. Not when you look at the total utility as a
2 whole, which is how ratemaking is done.⁴

3 On a net basis, we will continue to experience O&M
4 costs to maintain a system that continues to age. Our O&M
5 costs are continuing to go up over time, not down, as shown
6 in Illustration 3 below.

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8 **Illustration 3**

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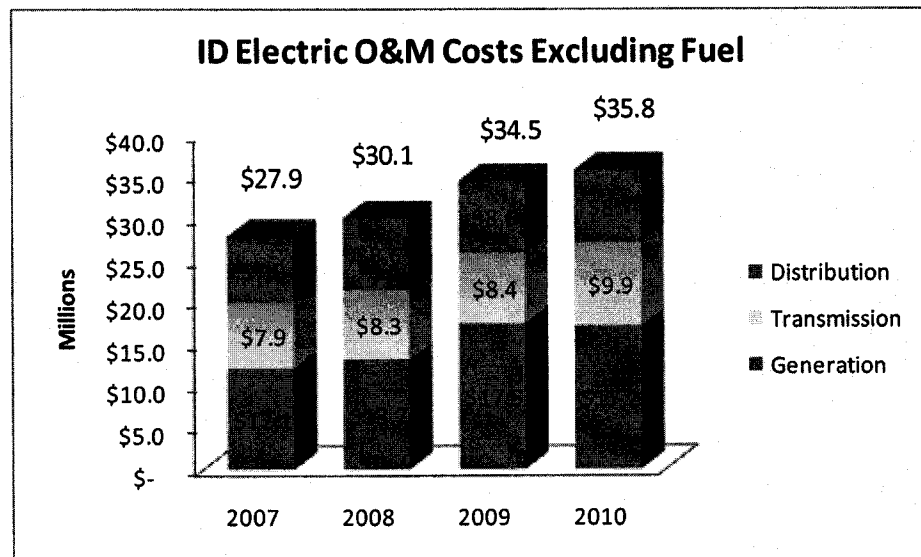
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19 At some point our facilities approach the end of their
20 useful lives and need to be replaced before they fail. Our
21 general practice is to attempt to replace our aging
22 equipment before it fails, because it is not only less
23 costly to replace this equipment on a structured, planned
24 basis, but it also results in more reliable service to
25

⁴ As described below, all of the capital that was pro formed was reviewed for any offsets and any specific offset that was identified was included in the filing as a separate restating adjustment (O&M Savings Adjustment) as a reduction to O&M costs.

1 customers, which is expected by all utility stakeholders.
2 If our practice were to avoid replacing utility equipment
3 until it failed, the reliability of our system would
4 suffer.

5 Therefore, it is imperative that we continue every
6 year to reinvest and upgrade a portion of our utility
7 system, in addition to the investments to meet mandatory
8 reliability requirements, so that our system will continue
9 to provide reliable service.

10 The reinvestment and upgrades actually serve, to a
11 large extent, to allow the Company to avoid additional
12 costs in the future associated with maintenance - not to
13 reduce the overall level of existing O&M costs. Mr. Kinney
14 provides additional testimony in this area.

15

16 **III. DESCRIPTION OF CAPITAL PROJECTS**

17 **Q. Please provide a listing of the 2011 capital**
18 **projects that were pro formed in this filing.**

19 A. Exhibit No. 11, Schedule 3, Page 1, details the
20 capital projects that will be transferred to plant in
21 service in 2011 and included in this filing. A listing
22 and/or description of the capital projects and their system
23 costs that will transfer to plant in service in 2011 and
24 that are included in this filing follows:

25

26 **Generation (\$25.280 million - system):**

27

28 The electric generation projects that will transfer to
29 plant in service are described in detail in Mr.

1 Lafferty's direct testimony. A listing of these
2 projects follows:
3
4 Thermal - Kettle Falls Capital Projects - \$731,000
5 Thermal - Colstrip Capital Projects - \$6,926,000
6 Thermal - Other Small Capital Projects - \$156,000
7 Hydro - Cabinet Gorge Upgrade - \$800,000
8 Hydro - Noxon Capital Projects - \$1,000,000
9 Hydro - 2011 Noxon Unit #2 Upgrade - \$9,110,000
10 Hydro - Clark Fork PME Agreements - \$1,468,000
11 Hydro - Spokane PME Agreements - \$2,243,000
12 Hydro - Other Small Capital Projects - \$1,874,000
13 Other - CS2 Capital Projects - \$630,000
14 Other - Other Small Generation Projects - \$342,000
15
16

17 **Electric Transmission (\$26.959 million - system):**

18 The electric transmission projects that will transfer
19 to plant in service are described in detail in Mr.
20 Kinney's direct testimony. A listing of these
21 projects and system costs follows:
22

23 Reliability Compliance Projects:

24 Spokane-CDA 115 kV Line Relay Upgrades - \$1,000,000
25 SCADA Replacement - \$625,000
26 System-Replace/Install Capacitor Banks - \$400,000
27 Moscow Sub Rebuild - \$400,000
28 Bronx Cabinet 115 kV Substation Rebuild - \$2,000,000
29 West Plains Transmission Reinforcement - \$2,300,000
30

31 Environmental Regulation Project:

32 Beacon Storage Yard Oil Containment - \$1,020,000
33

34 Contractual Required Projects:

35 Colstrip Transmission - \$533,000
36 Tribal Permits - \$325,000
37

38 Reliability Improvement Projects:

39 Idaho Road Substation - \$1,750,000
40 Hatwai - N. Lewiston 230 kV Re-Insulate - \$250,000
41 12F2 & PVW 241 Feeder Tie - \$265,000
42

43 Replacement Transmission Projects:

44 Power Transformer Transmission - \$3,250,000
45 Transmission Minor Rebuilds - \$2,750,000
46 Power Circuit Breakers - \$1,600,000
47 Otis Orchards - 115 kV Breaker and Line Relay
48 Replacement - \$730,000
49 Noxon Rapids B Bank GSU Replacements - \$5,874,000
50

51 Transmission Asset Management Projects - \$1,887,000
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Electric Distribution (\$65.757 million - system):

The Idaho specific electric distribution projects totaling \$9.465 million that will transfer to plant in service are described in detail in Mr. Kinney's direct testimony. A listing of these projects follows:

- Power Transformer Distribution - \$350,000
- Appleway Substation Rebuild - \$4,200,000
- Deary Substation Rebuild - \$1,615,000
- System-Dist Reliability-Improve Feeders - \$925,000
- 12F2 & PVW 241 Feeder Tie Distribution - \$360,000
- CDA East & North - Pullman & Lewis Clark - \$1,025,000
- Replace High Resistance Conductor - \$615,000
- PCB Related Distribution Rebuilds - \$375,000

The electric distribution projects totaling \$24.1 million (system) that will transfer to plant in service are described in detail in Mr. Kinney's direct testimony. A listing of these projects follows:

- Electric Distribution Minor Blanket - \$8,000,000
- Wood Pole Replacement Program & Capital Distribution Feeder Repair - \$8,900,000
- Electric Underground Replacement - \$3,500,000
- Distribution Line Relocation - \$1,700,000
- Failed Electric Plant - \$2,000,000

The following electric distribution projects included on Exhibit No. 11, Schedule 3, are specific to the Washington jurisdiction and are not included in the Idaho electric revenue requirement in this case.

- Power Transformer Distribution - \$1,000,000
- Replace High Resistance Conductor - \$1,876,000
- PCB Related Distribution Rebuilds - \$2,125,000
- Distribution Projects in Washington - \$8,700,000
- Washington Smart Grid Distribution - \$18,461,000

General (\$18.003 million - system):

Security Initiative - \$374,000
Various security measures including cameras and access controls for the office and branch facilities.

Structures and Improvements - \$3,500,000
This is a group of capital maintenance projects that Facilities Management coordinates at the Spokane Central Operating Facilities and Avista branch facilities - offices and service centers. For 2011, planned projects include: roof replacements, HVAC

1 system replacement at some branch offices, energy
2 efficiency window and lighting projects, security
3 projects, asphalt overlays and replacement, as well as
4 some capital repair projects in existing buildings.
5

6 Stores Equipment - \$402,000

7 Equipment utilized in warehouses and/or investment
8 recovery operations throughout the service territory.
9 This includes equipment such as forklifts, man lifts,
10 shelving, cutting/binding machines, etc.
11

12 Tools, Lab & Shop Equipment - \$1,300,000

13 Expenditures in this category include all large tools
14 and instruments used throughout the Company for gas
15 and/or electric construction and maintenance work,
16 distribution, transmission, or generation operations,
17 telecommunications, and some fleet equipment (hoists,
18 winch, etc) not permanently attached to the vehicle.
19

20 HVAC Renovation Project - \$5,541,000

21 The heating, ventilating, and air conditioning systems
22 throughout the Spokane Central Operating Facilities
23 are approximately fifty years old and are in need of
24 replacement. In 2007, the Company initiated a multi-
25 year HVAC renovation project that involves replacing
26 central air handling units and distribution systems in
27 three buildings - the Spokane Service Center, the
28 general office building, and the cafeteria auditorium
29 building. The building envelope of the general office
30 building was also renovated with high efficiency glass
31 and insulation. The project will also achieve
32 asbestos abatement and life safety (fire sprinkler)
33 additions. New controls will also be installed which
34 will enable energy conservation. Present estimates
35 indicate cost savings of approximately \$430,000 per
36 year in energy use, a 36% reduction in energy costs
37 once all phases have been completed, currently planned
38 to be completed in 2013. The 2011 project pro formed
39 into this case will produce approximately \$31,000 per
40 year (system) in reduced energy costs, which have been
41 pro formed as a reduction to O&M costs. The Company
42 has included an additional \$31,000 in O&M savings
43 related to the 2010 portion of this capital project
44 that was completed in late-2010.
45

46 WSDOT Highway Preservation/Maintenance of Right of
47 Ways - \$350,000

48 In order to operate our electric system within State
49 highway rights of way, the Company needs to
50 preserve/maintain right of ways. Existing right of
51 ways have expired and Avista must seek new agreements
52 with the State or risk penalties or non-approval by
53 the State.

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Colville Service Center - \$5,400,000
The construction of a new service center was specific to the Washington jurisdiction and has not been included in the Idaho electric revenue requirement in this case.

Other Small Projects - \$1,136,000
These projects include office furniture additions and replacements, communication and security initiatives, radio equipment, telephone systems, office and other general facility upgrades.

Transportation (\$9.468 million - system):

Transportation Equipment - \$9,468,000
Expenditures are for the scheduled replacement of trucks, off-road construction equipment and trailers that meet the Company's guidelines for replacement including age, mileage, hours of use and overall condition. This also includes additions to the fleet for new positions or crews working to support the maintenance and construction of our electric and natural gas operations.

Technology (\$24.073 million - system):

Information Technology Refresh Blanket - \$8,995,000
A program to replace obsolete technology according to Avista's refresh cycles that are generally driven by hardware/software manufacturer and industry trends to maintain business operations.

Information Technology Expansion Blanket - \$1,180,000
A program to deliver technology associated with expansion of existing solutions.

Avista Facility Management (AFM) Product Development Program - \$640,000
Deliver enhancements to the electric and natural gas Facility Management technology system.

Nucleus Product Development Program - \$480,000
Deliver enhancements to the Nucleus energy resource management technology system.

Web Product Development Program - \$960,000
A program to deliver enhancements to the Customer based Web technology system.

Business Application Refresh Program - \$1,188,000

1 This item is a program to upgrade critical business
2 application that support small systems that are
3 integral for the delivery of reliable electric and gas
4 services to the customer. Examples of items in this
5 program are upgrade to obsolete Itron PP4 meter
6 reading system to Itron MVRS meter reading system,
7 upgrade Microsoft BizTalk integration software to the
8 current version, and upgrade of the SharePoint
9 services Intranet to the current version.

10
11 Moducom Replacement - \$1,000,000

12 This project is to replace the critical crew
13 communication system that facilitates the coordination
14 of Avista's crews for the restoration, operations and
15 installation of electric and gas services to our
16 customers.

17
18 Microwave Replacement Project - \$2,813,000

19 The project is designed to replace the aging and no
20 longer supported microwave equipment with a supported
21 technology. These systems support the communication
22 for protection and relaying of the electrical
23 transmission systems that allow the reliable delivery
24 of electricity throughout our service territory.

25
26 Oracle R12 Upgrade - \$1,300,000

27 This project will provide the Company with a
28 supportable financial application system which is
29 integral for the operation of financially viable
30 stable business this in turn allows us to continue to
31 provide reliable electric and gas services to our
32 customers.

33
34 AFM.net Upgrade - \$2,904,000

35 The Avista Facilities Management system, or AFM,
36 provides electronic representation of all of the
37 components of the gas and electric systems required
38 for the safe and reliable delivery of electricity and
39 natural gas to our customers. This system represents
40 meters, poles, transformers and many other components
41 in a geospatial representation. Our Distribution
42 Engineering and Operations areas depend upon the
43 information in this system for the management of
44 outage restoration, maintenance and operations of the
45 electrical and gas distributions systems. This
46 project provides critical updates to the underlying
47 technology of the system.

48
49 Other Small Technology Projects and Technology Minor
50 Blankets - \$2,613,000

51 This item is intended to be used for small technology
52 projects. These projects are small items that provide
53 for improvements in how Avista provides services to

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our customers. Examples of project approved under this program are adding new features and functions to the Claims system, adding an additional module to the Rate Case Software product, and adding additional features to the Contract Management system.

Jackson Prairie Storage (\$0.581 million - system):

Jackson Prairie Storage Project - \$581,000
These projects include various capital improvements that Avista and its partners will complete at Jackson Prairie facility in 2011.

Natural Gas Distribution (\$15.312 million - system):

Replace Deteriorated Pipe - \$1,052,000
This annual project will replace sections of existing natural gas piping that are suspect for failure or have deteriorated within the natural gas system. This project will address the replacement of sections of natural gas main that no longer operate reliably and/or safely. Sections of the natural gas system require replacement due to many factors including material failures, environmental impact, increase leak frequency, or coating problems. This project will identify and replace sections of main to improve public safety and system reliability.

Natural Gas Replacement Street/Highways - \$1,850,000
This annual project will replace sections of existing natural gas piping that require replacement due to relocation or improvement of streets or highways in areas where natural gas piping is installed. Avista installs many of its facilities in public right-of-way under established franchise agreements. Avista is required under the franchise agreements, in most cases, to relocate its facilities when they are in conflict with road or highway improvements.

Natural Gas Non-Revenue Blanket - \$2,900,000
This annual project will replace sections of existing natural gas piping that require replacement to improve the operation of the natural gas system but are not linked to new revenue. The project includes relocation of main related to overbuilds, improvement in equipment and/or technology to improve system operation and/or maintenance, replacement of obsolete facilities, replacement of main to improve cathodic performance, and projects to improve public safety and/or improve system reliability.

1 Roseburg, OR Reinforcement Project - \$3,700,000
2 This Oregon natural gas distribution project is not
3 included in this filing.
4

5 North Clarkston, WA HP Reinforcement Project -
6 \$2,200,000
7 This Washington natural gas distribution project is
8 not included in this filing.
9

10 Other Small Projects - \$3,610,000
11 Please refer to my workpapers for detailed listing of
12 projects.
13
14

15 **Q. What are the 2012 capital projects that are pro**
16 **formed in this filing?**

17 A. Exhibit No. 11, Schedule 3, Page 2, details the
18 capital projects that will be transferred to plant in
19 service in 2012 and included in this filing. A listing
20 and/or description of the capital projects and their system
21 costs that will transfer to plant in service in 2012 and
22 that are included in this filing follows:

23
24 **Generation (\$34.362 million - system):**
25

26 The electric generation projects that will transfer to
27 plant in service are described in detail in Mr.
28 Lafferty's direct testimony. A listing of these
29 projects follows:
30

- 31 Thermal - Kettle Falls Capital Projects - \$1,000,000
 - 32 Thermal - Colstrip Capital Projects - \$4,963,000
 - 33 Thermal - Other Small Capital Projects - \$160,000
 - 34 Hydro - Little Falls Capital Projects - \$2,300,000
 - 35 Hydro - Post Falls Capital Projects - \$2,500,000
 - 36 Hydro - 2012 Noxon Unit #4 Upgrade - \$8,757,000
 - 37 Hydro - Clark Fork PME Agreements - \$1,437,000
 - 38 Hydro - Spokane PME Agreements - \$1,105,000
 - 39 Hydro - Other Small Capital Projects - \$952,000
 - 40 Other - CS2 Capital Projects - \$10,400,000
 - 41 Other - Other Small Generation Projects - \$788,000
- 42
43
44

1 **Electric Transmission (\$22.407 million - system):**

2 The electric transmission projects that will transfer
3 to plant in service are described in detail in Mr.
4 Kinney's direct testimony. A listing of these
5 projects and system costs follows:
6
7

8 Reliability Compliance Projects:

9 Spokane-CDA 115 kV Line Relay Upgrades - \$1,250,000
10 SCADA Replacement - \$450,000
11 System-Replace/Install Capacitor Banks - \$1,200,000
12 Moscow Sub Rebuild - \$3,870,000
13 Irvin - Millwood 115 kV Rebuild - \$1,150,000
14 Thornton Substation - \$4,900,000
15 Bronx Cabinet 115 kV Rebuild/Reconductor - \$1,500,000
16

17 Contractual Required Projects:

18 Colstrip Transmission - \$195,000
19 Tribal Permits - \$325,000
20

21 Replacement Transmission Projects:

22 Power Transformer Transmission - \$2,665,000
23 Transmission Minor Rebuilds - \$1,500,000
24 Power Circuit Breakers - \$1,200,000
25

26 Transmission Asset Management Projects - \$2,202,000
27
28

29 **Electric Distribution (\$58.003 million - system):**

30
31 The Idaho specific electric distribution projects
32 totaling \$7.940 million that will transfer to plant in
33 service are described in detail in Mr. Kinney's direct
34 testimony. A listing of these projects follows:
35

36 Power Transformer Distribution - \$350,000
37 Big Creek Substation - \$1,515,000
38 Blue Creek Substation - \$1,500,000
39 System-Dist Reliability-Improve Feeders - \$1,075,000
40 CDA East & North - Pullman & Lewis Clark - \$1,325,000
41 Pullman & Lewis Clark Distribution - \$600,000
42 Replace High Resistance Conductor - \$905,000
43 PCB Related Distribution Rebuilds - \$420,000
44 10th & Stewart - \$250,000
45

46 The electric distribution projects totaling \$24.943
47 million (system) that will transfer to plant in
48 service are described in detail in Mr. Kinney's direct
49 testimony. A listing of these projects follows:
50

51 Electric Distribution Minor Blanket - \$8,000,000

1 Wood Pole Replacement Program & Capital Distribution
2 Feeder Repair - \$9,468,000
3 Electric Underground Replacement - \$3,675,000
4 Distribution Line Relocation - \$1,700,000
5 Failed Electric Plant - \$2,100,000
6

7 The following electric distribution projects included
8 on Exhibit No. 11, Schedule 3, are specific to the
9 Washington jurisdiction and are not included in the
10 Idaho electric revenue requirement in this case.
11

12 Power Transformer Distribution - \$1,100,000
13 Replace High Resistance Conductor - \$2,112,000
14 PCB Related Distribution Rebuilds - \$2,400,000
15 Distribution Projects in Washington - \$11,104,000
16 Washington Smart Grid Distribution - \$8,404,000
17

18 **General (\$11.217 million - system):**

19 Security Initiative - \$392,000
20 Various security measures including cameras and access
21 controls for the office and branch facilities.
22

23 Structures and Improvements - \$3,032,000
24 This is a group of capital maintenance projects that
25 Facilities Management coordinates at the Spokane
26 Central Operating Facilities and Avista branch
27 facilities - offices and service centers. For 2012,
28 planned projects include: roof replacements, land
29 acquisition for facility expansion, energy efficiency
30 projects, security enhancement projects, asphalt
31 overlays and replacement, construction of new storage
32 buildings, as well as some capital repair projects in
33 existing buildings.
34

35 Stores Equipment - \$450,000
36 Equipment utilized in warehouses and/or investment
37 recovery operations throughout the service territory.
38 This includes equipment such as forklifts, man lifts,
39 shelving, cutting/binding machines, etc.
40

41 Tools, Lab & Shop Equipment - \$1,292,000
42 Expenditures in this category include all large tools
43 and instruments used throughout the Company for gas
44 and/or electric construction and maintenance work,
45 distribution, transmission, or generation operations,
46 telecommunications, and some fleet equipment (hoists,
47 winch, etc) not permanently attached to the vehicle.
48

49 HVAC Renovation Project - \$5,000,000
50 The heating, ventilating, and air conditioning systems
51 throughout the Spokane Central Operating Facilities

1 are approximately fifty years old and are in need of
2 replacement. In 2007, the Company initiated a multi-
3 year HVAC renovation project that involves replacing
4 central air handling units and distribution systems in
5 three buildings - the Spokane Service Center, the
6 general office building, and the cafeteria auditorium
7 building. The building envelope of the general office
8 building was also renovated with high efficiency glass
9 and insulation. The project will also achieve
10 asbestos abatement and life safety (fire sprinkler)
11 additions. New controls will also be installed which
12 will enable energy conservation. Present estimates
13 indicate cost savings of approximately \$430,000 per
14 year in energy use, a 36% reduction in energy costs
15 once all phases have been completed, currently planned
16 to be completed in 2013. The 2012 project pro formed
17 into this case will produce approximately \$31,000 per
18 year (system) in reduced energy costs, which have been
19 pro formed as a reduction to O&M costs.

20
21 WSDOT Highway Preservation/Maintenance of Right of
22 Ways - \$500,000

23 In order to operate our electric system within State
24 highway rights of way, the Company needs to
25 preserve/maintain right of ways. Existing right of
26 ways have expired and Avista must seek new agreements
27 with the State or risk penalties or non-approval by
28 the State.

29
30 Other Small Projects - \$551,000

31 These projects include office furniture additions and
32 replacements, communication and security initiatives,
33 radio equipment, telephone systems, office and other
34 general facility upgrades.

35
36
37 **Transportation (\$6.672 million - system):**

38 Transportation Equipment - \$9,468,000

39 Expenditures are for the scheduled replacement of
40 trucks, off-road construction equipment and trailers
41 that meet the Company's guidelines for replacement
42 including age, mileage, hours of use and overall
43 condition. This also includes additions to the fleet
44 for new positions or crews working to support the
45 maintenance and construction of our electric and
46 natural gas operations.

47
48
49 **Technology (\$32.682 million - system):**

50 Information Technology Refresh Blanket - \$6,254,000
51

1 A program to replace obsolete technology according to
2 Avista's refresh cycles that are generally driven by
3 hardware/software manufacturer and industry trends to
4 maintain business operations.
5
6 Information Technology Expansion Blanket - \$1,140,000
7 A program to deliver technology associated with
8 expansion of existing solutions.
9
10 AFM Product Development Program - \$500,000
11 Deliver enhancements to the electric and natural gas
12 Facility Management technology system.
13
14 Nucleus Product Development Program - \$480,000
15 Deliver enhancements to the Nucleus energy resource
16 management technology system.
17
18 Web Product Development Program - \$650,000
19 A program to deliver enhancements to the Customer
20 based Web technology system.
21
22 Business Application Refresh Program - \$500,000
23 This item is a program to upgrade critical business
24 application that support small systems that are
25 integral for the delivery of reliable electric and gas
26 services to the customer. An example of this would be
27 an upgrade of Human Resource system.
28
29 Moducom Replacement - \$500,000
30 This project is to replace the critical crew
31 communication system that facilitates the coordination
32 of Avista's crews for the restoration, operations and
33 installation of electric and gas services to our
34 customers.
35
36 Next Generation Radio Project - \$18,657,000
37 This project is refreshing Avista's 20 year old Land
38 Mobile Radio (LMR) system that is used for critical
39 crew communications during outage restoration and
40 daily operations of maintaining the electric and gas
41 distribution and transmission systems. Avista
42 continues to maintain a private Land Mobile Radio
43 system because the offerings available from public
44 providers cannot provide communication throughout our
45 rural service territory and as a portion of our
46 nation's critical infrastructure it is imperative that
47 Avista have a communication system that will operate
48 in the event of a disaster to help safeguard the
49 general public.
50
51 CIS Replacement - \$3,000,000
52 This project will enhance the integration capability
53 supporting expanded service oriented architecture in

1 commercial off the shelf software. This is part of a
2 larger effort to reduce the costs of custom written
3 application solutions which will improve our ability
4 to provide customer more information about their
5 energy usage and reduce our costs of delivering
6 services to Avista's customers.
7
8 Other Small Technology Projects and Technology Minor
9 Blankets - \$1,001,000
10 This item is intended to be used for small technology
11 projects. These projects are small items that provide
12 for improvements in how Avista provides services to
13 our customers. The specific projects will be defined
14 during the annual budgeting cycle.
15
16
17 **Jackson Prairie Storage (\$0.604 million - system):**
18 Jackson Prairie Storage Project - \$604,000
19 These projects include various capital improvements
20 that Avista and its partners will complete at Jackson
21 Prairie facility in 2012.
22
23
24 **Natural Gas Distribution (\$20.285 million - system):**
25 Replace Deteriorated Pipe - \$3,000,000
26 This annual project will replace sections of existing
27 natural gas piping that are suspect for failure or
28 have deteriorated within the natural gas system.
29 Sections of the natural gas system require replacement
30 due to many factors including material failures,
31 environmental impact, increase leak frequency, or
32 coating problems. This project will identify and
33 replace sections of main to improve public safety and
34 system reliability.
35
36 Natural Gas Replacement Street/Highways - \$2,060,000
37 This annual project will replace sections of existing
38 natural gas piping that require replacement due to
39 relocation or improvement of streets or highways in
40 areas where natural gas piping is installed. Avista
41 installs many of its facilities in public right-of-way
42 under established franchise agreements. Avista is
43 required under the franchise agreements, in most
44 cases, to relocate its facilities when they are in
45 conflict with road or highway improvements.
46
47 Natural Gas Non-Revenue Blanket - \$3,664,000
48 This annual project will replace sections of existing
49 natural gas piping that require replacement to improve
50 the operation of the natural gas system but are not
51 directly linked to new revenue. The project includes

1 relocation of main related to overbuilds, improvement
2 in equipment and/or technology to improve system
3 operation and/or maintenance, replacement of obsolete
4 facilities, replacement of main to improve cathodic
5 performance, and projects to improve public safety
6 and/or improve system reliability.
7
8 Highway 95 Relocation Project - \$1,250,000
9 This project will replace approximately 33,000 feet of
10 existing 3 inch diameter intermediate pressure
11 polyethylene (PE) main by installing a new 6 inch
12 diameter intermediate pressure PE main along Highway
13 95 from Chilco Road, ending in Athol, Idaho. Avista
14 has been notified by ITD (Idaho Transportation
15 Department) that the existing natural gas main is in
16 conflict with the construction and widening of Hwy 95.
17 The existing main is installed in the Hwy 95 road
18 right of way. Relocation of the Avista natural gas
19 main is required in order for ITD to make the road
20 improvements. The existing 3 inch main will be
21 replaced with 6 inch PE main to also accommodate
22 future growth along the pipe route and improve
23 reliability by looping the distribution system.
24
25 Old Highway 95 Relocation Project - \$3,000,000
26 This project will relocate approximately 15,000 feet
27 of existing steel HP main and approximately 8,300 feet
28 of existing PE main by installing a new 6 inch HP main
29 and new 6 inch PE main along Old Highway 95 from the
30 vicinity of Highway 53 to Chilco Rd. Existing
31 regulator stations No.604 and No. 226 will be tied
32 into the new piping. The Idaho Transportation
33 Department will be rebuilding Old Highway 95 from
34 Highway 53 to Chilco Rd. The relocation of the
35 existing HP and PE facilities will be required to
36 accommodate the new roadway. The existing facilities
37 are located within the Lakes Highway District right-
38 of-way.
39
40 Klamath Falls, OR Lateral Project - \$2,500,000
41 This Oregon natural gas distribution project is not
42 included in this filing.
43
44 Isolated Steel Replacement Project - \$1,125,000
45 The Company is implementing a special cathodic
46 protection program for the purpose of finding and
47 addressing isolated steel in its natural gas piping
48 systems. This program is described further by Company
49 witness Mr. Kopczynski in his testimony.
50
51 Other Small Projects - \$3,686,000
52 Please refer to my workpapers for detailed listing of
53 projects.

IV. SUMMARY OF ADJUSTMENTS

Q. What was the net impact to electric rate base for the capital adjustments pro formed in this case?

A. Electric net rate base for capital investment increased \$25,827,000, from \$594,111,000 to \$619,938,000. Table 2 below summarizes the adjustments included in the case.

Table 2

| | Adjustment 1 | | Adjustment 2 | | | Adjustment 3 | | Adjustment 4 | | Pro Formed Rate Base 2012 AMA |
|-----------|--------------------|--------------------------|------------------------|---|-----------------------------------|-------------------------------------|------------------------------------|------------------------------------|---------------------------------------|-------------------------------|
| | Rate Base 2010 AMA | Adjust 2010 to EOP Basis | Rate Base 12/31/10 EOP | Adjust 12/31/10 Vintage to 12/31/11 EOP | Capital Additions to 12/31/11 EOP | Adjust 12/31/10 Vintage to 2012 AMA | 2011 Capital Additions to 2012 AMA | 2012 Capital Additions to 2012 AMA | Noxon 2011 and 2012 Upgrades 2012 AMA | |
| Plant | \$ 1,054,173 | \$ 21,656 | \$ 1,075,829 | \$ - | \$ 46,008 | \$ - | \$ - | \$ 16,808 | \$ 5,081 | \$ 1,143,726 |
| A/D | (356,580) | (6,873) | (363,453) | (29,495) | (1,128) | (14,747) | (1,172) | (431) | (121) | (410,547) |
| DFIT | (103,482) | (3,140) | (106,622) | (3,063) | (745) | (1,522) | (605) | (374) | (310) | (113,241) |
| Rate Base | \$ 594,111 | \$ 11,643 | \$ 605,754 | \$ (32,558) | \$ 44,135 | \$ (16,269) | \$ (1,777) | \$ 16,003 | \$ 4,650 | \$ 619,938 |

Q. What was the net impact to natural gas rate base for the capital adjustments pro formed in this case?

A. Natural gas net rate base for capital investment decreased \$3,480,000, from \$96,276,000 to \$92,796,000. Table 3 below summarizes the adjustments included in the case.

1 **Table 3**

2

| (\$000's) | Adjustment 1 | | | Adjustment 2 | | Adjustment 3 | | | Pro Formed Rate Base 2012 AMA |
|-----------|--------------------------------------|-----------------|------------------------------|---|---|---|--|--|--|
| | | | | 2011 | | | | | |
| | Adjust 2010 Rate Base 2010 AMA | to EOP Basis | Rate Base 12/31/10 EOP | Adjust 12/31/10 Vintage to 12/31/11 EOP | Capital Additions to 12/31/11 EOP | Adjust 12/31/10 Vintage to 2012 AMA | 2011 Capital Additions to 2012 AMA | 2012 Capital Additions to 2012 AMA | |
| | Plant | \$ 172,698 | \$ 1,859 | \$ 174,557 | \$ - | \$ 4,476 | \$ - | \$ - | |
| A/D | (56,749) | (1,059) | (57,808) | (4,909) | (216) | (2,454) | (204) | (84) | (65,675) |
| DFIT | (19,673) | (1,297) | (20,970) | (1,512) | (136) | (548) | (103) | (91) | (23,360) |
| Rate Base | \$ 96,276 | \$ (497) | \$ 95,779 | \$ (6,421) | \$ 4,124 | \$ (3,002) | \$ (307) | \$ 2,623 | \$ 92,796 |

3
4
5
6
7

8 A. The Company used the same general approach that
9 was used in the two previous general rate cases.⁵ Company
10 witness Ms. Andrews includes the following four
11 adjustments:

12 2010 Capital Adjustment - Adjusts the 2010 test period
13 rate base stated on an AMA basis to an EOP basis. The
14 revenue-producing distribution plant for the 2010 capital
15 additions was not adjusted to EOP, to maintain the matching
16 of revenues and costs associated with these assets.

17 2011 Capital Adjustment - First, the plant that was in
18 service at December 31, 2010, was depreciated through 2011,
19 adjusting accumulated depreciation and DFIT to a December
20 31, 2011 EOP basis. Second, 2011 capital additions,
21 excluding the revenue-producing distribution plant and the
22 2011 Noxon Unit #2 upgrade, discussed below, was pro formed
23 on a December 31, 2011 EOP basis.

⁵ In previous year's cases, the Company's case pro formed capital to an end-of period basis for one year subsequent to the test year. For the current case, the Company pro formed capital to an average-of-monthly averages basis for the rate year.

1 2012 Capital Adjustment - First, the plant that was in
2 service at December 31, 2010, was depreciated through 2012,
3 adjusting accumulated depreciation and DFIT to a 2012 AMA
4 basis. Second, the 2011 pro formed capital additions were
5 depreciated through 2012, adjusting accumulated
6 depreciation and DFIT to a 2012 AMA basis. Third, 2012
7 capital additions, excluding the revenue-producing
8 distribution plant and the 2012 Noxon Unit #4 upgrade,
9 discussed below, was pro formed on a 2012 AMA basis.

10 Noxon Upgrades Adjustment - The 2011 Noxon Unit #2
11 generation plant upgrade and the 2012 Noxon Unit #4
12 generation plant upgrade were pro formed on a December 31,
13 2012 AMA basis. As explained by Mr. Storro, the Company
14 has been upgrading one Noxon unit each year at its Noxon
15 generating facility. The upgrade for Unit #2 was completed
16 in May 2011. The upgrade for Unit #4, which will be
17 completed in May 2012, is also pro formed into this case.
18 Fifty percent of the additional generation and costs have
19 been included in the Aurora power cost model to provide a
20 proper matching of revenues and costs. The Company
21 included fifty percent of the additional generation and
22 costs for the approximate half-year that it will be in
23 service during the 2012 pro forma period.

24 **Q. What other impact does the 2011 and 2012 capital**
25 **additions have in this case in addition to the rate base**
26 **impact?**

1 A. Depreciation expense and property taxes have been
2 computed for the 2011 and 2012 plant vintages for the pro
3 forma rate year on an AMA basis for 2012.

4 **Q. How were the offsets determined for the pro**
5 **formed plant investment?**

6 A. Each capital addition was analyzed to determine
7 any offsets (e.g. reduced O&M costs, reduced load losses,
8 etc.). Maintenance records were reviewed to determine
9 whether any specific maintenance costs were incurred in the
10 test period that would be reduced or eliminated by the
11 investment at the facility. For transmission projects,
12 analyses were conducted to determine the amount of
13 potential load loss savings that would be achieved. Those
14 costs were quantified and included as a reduction to O&M
15 costs in the O&M Savings restating adjustment included by
16 Ms. Andrews in the revenue requirement.

17 In addition, the output from generation assets is
18 included in the Aurora power cost model. Therefore, to the
19 extent that the additional investments serve to either
20 preserve or increase generation from the generation
21 projects, the benefits are reflected in the Aurora model.

22 **Q. What is the rationale behind the removal of**
23 **capital expenditures for connecting new customers?**

24 A. The pro forma capital expenditures for 2011 and
25 2012 that the Company included in this filing excludes
26 distribution related capital expenditures made that are
27 associated with connecting new customers to the Company's

1 system. The Company recognizes the fact that new customers
2 provide incremental revenue that helps offset the revenue
3 requirements of the distribution related capital additions
4 that the Company incurs to provide service to those
5 customers. The adjustments discussed above completely
6 eliminated the AMA 2010, the EOP 2011, and the EOP 2012
7 capital activity related to new customer connections in
8 order to avoid an unintended mismatch of revenues exceeding
9 the cost to serve customers.

10

11

V. CONCLUSION

12 **Q. What is the impact of the restating and pro forma**
13 **capital investment adjustments?**

14 A. The proposed adjustments will result in a closer
15 matching of revenues to cost of service at the time new
16 rates go into effect at the conclusion of this general rate
17 proceeding. Without the proposed adjustments, the Company
18 will not have the opportunity to earn its allowed rate of
19 return on investment during the rate year.

20 **Q. Does this conclude your pre-filed direct**
21 **testimony?**

22 A. Yes, it does.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

| | |
|------------------------------------|----------------------|
| IN THE MATTER OF THE APPLICATION) | CASE NO. AVU-E-11-01 |
| OF AVISTA CORPORATION FOR THE) | CASE NO. AVU-G-11-01 |
| AUTHORITY TO INCREASE ITS RATES) | |
| AND CHARGES FOR ELECTRIC AND) | |
| NATURAL GAS SERVICE TO ELECTRIC) | EXHIBIT NO. 11 |
| AND NATURAL GAS CUSTOMERS IN THE) | |
| STATE OF IDAHO) | DAVE B. DEFELICE |
|) | |

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Capital Expenditures

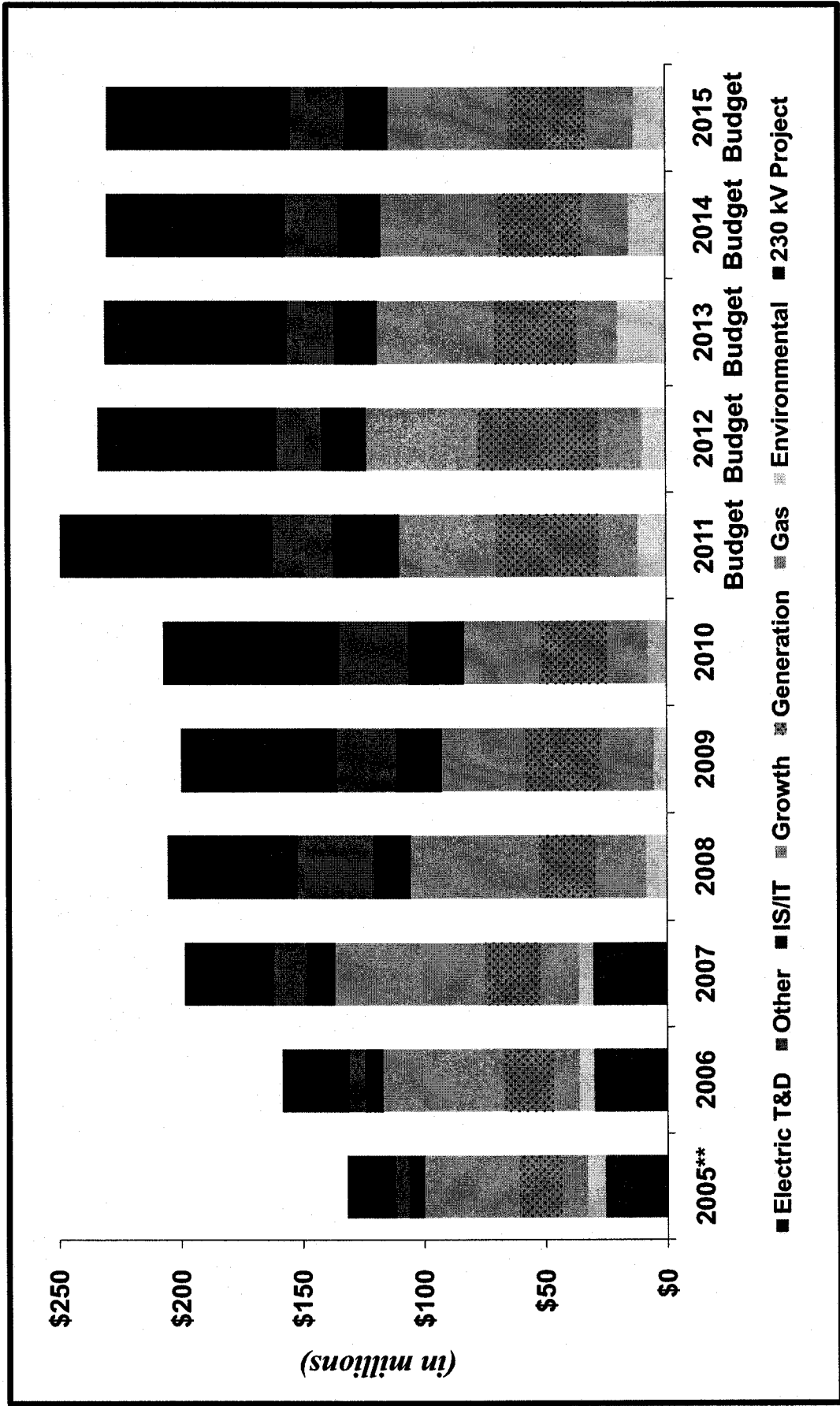
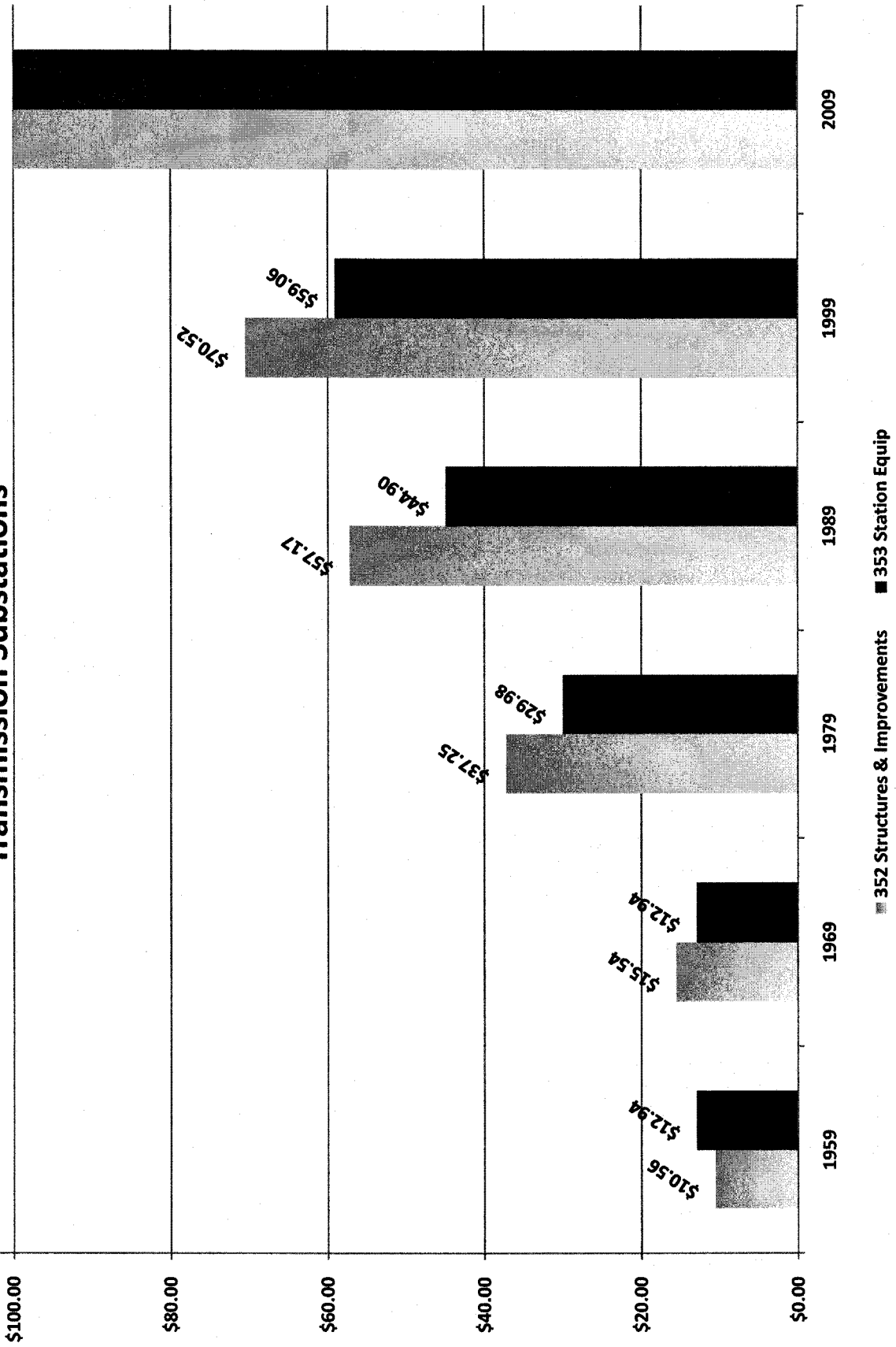


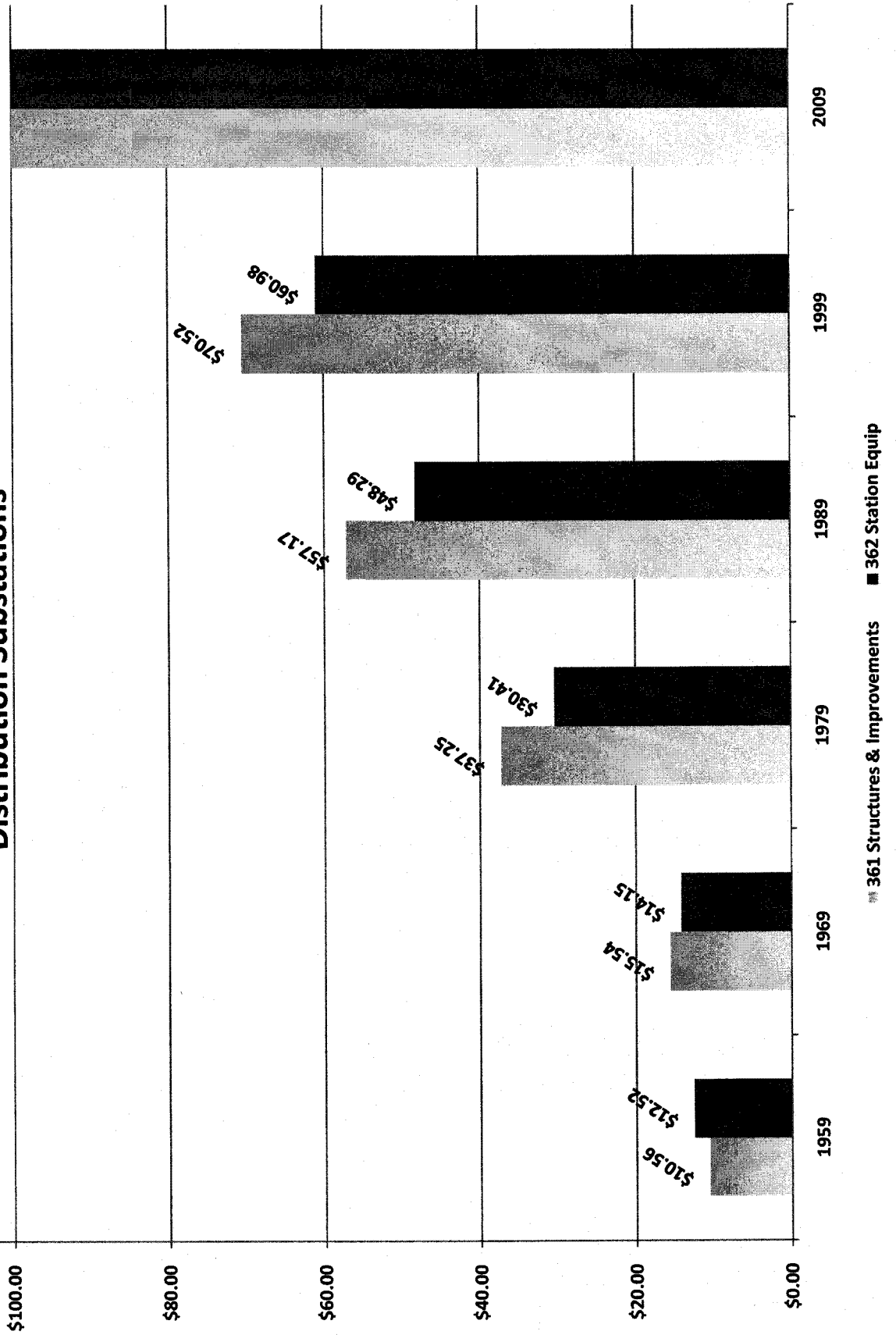
Exhibit No. 11
 Case Nos. AVU-E-11-01 & AVU-G-11-01
 D. DeFelice, Avista
 Schedule 1, p. 1 of 1

** 2005 excludes \$57.5 M for the purchase of the second half of Coyote Springs 2 and \$17.8 M for the office building purchase.

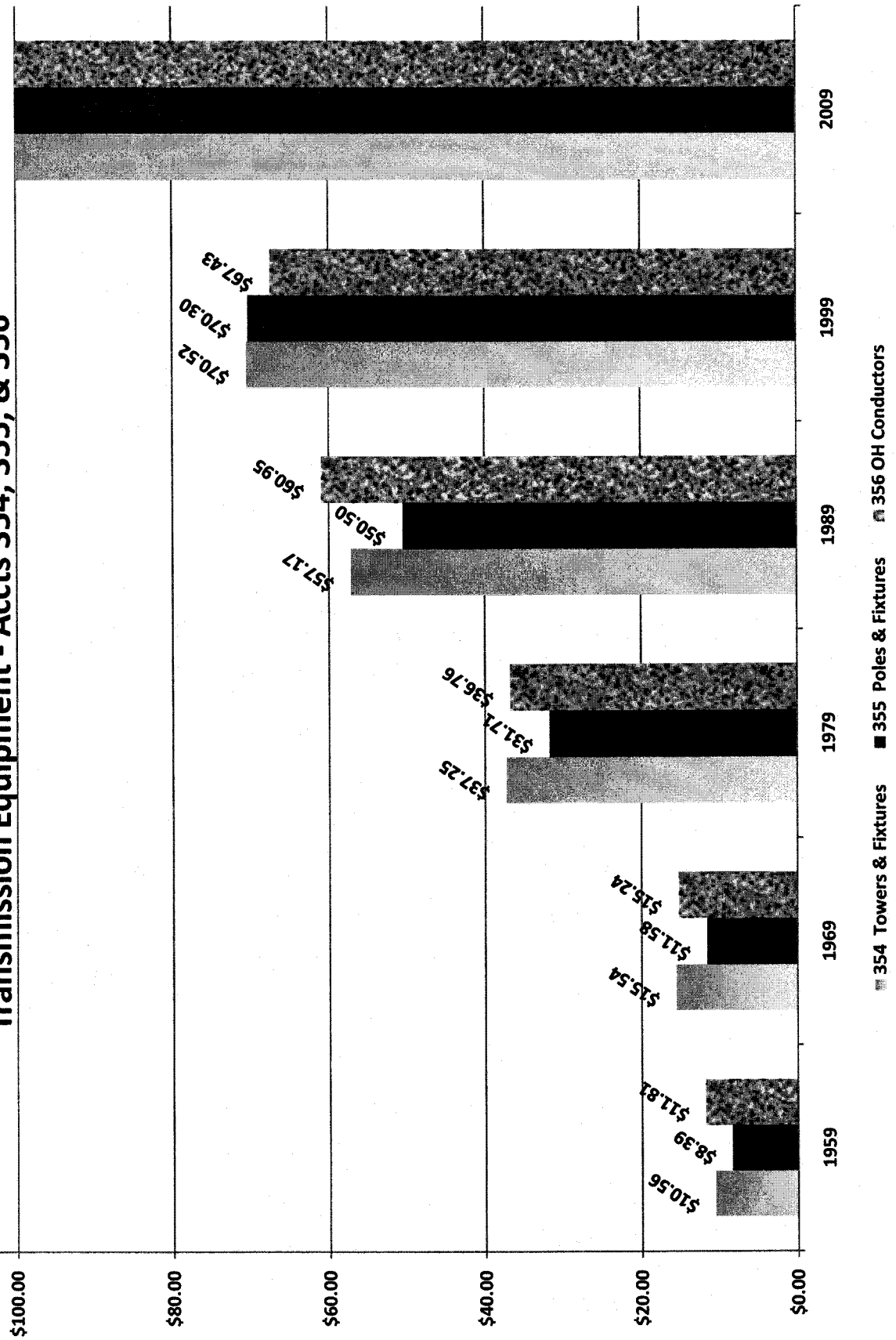
Handy Whitman Cost Index Transmission Substations



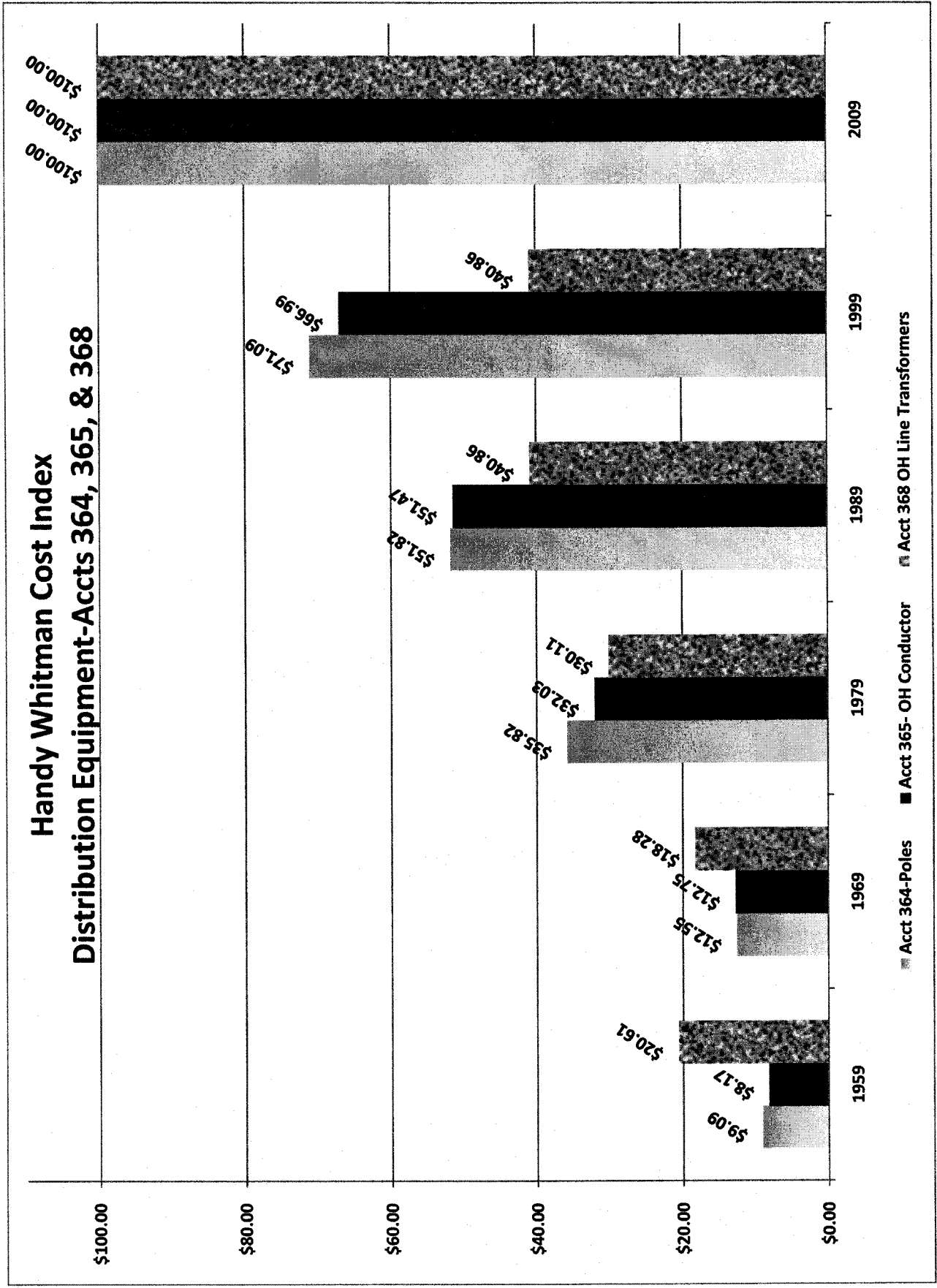
Handy Whitman Cost Index Distribution Substations



Handy Whitman Cost Index Transmission Equipment - Accts 354, 355, & 356



Handy Whitman Cost Index Distribution Equipment-Accts 364, 365, & 368



Avista 2011 Capital Additions Detail (System)

| | \$ (000's) | | \$ (000's) |
|--|---------------|---|----------------|
| Generation: | | General: | |
| Thermal - Kettle Falls Capital Projects | 731 | Security Initiative | 374 |
| Thermal - Colstrip Capital Additions | 6,926 | Structures & Improvements | 3,500 |
| Thermal - Other small projects | 156 | Stores Equipment | 402 |
| Hydro - Cabinet Gorge Capital Projects | 800 | Tools Lab & Shop Equipment | 1,300 |
| Hydro - Noxon Capital Projects | 1,000 | COF HVAC Improvement | 5,541 |
| Hydro - 2011 Noxon Unit #2 Upgrade * | 9,110 | WSDOT Highway Franchise Consolidation | 350 |
| Hydro - Clark Fork Implement PME Agreements | 1,468 | Colville Service Center - WA | 5,400 |
| Hydro - Spokane Implement PME Agreements | 2,243 | Other small general projects | 1,136 |
| Hydro - Other small projects | 1,874 | | 18,003 |
| Other - CS2 Captital Projects | 630 | | |
| Other - Other small generation projects | 342 | Transportation: | |
| | 25,280 | Transportation Equipment | 9,468 |
| | | | |
| Electric Transmission: | | Technology: | |
| Spokane-CDA 115 kV Line Relay Upgrades | 1,000 | Information Technology Refresh Blanket | 8,995 |
| SCADA Replacement | 625 | Information Technology Expansion Blanket | 1,180 |
| System-Replace/Install Capacitor Banks | 400 | AFM Product Development Program | 640 |
| Moscow 230 kV Substation Rebuild | 400 | Nucleus Product Development Program | 480 |
| Bronx-Cabinet 115 kV Rebuild/Reconductor | 2,000 | Web Product Development Program | 960 |
| West Plains Transmission Reinforcements | 2,300 | Business Application Refresh Program | 1,188 |
| Beacon Storage Yard Oil Containment | 1,020 | Moducom Replacement | 1,000 |
| Colstrip Transmission Minor Rebuild | 533 | Microwave Replacement Project | 2,813 |
| Tribal Permits | 325 | Oracle R12 Upgrade | 1,300 |
| Idaho Road Substation | 1,750 | AFM.net Upgrade | 2,904 |
| Hatwai-N. Lewsiston 230 kV Re-Insulate | 250 | Other small technology projects | 2,613 |
| EFM 12F2 & PVW 241 Feeder Tie | 265 | | 24,073 |
| Power Transformers - Transmission | 3,250 | | |
| Transmission Minor Rebuilds | 2,750 | Gas Storage: | |
| Power Circuit Breakers | 1,600 | Jackson Prairie Storage | 581 |
| Otis Orchards 115kV Breaker and Line Relay Replacement | 730 | | |
| Noxon Rapids B Bank GSU Replacement | 5,874 | Natural Gas Distribution: | |
| Asset Management Replacement Program | 1,887 | Replace Deteriorating Gas System | 1,052 |
| | 26,959 | Gas Replace-St&Hwy | 1,850 |
| | | Gas Distribution Non-Revenue Blanket | 2,900 |
| Electric Distribution: | | Roseburg, OR Reinforcement | 3,700 |
| Power Transformer Distribution | 1,350 | North Clarkston, WA HP Main Reinforce Project | 2,200 |
| Appleway Substation - ID | 4,200 | Other small distribution projects | 3,610 |
| Deary Substation - ID | 1,615 | | 15,312 |
| Sys-Dist Reliability-Improve Fdrs - IE | 925 | | |
| EFM 12F2 & PVW 241 Feeder Tie | 360 | Total Non-Revenue Capital | 185,403 |
| CDA East & North - Pullman & Lewis Clark - ID | 1,025 | | |
| Replace High Resistance Conductor | 2,491 | Growth/Revenue - Producing | 40,005 |
| PCB Related Distribution Rebuilds | 2,500 | | |
| Distribution Projects in Washington | 8,700 | Total Capital Additions in 2011 | 225,408 |
| Electric Distribution Minor Blanket | 8,000 | | |
| Wood Pole Replacement Program and Capital Dist Fdrs | 8,900 | | |
| Electric Underground Replacement | 3,500 | | |
| Distribution Line Relocation | 1,700 | | |
| Failed Electric Plant | 2,000 | | |
| Washington Smart Grid Distribution Projects | 18,461 | | |
| | 65,727 | | |

* The 2011 Noxon Unit #2 upgrade was included with the 2012 Noxon Unit #4 upgrade in the pro forma capital adjustment.

Avista 2012 Capital Additions Detail (System)

| | <u>\$ (000's)</u> | | <u>\$ (000's)</u> |
|---|-------------------|--|-------------------|
| Generation: | | General: | |
| Thermal - Kettle Falls Capital Projects | 1,000 | Security Initiative | 392 |
| Thermal - Colstrip Capital Additions | 4,963 | Structures & Improvements | 3,032 |
| Thermal - Other small projects | 160 | Stores Equipment | 450 |
| Hydro - Little Falls Capital Projects | 2,300 | Tools Lab & Shop Equipment | 1,292 |
| Hydro - Post Falls Capital Projects | 2,500 | COF HVAC Improvement | 5,000 |
| Hydro - 2012 Noxon Unit #4 Upgrade * | 8,757 | WSDOT Highway Franchise Consolidation | 500 |
| Hydro - Clark Fork Implement PME Agreements | 1,437 | Other small general projects | 551 |
| Hydro - Spokane Implement PME Agreements | 1,105 | | <u>11,217</u> |
| Hydro - Other small projects | 952 | | |
| Other - CS2 Captital Projects | 10,400 | Transportation: | |
| Other - Other small generation projects | 788 | Transportation Equipment | <u>6,672</u> |
| | <u>34,362</u> | | |
| Electric Transmission: | | Technology: | |
| Spokane-CDA 115 kV Line Relay Upgrades | 1,250 | Information Technology Refresh Blanket | 6,254 |
| SCADA Replacement | 450 | Information Technology Expansion Blanket | 1,140 |
| System-Replace/Install Capacitor Banks | 1,200 | AFM Product Development Program | 500 |
| Moscow 230 kV Substation Rebuild | 3,870 | Nucleus Product Development Program | 480 |
| Irvin - Millwood 115 kV Rebuild | 1,150 | Web Product Development Program | 650 |
| Thorton Substation | 4,900 | Business Application Refresh Program | 500 |
| Bronx - Cabinet 115 kV Rebuild/Reconductor | 1,500 | Next Generation Radio | 18,657 |
| Colstrip Transmission Minor Rebuild | 195 | Moducom Replacement Project | 500 |
| Tribal Permits | 325 | CIS Replacement | 3,000 |
| Power Transformers - Transmission | 2,665 | Other small technology projects | 1,001 |
| Transmission Minor Rebuilds | 1,500 | | <u>32,682</u> |
| Power Circuit Breakers | 1,200 | | |
| Asset Management Replacement Program | 2,202 | Gas Storage: | |
| | <u>22,407</u> | Jackson Prairie Storage | <u>604</u> |
| Electric Distribution: | | Natural Gas Distribution: | |
| Power Transformer Distribution | 1,450 | Replace Deteriorating Gas System | 3,000 |
| Big Creek Substation - ID | 1,515 | Gas Replace-St&Hwy | 2,060 |
| Blue Creek Substation - ID | 1,500 | Gas Distribution Non-Revenue Blanket | 3,664 |
| Sys-Dist Reliability-Improve Fdrs - IE | 1,075 | Highway 95 Relocation - ID | 1,250 |
| Tenth & Stewart | 250 | Old Highway 95 Relocation - ID | 3,000 |
| CDA East & North - ID | 1,325 | Klamath Falls Lateral - OR | 2,500 |
| Pullman & Lewis Clark - ID | 600 | Isolated Steel Replacement | 1,125 |
| Replace High Resistance Conductor | 3,017 | Other small distribution projects | 3,686 |
| PCB Related Distribution Rebuilds | 2,820 | | <u>20,285</u> |
| Distribution Projects in Washington | 11,104 | | |
| Electric Distribution Minor Blanket | 8,000 | Total Non-Revenue Capital | <u>186,232</u> |
| Wood Pole Replacement Program and Capital Dist Fdrs | 9,468 | | |
| Electric Underground Replacement | 3,675 | Growth/Revenue - Producing | <u>46,096</u> |
| Distribution Line Relocation | 1,700 | | |
| Failed Electric Plant | 2,100 | | |
| Washington Smart Grid Distribution Projects | 8,404 | Total Capital Additions in 2012 | <u>232,328</u> |
| | <u>58,003</u> | | |

* The 2012 Noxon Unit #4 upgrade was included with the 2011 Noxon Unit #2 upgrade in the pro forma capital adjustment.