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DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

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-11-01 CASE NO. AVU-G-11-01 DIRECT TESTIMONY OF SCOTT L. MORRIS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

A. My name is Scott L. Morris and I am employed as the Chairman of the Board, President and Chief Executive Officer of Avista Corporation (Company or Avista), at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you please briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Gonzaga University with a Bachelors degree and a Masters degree in organizational leadership. I have also attended the Kidder Peabody School of Financial Management.

I joined the Company in 1981 and have served in a number of roles including customer service manager. In 1991, I was appointed general manager for Avista Utilities' Oregon and California natural gas utility business. I was appointed President and General Manager of Avista Utilities, an operating division of Avista Corporation, in August 2000. In February 2003, I was appointed Senior Vice-President of Avista Corporation, and in May 2006, I was appointed as President and Chief Operating Officer. Effective January 1, 2008, I assumed the position of Chairman of the Board, President, and Chief Executive Officer.

I am a member of the Western Energy Institute board of directors, a member of the Gonzaga University board of trustees, a member of Edison Electric Institute board of directors, a member of the American Gas Association board of directors, a member of ReliOn board of directors, and board director of the Washington Roundtable. On January 1, 2011, I was appointed to the Federal Reserve Bank of San Francisco, Seattle Branch board of directors. I also serve on the board of trustees of Greater Spokane Incorporated.

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

A. In my testimony, I will first explain why Avista is requesting another rate increase in this case. I will explain that much of our need for rate relief is driven primarily by the increased costs associated with the need to expand and replace our aging utility infrastructure, and our obligation to reliably serve customers. As a regulated company, we operate under state and federal mandates that obligate us to serve every customer that requests service, and to serve them reliably. Although we continue to make changes to our business to operate more efficiently, it is simply not possible to cut costs enough to offset the increased costs to expand and replace our aging infrastructure to comply with our obligation to serve.

My testimony will provide an overview of Avista Corporation. I will also summarize the Company's specific electric and natural gas rate requests in this filing, and the primary factors driving the Company's need for general rate relief. I will also discuss some of the measures we have taken to cut costs, as well as initiatives to increase operating efficiencies in an effort to mitigate future cost increases. I will briefly explain the Company's customer support programs in place to assist our customers, as well as our communications initiatives to help customers better understand the changes in costs that are causing our rates to increase.

Finally, I will introduce each of the other witnesses providing testimony on the Company's behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibit 1, pages 1 and 2. Page 1 is a diagram of Avista's corporate structure; and page 2 includes a map showing Avista's electric and natural gas service areas. This exhibit was prepared under my direction.

Q. What are the rate increases requested by Avista in this filing?

A. Avista is requesting an overall electric billed rate increase of 3.5%, and a natural gas billed rate increase of 2.8%.

II. WHY IS AVISTA REQUESTING ANOTHER RATE INCREASE

Q. Why is Avista requesting another rate increase following the recent increases that were approved effective October 1, 2010?

A. As a regulated monopoly there are two major requirements that are having a significant effect on the need to change retail rates: 1) Avista has an obligation to safely and reliably serve every customer that requests service, and 2) the costs associated with replacing our aging infrastructure are substantial.

Q. How does the "obligation to serve" create a need to increase rates?

A. Avista has a legal obligation to provide safe and reliable service to every customer that requests electric or natural gas service from the Company. When a new customer wants service, we must hook them up, even if the cost to serve that customer results in increased costs to all other customers. Likewise, if the facilities serving an existing customer are deteriorating and need repair, we must repair or replace them so that the customer continues to receive safe, reliable service.

We occasionally receive comments from some of our customers to the effect that Avista should cut its costs, and "tighten its belt" like other businesses are having to do in these difficult economic circumstances, and keep retail rates the same. We hear those comments and take them to heart, and have taken steps to do so. But at the same time <u>we are not like other businesses</u>. Without the obligation to serve, we could consider refusing to hook up some new customers, because it could avoid an increase in costs to our existing customers. Without an obligation to serve, we could consider no longer serving some of the more remote, more costly areas to provide service, which would allow us to avoid further investment, and reduce labor and other operating costs. Unregulated businesses have the opportunity to shut down aging facilities or under-producing retail outlets, eliminate product lines, and cut back on investment and maintenance. We do not.

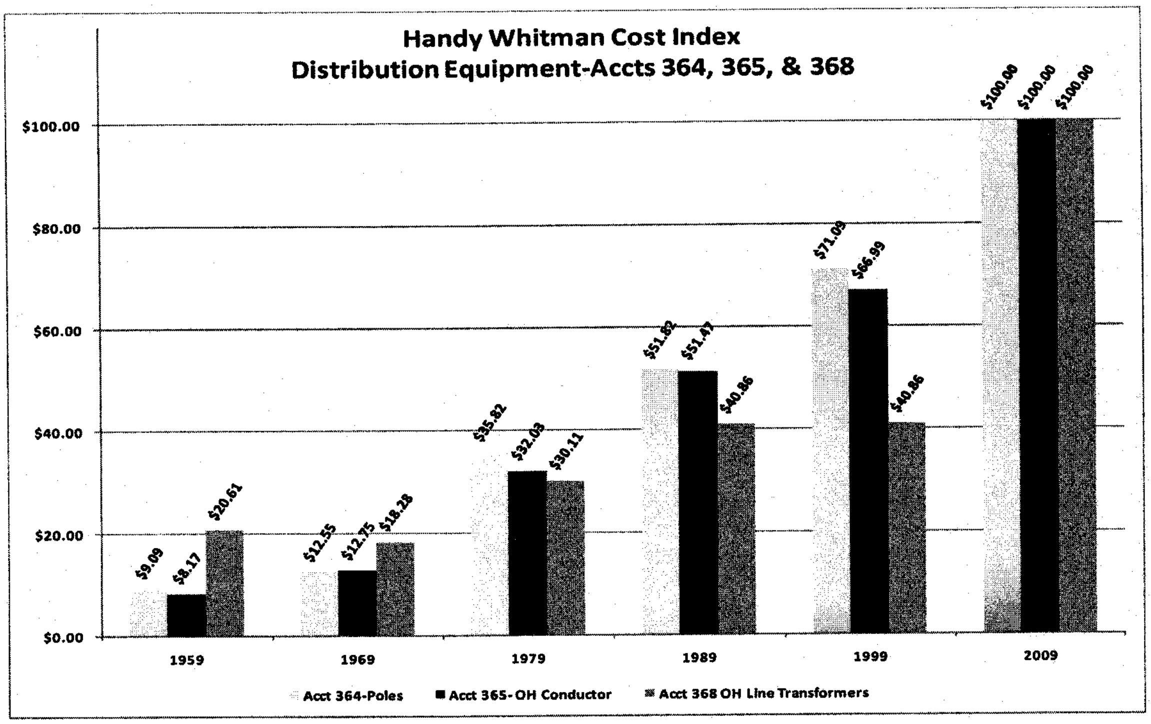
Please don't misunderstand my point -- we do have opportunities to cut back on investment and operating costs, and we have where prudent to do so. I will address that later in my testimony. But those opportunities are limited by our obligation to safely and reliably serve all customers, and our obligation to comply with numerous mandatory state and federal requirements. We simply don't have the choice to say no to new customers, no to maintaining a safe, reliable system, and no to mandatory requirements. Although we have taken measures to ensure that the costs that we incur represent the most cost-effective and reliable way to continue to serve our customers, we continue to experience significant increases in costs.

Q. How does Avista's need to replace its aging infrastructure create a need to change retail rates?

A. Avista's retail rates are cost-based, which means the prices customers are paying now for transformers, distribution poles, substations, and transmission lines, among other facilities, are based on the cost to install those facilities, in some cases, 40, 50, and even 60 years ago. The cost of the same equipment and facilities today are many times more expensive than those facilities installed years ago. In order for us to continue to meet our obligation to provide reliable service, we must replace this aging infrastructure over time. When we replace the old equipment with new, it results in increased costs, which leads to the need to increase rates to cover those costs.

Using the Handy-Whitman Index Manual[1], the Company analyzed several major categories of plant. The following chart shows what distribution equipment costs have been historically on a relative scale. For example, distribution poles fifty years ago would cost 9% of the current replacement cost. The chart shows that the cost of the same equipment and facilities that are being added today are many times more expensive than those facilities installed in the past.

Illustration No. 1:



[1] "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.

Company witness Mr. DeFelice provides additional details related to the significant increase in the cost of utility materials and equipment in recent years.

Q. Can you give a sense for the scope of the investment necessary to replace the utility infrastructure over time?

A. Yes. For illustrative purposes, we have over 240,000 distribution poles and 34,500 transmission wood and steel poles in our electric system. If, as an example, we were to replace our distribution poles on a fifty-year cycle, it would require us to replace approximately 4,800 poles every year. The distribution pole shown below located in Lewiston, Idaho is pre-1940, and the pole has deteriorated to the point where it needs to be replaced.

<u>Illustration No. 2:</u>

We have many of these on our system and they must be replaced. The replacement of distribution poles represents a fraction of the infrastructure that needs to be replaced each year. In the next five years, our relatively small Company will need to spend approximately $1.2 billion of capital on utility facilities and other requirements. This $1.2 billion represents approximately 57% of the current rate base of approximately $2.1 billion dedicated to serving customers today. Utility equipment and facilities are big and expensive, and the required investment in new facilities is one of the major reasons that we need an increase in retail rates.

Q. Doesn't the level of depreciation each year cover the cost to replace these facilities?

A. No. Some of our customers suggest that we set aside dollars every year to replace these facilities over time and we do. That is what depreciation is for. The level of annual depreciation dollars built into retail rates is available to the Company to replace aging facilities over time. However, as I explained above, because the annual depreciation is based on the <u>actual historical costs</u> of our electric system and the cost of those facilities decades ago were orders of magnitude less than what it costs to build facilities today, the annual depreciation falls dramatically short of providing the funds necessary to replace facilities today. Therefore, retail rate increases are necessary to cover the higher costs to replace facilities. As Ms. Andrews explains in her testimony, approximately 90% of our rate increase request is based on new capital investment and the return on investment. Gross plant in service included in this case increased by approximately $66.2 million (Idaho share) compared to that currently included in rates.

Q. Is the Company experiencing increases in other cost categories such as O&M and A&G costs?

A. Yes. A number of expense items have increased since the Company's last general rate case. In particular, the Company pro formed in the increased costs associated with electric distribution vegetation management costs of approximately $1.3 million, as discussed by Company witness Mr. Kinney. These additive costs are necessary to keep the trees out of our power lines. We are also experiencing increased labor and medical expenses.

Q. Why has it been necessary for Avista to request a rate increase each year for a number of years?

A. The current ratemaking process has not allowed costs beyond the next year to be included in rates. In addition, processing a rate request in Idaho can take seven to nine months, which means the only way to recover increasing costs to serve customers is to file a new rate request every year.

Since it is simply not possible to cuts costs enough to fully offset other cost increases and the costs associated with new plant investment, we have no choice but to request rate increases on a regular basis. Avista is not alone in that regard; other electric utilities, whether publicly-owned or investor-owned like Avista, are also increasing their rates on a more regular basis, and this will likely continue into the near future.

The table below identifies recent rate increases for utilities in the Pacific Northwest that have either already occurred, or proposals that are currently pending.

Table No. 1.

Recent Rate Increase Activity

Idaho	**Fuel**	**Case Status**	**Effective Date**	**Rate Increase**
Idaho Power	Electric	Pending	n/a	9.9%
Rocky Mountain Power	Electric	New Rates Approved	06-28-2010	6.8%
Rocky Mountain Power	Electric	Pending	n/a	15.0%
Oregon				
Idaho Power	Electric	New Rates Approved	03-01-2010	15.4%
Pacificorp	Electric	New Rates Approved	02-01-2010	4.4%
Pacificorp	Electric	New Rates Approved	01-01-2011	8.4%
Portland General	Electric	New Rates Approved	01-01-2011	5.9%
Washington				
Benton County PUD	Electric	Pending	n/a	8.0%
Clallum County PUD	Electric	New Rates Approved	01-01-2011	8.0%
Clark County PUD	Electric	New Rates Approved	09-01-2010	4.3%
Cowlitz County PUD	Electric	New Rates Approved	01-01-2011	9.0%
Grant County PUD	Electric	New Rates Approved	04-01-2010	4.5%
Okanogan County PUD	Electric	Pending	n/a	6.5%
Pacific Power	Electric	New Rates Approved	01-01-2010	5.3%
Pacific Power	Electric	Pending	04-03-2011	10.7%
Puget Sound Energy	Electric	New Rates Approved	04-07-2010	2.8%
Puget Sound Energy	Electric	Pending	n/a	8.1%*
Puget Sound Energy	Natural Gas	Pending	n/a	3%*

* Filed June 13, 2011 after E Source report

Source: E Source, June 2011

III. OVERVIEW OF AVISTA

Q. Please describe Avista's current business focus for the utility and subsidiary operations.

A. Our strategy continues to focus on our energy and utility-related businesses, with our primary emphasis on the electric and natural gas utility business. There are four distinct components to our business focus for the utility, which we have referred to as the four legs of a stool, with each leg representing customers, employees, the communities we serve, and our financial investors. For the stool to be level, each of these legs must be in balance by having the proper emphasis. This means we must maintain a strong utility business by delivering efficient, reliable and high quality service at a reasonable price to our customers and the communities we serve, and provide the opportunity for sustained employment for our employees, while providing a reasonable return to our investors.

Q. Please briefly describe Avista's subsidiary businesses.

A. Avista Corp.'s primary subsidiary is the information and technology business, Advantage IQ, described below, which is headquartered in Spokane, Washington. A diagram of Avista's corporate structure is provided on page 1 of Exhibit 1.

Q. Please provide an overview of Advantage IQ.

A. Advantage IQ provides utility expense management and energy management solutions to multi-site companies across North America. Avista currently holds a 75.75% share in Advantage IQ, which is held under Avista Capital.

Advantage IQ's invoice processing, auditing and payment services, coupled with energy procurement, comprehensive reporting and advanced analysis, provide the critical data clients need to balance the financial, social and environmental aspects of doing business. Customers include, CSK Auto, Jack in the Box, Staples, and Big Lots, to name a few.

As part of the expense management services, Advantage IQ analyzes and audits invoices, then presents consolidated bills on-line, and processes payments. Information gathered from invoices, service providers and other customer-specific data allows Advantage IQ to provide its clients with in-depth analytical support, real-time reporting and consulting services.

Advantage IQ also provides comprehensive energy efficiency program management services to utilities across North America. As part of these management services, Advantage IQ helps utilities develop and execute energy efficiency programs with a complete turn-key solution.

Q. Please briefly describe Avista Utilities.

A. Avista Utilities provides electric and natural gas service within a 26,000 square mile area of northern Idaho and eastern Washington[2]. Of the Company's 358,982 electric and 319,141 natural gas customers (as of December 31, 2010), 122,506 and 74,209, respectively, were Idaho customers. The Company, headquartered in Spokane, also provides natural gas distribution service in southwestern and northeastern Oregon. A map showing Avista's electric and natural gas service areas is provided on page 2 of Exhibit 1.

As of December 31, 2010, Avista Utilities had total assets (electric and natural gas) of approximately $3.9 billion (on a system basis), with electric retail revenues of $683 million (system) and natural gas retail revenues of $314 million (system). As of December 2010, the Utility had 1,554 full-time employees.

Avista has a long history of innovation and environmental stewardship. At the turn of the 20th century, the Company built its first renewable hydroelectric generation plant on the banks of the Spokane River. In the 1980's, Avista developed an award-winning biomass plant (Kettle Falls) that generates energy from wood-waste.

[2] Avista also serves 19 retail electric customers in western Montana.

IV. SUMMARY OF RATE REQUESTS

Q. Please provide an overview of Avista's electric rate request in this filing.

A. Avista is proposing an increase in electric billed retail rates of $9.0 million or 3.5%. The Company's request is based on a proposed rate of return of 8.49% with a common equity ratio of 50.15% and a 10.9% return on equity.

Mr. Ehrbar will provide details related to rate spread and rate design. The proposed rate spread for the increase to each electric customer class is shown in the illustration below.

Illustration No. 3:

Service Schedule	Proposed Increase in Billed Revenues
Residential Service Schedule 1	3.6%
General Service Schedules 11 & 12	3.5%
Large General Service Schedules 21 & 22	3.5%
Extra Large General Service Schedule 25	3.4%
Extra Large General Service Schedule 25P	3.3%
Pumping Service Schedules 31 & 32	3.6%
Street & Area Lighting Schedules 41-48	3.6%
Overall Increase	**3.5%**

Q. What is Avista's __natural gas__ rate request in this filing?

A. With regard to natural gas, the Company is requesting an increase of $1.9 million or 2.8% of billed rates. As with the electric increase, the Company's request is based on a proposed rate of return of 8.49% with a common equity ratio of 50.15% and a 10.9% return on equity. The proposed rate spread for each natural gas customer class is shown in the illustration below:

__Illustration No. 4:__

Service Schedule	Proposed Increase in Billed Revenues
General Service Schedule 101	3.5%
Large General Service Schedule 111	0.1%
Interruptible Sales Service Schedule 131	1.0%
Transportation Service Schedule 146 (excluding natural gas costs)	4.7%
Overall Increase	**2.8%**

Q. What are the primary factors causing the Company's request for an __electric rate increase__ in this filing?

A. The Company's electric general rate case is based on a 12-months ending December 31, 2010 test period, and a January 1, 2012 through December 31, 2012 pro forma rate period. Approximately 90% of the Company's revenue requirement requested in this case is due to an increase in Net Plant Investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest). This increase is due in part to an increase of approximately $21.0 million in net plant rate base for the Idaho jurisdiction.

The remaining 10% of our request is due to increases in distribution, operation and maintenance (O&M), and administrative and general (A&G) expenses, offset by a reduction in net power supply and transmission expenditures. The Company has included an Energy Efficiency Load Adjustment (EELA), which increases the Company's electric revenue requirement by approximately $1.86 million. The purpose of this adjustment is to reflect the reduction in kWh sales the Company will experience following the 2010 test year, as a direct result of Avista's energy efficiency programs. The reduced load from the EELA causes an increase in revenue requirement in each of the major cost categories (mainly net plant investment and power supply) because the foregone retail revenue from the load reduction is designed to recover costs in each of the categories.

Later witnesses provide details explaining these changes in costs.

Q. What are the primary factors driving the Company's request for a <u>natural gas rate</u> increase?

A. The Company's natural gas request is driven by changes in various operating cost components, approximately two-thirds distribution O&M and A&G expenditures, such as increased costs in employee benefits, i.e. wages and medical insurance expenses, and one-third increased net plant investment, due to additional Company investment in underground storage facilities, distribution and general plant.

Q. Is the Company proposing any changes to the cost of natural gas for its retail natural gas customers in this case?

A. No. Avista is not proposing changes in this filing related to the cost of natural gas included in current rates for natural gas customers. Changes in natural gas costs are addressed in the annual PGA filings.

Q. How do Avista's retail electric rates compare to other utilities in the Northwest and across the country?

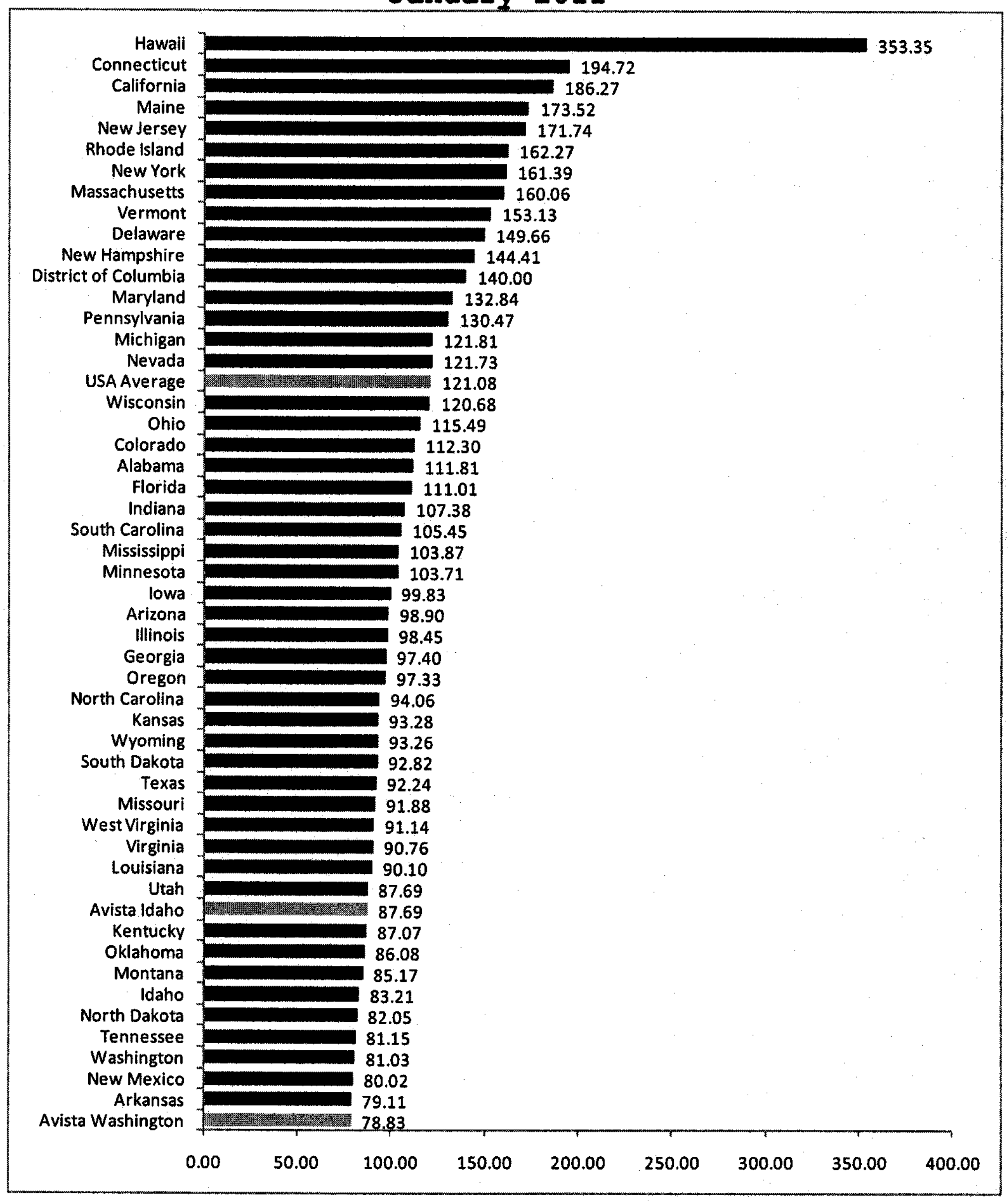
A. Edison Electric Institute periodically prepares a comparison of residential electric bills for investor-owned utilities across the country. The chart below provides a comparison of an Avista customer's monthly bill[3] in Idaho and Washington, with utility bills in other States. The

[3] Based on a residential customer's usage of 1,000 kWh per month. Source: Edison Electric Institute, Typical Bills and Average Rates Report, Winter 2011.

chart shows that Avista's residential customers' rates are the lowest, or are among the lowest, in the Country.

Illustration No. 5

Average Residential Monthly Electric Bill
1,000 Kilowatt-Hours per Month
January 2011



Our relatively low retail rates are due in large part to a history of our Company aggressively pursuing the acquisition and preservation of a diversified portfolio of low cost resources for the benefit of our customers. This portfolio includes hydroelectric, wood-waste fired, gas-fired baseload, gas-fired peakers, and coal-fired generation, together with long-term purchases of power and an aggressive energy efficiency program.

Our low rates are also a result of Avista's aggressive efforts to control its costs, in order to keep retail rates as low as reasonably possible.

V. COST MANAGEMENT AND EFFICIENCIES

Q. Is Avista continuing to pay particular attention to controlling its costs in order to mitigate the level of price increases to its customers?

A. Yes. In the last couple of years we have renewed our efforts to control our costs and improve efficiency, while continuing to meet our reliability and environmental compliance requirements, and preserving a high level of customer satisfaction. We are focused on long-term sustainable savings to continuously improve our service to customers and manage costs into the future.

Some of the measures from the last couple of years that we are continuing are briefly explained below, as well as a number of more recent initiatives.

Hiring Restriction

The Company continues to operate under a hiring restriction which requires approval by the Chairman/President/CEO, President of the Utility, the CFO, and the Sr. VP for Human Resources for all replacement or new hire positions.

Limitations on Capital Spending

Avista approved a lower capital budget than was requested by the Company's Engineering and Operations personnel. The original capital projects request for approval in 2011 consisted of projects totaling over $292 million. The Capital Prioritization Committee reduced the list of recommended projects by $62 million to the $230 million capital budget approved by the Board (excluding Stimulus Projects[4]). In addition, the Company prioritized O & M facility maintenance and improvement projects and removed projects that could be delayed without safety or operational concerns.

Reduced Pension Benefit for New Hires

As part of the new contract negotiated with Avista's bargaining unit employees, the Defined Benefit Pension Plan's benefit formula was reduced by approximately 28% for all bargaining unit new hires, effective January 1, 2011. This change was earlier made for non-bargaining unit employees effective January 1, 2006.

Refinance Long Term Debt

As explained by Company witness Mr. Thies, the Company has reduced its overall cost of debt to 5.61% in December 2010, from approximately 6.5% in 2008, due primarily to issuing the following debt, some of which represents an early redemption of higher-cost debt to take advantage of historically low interest rates:

- September 2009:
  $250 million of secured debt at a coupon of 5.125% due in 2022
- December 2010:

[4] Avista was awarded matching grants from the U.S. Department of Energy for two "Smart Grid" projects. One project will upgrade portions of the utility's electric distribution system to smart grid standards in Spokane, Washington and the other project is a demonstration project in Pullman, Washington that involves automation of many parts of the electric distribution system using advanced metering, enhanced utility communication and other elements of smart grid technologies. Avista's share of these costs are not included in this rate filing.

$52.0 million of secured debt at a coupon of 3.89% due in 2020
$35.0 million of secured debt at a coupon of 5.55% due in 2040

$50.0 million of secured debt at a coupon of 1.68% due in 2013

Performance Excellence Initiative

In May 2010, the Company enlisted the help of Booz & Company to work with us on what we are calling Performance Excellence. They brought with them industry knowledge, expertise and a phased-approach. Phase 1 involved assessing and identifying Avista's top opportunities to better align our resources so we can run our business more efficiently, and be better prepared to meet customers' future needs for energy and energy information. In Phase 2 we are designing processes to capture these opportunities, and are still early in the implementation phase.

Through the initial assessment phase we discovered that many of our processes were already efficient, but the outside, third-party, best practices perspectives brought in by Booz & Company has provided us the opportunity to identify areas where we can fine-tune our practices and further mitigate increased costs to our customers. One example is in our Supply Chain. Each year we spend over $5 million on transformers. This year we changed our transformer bidding process, which included revisiting how we buy transformers, made changes to the suppliers we use, how contracts are structured, as well as the volume of transformers we buy at one time. We estimate that these changes alone will allow us to save approximately $2 million in capital costs per year on transformers for the next three years. These savings will enable our available capital dollars to replace other utility infrastructure on a more timely basis than would otherwise occur.

We recognize that our proposed rate increases will result in energy bills that will be more difficult for some of our customers to pay. I can assure you that we are not just sitting on the sidelines as our costs go up, as evidenced by the measures described above and others explained by Mr. Kopczynski.

VI. COMMUNICATIONS WITH CUSTOMERS

Q. How is Avista communicating with its customers to explain what is driving increased costs for the Company?

A. The Company proactively communicates with its customers in a number of ways: electronic communications on issues of importance to them, customer forums, one-on-one customer interactions through field personnel and account representatives, bill inserts, media contacts, group presentations, and through our employees' involvement in community, business and civic organizations, to name a few. We believe our communications are helping our customers and the communities we serve to better understand the issues faced by the Company, such as increased environmental mitigation, and infrastructure investment and generation constraints, all of which have led to higher costs for our customers.

We have listened to our customers and learned that they want information and conversations with Avista employees to better understand the choices they have to manage how they use energy and the forces that are impacting their energy prices.

That's why we are continuing to build on our communications efforts begun in 2009, so that customers receive information directly from us on issues important to them. We are also continuing to engage employees in the Company in our efforts to more directly communicate with customers.

Q. How has the Company stepped-up communications with its customers?

A. One of the important principles in our intensified outreach is to meet customers where they gather. Our customer conversation uses traditional and non-traditional communication channels including print, radio, website, face-to-face listening posts, newsletters, videos, social media, emails, and one-on-one and group presentations.

One important customer segment that we target are those customers who gather online. We are continuing to focus on our social media program with the Avista blog as our foundation. We also communicate on Twitter and in online discussion forums when appropriate. The Company was recently named as "Top Utility in Social Media" by its peers according to E Source[5]. To find out how utilities were using social media, E Source conducted its second national social media survey in early 2011. The electric, natural gas, water, and combination utilities that participated in the survey were asked which utilities they considered to be social media leaders. Avista was voted

[5] E Source News Release dated June 21, 2011.

number one. The Company's social media is built on the model that says an authentic voice is the most effective way to engage with customers.

For customers who want a more private online conversation, we offer customers a conversation email account to make sure they were comfortable having this new conversation with us.

A cornerstone of our enhanced customer communication is an enhanced rates section of the Company's web site at www.avistautilities.com. At that website, customers can view a video on how rates are set, including the regulatory process, view other videos on the components of current general rate requests, and access additional information on general rate requests. Our employees provide excellent customer service, and this focus on communicating with our customers includes providing them messaging and new tools to make is easier to have conversations about Avista with friends, family and customers. We are finding that once a customer talks with one of our employees and has the opportunity to voice their concerns and receive answers to their questions, their satisfaction level increases significantly. We're listening to our customers' point-of-view and sharing ours about energy issues that directly affect us all.

We are continuing our focus on informing customers of the many programs we offer to provide assistance in managing their energy bills, and ensuring that our employees are equipped to engage in these conversations. Also, we are continuing to build understanding on how decisions today, specifically in areas such as energy efficiency, sustainability, reliability and renewable energy, will affect our energy future.

VII. CUSTOMER SATISFACTION

Q. What kind of feedback are you receiving from customers related to customer satisfaction?

A. I am pleased with the dedication of Avista Utilities' employees and their commitment to provide quality service to our customers. While we continue to maintain tight controls on capital and O&M budgets, our customer service surveys indicate that customer satisfaction remains high. Our recent second quarter 2011 customer survey results show an overall customer satisfaction rating of 88% in our Idaho, Washington, and Oregon operating divisions. This rating reflects a positive experience for the majority of customers who have contacted Avista related to the customer service they received. These results can be achieved only with very committed and competent employees.

In September 2010, J.D. Power and Associates[6] ranked Avista "Highest in Customer Satisfaction with Residential

[6] http://www.jdpower.com/news/pressRelease.aspx?ID=2010168

Natural Gas Service in the Western U.S. among Mid-Sized Utilities in a Tie." Avista's score of 654 placed the Company highest in the segment, tied with Boise-based Intermountain Gas Company. The segment average score on this study was 629. The study surveys customer satisfaction across a number of factors, including billing and payment, price, corporate citizenship, communications, customer service and field service.

I believe we achieved this award because the Company has been listening closely and doing the right things to serve our customers well, as affirmed by the J.D. Power and Associates 2010 study. Achieving the highest ranking was a wonderful recognition of our dedicated employees who are making the difference.

VIII. CUSTOMER SUPPORT PROGRAMS

Q. What is Avista doing to assist customers with their energy bills?

A. More than 600,000 customers in three states rely on Avista for their electricity and natural gas. One of the challenging aspects of the utility business is to address the needs of those least able to pay. In the past two years, this challenge has broadened with the serious economic impact the national recession has had on individuals and businesses. Federal energy assistance for those in need is supplemented with Project Share, an emergency energy assistance program funded through Avista, its employees and customer donations.

But one-time, annual grants alone are not enough to meet the long-term challenges faced by those living on limited incomes. In 2010 Avista initiated and hosted two Energy Fairs one in Coeur d'Alene, Idaho and one in Spokane, Washington. The fairs provided information and demonstrations on energy assistance, energy efficiency and home weatherization to limited income families and senior citizens. But the fairs went beyond the focus of helping customers pay their utility bill. They provided an opportunity for attendees to learn about employment opportunities, earned income tax credits, child care options, community college offerings and other community resources. Nearly 700 people attended the two fairs. The Energy Fairs provided a convenient environment for customers to learn about billing options and energy assistance, while offering them tips and tools to use to help manage their limited financial resources.

In the 2009/2010 heating season 10,297 Idaho customers received approximately $3.7 million in various forms of energy assistance (Federal LIHEAP program, Project Share, and local community funds). Some of the key programs that we offer or support are as follows:

1. **Project Share.** Project Share is a voluntary program allowing customers to donate funds that are

distributed through community action agencies to customers in need. In addition to the customer contributions in 2010 of $316,600 (system), the Company also contributed $126,227 (Idaho's share) to the program.

2. **Comfort Level Billing**. The Company offers the option for all customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program, customers can avoid unpredictable winter heating bills.

3. **CARES Program.** Customer Assistance Referral and Evaluation Services provides assistance to special-needs customers through access to specially trained (CARES) representatives who provide referrals to area agencies and churches for help with housing, utilities, medical assistance, etc.

4. **Increased Demand-Side Management (DSM) Programs and Funding.** In January 2009 Avista proposed, and the IPUC approved, modifications to the Company's energy efficiency program offerings. The modifications further broadened the DSM technical and financial support Avista provides to its customers, and provides customers with increased opportunity to manage their energy bills. In 2008 Avista also launched the award-winning "Every Little Bit" energy efficiency promotional campaign which integrates all of the Company's energy efficiency programs into one location.

These programs and the partnerships we have formed with community action agencies have been invaluable to customers who often have nowhere else to go for help. Company witness Mr. Kopczynski provides additional detail in his testimony concerning these and other programs designed to assist customers.

IX. OTHER COMPANY WITNESSES

Q. Would you please provide a brief summary of the testimony of the other witnesses representing Avista in this proceeding?

A. Yes. The following additional witnesses are presenting direct testimony on behalf of Avista:

Mr. Mark Thies, Senior Vice President and Chief Financial Officer will provide, among other things, a financial overview of the Company and will explain the overall rate of return proposed by the Company in this filing for its electric and natural gas operations. The proposed rate of return is derived from Avista's total cost of long-term debt and common equity, weighted in proportion to the proposed capital structure. He will address the proposed capital structure, as well as the proposed cost of debt and equity in this filing.

In brief, he will provide information that shows:

- Avista's plans call for significant capital expenditure requirements for the utility over the next two years to assure reliability in serving our customers and meeting customer growth. Capital expenditures of approximately $482 million are planned for 2011-2012 for customer growth, investment in generation upgrades and transmission and distribution facilities, as well as necessary maintenance and replacements of our natural gas utility systems. Capital expenditures of approximately $1.2 billion (excluding forecasted wind expenditures), are planned for the five-year period ending December 31, 2015. Avista needs adequate cash flow from operations to fund these requirements, together with access to capital from external sources under reasonable terms.

- Avista's corporate credit rating from Standard & Poor's (S&P) is currently BBB and Baa2 from Moody's Investors Service (Moody's). Avista must operate at a level that will support a solid investment grade corporate credit rating, of BBB on a short-term basis and BBB+ as a long-term goal, in order to access capital markets at reasonable rates, which will decrease long-term borrowing costs to customers. In March 2011, S&P upgraded Avista's Corporate Credit Rating to BBB from BBB- and Moody's upgraded Avista's Issuer Rating to Baa2 from Baa3. A supportive regulatory environment is an important consideration by the rating agencies when reviewing Avista. Maintaining solid credit metrics and credit ratings will also help support a stock price necessary to issue equity under reasonable terms to fund capital requirements.

- The Company is proposing an overall rate of return of 8.49%, including a 50.15% equity ratio and a 10.90% return on equity. Our proforma cost of debt is 6.05%.

Dr. William E. Avera, as President of Financial Concepts and Applications (FINCAP), Inc., has been retained to present testimony with respect to the Company's cost of common equity. He concludes that:

- In order to reflect the risks and prospects associated with Avista's jurisdictional utility operations, his analyses focused on a proxy group of twenty-eight other utilities with comparable investment risks. Consistent with the fact that utilities must compete for capital with firms outside their own industry, he also referenced a proxy group of comparable risk companies in the non-utility sector of the economy;

- Because investors' required return on equity is unobservable and no single method should be viewed in isolation, he applied both the DCF and CAPM methods, as well as the expected earnings approach, to estimate a fair ROE for Avista;

- Based on the results of these analyses, and giving less weight to extremes at the high and low ends of the range, he concluded that the cost of equity for the proxy groups of utilities and non-utility companies is in the 10.3 percent to 11.3 percent range, or 10.45 percent to 11.45 percent after incorporating an adjustment to account for the impact of common equity flotation costs; and,
- As reflected in the testimony of Mr. Thies, Avista is requesting a fair ROE of 10.9 percent, which is essentially equal to the midpoint of his recommended range. Considering capital market expectations, the exposures faced by Avista, and the economic requirements necessary to maintain financial integrity and support additional capital investment even under adverse circumstances, it is his opinion that 10.9 percent represents a fair and reasonable ROE for Avista.

Mr. Robert Lafferty, Director of Power Supply, will provide an overview of Avista's resource planning and power supply operations. This includes summaries of the Company's generation resources, the current and future load and resource position, future resource plans, and an update on the Company's plans regarding the acquisition of new renewable resources. As part of an overview of the Company's risk management policy, he will provide an update on the Company's hedging practices. He will address hydroelectric and thermal project upgrades, followed by an update on recent developments regarding hydro licensing.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will describe the Company's use of the $\mathrm{AURORA}_{\mathrm{XMP}}$ dispatch model, or "Dispatch Model." He will explain the key assumptions driving the Dispatch Model's market forecast of electricity prices. The discussion includes the variables of natural gas, Western Interconnect loads and resources, and hydroelectric conditions. He will also describe how the model dispatches its resources and contracts to maximize customer benefit and tracks their values for use in pro forma calculations. Finally, he will present the modeling results provided to Company witness Mr. Johnson for his power supply pro forma adjustment calculations.

Mr. William Johnson, Wholesale Marketing Manager, will 1) identify and explain the proposed normalizing and pro forma adjustments to the January 2010 through December 2010 test period power supply revenues and expenses, and 2) describe the proposed level of expense and retail revenue credit for the Power Cost Adjustment (PCA) purposes, using the pro forma costs proposed by the Company in this filing. His testimony also shows the change in power supply expense incorporating the Energy Efficiency Load Adjustment proposed by the Company in this case.

Mr. Kevin Christie, Director of Gas Supply, will describe Avista's natural gas procurement planning process, provide an overview of the Jackson Prairie natural gas storage facility, and discuss how the Company uses Jackson Prairie for balancing on behalf of our Local Distribution Company (LDC) customers.

Mr. Don Kopczynski, Vice President of Customer Solutions, will describe Avista's electric and natural gas energy delivery facilities and operations, and recent efforts to increase efficiency and improve customer service. Mr. Kopczynski describes:

- Avista's customer service programs such as energy efficiency, Project Share, CARES program, Senior Outreach Program, and payment plans. Some of these programs will serve to mitigate the impact on customers of the proposed rate increase.
- The Company's multi-faceted effort to increase customer service automation, including replacement and upgrade of the new Enterprise Voice Portal (EVP) system.

Mr. Scott Kinney, Director, Transmission Operations, will discuss the electric transmission and distribution capital investments included in this case, and presents the Company's pro forma period transmission revenues and expenses. In addition, he describes the Company's Asset Management Program (including the additional vegetation management expenses included in the Company's case).

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will generally cover accounting and financial data in support of the Company's need for the proposed increase in rates. She will explain pro formed operating results, including expense and rate base adjustments made to actual operating results and rate base. She incorporates the Idaho share of the proposed adjustments of other witnesses in this case. In addition, she will explain the Company's request for deferred accounting treatment of changes in generating plant operation and maintenance (O&M) costs related to its Coyote Springs 2 combined-cycle natural gas-fired plant and its 15% ownership share of the Colstrip 3 & 4 coal-fired generating plants.

Mr. Dave DeFelice, Senior Business Analyst, will cover the Company's proposed restating and pro forma adjustments for capital investments in utility plant for the 2010 test period. Mr. DeFelice explains:

- The rising cost of essential materials specific to the utility industry is causing significant increases in capital project funding requirements.
- These costs must be pro formed into the test-year in order to allow necessary recovery of our costs to serve customers.

Ms. Tara Knox, Senior Regulatory Analyst, sponsors the Company's electric and natural gas cost of service studies performed for this proceeding. Additionally, she is sponsoring the electric and natural gas revenue normalization adjustments to the test year results of operations and the proposed Load Change Adjustment Rate (LCAR) to be used in the Power Cost Adjustment (PCA). Ms. Knox's studies indicate:

- The electric residential service, extra large general service, pumping service, and the street and area lighting service schedules are earning less than the overall rate of return under present rates, while general service, large general service and extra large general service to Clearwater Paper schedules are earning more than the overall rate of return under present rates.

- The natural gas general service schedule is earning slightly less than the overall rate of return at present rates, and large general service, interruptible, and transportation service schedules are earning slightly more than the overall rate of return at present rates.

Mr. Patrick Ehrbar, Manager of Rates and Tariffs, discusses the spread of the proposed annual revenue changes among the Company's general service schedules as well as the proposed rate design within each schedule. He explains, among other things, that:

- The proposed increase in electric base rates is 3.7%, which consists of an increase in electric base retail revenues of $9.0 million.
- The monthly bill for a residential customer using an average of 956 kWhs per month would increase from $83.81 to $86.87 per month, an increase of $3.06 or 3.7%. This includes the proposed increase in the monthly basic or customer charge from $5.00 to $5.50.
- The proposed natural gas annual revenue increase in base rates is $1.9 million, or 2.7%.
- The monthly bill for a residential customer using 62 therms per month would increase from $60.76 to $62.91 per month, an increase of $2.15 or 3.5%. This includes the proposed increase in the monthly basic or customer charge from $4.00 to $4.50.

In addition, he will provide further information related to the Company's proposed Energy Efficiency Load Adjustment.

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

A. Yes.

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL FOR
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851
DAVID.MEYER@AVISTACORP.COM

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

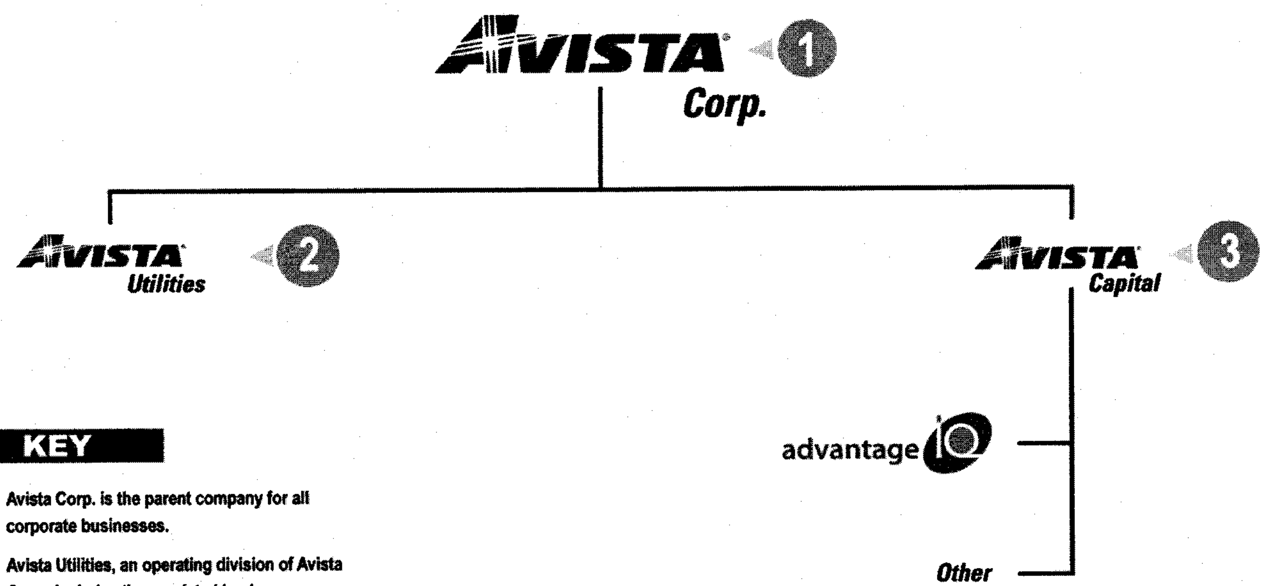
IN THE MATTER OF THE APPLICATION	)	CASE NO. AVU-E-11-01
OF AVISTA CORPORATION FOR THE	)	CASE NO. AVU-G-11-01
AUTHORITY TO INCREASE ITS RATES	)	
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC	)	EXHIBIT NO. 1
AND NATURAL GAS CUSTOMERS IN THE	)	
STATE OF IDAHO	)	SCOTT L. MORRIS
	)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Avista Corporation Overview

Avista Corporate Business Organizational Structure



KEY

1. Avista Corp. is the parent company for all corporate businesses.
2. Avista Utilities, an operating division of Avista Corp., includes the regulated businesses, serving customers in Washington, Idaho and Oregon.
3. Avista Capital is the parent company of all non-regulated subsidiaries. Avista Capital is a wholly owned subsidiary of Avista Corp.

Avista's Electric and Natural Gas Service Areas

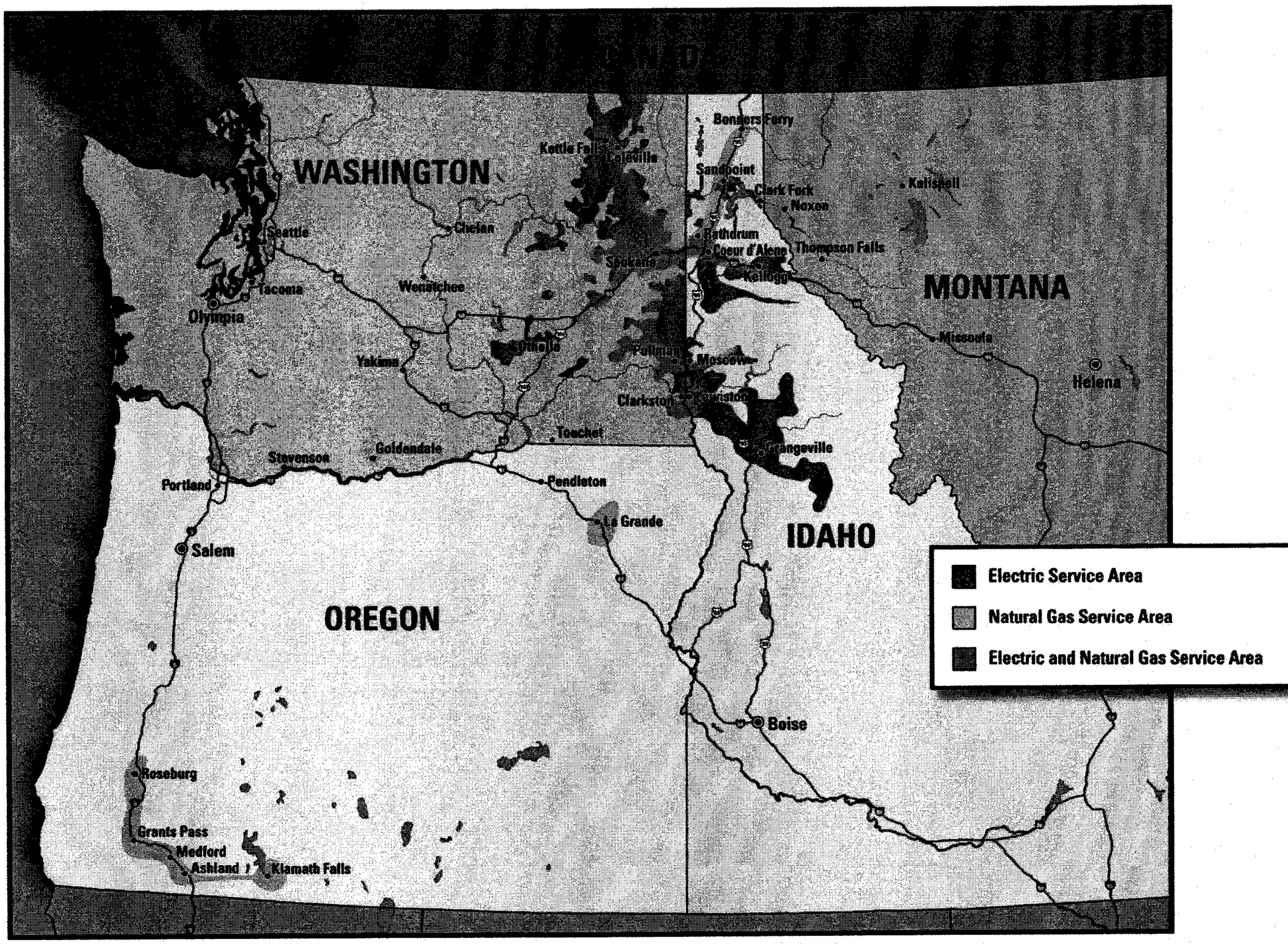


Exhibit No.1
Case No. AVU-E-11-01 & AVU-G-11-01
S. Morris, Avista
Page 2 of 2