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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO

CASE NO. AVU-E-10-01
CASE NO. AVU-G-10-01

DIRECT TESTIMONY
OF
ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

CONTENTS

I. INTRODUCTION

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

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

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

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991[1]. I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. In 2000, I was hired into the State and Federal Regulation Department as a Regulatory Analyst until my promotion to Manager of Revenue Requirements in early 2007. I have also attended several utility accounting, ratemaking and leadership courses.

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[1] Currently I keep a CPA-Inactive status with regards to my CPA license.

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

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

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

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

I incorporate the Idaho share of the proposed adjustments of other witnesses in this case.

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

A. Yes. I am sponsoring Exhibit No. 12, Schedule 1 (Electric) and Schedule 2 (Natural Gas), which were prepared under my direction. These exhibit schedules consist of worksheets, which show actual 2009 operating results (twelve-month period ending December 31, 2009), pro forma, and proposed electric and natural gas operating results and rate base for the State of Idaho. The exhibits also show calculation of the general revenue requirement, the derivation of the overall proposed rate of return, the derivation of the net-operating-income-to-gross revenue-conversion factor, and the specific pro forma adjustments proposed in this filing.

II. COMBINED REVENUE REQUIREMENT SUMMARY

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

A. Yes. After taking into account all standard Commission Basis adjustments, as well as additional restating, pro forma and normalizing adjustments, the pro forma electric and natural gas rates of return (ROR) for the Company's Idaho jurisdictional operations are 5.19% and 6.93%, respectively. Both return levels are below the Company's requested rate of return of 8.55%. The incremental revenue requirement for base retail rates, necessary to give the Company an opportunity to earn its requested ROR is $32,114,000 for the electric operations and $2,575,000 for the natural gas operations. The overall base electric increase associated with the Company's request is 13.98%. The base natural gas increase is 3.64%.

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

A. The Company's currently authorized rate of return for its Idaho operations is 8.55%, effective August 1, 2009 for both our electric and natural gas systems.

III. ELECTRIC SECTION

Test Period And Pro Forma Period

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

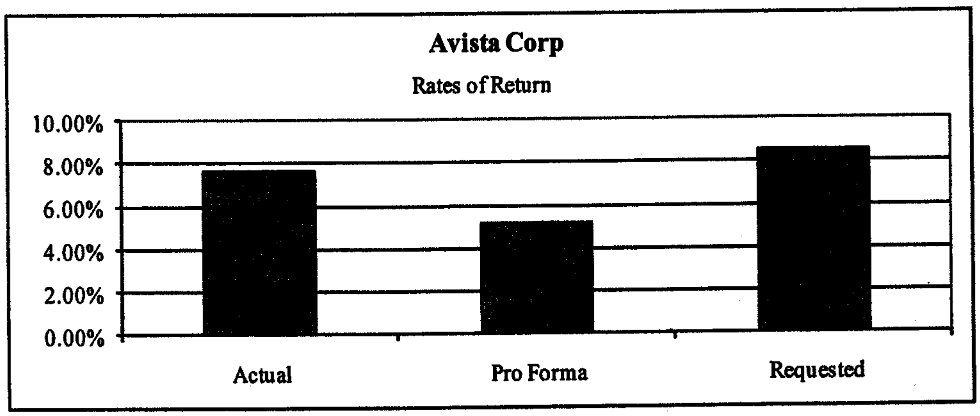
A. The test period being used by the Company is the twelve-month period ending December 31, 2009, presented on a pro forma basis. Currently authorized rates were based upon the twelve months ending September 30, 2008 test year utilized in Case No. AVU-E-09-01, adjusted on a pro forma basis.

The pro forma period being used by the Company in this proceeding is October 2010 through September 30, 2011 (2010/2011).

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

A. Yes. As shown in Illustration No. 1 below, there are three different rates of return that will be discussed. The <u>actual</u> ROR earned by the Company during the test period, the <u>pro forma</u> ROR determined in my Exhibit No.12, Schedule 1, and the <u>requested</u> ROR.

<u>Illustration No. 1:</u>

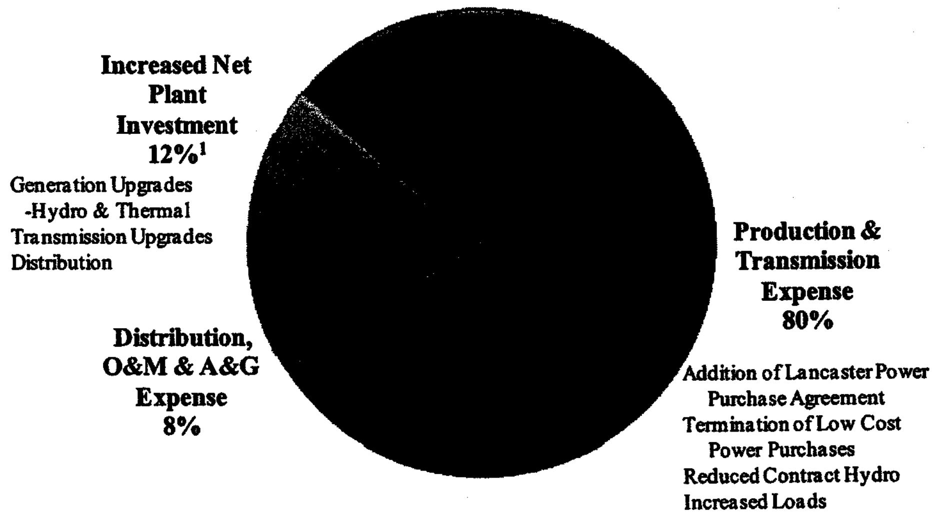


Q. What are the primary factors driving the Company's need for an electric increase?

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

Illustration No. 2:

Idaho
Primary Electric Revenue Requirement Factors



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

Q. Please briefly explain each of the components or segments shown in Illustration No. 2 above.

A. The first segment, representing the increases in Production and Transmission Expense, comprises approximately 80% of the overall request. The next largest segment is Increased Net Plant Investment. Net rate base for the Idaho jurisdiction increased approximately $31.7 million, or 5.5%. The revenue requirement associated with the increase in Net Plant Investment represents approximately 12% of the overall Company request.

The remaining cost category, Distribution, O&M and A&G Expense, which includes increases to all other operating

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categories, such as distribution expenses, customer service, and administrative and general, totals approximately 8% of the overall request.

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

A. Yes. As discussed in Company witness Mr. Johnson's testimony, the level of Idaho's share of power supply expense has increased by approximately $17.<u>6</u> million ($<u>50.2</u> million on a system basis) from the level <u>currently in base rates</u>.

The primary expense increases are the addition of the Lancaster plant, from which the Company began receiving power on January 1, 2010, and the expiration of four low-cost power supply contracts. The increase in pro forma net expense related to the inclusion of the Lancaster plant is approximately $21.3 million (system) or $7.5 million (Idaho share). With regard to the power contracts, there are four low-cost 25 aMW power purchases that end December 31, 2010. The cost to replace these power purchase agreements increases Idaho expense by $3.6 million. Mr. Johnson discusses each of the increased expenses in detail in his testimony.

A. Looking at the changes to "gross" plant in service shows that Idaho "gross" plant increased $63.0 million, as compared to what is currently included in rates. To continue to meet the energy and reliability needs of our customers, $25.6 million of this increase is due to the Company's investment in thermal and hydro generating facilities, as well as additional transmission investment. Distribution "gross" plant increased $19.4 million above the current level included in rates, while general and intangible "gross" plant increased $18.0 million. Adjusting for accumulated depreciation and amortization, accumulated deferred income taxes, and the production property adjustment, the net increase to rate base from these items is $21.8 million. Lastly, the Company included a working capital adjustment in this case, which added $9.9 million to the Company's total adjusted rate base.

The specific pro forma capital expenditures undertaken by the Company to upgrade its generation, transmission and distribution facilities and improve operating efficiency and reliability, are discussed further by Company witness Mr. Storro regarding production assets, and Company witness Mr. Kinney regarding transmission and distribution assets. In addition to discussing the actual pro forma adjustment made regarding net plant investment, Company witness Mr.

DeFelice also describes the general plant additions included in the Company's case.

Revenue Requirement

Q. Would you please explain what is shown in Exhibit No. 12, Schedule 1?

A. Yes. Exhibit No. 12, Schedule 1 shows actual and pro forma electric operating results and rate base for the test period for the State of Idaho. Column (b) of page 1 of Exhibit No. 12, Schedule 1 shows 2009 (twelve-month ending December 31, 2009) operating results and components of the average-of-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is pro forma results of operations, all under existing rates. Column (e) shows the revenue increase required which would allow the Company to earn an 8.55% rate of return. Column (f) reflects pro forma electric operating results with the requested increase of $32,114,000. The restating adjustments shown in columns *c* through *ai*, of pages 5 through 10 of Exhibit No. 12, Schedule 1, are consistent with current regulatory principles and the treatment reflected in the prior Commission Order in Case No. AVU-E-09-01, with a few proposed changes by the Company as described in my testimony below.

Q. Would you please explain page 2 of Exhibit No. 12, Schedule 1?

A. Yes. Page 2 shows the calculation of the $32,114,000 revenue requirement at the requested 8.55% rate of return.

Q. What does page 3 of Exhibit No. 12, Schedule 1 show?

A. Page 3 shows the proposed Cost of Capital and Capital Structure utilized by the Company in this case, the weighted average cost of capital of 8.55%. Company witness Mr. Thies discusses the Company's proposed rate of return and the pro forma capital structure utilized in this case, while Company witness Dr. Avera provides additional testimony related to the appropriate return on equity for Avista.

Q. Would you now please explain page 4 of Exhibit No. 12, Schedule 1?

A. Yes. Page 4 shows the derivation of the net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Idaho State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 5 through 13 of your Exhibit No. 12, Schedule 1, would you please explain what those pages show?

A. Yes. Page 5 begins with actual operating results and rate base for the twelve-month period ending December 31, 2009 test period in column (b). Individual normalizing and restating adjustments consistent with prior regulatory treatment (standard Commission Basis adjustments) begin in column (c) on page 5 and continue through column (ai) on page 10. Individual pro forma adjustments begin in column (PF1) on page 11 and continue through column (PF12) on page 13. The final column on page 13 is the total pro forma operating results and rate base for the test period. Additional details related to each adjustment described below are provided in accompanying workpapers.

Standard Commission Basis and Restating Adjustments

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

A. Yes, the first adjustment, column (c) on page 5, entitled **Deferred FIT Rate Base**, reflects the rate base reduction for Idaho's portion of deferred taxes. The adjustment reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS), bond refinancing premiums, and contributions in aid of construction. These amounts are reflected on the average-of-monthly-average balance basis. The effect on Idaho rate base is a reduction of $94,533,000.

The adjustment in column (d), **Deferred Gain on Office Building**, reflects the rate base reduction for Idaho's portion of the net of tax, unamortized gain on the sale of the Company's general office facility. The facility was sold in December 1986 and leased back by the Company. Although the Company repurchased the building in November 2005, the Company opted to continue to amortize the deferred gain over the remaining amortization period scheduled to end in December 2011. The effect on Idaho rate base is a reduction of $109,000.

The adjustment in column (e), **Colstrip 3 AFUDC Elimination**, is a reallocation of rate base and depreciation expense between jurisdictions. In Cause Nos. U-81-15 and U-82-10, the Washington Utilities and Transportation Commission (WUTC) allowed the Company a return on a portion of Colstrip Unit 3 construction work in progress (CWIP). A much smaller amount of Colstrip Unit 3 CWIP was allowed in rate base in Case U-1008-144 by the IPUC. The Company eliminated the AFUDC associated with the portion of CWIP allowed in rate base in each jurisdiction. Since production facilities are allocated on the Production/Transmission formula, the allocation of AFUDC is reversed and a direct assignment is made. The rate base adjustment reflects the average-of-monthly-averages amount for the test period. The effect on Idaho net operating income is a decrease of $193,000. The effect of the reallocation on Idaho rate base is an increase of $1,700,000.

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

Account 406 and is a component of the actual results of operations. The rate base adjustment reflects the average-of-monthly-averages amount for the test period. The effect on Idaho rate base is an increase of $903,000.

The adjustment in column (g), **Kettle Falls & Boulder Park Disallowances**, decreases rate base. The amounts reflect the Kettle Falls generating plant disallowance ordered by this Commission in Case No. U-1008-185 and the Boulder Park plant disallowance ordered by the IPUC in case No. AVU-E-04-1. This Commission disallowed a rate of return on $3,009,445 of investment in Kettle Falls, and $2,600,000 million of investment in Boulder Park. The disallowed investment and related accumulated depreciation are removed. These amounts are a component of actual results of operations. The effect on Idaho rate base is a decrease of $2,034,000.

The adjustment in column (h), **Customer Advances**, decreases rate base for moneys advanced by customers for line extensions, as they will be recorded as contributions in aid of construction at some future time. The effect on Idaho rate base is a decrease of $898,000.

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

A. Page 6 starts with the adjustment in column (i), **Weatherization and DSM Investment**, which includes in rate base balances (net of amortization) of weatherization grants, the model conservation program costs and electric demand side management (DSM) program costs upon which AFUCE is no longer being accrued and amortization was implemented beginning August 1994. These amounts are a component of actual results of operations. The effect on Idaho rate base is an increase of $294,000.

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

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

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

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

The adjustment in column (j), **Restating CDA Settlement**, adjusts the 2009 test period AMA net asset and DFIT balances related to the 2008/2009 CDA Tribe Settlement payments (Past Storage/§10(e)) and deferred costs to a 2010/2011 AMA basis. In addition, this adjustment includes the 2010/2011 AMA net asset and DFIT balance for the 2010 Past Storage/§10e settlement payment of $4 million. The expense portion of this adjustment includes the annual amortization of the net total asset ($41.6 million (system) of payments and deferred costs) and the annual $400,000 (system) future storage §10(e) payment.

The agreed-upon settlement and payments included in this adjustment were approved by the Commission in the Company's 2009 electric general rate case proceeding, Case No. AVU-E-09-01. As approved by the Commission's Order (See Order No. 30856), in Case No. AVU-E-09-01, the Company was allowed to defer the amortization of the settlement payments, which included the system payments of $25.0 million in December 2008, $10.0 million in 2009 and $4.0 million in 2010 for resolution of the past trespass and §10(e) charges, and the 2008/2009 future §10(e) annual flat payment, with a carrying charge on the deferrals and unamortized balance, for future recovery. These deferred payments, including a return on the balance, are being amortized over the average remaining life of the Spokane River - Post Falls Project, or 45 years. The future §10(e) system payment schedule of $400,000 flat annual payments for the first 21 years of the new Spokane River license, starting in December 2008, and $700,000 flat annual payments for the remaining years of the license, was also approved.

During 2009, Idaho's share of the January through July amortization of the assets associated with the 2008/2009 past storage and §10(e) charges were deferred for future recovery (see adjustment (k) "Restating CDA Settlement Deferral"). The effect on Idaho net operating income is a decrease of $197,000. The effect on Idaho rate base is a decrease of $17,000 from that in the test period.

The adjustment in column (k), **Restating CDA Settlement Deferral,** adjusts the 2009 test period net assets associated with the 2008/2009 past storage and §10(e) charges deferred for future recovery to a 2010/2011 AMA basis, and records the annual amortization expense based on a three-year amortization. As noted above in adjustment (k) "Restating CDA Settlement" the Company was allowed to defer the amortization of the settlement payments ($35.8 million of 2008/2009 system total payments), with a carrying charge on the deferrals and unamortized balance, for future recovery. These deferred payments, including a return on the balance, are being amortized over 45 years. Idaho's share of the 2009 deferred amortization, plus interest totaled approximately $317,318. The Company has proposed a three-year amortization for recovery of this amount, resulting in approximately $103,000 of annual expense (rather than $7,000 annually over the remaining 44-year life). The effect on Idaho net operating income is a decrease of $65,000. The effect on Idaho rate base is an increase of $168,000.

The adjustment in column (l), **Restating CDA/SRR (Spokane River Relicensing) CDR,** adjusts the 2009 net assets associated with the CDA Tribe settlement 4(e) Spokane River relicensing conditions to a 2010/2011 AMA basis. The expense portion of this adjustment includes the annual amortization of the net total asset ($12 million (system) of payments) and the annual $2 million (system) of Coeur d'Alene Reservation Trust Restoration Fund (CDR) payment expense. The effect on Idaho net operating income is a decrease of $484,000. The effect on Idaho rate base is an increase of $400,000.

The adjustment in column (m), **Restating Spokane River Relicensing**, adjusts the 2009 net asset and DFIT balances related to the Spokane River relicensing costs to a 2010/2011 AMA basis, and records the annual amortization expense based on a 50-year amortization. In June 2009, Avista received its 50 year FERC-issued license for the Spokane River Project, at which time the costs of these efforts were transferred to intangible plant. Costs associated with this effort included actual life-to-date expenditures from April 2001 through June 30, 2009. The total of these costs were approved by the Commission in the Company's 2009 electric general rate case proceeding, Case No. AVU-E-09-01. The Company was allowed to defer the amortization of the licensing costs and the costs associated with the CDA Tribe settlement 4(e) relicensing conditions, including a carrying charge on these amounts, until rates went into effect August 1, 2009. The Company was also allowed to defer 2010 (January through June) associated Program, Enhancement & Mitigation (PM&E) charges, including a carrying charge on these amounts, until rates went into effect in the next general rate case. The 2009 deferred payments, including a return on the balance, were originally planned to be amortized over the life of the license, or 50 years. During 2009, Idaho's share of the amortization of the assets associated with the licensing costs and 4(e) payments for the period June through July were deferred for future recovery (see adjustment (n) "Restating Spokane River Deferral. The Company also plans to spend approximately $467,700 (Idaho's share) on PM&E costs in the first half of 2010; deferring 100% of Idaho's share, including interest, for future recovery (see adjustment (o) "Restating Spokane River PM&E Deferral"). The effect on Idaho net operating income is a decrease of $75,000. The effect on Idaho rate base is a decrease of $459,000 from that in the test period.

The adjustment in column (n), **Restating Spokane River Deferral,** adjusts the 2009 net asset and DFIT balances related to the Spokane River deferred relicensing costs to a 2010/2011 AMA basis, and records the annual amortization expense based on a three-year amortization. As noted above in adjustment (m) "Restating Spokane River Relicensing," the Company was allowed to defer the amortization of the licensing costs and costs associated with the CDA Tribe settlement 4(e) relicensing conditions, including a carrying charge on these amounts, for future recovery. Idaho's share of the 2009 deferred amortization, plus interest for the period June through July totaled $59,335. These deferred payments, including a return on the balance, were originally planned to be amortized over the life of the license, or 50 years. However, the Company has included a three-year amortization for recovery of this amount, resulting in approximately $19,000 of annual expense (rather than $1,200 annually over the remaining 50-year life). The effect on Idaho net operating income is a decrease of $12,000. The effect on Idaho rate base is an increase of $32,000.

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

A. Page 7 starts with the adjustment in column (o), **Restating Spokane River PM&E Deferral,** records the net asset and DFIT balances related to the planned 2010 (January through June) Spokane River deferred PM&E costs to a 2010/2011 AMA basis, and records the annual amortization expense based on a three-year amortization. As noted above in adjustment (m) "Restating Spokane River Relicensing," the Company was allowed to defer the Spokane River deferred PM&E charges, including a carrying charge on these amounts, for future recovery. Idaho's share of the 2010 deferred PM&E costs (Jan through June), plus interest, total approximately $467,700. The Company has included a three-year amortization for recovery of this amount, resulting in approximately $147,000 of annual expense. The effect on Idaho net operating income is a decrease of $100,000. The effect on Idaho rate base is an increase of $253,000.

The adjustment in column (p), **Restating Montana Riverbed Lease**, includes the costs associated with the Montana Riverbed lease settlement. In this settlement, the Company agreed to pay the State of Montana $4.0 million annually beginning in 2007, with annual inflation adjustments, for a 10-year period for leasing the riverbed under the Noxon Rapids Project and the Montana portion of the Cabinet Gorge Project. The first two annual payments were deferred by Avista as approved in Case No. AVU-E-07-10. In Case No. AVU-E-08-01 (see Order No. 30647), the Commission approved the Company's accounting treatment of the deferred payments, including accrued interest, to be amortized over the remaining eight years of the agreement starting October 1, 2008. This adjustment includes one-eighth of the deferred balance amortization and the adjustment to lease payment expense for the additional annual inflation. This adjustment decreases Idaho net operating income by $28,000 and increases rate base by $1,289,000.

The next column marked by a dash, entitled **Subtotal Actual** represents actual operating results and rate base plus standard rate base adjustments that are included in Commission Basis reporting, plus additional restating adjustments required to annualize previous approved rate base items.

The adjustment in column (q), **Eliminate B & O Taxes**, eliminates the revenues and expenses associated with local business and occupation (B & O) taxes, which the Company is passes through to its Idaho customers. The adjustment eliminates any timing mismatch that exists between the revenues and expenses by eliminating the revenues and expenses in their entirety. B & O taxes are passed through on a separate schedule, which is not part of this proceeding. The effect of this adjustment is to decrease Idaho net operating income by $7,000.

The adjustment in column (r), **Property Tax,** restates the test period accrued levels of property taxes to the most current information available and eliminates any adjustments related to the prior year. This adjustment also annualizes the increase in property taxes effective July 1, 2009, related to the Company's Coyote Springs plant located in Oregon. Prior to July 1, 2009, the Company had been exempted from this property tax assessment for five years under a tax abatement as a result of the plant being located in the Columbia River Enterprise Zone in Oregon. The effect of this particular adjustment is to decrease Idaho net operating income by $617,000.

The adjustment in column (s), **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to decrease Idaho net operating income by $110,000.

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

A. The adjustment in column (t), **Regulatory Expense**, restates recorded 2009 regulatory expense to reflect the IPUC assessment rates applied to expected revenues for the 2009 period and the actual levels of FERC fees paid during the test period. The effect of this adjustment is to decrease Idaho net operating income by $27,000.

The adjustment in column (u), **Injuries and Damages**, is a restating adjustment that replaces the accrual with the six-year rolling average of actual injuries and damages payments not covered by insurance. A six-year rolling average and the reserve method of accounting for injuries and damages, net of insurance proceeds, is a practical methodology to deal with these normal utility operating expenses that happen to occur on an irregular basis and differ markedly in materiality. This methodology was accepted by the Idaho Commission in Case No. WWP-E-98-11. The effect of this adjustment is to increase Idaho net operating income by $47,000.

The adjustment in column (v), **FIT**, adjusts the FIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items, matching the jurisdictional allocation of other Schedule M items to related Results of Operations allocations and adjusts the appropriate level of production tax credits and income tax credits on qualified generation. The net FIT and production tax credit adjustments decrease Idaho net operating income by $514,000. Adjusting for the proper level of deferred tax expense for the test period decreases Idaho net operating income by $3,000. This adjustment also reflects the proper level of amortized income tax credit for the test period increasing Idaho net operating income by an additional $15,000. Therefore, the net effect of this adjustment, all based upon a Federal tax rate of 35%, is to decrease Idaho net operating income by $502,000.

The adjustment in column (w), **Idaho PCA,** removes the effects of the financial accounting for the Power Cost Adjustment (PCA). The PCA normalizes and defers certain power supply costs on an ongoing basis between general rate filings. Certain differences in actual power supply costs, compared to those included in base retail rates are deferred and then surcharged or rebated to customers in a future period. Revenue adjustments due to the PCA and the power cost deferrals affect actual results of operations and need to be eliminated to produce a normal period. Actual revenues and power supply costs are normalized in adjustments in column (w) and column (PF1), respectively. The effect of this adjustment is to decrease Idaho net operating income by $11,690,000.

The adjustment in column (x), **Nez Perce Settlement Adjustment**, reflects a decrease in production operating expenses. An agreement was entered into between the Company and the Nez Perce Tribe to settle certain issues regarding earlier owned and operated hydroelectric generating facilities of the Company. This adjustment directly assigns the Nez Perce Settlement expenses to the Washington and Idaho jurisdictions. This is necessary due to differing regulatory treatment in Idaho Case No. WWP-E-98-11 and Washington Docket No. UE-991606. The effect of this adjustment is to increase Idaho net operating income by $10,000.

The adjustment in column (y), **Eliminate A/R Expenses**, removes expenses associated with the sale of customer accounts receivable. The effect of this adjustment is to increase Idaho net operating income by $104,000.

Q. Please continue on page 10 with your explanation of the adjustments.

A. The first adjustment on page 10 in column (z), **Revenue Normalization Adjustment**, is an adjustment taking into account known and measurable changes that include revenue repricing (including the current authorized rates approved in Case No. AVU-E-09-01), weather normalization and a recalculation of unbilled revenue. Schedule 91 Tariff Rider and Schedule 59 Residential Exchange are excluded from pro forma revenues, and the related amortization expense is eliminated as well. Company witness Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to increase Idaho net operating income by $3,620,000.

The adjustment in column (aa), **Miscellaneous Restating Adjustments,** removes a number of non-operating or non-utility expenses associated with advertising, dues and donations included in error in the test period actual results. The effect of this adjustment is to increase Idaho net operating income by $38,000.

The adjustment in column (ab), **Colstrip Mercury Emission O&M**, includes Idaho's share of the annual O&M expense of approximately $.5 million ($1.4 million system) associated with the mercury control project at Colstrip planned during the 2010/2011 rate year. This adjustment is consistent with the determination of the Commission approved annual level of expense in Case No. AVU-E-09-01. This adjustment decreases Idaho net operating income by $308,000.

The adjustment in column (ac), **Restating CS2 Levelized Adjustment**, adjusts the deferred return amounts related to Coyote Springs 2 (CS2) to the amounts that will be recorded during the rate year. In the Company's electric general rate case, Case No. AVU-E-04-1, Order No. 29602, dated October 8, 2004, the Commission approved the deferral of return on CS2 investment in early years for recovery in later years in order to levelize the revenue requirement on CS2 plant investment for the first ten years of operation of the plant. The ten-year period runs from September 1, 2004 through August 31, 2014. This adjustment restates the test period amount of amortization expense, inclusive of the carrying charge on the deferred return, to the amount that will be recorded in the rate year. The change in deferred income tax expense from the test period to the rate period is also reflected. This adjustment reduces net operating income by $144,000.

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

In 2008 a buyer agreed to purchase the units for net proceeds to the Company of $1 million, as compared to the book value of $3.65 million. However, the buyer defaulted and only one unit was delivered with net proceeds to the Company of $670,000. The second unit remains unsold and the five-year amortization amount in the adjustment assumes that the second unit will be sold for the $330,000.

In Case No. AVU-E-09-01 the Idaho Commission approved the accounting treatment of the five-year amortization starting in August 1, 2009 through July 31, 2014. This adjustment restates the test period expense amount (5 months) to an annual or 12 month level of amortization expense amount. This adjustment decreases Idaho net operating income by $69,000.

Q. Please continue on page 10 with your explanation of the adjustments.

A. The adjustment in column (ae), **Restating Colstrip Lawsuit Settlement**, reflects a two-year amortization of the Company's share of the lawsuit settlement amount. On May 22, 2008, the Company filed an application seeking an accounting order to defer the settlement payment. On September 12, 2008, the Commission authorized deferred accounting treatment in Order No. 30638, Case No. AVU-E-08-03. In Case No. AVU-E-09-01 the Idaho Commission approved the two-year amortization treatment proposed by the Company starting in August 1, 2009 through July 31, 2011. This adjustment restates the test period expense amount (5 months) to the remaining 2010/2011 rate period amount (10 months remaining through July 31, 2011) of amortization expense amount. This adjustment decreases Idaho net operating income by $99,000.

The adjustment in column (af), **Restating Chicago Climate Exchange**, removes the effect in the test period of amortization revenue included related to the expiration of the two-year amortization of the Chicago Climate Exchange approved in AVU-08-01. In AVU-08-01 the IPUC approved a two-year amortization of the other revenue included in Idaho's share of the revenues, net of expenses, from the sales of Carbon Financial Instruments (CFIs) on the Chicago Climate Exchange. In Order No. 30647 (Case No. AVU-E-08-01), the Commission approved the amortization of the net revenues over a two-year period beginning in October 2008 through September 2010. This adjustment decreases Idaho net operating income by $272,000.

The adjustment in column (ag), **Operation & Maintenance (O&M) Savings**, includes a reduction to expense for anticipated operation and maintenance savings expected during the pro forma period, as compared to the 2009 test period. These O&M savings include reductions related to certain additional generation, transmission, distribution and general plant investment included in the 2009 and 2010 capital additions adjustments, and other operation efficiencies that were identified. (These savings are in addition to the offset included as a result of the production/transmission property adjustment described below). The savings related to capital projects have been discussed further within Mr. Storro's (generation projects), Mr. Kinney's (distribution and transmission projects), and Mr. DeFelice 's (general plant) direct testimony. Additional detail can be found within my workpapers included with the Company's filing. This adjustment increases Idaho net operating income by $124,000.

The adjustment in column (ah), **Working Capital**, increases total rate base for the Company's working capital adjustment. The Company has calculated cash working capital in this proceeding on the basis of the "1/8 of O&M" formula (also known as the Federal Energy Regulatory Commission's "one-eighth" formula or "45 day" method). This methodology divides Idaho total O&M expenses (less fuel: accounts 501 and 547; and purchased power expenses: account 555) by eight, the approximate number of 45 day periods within a year. FERC's use of 45 days represents an estimate of days that elapse between payments for operating expenses associated with providing service to customers and receiving payment from customers. Since investors supply the funds to finance operations during this lag period, it is appropriated to provide a return on those working capital funds. The Company believes that this methodology, given the complexities of a multi-state, multi service utility such as Avista is a reasonable approach for calculating an individual state and service working capital adjustment. The effect on Idaho rate base is an increase of $9,863,000.

The adjustment in the column (ai) **Restate Debt Interest**, restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Mr. Theis, and applied to Idaho's pro forma level of rate base. This produces a pro forma level of tax deductible interest expense. The Federal income tax effect of the restated level of interest for the test period decreases Idaho net operating income by $65,000.

The column entitled **Restated Total**, subtotals all the preceding columns (b) through column (ai), excluding the subtotal column. These totals represent actual operating results and rate base plus the standard normalizing adjustments that the Company includes in its Commission Basis adjustments except power supply[2].

[2] The restated total also includes an increase in expense necessary to annualize certain 2009 expenses included in the test period, (i.e. Colstrip mercury emission expense, Montana riverbed lease, Spokane River and CDA Tribe Settlement expense.)

Pro Forma Adjustments

Q. Please explain the significance of the 12 columns subsequent to the column entitled Restated Total that begins at page 11 in your Exhibit No. 12, Schedule 1.

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

Q. Please continue with your explanation of the adjustments starting on page 11, subsequent to the Restated Total column.

A. The adjustment in column (PF1), **Pro Forma Power Supply**, was made under the direction of Mr. Johnson and is explained in detail in his testimony. This adjustment includes pro forma power supply related revenue and expenses to reflect the twelve-month period October 1, 2010 through September 30, 2011. Mr. Johnson's testimony outlines the system level of pro forma power supply details that are included in this adjustment. This adjustment calculates the Idaho jurisdictional share of those figures included in the base Results of Operations. The net effect of the power supply adjustments decreases Idaho net operating income by $6,612,000.

The adjustment in column (PF2), **Pro Forma Production Property Adjustment,** adjusts pro formed production and transmission revenues, expenses, and rate base by a factor that reflects the percentage increase of the pro forma period Idaho retail load above the 2009 Idaho test year retail load. Capital additions have been pro formed to December 2010 whereas the remainder of the pro forma adjustments reflect costs for the twelve months ended September 2011 level. Therefore a factor reflecting 2010 calendar Idaho retail load was used to determine the factor for pro formed capital costs and the 2010/2011 rate year Idaho retail load was used to determine the factor for all other pro formed production and transmission costs. The adjustment is made to avoid the over-recovery of pro formed production and transmission costs, since the revenue requirement associated with those costs is being spread to test year retail load. The use of a production property adjustment, in conjunction with pro forma rate year loads for power supply, results in a better matching of revenues and expenses during the period that new retail rates from the case will be in effect. The effect of this adjustment on Idaho net operating income is an increase of $2,391,000. The effect on Idaho rate base is a decrease of $4,853,000.

The adjustment in column (PF3), **Pro Forma Labor-Non-Exec**, reflects known and measurable changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in adjustment PF4. For non-union employees, test period wages and salaries are restated to include the March 2010 overall actual increase of 2.8%, and seven months of the planned March 2011 increase of 2.4%. The Company's Board is scheduled to address the 2011 planned increase at the Board of Director's meeting in May 2010.

Also included in this adjustment are the 2010 and 2011 (seven months) union contract increases currently being negotiated. The Company anticipates a final union contract agreement will be completed by the end of second quarter of 2010. The methodology behind this adjustment is consistent with that used in Case No. AVU-E-09-01. The effect of this adjustment on Idaho net operating income is a decrease of $549,000.

The adjustment in column (PF4), **Pro Forma Labor-Executive**, reflects known and measurable changes to executive compensation, restating executive compensation test period salary expense to actual salary levels at 2010. This adjustment takes into account changes in compensation for the executive team in 2010 only. Although the officers did not receive a 2009 pay increase, this adjustment does reflect an annual increase for the actual overall 2010 officer increase of 2.86%. Compensation costs for non-utility operations are excluded, as executives routinely charge a portion of their time to non-utility operations, commensurate with the amount of time spent on such activities, based on a survey of each executive. The methodology behind this adjustment is consistent with that used in the last general case, Case No. AVU-E-09-01. The impact of this adjustment on Idaho net operating income is a decrease of $55,000.

The adjustment in column (PF5), **Pro Forma Transmission Rev/Exp,** was made under the direction of Mr. Kinney and is explained in detail in his testimony. This adjustment includes pro forma transmission-related revenues and expenses to reflect the twelve-month period October 31, 2010 through September 30, 2011. As described by Mr. Kinney, this adjustment includes, among other things, the increase in revenue as a result of the recently-concluded FERC transmission rate case. The net effect of the transmission revenue and expense adjustments increases Idaho net operating income by $604,000.

The adjustment in column (PF6), **Pro Forma Capital Additions 2009**, pro forms in the capital cost and expenses associated with adjusting the twelve-month ending December 2009 average-monthly-average plant related balances to end-of-period balances for plant in service at December 31, 2009. The capital costs have been included for the December 31, 2009 pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment was made under the direction of Mr. DeFelice and is described further in his testimony. This adjustment is also consistent with that approved in the most recent Idaho general rate case proceeding, Case No. AVU-E-09-01, which approved the Company's expected net rate base balance as of December 31, 2009. The Production Property Adjustment is also applied to the production and transmission components of these additions as discussed further above. This adjustment decreases Idaho net operating income by $881,000 and increases rate base by $16,402,000.

Q. Please turn to page 12 and explain the adjustments shown there.

A. The adjustment in column (PF7), **Pro Forma Capital Additions 2010**, pro forms in the capital cost and expenses associated with capital expenditures for 2010. This adjustment includes projects expected to be completed and transferred to plant-in-service by December 31, 2010, and thus were normalized to reflect annual amounts. The capital costs have been included for the appropriate pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment also reduces the 2009 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2010 adjusted balance. This adjustment was also made under the direction of Mr. DeFelice and is described further in his testimony. The Production Property Adjustment is also applied to the production and transmission components of these additions as discussed further by above. This adjustment decreases Idaho net operating income by $1,598,000 and increases rate base by $8,310,000.

The adjustment in column (PF8), **Pro Forma Noxon Generation 2010 & 2011,** pro forms in the Noxon capital projects planned for completion in April 2010 and April 2011. As explained further by Mr. Storro, Noxon Unit #3 is scheduled to have a new turbine and complete mechanical overhaul between August 2009 and April 2010. These unit upgrades are planned to increase unit efficiency and boost unit ratings. The additional generation from the Noxon Unit #2 completion planned for April of 2011 has also been included in the Aurora Dispatch Model for the rate year, as discussed by Company witness Mr. Kalich. Including the additional generation from this Noxon upgrade in the

Dispatch Model, ultimately reducing power supply expenses for customers in the 2010/2011 rate year, and including this project in rate base for the rate period provides a proper match in revenues with expenses for this project. The Noxon Unit #2 project was included in rate base and within the Aurora model at 50% of the cost and generation (equivalent to 6 months due to an April 1, 2011 effective date). This adjustment decreases Idaho net operating income by $97,000 and increases rate base by $4,362,000.

The adjustment in column (PF9), **Pro Forma Information Services**, pro forms in the administrative and general (A&G) expenses associated with incremental changes for information services costs planned for 2010 and 2011 above test period levels. As explained by Mr. Kensok, these incremental costs include increases in expenses for supporting applications utilized by the Company, additional required security and compliance requirements, and additional dollars required for hosting fees, application fees, software maintenance and license fees. This adjustment decreases Idaho net operating income by $831,000.

The adjustment in column (PF10), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense and increases Idaho net operating income by $206,000.

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

A. The Company's pension expense portion of this adjustment is determined in accordance with Financial Accounting Standard 87 (FAS-87), and has decreased on a system basis from $24.2 million for the actual test year costs for the twelve months ended December 31, 2009, to $19.7 million for 2010. At this time the amounts included in this case are estimated with the most current available data. Preliminary Pension expense is determined by an outside actuarial firm, in accordance with FAS-87, and provided to the Company late in the first quarter of each year. These calculations and assumptions are reviewed by the Company's outside accounting firm annually for reasonableness and comparability to other companies. Due to the timing of this report, additional information may become known during the course of these proceedings that may require a modification to this adjustment.

The decrease in pension expense is due primarily to the investment performance of plan assets during the past year. In addition, the Pension Protection Act (PPA) of 2006 requires companies to annually increase the funding level of their pension plans in order to eventually achieve a fully-funded plan, which also impacts the plan asset balance and level of expense.

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

A. The Company's medical insurance expense portion of this adjustment adjusts for the medical insurance costs planned for 2010 above the test period. Medical insurance expense has increased on a system basis from $16.9 million for the actual test year costs for the twelve months ended December 31, 2009, to $19.1 million for 2010. This increased cost is mainly due to increased large claims activity driven by various diagnostic categories such as cancer and heart disease, and an increase in the average age of our membership.

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

The net impact of the decrease in pension and the increase in medical costs is a net decrease in expense of $317,000.

Q. Please continue your explanation of the adjustment columns on page 12.

A. The adjustment in Column (PF11), **Pro Forma Insurance**, adjusts the test period insurance expense for general liability, directors and officers (D&O) liability, and property to the actual cost of insurance policies that are in effect for 2010. Costs of system-wide insurance policies for 2010 were slightly above costs for policies in 2009, due to increased costs in general liability insurance. Insurance costs that are properly charged to non-utility operations have been excluded from this adjustment. This adjustment decreases Idaho net operating income by $47,000.

Q. Please turn to page 13 and explain the adjustments shown there.

A. The adjustment in column (PF12), **Pro Forma Clark Fork/Spokane River Relicensing PM&E,** adjusts the level of expense included in the test period for the Clark Fork and Spokane River Protection, Mitigation, and Enhancement (PM&E) expenses, to the Company's planned expenditures for 2010 required by the Company's licensing of those dams. Mr. Storro discusses the additional level of planned PM&E expenditures further. The effect of this adjustment is to decrease Idaho net operating income by $698,000.

The last column, **Pro Forma Total,** reflects total pro forma results of operations and rate base consisting of test period actual results (twelve-months ending December 31, 2009) and the total of all adjustments.

Q. Referring back to page 1, line 42, of Exhibit No. 12, Schedule 1, what was the actual and pro forma electric rate of return realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 7.62%. The pro forma rate of return is 5.19% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.55% rate of return requested by the Company in this case.

Q. How much additional net operating income would be required for the State of Idaho electric operations to

allow the Company an opportunity to earn its proposed 8.55% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $20,449,000, as shown on line 5, page 2 of Exhibit No. 12, Schedule 1. The resulting revenue requirement is shown on line 7 and amounts to $32,114,000, or an increase of 13.98% over pro forma general business revenues.

IV. NATURAL GAS SECTION

Test Period And Pro Forma Period

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

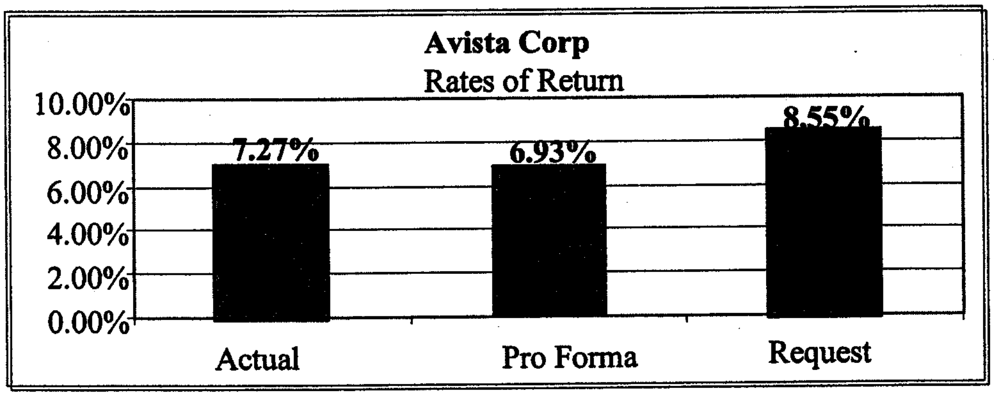
A. The test period being used by the Company is the twelve-month period ending December 31, 2009, presented on a pro forma basis. Currently authorized rates are based upon the twelve-months ended September 30, 2008 test year utilized in case No. AVU-G-09-01, as adjusted on a pro forma basis.

The pro forma period being used by the Company in this proceeding is October 2010 through September 30, 2011 (2010/2011).

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

A. Yes. As discussed previously in the Electric Section, there are three different rates of return calculated. The <u>actual</u> ROR earned by the Company during the test period, the <u>Pro Forma</u> ROR determined in my Exhibit No. 12, Schedule 2, and the <u>requested</u> ROR. For ease of comparison, please refer to Illustration No. 3 below depicting these results for the Natural Gas Section:

<u>Illustration No. 3:</u>



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

A. The Company's natural gas request is driven by changes in various operating cost components, mainly distribution operation and maintenance and administrative and general expenditures. In addition, over 19% of the overall increase in the requested revenue requirement is due to the transfer of a portion of the Jackson Prairie storage facility, from Avista Energy to Avista Utilities on May 1, 2011. Company witness Mr. Christie discusses the details of this project, and the plans to move it to the Utility.

The total of the increased operating cost components requested in this case causes an increase in the fixed costs of providing gas service to customers. I describe the pro forma adjustments included in this case later in my testimony.

Revenue Requirement

Q. Would you please explain what is shown in Exhibit No. 12, Schedule 2?

A. Yes. Exhibit No. 12, Schedule 2 shows actual and pro forma gas operating results and rate base for the test period for the State of Idaho. Column (b) of page 1 of Exhibit No. 12, Schedule 2 shows test period operating results (twelve-months ended December 31, 2009) and components of the average-monthly-average rate base as recorded; column (c) is the total of all adjustments to net operating income and rate base; and column (d) is pro forma results of operations, all under existing rates. Column (e) shows the revenue increase required which would allow the Company to earn an 8.55% rate of return. Column (f) reflects pro forma gas operating results with the requested increase of $2,575,000.

Q. Would you please explain page 2 of Exhibit No. 12, Schedule 2?

A. Yes. Page 2 shows the calculation of the $2,575,000 revenue requirement at the requested 8.55% rate of return.

Q. What does page 3 of Exhibit No. 12, Schedule 2 show?

A. Page 3 shows the proposed Cost of Capital and Capital Structure utilized by the Company in this case, showing the weighted average cost of capital calculation of 8.55%. Mr. Thies discusses the Company's proposed rate of return and the pro forma capital structure utilized in this case, while Company witness Dr. Avera provides additional testimony related to the appropriate return on equity for Avista.

Q. Would you now please explain page 4 of Exhibit No. 12, Schedule 2?

A. Yes. Page 4 shows the derivation of the net-operating-income-to-gross-revenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Idaho State excise taxes. Federal income taxes are reflected at 35%.

Q. Now turning to pages 5 through 9 of your Exhibit No. 12, Schedule 2, would you please explain what those pages show?

A. Yes. Page 5 begins with actual operating results and rate base for the test period (twelve-months ending December 31, 2009) in column (b). Individual normalizing adjustments consistent with prior regulatory treatment (standard Commission Basis adjustments) begin in column (c) on page 5 and continue through column (s) on page 7. Individual pro forma and additional normalizing adjustments begin in column (PF1) on page 8 and continue through column (PF8) on page 9. The final column on page 9 is the total pro forma operating results and rate base for the test period. Additional details related to each adjustment described below are provided in accompanying work papers.

<u>Standard Commission Basis Adjustments</u>

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

A. Yes, the restating adjustments shown in columns (c) through (s) are consistent with methodologies employed in our prior cases and current regulatory principles.

The first adjustment, column (c) on page 5, entitled **Deferred FIT Rate Base**, reflects the rate base reduction for Idaho's portion of deferred taxes. The adjustment reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS), bond refinancing premiums, and contributions in aid of construction. These amounts are reflected on the average of monthly average balance basis. The effect on Idaho rate base is a reduction of $17,318,000.

The adjustment in column (d), **Deferred Gain on Office Building**, reflects the rate base reduction for Idaho's portion of the net of tax, unamortized gain on the sale of the Company's general office facility. The facility was sold in December 1986 and leased back by the Company. Although the Company repurchased the building in November 2005, the Company opted to continue to amortize the deferred gain over the remaining amortization period scheduled to end in 2011. The effect on Idaho rate base is a reduction of $36,000.

The adjustment in column (e), **Gas Inventory**, reflects the adjustment to rate base for the average-of-monthly-average value of gas stored at the Company's Jackson Prairie underground storage facility through the test period. The effect on Idaho rate base is an increase of $3,626,000.

The adjustment in column (f), **Weatherization and DSM Investment**, includes in rate base the balance (net of amortization) of company investments in natural gas demand side management (DSM) program costs. These amounts are a component of actual results of operations. The effect of this adjustment is to increase Idaho rate base by $152,000.

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

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

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

The first adjustment starting on page 6 in column (h), entitled **Revenue Normalization & Gas Cost Adjustment**, is an adjustment taking into account known and measurable changes that include revenue normalization (including the current authorized rates approved in Case No. AVU-G-09-01), which reprices customer usage under presently effective rates, as well as weather normalization and an unbilled revenue calculation. Associated gas costs are replaced with gas costs computed using normalized volumes at the currently effective weighted-average-cost-of-gas, or WACOG rates. Revenues associated with the temporary Gas Rate Adjustment

Schedule 155 and Schedule 191 Tariff Rider are excluded from pro forma revenues, and the related amortization expenses are eliminated as well. Ms. Knox is sponsoring this adjustment. The effect of this particular adjustment is to decrease Idaho net operating income by $547,000.

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

The adjustment in column (j), **Property Tax**, restates the test period accrued levels of property taxes to the most current information available and eliminates any adjustments related to the prior year. The effect of this particular adjustment is to decrease Idaho net operating income by $64,000.

The adjustment in column (k), **Uncollectible Expense**, restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment is to increase Idaho net operating income by $121,000.

The adjustment in column (l), entitled **Regulatory Expense Adjustment**, restates recorded 2009 regulatory expense to reflect the IPUC assessment rates applied to revenues for the test period. The effect of this adjustment is to increase Idaho net operating income by $10,000.

The adjustment in column (m), entitled **Injuries and Damages**, is a restating adjustment that replaces the accrual with the six-year rolling average of actual injuries and damages payments not covered by insurance. This methodology was accepted by the Idaho Commission in Case No. WWP-E-98-11. The effect of this adjustment is to increase Idaho net operating income by $38,000.

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

A. The first adjustment on page 7 in column (n), entitled **FIT**, adjusts the FIT calculated at 35% within Results of Operations by removing the effect of certain Schedule M items and matches the jurisdictional allocation of other Schedule M items to related Results of Operations allocations. This adjustment also reflects the proper level of deferred tax expense for the test period. The effect of this adjustment, all based upon a Federal tax rate of 35%, is to increase Idaho net operating income by $8,000.

The adjustment in column (o), **Eliminate A/R Expenses**, removes expenses associated with the sale of customer accounts receivable. The effect of this adjustment is to increase Idaho net operating income by $18,000.

The adjustment in column (p), **Miscellaneous Restating Adjustment**, removes a number of non-operating or non-utility expenses associated with advertising, dues and donations included in error in the test period actual results. The effect of this adjustment is to increase Idaho net operating income by $12,000.

The adjustment in column (q), **Operation & Maintenance (O&M) Savings**, includes a reduction to expense for anticipated operation and maintenance savings expected during the pro forma period, as compared to the 2009 test period. These O&M savings include reductions related to certain additional general plant investment included in the capital additions adjustments, as well as other operation efficiencies that were identified. Mr. DeFelice describes the general plant savings within his direct testimony. Additional detail can be found within my workpapers included with the Company's filing. This adjustment increases Idaho net operating income by $12,000.

The adjustment in column (r), **Working Capital** increases total rate base for the Company's working capital adjustment. The Company has calculated cash working capital in this proceeding on the basis of the "1/8 of O&M" formula (also known as the Federal Energy Regulatory Commission's "one-eighth" formula or "45 day" method). This methodology divides Idaho total O&M expenses (less purchased gas: accounts 804, 805 and 808) by eight, the approximate number of 45 day periods within a year. FERC's use of 45 days represents an estimate of days that elapse between payments for operating expenses associated with providing service to customers and receiving payment from customers. Since investors supply the funds to finance operations during this lag period, it is appropriated to provide a return on those working capital funds. The Company believes that this methodology, given the complexities of a multi-state, multi-service utility such as Avista is a reasonable approach for calculating an individual state and service working capital adjustment. The effect on Idaho rate base is an increase of $1,692,000.

The adjustment in column (s), **Restate Debt Interest**, restates debt interest using the Company's pro forma weighted average cost of debt, as outlined in the testimony and exhibits of Mr. Thies. As applied to Idaho's pro forma level of rate base, produces a pro forma level of tax deductible interest expense. The federal income tax effect of the restated level of interest for the test period decreases Idaho net operating income by $44,000.

The last column on page 7, entitled **Restated Total**, subtotals all the preceding columns (b) through column (s), excluding the subtotal column. These totals represent actual operating results and rate base plus the standard normalizing and restating adjustments.

Pro Forma Adjustments

Q. Please explain the significance of the 8 columns subsequent to the Restated Total column on pages 8 through 9 of your Exhibit No. 12, Schedule 2.

A. The adjustments starting on page 8 are pro forma adjustments to reflect known and measurable changes between the test period and the pro forma period. In this case, they encompass revenue and expense items, and natural gas capital projects. These adjustments bring the operating results and rate base to the final pro forma level for the test year.

Q. Please continue with your explanation of the adjustments on page 8.

A. The first adjustment on page 8 in column (PF1), **Pro Forma Labor-Non-Exec**, reflects known and measurable changes to test period union and non-union wages and salaries, excluding executive salaries, which are handled separately in adjustment PF2. For non-union employees, test period wages and salaries are restated to include the

March 2010 overall actual increase of 2.8%, and seven months of the planned March 2011 increase of 2.4%. The Company's Board is scheduled to address the 2011 planned increase at the Board of Director's meeting in May 2010.

Also included in this adjustment are the 2010 and 2011 (seven months) union contract increases currently being negotiated. The Company anticipates a final union contract agreement will be completed by the end of second quarter of 2010. The methodology behind this adjustment is consistent with that used in Case No. AVU-G-09-1. The effect of this adjustment on Idaho net operating income is a decrease of $140,000.

The adjustment in column (PF2) is **Pro Forma Labor-Executive**, reflects known and measurable changes to executive compensation, restating executive compensation test period salary expense to actual salary levels at 2010. This adjustment takes into account changes in compensation for the executive team in 2010 only. Although the officers did not receive a 2009 pay increase, this adjustment does reflect an annual increase for the actual overall 2010 officer increase of 2.86%. Compensation costs for non-utility operations are excluded, as executives routinely charge a portion of their time to non-utility operations, commensurate with the amount of time spent on such activities, based on a survey of each executive. The methodology behind this adjustment is consistent with that used in the last general case, Case No. AVU-G-09-01. The impact of this adjustment on Idaho net operating income is a decrease of $14,000.

The adjustment in column (PF3), **Pro Forma Employee Benefits**, adjusts for changes in both the Company's pension and medical insurance expense planned for 2009 as further explained in the Electric Section above. This adjustment increases Idaho net operating income by $53,000

The adjustment in column (PF4), **Pro Forma Insurance**, adjusts the test period insurance expense for general liability, directors and officers (D&O) liability, and property to the actual cost of insurance policies that are in effect for 2010. Costs of system-wide insurance policies for 2010 were slightly above costs for policies in 2009, due to increased costs in general liability insurance. Insurance costs that are properly charged to non-utility operations have been excluded from this adjustment. This adjustment decreases Idaho net operating income by $12,000.

The adjustment in column (PF5), entitled **Pro Forma Information Services,** pro forms in the administrative and general (A&G) expenses associated with incremental changes for information services costs planned for 2010 and 2011 above test period levels, as further explained in the

Electric Section. The impact of this adjustment on Idaho net operating income is a decrease of $201,000.

The adjustment in column (PF6), **Pro Forma Capital Additions 2009**, pro forms in the capital cost and expenses associated with adjusting the test period average-monthly-average plant related balances at December 31, 2009, to actual end-of-period balances for plant in service at December 31, 2009. The capital costs have been included for December 31, 2009 with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment was made under the direction of Mr. DeFelice and is described further in his testimony. This adjustment decreases Idaho net operating income by $116,000 and decreases rate base by $625,000.

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

A. The first adjustment on page 9 in column (PF7), **Pro Forma Capital Additions 2010**, pro forms in the capital cost and expenses associated with pro forming in capital expenditures for 2010. This adjustment includes projects completed during 2010, and thus were normalized to reflect annual amounts, and projects expected to be completed and transferred to plant-in-service by December 31, 2010. The capital costs have been included for their appropriate pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This adjustment also reduces the 2009 vintage plant net rate base (including accumulated depreciation and deferred FIT) to an end of period December 31, 2010 adjusted balance. This adjustment was also made under the direction of Mr. DeFelice and is described further in his testimony. This adjustment decreases Idaho net operating income by $235,000 and decreases rate base by $1,886,000.

The adjustment in column (PF8), **Pro Forma JP Storage**, pro forms revenues, expenses, capital investment and inventory for the increased storage capacity and deliverability associated with the transfer on May 1, 2011 of a portion of the Jackson Prairie (JP) Storage facility to the Utility that was previously utilized by Avista Energy. Assets with a net book value of approximately $11.6 million will transfer from Avista Energy to Avista Utilities, which is comprised of approximately $5.9 million of cushion gas and approximately $5.7 million of fixed assets. Mr. Christie discusses the details of this transfer.

Idaho's share of these assets on a 2010/2011 average-of-monthly-average basis increases net rate base by $1,081,000. The adjustment also includes a rate base increase of $2,396,000 for the working gas associated with the additional storage. In addition, underground storage expense increased for the additional operating, depreciation and property taxes expense by approximately $35,000. The details of the proposed accounting treatment of this adjustment is provided with my workpapers. The impact of this adjustment decreases Idaho net operating income by $23,000 and increases rate base by $3,449,000.

The last column on page 9, **Pro Forma Total**, reflects total pro forma results of operations and rate base consisting of twelve-months ended December 31, 2009 actual results and the total of all normalizing and pro forma adjustments.

Q. Referring back to page 1, line 43, of Exhibit No. 12, Schedule 2, what was the actual and pro forma gas rate of return realized by the Company during the test period?

A. For the State of Idaho, the actual test period rate of return was 7.27%. The pro forma rate of return is 6.93% under present rates. Thus, the Company does not, on a pro forma basis for the test period, realize the 8.55% rate of return requested by the Company in this case.

Q. How much additional net operating income would be required for the State of Idaho gas operations to allow the Company an opportunity to earn its proposed 8.55% rate of return on a pro forma basis?

A. The net operating income deficiency amounts to $1,640,000, as shown on line 5, page 2 of Exhibit No. 12, Schedule 2. The resulting revenue requirement is shown on line 7 and amounts to $2,575,000, or an increase of 3.64% over pro forma general business and transportation revenues.

V. ALLOCATION PROCEDURES

Q. Have there been any changes to the Company's system and jurisdictional procedures since the Company's last general electric and natural gas cases, Case Nos. AVU-E-09-01 and AVU-G-09-01?

A. No. For ratemaking purposes, the Company allocates revenues, expenses and rate base between electric and gas services and between Washington, Idaho, and Oregon jurisdictions where electric and/or gas service is provided. The current methodology was implemented in 1994 and has not changed. The allocation factors used in this case have been provided with my workpapers.

VI. OTHER

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

A. In Order No. 29962 (Case Nos. AVU-E-05-9 and AVU-G-05-3), the Commission directed the Company to record regulatory assets or liabilities associated with the implementation of Statement of Financial Accounting Standards (SFAS) 143. As a result of the Order, the Company is required to file annually, and as part of any rate case filing, all journal entries made under the requirements of SFAS 143. These ARO transactions have been removed from the test year (twelve months ended December 31, 2009) Results of Operations and have no impact on the Company's earnings or rate request in this case. The journal entries for the calendar year 2009 have been filed with the Commission in our annual compliance filing.

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

A. Yes, it does.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-10-01 CASE NO. AVU-G-10-01 EXHIBIT NO. 12 ELIZABETH M. ANDREWS

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	WITH PRESENT RATES Actual Per Results Report	Total Adjustments	Pro Forma Total	WITH PROPOSED RATES Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	b	c	d	e	f
	REVENUES					
1	Total General Business	$246,714	$ (17,221)	$229,493	$32,114	$261,607
2	Interdepartmental Sales	205		205		205
3	Sales for Resale	69,739	(50,033)	19,706		19,706
4	Total Sales of Electricity	316,658	(67,254)	249,404	32,114	281,518
5	Other Revenue	16,578	(10,712)	5,866		5,866
6	Total Electric Revenue	333,236	(77,966)	255,270	32,114	287,384
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	70,555	15,367	85,922		85,922
8	Purchased Power	119,313	(66,501)	52,812		52,812
9	Depreciation and Amortization	10,811	3,767	14,578		14,578
10	Taxes	4,666	903	5,569		5,569
11	Total Production & Transmission	205,345	(46,464)	158,881	0	158,881
	Distribution					
12	Operating Expenses	8,564	63	8,627		8,627
13	Depreciation	9,731	807	10,538		10,538
14	Taxes	5,063	(2,678)	2,385	455	2,840
15	Total Distribution	23,358	(1,808)	21,550	455	22,005
16	Customer Accounting	4,299	(12)	4,287	144	4,431
17	Customer Service & Information	5,935	(4,631)	1,304		1,304
18	Sales Expenses	251	(8)	243		243
	Administrative & General					
19	Operating Expenses	21,276	1,573	22,849	53	22,902
20	Depreciation	4,563	1,990	6,553		6,553
21	Taxes		145	145		145
22	Total Admin. & General	25,839	3,708	29,547	53	29,600
23	Total Electric Expenses	265,027	(49,215)	215,812	652	216,464
24	OPERATING INCOME BEFORE FIT	68,209	(28,751)	39,458	31,462	70,920
	FEDERAL INCOME TAX					
25	Current Accrual	2,841	(9,179)	(6,338)	11,012	4,674
26	Deferred Income Taxes	14,564	(237)	14,327		14,327
27	Amortized Investment Tax Credit	(16)	(47)	(63)		(63)
	SETTLEMENT EXCHANGE POWER					
28	NET OPERATING INCOME	$50,820	($19,288)	$31,532	$20,450	$51,981
	RATE BASE					
	PLANT IN SERVICE					
29	Intangible	$30,259	$17,044	$47,303		$47,303
30	Production	367,474	14,217	381,691		381,691
31	Transmission	163,053	9,347	172,400		172,400
32	Distribution	384,274	25,272	409,546		409,546
33	General	58,812	11,705	70,517		70,517
34	Total Plant in Service	1,003,872	77,585	1,081,457	0	1,081,457
35	ACCUMULATED DEPRECIATION	332,016	41,016	373,032		373,032
36	ACCUM. PROVISION FOR AMORTIZATION	4,967	253	5,220		5,220
37	Total Accum. Depreciation & Amort.	336,983	41,269	378,252	0	378,252
38	GAIN ON SALE OF BUILDING		(168)	(168)		(168)
39	WORKING CAPITAL		9,863	9,863		9,863
40	DEFERRED TAXES		(104,938)	(104,938)		(104,938)
41	TOTAL RATE BASE	$666,889	($68,790)	$607,962	$0	$607,962
42	RATE OF RETURN	7.62%		5.19%		8.55%

AVISTA UTILITIES
Calculation of General Revenue Requirement
IDAHO - Electric System
TWELVE MONTHS ENDED DECEMBER 31, 2009

Line No.	Description	(000's of Dollars)
1	Pro Forma Rate Base	$607,962
2	Proposed Rate of Return	8.55%
3	Net Operating Income Requirement	$51,981
4	Pro Forma Net Operating Income	$31,532
5	Net Operating Income Deficiency	$20,449
6	Conversion Factor	0.63676
7	Revenue Requirement	$32,114
8	Total General Business Revenues	$229,698
9	Percentage Revenue Increase	13.98%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Electric
Pro Forma Cost of Capital
(000's OF DOLLARS)

Idaho Component	Pro Forma Cost of Capital: Capital Structure	Cost	Weighted Cost	Excludes STD
Long-Term Debt	50.00%	6.200%	3.10%	ID Wtd Debt 3.10%
Pref Trust	0.00%	0.000%	0.00%	
Common	50.00%	10.90%	5.45%	
Total	100.00%		8.55%	

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO ELECTRIC
TWELVE MONTHS ENDED DECEMBER 31, 2009

Revenue:		1.000000
Expense:		
Uncollectibles (1)		0.004498
Commission Fees (2)		0.001662
Idaho Income Tax (3)		0.014203
Total Expense		0.020363
Net Operating Income Before FIT		0.979637
Federal Incon	0.35	0.342873
REVENUE CONVERSION FACTOR		0.63676

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Gain on Office Building	Colstrip 3 AFUDC Elimination	Colstrip Common AFUDC	Kettle Falls & Boulder Park Disallow.	Customer Advances
	a	b	c	d	e	f	g	h
	REVENUES							
1	Total General Business	$246,714						
2	Interdepartmental Sales	205						
3	Sales for Resale	69,739						
4	Total Sales of Electricity	316,658	0	0	0	0	0	0
5	Other Revenue	16,578						
6	Total Electric Revenue	333,236	0	0	0	0	0	0
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	70,555						
8	Purchased Power	119,313						
9	Depreciation and Amortization	10,811			193			
10	Taxes	4,666						
11	Total Production & Transmission	205,345	0	0	193	0	0	0
	Distribution							
12	Operating Expenses	8,564						
13	Depreciation	9,731						
14	Taxes	5,063						
15	Total Distribution	23,358	0	0	0	0	0	0
16	Customer Accounting	4,299						
17	Customer Service & Information	5,935						
18	Sales Expenses	251						
	Administrative & General							
19	Operating Expenses	21,276						
20	Depreciation	4,563						
21	Taxes							
22	Total Admin. & General	25,839	0	0	0	0	0	0
23	Total Electric Expenses	265,027	0	0	193	0	0	0
24	OPERATING INCOME BEFORE FIT	68,209	0	0	(193)	0	0	0
	FEDERAL INCOME TAX							
25	Current Accrual	2,841						
26	Deferred Income Taxes	14,564						
27	Amortized ITC - Noxon	(16)						
28	NET OPERATING INCOME	$50,820	$0	$0	($193)	$0	$0	$0
	RATE BASE							
	PLANT IN SERVICE							
29	Intangible	$30,259						
30	Production	367,474			7,390	903	(5,609)	
31	Transmission	163,053						
32	Distribution	384,274						(898)
33	General	58,812						
34	Total Plant in Service	1,003,872	0	0	7,390	903	(5,609)	(898)
35	ACCUMULATED DEPRECIATION	332,016			5,690		(2,929)	
36	ACCUM. PROVISION FOR AMORTIZATION	4,967						
37	Total Accum. Depreciation & Amort.	336,983	0	0	5,690	0	(2,929)	0
38	GAIN ON SALE OF BUILDING			(168)				
39	WORKING CAPITAL							
40	DEFERRED TAXES		(94,533)	59			646	
41	TOTAL RATE BASE	$666,889	($94,533)	($109)	$1,700	$903	($2,034)	($898)
42	RATE OF RETURN	7.62%						

Exhibit No. 12
Case No. AVU-E-10-01 and AVU-G-10-01
E. Andrews, Avista

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Weatherizn and DSM Investment	Restating CDA Settlement	Restating CDA Settlement Deferral	Restating CDA/SRR CDR	Restating Spokane Rvr Relicensing	Restating Spokane River Deferral
	a	i	j	k	l	m	n
	REVENUES						
1	Total General Business						
2	Interdepartmental Sales						
3	Sales for Resale						
4	Total Sales of Electricity	0	0	0	0	0	0
5	Other Revenue						
6	Total Electric Revenue	0	0	0	0	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses		81		703		
8	Purchased Power						
9	Depreciation and Amortization		226	101	53	118	19
10	Taxes						
11	Total Production & Transmission	0	307	101	756	118	19
	Distribution						
12	Operating Expenses						
13	Depreciation						
14	Taxes		(4)	(1)	(11)	(2)	
15	Total Distribution	0	(4)	(1)	(11)	(2)	0
16	Customer Accounting						
17	Customer Service & Information						
18	Sales Expenses						
	Administrative & General						
19	Operating Expenses						
20	Depreciation						
21	Taxes						
22	Total Admin. & General	0	0	0	0	0	0
23	Total Electric Expenses	0	303	100	745	116	19
24	OPERATING INCOME BEFORE FIT	0	(303)	(100)	(745)	(116)	(19)
	FEDERAL INCOME TAX						
25	Current Accrual		(106)	(35)	(261)	(41)	(7)
26	Deferred Income Taxes						
27	Amortized ITC - Noxon						
28	NET OPERATING INCOME	$0	($197)	($65)	($484)	($75)	($12)
	RATE BASE						
	PLANT IN SERVICE						
29	Intangible		$ (23)	$317	$703		$60
30	Production	294					
31	Transmission						
32	Distribution						
33	General						
34	Total Plant in Service	294	(23)	317	703	0	60
35	ACCUMULATED DEPRECIATION		369	59	88		11
36	ACCUM. PROVISION FOR AMORTIZATION					253	
37	Total Accum. Depreciation & Amort.	0	369	59	88	253	11
38	GAIN ON SALE OF BUILDING						
39	WORKING CAPITAL						
40	DEFERRED TAXES		375	(90)	(215)	(206)	(17)
41	TOTAL RATE BASE	$294	($17)	$168	$400	($459)	$32
42	RATE OF RETURN						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Restating Spokane River PM&E Deferral	Restating Montana Lease	Subtotal Actual	Eliminate B & O Taxes	Property Tax	Uncollect. Expense
	a	o	p	-	q	r	s
	REVENUES						
1	Total General Business			$246,714	$ (2,966)		
2	Interdepartmental Sales			205			
3	Sales for Resale			69,739			
4	Total Sales of Electricity	0	0	316,658	(2,966)	0	0
5	Other Revenue			16,578			
6	Total Electric Revenue	0	0	333,236	(2,966)	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses		44	71,383			
8	Purchased Power			119,313			
9	Depreciation and Amortization	156		11,677			
10	Taxes			4,666		776	
11	Total Production & Transmission	156	44	207,039	0	776	0
	Distribution						
12	Operating Expenses			8,564			
13	Depreciation			9,731			
14	Taxes	(2)	(1)	5,042	(2,955)	170	(2)
15	Total Distribution	(2)	(1)	23,337	(2,955)	170	(2)
16	Customer Accounting			4,299			172
17	Customer Service & Information			5,935			
18	Sales Expenses			251			
	Administrative & General						
19	Operating Expenses			21,276			
20	Depreciation			4,563			
21	Taxes					4	
22	Total Admin. & General	0	0	25,839	0	4	0
23	Total Electric Expenses	154	43	266,700	(2,955)	950	170
24	OPERATING INCOME BEFORE FIT	(154)	(43)	66,536	(11)	(950)	(170)
	FEDERAL INCOME TAX						
25	Current Accrual	(54)	(15)	2,322	(4)	(333)	(60)
26	Deferred Income Taxes			14,564			
27	Amortized ITC - Noxon			(16)			
28	NET OPERATING INCOME	($100)	($28)	$49,666	($7)	($617)	($110)
	RATE BASE						
	PLANT IN SERVICE						
29	Intangible	$468		$31,784			
30	Production		1,983	372,435			
31	Transmission			163,053			
32	Distribution			383,376			
33	General			58,812			
34	Total Plant in Service	468	1,983	1,009,460	0	0	0
35	ACCUMULATED DEPRECIATION	78		335,382			
36	ACCUM. PROVISION FOR AMORTIZATION			5,220			
37	Total Accum. Depreciation & Amort.	78	0	340,602	0	0	0
38	GAIN ON SALE OF BUILDING			(168)			
39	WORKING CAPITAL						
40	DEFERRED TAXES	(137)	(694)	(94,812)			
41	TOTAL RATE BASE	$253	$1,289	$573,878	$0	$0	$0
42	RATE OF RETURN			8.65%			

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Regulatory Expense	Injuries and Damages	FIT	Idaho PCA	Nez Perce Settlement Adjustment	Eliminate A/R Expenses
	a	t	u	v	w	x	y
	REVENUES						
1	Total General Business				$ (17,604)		
2	Interdepartmental Sales						
3	Sales for Resale						
4	Total Sales of Electricity	0	0	0	(17,604)	0	0
5	Other Revenue						
6	Total Electric Revenue	0	0	0	(17,604)	0	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses				465	(15)	
8	Purchased Power						
9	Depreciation and Amortization						
10	Taxes						
11	Total Production & Transmission	0	0	0	465	(15)	0
	Distribution						
12	Operating Expenses						
13	Depreciation						
14	Taxes	(1)	1				$2
15	Total Distribution	(1)	1	0	0	0	2
16	Customer Accounting				(40)		$ (162)
17	Customer Service & Information						
18	Sales Expenses						
	Administrative & General						
19	Operating Expenses	43	(73)		(44)		
20	Depreciation						
21	Taxes						
22	Total Admin. & General	43	(73)	0	(44)	0	0
23	Total Electric Expenses	42	(72)	0	381	(15)	(160)
24	OPERATING INCOME BEFORE FIT	(42)	72	0	(17,985)	15	160
	FEDERAL INCOME TAX						
25	Current Accrual	(15)	25	514	(6,132)	5	$56
26	Deferred Income Taxes			3	(163)		
27	Amortized ITC - Noxon			(15)			
28	NET OPERATING INCOME	($27)	$47	($502)	($11,690)	$10	$104
	RATE BASE						
	PLANT IN SERVICE						
29	Intangible						
30	Production						
31	Transmission						
32	Distribution						
33	General						
34	Total Plant in Service	0	0	0	0	0	0
35	ACCUMULATED DEPRECIATION						
36	ACCUM. PROVISION FOR AMORTIZATION						
37	Total Accum. Depreciation & Amort.	0	0	0	0	0	0
38	GAIN ON SALE OF BUILDING						
39	WORKING CAPITAL						
40	DEFERRED TAXES						
41	TOTAL RATE BASE	$0	$0	$0	$0	$0	$0
42	RATE OF RETURN						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Revenue Normalization Adjustment	Misc Restating Adjs	Colstrip Mercury Emiss. O&M	Restating CS2 Levelized Adj	Restating Wartsila Amortization
	a	z	aa	ab	ac	ad
	REVENUES					
1	Total General Business	$3,349				
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	3,349	0	0	0	0
5	Other Revenue	92				
6	Total Electric Revenue	3,441	0	0	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses	490		481		
8	Purchased Power					
9	Depreciation and Amortization	1,910			221	108
10	Taxes					
11	Total Production & Transmission	2,400	0	481	221	108
	Distribution					
12	Operating Expenses					
13	Depreciation					
14	Taxes	80	1	(7)		(2)
15	Total Distribution	80	1	(7)	0	(2)
16	Customer Accounting	16				
17	Customer Service & Information	(4,630)	(2)			
18	Sales Expenses		(9)			
	Administrative & General					
19	Operating Expenses	6	(48)			
20	Depreciation					
21	Taxes					
22	Total Admin. & General	6	(48)	0	0	0
23	Total Electric Expenses	(2,128)	(58)	474	221	106
24	OPERATING INCOME BEFORE FIT	5,569	58	(474)	(221)	(106)
	FEDERAL INCOME TAX					
25	Current Accrual	1,949	20	(166)		(37)
26	Deferred Income Taxes				(77)	
27	Amortized ITC - Noxon					
28	NET OPERATING INCOME	$3,620	$38	($308)	($144)	($69)
	RATE BASE					
	PLANT IN SERVICE					
29	Intangible					
30	Production					
31	Transmission					
32	Distribution					
33	General					
34	Total Plant in Service	0	0	0	0	0
35	ACCUMULATED DEPRECIATION					
36	ACCUM. PROVISION FOR AMORTIZATION					
37	Total Accum. Depreciation & Amort.	0	0	0	0	0
38	GAIN ON SALE OF BUILDING					
39	WORKING CAPITAL					
40	DEFERRED TAXES					
41	TOTAL RATE BASE	$0	$0	$0	$0	$0
42	RATE OF RETURN					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Restating Colstrip Lawsuit Stlmnt	Restating CCX	O&M Savings	Working Capital	Restate Debt Interest	Restated TOTAL
	a	ae	af	ag	ah	ai	-
	REVENUES						
1	Total General Business						$229,493
2	Interdepartmental Sales						205
3	Sales for Resale						69,739
4	Total Sales of Electricity	0	0	0	0	0	299,437
5	Other Revenue						16,670
6	Total Electric Revenue	0	0	0	0	0	316,107
	EXPENSES						
	Production and Transmission						
7	Operating Expenses	154		(83)			72,875
8	Purchased Power						119,313
9	Depreciation and Amortization		425				14,341
10	Taxes						5,442
11	Total Production & Transmission	154	425	(83)	0	0	211,971
	Distribution						
12	Operating Expenses			(28)			8,536
13	Depreciation						9,731
14	Taxes	(2)	(6)	3			2,324
15	Total Distribution	(2)	(6)	(25)	0	0	20,591
16	Customer Accounting						4,285
17	Customer Service & Information						1,303
18	Sales Expenses						242
	Administrative & General						
19	Operating Expenses			(83)			21,077
20	Depreciation						4,563
21	Taxes						4
22	Total Admin. & General	0	0	(83)	0	0	25,644
23	Total Electric Expenses	152	419	(191)	0	0	264,036
24	OPERATING INCOME BEFORE FIT	(152)	(419)	191	0	0	52,071
	FEDERAL INCOME TAX						
25	Current Accrual	(53)	(147)	67		65	(1,923)
26	Deferred Income Taxes						14,327
27	Amortized ITC - Noxon						(31)
28	NET OPERATING INCOME	($99)	($272)	$124	$0	($65)	$39,698
	RATE BASE						
	PLANT IN SERVICE						
29	Intangible						$31,784
30	Production						372,435
31	Transmission						163,053
32	Distribution						383,376
33	General						58,812
34	Total Plant in Service	0	0	0	0	0	1,009,460
35	ACCUMULATED DEPRECIATION						335,382
36	ACCUM. PROVISION FOR AMORTIZATION						5,220
37	Total Accum. Depreciation & Amort.	0	0	0	0	0	340,602
38	GAIN ON SALE OF BUILDING						(168)
39	WORKING CAPITAL				9,863		9,863
40	DEFERRED TAXES						(94,812)
41	TOTAL RATE BASE	$0	$0	$0	$9,863	$0	$583,741
42	RATE OF RETURN						6.80%

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Power Supply	Pro Forma Production Property Adj	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Transmission Rev/Exp	Pro Forma Capital Add 2009
	a	PF1	PF2	PF3	PF4	PF5	PF6
	REVENUES						
1	Total General Business						
2	Interdepartmental Sales						
3	Sales for Resale	(49,400)	(633)				
4	Total Sales of Electricity	(49,400)	(633)	0	0	0	0
5	Other Revenue	(11,699)	(141)			1,036	
6	Total Electric Revenue	(61,099)	(774)	0	0	1,036	0
	EXPENSES						
	Production and Transmission						
7	Operating Expenses	13,999	(2,399)	324	1	94	
8	Purchased Power	(64,779)	(1,722)				
9	Depreciation and Amortization		(223)				130
10	Taxes		(161)				
11	Total Production & Transmission	(50,780)	(4,505)	324	1	94	130
	Distribution						
12	Operating Expenses			227			
13	Depreciation						356
14	Taxes	(147)	53	(12)	(1)	13	(20)
15	Total Distribution	(147)	53	215	(1)	13	336
16	Customer Accounting			74			
17	Customer Service & Information			5			
18	Sales Expenses			5			
	Administrative & General						
19	Operating Expenses			222	84		
20	Depreciation						889
21	Taxes						
22	Total Admin. & General	0	0	222	84	0	889
23	Total Electric Expenses	(50,927)	(4,452)	845	84	107	1,355
24	OPERATING INCOME BEFORE FIT	(10,172)	3,678	(845)	(84)	929	(1,355)
	FEDERAL INCOME TAX						
25	Current Accrual	(3,560)	1,287	(296)	(29)	325	(474)
26	Deferred Income Taxes						
27	Amortized ITC - Noxon						
28	NET OPERATING INCOME	($6,612)	$2,391	($549)	($55)	$604	($881)
	RATE BASE						
	PLANT IN SERVICE						
29	Intangible						$11,568
30	Production		(8,770)				4,740
31	Transmission						2,659
32	Distribution						10,035
33	General						6,232
34	Total Plant in Service	0	(8,770)	0	0	0	35,234
35	ACCUMULATED DEPRECIATION		(2,920)				11,202
36	ACCUM. PROVISION FOR AMORTIZATION						
37	Total Accum. Depreciation & Amort.	0	(2,920)	0	0	0	11,202
38	GAIN ON SALE OF BUILDING						
39	WORKING CAPITAL						
40	DEFERRED TAXES		997				(7,630)
41	TOTAL RATE BASE	$0	($4,853)	$0	$0	$0	$16,402
42	RATE OF RETURN						

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Capital Add 2010	Pro Forma Noxon Gen 2010 & 2011	Pro Forma Information Services	Pro Forma Employee Benefits	Pro Forma Insurance
	a	PF7	PF8	PF9	PF10	PF11
	REVENUES					
1	Total General Business					
2	Interdepartmental Sales					
3	Sales for Resale					
4	Total Sales of Electricity	0	0	0	0	0
5	Other Revenue					
6	Total Electric Revenue	0	0	0	0	0
	EXPENSES					
	Production and Transmission					
7	Operating Expenses		141	2	(204)	
8	Purchased Power					
9	Depreciation and Amortization	330				
10	Taxes	228	60			
11	Total Production & Transmission	558	201	2	(204)	0
	Distribution					
12	Operating Expenses			10	(146)	
13	Depreciation	451				
14	Taxes	207	(3)	(18)	5	(1)
15	Total Distribution	658	(3)	(8)	(141)	(1)
16	Customer Accounting			(14)	(58)	
17	Customer Service & Information				(4)	
18	Sales Expenses				(4)	
	Administrative & General					
19	Operating Expenses			1,299	94	73
20	Depreciation	1,101				
21	Taxes	141				
22	Total Admin. & General	1,242	0	1,299	94	73
23	Total Electric Expenses	2,458	198	1,279	(317)	72
24	OPERATING INCOME BEFORE FIT	(2,458)	(198)	(1,279)	317	(72)
	FEDERAL INCOME TAX					
25	Current Accrual	(860)	(69)	(448)	111	(25)
26	Deferred Income Taxes					
27	Amortized ITC - Noxon		(32)			
28	NET OPERATING INCOME	($1,598)	($97)	($831)	$206	($47)
	RATE BASE					
	PLANT IN SERVICE					
29	Intangible	$3,951				
30	Production	8,542	4,744			
31	Transmission	6,688				
32	Distribution	16,135				
33	General	5,473				
34	Total Plant in Service	40,789	4,744	0	0	0
35	ACCUMULATED DEPRECIATION	29,268	100			
36	ACCUM. PROVISION FOR AMORTIZATION					
37	Total Accum. Depreciation & Amort.	29,268	100	0	0	0
38	GAIN ON SALE OF BUILDING					
39	WORKING CAPITAL					
40	DEFERRED TAXES	(3,211)	(282)			
41	TOTAL RATE BASE	$8,310	$4,362	$0	$0	$0
42	RATE OF RETURN					

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Clark Fork/Spokane Rel PM&E	Pro Forma TOTAL
	a	PF12	PFT
	REVENUES		
1	Total General Business		$229,493
2	Interdepartmental Sales		205
3	Sales for Resale		19,706
4	Total Sales of Electricity	0	249,404
5	Other Revenue		5,866
6	Total Electric Revenue	0	255,270
	EXPENSES		
	Production and Transmission		
7	Operating Expenses	$1,089	85,922
8	Purchased Power		52,812
9	Depreciation and Amortization		14,578
10	Taxes		5,569
11	Total Production & Transmission	1,089	158,881
	Distribution		
12	Operating Expenses		8,627
13	Depreciation		10,538
14	Taxes	$ (15)	2,385
15	Total Distribution	(15)	21,550
16	Customer Accounting		4,287
17	Customer Service & Information		1,304
18	Sales Expenses		243
	Administrative & General		
19	Operating Expenses		22,849
20	Depreciation		6,553
21	Taxes		145
22	Total Admin. & General	0	29,547
23	Total Electric Expenses	1,074	215,812
24	OPERATING INCOME BEFORE FIT	(1,074)	39,458
	FEDERAL INCOME TAX		
25	Current Accrual	$ (376)	(6,338)
26	Deferred Income Taxes		14,327
27	Amortized ITC - Noxon		(63)
28	NET OPERATING INCOME	($698)	$31,532
	RATE BASE		
	PLANT IN SERVICE		
29	Intangible		$47,303
30	Production		381,691
31	Transmission		172,400
32	Distribution		409,546
33	General		70,517
34	Total Plant in Service	0	1,081,457
35	ACCUMULATED DEPRECIATION		373,032
36	ACCUM. PROVISION FOR AMORTIZATION		5,220
37	Total Accum. Depreciation & Amort.	0	378,252
38	GAIN ON SALE OF BUILDING		(168)
39	WORKING CAPITAL		9,863
40	DEFERRED TAXES		(104,938)
			0
41	TOTAL RATE BASE	$0	$607,962
42	RATE OF RETURN		5.19%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO PRO FORMA RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

		WITH PRESENT RATES			WITH PROPOSED RATES	
Line No.	DESCRIPTION	Actual Per Results Report	Total Adjustments	Pro Forma Total	Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	b	c	d	e	f
	REVENUES					
1	Total General Business	$83,096	$ (12,797)	$70,299	$2,575	$72,874
2	Total Transportation	491	(95)	396		396
3	Other Revenues	38,263	(38,128)	135		135
4	Total Gas Revenues	121,850	(51,020)	70,830	2,575	73,405
	EXPENSES					
5	Exploration and Development					
	Production					
6	City Gate Purchases	86,275	(42,945)	43,330		43,330
7	Purchased Gas Expense	401	8	409		409
8	Net Nat Gas Storage Trans	3,614	(3,614)	-		0
9	Total Production	90,290	(46,551)	43,739	0	43,739
	Underground Storage					
10	Operating Expenses	173	45	218		218
11	Depreciation	169	(6)	163		163
12	Taxes	59	5	64		64
13	Total Underground Storage	401	44	445	0	445
	Distribution					
14	Operating Expenses	3,726	41	3,767		3,767
15	Depreciation	3,328	129	3,457		3,457
16	Taxes	2,329	(1,447)	882	37	919
17	Total Distribution	9,383	(1,277)	8,106	37	8,143
18	Customer Accounting	2,409	(262)	2,147	12	2,159
19	Customer Service & Information	2,236	(1,994)	242		242
20	Sales Expenses	195	(5)	190		190
	Administrative & General					
21	Operating Expenses	4,737	346	5,083	4	5,087
22	Depreciation	957	356	1,313		1,313
23	Taxes	9	34	43		43
24	Total Admin. & General	5,703	736	6,439	4	6,443
25	Total Gas Expense	110,617	(49,309)	61,308	53	61,361
26	OPERATING INCOME BEFORE FIT	11,233	(1,711)	9,522	2,522	12,044
	FEDERAL INCOME TAX					
27	Current Accrual	1,561	(555)	1,006	883	1,889
28	Deferred FIT	1,516	(8)	1,508		1,508
29	Amort ITC	(19)	0	(19)		(19)
						0
30	NET OPERATING INCOME	8,175	($1,148)	7,027	$1,639	$8,666
	RATE BASE: PLANT IN SERVICE					
31	Underground Storage	9,364	(352)	9,012		9,012
32	Distribution Plant	143,028	2,952	145,980		145,980
33	General Plant	13,432	3,484	16,916		16,916
34	Total Plant in Service	165,824	6,084	171,908	0	171,908
	ACCUMULATED DEPRECIATION					
35	Underground Storage	3,354	168	3,522		3,522
36	Distribution Plant	46,085	4,263	50,348		50,348
37	General Plant	3,996	1,660	5,656		5,656
38	Total Accum. Depreciation	53,435	6,091	59,526	0	59,526
39	DEFERRED FIT	0	(20,027)	(20,027)		(20,027)
40	GAS INVENTORY	0	7,377	7,377		7,377
41	WORKING CAPITAL	0	1,692	1,692		1,692
42	GAIN ON SALE OF BUILDING	0	(55)	(55)		(55)
43	TOTAL RATE BASE	112,389	($11,020)	101,369	$0	101,369
44	RATE OF RETURN	7.27%		6.93%		8.55%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Gas
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000's OF DOLLARS)

Line No.	Description	IDAHO
1	Pro Forma Rate Base	$101,369
2	Proposed Rate of Return	8.55%
3	Net Operating Income Requirement	$8,667
4	Pro Forma Net Operating Income	$7,027
5	Net Operating Income Deficiency	$1,640
6	Conversion Factor	0.636764
7	Revenue Requirement	$2,575
8	Total General Business Revenues	$70,695
9	Percentage Revenue Increase	3.64%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Idaho - Gas
Pro Forma Cost of Capital
(000's OF DOLLARS)

Idaho Component	Pro Forma Cost of Capital: Capital Structure	Cost	Weighted Cost	Excludes STD
Long-Term Debt	50.00%	6.200%	3.10%	ID Wtd Debt 3.10%
Pref Trust	0.00%	0.000%	0.00%	
Pref Stock			0.00%	
Common	50.00%	10.90%	5.45%	
Total	100.00%		8.55%	

AVISTA UTILITIES
CALCULATION OF CONVERSION FACTOR: IDAHO GAS
TWELVE MONTHS ENDED DECEMBER 31, 2009

Revenues	1.000000
Expense:	
Uncollectibles (1)	0.004498
Commission Fees (2)	0.001662
Idaho Income Tax (3)	0.014203
Total Expense	0.020363
Net Operating Income Before FIT	0.979637
Federal Inc 35.00%	0.342873
REVENUE CONVERSION FACTOR	**0.636764**

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Gain on Office Building	Gas Inventory	Weatherization and DSM Investment	Customer Advances
	a	b	c	d	e	f	g
	REVENUES						
1	Total General Business	$83,096					
2	Total Transportation	491					
3	Other Revenues	38,263					
4	Total Gas Revenues	121,850	0	0	0	0	0
	EXPENSES						
5	Exploration and Development	0					
	Production						
6	City Gate Purchases	86,275					
7	Purchased Gas Expense	401					
8	Net Nat Gas Storage Trans	3,614					
9	Total Production	90,290	0	0	0	0	0
	Underground Storage						
10	Operating Expenses	173					
11	Depreciation	169					
12	Taxes	59					
13	Total Underground Storage	401	0	0	0	0	0
	Distribution						
14	Operating Expenses	3,726					
15	Depreciation	3,328					
16	Taxes	2,329					
17	Total Distribution	9,383	0	0	0	0	0
18	Customer Accounting	2,409		0	0	0	0
19	Customer Service & Information	2,236					
20	Sales Expenses	195					
	Administrative & General						
21	Operating Expenses	4,737					
22	Depreciation	957					
23	Taxes	9					
24	Total Admin. & General	5,703	0	0	0	0	0
25	Total Gas Expense	110,617	0	0	0	0	0
26	OPERATING INCOME BEFORE FIT	11,233	0	0	0	0	0
	FEDERAL INCOME TAX						
27	Current Accrual	1,561					
28	Deferred FIT	1,516					
29	Amort ITC	(19)					
30	NET OPERATING INCOME	$8,175	$0	$0	$0	$0	$0
	RATE BASE: PLANT IN SERVICE						
31	Underground Storage	9,364					
32	Distribution Plant	143,028				152	(74)
33	General Plant	13,432					
34	Total Plant in Service	165,824	0	0	0	152	(74)
	ACCUMULATED DEPRECIATION						
35	Underground Storage	3,354					
36	Distribution Plant	46,085					
37	General Plant	3,996					
38	Total Accum. Depreciation	53,435	0	0	0	0	0
39	DEFERRED FIT	0	(17,318)	19			
40	GAS INVENTORY	0			3,626		
41	WORKING CAPITAL	0					
42	GAIN ON SALE OF BUILDING	0		(55)			
43	TOTAL RATE BASE	$112,389	($17,318)	($36)	$3,626	$152	($74)
44	RATE OF RETURN						

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Subtotal Actual	Revenue Normalization	Eliminate B & O Taxes	Property Tax	Uncollectible Expense	Regulatory Expense Adjustment	Injuries and Damages
	a	-	h	i	j	k	l	m
	REVENUES							
1	Total General Business	$83,096	$ (11,260)	$ (1,537)				
2	Total Transportation	491	(87)	(8)				
3	Other Revenues	38,263	(38,128)					
4	Total Gas Revenues	121,850	(49,475)	(1,545)	0	0	0	0
	EXPENSES							
5	Exploration and Development	0						
	Production							
6	City Gate Purchases	86,275	(42,945)					
7	Purchased Gas Expense	401						
8	Net Nat Gas Storage Trans	3,614	(3,614)					
9	Total Production	90,290	(46,559)	0	0	0	0	0
	Underground Storage							
10	Operating Expenses	173						
11	Depreciation	169						
12	Taxes	59			7			
13	Total Underground Storage	401	0	0	7	0	0	0
	Distribution							
14	Operating Expenses	3,726						
15	Depreciation	3,328						
16	Taxes	2,329	(12)	(1,545)	91	3		1
17	Total Distribution	9,383	(12)	(1,545)	91	3	0	1
18	Customer Accounting	2,409	(51)	0		(189)	0	
19	Customer Service & Information	2,236	(1,994)					
20	Sales Expenses	195						
	Administrative & General							
21	Operating Expenses	4,737	(18)				(15)	(60)
22	Depreciation	957						
23	Taxes	9			1			
24	Total Admin. & General	5,703	(18)	0	1	0	(15)	(60)
25	Total Gas Expense	110,617	(48,634)	(1,545)	99	(186)	(15)	(59)
26	OPERATING INCOME BEFORE FIT	11,233	(841)	0	(99)	186	15	59
	FEDERAL INCOME TAX							
27	Current Accrual	1,561	(294)		(35)	65	5	21
28	Deferred FIT	1,516						
29	Amort ITC	(19)						
30	NET OPERATING INCOME	$8,175	($547)	$0	($64)	$121	$10	$38
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage	9,364						
32	Distribution Plant	143,106						
33	General Plant	13,432						
34	Total Plant in Service	165,902	0	0	0	0	0	0
	ACCUMULATED DEPRECIATION							
35	Underground Storage	3,354						
36	Distribution Plant	46,085						
37	General Plant	3,996						
38	Total Accum. Depreciation	53,435	0	0	0	0	0	0
39	DEFERRED FIT	(17,299)						
40	GAS INVENTORY	3,626						
41	WORKING CAPITAL	0						
42	GAIN ON SALE OF BUILDING	(55)						
43	TOTAL RATE BASE	$98,739	$0	$0	$0	$0	$0	$0
44	RATE OF RETURN	8.28%						

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	FIT	Eliminate A/R Expenses	Misc. Restating Adjs	O&M Savings	Working Capital	Restate Debt Interest	Restated Total
	a	n	o	p	q	r	s	-
	REVENUES							
1	Total General Business							$70,299
2	Total Transportation							396
3	Other Revenues							135
4	Total Gas Revenues	0	0	0	0	0	0	70,830
	EXPENSES							
5	Exploration and Development							0
	Production							
6	City Gate Purchases							43,330
7	Purchased Gas Expense							401
8	Net Nat Gas Storage Trans							0
9	Total Production	0	0	0	0	0	0	43,731
	Underground Storage							
10	Operating Expenses							173
11	Depreciation							169
12	Taxes							66
13	Total Underground Storage	0	0	0	0	0	0	408
	Distribution							
14	Operating Expenses							3,726
15	Depreciation							3,328
16	Taxes							867
17	Total Distribution	0	0	0	0	0	0	7,921
18	Customer Accounting		(27)					2,142
19	Customer Service & Information			(1)				241
20	Sales Expenses			(5)				190
	Administrative & General							
21	Operating Expenses			(13)	19			4,650
22	Depreciation							957
23	Taxes							10
24	Total Admin. & General	0	0	(13)	19	0	0	5,617
25	Total Gas Expense	0	(27)	(19)	19	0	0	60,250
26	OPERATING INCOME BEFORE FIT	0	27	19	(19)	0	0	10,580
	FEDERAL INCOME TAX							
27	Current Accrual		9	7	(7)		44	1,376
28	Deferred FIT	(8)						1,508
29	Amort ITC							(19)
30	NET OPERATING INCOME	$8	$18	$12	($12)	$0	($44)	$7,715
	RATE BASE: PLANT IN SERVICE							
31	Underground Storage							9,364
32	Distribution Plant							143,106
33	General Plant							13,432
34	Total Plant in Service	0	0	0	0	0	0	165,902
	ACCUMULATED DEPRECIATION							
35	Underground Storage							3,354
36	Distribution Plant							46,085
37	General Plant							3,996
38	Total Accum. Depreciation	0	0	0	0	0	0	53,435
39	DEFERRED FIT							(17,299)
40	GAS INVENTORY							3,626
41	WORKING CAPITAL					1,692		1,692
42	GAIN ON SALE OF BUILDING							(55)
43	TOTAL RATE BASE	$0	$0	$0	$0	$1,692	$0	$100,431
44	RATE OF RETURN							7.68%

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Employee Benefits	Pro Forma Insurance	Pro Forma Information Services	Pro Forma Capital Add 2009
	a	PF1	PF2	PF3	PF4	PF5	PF6
	REVENUES						
1	Total General Business						
2	Total Transportation						
3	Other Revenues						
4	Total Gas Revenues	0	0	0	0	0	0
	EXPENSES						
5	Exploration and Development						
	Production						
6	City Gate Purchases						
7	Purchased Gas Expense	10		(2)			
8	Net Nat Gas Storage Trans						
9	Total Production	10	0	(2)	0	0	0
	Underground Storage						
10	Operating Expenses						
11	Depreciation						(3)
12	Taxes						
13	Total Underground Storage	0	0	0	0	0	(3)
	Distribution						
14	Operating Expenses	113		(72)			
15	Depreciation						86
16	Taxes	(3)		1		$ (4)	(3)
17	Total Distribution	110	0	(71)	0	(4)	83
18	Customer Accounting	41		(33)		$ (3)	
19	Customer Service & Information	3		(2)			
20	Sales Expenses	3		(3)			
	Administrative & General						
21	Operating Expenses	48	21	29	18	$317	
22	Depreciation						99
23	Taxes						
24	Total Admin. & General	48	21	29	18	317	99
25	Total Gas Expense	215	21	(82)	18	310	179
26	OPERATING INCOME BEFORE FIT	(215)	(21)	82	(18)	(310)	(179)
	FEDERAL INCOME TAX						
27	Current Accrual	(75)	(7)	29	(6)	$ (109)	(63)
28	Deferred FIT						
29	Amort ITC						
30	NET OPERATING INCOME	($140)	($14)	$53	($12)	($201)	($116)
	RATE BASE: PLANT IN SERVICE						
31	Underground Storage						$ (185)
32	Distribution Plant						926
33	General Plant						1,280
34	Total Plant in Service	0	0	0	0	0	2,021
	ACCUMULATED DEPRECIATION						
35	Underground Storage						(2)
36	Distribution Plant						922
37	General Plant						508
38	Total Accum. Depreciation	0	0	0	0	0	1,428
39	DEFERRED FIT						(1,218)
40	GAS INVENTORY						
41	WORKING CAPITAL						
42	GAIN ON SALE OF BUILDING						
43	TOTAL RATE BASE	$0	$0	$0	$0	$0	($625)
44	RATE OF RETURN						

AVISTA UTILITIES
GAS RESULTS OF OPERATION
IDAHO RESTATED RESULTS
TWELVE MONTHS ENDED DECEMBER 31, 2009
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Pro Forma Capital Add 2010	Pro Forma 2011 JP Storage	Pro Forma Total
	a	PF7	PF8	-
	REVENUES			
1	Total General Business			$70,299
2	Total Transportation			396
3	Other Revenues			135
4	Total Gas Revenues	0	0	70,830
	EXPENSES			
5	Exploration and Development			0
	Production			
6	City Gate Purchases			43,330
7	Purchased Gas Expense			409
8	Net Nat Gas Storage Trans			0
9	Total Production	0	0	43,739
	Underground Storage			
10	Operating Expenses		45	218
11	Depreciation	3	(6)	163
12	Taxes	2	(4)	64
13	Total Underground Storage	5	35	445
	Distribution			
14	Operating Expenses			3,767
15	Depreciation	43		3,457
16	Taxes	24		882
17	Total Distribution	67	0	8,106
18	Customer Accounting			2,147
19	Customer Service & Information			242
20	Sales Expenses			190
	Administrative & General			
21	Operating Expenses			5,083
22	Depreciation	257		1,313
23	Taxes	33		43
24	Total Admin. & General	290	0	6,439
25	Total Gas Expense	362	35	61,308
26	OPERATING INCOME BEFORE FIT	(362)	(35)	9,522
	FEDERAL INCOME TAX			
27	Current Accrual	(127)	(12)	1,006
28	Deferred FIT			1,508
29	Amort ITC			(19)
30	NET OPERATING INCOME	($235)	($23)	$7,027
	RATE BASE: PLANT IN SERVICE			
31	Underground Storage	$107	$ (274)	9,012
32	Distribution Plant	1,948		145,980
33	General Plant	2,204		16,916
34	Total Plant in Service	4,259	(274)	171,908
	ACCUMULATED DEPRECIATION			
35	Underground Storage	168	2	3,522
36	Distribution Plant	3,341		50,348
37	General Plant	1,152		5,656
38	Total Accum. Depreciation	4,661	2	59,526
39	DEFERRED FIT	(1,484)	(26)	(20,027)
40	GAS INVENTORY		3,751	7,377
41	WORKING CAPITAL			1,692
42	GAIN ON SALE OF BUILDING			(55)
43	TOTAL RATE BASE	($1,886)	$3,449	$101,369
44	RATE OF RETURN			6.93%