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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 DAVE B. DEFELICE

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

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

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

Q. Please briefly describe your education background and professional experience.

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

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

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

Q. What is the scope of your testimony?

A. My testimony and exhibits in this proceeding will cover the Company's proposed pro forma adjustments for capital investments in utility plant for the 2009 test period.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. 9, Schedules 1 through Schedule 3, which were prepared under my direction.

II. CAPITAL INVESTMENT RECOVERY

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

A. As in prior rate cases, Avista started with rate base for the historical test year, which for this case is the average of monthly averages for 2009. Adjustments were made to reflect new additions and accumulated depreciation through December 2010, such that the proposed rate base reflects the net plant in service that will be used to serve customers during the pro forma rate year. These adjustments included associated expenses (depreciation expense and property taxes) and offsets to expenses for the pro forma additions.

Adjustments were also made to include the 2010 Noxon Unit #3 generation plant upgrade and the 2011 Noxon Unit #2 generation plant upgrade.

The utility plant investment that we have included in this filing represents utility plant that will be "used and useful" in providing service to customers during the approximate period that new retail rates from this filing will be in effect. The costs associated with the investment will be "known and measurable," and finally, including the costs associated with this investment in retail rates provides a proper "matching" of revenues from customers with the costs associated with providing service to customers (including the cost of utility plant to serve customers).

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

> Once a test year is selected, adjustments are made to test year accounts and rate base to reflect known and measurable changes so that test year totals accurately reflect anticipated amounts for the future period when rates will be in effect. The Idaho Supreme Court has described "rate base" as "the utility's capital investment amount." *Industrial Customers of Idaho Power v. Idaho PUC* 134 Idaho 285, 291, 1 P.3d 786, 792 (2000). Adjustments to test year accounts generally fall into three categories: 1) normalizing adjustments made for unusual occurrences, like one-time events or extreme weather conditions, so they do not unduly affect the test year; 2) annualizing adjustments made for events that occurred at some point in the

test year to average their effect as if they had been in existence during the entire year; and 3) known and measurable adjustments made to include events that occur outside the test year but will continue in the future to affect Company income and expenses.

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

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

A. Yes. In prior cases, the objective has been the same -- to include in retail rates the investment, or rate base, that is providing service to customers, and ensure that there is a proper matching of revenues and expenses during the period that rates are in effect. In Case Nos. AVU-E-09-01 and AVU-G-09-01, the Commission approved including capital investment through December 31, 2009. In this filing, we are requesting recovery of capital investment through December 31, 2010.

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

A. Historically, the annual dollars spent by the Company on new utility plant were generally relatively close to the level of depreciation expense, with the exception of years where the Company invested in major new utility projects.[1] In those years, net rate base stayed at a relatively constant level and the use of the rate base amount from a prior year, i.e., a historical test year, would be adequate for setting rates for the upcoming year (pro forma rate year), because there was little change in the net plant investment used to serve customers.

In more recent years, Avista's investment in utility plant has significantly exceeded depreciation expense. Because of this, rate base in the rate year is significantly greater than the historical test period AMA rate base. The only way to ensure that retail rates are fair, just, reasonable, and sufficient is for the utility plant investment that is being used to serve customers be properly reflected in retail rates. This makes it necessary for the Company to pro form plant investment that is in service after the historical test year and will be in service during the rate year so that rate base for the pro forma rate year is representative of the level of

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

investment used to serve customers. The Company's pro forma adjustments in this case properly reflect any offsets, and include adjustments to ensure a proper matching with test period loads.

Q. How was rate base for the pro forma rate year developed for this filing?

A. As in prior rate cases, Avista started with rate base for the historical test year, which for this case is the average of monthly averages for 2009. Adjustments were made to reflect new additions and accumulated depreciation through December 2010. Adjustments were also made to include the 2010 Noxon Unit #3 generation plant upgrade and the 2011 Noxon Unit #2 generation plant upgrade. Later in my testimony, I will provide the details of the adjustments to rate base.

The recent rate case (Case Nos. AVU-E-09-01 and AVU-G-09-01) concluded with new retail rates effective August 1, 2009. Recovery of costs associated with new capital additions through December 31, 2009 was included in retail rates. With regard to the proper matching of revenues and expenses, it can be said that <u>some</u> of the new capital through December 31, 2009 was not in place at the time new retail rates went into effect on August 1, 2009. However, it is also true that the costs of new capital already added, and to be added, in 2010 is currently not recovered in retail rates. Although we know that a perfect matching of revenues and expenses would be difficult to achieve, it is very important that, during this period of high capital investment, retail rates reflect the true costs of providing service to customers, in order to afford the Company the opportunity to recover its costs and continue to attract capital under reasonable terms.

With regard to the current filing, Avista is hopeful that new retail rates from this case will be effective in the third quarter of 2010. Furthermore, new rates from the next general rate case will likely not be effective until sometime well into 2011. December 31, 2010 represents an approximate mid-point of the period in which retail rates would be in place from this case and the next case. Including new capital investment through the mid-point of the "rate year" will allow the Company the opportunity to recover the costs associated with capital investment that will serve customers over the course of the rate year.

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

A. As Company witnesses Mr. Kinney and Mr. Storro explain in their testimony, the Company is being required to add significant new generation, transmission and distribution facilities, including strengthening the backbone of our system, due in part to customer growth in our service area, reliability requirements, and needed capacity upgrades. Other issues driving the need for capital investment include an aging infrastructure, physical degradation, and municipal compliance issues (e.g., street/highway relocations), etc.

While the rate of increases experienced in recent years for the cost of materials (concrete, copper, steel, etc.) has diminished, they are still orders of magnitude higher than what they were even a few years ago, causing the cost of these new facilities to be significantly higher than in the past. Because the cost of adding new facilities is significantly higher than the original cost of our older, existing facilities, the investment in new facilities will be significantly higher than the annual depreciation expense on the Company's older, existing facilities.

Q. What is causing the substantial increase in raw materials for Avista, and the utility industry in general?

A. The Edison Foundation commissioned a study from The Brattle Group, dated September 2007, titled, "Rising Utility Construction Costs: Sources and Impacts," which identified cost trends specifically related to the utility industry pertaining to critical materials and equipment, as well as labor support services used for building capital infrastructure (a copy is included in my workpapers.)

Although the study is over two years old, we believe the changes in costs described in the study are still indicative of the increase in costs the utility industry has experienced in recent years, and continues to experience. The study identifies the reasons for dramatic cost increases in critical raw materials, including global competition for materials and an aging domestic utility infrastructure, as well as the need for additional infrastructure to accommodate growth in the near future.

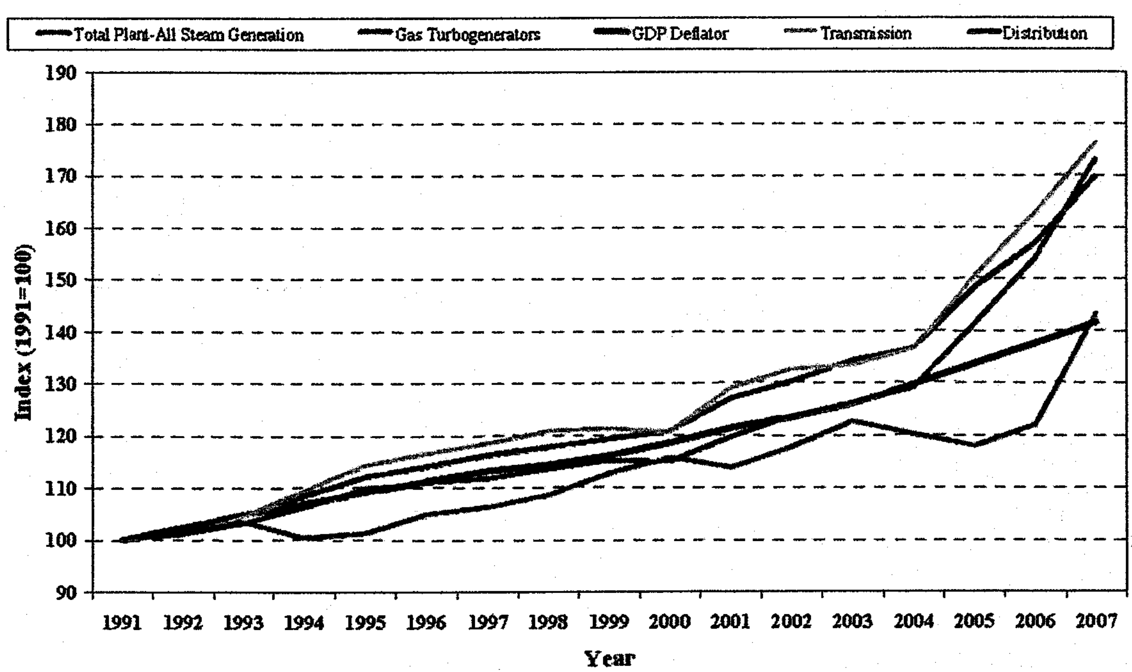
Q. **What are some of the key cost drivers that are cited in the study?**

A. The study, at page 16, cites four major cost drivers: "(1) material input costs, including the cost of raw physical inputs, such as steel and cement as well as increased costs of components manufactured from these inputs (e.g., transformers, turbines, pumps); (2) shop and fabrication capacity for manufactured components (relative to current demand); (3) the cost of construction field labor, both unskilled and craft labor; and (4) the market for large construction project management, i.e., the queuing and bidding for projects." The study goes on to compare cost trends for various raw materials, critical equipment and labor services relative to the general inflation rate (GDP deflator). In addition, a cost trend is summarized by three key utility functional plant categories, including generation, transmission, and distribution plant. The study concludes that these inflation impacts have been outside the utility industry's control and there are no immediate indications of cost relief in the near future.

Illustration 1 below, excerpted from the Brattle Group study, depicts what has occurred to infrastructure costs nationally. From the chart, it is apparent that starting in 2003, costs of distribution, transmission and generation infrastructure increased at a far more significant rate than the overall economy, as measured by the GDP deflator.

Illustration 1

National Average Utility Infrastructure Cost Indices



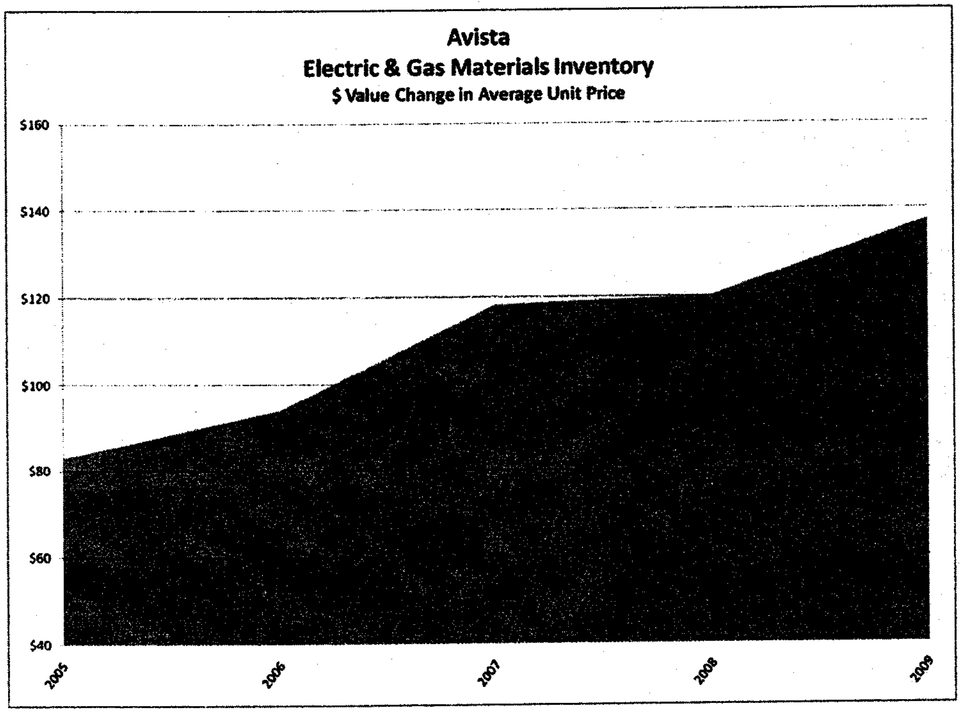
Sources: The Handy-Whitman© Bulletin, No. 165 and the U.S. Bureau of Economic Analysis.Simple average of all regional construction and equipment cost indexes for the specified components. "Rising Utility Construction Costs: Sources and Impacts" Prepared by The Brattle Group for The Edison Foundation, September 2007

Q. Is there specific evidence that Avista is experiencing cost escalations similar to that indicated in the study?

A. Yes. As we explained in the past general rate cases, Avista tracks the cost of materials and equipment that Avista routinely uses in order to support various infrastructure construction efforts that are part of the Company's annual capital requirements.

In the recent analysis performed by the Company of all cost of materials that are accounted for through the Company's inventory system that pertain to the electric transmission, electric distribution and natural gas distribution functions, there continues to be an increase in the average cost per unit of all materials, as shown in Illustration 2 below.

Illustration 2



In 2005, the average cost per unit was $82.95, in 2006 it was $94.11, 2007 was $118.16, 2008 was $120.10 and for 2009 the cost was $137.51 per unit. The average annual increase over this four-year period is over 13%, which is well above the general inflation that our overall economy has experienced during the same timeframe. This illustrates that costs continue a significant trend upward as it relates to capital expenditures incurred that are necessary to operate the system.

Another analysis that was performed on specific materials is provided in Exhibit No. 9, Schedule 1. On page 1, it can be seen that distribution transformers have experienced price increases from 2005 to 2009 anywhere from

49% to 74%. While the study also showed that there was a decrease in costs between 2008 and 2009, the one-year decline in costs did not offset the large increases experienced over the past five years. On page 2 of Schedule 1 of the Exhibit, it can be seen that poles and crossarms have also experienced substantial price increases from 2005 to 2009 in the range of 50% to 123%, depending on size. As noted in the Exhibit, some of the increase in costs is due to changes in specifications from wood to steel for certain poles and changes from wooded crossarms to fiberglass crossarms, that Avista is now installing. On page 3 of Schedule 1 of the Exhibit, a sampling of other distribution materials shows that prices have steadily risen from 2005 to 2009 for all but one category, conductor 600V 2/0 triplex; however the 2009 price of that conductor is still 24% higher than the 2005 price.

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

A. Avista's annual capital requirements have steadily increased from approximately $130 million in 2005 to approximately $210 million in 2010. Exhibit No. 9, Schedule 2 reflects the trend that Avista has experienced and what is planned for in the near future.

This chart not only shows the total magnitude of capital expenditures, but also clearly shows that the amount of capital projects is well in excess of revenue-supported capital expenditures to connect new customers, and beyond the level of revenues that is being collected from customers related to existing plant. The difference between the total capital requirements, less the new revenue related capital, and allowed revenues represent a significant discrepancy that is negatively impacting the Company.

III. DESCRIPTION OF CAPITAL PROJECTS

Q. For the 2010 capital projects pro formed in this filing, please provide a description of the projects.

A. Exhibit No. 9, Schedule 3 details the capital projects that will be transferred to plant in service in 2010 and included in this filing. A description of these projects with system costs follows:

Generation ($33.4 million):

The electric generation projects that will transfer to plant in service are described in detail in Mr. Storro's direct testimony. A listing of these projects follows:

Thermal - Kettle Falls Capital Projects - $1,817,000
Thermal - Colstrip Capital Additions- $2,275,000
Thermal - Other Small Projects - $78,000
Hydro - Nine Mile Upgrade - $3,954,000
Hydro - Noxon Capital Project - $7,551,000
Hydro - 2010 Noxon Unit #3 Upgrade - $9,265,371
Hydro - Clark Fork/Spokane Implement PME Agreements - $4,053,000
Hydro - Other Small Projects - $2,296,000
Other - Coyote Springs 2 (CS2) Capital Projects - $1,197,000

Other - Boulder Park - $410,000
Other Small Projects - $493,000

Electric Transmission ($18.9 million):

The electric transmission projects that will transfer to plant in service are described in detail in Mr. Kinney's direct testimony. A listing of these projects follows:

Lolo 230 kV Substation - $1,450,000
Spokane-CDA 115 kV Line Relay Upgrades - $1,250,000
Nez Perce 115 kV Substation Rebuild and Capacitor Bank - $3,575,000
SCADA Replacement - $800,000
System-Replace/Install Capacitor Banks - $750,000
Airway Heights-Silver Lake 115 kV Transmission Line - $975,000
Moscow 230-Pullman 115 Reconductor - $1,300,000
Beacon Storage Yard Oil Containment - $750,000
Colstrip Transmission Minor Rebuild - $503,000
Tribal Permits - $519,000
Reliability Improvements - Boulder-Rathdrum 115 kV Transmission Line - $1,500,000
Transmission Minor Rebuild - $1,250,000
Power Circuit Breakers - $485,000
Pine Creek-Replace 115 kV Circuit Switcher - $570,000
Otis Orchards-115 kV Breaker and Line Relay Replacements - $650,000
Replacement Programs - $2,044,000
Other small transmission projects - $517,000

Electric Distribution ($40.3 million):

The electric distribution projects that will transfer to plant in service are described in detail in Mr. Kinney's direct testimony. A listing of these projects follows:

Appleway Substation - $1,980,000
Deary Substation - $1,405,000
Power Transformer Distribution - $4,740,000
System-Dist Reliability-Improve Feeders - $700,000
Distribution-CdA East & North - $905,000
Rathdrum Transformer and 233 Feeder Addition - $900,000
Pine Creek-Replace 115 kV Circuit Switcher & Cap Bank - $300,000

Potlatch Transformer Replacement - $250,000
Electric Distribution Minor Blanket - $7,000,000
Wood Pole Replacement Program & Capital Distribution Feeder Repair - $6,884,000
Electric Underground Replacement - $4,000,000
T&D Line Relocation - $2,348,000
Failed Electric Plant - $2,000,000
Other small distribution projects - $640,000

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

Othello & Chewelah Transformer Replacements - $950,000
Northeast Substation - $900,000
Distribution - Spokane North and West - $1,890,000
System-Dist Reliability-Improve Feeders - $1,150,000
Spokane Electric Network Capacity - $1,356,000

General ($11.4 million):

Security Initiative - $435,000
Various security measures including cameras and access controls for the office and branch facilities.

Structures and Improvements - $4,151,000
This is a group of capital maintenance projects that Facilities Management coordinates at the Spokane Central Operating Facilities and Avista branch facilities - offices and service centers. For 2010, planned projects include: roof replacements, land acquisition for facility expansion, HVAC system replacement at some branch offices, energy efficiency projects, security projects, asphalt overlays and replacement, several new vehicle building additions, as well as some capital repair projects in existing buildings.

Stores Equipment - $600,000
Equipment utilized in warehouses and/or investment recovery operations throughout the service territory. This includes equipment such as forklifts, man lifts, shelving, cutting/binding machines, etc.

Tools, Lab & Shop Equipment - $1,700,000
Expenditures in this category include all large tools and instruments used throughout the company for gas and/or electric construction and maintenance work,

distribution, transmission, or generation operations, telecommunications, and some fleet equipment (hoists, winch, etc) not permanently attached to the vehicle.

HVAC Renovation Project - $3,499,000
The heating, ventilating, and air conditioning systems throughout the Spokane Central Operating Facilities are approximately fifty years old and are in need of replacement. In 2007, the Company initiated a multi-year HVAC renovation project that involves replacing central air handling units and distribution systems in three buildings - the Spokane Service Center, the general office building, and the cafeteria auditorium building. The building envelope of the general office building was also renovated with high efficiency glass and insulation. The project will also achieve asbestos abatement and life safety (fire sprinkler) additions. New controls will also be installed which will enable energy conservation. Present estimates indicate cost savings of approximately $430,000 per year in energy use, a 36% reduction in energy costs once all phases have been completed, currently planned to be completed in 2013. The 2010 project pro formed into this case will produce approximately $31,000 per year (system) in reduced energy costs, which have been pro formed as a reduction to O&M costs. The Company has included an additional $31,000 in O&M savings related to the 2009 portion of this capital project that was completed in late-2009.

WSDOT Highway Preservation/Maintenance of Right of Ways - $500,000
In order to operate our electric system within State highway rights of way, the Company needs to preserve/maintain right of ways. Existing right of ways have expired and Avista must seek new agreements with the State or risk penalties or non-approval by the State.

Other Small Projects - $525,000
These projects include the completion of the Central Office Facility North Crescent Realignment project, office furniture additions and replacements, communication and security initiatives, radio equipment, telephone systems, office and other general facility upgrades.

Transportation ($10.0 million):

Transportation Equipment - $9,971,000
Expenditures are for the scheduled replacement of trucks, off-road construction equipment and trailers that meet the company's guidelines for replacement including age, mileage, hours of use and overall condition. This also includes additions to the fleet for new positions or crews working to support the maintenance and construction of our electric and gas operations. Some of the vehicles being purchased in 2010 will be equipped with diesel engines rather than gasoline engines. This is intended to increase life expectancy and generate fuel savings. The Company has pro formed annual fuel cost offsets of approximately $129,000 (system) in reduced O&M costs.

Technology ($11.5 million):

Information Technology Refresh Blanket - $5,000,000
A program to replace obsolete technology according to Avista's refresh cycles that are generally driven by hardware/software manufacturer and industry trends to maintain business operations.

Information Technology Expansion Blanket - $1,100,000
A program to deliver technology associated with expansion of existing solutions.

AFM Product Development Program - $1,000,000
Deliver enhancements to the electric and natural gas Facility Management technology system.

Nucleus Product Development Program - $540,000
Deliver enhancements to the Nucleus energy resource management technology system.

Web Product Development Program - $890,000
A program to deliver enhancements to the Customer based Web technology system.

Mobile Dispatch 2 - $1,000,000
Implement Mobile Dispatch application for electric service and meter shop processes.

IFRS Compliance - $1,000,000
Implementation of software required to meet International Financial Reporting Standards requirements. The project will likely include

upgrading the Oracle Financial Systems and implementing a new Fixed Asset system. Schedule for compliance is not yet finalized but the project is expected to be completed over two years.

AFM.net Upgrade - $1,993,000
The AFM system has reached a point where continued or new application development and maintenance work without refreshing the application language will cause increased risk in system maintainability, reliability, and application availability. The business relies on this software for an increasing number of functions and integrations that support customer and operating transactions. With this technology refresh, the productive life of the AFM system will be extended by five to eight years.

Other Small Technology Projects and Technology Minor Blankets - $2,910,000
These projects include various small technology projects including, technology to provide for field office use of Learning Management System, installing a fiber network that will replace an obsolete microwave system, an electronic records management system, upgrade of Oracle Database software and upgrade of WorkPlace (CSS, WMS & EGMA).

Jackson Prairie Storage ($0.4 million):

Jackson Prairie Storage Project - $429,000
These projects include various capital improvements that Avista and its partners will complete at Jackson Prairie facility in 2010.

Natural Gas Distribution ($14.5 million):

Replace Deteriorated Pipe - $1,050,000
This annual project will replace sections of existing gas piping that are suspect for failure or have deteriorated within the gas system. This project will address the replacement of sections of gas main that no longer operate reliably and/or safely. Sections of the gas system require replacement due to many factors including material failures, environmental impact, increase leak frequency, or coating problems. This project will identify and replace sections of main to improve public safety and system reliability.

Gas Replacement Street and Highways - $1,260,000
This annual project will replace sections of existing gas piping that require replacement due to relocation or improvement of streets or highways in areas where gas piping is installed. Avista installs many of its facilities in public right-of-way under established franchise agreements. Avista is required under the franchise agreements, in most cases, to relocate its facilities when they are in conflict with road or highway improvements.

Gas Non-Revenue Blanket - $3,360,000
This annual project will replace sections of existing gas piping that require replacement to improve the operation of the gas system but are not directly linked to new revenue. The project includes relocation of main related to overbuilds, improvement in equipment and/or technology to improve system operation and/or maintenance, replacement of obsolete facilities, replacement of main to improve cathodic performance, and projects to improve public safety and/or improve system reliability.

East Medford Reinforcement Project - $597,000
This Oregon gas distribution project is not included in this filing.

Grants Pass 8-Inch HP Reinforcement Project - $1,196,000
This Oregon gas distribution project is not included in this filing.

Reinforce Talent OR Gate Station Project - $1,994,000
This Oregon gas distribution project is not included in this filing.

Rebuild Winston Gate Station Project - $1,002,000
This Oregon gas distribution project is not included in this filing.

Other Small Projects - $4,026,000
Please refer to the workpapers of Mr. DeFelice for detailed listing of projects.

IV. ADJUSTMENT METHODOLOGY

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

A. Electric net rate base for capital investment increased $29,075,000, from $573,861,000 to $602,936,000. Table 1 below summarizes the adjustments included in the case.

Table 1

($000's)		Adjustment 1		Adjustment 2		Adjustment 3	
	December 31, 2009 AMA	Adjust 12/31/09 to EOP Basis	December 31, 2009 EOP	Adjust 12/31/09 Vintage to December 31, 2010 EOP	2010 Capital Additions	Noxon 2010 and 2011 Upgrades	Pro Formed Rate Base
Plant	$ 1,003,872	$ 35,234	$ 1,039,106		$ 40,789	$ 4,744	$ 1,084,639
A/D	(336,983)	(11,200)	(348,183)	(28,569)	(699)	(100)	(377,551)
DFIT	(93,028)	(7,631)	(100,659)	(2,578)	(633)	(282)	(104,152)
Rate Base	$ 573,861	$ 16,403	$ 590,264	$ (31,147)	$ 39,457	$ 4,362	$ 602,936

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

A. Natural gas net rate base for capital investment decreased $2,511,000, from $95,415,000 to $92,904,000. Table 2 below summarizes the adjustments included in the case.

Table 2

($000's)		Adjustment 1		Adjustment 2		
	December 31, 2009 AMA	Adjust 12/31/09 to EOP Basis	December 31, 2009 EOP	Adjust 12/31/09 Vintage to December 31, 2010 EOP	2010 Capital Additions	Pro Formed Rate Base
Plant	$ 165,824	$ 2,021	$ 167,845		$ 4,259	$ 172,104
A/D	(53,435)	(1,428)	(54,863)	(4,547)	(115)	(59,525)
DFIT	(16,974)	(1,217)	(18,191)	(1,371)	(113)	(19,675)
Rate Base	$ 95,415	$ (624)	$ 94,791	$ (5,918)	$ 4,031	$ 92,904

Q. What was the approach to computing the pro forma adjustments for investment in capital projects?

A. The Company used the same general approach that was used in the two previous general rate cases. Company witness Ms. Andrews includes the following three adjustments:

2009 Capital Adjustment - Adjusts the December 31, 2009 test period rate base stated on an AMA basis to an end of period (EOP) basis. The revenue-producing distribution plant for the 2009 capital additions was not adjusted to EOP, to maintain the matching of revenues and costs associated with these assets.

2010 Capital Adjustment - First, the plant that was in service at December 31, 2009, was depreciated through 2010, adjusting accumulated depreciation and DFIT to a 2010 EOP basis. Second, 2010 capital additions, excluding the revenue-producing distribution plant and the 2010 Noxon Unit #3 upgrade, discussed below, was pro formed on a December 31, 2010 EOP basis.

Noxon Upgrades Adjustment - The 2010 Noxon Unit #3 generation plant upgrade and the 2011 Noxon Unit #2 generation plant upgrade was pro formed on a September 30, 2011 AMA basis. As explained by Mr. Storro, the Company has been upgrading one turbine each year at its Noxon generating facility. The upgrade for Unit #3 will be completed in April 2010. The upgrade for Unit #2, which will be completed in April 2011 is also pro formed into this case and is <u>the only 2011 capital addition</u> that the Company has included in its electric case. Fifty percent of the additional generation and costs have been included in the Aurora power cost model to provide a proper matching of revenues and costs. The Company included fifty percent of the additional generation and costs for the six months that it will be in service during the 2010/2011 pro forma period.

Q. What other impact does the 2009 and 2010 capital additions have on this case in addition to the rate base impact?

A. Depreciation expense and property taxes have been computed for the 2009 and 2010 plant vintages on an annual basis for the pro forma rate year.

V. OTHER CONSIDERATIONS

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

A. The pro forma capital expenditures for 2010 that the Company included in this filing <u>excludes</u> distribution related capital expenditures made that are associated with connecting new customers to the Company's system. The Company recognizes the fact that new customers provide incremental revenue that helps offset the revenue requirements of the distribution related capital additions that the Company incurs to provide service to those customers. The adjustments discussed above completely eliminated the AMA 2009 and EOP 2010 capital activity related to new customer connections in order to avoid an unintended mismatch of revenues exceeding the cost to serve customers.

Q. In addition to excluding capital additions related to new customers, does the Company address the 2011/2009 revenue difference in other ways?

A. Yes. The production property adjustment (discussed in Ms. Andrews' testimony) addresses the production and transmission related retail revenue that would be produced by the change in retail load expected in 2010/2011 compared to the 2009 normalized test year. All pro forma production and transmission rate base and related expenses from these capital additions adjustments, are reduced in order to reflect the amount needed to be recovered from 2009 sales volumes.

VI. CONCLUSION

Q. What is the impact of the pro forma adjustment?

A. The proposed adjustment will result in a closer matching of revenues to cost of service to customers during the period new rates will be in effect from this general rate proceeding. Without the proposed adjustment, the Company would not have the opportunity to earn its allowed rate of return on investment during the rate year.

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

A. Yes, it does.

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

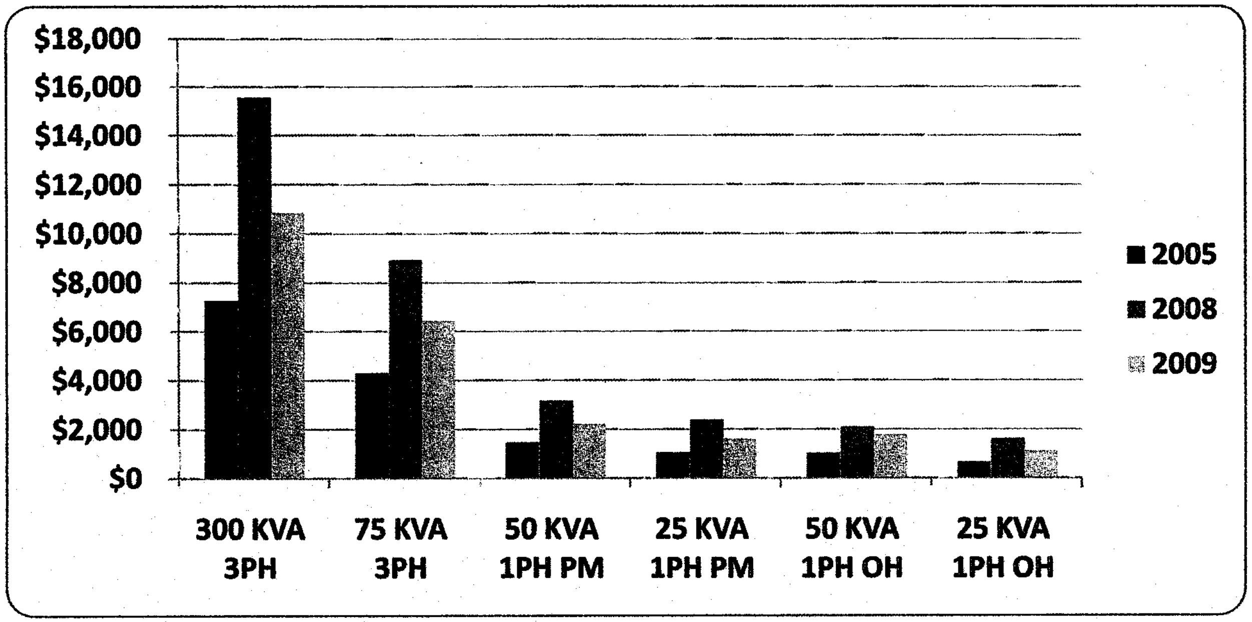
IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-10-01 CASE NO. AVU-G-10-01 EXHIBIT NO. 9 DAVE B. DEFELICE

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Avista - Distribution Transformers

	2005	2008	2009	2005 - 2009 %	2008 – 2009 %	Comments
300 KVA 3 PH	$7,271	$15,584	$10,894	49.83%	(31.29)%	Pricing peaked in 2008 due to metals market, new DOE compliant designs and additional kitting with addition of internal arresters Price reductions in 2009 as metals declined and design was changed to lesser grade core steel. Expect 2010 pricing with 2-3% quarterly increase.
75 KVA 3 PH	$4,314	$8,939	$6,470	49.98%	(27.62)%	
50 KVA 1 PH PM	$1,484	$3,172	$2,263	55.64%	(28.66)%	
25 KVA 1 PH PM	$1,063	$2,402	$1,650	55.22%	(31.31)%	
50 KVA 1 PH OH	$1,042	$2,113	$1,806	73.32%	(14.53)%	
25 KVA 1 PH OH	$662	$1,636	$1,152	74.02%	(29.58)%	



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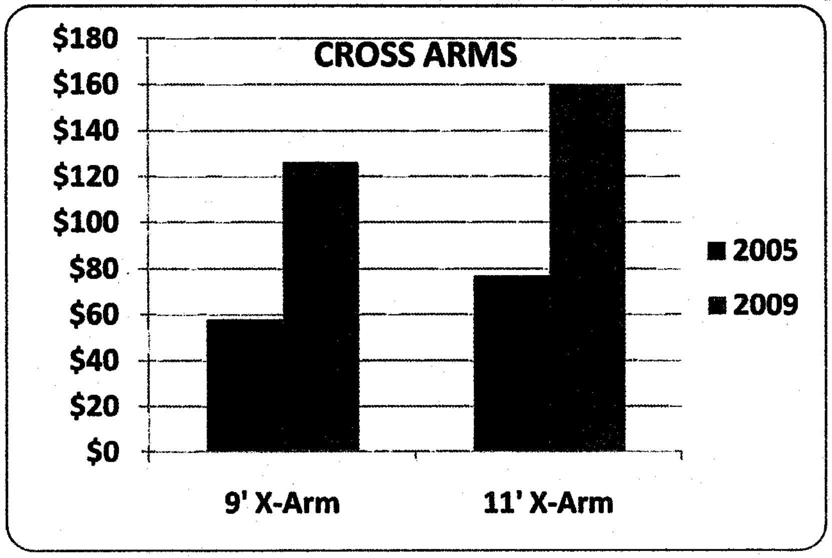
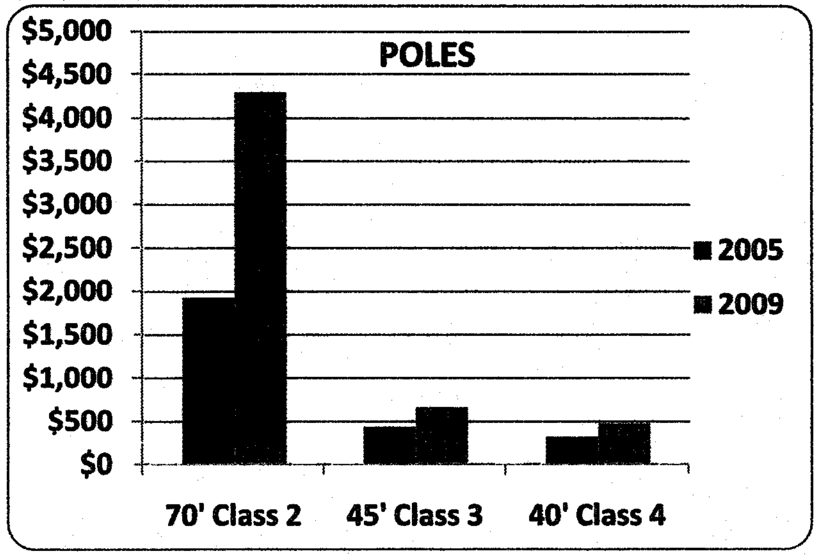
Avista - Poles & Crossarms

	2005	2009	% Change	Comments
70' Class 2 Pole	$1,925	$4,295	123.12%	Specification change from wood to steel in 2009 driving higher purchase price.
45' Class 3 Pole	$434	$1,073	53.46%	Price driven by oil for treated poles and transportation (Canada). 2010 pricing expected to be lower as supplier attempts to slow Avista's migration to steel for distribution class poles.
40' Class 4 Pole	$321	$487	49.84%	
9' HD Cross-Arm	$58.14	$126.50	117.58%	Specification change from wood to fiberglass in late 2008 driving higher purchase price.
11" HD Cross-Arm	$77.24	$160.00	107.15%	





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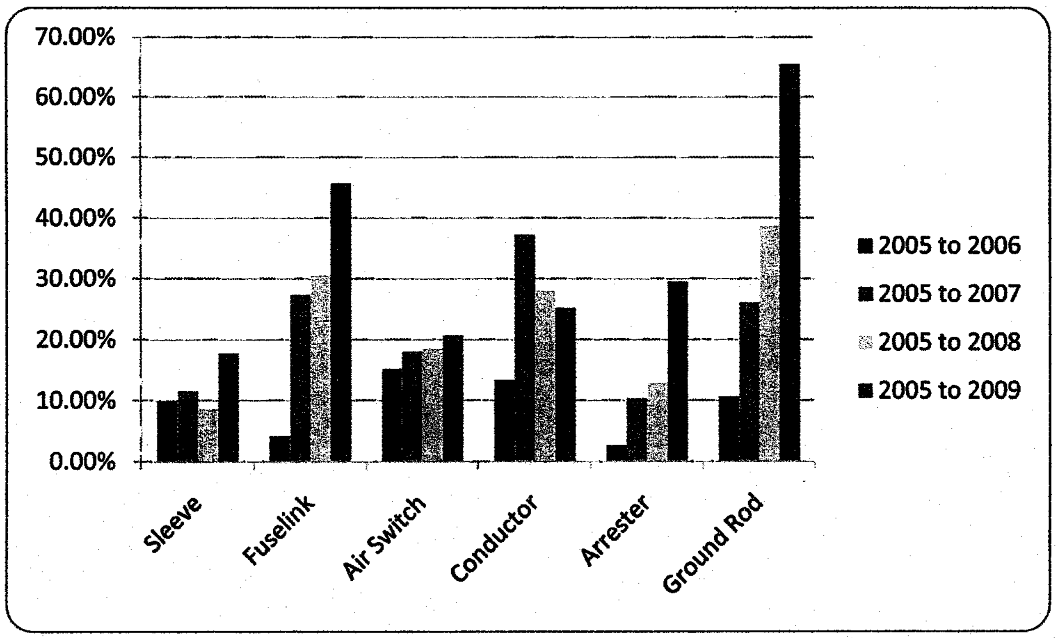
Avista - Distribution Materials -- Sampling

	2005	2006	2007	2008	2009
Sleeve, #4 ACSR Auto	$4.22	$4.64	$4.71	4.59	4.97
Fuselink, 6 AMP	$2.38	$2.48	$3.03	$3.11	$3.47
Air Switch, 12-25 KV	$2,941	$3,392	$3,474	$3,490	$3,551
Conductor, 600V 2/0 Triplex	$.78	$.88	$1.07	$1.00	$.97
Arrester Kit 10 KV	$28.82	$29.59	$31.81	$32.58	$37.33
Ground Rod 5/8" x 8'	$6.60	$7.30	$8.32	$9.16	$10.93



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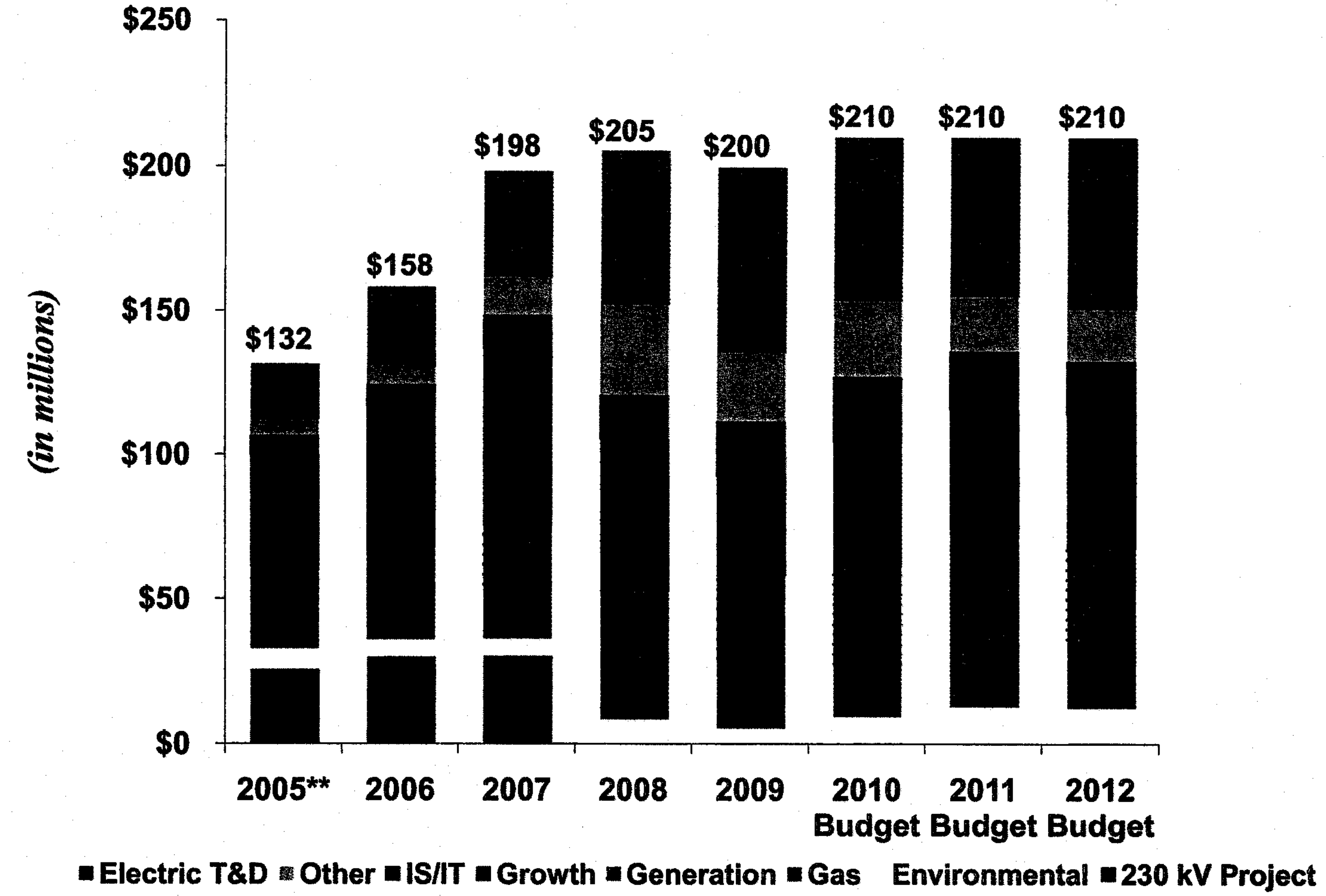
AVISTA Corp.

Capital Expenditures



** 2005 excludes $57.5 for the purchase of the second half of Coyote Springs 2 and $17.8 for the office building purchase.
2010, 2011 and 2012 excludes investment for Smart Grid projects.

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Avista 2010 Capital Additions Detail (System)

	$ (000's)
Generation:	
Thermal - Kettle Falls Capital Projects	1,817
Thermal - Colstrip Capital Additions	2,275
Thermal - Other small projects	78
Hydro - Nine Mile Capital Projects	3,954
Hydro - Noxon Capital Projects	7,551
Hydro - 2010 Noxon Unit #3 Upgrade *	9,265
Hydro - Clark Fork/Spokane Implement PME Agreements	4,053
Hydro - Other small projects	2,296
Other - CS2 Captital Projects	1,197
Other - Boulder Park Capital Projects	410
Other - Other small generation projects	493
	33,389
Electric Transmission:	
Lolo 230 - Rebuild 230 kV Yard	1,450
Spokane-CDA 115 kV Line Relay Upgrades	1,250
Nez Perce 115 kV Substation Rebuild and Capacitor Bank	3,575
SCADA Replacement	800
System-Replace/Install Capacitor Banks	750
Airway Heights - Silver Lake 115kV Transmission Line	975
Mos23-N Moscow 115 Reconductor	1,300
Beacon Storage Yard Oil Containment	750
Colstrip Transmission Minor Rebuild	503
Tribal Permits	519
Reliability Improvements	1,500
Transmission Minor Rebuilds	1,250
Power Circuit Breakers	485
Pine Creek	570
Otis Orchards 115kV Breaker and Line Relay Replacement	650
Replacement Programs	2,044
Other small transmission projects	517
	18,888
Electric Distribution:	
Appleway Substation - ID	1,980
Deary Substation - ID	1,405
Power Transformer Distribution	4,740
Sys-Dist Reliability-Improve Fdrs - ID	700
Distribution - CdA East & North - ID	905
Rathdrum Transformer and 233 Feeder Addition - ID	900
Pine Creek - Replace 115 kV Circuit Switcher & Cap Bank - ID	300
Potlatch Transformer Replacement - ID	250
Electric Distribution Minor Blanket	7,000
Wood Pole Replacement Program and Capital Dist Fdrs	6,884
Electric Underground Replacement	4,000
T&D Line Relocation	2,348
Failed Electric Plant	2,000
Othello and Chewelah Transformer Replacement - WA	950
Northeast Substation - WA	900
Distribution Feeder Reconductor - WA	1,890
Sys-Dist Reliability-Improve Fdrs - WA	1,150
Spokane Electric Network Capacity - WA	1,356
Other small distribution projects	640
	40,298

	$ (000's)
General:	
Security Initiative	435
Structures & Improvements	4,151
Stores Equipment	600
Tools Lab & Shop Equipment	1,700
COF HVAC Improvement	3,499
WSDOT Highway Franchise Consolidation	500
Other small general projects	525
	11,410
Transportation:	
Transportation Equipment	9,971
Technology:	
Information Technology Refresh Blanket	5,000
Information Technology Expansion Blanket	1,100
AFM Product Development Program	1,000
Nucleus Product Development Program	540
Web Product Development Program	890
Technology Projects Minor Blanket	700
Mobile Dispatch 2	1,000
IFRS Compliance	1,000
AFM.net Upgrade	1,993
Other small technology projects	2,210
	15,433
Gas Storage:	
Jackson Prairie Storage	429
Natural Gas Distribution:	
Replace Deteriorating Gas System	1,050
Gas Replace-St&Hwy	1,260
Gas Distribution Non-Revenue Blanket	3,360
East Medford Reinforcement	597
Grants Pass 8-In HP Reinforce Project	1,196
Reinforce Talent OR Gate Station&Piping	1,994
Rebuild Winston Gate Station, Roseburg OR	1,002
Other small distribution projects	4,026
	14,485
Total Non-Revenue Capital	144,303
Growth/Revenue - Producing	43,259
Total Capital Additions in 2010	187,562

* The 2010 Noxon Unit #3 upgrade was included with the 2011 Noxon Unit #2 upgrade in the pro forma capital adjustment.