

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06_____

EXHIBIT NO. ____ (KON-2)

KELLY O. NORWOOD

REPRESENTING AVISTA CORPORATION

Washington Utilities and Transportation Commission (WUTC)

1300 S. Evergreen Park Drive S.W.

Olympia, WA 98504-7250

360-664-1160

www.wutc.wa.gov

Key Regulatory Events

AVA — In November 2004, the WUTC issued an order in Avista Utilities general rate case proceeding, approving a \$5.4 million (3.9%) annual base rate increase on a temporary basis. The rate increase was the result of a non-unanimous settlement among parties to the case. In the order, the WUTC allowed the non-settling parties to continue to review AVA's filing. In January 2005, the WUTC made the 3.9% increase permanent.

PSD — (1) On February 18, 2005, the WUTC approved a \$56.6 million (4%) electric rate case increase, a capital structure containing 43% common equity, and an ROE of 10.3%. PSD had requested an increase of \$99.8 million (7.1%) annually on final rebuttal during the rate case reflecting updated power costs for increases in natural gas prices for generating plants; (2) On February 18, 2005, the WUTC approved a \$26.2 million (3.5%) natural gas increase effective March 4, 2005 to recover the higher costs of providing natural gas service to customers. The WUTC also approved a 43% common equity ratio and an ROE of 10.3%. PSD filed to increase natural gas rates by \$46.2 million (6.3%) annually on final rebuttal during the case.

Regulated Electric Utilities

• Avista Corp. (AVA)

• Puget Sound Energy Co. (PSD)

• PacifiCorp (SCOTPOW)

Commissioners

Number: 3	Appointed/Elected: Appointed	Term (years): 6	Political Makeup: R: 1 D: 2
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Qualifications for Commissioners

Three members, appointed by the governor and confirmed by the state senate for six-year, staggered terms; full-time positions. No more than two members may be from the same political party. The governor appoints one of the three as chairman. Each commissioner shall serve until his successor is appointed and confirmed.

Commissioners

Mark Sidran, Chairman, (Dem.) effective March 2005; current term expires March 2011. Lawyer, private practice in municipal law; former King County prosecutor; Seattle city attorney; Candidate for 2004 Washington State Attorney General; former Seattle Mayor.

Philip Jones, Commissioner, (Rep.) effective March 2005; current term expires March 2011. International trade consultant; Former member of Senator Dan Evan's staff where he worked on federal energy issues and coordinating the trade policy agenda.

Patrick J. Oshie, Commissioner, (Dem.) since 2001; current term expires January 1, 2007. Lawyer, specializing in federal Indian and environmental law; Seattle City Light attorney; assistant attorney general, Utah, representing the Division of Public Utilities; Member, NARUC Energy Resources and the Environment Committee.

Regulatory Environment

Deregulation Law Passed: No.	Rate Base and Test Year: Average of monthly average original cost rate base with historical test year for operating expenses. Attrition allowances permitted.	Rate Case Timing: State law gives the WUTC 11 months to issue an order in a rate case from the date of filing.	Restrictions on Dividends: None.
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Key Regulatory Practices

Rate Base and Test Year—Average of monthly average original cost rate base with historical test year, including known and measurable changes for operating expenses. The WUTC has allowed companies to use attrition allowances to mitigate the regulatory lag associated with the use of historical test periods.

Rate Case Timing—The utility must file the proposed rate changes 30 days before the scheduled effective date. The WUTC may suspend the effective date for up to 10 additional months, bringing the total period to 11 months. The WUTC has the authority to permit interim increases, but has adopted a standard that there must be a showing of eminent financial harm if the interim increase is not approved. This represents a relatively high hurdle for companies seeking interim relief relative to some other states.

Return on Equity—Average to slightly lower-than-average awarded returns on equity with capital structures that also reflect lower common equity relative to the capital structures adopted by other states, in our view.

Adjustment Clauses—Fuel and purchased cost adjustments are permitted, and Puget and Avista have adjustment clauses in place. The current plans subject the utility to the risk/reward of under/over collection of a portion of the change in expected costs before costs are passed on to customers. This "dead band" approach has subjected the utilities to greater earnings volatility than a simple recovery mechanism.

Approval of Issuance of Securities—Utility companies are required to notify the WUTC of their plans to issue securities before the securities are issued. The utility must describe the terms, are restricted to using the proceeds for lawful purposes, and must explain why the proposed transaction is in the public interest. The WUTC is not required to approve the issuance, nor can it reject the issuance. Its only recourse is to deny recovery of the costs in a rate case. This is weak protection for bond investors, in our opinion.

Approval of Mergers—State law gives the WUTC control over the acquisition or merger of a state utility or the sale of a utility's assets. The standard for approval is that the proposed transaction be consistent with the public interest.

Jurisdiction Over Affiliate Transactions—The WUTC has jurisdiction over transactions between a utility and an affiliate interest. The utility must file a copy of any agreement with an affiliated interest prior to the contract becoming effective, but the only penalty is disallowance of the costs for ratemaking purposes. This does not protect investors from cash flowing from the utility to a non-regulated affiliate, in our view.