Exhibit No. __(SLM-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-08_____

DOCKET NO. UG-08_____

DIRECT TESTIMONY OF

SCOTT L. MORRIS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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

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

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

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

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

I am a member of the Western Energy Institute board of directors, a member of the Gonzaga University board of trustees, and deputy director of the Washington Roundtable. I also serve on the board of trustees of the Greater Spokane Incorporated, which was formerly two separate organizations, the Spokane Area Economic Development Council and the Spokane Regional Chamber of Commerce.

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

A. I am testifying as the policy witness for the Company. I provide an overview of Avista Corporation and Avista Utilities. I describe Avista Utilities' overall utility operations, the Company's rate requests in this filing, and the primary factors driving the Company's need for general rate relief. I will provide an overview of some of the initiatives that we have undertaken in recent years to achieve operating efficiencies in an effort to mitigate a portion of the significant increase in costs that Avista, as well as other utilities in the industry, are experiencing. I will also briefly explain the Company's customer support programs that are in place to assist our customers. Finally, I will introduce each of the other witnesses providing testimony on the Company's behalf.

A table of contents for my testimony is as follows:

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring Exhibit No. ____(SLM-2), pages 1 through 4. Page 1 is a diagram of Avista's corporate structure; pages 2 and 3 include maps showing the Company's electric and natural gas service area in Washington, and Avista's total electric and natural gas service areas; and page 4 shows detailed usage and number of customers for each customer class. Exhibit No. ____(SLM-3), is a newspaper article from the Lewiston Tribune dated January 13, 2008. These exhibits were prepared under my direction.

Q. Before you continue with your testimony, would you please briefly explain why Avista needs additional rate relief following the recent increases that were approved effective January 1, 2008?

A. Yes. First it is important to keep in mind that the ratemaking process is a long process, and unless a settlement is achieved in this case, it historically has taken ten to eleven months before rate relief is received related to a general rate case filing. Thus, by the time this case is concluded, it will likely be a year after the prior case. Even though the Company will experience increases in costs over the course of another year that one would normally expect in the utility industry, this case is about more than just these year-over-year changes in costs. Not only are we in an increasing cost environment with regard to fuel, and materials and supplies, and labor, but we are also, experiencing major cost impacts related to environmental compliance and litigation related to the preservation of, what have historically been, our low-cost resources that we have used for decades to serve our customers. For example, as we will explain in our testimony to follow, we are requesting recovery of major costs related to relicensing the Spokane River Hydroelectric projects, new lease obligations related to the bed and banks of the Clark Fork River in the State of Montana upstream of our Cabinet Gorge and Noxon Rapids hydroelectric projects, costs associated with efforts to resolve the level of dissolved gas downstream of Cabinet Gorge during periods when we spill water, and significant costs to comply with new mercury emission limitations in the State of Montana.

In addition, the Company is currently being required to add significant new transmission and distribution facilities, including strengthening the "backbone" of our system, due in part to customer growth in our service area, as well as to meet federal reliability requirements. While the overall economy is slowing on a national basis, Spokane County is still growing. In 2007, employment growth in Spokane County ranked in the top 25% of all metropolitan areas. Because the cost of concrete, steel, copper, aluminum and other materials have sky-rocketed in recent years, the costs of these new facilities are significant, and are another major contributing factor in our request for rate relief in this filing.

However, you will also see in our testimony that we are not just sitting on the sidelines as these costs go up. We will identify and explain a number of efficiency measures that we have undertaken recently in an effort to mitigate the overall cost impacts to our customers. In addition, we have a history of working cooperatively with our local community action agencies, as well as making it a priority within our Company to maintain meaningful programs to assist our customers that are least able to pay their energy bills. I will summarize those programs later in my testimony.

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

A. The Company continues to work diligently to operate what I believe is a very efficient utility. The Company has historically run its operations with attention to minimizing expense while providing quality service and a high level of customer satisfaction. I will touch on some of our more recent efficiency improvements later in my testimony, such as our web redesign project, energy efficiency, and regional infrastructure efficiency programs.

Although we are making progress in improving the Company's financial condition, as shown by the recent upgrades in the Company's corporate credit ratings to investment grade by Moody's Investors Service in December 2007 and Standard & Poor's in February 2008, we are still not as strong financially as we need to be. The Company continues to be below investment grade with Fitch Ratings. Timely rate relief through this filing is an important element in continuing our path to a healthy utility. With higher levels of capital spending required over the next several years, it is more important than ever that the Company remain financially healthy in order to attract capital investment and financing at the lowest cost possible. Company witness Mr. Malquist will discuss further the actions taken by the Company to improve cash flow, reduce debt, and our continuing efforts towards being a strong, healthy utility.

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

Q. Please briefly describe Avista's subsidiary businesses.

A. Avista Corp.'s primary subsidiary is the information and technology business, Advantage IQ, described below, which is headquartered in Spokane, Washington. On June 30 2007, Avista completed the sale of the operations of Avista Energy to Coral Energy Holding, L.P.,

and certain of its subsidiaries, a subsidiary of Shell. In September 2007, Avista Energy paid a cash dividend of $169 million from the cash proceeds to Avista Capital. The majority of those funds were dividended to Avista Corporation, redeploying those proceeds into the utility. Avista currently holds a 6.8% share in Avista Labs' successor company, ReliOn, which is held under Avista Capital. A diagram of Avista's corporate structure is provided on page 1 of Exhibit No.____(SLM-2).

Q. Please provide an overview of Advantage IQ.

A. Advantage IQ, formerly known as Avista Advantage, commenced operations in 1998 and is a provider of utility bill processing, payment and information services to multi-site customers. Advantage IQ analyzes and presents consolidated bills on-line, and pays utility and other facility-related expenses for multi-site customers throughout North America, such as CSK Auto, Jack in the Box, Staples, and Big Lots, to name a few. Information gathered from invoices, providers and other customer-specific data allows Advantage IQ to provide its customers with in-depth analytical support, real-time reporting and consulting services with regard to facility-related energy, waste, repair and maintenance, and telecom expenses. In 2007, Advantage IQ was awarded the ENERGY STAR® Sustained Excellence Award in recognition of its continued leadership in protecting our environment through energy efficiency.

Q. What is the status of the formation of a holding company?

A. In February 2006, Avista filed for regulatory approval of the proposed formation of a holding company (reorganization) with the Federal Energy Regulatory Commission (FERC) and the public utility commissions in Washington, Idaho, Oregon and Montana, conditioned on approval by shareholders. On April 18, 2006, FERC issued its "Order Authorizing Disposition of

Jurisdictional Facilities" in Docket No. EC06-85-000, approving the Company's reorganization. Shareholder approval of the reorganization was granted at Avista Corp.'s Annual Shareholder meeting May 11, 2006. On June 30, 2006, the Idaho Public Utilities Commission issued an order approving Avista's reorganization application, based on a settlement in that state. On February 28, 2007, the Washington Utilities and Transportation Commission issued an order approving Avista's reorganization application, based on a settlement in that state. The Montana Commission has yet to act on Avista's Reorganization application, and the procedural schedule for consideration of the Company's application in Oregon has been suspended by agreement of the parties to allow additional time for discussion among the parties.

II. OVERVIEW OF AVISTA UTILITIES

Q. Please briefly describe Avista Utilities.

A. Avista Utilities provides electric and natural gas service within a 26,000 square mile area of eastern Washington and northern Idaho. The Company, headquartered in Spokane, also provides natural gas distribution service in southwestern and northeastern Oregon. Maps showing the Company's electric and natural gas service area in Washington and Avista's total electric and natural gas service areas are provided in pages 2 and 3 of Exhibit No. ___ (SLM-2).

As of December 31, 2007, Avista Utilities had total assets (electric and natural gas) of approximately $3.2 billion (on a system basis), with electric retail revenues of $577 million (system) and natural gas retail revenues of $432 million (system). As of December 2007, the Utility had 1,473 full-time employees.

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

To the future, Avista as well as other utilities are facing new state and federal mandates for renewable energy and carbon control standards. For example, Washington's Senate Bill 6001 and Initiative 937 require certain public and private utilities to produce 15 percent of their power from new renewable resources, not including legacy hydro production, and to eliminate the option of coal-fired generation because of carbon emission limitations. Recognizing these changes, the Company dropped all new coal generation in its 2007 electric IRP, instead relying on natural gas, renewables, and energy efficiency. Today, Avista has one of the smallest carbon footprints in the U.S.

Q. Please describe Avista Utilities' Washington electric and natural gas utility operations.

A. Avista serves 231,300 electric and 143,561 natural gas customers in Washington, of the Company's total of 351,585 and 310,675 customers, respectively (as of December 31, 2007). The Company provides service in the Washington counties of Adams, Asotin, Ferry, Franklin, Grant, Lincoln, Pend Oreille, Stevens, Spokane, Whitman, Klickitat and Skamania. Residential customers accounted for approximately 43% of Washington electric retail usage in 2007, while 54% was accounted for by commercial and industrial customers and 3% by pumping and street lighting customers. Approximately 48% of natural gas retail usage in Washington was by residential and small commercial customers (Schedule 101), with the remaining 52% by

larger commercial and industrial customers. The Company has 29 natural gas transportation customers in Washington. Additional details of usage and number of customers for each customer class are shown on page 4 of Exhibit No.___ (SLM-2).

As detailed in the Company's 2007 electric Integrated Resource Plan, Avista expects retail electric load growth to average 2.3 percent annually for the next twenty years in Avista's Washington service territory, primarily due to increased population and business growth. As stated earlier, while the overall economy is slowing on a national basis, Spokane County is still growing. In 2007, employment growth in Spokane County ranked in the top 25% of all metropolitan areas. Two big drivers of job growth in the past has been in the manufacturing sector and in the construction sector, where Spokane County had the 53rd and 18th fastest employment growth of the 450 metropolitan areas in the U.S. for 2007. This growth will continue to drive demand for new plant investment, which underscores the need for timely recovery of our capital investments.

Based on our 2007 Natural Gas Integrated Resource Plan (IRP), natural gas retail load growth is expected to average close to two percent annually over the next twenty years in Avista's Washington service territory, with an annual two percent overall growth in customer base. The growth rate for natural gas load is tied to increases in population and the number of businesses in Avista's service territory, coupled with expected conversions to natural gas from electric and oil space heat and electric water heating.

III. RATE REQUESTS

Electric

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

A. Through this filing, the Company is requesting that the Commission grant an electric rate increase of $36.6 million or 10.3% in base retail rates.

The Company's request is based on a proposed rate of return of 8.43% with a common equity ratio of 46.3% and a 10.8% return on equity. Company witness Mr. Hirschkorn has proposed to spread the 10.3% revenue increase based on an equal percentage to each service (rate) schedule.

The Company is proposing to raise the monthly residential basic charge to $5.75 from the current $5.50 charge.

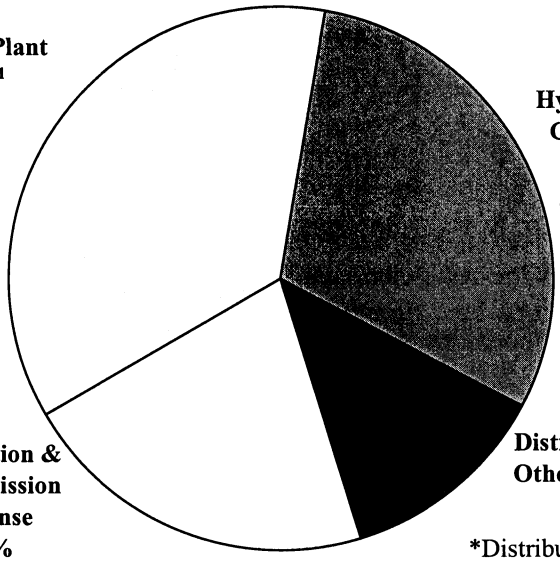
The monthly bill for a residential customer using an average of 1,000 kWhs per month would increase from $70.76 to $77.29 per month, an increase of $6.53 or 9.2%. Mr. Hirschkorn will provide additional details related to rate spread and rate design.

Q. What are the primary components causing the Company's request for an electric rate increase?

A. The Company's electric general rate case is based on a 2007 test year and 2009 pro forma period data. As shown in Illustration 1, the primary factors driving the electric rate increase include capital spending and hydro relicensing and compliance costs impacting the Utility.

Illustration 1

Primary Electric Revenue Requirement Factors



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

As explained by Company witness Mr. Johnson, the primary factor increasing power supply expense is the cost of serving additional retail load, thermal fuel costs, and increased Mid Columbia purchased hydro generation costs. Retail loads in the 2009 pro forma period are 27.3 aMW higher than 2007 weather adjusted retail load.

Gross plant additions of approximately $169 million (Washington allocation) are driven primarily by increases to intangible and production plant of $50.6 million related to the hydro relicensing and compliance efforts by the Company. Company witnesses Mr. Vermillion, Ms. Pessemier and Mr. Howard discuss these issues further in their testimony.

In addition to the hydro relicensing and compliance efforts, increases of $36 million for additional production and transmission investment, $19 million for general plant, and $63.3 million for distribution plant have increased gross plant. Mr. Vermillion will describe the generation investment and Company witness Mr. Kinney will address the transmission and distribution investments. Company witness Mr. DeFelice discusses the Company's proposed pro forma capital adjustments related to 2007 and 2008. Company witness Ms. Andrews discusses how these capital additions impact the Company's request in this case.

Natural Gas

Q. What is Avista's natural gas rate request in this filing?

A. Through this filing the Company is requesting that the Commission grant an increase of $6.6 million or 3.3% for Avista Utilities' Washington natural gas operations.

The Company's request is based on a proposed rate of return of 8.43% with a common equity ratio of 46.3% and a 10.8% return on equity. The proposed change by rate schedule is shown in the illustration below.

Illustration 2

Service Schedule	Proposed Increase
General Service Schedule 101	3.4%
Large General Service Schedule 111/112	3.0%
High Annual Load Factor – Lg. General Service Schedule 121/122	4.2%
Interruptible Sales Service Schedule 131/132	1.9%
Transportation Service Schedule 146 (excluding gas costs)[1]	6.2%
Overall Increase	3.3%

[1] The calculation of the percentage increase excludes the cost of natural gas and transportation for this schedule.

The proposed increase by rate schedule results in rates of return for each schedule that are close to the cost of providing service (unity). The monthly bill for a residential customer using 70 therms per month would increase from $85.15 to $87.99 per month, an increase of $2.84 or 3.3%. The Company is also proposing that the customer basic charge be increased to $5.75 from the current $5.50 per month. Mr. Hirschkorn will address these rate spread and rate design issues.

Q. What is the primary component causing the Company's request for a natural gas rate increase?

A. The primary component causing the request for a natural gas rate increase is the recovery of our investment in the expansion of the Jackson Prairie natural gas storage facility. Mr. Vermillion will discuss this project in more detail. Ms. Andrews will discuss how this impacts the Company's request in this case.

Q. The proposed rate increase is also related to changes in the fixed costs of providing gas service to customers. Is the Company proposing any changes to natural gas commodity costs in this case?

A. No. Avista is not proposing changes in this filing to the natural gas commodity costs included in customers' current rates. Changes in commodity costs are addressed in the annual purchased gas adjustment (PGA) filings.

IV. COST DRIVERS FOR THE INDUSTRY AND AVISTA

Q. The utility industry, as a whole, is facing significant increases in certain costs. Is Avista facing similar cost increases, and if so, what is driving these cost increases?

A. Yes. Avista, along with the utility industry as a whole, is facing significant cost increases. Costs of steel, copper, cement, all of which are primary raw material components in our business, have been increasing in price in national and international commodity markets. Given that these commodities are key inputs into conductor, transformers, vaults, etc., our costs have risen sharply. In a September 2007 report prepared by the Brattle Group for The Edison Foundation, they summarize the state of materials in our industry. They found:

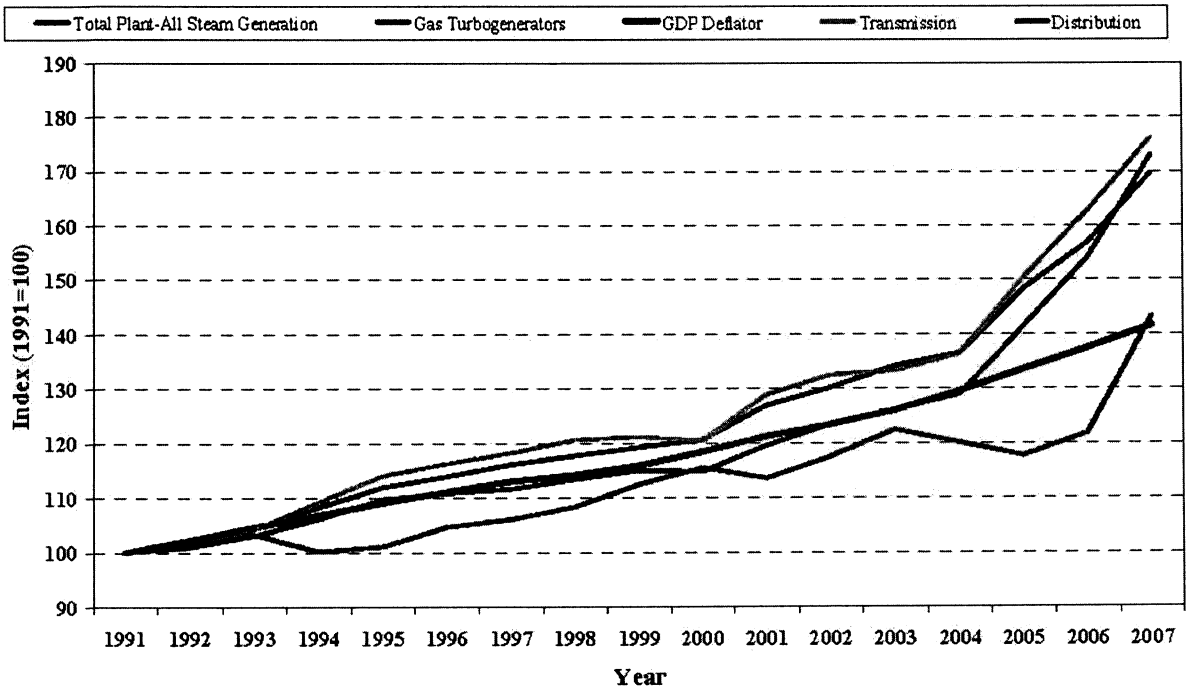
1. "Dramatically increased raw materials prices (e.g., steel, cement) have increased construction cost directly and indirectly through the higher cost of manufactured components common in utility infrastructure projects. These cost increases have primarily been due to high global demand for commodities and manufactured goods, higher production and transportation costs (in part owing to high fuel prices), and a weakening U.S. dollar." (page 1) Increased global demand for commodities, as noted in this report, is driven primarily by the robust growth in China, India, Russia, and to a lesser extent, the United States.
2. "The price increases experienced over the past several years have affected all electric sector investment costs. In the generation sector, all technologies have experienced substantial cost increases in the past three years, from coal plants to windpower projects. Large proposed transmission projects have undergone cost revisions, and distribution system equipment costs have been rising rapidly." (page 2)

Illustration 2 below is representative of what is happening to infrastructure costs nationally. As shown in the chart below, 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 2

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

Company witness DeFelice will provide further detail on the rising cost of materials.

Q. What are some of the other cost drivers for Avista?

A. In addition to the significant increase in materials related to capital projects, Avista is now experiencing major costs related to Spokane River relicensing, the Montana hydroelectric litigation and resulting riverbed lease payments, the mitigation of dissolved gas at the Cabinet Gorge Project, and compliance with Initiative 937 (Renewable Portfolio Standards) & Senate Bill

6001 (greenhouse gas emissions). Further, The North American Electric Reliability Corporation (NERC) has developed national reliability standards for utilities to follow to ensure interconnected system reliability which was mandated as part of The Energy Policy Act of 2005. These issues, driven primarily by new legislative initiatives, litigation, and compliance with new and existing regulatory requirements, such as new reliability requirements, have resulted in significant increases in costs associated with owning and operating the generation, transmission, and distribution systems.

Q. Please describe the status of the Company's effort to relicense the Spokane River Hydroelectric Projects.

A. Avista's license for the Spokane River Hydroelectric Project (105 aMW) expired in August 2007. At the expiration of the existing license, FERC automatically issued Avista an Annual License for the Project, and will continue to do so each year until the outstanding issues are resolved. In July 2005, the Company submitted two license applications to the FERC, requesting one license for the Post Falls Project and a separate license for the remainder of the Spokane River Project. Company witness Mr. Howard provides additional discussion related to these efforts in his testimony. Ms. Andrews discusses the nature of the Company's request in this case.

Q. What is the status of the Montana hydroelectric litigation and lease payments for state-owned riverbeds?

A. On October 19, 2007, the Company reached a settlement with the State of Montana with regard to the amount of damages the Company owed for hydroelectric facilities located on state-owned riverbeds. In October 2003, a lawsuit was originally filed against private

owners of hydroelectric dams in Montana, including Avista. In this lawsuit, the state of Montana alleged that the hydroelectric facilities are located on state-owned riverbeds and the owners of the dams have never paid lease payments to the state pursuant to the provisions of Montana's Hydroelectric Resources Act. The lawsuit requested lease payments prospectively and also requested damages for trespassing and unjust enrichment for periods of time dating back to the construction of the respective dams.

Pursuant to the settlement, reached with Montana, Avista has agreed to make lease payments in the initial amount of $4 million per year beginning February 1, 2008, for the calendar year 2007, and continuing through calendar year 2016, adjusted each year by the Consumer Price Index (CPI). On or before June 30, 2016, Avista and the state of Montana will determine whether the annual lease payments remain consistent with the principles of law as applied to the facts and negotiate an adjusted lease payment for the remaining term of Avista's Federal Energy Regulatory Commission license for its hydroelectric facilities on the Clark Fork River, which expires in 2046. The settlement contains provisions that could reduce the amount of Avista's lease payments as a result of future judicial determinations in related cases or governmental actions. Avista will not make any lease payments for periods prior to 2007.

Company witness Vermillion will discuss this settlement further in his testimony. Ms. Andrews discusses the impact on the Company's request in this case.

Q. Please provide an overview of the capital additions and requirements impacting the Company, and the amounts included in this case.

A. As a combination electric and natural gas utility, over the next few years, capital will be required for customer growth, investment in generation, transmission and distribution

facilities for the electric utility business, as well as necessary maintenance and replacements of our natural gas systems.

The amount of capital expenditures planned for 2008-2009 is approximately $390 million. For 2008 alone, these costs equate to a total of $190 million. Total net rate base at December 31, 2007 was $1.7 billion for the total Company; therefore, these planned capital additions represent substantial new investments. A few of the major capital expenditure items for 2008 include $46 million for electric transmission and distribution upgrades, $43 million for electric and natural gas customer growth, $21 million for natural gas system upgrades, $9 million for environmental (associated with the Spokane River relicensing and the 2001 Clark Fork River license implementation issues), $26 million for generation upgrades, and $15 million for Jackson Prairie capacity and deliverability expansions.

Washington's share of capital expenditures pro formed into this case total approximately $115 million. This amount excludes all revenue-producing capital expenditures and includes only those items moved into service during 2008. Mr. DeFelice sponsors the pro forma request in this case, and Ms. Andrews includes this in the overall rate request.

V. OPERATING EFFICIENCIES AND CUSTOMER SUPPORT PROGRAMS

Q. Has the Company considered the economic impacts of the Company's rate proposals to its customers?

A. Yes. Through my involvement with area chambers and other community agencies, I am particularly mindful of the impact rate increases have on our customers, especially those on limited incomes. Avista will continue to aggressively manage costs to achieve the appropriate balance in providing safe and reliable service at cost-effective rates, while rebuilding

a financially healthy utility. In the long term, a financially healthy utility will foster customer satisfaction and enable the utility to finance under reasonable terms the new infrastructure required over time to serve our customers.

Q. Is Avista communicating with its customers to explain what is driving increased costs?

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

As an example, an article in the Lewiston Tribune on January 13, 2008 attached as Exhibit No. ___(SLM-3), describes very accurately some of the issues faced by the Company – i.e., growth in customer base, hydroelectric generation upgrades, environmental compliance, and increased natural gas prices. The following is an excerpt from the article:

> "Avista is expanding its capacity to deliver gas and electricity to meet the needs of its customer base, which has grown by 40,000 since 2002.
>
> Improvements are being made to existing Avista operations, such as boosting hydro generation from 554 to 582 megawatts at Noxon Rapids along the Clark Fork River in Montana. One megawatt is enough to power 650 homes.
>
> Some options are off the table as Avista tries to keep pace with growth. State and federal environmental regulations along with public opinion

> make it unlikely that new dams will be constructed for hydropower. Emission standards in Washington essentially ban coal for electrical generation.
>
> That leaves natural gas as one of the few viable choices for new electrical generation because it is relatively affordable and environmentally friendly. The biggest single share of Avista's new generation will come from the natural gas-fired plant near Rathdrum. Avista will have first rights to all of the electricity from the plant starting in 2010.
>
> But natural gas prices have been rising too as more utilities turn to it for electrical generation. The natural gas pipelines from Canada that Avista uses once ended in the Northwest. Now some lines have been extended to the Midwest, putting additional pressure on prices."

We have made extensive efforts to communicate with our customers concerning the cost challenges that we are facing.

Q. What initiatives has the Company undertaken in recent years to achieve operating efficiencies in an effort to mitigate a portion of the cost increases being experienced by the utility industry?

A. Avista is constantly looking for improvements in the way it provides services to its customers, as well as ways to reduce the costs of those services. Ideas are generated through periodic evaluation of its operating practices, and communications with other utilities, and other industry participants, across the country on best practices. The Company has recently implemented a number of programs that increase efficiency and enhance customer service. Some of these noteworthy programs are summarized below:

- Energy Efficiency. – The Company offers energy efficiency services to electric and natural gas residential, commercial, and industrial customers. In January 2008, modifications to the program offerings were filed in the State of Washington. If approved by the Commission, the proposed modifications will further broaden the technical and financial support Avista will provide to our customers to help fund energy efficiency improvements. In addition to helping our customers with energy efficiency services, Avista too has been evaluating

opportunities to implement energy efficiency measures throughout the Company. For example, the Company is now in the process of upgrading the 50 year old heating, ventilation and air conditioning system at the Spokane main campus facilities.

- Mobile Dispatch. – The Company completed the second phase of the Mobile Dispatch Project, designed to achieve a number of financial and customer service benefits, including increased productivity, enhanced customer service, reduced costs, and improved field safety. This project uses wireless communications between the home office and laptop computer in service trucks to dispatch field crews. As Company witness Mr. Kopczynski will explain, these capabilities allow for increased field productivity, efficient order dispatch, enhanced customer service with efficient order booking, improved safety, and reduced costs required to perform an equal amount of work.

- Outage Management System. – This tool is linked to the Company's Geographic Information System (GIS mapping system). It allows the Company's distribution facilities to be linked to individual customer service points in a three phase computer based model. The connectivity provides analysis tools to determine outage areas and affected protective devices. Switching points within the computer based model enable semi-real time reconfiguration of Avista's distribution system. Accurate outage data can be collected for all incidents providing feedback to improve reliability and outage statistics which can be monitored in real time to indicate the severity of major events and assist in resource planning. These capabilities allow for quicker restoration of electrical service for our customers, thereby reducing labor expense and enhancing customer service.

- Web Redesign Project. – In January 2008, the Company completed the redesign of www.avistautilities.com. The primary objective of this project was to enhance customer satisfaction through the deployment of several self service options, such as open/close/move, reporting and making payment arrangements, enrolling in Comfort Level Billing, and/or Automatic Payment Service (APS). Further, customers have access to tools to help analyze their bills and are provided with meaningful and timely information to make informed energy management choices. The primary objective is to achieve a 10% reduction in the Company's Contact Center's total call volume by referring customers to the new and enhanced self-service options.

- Outsourced Bill Printing and Mailing Services. – As described further by Company witness Mr. Kopczynski, Avista recently outsourced all of the Companies bill printing and mailing services. The project objectives were to move bill printing, inserting and mailing offsite and leverage core competencies of the provider, to obtain disaster recovery for sustainable operations and avoiding

the cost of duplicate data storage, ensure daily print volume flexibility and scalability, to reduce costs for bill print, inserting and mailing, and to maximize technology.

- Regional Infrastructure Efficiency. – Spokane's Joint Utilities Coordination Council was formed to bring together regional municipalities, utility companies, telecommunications providers, sewer, water and even the railroad to coordinate construction activities on an annual basis. Avista, in partnership with the City of Spokane, hosts this meeting every February, just prior to the beginning of the construction project season. Municipalities and utilities share their project plans and schedules so as to increase the coordination and mitigate the risk of unknown projects. The efforts of the Joint Utilities Coordination Council has resulted in greater coordination and efficiencies across the Spokane region.

Q. Does the Company have programs in place to mitigate the impacts on customers of the proposed rate increase?

A. Yes. Avista Utilities offers a range of programs to help customers who have difficulty paying their energy bills. Some programs are in cooperation with local Washington community action agencies, who are specialized in targeting assistance where it is most needed. We are very aware of the impacts energy costs have on our customers. As a result, we offer programs that focus on the following criteria:

- Direct financial assistance
- Wise use of energy through education and efficiency
- Bill payment assistance plans
- Community initiatives to reduce basic living costs

With regard to the LIRAP program explained below, Avista is proposing in this filing that the funding for that program be increased by the same percentage as the overall electric and natural gas increases approved in this case.

Company witness Mr. Kopczynski provides additional detail in his testimony concerning other programs designed to assist customers:

- Energy efficiency programs. Avista Utilities offers energy efficiency services to electric and natural gas residential, commercial, and industrial customers. The funding for these programs was increased substantially as a result of our last general rate case.

- Project Share. Project Share is a voluntary program allowing customers to donate funds that are distributed through community action agencies to customers in need. In addition to the customer and employee contributions of $198,825 in Washington, Avista shareholders contributed $150,000 to the program in 2007.

- LIRAP. Avista's Low Income Rate Assistance Program collects approximately $3.75 million per year through electric and natural gas tariff surcharges. The Company, with the assistance of community action agencies, directs these funds to customers least able to pay for electric and natural gas service. The purpose of the LIRAP program is to reduce the energy cost burden among those customers least able to pay energy bills. In the 2006/2007 heating period for example, the Company was able to give close to 8,600 grants to our customers.

- Comfort Level Billing. The Company offers the option for customers to pay the same bill amount each month of the year by averaging their annual usage.

- Payment arrangements. The Company's Contact Center Representatives work with customers to set up payment arrangements to pay energy bills.

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

- Customer service automation. Customers are able to access Avista's Interactive Voice Response system (IVR) for automated transactions to enter their own payment arrangements, listen to outage messages and conduct other business such as obtaining account balances and requesting a duplicate bill.

Q. Are there other noteworthy accomplishments that you would like to address?

A. Yes. There are several items of which I am particularly proud which recognizes both the accomplishments and excellence of Avista, and its employees:

- In April 2007, the Company received the *Outstanding Stewardship of America's Waters* award in recognition of its cooperative recreational stewardship/fishery enhancement project on Lake Pend Oreille. Avista received the *Outstanding Stewardship of America's Rivers* award, in 2006, from the National Hydropower

Association (NHA), recognizing its habitat preservation and restoration work in the Clark Fork River basin.

- In November 2007, the Company joined the Chicago Climate Exchange (CCX), the world's first and North America's only voluntary, legally binding integrated greenhouse gas emission reduction, registry and trading system. Members who exceed emissions reduction targets can sell or bank surplus allowances, the benefits of which will accrue to the Company and our customers.

- In January 2008, in addition to the rollout of the Company's newly updated website (www.avistautilities.com), as described earlier, the Company launched "Every Little Bit", an online promotional campaign which integrates all of the Company's energy efficiency programs into one location. New tools were also added to the site to help customers better understand and manage their utility bills and participate in our energy efficiency programs. The various upgrades to the website will make it easier for our customers to do business with the Company.

- During 2007, Avista Utilities' employees volunteered throughout the Inland Northwest. Employees supported dozens of non-profit agencies including the Spokane Neighborhood Action Programs (SNAP), Boy Scouts, Girl Scouts, Vanessa Behan Crisis Nursery, United Way, Habitat for Humanity, Bloomsday and Hoopfest, to name a few.

Finally, I am most pleased with the dedication of Avista Utilities' employees and their commitment to provide quality service to our customers. While we continue to maintain tight controls on capital and O&M budgets, our customer service surveys indicate that customer satisfaction remains high. In our recent fourth quarter 2007 customer survey, overall satisfaction results show a satisfied customer rating of 96% in our Washington, Idaho and Oregon operating divisions. This rating reflects a positive experience for the majority of customers in contact with Avista related to the customer service they received both by phone and in-person with service representatives. These results can be achieved only with very committed and competent employees.

VI. OTHER COMPANY WITNESSES

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

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

Mr. Malyn Malquist, Executive Vice President and Chief Financial Officer will describe, among other things, the overall financial condition of the Company, its current credit ratings, the Company's plan for a improving its financial health, its near term capital requirements, the proposed capital structure, and the overall rate of return proposed by the Company. Mr. Malquist explains that:

- Avista's plans call for significant capital expenditure requirements for the utility over the next three to five years to assure reliability in our energy systems, and to keep pace with regional growth and customer demand. Capital expenditures are planned for 2008-2009 of approximately $390 million for customer growth, investment in generation, transmission and distribution facilities for the electric utility business as well as necessary maintenance and replacements of our natural gas utility systems. Avista needs adequate cash flow from operations to fund these requirements.

- Avista's corporate rating from Standard & Poor's is currently BBB-. Avista Utilities should operate at a level that will support a strong investment grade credit rating, meaning at least a strong "BBB" or weak "A". The Company's financial performance has improved; however, we have not improved financial ratios to a level that would result in a strong investment grade credit rating.

- We have made solid progress in improving our financial health by improving our cash flow, managing our costs and paying down debt and refinancing debt at lower rates. The Company plans to issue up to $350 million of secured, fixed rate bonds during 2008 to fund existing debt maturities as well as to repay funds borrowed under our credit facility. Further, the Company plans to obtain a portion of our capital requirements through equity issuance.

The Company has proposed an overall rate of return of 8.43% including a 46.3% equity ratio and an 10.8% return on equity.

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

- Applications of quantitative methods to alternative groups of proxy companies imply a cost of equity range of 10.7 percent to 12.2 percent.
- Because Avista's requested ROE of 10.8% percent falls at the lower end of the recommended range, it represents an conservative estimate of investors' required rate of return.
- Considering investors' expectations for capital markets and the need to support financial integrity and fund crucial capital investment even under adverse circumstances, 10.8% percent is a reasonable ROE for Avista.
- Because of Avista's reliance on hydroelectric generation, the Company is exposed to relatively greater risks of power cost volatility.
- Investors view the Energy Recovery Mechanism ("ERM") as supportive of the Company's financial integrity, but they understand that the ERM does not apply to 100 percent of power costs; nor does it insulate Avista from the need to finance accrued power production and supply costs or shield the Company from potential regulatory disallowances.
- Avista's requested capitalization is consistent with the Company's need to strengthen its credit standing and financial flexibility as it seeks to raise additional capital to fund significant system investments and meet the requirements of its service territory.
- The reasonableness of a minimum 10.8% percent ROE for Avista is also supported by the greater risks associated with the Company's relatively small size and the need to consider flotation costs.

Mr. Dennis Vermillion, Vice President of Energy Resources, will provide an overview of Avista's resource planning and power operations. He will discuss the Company's resources, current and future load and resource position, and future resource plans. He will also discuss Company hydroelectric upgrades, the Montana riverbed lease agreement, current hydro relicensing issues, mercury abatement at Colstrip, and Jackson Prairie storage. Mr. Vermillion explains:

- Avista's electric generation portfolio, including power supply operations.

- The Company is in an annually balanced-to-surplus energy position through 2017 with the addition of Lancaster, with the Company's net resource position becoming deficient in 2018.
- The Company's decision to join the Chicago Climate Exchange.
- Avista's risk management policy for energy resources, including the electric hedging plan.

Mr. Clint Kalich, Manager of Resource Planning & Power Supply Analyses, will describe the Company's AURORA$_{XMP}$ model (Dispatch Model) inputs, assumptions, and results related to the economic dispatch of Avista's resources to serve load requirements, and market forecast of electricity prices. He explains:

- The key assumptions driving the Dispatch Model's market forecast of electricity prices. This discussion includes the variables of natural gas, Western Interconnect loads and resources, and hydroelectric conditions.
- The model dispatches Avista's resources and contracts in a manner that maximizes benefits to customers.
- The use of quantitative rate-period loads for 2009, for modeling pro forma net power supply expenses.
- The output results from the model, including thermal generation and short-term wholesale sales and purchases, were provided to Mr. Johnson to incorporate into the power supply pro forma adjustments.

Mr. William Johnson, Wholesale Marketing Manger, will identify and explain the proposed normalizing and pro forma adjustments to the 2007 test period power supply revenues and expenses. He will also explain the new base level of power supply costs for Energy Recovery Mechanism (ERM) calculation purposes using the pro forma costs proposed by the Company in this filing. Mr. Johnson describes:

- The adjustment of revenues and expenses based on normal stream flow and weather conditions, and expected wholesale market power prices.
- Adjustments made to reflect known and measurable changes in power contracts, thermal generation fuel expense, and transmission expense, between the 2007 test period, and the pro forma period of 2009.

- The net effect of the adjustments to the 2007-test period power supply expense is an increase of $15,265,000 on a system basis.

Mr. Bruce Howard, Spokane River License Manager, will provide an overview of the Spokane River relicensing, including an overview of the Spokane River projects, and the main areas of contention in the process. Finally, Mr. Howard will discuss the costs that have been included in this case.

Ms. Toni Pessemier, Advisor to the Office of the President, will provide testimony regarding other hydro relicensing and compliance issues.

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

- Avista's customer service programs such as energy efficiency, Project Share, CARES program, Senior Outreach Program, and payment plans. Some of these programs will serve to mitigate the impact on customers of the proposed rate increase.
- The Company's multi-faceted effort to increase customer service automation, including replacement and upgrade of the new Interactive Voice Response (IVR) system, Mobile Dispatch, Outage Management System and Web Redesign.
- The decision by the Company to outsource our bill printing and mailing services. This decision was based on Company needs for disaster recover, added scalability and flexibility, and cost savings.

Mr. Scott Kinney, Chief Engineer, System Operations, will describe Avista's electric transmission and distribution investments and present the Company's pro forma period transmission revenues and expenses. In addition, he describes the Company's Asset Management Program. Mr. Kinney explains:

- Avista is expecting to invest over $12.1 million (system) in electric transmission projects with completion dates in 2008.

- Several revisions have been made to transmission expenses for the 2008 pro forma period.
- Why transmission revenues for 2008 decline compared with 2006, as a result of the expiration of three transmission contracts in October 2007.
- Changes in replacement and maintenance costs associated with the Company's asset management.

Mr. Dave DeFelice, Senior Business Analyst, will describe the pro forma adjustment for non-revenue capital expenditures. Mr. DeFelice explains:

- The rising cost of essential materials specific to the utility industry is causing signification increases in capital project funding requirements.
- These costs require recovery levels in excess from traditional, historical test- year computations.

Ms. Elizabeth Andrews, Manager of Revenue Requirements, will discuss the Company's overall revenue requirement proposals. In addition, her testimony generally provides accounting and financial data in support of the Company's need for the proposed increase in rates. She sponsors:

- Electric and natural gas revenue requirement calculations.
- Electric and natural gas results of operations.
- Pro forma operating results including expense and rate base adjustments.
- System and jurisdictional allocations.

Ms. Tara Knox, Senior Regulatory Analyst, sponsors the cost of service studies for electric and natural gas service, the revenue normalization adjustments to results of operations, and proposed retail revenue credit rate. Ms. Knox studies indicate:

- Electric service residential and extra large service schedules are earning substantially less than the overall rate of return under present rates, while general service, large general service and lighting service schedules are earning more than the overall rate of return under present rates.

- Gas service high load factor large firm service schedule is earning considerably less than the overall rate of return at present rates, transportation service schedule is earning more than the overall rate of return, while all other schedules are earning close to the overall rate of return to varying degrees.

Mr. Brian Hirschkorn, Manager of Pricing, discusses the spread of the proposed annual revenue changes among the Company's general service schedules and addresses the Company's revenue normalization adjustment. He explains, among other things, that:

- The proposed electric annual revenue increase is $36.6 million, or 10.3%.
  - The monthly bill for a residential customer using an average of 1,000 kwhs per month would increase from $70.76 to $77.29 per month, an increase of $6.53 or 9.2%. This includes the proposed increase in the monthly basic or customer charge from $5.50 to $5.75.
- The proposed natural gas annual revenue increase is $6.6 million, or 3.3%.
  - The monthly bill for a residential customer using 70 therms per month would increase from $85.15 to $87.99 per month, an increase of $2.84 or 3.3%. This includes the proposed increase in the monthly basic or customer charge from $5.50 to $5.75.

Mr. Bruce Folsom, Senior Manager of Demand Side Management, provides an overview of the Company's DSM programs and documents Avista's expenditures for electric and natural gas energy efficiency programs. Mr. Folsom describes:

- The Company exceeded its 2007 electric efficiency targets by 13% and 2007 natural gas efficiency target by 41%.
- Avista's expenditures for electric and natural gas energy efficiency programs have been prudently incurred.

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

A. Yes.