BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-17_____

DOCKET NO. UG-17_____

EXH. EMA-6

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

AVISTA UTILITIES CALCULATION OF TRADITIONAL PRO FORMA STUDY REVENUE REQUIREMENT WASHINGTON NATURAL GAS TWELVE MONTHS ENDED DECEMBER 31, 2016

The following information provides the Traditional Pro Forma Study results as required by the WUTC. This Study alone, does not provide the necessary rate relief needed to allow the Company the opportunity to earn the proposed Rate of Return (ROR) requested in this case. The base rate change, noted below of \$4,531,000, does not reflect the requested rate relief proposed by the Company. <u>See Exh. EMA-7</u> for the EOP Rate Base Study representing the Company's <u>requested</u> rate relief proposed in this case.

			Traditional Forma Study
	1	Μ	lay 1, 2018
Line No.	Description	(000	's of Dollars)
1	Pro Forma Rate Base	\$	305,913
2	Proposed Rate of Return		7.69%
3	Net Operating Income Requirement		\$23,525
4	Pro Forma Net Operating Income	\$	20,712
5	Net Operating Income Deficiency		\$2,813
6	Conversion Factor		0.620645
7	Revenue Requirement - 2016		\$4,531
8	Total Base Distribution Revenues*	\$	88,832
9	Percentage Base Distribution Revenue Increase		5.10%
10	Total Present Billed Revenue	\$	152,089
11	Percentage Billed Revenue Increase		2.98%

* Line 8 "Total General Business Revenues" includes special contract transportation revenues.

AVISTA UTILITIES TRADITIONAL PRO FORMA COST OF CAPITAL WASHINGTON NATURAL GAS

Capital Structure			
Component	Capital Structure	Cost	Weighted Cost
Total Debt	51.5%	5.62%	2.89%
Common Equity	48.5%	9.90%	4.80%
Total	100.00%	-	7.69%

AVISTA UTILITIES REVENUE CONVERSION FACTOR WASHINGTON NATURAL GAS TWELVE MONTHS ENDED DECEMBER 31, 2016

Line No.	Description	Factor
1	Revenues	1.000000
2	Expense: Uncollectibles	0.004827
3	Commission Fees	0.002000
4	Washington Excise Tax	0.038334
6	Total Expense	0.045161
7	Net Operating Income Before FIT	0.954839
8	Federal Income Tax @ 35%	0.334194
9	REVENUE CONVERSION FACTOR	0.620645

(Natural Gas) AVISTA UTILITIES WASHINGTON NATURAL GAS - PRO FORMA TRADITIONAL PRO FORMA STUDY TWELVE MONTHS ENDED DECEMBER 31, 2016 (000'S OF DOLLARS)

Amounter Late	Line No.	DESCRIPTION	Per Results Report	Deferred FIT Rate Base	Deferred Debits and Credits	Working Capital	Eliminate B & O Taxes	Restate Property Tax	Uncollectible Expense	Regulatory Expense	Injuries & Damages	FIT / DFIT Expense
Heat Heat <th< th=""><th></th><th>Adjsutment Number</th><th>1.00</th><th></th><th></th><th>1.03</th><th>2.01</th><th>2.02</th><th>2.03</th><th>2.04</th><th>2.05</th><th></th></th<>		Adjsutment Number	1.00			1.03	2.01	2.02	2.03	2.04	2.05	
1 Calcing lisatings 5 1 1 <th1< th=""> <th1< th=""> 1</th1<></th1<>		Workpaper Reference	G-ROO	G-DFIT	G-DDC	G-WC	G-EBO	G-RPT	G-UE	G-RE	G-ID	G-FIT
1 1 .												
1 0.0000 Reviews 0.723 -			+	\$ -	\$ -	\$ -	,		\$ -	\$ -	\$ -	\$ -
Image: series in the				-	-	-	(118)	-	-	-	-	-
Decision Expenses 12.065 1 <th1< th=""> 1 <th1< th=""> <th1< th=""></th1<></th1<></th1<>				-		-	(5,215)	-		-	-	
Decision Expenses 12.065 1 <th1< th=""> 1 <th1< th=""> <th1< th=""></th1<></th1<></th1<>							,					
5 Ciry Gae Parchaece 112.005 - </td <td></td>												
6 Parkased Cas Engenzes 988 . <td>-</td> <td></td> <td>112 605</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	-		112 605									
1 Na Na Ga Songe Trans. 2.932 . <td></td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td> <td>-</td> <td>-</td>				-	-	-	-	-	-		-	-
9 Operating Express 771 .				-	-	-	-	-	-	-	-	-
9 0. Operating Expenses 974 -	8	Total Production	116,525	-	-	-	-	-	-	-	-	-
9 0. Operating Expenses 974 -		The Lower of Change of										
10 Depresiminationalization 142 1	0		974									
11 Tails 210 -<				_	_	-	-	-	-	_	_	-
Distribution 12 Operating Express 12,019 -			210	-	-	-	-	-	-	-	-	-
13 Operating Expenses 12,049 . </td <td>12</td> <td>Total Underground Storage</td> <td>1,676</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>	12	Total Underground Storage	1,676	-	-	-	-	-	-	-	-	-
13 Operating Expenses 12,049 . </td <td></td> <td>Distribution</td> <td></td>		Distribution										
14 Depreciation Amonganisation 9,966 -	13		12 049		-	_		_	_	_	_	_
15 Take 16 Take Total Distribution 12,807 -												
16 Total Distribution 34,722 - - (5,183) 375 - - - 17 Customer Accounting 7,352 2 - - (5,183) 375 - - - 18 Customer Accounting 7,352 2 - <td></td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>(5.183)</td> <td>375</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td>				-	-	-	(5.183)	375	-	-	-	-
17 Cutomer Accounting 7.352 . 2 . <td></td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td>				-	-	-			-	-	-	
18 Customer Service & Information 7.995 .												
19 Sales Expenses 1.3.763 -	17	Customer Accounting		-	2	-	-		(590)	-	-	-
Administrative & General 13.763 . <t< td=""><td></td><td></td><td>7,595</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></t<>			7,595	-	-	-	-	-	-	-	-	-
20 Operating Expenses 13,763 - </td <td>19</td> <td>Sales Expenses</td> <td>-</td>	19	Sales Expenses	-	-	-	-	-	-	-	-	-	-
20 Operating Expenses 13,763 - </td <td></td> <td>Administrative & General</td> <td></td>		Administrative & General										
12 Regulatory Amoritzations -<	20		13,763	-	-	-	-	-	-	(3)	76	-
1 1 -		Depreciation/Amortization	6,260	-	-	-	-	-	-	-	-	-
24 Total Admin. & General 20.023 - <td< td=""><td></td><td></td><td>-</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></td<>			-									
25 Total Gas Expense 187.893 - 2 - (5,183) 375 (590) (3) 76 - 26 OPERATING INCOME BEFORE FIT 32.523 - (2) - (32) (375) 590 3 (76) - 7 Current Accrual (841) - (1) - (11) (131) 207 1 (27) - 29 Defened FIT 9.233 -				-	-	-	-	-	-	- (3)	- 76	
26 OPERATING INCOME BEPORE FIT 32,523 - (2) - (32) (375) 590 3 (76) FEDERAL INCOME TAX 27 Current Acrual (841) - (1) - (11) (131) 207 1 (27) - 28 Debt Intrest - 3 - 9 - <t< td=""><td></td><td></td><td></td><td></td><td></td><td>-</td><td></td><td></td><td></td><td></td><td></td><td></td></t<>						-						
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FEDERAL INCOME TAX 27 Current Accrual (841) - (1) - (11) (131) 207 1 (27) - 28 Debt Interest - 3 - 9 -	26	OPERATING INCOME BEFORE FIT	32.523	-	(2)	-	(32)	(375)	590	3	(76)	-
27 Current Accmul (841) - (11) - (11) (131) 207 1 (27) - 28 Debi Interest - - 3 - 9 -			. ,				(-)	()			()	
28 Debt Interest -		FEDERAL INCOME TAX										
29 Deferred FIT 9.923 -			(841)	-				(131)	207	1		-
30 Amort ITC (17) - <			0.022		-		-	-	-	-	-	
31 NET OPERATING INCOME \$ \$ 23,458 \$ (3) \$ (1) \$ (9) \$ (21) \$ (24) \$ 384 \$ 2 \$ (49) \$ - RATE BASE PLANT IN SERVICE 2 Underground Storage \$ 2.6,868 \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ -				-	-	-	-	-	-		-	-
RATE BASE PLANT IN SERVICE 32 Underground Storage \$ 26,868 \$ - \$	50		(17)									
PLANT IN SERVICE 32 Underground Storage \$ 26,868 \$ - \$<	31	NET OPERATING INCOME	\$ 23,458	\$ (3)	\$ (1)	\$ (9)	\$ (21)	\$ (244)	\$ 384	\$ 2	\$ (49)	\$ -
32 Underground Storage \$ 26,868 \$ - \$<		RATE BASE										
33 Distribution Plant 390,508 -<		PLANT IN SERVICE										
34 General Plant 82,624 -				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35 Total Plant in Service 500,000 - <t< td=""><td></td><td></td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td></t<>				-	-	-	-	-	-	-	-	-
ACCUMULATED DEPRECIATION/AMORT 36 Underground Storage (10,317) - </td <td></td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td>				-	-	-	-	-	-	-	-	
36 Underground Storage (10,317) -	35	Total Plant in Service	500,000	-	-	-	-	-	-	-	-	-
37 Distribution Plant (129,098) -												
38 General Plant (23,473) -				-	-	-	-	-	-	-	-	-
39 Total Accumulated Depreciation/Amortization (162,888) -				-	-	-	-	-	-	-	-	-
40 NET PLANT 337,112 -				-	-	-	-	-	-	-	-	
42 Net Plant After DFTT 263,256 (325) -	40	NET PLANT		-	-	-	-	-	-	-	-	-
43 GAS INVENTORY 9,116 -	41	DEFERRED TAXES	(73,856)	(325)	-	-	-	-	-	-	-	-
43 GAS INVENTORY 9,116 -	42	Net Plant After DFIT	263.256	(325)	-	-	-	-	-	-	-	-
45 OTHER (249) -				-	-	-	-	-	-	-	-	-
46 WORKING CAPITAL 15,664 - - (864) -<				-	-	-	-	-	-	-	-	-
47 TOTAL RATE BASE \$ 287,787 \$ (325) \$ - \$ (864) \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$					-	10 - 1						
48 RATE OF RETURN 8.15% 50 REVENUE REQUIREMENT -2,138 -35 2 -93 34 393 -618 -3 80 0 Pro Forma Rate of Return 7.69%	46	WORKING CAPITAL	15,664	-	-	(864)	-	-	-	-	-	
48 RATE OF RETURN 8.15% 50 REVENUE REQUIREMENT -2,138 -35 2 -93 34 393 -618 -3 80 0 Pro Forma Rate of Return 7.69%	47	TOTAL RATE BASE	\$ 287.787	\$ (325)	s -	\$ (864)	s -	s -	s -	\$ -	s -	s -
50 REVENUE REQUIREMENT -2,138 -35 2 -93 34 393 -618 -3 80 0 Pro Forma Rate of Return 7.69%				- (543)	Ψ.	Ψ (004)	* •	Ψ ·	- ·	* •	Ψ -	* -
				-35	2	-93	34	393	-618	-3	80	0
Revenue Conversion Factor 0.620645		Pro Forma Rate of Return	7.69%									
		Revenue Conversion Factor	0.620645									

(Natural Gas) AVISTA UTILITIES WASHINGTON NATURAL GAS - PRO FORMA TRADITIONAL PRO FORMA STUDY TWELVE MONTHS ENDED DECEMBER 31, 2016 (000'S OF DOLLARS)

Pro Forma Rate of Return

Revenue Conversion Factor

$\begin{array}{ c c c c c c c c c c c c c c c c c c c$	bt TOTA	Restate Debt Interest	Restating Incentives	Project Compass Deferral	Misc. Restating Non-Util / Non- Recurring Expenses	Eliminate Adder Schedules	Weather Normalization / Gas Cost Adjust	Net Gains & Losses	Restate Excise Taxes	Office Space Charges to Subs	DESCRIPTION	Line No.
REVENTS S </th <th>5</th> <th>2.15</th> <th>2.14</th> <th></th> <th></th> <th>2.11</th> <th></th> <th>2.09</th> <th>2.08</th> <th></th> <th></th> <th>·</th>	5	2.15	2.14			2.11		2.09	2.08			·
1 Taid General Bisines 5 . 5 . 5	DI R-Tt	G-DI	G-RI	G-CD	G-MR	G-EAS	G-WNGC	G-NGL	G-RET	G-OSC	Workpaper Reference	
1 1 1 1 1 1 1 1 2 Total Tangentation - - 5/782 (44.510) - - - 4 Total Gas Revenues - - 5/782 (44.510) - - - 5 City (Gas Numbers) -												
3 0 dor. Revenues -	- \$ 150,9	\$ -	\$ -	-	\$ -	\$ (1,240)	\$ 11,209	s -	\$ -	\$ -		
4 Total Gas Revenues - - 5.782 (64.516) - - - 5 Purblast Gas Express - - 5.224 (54.119) - - - 6 Purblast Gas Express - - 6.233) -	- 4,4	-	-	-	-	-	(5.107)	-	-	-		
EXPENSIS Production Express - 5.271 (64.419) -	- 1,0 - 156,4		-	-	-			-	-			
Production Expenses - - 5.274 (54,119) - - - 6 Purchased Gas Exprese - - 6 - <t< td=""><td>- 150,4</td><td>-</td><td>-</td><td>-</td><td>-</td><td>(04,310)</td><td>3,782</td><td>-</td><td>-</td><td>-</td><td>Total Gas Revenues</td><td>4</td></t<>	- 150,4	-	-	-	-	(04,310)	3,782	-	-	-	Total Gas Revenues	4
Production Expenses - - 5.274 (54,119) - - - 6 Purchased Gas Exprese - - 6 - <t< td=""><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td>EXPENSES</td><td></td></t<>											EXPENSES	
6 Purchased Gas Expense -												
7 Net Not Gas Storing Trans -<	- 63,4	-	-	-	-	(54,419)	5,274	-	-	-		5
8 Total Podection - - 5.280 (57.351) - - - 10 Operating Expanses - <t< td=""><td>- 9</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>6</td><td>-</td><td>-</td><td>-</td><td>Purchased Gas Expense</td><td>6</td></t<>	- 9	-	-	-	-	-	6	-	-	-	Purchased Gas Expense	6
Underground Storage -	-	-	-	-	-		-	-	-			
9 Operating Expenses -	- 64,4	-	-	-	-	(57,351)	5,280	-	-	-	Total Production	8
9 Operating Expenses -											W 1 10	
10 Depreciation/Anontration -<												0
11 Taxis - <td>- 9</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td> <td></td>	- 9	-	-	-	-	-	-	-	-	-		
12 Toal Underground Storage -<	- 2	-	-	-	-	-	-	-	-	-		
Distribution Operating Expenses . <t< td=""><td>- 1,6</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td><td></td><td></td></t<>	- 1,6	-	-	-	-	-	-	-	-			
13 Operating Express -	,-										6	
14 Degregiation/Amoritzation -											Distribution	
15 Twes - - 430 (48) - - - 16 Total Distribution - 2 (13) 430 (48) 1 - - 17 Customer Accounting - - 54 (6) - <td< td=""><td>- 12,0</td><td>-</td><td>-</td><td>-</td><td>1</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>Operating Expenses</td><td>13</td></td<>	- 12,0	-	-	-	1	-	-	-	-	-	Operating Expenses	13
15 Twes - - 430 (48) - - - 16 Total Distribution - 2 (13) 430 (48) 1 - - 17 Customer Accounting - - 54 (6) - <td< td=""><td>- 9,8</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>(13)</td><td>-</td><td>-</td><td>Depreciation/Amortization</td><td>14</td></td<>	- 9,8	-	-	-	-	-	-	(13)	-	-	Depreciation/Amortization	14
17 Customer Accounting - - 54 (6) - <td>- 8,3</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>(48)</td> <td>430</td> <td></td> <td>2</td> <td>-</td> <td></td> <td></td>	- 8,3	-	-	-	-	(48)	430		2	-		
18 Castomer Service & Information -	- 30,2	-	-	-	1	(48)	430	(13)	2	=	Total Distribution	16
18 Castomer Service & Information -												
18 Castomer Service & Information -	- 6,8	-	-	-	-	(6)	54	-	-	-	Customer Accounting	17
Administrive & General Operating Expenses (9) - 22 (2) (316) - (181) 20 Regulatory Amorizations -	- 9	-	-	-	-		-	-	-	-	Customer Service & Information	18
20 Operating Expenses (9) - - 22 (2) (316) - (18) 21 Deprection/Amorizations -	-	-	-	-	-	-	-	-	-	-	Sales Expenses	19
20 Operating Expenses (9) - - 22 (2) (316) - (181) 21 Deprection/Anontizations -												
1 Depreciation/Amortizations -												
22 Regulatory Amorizations - </td <td>- 13,3</td> <td>-</td> <td>(181)</td> <td>-</td> <td>(316)</td> <td>(2)</td> <td>22</td> <td>-</td> <td>-</td> <td>(9)</td> <td></td> <td></td>	- 13,3	-	(181)	-	(316)	(2)	22	-	-	(9)		
23 Taxes - <td>- 6,2</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td></td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td> <td></td>	- 6,2	-	-	-	-			-	-	-		
24 Total Admin. & General (9) - - 22 (2) (316) 1.079 (181) 25 Total Gas Expense (9) 2 (13) 5.786 (64.039) (315) 1.079 (181) 26 OPERATING INCOME BEFORE FIT 9 (2) 13 (4) (477) 315 (1.079) 181 FEDERAL INCOME TAX 27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (1) 28 Deferd FIT -<	- 1,0	-	-	1,079	-	-	-					
25 Total Gas Expense (9) 2 (13) 5,786 (64,039) (315) 1,079 (181) 26 OPERATING INCOME BEFORE FIT 9 (2) 13 (4) (477) 315 (1,079) 181 FEDERAL INCOME TAX 27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (1) 28 Debt Interest -	- 20,6		(191)	1.070	(216)	(2)		-	-	(0)		
26 OPERATING INCOME BEFORE FIT 9 (2) 13 (4) (477) 315 (1,079) 181 FEDERAL INCOME TAX 27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (177) 28 Debt Interest -	- 20,0		(181)	1,079	(510)	(2)	22	-	-	(9)	Total Admin. & General	24
FEDERAL INCOME TAX 27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (172) 29 Deferred FIT -	- 124,8	-	(181)	1,079	(315)	(64,039)	5,786	(13)	2	(9)	Total Gas Expense	25
FEDERAL INCOME TAX 27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (172) 29 Deferred FIT -	21.6		101	(1.070)	215	(477)		12		0	OPER ATRIC BICOME REPORT FIT	26
27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (178) 28 Debt Interest -	- 31,5	-	181	(1,079)	315	(477)	(4)	13	(2)	9	OPERATING INCOME BEFORE FIT	26
27 Current Accrual 3 (1) 5 (1) (167) 110 (378) 63 (178) 28 Debt Interest -											EEDED AL INCOME TAY	
28 Debt Interest -	171) (1,3	(171	63	(378)	110	(167)	(1)	5	(1)	3		27
29 Deferred FIT - <	1/1) (1,5	(171	-	(370)	-	(107)	(1)	-	-	-		
30 Amort ITC -	- 9,9	-	-	-	-	-	-	-	-	-		
RATE BASE 32 Underground Storage \$ <	- (-	-	-	-	-	-	-	-	-		
RATE BASE JUnderground Storage \$ <												
PLANT IN SERVICE 32 Underground Storage \$	171 \$ 23,0	\$ 171	\$ 118	6 (701)	\$ 205	\$ (310)	\$ (3)	\$ 8	\$ (1)	\$6	NET OPERATING INCOME	31
PLANT IN SERVICE 32 Underground Storage \$											DATEDASE	
32Underground Storage\$												
33Distribution Plant<	- \$ 26,8	s -	s -	· -	s	- 2	s -	s -	s -	s -		32
34General Plant<	- 390,5			-	-		÷ -		÷ -	-		
ACCUMULATED DEPRECIATION/AMORT 36 Underground Storage -	- 82,6	-	-	-	-	-	-	-	-	-		
ACCUMULATED DEPRECIATION/AMORT 36 Underground Storage -											Total Direction Commission	25
36Underground Storage	- 500,0	-	-	-	-	-	-	-	-	-		35
37 Distribution Plant -												
38General Plant<	- (10,3	-	-	-	-	-	-	-	-	-		
39 Total Accumulated Depreciation/Amortization -	- (129,0	-	-	-	-	-	-		-			
40 NET PLANT - - - - - 41 DEFERRED TAXES - - - - - 42 Net Plant After DFT - - - - - 43 GAS INVENTORY - - - - - 44 GAIN ON SALE OF BUILDING - - - - - 45 OTHER - - - - - - 46 WORKING CAPITAL - - - - - -	- (23,4 - (162,8		-			-			-			
41 DEFERRED TAXES -									-			
42Net Plant After DFT	- 337,1 - (74,1								-			
43 GAS INVENTORY -			-	-	-	-	-	-	-		DEFERRED TAAES	41
44 GAIN ON SALE OF BUILDING - - - - - 45 OTHER 46 WORKING CAPITAL - - - -	- 262,9	-	-	-	-	-	-	-	-	-		
45 OTHER 46 WORKING CAPITAL	- 9,1	-	-	-	-	-	-	-	-	-		
46 WORKING CAPITAL	-	-	-	-	-	-	-	-	-	-		
	(2											
47 TOTAL RATE RASE \$ - \$ - \$ - \$ - \$ - \$ - \$ - \$	- 14,8		-	-	-	-	-	-	-		WORKING CAPITAL	46
4/ LUTAL BATE BADE 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5 - 5	\$ 20× -	¢	¢	•	¢	•	¢	¢	¢	¢	TOTAL DATE DAGE	4-
	- \$ 286,5	ф -	ф -	- •	- ¢	P -	р -	ф -	ə -	ð -		
48 RATE OF RETURN 50 REVENUE REQUIREMENT -9 2 -14 4 500 -330 1,130 -190 -2	-276 -1,:	27.	100	1 120	220	500	4	1.4	2	0		
2 -14 4 500 -550 1,150 -190 -2 (1) The Restated TOTAL column does not represent 12/31/2016 Test Period Commission Basis results of operation on a normalize											KETENDE KEQUIKEMENT	50

(1) The Restated TOTAL column does not represent 12/31/2016 Test Period Commission Basis results of operation on a normalized basis (CBR basis). Difference exists due to inclusion of proposed cost of debt (pro forma versus CBR cost of debt) impacting Adjustment 2.15 above

(Natural Gas)

AVISTA UTILITIES WASHINGTON NATURAL GAS - PRO FORMA TRADITIONAL PRO FORMA STUDY TWELVE MONTHS ENDED DECEMBER 31, 2016 (000'S OF DOLLARS)

PRO FORMA ADJUSTMENTS

Pro Forma Line Atmospheric Testing Labor Labor Employee Incentive Property IS/IT Revenue No. DESCRIPTION & Leak Survey Non-Exec Exec Benefits malization Adjustmen Tax Expense Adjsutment Number 3.01 3.02 3.03 3.04 3.05 3.06 3.08 3.07 G-PAT G-PLN G-PEB G-PPT G-PREV Workpaper Reference G-PLE G-PI G-PIS REVENUES (66,671) 1 Total General Business \$ \$ - \$ - \$ - \$ - \$ \$ - \$ Total Transportation 56 2 3 Other Revenues (776) 4 Total Gas Revenues (67,391) EXPENSES Production Expenses City Gate Purchases (63, 460)5 -Purchased Gas Expense 31 (6) 6 _ _ _ _ Net Nat Gas Storage Trans 7 Total Production 31 (6) (63,460) 8 Underground Storage 9 Operating Expenses 10 Depreciation/Amortization 11 Taxes 37 Total Underground Storage 12 -37 --Distribution 13 Operating Expenses 348 371 (76) _ _ . _ 14 Depreciation/Amortization _ (2,554) 439 15 Taxes 348 371 (76) 16 Total Distribution 439 (2,554)17 Customer Accounting 203 (41) (322) 18 Customer Service & Information _ 18 (4) _ . . _ 19 Sales Expenses _ --Administrative & General 20 Operating Expenses 251 (10) (49) 34 201 (133) 21 Depreciation/Amortization 22 Regulatory Amortizations 23 Taxes Total Admin. & General 24 251 (10)(49)34 201 (133)25 Total Gas Expense 348 874 (10) (176) 34 476 201 (66,469) OPERATING INCOME BEFORE FIT (348) (874) 10 176 (34) (476) (201) (922) 26 FEDERAL INCOME TAX 27 (122) (306)4 62 (12)(167)(70)(323)Current Accrual 28 Debt Interest 29 Deferred FIT -----Amort ITC 30 NET OPERATING INCOME 7 114 \$ 31 \$ (226) \$ (568) \$ ¢ (22) \$ (309) \$ (131) \$ (599) RATE BASE PLANT IN SERVICE 32 Underground Storage \$ \$ - \$ \$ \$ - \$ - \$ \$ --33 Distribution Plant --34 General Plant 35 Total Plant in Service ACCUMULATED DEPRECIATION/AMORT 36 Underground Storage _ _ _ 37 Distribution Plant General Plant 38 Total Accumulated Depreciation/Amortization 39 NET PLANT 40 DEFERRED TAXES 41 Net Plant After DFIT 42 -----43 GAS INVENTORY GAIN ON SALE OF BUILDING 44 -45 OTHER WORKING CAPITAL 46 47 TOTAL RATE BASE 9 48 RATE OF RETURN REVENUE REQUIREMENT 364 915 -10 -184 36 211 966 499 50

Pro Forma Rate of Return Revenue Conversion Factor

(Natural Gas) AVISTA UTILITIES WASHINGTON NATURAL GAS - PRO FORMA TRADITIONAL PRO FORMA STUDY TWELVE MONTHS ENDED DECEMBER 31, 2016 (000'S OF DOLLARS)

Adjustent Number Aug	Line No.	DESCRIPTION	Pro Forma Regulatory Amortization	Pro Forma 2017 Threshhold Capital Adds	Pro Forma O&M Offsets	Pro Forma Director Fees Expense	Pro Forma Leap Deferral Gas Line Ext.	Pro Forma Total
Districts S								
1 Total General Business S <td></td> <td>Workpaper Reference</td> <td>G-PRA</td> <td>G-PCAP16</td> <td>G-POFF</td> <td>G-PDF</td> <td>G-PLEAP</td> <td>PF-Ttl</td>		Workpaper Reference	G-PRA	G-PCAP16	G-POFF	G-PDF	G-PLEAP	PF-Ttl
1 1 1 1 1 4 4 53 344 4 Total Gas Revenues - - - 3 344 4 Total Gas Revenues - - - - 3 344 5 City Gas Revenues -			<u>^</u>	*		<u>^</u>	<u>^</u>	
3 0her Rommen . <td< td=""><td></td><td></td><td>\$ -</td><td>\$ -</td><td>\$ -</td><td>\$ -</td><td>\$ -</td><td></td></td<>			\$ -	\$ -	\$ -	\$ -	\$ -	
4 Total Gis Revenues - - - - 88076 EXPRNSIS -			-	-	-		-	
EXPENSIS Production Expenses - - - - - 1.00 6 Pochased Gae Expense - - - - 1.00 7 Total Production - - - - - 1.00 9 Operating Expenses - <t< td=""><td></td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td></td></t<>			-	-	-	-	-	
Production Expenses .								,
5 City Gas Parchasei - - - 10.07 6 Parchased Gas Expanse - - - 10.07 7 Net Nat Gas Stargars - - - 10.07 9 Total Production - - - 10.07 9 Depreciation Amoritzation - - - 207 10 Total Underground Storage - - - 207 11 Taxes - - - 207 12 Total Underground Storage - - - 10.07 13 Operating Expanse - - - 10.219 14 Deprecision Amoritzation - 366 - - 6.368 15 Taxes - - - - 6.438 364 5.458 364 5.458 364 5.458 364 5.458 364 5.458 364 5.458 364 5.458 364 5.4174 378 5.45 5.45 5.45 5.45 5.45								
6 Purchase Gas Expense - - - - - 1,019 8 Total Podaction - - - - - 1,019 0 Operating Expenses - - - - - 9,119 10 Depreciation Amortization - - - - 9,139 10 Depreciation Amortization - - - - 9,139 11 Depreciation Amortization - - - - 1,2493 12 Total Undeground Storage - - - 1,2493 13 Operating Expenses - - - 2,2486 14 Depreciation Amortization - - - 2,248 14 Depreciation Amortization - - - 2,2486 15 Total Undeground Storage - - - 2,2486 15 Total Storage Total - - - <td>5</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	5							
7 Net Not Cisa Storage - - - - 1009 9 Operating Expenses - - - - 971 9 Operating Expenses - - - - 971 10 Dependition Autoritation - - - - 971 11 Total Dubdreground Storage - - - - 1097 11 Operating Expenses - - - - 10097 12 Total Dubdreground Storage - - - 10209 13 Operating Expenses - - - 10209 14 Depreciation Amorization - - - 40209 15 Taxes - - - - 40209 15 Taxes - - - - 40209 16 Customer Accounting - - - - 907 17 Customer Accounting - - - - - 907 <td></td> <td>2</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>1.019</td>		2	-	-	-	-	-	1.019
Underground Sorage -			-	-	-	-	-	-,
9 Operating Express - - - - 402 11 Taxes - - - - 402 11 Taxes - - - - 402 12 Total Information - - - - 402 13 Operating Express - - - - 10319 14 Depreciation Amontization - 566 - - 102319 15 Taxes - - - 6652 - - 20380 17 Customer Accounting - - - - 6652 - - - 977 18 Customer Accounting - - - - 977 977 977 978 137407 7407 7407 7407 747	8	Total Production	-	-	-	-	-	1,019
9 Operating Express - - - - 402 11 Taxes - - - - 402 11 Taxes - - - - 402 12 Total Information - - - - 402 13 Operating Express - - - - 10319 14 Depreciation Amontization - 566 - - 102319 15 Taxes - - - 6652 - - 20380 17 Customer Accounting - - - - 6652 - - - 977 18 Customer Accounting - - - - 977 977 977 978 137407 7407 7407 7407 747		Underground Stores						
10 Deprecianal/Anontration - - - 247 12 Toal Underground Storage - - - 247 13 Operating Express - - - 1.713 Distribution - - - - 1.6263 14 Depreciation/Anontration - - 6.268 - - - 6.268 15 Taxes - - - 6.268 - - - 6.652 16 Total Distribution - - - 6.652 - - - 6.652 10 Operating Express -	9			_	-		_	974
11 Tarkes - - - - 247 12 Toal Moreground Storage - - - 1.747 13 Operating Expenses - - - 1.269 14 Depreciation Annotization - - - 1.269 15 Traces - - - 6.268 16 Toal Distribution - - - 6.682 17 Customer Accounting - - - 6.682 18 Customer Accounting - - - 997 20 Operating Expenses - - (32) 108 - 13.720 20 Operating Expenses - - - - 997 13 21 Toal Admin. & General - - - - - 13.720 22 Toal Gas Expense - - - - - 7.477 23 Toal Gas Expense - - - - - - -<			-	-	-	-	-	
Diarthuion Iso operating Expenses Iso operating Expenses	11			-	-	-	-	
13 Operating Expanses - - - - 18.2693 14 Depreciation/Amorization - 366 - - 18.2693 15 Taxes - - - - 18.2693 15 Total Distribution - - - - - 29.189 17 Customer Accounting -	12	Total Underground Storage	-	-	-	-	-	1,713
13 Operating Expanses - - - - 18.2693 14 Depreciation/Amorization - 366 - - 18.2693 15 Taxes - - - - 18.2693 15 Total Distribution - - - - - 29.189 17 Customer Accounting -		Distribution						
14 Depresition Anontization - 366 - - 16.219 15 Taxes - - - 29.180 17 Customer Accounting - - - 29.180 18 Customer Service & Information -	13		-	-	-	-	-	12.693
15 Takes - - - - - - 29,180 16 Total Distribution - - - - 29,180 17 Customer Accounting - - - - - - 9,91,100 18 Customer Accounting - - - - - 9,971,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 9,91,100 1,12,17 - - - 7,177 7,477 7,477 7,477 7,477 7,477 7,477 7,477 7,477 - - - - - - - - 7,477 4,543 5,44 5,44 5,44 5,44 5,44 5,44 1,1079 1,12,17 - <td< td=""><td></td><td></td><td>-</td><td>366</td><td>_</td><td>-</td><td>_</td><td></td></td<>			-	366	_	-	_	
17 Customer Accounting - - - - - 6.652 18 Customer Service & Information - - - - - - 777 19 Sales Expenses - - - - - - - 747 20 Operating Expenses - - - - - - 747 21 Depreciation Amontration - - - - - - - 747 22 Total Admin. & General (1079) 1.583 (32) 108 584 21781 25 Total Gas Expense (1079) 1.583 (32) 108 584 21781 26 OPERATING INCOME EAX - - - - - 109 (183) 29 Deferred FT 1.079 (1.583) 32 (108) 5 201 5 9023 20 Interset - - - - - - 107 31 NET OPERATING			-	-	-	-	-	
18 Customer Service & Information -	16	Total Distribution	-	366	-	-	-	29,180
18 Customer Service & Information -								
19 Sales Expenses -			-	-	-		-	
Administrivé & General 13,70 20 Operating Expenses . <t< td=""><td></td><td></td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>9//</td></t<>			-	-	-	-	-	9//
20 Operating Expenses - - - - - - - - 7,477 21 Depreciation/Amortizations (1,079) - - - - 7,447 22 Regulatory Amortizations (1,079) 1,217 - - - - - - - - - 7,447 23 Total Admin. & General (1,079) 1,217 (32) 108 584 21,781 25 Total Gas Expense (1,079) 1,583 (32) 108 584 61,322 26 OPERATING INCOME BEFORE FIT 1,079 (1,583) 32 (108) (54) 27,754 FEDERAL INCOME TAX - - (160) - - (107) 30 Amort ITC - - - - (107) (1,583) 32 (108) - 9,923 31 NET OPERATING INCOME \$ 701<\$	17	bues Expenses						-
21 Depreciation/Amorization - 1,217 - - 7,477 22 Regularry Amorizations (1,079) 1,217 - - 584 584 24 Total Admin. & General (1,079) 1,217 G22 108 584 21,781 25 Total Gas Expense (1,079) 1,583 G32 108 584 64,322 26 OPERATING INCOME BEFORE FIT 1,079 (1,583) 32 (108) (584) 27,754 FEDERAL INCOME TAX - - (180) - - (15) (183) 20 Defered FIT 1,079 (1,583) 32 (108) (264) (2,681) 21 Delt Interest - (180) - - (163) (163) 20 Defered FIT - - (180) - - (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (700) \$ (365) \$ 20,712 RATE BASE -								
22 Regulatory Amorizations (1.079) 584 584 584 23 Taxes -			-	-		108	-	
23 Taxes - <td></td> <td></td> <td>(1.070)</td> <td></td> <td>-</td> <td>-</td> <td>-</td> <td></td>			(1.070)		-	-	-	
24 Total Admin. & General (1,079) 1,217 (32) 108 584 21,781 25 Total Gas Expense (1,079) 1,583 (32) 108 584 61,322 26 OPERATING INCOME BEFORE FIT 1,079 (1,583) 32 (108) (584) 27,754 FEDERAL INCOME TAX 7 (1,079) (1,583) 32 (108) (584) 27,754 9 Debit Interest 1 (1,079) (1,583) 32 (108) (2,04) (2,681) 29 Deferred FIT - - - - - 9,923 30 Amort ITC - - - - - - 9,923 31 NET OPERATING INCOME \$ 701 \$ (848) \$ \$21 \$ (70) \$ (365) \$ 20,712 RATE B ASE PLANT IN SERVICE - - \$ - 405,018 30 bistribution Plant - \$ - 5 - \$ 22,770 ACCUMULATED DEPRECIATION/AMORT - -			(1,077)	-	-	-	- 504	
26 OPERATING INCOME BEFORE FIT 1,079 (1,583) 32 (108) (584) 27,754 FEDERAL INCOME TAX 378 (554) 11 (38) (204) (2,681) 27 Current Accrual 378 (554) 11 (38) (204) (2,681) 29 Deferred FIT - - - (15) (183) 30 Amort ITC - - - (17) (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ - \$ 26,60 - - \$ 26,668 30 Distribution Plant - 14,510 - - \$ 26,068 3 90,884 35 Total Plant in Service - \$ 22,770 - - - \$ 22,770 ACCUMULATED DEPRECIATION/AMORT - - - 163,377 - - </td <td></td> <td></td> <td>(1,079)</td> <td>1,217</td> <td>(32)</td> <td>108</td> <td>584</td> <td>21,781</td>			(1,079)	1,217	(32)	108	584	21,781
26 OPERATING INCOME BEFORE FIT 1,079 (1,583) 32 (108) (584) 27,754 FEDERAL INCOME TAX 378 (554) 11 (38) (204) (2,681) 27 Current Accrual 378 (554) 11 (38) (204) (2,681) 29 Deferred FIT - - - (15) (183) 30 Amort ITC - - - (17) (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ - \$ 26,60 - - \$ 26,668 30 Distribution Plant - 14,510 - - \$ 26,068 3 90,884 35 Total Plant in Service - \$ 22,770 - - - \$ 22,770 ACCUMULATED DEPRECIATION/AMORT - - - 163,377 - - </td <td>25</td> <td>Total Gas Expense</td> <td>(1.079)</td> <td>1.583</td> <td>(32)</td> <td>108</td> <td>584</td> <td>61.322</td>	25	Total Gas Expense	(1.079)	1.583	(32)	108	584	61.322
FEDERAL INCOME TAX 27 Current Accrual 378 (554) 11 (38) (204) (2,681) 28 Debt Interest - (180) - - (15) (183) 29 Defered FIT - - - - - 9923 30 Amont TIC - - - - - - 9023 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ - \$ - \$ 405,018 32 Underground Storage \$ - \$ - \$ 22,770 - - - 90,884 35 Total Plant - 22,770 - - - 522,770 ACCUMULATED DEPRECIATION/AMORT - - - 10,317) - - - 10,317) 35 Total Plant - - - <td></td> <td>-</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>		-						
27 Current Accrual 378 (554) 11 (38) (204) (2,681) 28 Debt Interest - (180) - - (15) (183) 29 Deferred FIT - - - (17) (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ \$ - - - 405,018 32 Underground Storage \$ - \$ - \$ 22,770 - - - 405,018 34 General Plant - 8,260 - - 90,884 35 Total Partin Service - 22,770 - - - \$ 222,770 4004 General Plant - (163) - - (10,317) 36 General Plant - - - - (103,675) 37 Distribution Plant<	26	OPERATING INCOME BEFORE FIT	1,079	(1,583)	32	(108)	(584)	27,754
27 Current Accrual 378 (554) 11 (38) (204) (2,681) 28 Debt Interest - (180) - - (15) (183) 29 Deferred FIT - - - (17) (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ \$ - - - 405,018 32 Underground Storage \$ - \$ - \$ 22,770 - - - 405,018 34 General Plant - 8,260 - - 90,884 35 Total Partin Service - 22,770 - - - \$ 222,770 4004 General Plant - (163) - - (10,317) 36 General Plant - - - - (103,675) 37 Distribution Plant<		FEDERAL INCOME TAX						
29 Deferred FIT - - - - 9,923 30 Amort ITC - - - - - (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ - \$ - \$ 26,868 32 Underground Storage \$ - \$ - \$ - \$ 26,868 33 Distribution Plant - 14,510 - - 405,018 34 General Plant - 8,260 - - 90,884 35 Total Plant in Service - 22,770 - - - 522,770 ACCUMULATED DEPRECIATION/AMORT - - - - - - 1(129,261) 36 General Plant - - - - - - 1(129,261) 37 Distribution Plant - <	27		378	(554)	11	(38)	(204)	(2,681)
30 Amort ITC - - - - (17) 31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE \$ - \$ - \$ 20,712 31 Distribution Plant \$ - \$ - \$ 20,712 32 Underground Storage \$ - \$ - \$ 20,712 33 Distribution Plant - \$ - \$ - \$ 26,868 34 General Plant - 14,510 - - 90,884 35 Total Plant in Service - 22,770 - - 90,884 35 Total Accumulated Depreciation/AMORT - - (10,317) - - (10,317) 38 General Plant - - - (12,2,26) (12,2,26) 39 Total Accumulated Depreciation/Amortization - - - 359,095 41 DEFERRED TAXES <td></td> <td></td> <td>-</td> <td>(180)</td> <td>- (</td> <td>-</td> <td>(15)</td> <td></td>			-	(180)	- (-	(15)	
31 NET OPERATING INCOME \$ 701 \$ (848) \$ 21 \$ (70) \$ (365) \$ 20,712 RATE BASE PLANT IN SERVICE			-			-		
RATE BASE 92 Underground Storage \$ - \$ - \$ - \$ \$ 26,868 33 Distribution Plant - 14,510 - - 405,018 34 General Plant - 8,260 - - 90,884 35 Total Plant - 22,770 - - - 522,770 ACCUMULATED DEPRECIATION/AMORT - - - 22,770 - - - 522,770 36 Underground Storage - - - - 103,171 37 Distribution Plant - - - - 129,261) 37 Distribution Plant - - - - 129,261) 38 General Plant - - - 129,261) - - - 129,261) 39 Total Accumulated Depreciation/Amortization - - - 163,075) - - - 163,075) 40 NET PLANT - - - - -	30	Amort ITC		-	-	-	-	(17)
PLANT IN SERVICE \$	31	NET OPERATING INCOME	\$ 701	\$ (848)	\$ 21	\$ (70)	\$ (365)	\$ 20,712
PLANT IN SERVICE \$		RATE BASE						
33 Distribution Plant - 14,510 - 405,018 34 General Plant - 8,260 - 90,884 35 Total Plant in Service - 22,770 - - 522,770 ACCUMULATED DEPRECIATION/AMORT - - 22,770 - - 522,770 ACCUMULATED DEPRECIATION/AMORT - - - - 522,770 36 Underground Storage - - - 624,070 37 Distribution Plant - (163) - - (10,317) 37 Total Accumulated Depreciation/Amortization - (163) - - (129,261) 38 General Plant - (163) - - (129,261) (24,097) 39 Total Accumulated Depreciation/Amortization - (78,72) - - (163,675) 40 NET PLANT - 17,841 - - - 280,772 36 GAS INVENTORY - - - - - - - <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>								
34 General Plant - 8,260 - 90,884 35 Total Plant in Service - 22,770 - - 522,770 ACCUMULATED DEPRECIATION/AMORT - 22,770 - - 522,770 36 Underground Storage - - - 522,770 - - 522,770 36 General Plant - (163) - - (10,317) 37 Distribution Plant - (163) - - (129,261) 38 General Plant - (787) - - - (163,675) 39 Total Accumulated Depreciation/Amortization - (787) - - - 359,095 41 DEFERRED TAXES - - - 280,772 - - 280,772 42 Net Plant After DFIT - 17,841 - <td></td> <td></td> <td>\$ -</td> <td></td> <td>\$ -</td> <td>\$ -</td> <td></td> <td></td>			\$ -		\$ -	\$ -		
35 Total Plant in Service - 22,770 - - 522,770 ACCUMULATED DEPRECIATION/AMORT Underground Storage - - - 522,770 36 Underground Storage - - - - 522,770 37 Distribution Plant - (163) - - (10,317) 38 General Plant - (624) - - (129,261) 39 Total Accumulated Depreciation/Amortization - (787) - - (163,675) 40 NET PLANT - (129,261) (129,261) (129,261) (24,097) 41 DEFERRED TAXES - - (163,675) - - 365,053 42 Net Plant After DFTT - 17,841 - - - 380,772 43 GAS INVENTORY - - - 9,116 - - - 9,116 44 GAIN ON SALE OF BUILDING - - - - - - - - - - <td< td=""><td></td><td></td><td></td><td></td><td>-</td><td></td><td>-</td><td></td></td<>					-		-	
ACCUMULATED DEPRECIATION/AMORT - - - - (10,317) 36 Underground Storage - - - (10,317) 37 Distribution Plant - (163) - - (129,261) 38 General Plant - (624) - - (24,097) 39 Total Accumulated Depreciation/Amortization - (787) - - 0 (163,675) 40 NET PLANT - (14,142) - - 359,095 41 DEFERRED TAXES (4,142) - - 280,772 42 Net Plant After DFIT - 17,841 - - - 280,772 43 GAS INVENTORY -<	54	General Plant			-		-	
36 Underground Storage - - - (10,317) 37 Distribution Plant - (163) - (129,261) 38 General Plant - (624) - (24,097) 39 Total Accumulated Depreciation/Amortization - (787) - - (163,675) 40 NET PLANT - 0.103,833 - - - 359,095 41 DEFERRED TAXES (4,142) (78,323) - - - 280,772 42 Net Plant After DFT - 17,841 - - - 280,772 43 GAIN ON SALE OF BUILDING - - - 9,116 45 OTHER - - - - - 46 WORKING CAPITAL -	35	Total Plant in Service	-	22,770	-	-	-	522,770
37 Distribution Plant - (163) - - (129,261) 38 General Plant - (624) - - (24,097) 39 Total Accumulated Depreciation/Amortization - (787) - - (163,675) 40 NET PLANT - 21,983 - - 335,037 41 DEFERRED TAXES (4,142) (78,323) - - 359,032 42 Net Plant After DFTT - 17,841 - - 280,772 43 GAS INVENTORY - - - 9,116 44 GAIN ON SALE OF BUILDING - - - - 45 OTHER 1,474 1,225 - - - - 46 WORKING CAPITAL -								
38 General Plant - (624) - (24,097) 39 Total Accumulated Depreciation/Amortization - (787) - - (163,675) 40 NET PLANT - 21,983 - - 359,095 41 DEFERRED TAXES (4,142) (78,323) - - 359,095 42 Net Plant After DFTT - 17,841 - - 280,772 43 GAS INVENTORY - 17,841 - - 280,772 44 GAIN ON SALE OF BUILDING - - - - - 45 OTHER 1,474 1,225 - - - - 46 WORKING CAPITAL -			-		-	-	-	
39 Total Accumulated Depreciation/Amortization - (787) - - (163,675) 40 NET PLANT - 21,983 - - 359,095 41 DEFERRED TAXES (4,142) (78,323) (78,323) 42 Net Plant After DFIT - 17,841 - - 280,772 43 GAIN ON SALE OF BUILDING - - 9,116 - - 9,116 45 OTHER 1,474 1,225 - - - - - - - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN - \$ 1,474 \$ 305,913			-				-	
41 DEFERRED TAXES (4,142) (78,323) 42 Net Plant After DFIT - 17,841 - - 280,772 43 GAS INVENTORY - - 9,116 9,116 44 GAIN ON SALE OF BUILDING - - 9,116 45 OTHER 1,474 1,225 46 WORKING CAPITAL - - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN \$ - \$ - \$ 1,474 \$ 305,913			-			-	-	
42 Net Plant After DFTT - 17,841 - - 280,772 43 GAS INVENTORY - - - 9,116 44 GAIN ON SALE OF BUILDING - - - 9,116 45 OTHER 1,474 1,225 - 14,800 46 WORKING CAPITAL - - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN \$ - \$ 1,474 \$ 305,913	40	NET PLANT	-	21,983	-	-	-	359,095
43 GAS INVENTORY - - 9,116 44 GAIN ON SALE OF BUILDING - - - 9,116 45 OTHER 1,474 1,225 - 14,800 46 WORKING CAPITAL - 14,800 - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN - \$ 1,474 \$ 305,913	41	DEFERRED TAXES	. <u> </u>	(4,142)				(78,323)
43 GAS INVENTORY - - 9,116 44 GAIN ON SALE OF BUILDING - - - 9,116 45 OTHER 1,474 1,225 - 14,800 46 WORKING CAPITAL - 14,800 - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN - \$ 1,474 \$ 305,913	42	Net Plant After DFIT	-	17,841	-	-	-	280,772
45 OTHER 1,474 1,225 46 WORKING CAPITAL - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN - \$ 1,474 \$ 305,913	43	GAS INVENTORY		-		-		
46 WORKING CAPITAL - 14,800 47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN - \$ 1,474 \$ 305,913						-		
47 TOTAL RATE BASE \$ - \$ 1,474 \$ 305,913 48 RATE OF RETURN							1,474	
48 RATE OF RETURN	40	WORKING CAFILAL						14,000
48 RATE OF RETURN	47	TOTAL RATE BASE	\$	<u>\$ 17,841</u>	<u></u> -	\$	<u>\$ 1,47</u> 4	\$ 305,913
50 REVENUE REQUIREMENT -1,130 3,578 -34 113 770 4,531								
	50	REVENUE REQUIREMENT	-1,130	3,578	-34	113	770	4,531

Pro Forma Rate of Return Revenue Conversion Factor

1

Exh. EMA-6 – Natural Gas Traditional Pro Forma Study

Q. Please explain the purpose of the natural gas Traditional Pro Forma
 Study.

4 A. In determining the Company's need for rate relief, the Company first 5 completed its Traditional Pro Forma Study, adjusting 2016 historical test year balances for 6 restating and pro forma adjustments. The restating and pro forma adjustments included in 7 this study are those traditionally accepted and approved by the Washington Utilities and 8 Transportation Commission (WUTC or Commission). This study alone, does not provide 9 the necessary rate relief needed to allow the Company the opportunity to earn the proposed 10 ROR requested in this case, and therefore, on its own is not the basis of the Company's 11 request. The results of the natural gas Traditional Pro Forma Study for Rate Year 1 is 12 \$4,531,000 million.

13

Q. Please explain what is shown on pages 1 - 3 of Exh. EMA-3.

A. Page 1 of Exh, EMA-6 shows, at line 7, the calculation of the natural gas
Pro Forma level revenue requirement of \$4,531,000, or 5.1% base revenue increase (2.98%
on a billed basis), as shown on lines 9 and 11.

Page 2 of Exh, EMA-2, shows the Cost of Capital and Capital Structure included in the Traditional Pro Forma Study, including: 1) 48.5% Common Equity / 51.5% Debt capital structure; 2) Return on Equity of 9.9%; and 3) cost of debt of 5.62%, resulting in an overall Rate of Return (weighted average cost of capital) of 7.69%. Company witness Mr. Thies discusses the Company's rate of return and the capital structure, while Company witness Mr. McKenzie provides additional testimony related to the appropriate return on equity for Avista. Page 3 shows the derivation of the natural gas net-operating-income-to-grossrevenue conversion factor. The conversion factor takes into account uncollectible accounts receivable, Commission fees and Washington State excise taxes. Federal income taxes are reflected at 35%.

5

6

Q. Now turning to pages pages 4 through 7 of Exh. EMA-6, please explain what is included on those pages.

7 A. Page 4 begins with actual operating results and rate base for the twelve-8 months-ending December 31, 2016 test period on an AMA basis in column (1.00). 9 Individual normalizing and restating adjustments that are standard components of our 10 annual reporting to the Commission begin in column (1.01) on page 4 and continue through 11 column (2.15) on page 5. Individual Pro Forma adjustments are shown on pages 6 and 7 12 in columns (3.01) though (3.13). The last column on page 7, labeled "Pro Forma Total" is 13 the subtotal of the previous columns (1.00) through (3.13), and produces the Pro Forma 14 Total revenue requirement of \$4,531,000.

15 The testimony that follows explains each of the natural gas Commission Basis, 16 restating and Pro Forma adjustments. The Company has also provided workpapers, both 17 in hard copy and electronic formats, which include additional details related to each of 18 these adjustments.

19

20 Natural Gas Standard Commission Basis and Restating Adjustments

Q. Please explain each of the Commission Basis and restating adjustments
included, starting on page 4 of Exh. EMA-6, the reason for the adjustment and its

2

historical test period.

A. Starting on page 4, Column (1.00) the **Results of Operations** reflect the Company's actual operating results and total net rate base experienced by the Company for year ending December 2016 on an AMA basis. Columns following the Results of Operations column (1.00), (columns (1.01) – (2.15)) mainly reflect normalizing and restating adjustments necessary to restate the actual results based on prior Commission orders, reflect appropriate annualized expenses, correct for errors, or remove prior period amounts reflected in the year ending December 2016.

effect on the Washington natural gas net operating income and/or rate base for the

10 The first adjustment, column (1.01) on page 6, entitled <u>Deferred FIT Rate Base</u>, 11 adjusts the accumulated deferred federal income tax (ADFIT) rate base balance included 12 in the Results of Operations column (1.00) to the adjusted ADFIT balance reflected on an 13 AMA basis, as shown within my workpapers provided with the Company's filing.

ADFIT reflects the deferred tax balances arising from accelerated tax depreciation (Accelerated Cost Recovery System, or ACRS, and Modified Accelerated Cost Recovery, or MACRS, repairs deduction and bonus depreciation), bond refinancing premiums, and contributions in aid of construction.

18 The effect on Washington rate base for this adjustment is a decrease of \$325,00019 and a reduction of \$3,000 of net operating income.

20 **Deferred Debits and Credits,** column (1.02), is a consolidation of previous 21 Commission Basis or other restating rate base adjustments and their net operating income 22 (NOI) impact. The rate base amount for each of the deferred debits and credits adjustments 23 discussed below are already reflected in the natural gas results of operations reports and

1 the Results of Operations column (1.00), and, therefore, no restating rate base adjustment 2 is necessary. The net impact on a consolidated basis of this adjustment on Washington 3 natural gas net operating income (NOI) is a decrease of \$1,000. 4 For consistency with prior rate case filings, a description of each adjustment is 5 included below. 6 **Customer Advances** decreases rate base for money advanced by customers 7 for line extensions, as they will be recorded as contributions in aid of construction at some future time. No adjustment from that recorded within results of operations 8 9 is necessary. 10 11 Customer Deposits reduces natural gas rate base by the average-of-12 monthly-averages of customer deposits held by the Company, as ordered by this 13 Commission in Docket UG-090135. No adjustment is necessary to rate base. The 14 corresponding interest paid on customer deposits is reclassified to utility operating 15 expense, at the current UTC interest rate of 0.49%. The effect on Washington 16 operating income is a decrease of \$1,000. 17 18 **O**. Please continue describing the remaining adjustments on page 5. 19 Working Capital, column (1.03), restates the working capital balance A. 20 reflected in the Company's Results of Operations column (1.00), to the adjusted working 21 capital balance. The Company uses the Investor Supplied Working Capital (ISWC) 22 methodology to calculate the amount of working capital reflected in its actual results of 23 operations. In addition, ISWC was revised to properly reflect the effect of Investment Tax 24 Credit (ITC) in 2016 on the Company's Nine Mile capital project, which went into service 25 in mid-2016. This method is consistent with that incorporated in the Company's last 26 approved natural gas general rate case, Docket No. UE-150205. The net effect of 27 adjustments to ISWC from that recorded per results of operations at December 31, 2016, 2

1

decreases net rate base by \$864,000. Increases in net operating income of \$9,000 is due to the FIT expense on the restated level of interest on the change in rate base¹.

3

Eliminate B & O Taxes, column (2.01), eliminates the revenues and expenses 4 associated with local business and occupation taxes, which the Company passes through to 5 The adjustment eliminates any timing mismatch that exists between the customers. 6 revenues and expenses by eliminating the revenues and expenses in their entirety. B & O 7 Taxes are passed through on a separate schedule, which is not part of this proceeding. The 8 effect of this adjustment decreases net operating income by \$21,000.

9

Restate Property Tax, column (2.02), restates the accrued property tax during the 10 test period to actual property tax paid during 2016. Property tax expense for 2016 was 11 based on actual plant balances as of December 31, 2015. The effect of this adjustment 12 decreases net operating income by \$244,000. Adjustment (3.06) Pro Forma Property Tax, 13 explained below, increases property tax expense to reflect the levels of expense expected 14 during the rate year, based on planned plant balances as of December 31, 2017.

15 **Uncollectible Expense**, column (2.03), restates the accrued expense to the actual level of net write-offs for the test period. The effect of this adjustment increases net 16 17 operating income by \$384,000.

18 **Regulatory Expense Adjustment**, column (2.04) restates recorded regulatory 19 expense for the year ending December 31, 2016 to reflect the UTC assessment rates applied 20 to revenues for the test period. The effect of this adjustment decreases net operating income 21 by \$2,000.

¹ The net effect of Federal Income Tax (FIT) expense on the restated level of interest expense due to a change in rate base, is shown within each individual adjustment. The restated debt interest impact per individual rate base adjustment can be seen on line 28 of Exh. EMA-6).

Injuries and Damages, column (2.05), is a restating adjustment that replaces the
 accrual with a six-year rolling average of injuries and damages payments not covered by
 insurance. As a result of the Commission's Order in Docket No. U-88-2380-T, the
 Company changed to the reserve method of accounting for injuries and damages not
 covered by insurance. The effect of this adjustment decreases net operating income by
 \$49,000.

FIT/DFIT Expense, column (2.06), adjusts the FIT and DFIT calculated at 35%
within Results of Operations for the year ending December 31, 2016. Results of Operations
is appropriately reflected for year ending December 31, 2016, therefore, no adjustment is
necessary.

11

Q. Please turn to page 5 and explain the adjustments shown there.

12 A. The first adjustment on page 5 entitled Office Space Charges to Subs, column (2.07), removes a portion of the office space $costs^2$ based on the relationship of 13 14 labor hours charged to subsidiary/non-utility activities by employee compared to total labor 15 hours by employee. These percentages are applied to the employees' office space (expressed in square feet) and multiplied by office space costs/per square foot. This 16 17 restating adjustment is made as a result of the Commission's Third Supplemental Order in 18 Docket No. U-88-2380-T. This adjustment removes the portion of expense that has not 19 already been reflected in the test period as non-utility. The effect of this adjustment 20 increases net operating income by \$6,000.

² Office space is comprised of office building operating and fixed costs, utilities, administrative, security, HVAC, depreciation and property taxes, as well as other costs related to employee use of phones, laptops, etc.

1 **Restate Excise Taxes**, column (2.08), removes the effect of a one-month lag 2 between collection and payment of taxes. The effect of this adjustment decreases net 3 operating income by \$1,000.

4 Net Gains/Losses, column (2.09), reflects a ten-year amortization of net gains realized from the sale of real property disposed of between 2007 and December 31, 2016. 5 6 This restating adjustment is made as a result of the Commission's Order in Docket No. UG-7 050483 and consistent with previous Company general rate cases. The effect of this 8 adjustment increases Washington net operating income by \$8,000.

9

Weather Normalization & Gas Cost Adjustment, column (2.10), normalizes 10 weather sensitive gas therm sales by eliminating the effect of temperature deviations above 11 or below historical norms. This adjustment also restates therms sold to reflect the weather 12 normalized therms and then reprices the adjusted therms sold based upon the authorized 13 weighted average cost of gas. Company witness Mr. Miller is sponsoring this adjustment. 14 The effect of this adjustment decreases net operating income by \$3,000.

15 Eliminate Adder Schedule Adjustments, column (2.11), removes the impact of 16 adder schedule revenues and related expenses, such as Schedule 191 Tariff Rider (DSM), 17 Schedule 192 Low Income Rate Assistance Program Rate, Schedule 155 Gas Cost 18 surcharge or rebate, and Schedule 175 Decoupling surcharge or rebate, since these items 19 are recovered/rebated by separate tariffs and, therefore, are not part of base rates. Various 20 accounts associated with the cost of gas managed through the PGA deferral mechanism are 21 consolidated into City Gate Purchases in this adjustment. The effect of this adjustment 22 decreases net operating income by \$310,000.

1 Miscellaneous Restating Adjustments, column (2.12), removes a number of non-2 operating or non-utility expenses associated with dues and donations, etc., included in error 3 in the test period actual results, and removes, reclassifies or restates other expenses 4 incorrectly charged between service and or jurisdiction. The Company has removed or 5 restated certain Director and Officer related expenses. Director meeting expenses were 6 reduced by \$108,000 expense to reflect removal of 50% of director meeting expenses were 7 excluded from utility operations, per Docket No. UE-090135. The Company has also 8 removed the utility-portion of the Company's Long Term Incentive Plan (LTIP) related to 9 restricted shares expense, as ordered in Docket No. UE-150205 in the amount of \$195,000 10 expense. Finally, 10% of total Directors' and Officers' insurance expense has been 11 removed to reflect the non-utility/subsidiary portion. The net reduction of these expenses 12 is approximately \$316,000, or an increase in net operating income of \$205,000. Avista 13 proposes, through Adjustment (3.12) Pro Forma Director Fee Expense as explained below, 14 to include utility expense as actually recorded on the Company's books, based on annual 15 surveys of the Board of Directors of their time split between utility/non-utility operations, 16 versus the 50/50 sharing currently authorized.

Project Compass Deferral, column (2.13), includes the regulatory amortization expense included during the 2016 test period for regulatory purposes. Per the Settlement Stipulation in Docket No. UG-140189, Section III, paragraph 7, page 4-5, the Company was allowed to defer for recovery in a future proceeding the natural gas revenue requirement amount associated with the Project Compass Customer Information System for the calendar year 2016, based on the actual costs of the Project at the time the Project went into service. A two-year amortization schedule (2016-2017) was established within Docket No. UG-150205. The effect of this adjustment decreases net operating income by
\$701,000. (This regulatory amortization expense is removed in Adjustment (3.09) "Pro
Forma Regulatory Amortizations," as discussed below, to reflect this amortization is \$0
during the rate year effective May 1, 2018.)

<u>Restating Incentive Adjustment</u>, column (2.14), restates actual O&M incentive
compensation expense recorded in 2016 to reflect a six-year average (2011-2016) of target
payout. Target payout is based on salary levels in effect as of December 31, 2016. The
net effect of this adjustment (including both executive and non-executive) increases net
operating income by approximately \$118,000.

10 For executive officers, the six-year average payout of O&M metrics related to 11 efficiencies in cost management (O&M cost-per-customer), customer service and 12 reliability have averaged approximately 106%. Incentive compensation related to financial 13 metrics are excluded from the Company's filing with expenses borne by shareholders. For 14 non-executive officers, the six-year average of incentive compensation payout is 109% for 15 O&M metrics designed to drive cost-control, and delivery of safe, reliable service with a 16 high level of customer satisfaction. This methodology is consistent with that approved in 17 Dockets UE-150204 and UG-150205. Adjustment (3.05) Pro-Forma Incentive Expenses 18 adjusts incentives based on pro forma labor expense. Additional descriptions are provided 19 in Exh. EMA-2 of overall compensation and components of the executive and non-20 executive incentive compensation.

<u>Restate Debt Interest</u>, column (2.15), restates debt interest using the Company's
 pro forma weighted average cost of debt included in the Traditional Pro Forma Study of
 2.89%, on the Results of Operations level of rate base shown in column (1.00) only,

1	resulting in a revised level of tax deductible interest expense on actual test period rate base.
2	The Federal income tax effect of the restated level of interest for the test period increases
3	net operating income by \$171,000.
4	The Federal income tax effect of the restated level of interest on all other rate base
5	adjustments included in the Company's filing are included and shown in each individual
6	rate base adjustment described elsewhere in this testimony.
7	Restated Total, the last column on page 5, subtotals all the preceding columns
8	(1.00) through column (2.15) . These totals represent actual operating results and rate base
9	plus standard normalizing adjustments that the Company includes in its annual
10	Commission Basis reports. However, the Restated Total column does not represent
11	December 31, 2016 test period results of operations on a normalized Commission Basis.
12	Differences exists due to inclusion of the proposed cost of debt (pro forma versus CBR cost
13	of debt) impacting Adjustment 2.15 above.
14	
15	<u>Natural Gas Pro Forma Adjustments</u>
16	Q. Please now turn to pages 6 through 7 of Exh. EMA-6 and explain what
17	is provided there.
18	A. Starting on page 6 are individual "Pro Forma" adjustments, (3.01) through
19	(3.13), proposed by the Company for the rate effective period May 1, 2018 – April 30,
20	2019. Each of these adjustments are described below.
21	The first adjustment on page 6, column (3.01), Pro Forma Atmospheric Testing
22	and Leak Survey, reflects the net increase in atmospheric corrosion testing and leak survey

inspection expense during the rate year of \$348,000. The effect of this adjustment decreases
 net operating income by \$226,000.

Atmospheric Testing is an inspection program to find conditions in the Company's system that could lead to corrosion issues on customer meter sets. This program is a federally-mandated program that requires the Company to inspect all above-ground steel pipe at a frequency not to exceed three-years. This expense includes the inspection costs and follow-up remedial actions based an Atmospheric Corrosion (AC) inspection cycle completed one third of each jurisdiction per year.

9 Natural Gas Leak Survey Inspection is a gas operations program required by 49 10 CFR 192.723. The LS Program is accomplished utilizing a contractor specializing in gas 11 leak survey. In accordance with 49 CFR 192.723, Avista leak surveys business districts 12 every 12 months not to exceed 15 months, and residential areas at 20 percent annually 13 (surveyed every 60 months not to exceed 63 months.) Based on the historical survey 14 cycles, Avista surveys approximately 4,900 miles of pipeline (distribution and 15 transmission) and associated meters annually.

16 **Pro Forma Labor-Non-Exec**, column (3.02), reflects changes to test period union 17 and non-union wages and salaries, excluding executive salaries, which are handled 18 separately in adjustment (3.03). For non-union employees, the 3% increase for March 2017 19 represents actual increases already in effect. In May 2017, the Board of Directors voted to 20 approve a minimum level of salary increases of 3% for March 2018. Union employee 21 increases are made in accordance with contract terms. The current contract with the IBEW 22 Union 77 (Washington/Idaho) expires on March 25, 2019. The methodology behind this 23 adjustment is consistent with Docket No. UE-150204 and UG-150205. The effect of this adjustment decreases net operating income by \$568,000. (For further discussion regarding
 employee base pay and benefits, see electric Exh. EMA-2, Pro Forma Labor-Non-Exec
 section.)

Pro Forma Labor-Executive, column (3.03), annualizes actual salary levels effective as of March 1, 2017. This results in an increase in net operating income of \$7,000 over and above what was in effect year ending December 31, 2016. Base pay is allocated approximately 90% to utility operations and 10% to non-utility operations based on actual timesheet allocations as of December 31, 2016 per order UE-150204/UG-150205. (For further discussion regarding officer compensation, see electric Exh. EMA-2, Pro Forma Labor-Executive section.)

Pro Forma Employee Benefits, column (3.04), adjusts the year ending December 31, 2016 pension and medical expense to include the net changes in the Company's 401(k) and medical insurance expense expected during the rate year. In total, this adjustment reflects the change in total employee benefit expense on a system level from \$40.5 million to \$39.8 million (O&M). The total net effect of this adjustment is a reduction to expense of \$176,000, increasing net operating income \$114,000. (For further discussion regarding employee benefits, see electric Exh. EMA-2, Pro Forma Employee Benefits section.)

Pro Forma Incentive Adjustment, column (3.05), pro-forms increases in variable pay/incentive compensation expense, from the year ending 2016 to the rate year amounts in effect, by approximately 2.8% per year, consistent with base pay increases in adjustment 3.02 Pro-Forma Labor Non-Exec. The net impact of this adjustment decreases net operating income by \$22,000. (For further discussion regarding employee incentives, see electric Exh. EMA-2, Pro Forma Incentive section.) Pro Forma Property Tax, column (3.06), restates the 2016 level of property tax
expense included in adjustment (2.02) Restate 2016 Property tax, to the level of property
tax expense the Company will experience during the rate year. The property on which the
tax is calculated is the property value as of December 31, 2017. The effect of this
adjustment decreases net operating income by \$309,000.

Pro Forma IS/IT Expense, column (3.07), adjusts the actual level of information 6 7 services and technology expense included in the 2016 test year to that expected during the 8 rate period beginning May 1, 2018. This adjustment includes the incremental costs 9 associated with software development, application licenses, maintenance fees, and 10 technical support for a range of information services programs. These incremental 11 expenditures are necessary to support Company cyber and general security, emergency 12 operations readiness, electric and natural gas facilities and operations support, and 13 customer services. Company witness Mr. Kensok sponsors this adjustment and provides 14 more information within his testimony. The effect of this adjustment decreases net 15 operating income by \$131,000.

Pro Forma Revenue Normalization, the final adjustment on page 6, column (3.08), adjusts 2016 test period customers and usage for any known and measurable (pro forma) changes. In addition, the adjustment re-prices billed, unbilled, and weather adjusted usage at the base tariff rates approved for 2016, as if the January 11, 2016 base tariff rates were effective for the full 12-months of the test year. Company witness Mr. Miller is sponsoring this adjustment. The effect of this adjustment decreases net operating income by \$599,000.

23

Q. Please address the final adjustments on page 7 of Exh. EMA-6.

1 A. The final adjustments on page 7 begins with **Pro Forma Regulatory** 2 Amortization, column (3.09). This adjustment removes the regulatory amortization 3 expense (included in restating adjustment (2.13)) related to the "Project Compass 4 Deferral." Per the Settlement Stipulation in Docket No. UG-140189, Section III, paragraph 5 7, page 4-5, the Company was allowed to defer the revenue requirement associated with 6 the 2015 Project Compass Customer Information System capital project for recovery in a 7 future proceeding. A two-year amortization schedule (January 2016 – December 2017) 8 was established within Docket No. UG-150205. The effect of this adjustment increases net 9 operating income by \$701,000.

10 **Pro Forma Capital Threshold Capital Adds,** column (3.10), reflects increases 11 related to certain 2017 capital additions, together with associated A/D and ADFIT. This 12 adjustment also includes associated depreciation expense for these 2017 additions. As 13 sponsored and discussed by Company witness Ms. Schuh, based on Commission Order 05, 14 the Company identified electric and natural Pro Forma capital projects that met the 15 threshold of one-half of one percent of the Company's rate base (i.e., above \$6.9 million for electric and 1.3 million for natural gas).³ The effect of this adjustment increases rate 16 17 base by \$17,841,000 and decreases net operating income by \$848,000.

18 **Pro Forma O&M Offsets,** column (3.11), as explained by Ms. Schuh, the 19 Company reviewed large capital additions in 2017 to determine any offsets (e.g., reduced 20 O&M costs, etc.) resulting in rate period reductions effective May 1, 2018. Maintenance 21 records were reviewed to determine whether any specific maintenance costs were incurred

³ Order 05, Docket Nos. UE-150204 and G-150205 (Consolidated), paragraph 39 and 40.

1 in the test period that would be reduced or eliminated by the investment for that capital 2 project. Those reductions in costs were quantified and included as a reduction to O&M. 3 The effect of this adjustment increases net operating income by \$21,000.

4

Pro Forma Director Fee Expense, column (3.12), reflects an increase in director 5 fee expense to reflect director fee expense using a 97% utility / 3% non-utility split.⁴ Avista 6 proposes to reflect director fee expense based on annual surveys of the Board of Directors 7 of their time split between utility/non-utility operations, which reflect a 97% utility / 3% 8 non-utility. This adjustment, as proposed by Avista, removes the effect of adjustment 2.12 9 (director fee expense noted above) reflecting a 50%/50% sharing, to reflect the proper level 10 of director fee expense that should be included during the rate period. The effect of this 11 adjustment decreases net operating income by \$70,000.

12 The final natural gas pro forma adjustment on page 7, Pro Forma LEAP Deferral 13 Gas Line Extension, column (3.13), reflects the annual LEAP deferral amortization 14 expense and rate base associated with the five-year recovery period of the existing LEAP 15 gas line extension deferral balance. The LEAP deferral balance as of March 31, 2017 was 16 \$2.9 million. Total rate base, net of ADFIT, on an AMA basis over the rate year is 17 approximately \$1.5 million. The five-year amortization results in amortization expense of 18 approximately \$580,000 annually. The effect of this adjustment, therefore, increases rate 19 base by \$1,474,000, and decreases net operating income by \$365,000.

⁴ Restating adjustment 2.12 "Miscellaneous Restating Non-Utility /Non-Recurring Expenses," reduced director fee expense recorded on Avista's books at a 97% utility/3% non-utility basis, to a 50%/50% per Docket No. UE-090134. This adjustment, as proposed by Avista, removes the effect of adjustment 2.12 to reflect the proper level of director fee expense.

As discussed by Company witness Mr. Christie, on February 25, 2016, per Docket UG-152394, Order 01, the Commission approved the changes to the Company's natural gas line extension tariff Schedule 151, for a temporary three-year period. Specifically, the Commission approved the use of any excess single-family residential line extension allowance as a rebate on customers' purchase and installation of high efficiency natural gas space and/or hot water heating equipment, if the customer is converting to natural gas from another fuel source.

8 The Commission also approved the Company's proposed ratemaking treatment, 9 allowing the Company to defer, for opportunity for later recovery in rates, the excess line 10 extension allowance paid to Washington residential customers upon conversion to natural 11 gas. The Commission approved a five-year amortization period for balances included in 12 future general rate cases filed during the pilot period, with a return on the unamortized balance."⁵ Per Order 01, the deferral began on March 1, 2016. As of March 31, 2017, the 13 14 total amount deferred was approximately \$2.9 million. The Company is proposing in this 15 case to amortize this balance over five years beginning May 1, 2018 through April 30, 16 2023. The Company will include additional deferrals associated with the remaining two 17 years of the program in future regulatory proceedings.

18 Q. Please explain the final column (PF Ttl), labeled Pro Forma Total on 19 page 7 of Exh. EMA-6.

20

21

A. The last column on page 7, labeled "Pro Forma Total," reflects total pro forma results of operations and rate base consisting of test period actual results (twelve-

⁵ UG-152394 Avista Petition, ¶ 31

1	months ending December 31, 2016) and the restating and pro forma adjustments explained
2	above. This column provides the total pro forma results of \$4,531,000, representing the
3	overall revenue requirement shortfall per the natural gas Traditional Pro Forma Study, as
4	previously showed on page 1 of Exh. EM-6. ⁶

⁶ As noted in Exh. EMA-1T, the results of the Traditional Pro Forma Study will not yield the electric and natural gas revenue increases necessary for the prospective rate year. The Traditional Pro Forma Studies alone do not provide sufficient rate relief; thereby warranting the use or inclusion of other "tools" available to this Commission. Approval of other "tools," such as that proposed by Avista including EOP 2017 rate base and an adjusted capital structure, would allow the Company an opportunity to earn its authorized rate of return. The EOP Rate Base Study represents the Company's requested rate relief in this proceeding and are provided as Exh. EMA-3 (electric) and Exh. EMA-7 (natural gas).