

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION, d/b/a AVISTA
UTILITIES,

Respondent.

DOCKET NO. UE-120436
DOCKET NO. UG-120437

DECLARATION OF
MICHAEL P. GORMAN IN SUPPORT
OF ICNU'S RESPONSE IN OPPOSITION
TO AVISTA CORPORATION'S MOTION
FOR LEAVE TO FILE LETTER OF
CLARIFICATION

1 I, Michael P. Gorman, hereby declare under penalty of perjury under the laws of the State
of Washington that the following is true and correct:

2 I am a Managing Principal of Brubaker & Associates, Inc., and I am providing expert
witness consulting services to the Industrial Customers of Northwest Utilities ("ICNU") in this
proceeding. I have personal knowledge of the matters set forth in this Declaration.

3 The Washington Utilities and Transportation Commission ("the Commission") should
rely on a 2011 Rate of Return ("ROR") of 8.32% ("Ratemaking ROR") when assessing whether
or not Avista Corporation's ("Avista" or the "Company") proposed rate increase is necessary in
this proceeding.

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4 The Ratemaking ROR, used in Avista’s cost-of-service filing, reflects traditional ratemaking normalized adjustments. The Ratemaking ROR includes rate adjustments already implemented and deferral mechanisms consistent with Commission-approved regulatory mechanisms for costs recovered under the Energy Recovery Mechanism (“ERM”).

5 The Company’s proposed 2011 ROR, in the amount of 6.56% (“Normalized ROR”), does *not* include two significant regulatory adjustments which are reflected in the Ratemaking ROR: (1) a rate increase that went into effect in calendar year 2012; and (2) deferred 2011 ERM costs. As such, only the Ratemaking ROR can serve as the basis for determining whether, or to what extent, a rate increase is justified.

6 Moreover, the presentation of the Normalized ROR (based on testimony by Avista witness Mark N. Lowry) is highly prejudicial and unorthodox. Mr. Lowry proposes substantial non-traditional adjustments to the Normalized ROR in order to measure the earnings deficiency in this proceeding. See Exh. No. ____ (MNL-IT) at 12–22 (Lowry). Mr. Lowry claims that his proposed adjustments will help mitigate regulatory lag. Id. In effect, however, what Mr. Lowry does is make adjustments to audited accounting data that distort the actual measurement of revenues, expenses and rate base items in the 2011 test year, and distort the level of rates necessary to provide Avista an opportunity to earn a fair rate of return on utility plant and equipment. This approach will be strongly opposed by ICNU in this proceeding and I will be submitting detailed testimony on the issue.

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Executed this 23rd day of May, 2012, at Chesterfield, Missouri.



Michael P. Gorman

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