

Avista Corporation  
Natural Gas - Results of Operations  
Washington Pro Forma Results  
Twelve Months Ended December 31, 2006  
(000's of Dollars)

Line No.	(a) DESCRIPTION	(b) Unadjusted Results <i>Co. wp B1</i>	(c) Total Restating Adjustments <i>Schedule 1.2</i>	(d) Restated Results <i>(b) + (c)</i>	(e) Total Pro Forma Adjustments <i>Schedule 1.3</i>	(f) Pro Forma Results <i>(e) + (f)</i>	(g) Staff Proposed <i>Increase of 1.60%</i>	(h) Results at Staff Rates <i>(g) + (h)</i>
	<b>RESULT OF OPERATIONS</b>							
1	REVENUES							
2	Total General Business	\$208,883	(\$11,062)	\$197,821	-	\$197,821	3,172	\$200,993
3	Total Transportation	3,166	(1,720)	1,446	-	1,446	-	1,446
4	Other Revenues	39,097	(35,060)	4,037	(2,159)	1,878	-	1,878
5	Total Gas Revenues	251,146	(47,842)	203,304	(2,159)	201,145	3,172	204,317
6								
7	EXPENSES							
8	Exploration and Development	-	-	-	-	-	-	-
9								
10	Production							
11	City Gate Purchases	188,395	(38,593)	149,802	-	149,802		149,802
12	Purchased Gas Expense	653	-	653	18	671		671
13	Net Nat Gas Storage Trans	495	(495)	0	-	0		0
14	Total Production	189,543	(39,088)	150,455	18	150,473		150,473
15								
16	Underground Storage							
17	Operating Expenses	492	-	492	1	493		493
18	Depreciation	312	-	312	(60)	252		252
19	Taxes	124	(2)	122	-	122		122
20	Total Underground Storage	928	(2)	926	(59)	867		867
21								
22	Distribution							
23	Operating Expenses	6,359	-	6,359	231	6,590		6,590
24	Depreciation	5,382	(13)	5,369	(215)	5,154		5,154
25	Taxes	17,051	(7,594)	9,457	-	9,457	122	9,579
26	Total Distribution	28,792	(7,607)	21,185	16	21,201	122	21,323
27								
28	Customer Accounting	4,568	(343)	4,225	143	4,368	8	4,376
29	Customer Service & Information	3,260	(2,154)	1,106	9	1,115		1,115
30	Sales Expenses	496	-	496	14	510		510
31	Administrative & General							
32	Operating Expenses	8,334	(204)	8,130	(31)	8,099	6	8,106
33	Depreciation	1,282	-	1,282	(59)	1,223		1,223
34	Taxes	24	-	24	-	24		24
35	Total Admin. & General	9,640	(204)	9,436	(90)	9,346	6	9,353
36								
37	Total Gas Expense	237,227	(49,397)	187,830	51	187,881	137	188,017
38								
39	OPERATING INCOME BEFORE FIT	13,919	1,555	15,474	(2,210)	13,264	3,035	16,299
40	FEDERAL INCOME TAX		#REF!					
41	Current Accrual	6,006	994	7,000	(773)	6,227	1,062	7,289
42	Deferred FIT	(3,050)	(22)	(3,072)	-	(3,072)		(3,072)
43	Amort ITC	(30)	-	(30)	-	(30)		(30)
44								
45	NET OPERATING INCOME	10,993	\$583	\$11,576	(\$1,437)	\$10,139	\$1,973	\$12,112
46								
47	<b>RATE BASE</b>							
48	PLANT IN SERVICE							
49	Underground Storage	13,854	-	13,854	-	13,854		13,854
50	Distribution Plant	219,287	1,045	220,332	-	220,332		220,332
51	General Plant	20,791	-	20,791	-	20,791		20,791
52	Total Plant in Service	253,932	1,045	254,977	0	254,977	0	254,977
53	ACCUMULATED DEPRECIATION							
54	Underground Storage	7,249	-	7,249	(30)	7,219		7,219
55	Distribution Plant	74,019	-	74,019	(107)	73,912		73,912
56	General Plant	7,230	-	7,230	(30)	7,200		7,200
57	Total Accum. Depreciation	88,498	0	88,498	(167)	88,331	0	88,331
58								
59	DEFERRED FIT	-	(24,592)	(24,592)	(58)	(24,650)		(24,650)
60	GAS INVENTORY	-	7,628	7,628	-	7,628		7,628
61	CUSTOMER DEPOSITS	-	(1,111)	(1,111)	-	(1,111)		(1,111)
62	GAIN ON SALE OF BUILDING	-	(153)	(153)	-	(153)		(153)
63								
64	TOTAL RATE BASE	\$165,434	(\$17,183)	\$148,251	\$109	\$148,360	\$0	\$148,360
65	RATE OF RETURN	6.64%		7.81%		6.83%		8.16%

Avista Corporation  
Gas Results of Operations  
Washington Pro Forma Results  
Twelve Months Ended December 31, 2006

(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
(000's of Dollars)			R-1	R-2	R-3	R-4	R-5	R-6	R-7	R-8
Line No.	DESCRIPTION	Total Restating Adjustments	Deferred FIT Rate Base	Deferred Gain on Office Building	Gas Inventory	Weatherization and DSM Investment	Customer Advances	Revenue Normalization & Gas Cost Adjust	Eliminate B & O Taxes	Property Tax
	<b>RESULT OF OPERATIONS</b>	<i>Source</i>								
1	REVENUES									
2	Total General Business	\$ (11,062)						\$ (3,682)	\$ (7,380)	
3	Total Transportation	(1,720)						(1,648)	(72)	
4	Other Revenues	(35,060)						(35,060)		
5	Total Gas Revenues	(47,842)	0	0	0	0	0	(40,390)	(7,452)	0
6										
7	EXPENSES									
8	Exploration and Development	0								
9										
10	Production									
11	City Gate Purchases	(38,593)						(38,593)		
12	Purchased Gas Expense	0								
13	Net Nat Gas Storage Trans	(495)						(495)		
14	Total Production	(39,088)	0	0	0	0	0	(39,088)	0	0
15										
16	Underground Storage									
17	Operating Expenses	0								
18	Depreciation	0								
19	Taxes	(2)								(2)
20	Total Underground Storage	(2)	0	0	0	0	0	0	0	(2)
21										
22	Distribution									
23	Operating Expenses	0								
24	Depreciation	(13)								
25	Taxes	(7,594)						(141)	(7,461)	(23)
26	Total Distribution	(7,607)	0	0	0	0	0	(141)	(7,461)	(23)
27										
28	Customer Accounting	(343)						(10)		
29	Customer Service & Information	(2,154)						(2,199)		
30	Sales Expenses	0								
31	Administrative & General	0								
32	Operating Expenses	(204)						(7)		
33	Depreciation	0								
34	Taxes	0								
35	Total Admin. & General	(204)	0	0	0	0	0	(7)	0	0
36										
37	Total Gas Expense	(49,397)	0	0	0	0	0	(41,445)	(7,461)	(25)
38										
39	OPERATING INCOME BEFORE FIT	1,555	0	0	0	0	0	1,055	9	25
40	FEDERAL INCOME TAX		#REF!	#REF!	#REF!	#REF!	#REF!			
41	Current Accrual	994						369	3	9
42	Deferred FIT	(22)								
43	Amort ITC	0								
44										
45	NET OPERATING INCOME	\$583	\$0	\$0	\$0	\$0	\$0	\$686	\$6	\$16
46										
47	<b>RATE BASE</b>									
48	PLANT IN SERVICE									
49	Underground Storage	0								
50	Distribution Plant	1,045				1,120	(75)			
51	General Plant	0								
52	Total Plant in Service	1,045	0	0	0	1,120	(75)	0	0	0
53	ACCUMULATED DEPRECIATION									
54	Underground Storage	0								
55	Distribution Plant	0								
56	General Plant	0								
57	Total Accum. Depreciation	0	0	0	0	0	0	0	0	0
58	DEFERRED FIT	(24,592)	(24,645)	53						
59	GAS INVENTORY	7,628			7,628					
60	CUSTOMER DEPOSITS	(1,111)								
61	GAIN ON SALE OF BUILDING	(153)		(153)						
62	TOTAL RATE BASE	(\$17,183)	(\$24,645)	(\$100)	\$7,628	\$1,120	(\$75)	\$0	\$0	\$0
63	RATE OF RETURN	-3.39%								

Avista Corporation  
Gas Results of Operations  
Washington Pro Forma Results  
Twelve Months Ended December 31, 2006  
(a)

(000's of Dollars)		(k) R-9	(l) R-10	(m) R-11	(n) R-12	(o) R-13	(p) R-14	(q) R-15	(r) R-16
Line No.	DESCRIPTION	Uncollectible Expense	Regulatory Expense Adjustment	Injuries and Damages	FIT	Restate Debt Interest	Incentives & Other	Net Gains/losses	Eliminate A/R Expenses
	<b>RESULT OF OPERATIONS</b>								
1	REVENUES								
2	Total General Business								
3	Total Transportation								
4	Other Revenues								
5	Total Gas Revenues	0	0	0	0	0	0	0	0
6									
7	EXPENSES								
8	Exploration and Development								
9									
10	Production								
11	City Gate Purchases								
12	Purchased Gas Expense								
13	Net Nat Gas Storage Trans								
14	Total Production	0	0	0	0	0	0	0	0
15									
16	Underground Storage								
17	Operating Expenses								
18	Depreciation								
19	Taxes								
20	Total Underground Storage	0	0	0	0	0	0	0	0
21									
22	Distribution								
23	Operating Expenses								
24	Depreciation							(13)	
25	Taxes								
26	Total Distribution	0	0	0	0	0	0	(13)	0
27									
28	Customer Accounting	(59)					0	0	(274)
29	Customer Service & Information								
30	Sales Expenses								
31	Administrative & General								
32	Operating Expenses		75	22			(288)		
33	Depreciation								
34	Taxes								
35	Total Admin. & General	0	75	22	0	0	(288)	0	0
36									
37	Total Gas Expense	(59)	75	22	0	0	(288)	(13)	(274)
38									
39	OPERATING INCOME BEFORE FIT	59	(75)	(22)	0	0	288	13	274
40	FEDERAL INCOME TAX			#REF!	#REF!				
41	Current Accrual	21	(26)	(8)	11	438	101	5	96
42	Deferred FIT				(22)				
43	Amort ITC								
44									
45	NET OPERATING INCOME	\$38	(\$49)	(\$14)	\$11	(\$438)	\$187	\$8	\$178
46									
47	<b>RATE BASE</b>								
48	PLANT IN SERVICE								
49	Underground Storage								
50	Distribution Plant								
51	General Plant								
52	Total Plant in Service	0	0	0	0	0	0	0	0
53	ACCUMULATED DEPRECIATION								
54	Underground Storage								
55	Distribution Plant								
56	General Plant								
57	Total Accum. Depreciation	0	0	0	0	0	0	0	0
58	DEFERRED FIT								
59	GAS INVENTORY								
60	CUSTOMER DEPOSITS								
61	GAIN ON SALE OF BUILDING								
62	TOTAL RATE BASE	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
63	<b>RATE OF RETURN</b>								

Avista Corporation  
**Gas Results of Operations**  
Washington Pro Forma Results  
Twelve Months Ended December 31, 2006  
(a)

Line No.	DESCRIPTION	(s) R-17 Office Space Charges to Subs	(t) R-18 Restate Excise Taxes	(t) R-19 Customer Deposits
	<b>RESULT OF OPERATIONS</b>			
1	REVENUES			
2	Total General Business			
3	Total Transportation			
4	Other Revenues			
5	Total Gas Revenues	0	0	0
6				
7	EXPENSES			
8	Exploration and Development			
9				
10	Production			
11	City Gate Purchases			
12	Purchased Gas Expense			
13	Net Nat Gas Storage Trans			
14	Total Production	0	0	0
15				
16	Underground Storage			
17	Operating Expenses			
18	Depreciation			
19	Taxes			
20	Total Underground Storage	0	0	0
21				
22	Distribution			
23	Operating Expenses			
24	Depreciation			
25	Taxes		31	
26	Total Distribution	0	31	0
27				
28	Customer Accounting	0	0	0
29	Customer Service & Information			45
30	Sales Expenses			
31	Administrative & General			
32	Operating Expenses	(6)		
33	Depreciation			
34	Taxes			
35	Total Admin. & General	(6)	0	0
36				
37	Total Gas Expense	(6)	31	45
38				
39	OPERATING INCOME BEFORE FIT	6	(31)	(45)
40	FEDERAL INCOME TAX			
41	Current Accrual	2	(11)	(16)
42	Deferred FIT			
43	Amort ITC			
44				
45	NET OPERATING INCOME	\$4	(\$20)	(\$29)
46				
47	<b>RATE BASE</b>			
48	PLANT IN SERVICE			
49	Underground Storage			
50	Distribution Plant			
51	General Plant			
52	Total Plant in Service	0	0	0
53	ACCUMULATED DEPRECIATION			
54	Underground Storage			
55	Distribution Plant			
56	General Plant			
57	Total Accum. Depreciation	0	0	0
58	DEFERRED FIT			
59	GAS INVENTORY			
60	CUSTOMER DEPOSITS			(1,111)
61	GAIN ON SALE OF BUILDING			
62	TOTAL RATE BASE	\$0	\$0	(\$1,111)
63	<b>RATE OF RETURN</b>			

Avista Corporation  
Gas Results of Operations  
Washington Pro Forma Results  
Twelve Months Ended December 31, 2006  
(000'S of Dollars)

Line No.	DESCRIPTION	Total Pro Forma Adjustments	PF 1 PF 2 PF 3 PF 4 PF 5				
			Pro Forma Labor Non-Exec	Pro Forma Labor Exec	Pro Forma Depreciation Study	Pro Forma Storage Contracts	Pro Forma Misc Adjustment
	Source						
	RESULT OF OPERATIONS						
1	REVENUES						
2	Total General Business						
3	Total Transportation						
4	Other Revenues	(2,159)				(2,159)	
5	Total Gas Revenues	(2,159)	0	0	0	(2,159)	0
6							
7	EXPENSES						
8	Exploration and Development						
9							
10	Production						
11	City Gate Purchases						
12	Purchased Gas Expense	\$18	23	(5)			
13	Net Nat Gas Storage Trans	0					
14	Total Production	18	23	(5)	0	0	0
15							
16	Underground Storage						
17	Operating Expenses	1	1				
18	Depreciation	(60)			(60)		
19	Taxes	0					
20	Total Underground Storage	(59)	1	0	(60)	0	0
21							
22	Distribution						
23	Operating Expenses	231	231				
24	Depreciation	(215)			(215)		
25	Taxes	0					
26	Total Distribution	16	231	0	(215)	0	0
27							
28	Customer Accounting	143	143				
29	Customer Service & Information	9	9				
30	Sales Expenses	14	14				
31	Administrative & General						
32	Operating Expenses	(31)	137	(89)			(79)
33	Depreciation	(59)			(59)		
34	Taxes	0					
35	Total Admin. & General	(90)	137	(89)	(59)	0	(79)
36							
37	Total Gas Expense	51	558	(94)	(334)	0	(79)
38							
39	OPERATING INCOME BEFORE FIT	(2,210)	(558)	94	334	(2,159)	79
40	FEDERAL INCOME TAX		#REF!	#REF!	#REF!	#REF!	
41	Current Accrual	(773)	(195)	33	117	(756)	28
42	Deferred FIT	-					
43	Amort ITC	0					
44							
45	NET OPERATING INCOME	(\$1,437)	(\$363)	\$61	\$217	(\$1,403)	\$51
46							
47	RATE BASE						
48	PLANT IN SERVICE						
49	Underground Storage	-					
50	Distribution Plant	-					
51	General Plant	0					
52	Total Plant in Service	0	0	0	0	0	0
53	ACCUMULATED DEPRECIATION						
54	Underground Storage	(30)			(30)		
55	Distribution Plant	(107)			(107)		
56	General Plant	(30)			(30)		
57	Total Accum. Depreciation	(167)	0	0	(167)	0	0
58	DEFERRED FIT	(58)			(58)		
59	GAS INVENTORY	-					
60	GAIN ON SALE OF BUILDING	0					
61							
62	TOTAL RATE BASE	\$109	\$0	\$0	\$109	\$0	\$0
63							

Avista Corporation  
**Summary of Adjustments - Gas Operations**  
Twelve Months Ended December 31, 2006  
(000's of Dollars)

Line No.	(a)	(b)	(c)		(d)	(e)		(f)	(g)	(h)
			Avista Corporation			Staff Adjustments			Difference	
			Avista Adjustments		Revenue Requirement	Staff Adjustments		Revenue Requirement	Revenue Requirement	
			NOI	Net Rate Base	Impact	NOI	Rate Base	Impact *	Impact	
			10,993	165,434	7,301	10,993	165,434	7,301	(g)-(d)	
1	Adj. No.	Per Books								
2	Adjustments									
3	R-1 (c)	Deferred FIT Rate Base	S	(24,645)	(3,721)		(24,645)	(3,720)		0
4	R-2 (d)	Deferred Gain on Office Building	U	(100)	(15)		(100)	(15)		-
5	R-3 (e)	Gas Inventory	U	7,628	1,152		7,628	1,151		-
6	R-4 (f)	Weatherization and DSM Investment	U	1,120	169		1,120	169		-
7	R-5 (g)	Customer Advances	U	(75)	(11)		(75)	(11)		-
8	R-6 (h)	Revenue Normalization & Gas Cost Adj	U	686	(1,103)	686		(1,103)		-
9	R-7 (i)	Eliminate B & O Taxes	U	6	(10)	6		(10)		-
10	R-8 (j)	Property Tax	U	16	(26)	16		(26)		-
11	R-9 (k)	Uncollect. Expense	U	38	(61)	38		(61)		-
12	R-10 (l)	Regulatory Expense	U	(49)	79	(49)		79		-
13	R-11 (m)	Injuries and Damages	U	(14)	23	(14)		23		-
14	R-12 (n)	Federal Income Tax	U	11	(18)	11		(18)		-
15	R-13 (o)	Restate Debt Interest **	U	207	(333)	(438)		704		1,037
16	R-14 (p)	Incentive & Other	S	16	(26)	187		(300)		(274)
17	R-15 (q)	Net Gains/ Losses	U	8	(13)	8		(13)		-
18	R-16 (r)	Eliminate A/R Expenses	U	178	(286)	178		(286)		-
19	R-17 (s)	Office Space Charges to Subs	U	4	(6)	4		(6)		-
20	R-18 (t)	Restate Excise Taxes	U	(20)	32	(20)		32		-
21	R-19	Customer Deposits (contested)	C		0	(29)	(1,111)	(120)		(120)
21	PF-1	Labor Non-Executive	U	(363)	584	(363)		584		-
22	PF-2	Labor Executive	S	7	(11)	61		(98)		(87)
23	PF-3	Depreciation Study	S	217	(332)	217	109	(332)		-
24	PF-4	Storage Contract Expiration	S	(311)	500	(1,403)		2,256		1,756
25	PF-5	Pro Forma Misc Adjust	S		-	51		(83)		(83)
26										
28										
29	Pro Forma Results		11,630	149,471	3,867	10,139	148,360	6,096		2,229
30	Impact of Change in Weighted Cost of Capital								(2,924)	(2,924)
31	Adjusted Revenue Requirement								3,172	

Capital Structure (contested)

Avista Filed Capital Structure

Staff Adjusted Capital Structure

Cost of Capital (contested)	Percent of Total		Cost		Weighted Cost	Percent of Total		Cost		Weighted Cost
Total Debt	47.54%		7.700%		3.66%	50.32%		6.491%		3.27%
Preferred Stock	4.68%		7.040%		0.33%	4.68%		6.575%		0.31%
Common Stock	47.78%		11.300%		5.40%	45.00%		10.200%		4.59%
Total	100.00%				9.39%	100.00%				8.16%

\* Revenue Requirement Impact of adjustments based on company filed Weighted Cost of Capital of 9.39%

\*\* Pro Forma Debt is computed using Staff proposed debt rates and Staff Pro Forma Rate Base

Line  
No.

**Revenue Requirement Computation**

	<b>At Pro Forma Results</b>	<b>Source</b>
<b>Pro Forma Rate Base</b>	\$148,360	Pg 1, Ln 64 Col (f)
<b>Weighted Cost of Capital</b>	8.16%	Pg 9, Ln 9
<b>Operating Income Requirement</b>	12,112	ln 3 * ln 2
<b>Pro Forma Net Operating Income (Loss)</b>	\$10,139	Pg 1, Ln 45 Col (f)
<b>Operating Income Deficiency</b>	1,973	ln 9 - ln 11
<b>Revenue Conversion Factor</b>	62.1999%	Pg 8, Ln 16
<b>Additional Revenue Requirement</b>	\$3,172	ln 12 / ln 14
<b>Amount filed</b>	4,531	
<b>Difference</b>	\$ (1,359)	ln 17 - ln 19

Avista Corporation

**Natural Gas Operations**

Revenue Conversion Factor

Twelve Months Ended December 31, 2006

Exhibit \_\_\_\_ (DPK-3)

Docket UE-070804 UG-070805

Line

No.

**Schedule for the Computation of Revenue Conversion Factor**

	<b>Revenues</b>		100.0000%
	<b>WUTC Regulatory Fee</b>		0.2000%
	<b>Utility Revenue Tax</b>		3.8418%
	<b>Uncollectables</b>		0.2661%
	<b>Total Revenue Sensitive Items</b>	Ln 6 thru Ln 8	<u>4.3079%</u>
	<b>Net Operating Income before FIT</b>	Ln 4 - Ln 9	95.6921%
	<b>Effective Income Tax Rate at 35%</b>	35% * Ln 11	<u>33.4922%</u>
	<b>Total adjustments</b>	Ln 9 + Ln 13	<u>37.8001%</u>
	<b>Revenue Conversion Factor</b>	1-(Ln 14 / Ln 4)	<u>62.1999%</u>



Line

No.**Pro Forma Capital Structure and Cost of Capital****Weighted Cost of Capital**

	Percent of Total	<u>Cost</u>	Weighted Cost
<b>Total Debt</b>	50.32%	6.491%	3.266%
<b>Preferred Stock</b>	4.68%	6.575%	0.308%
<b>Common Stock</b>	45.00%	10.200%	4.590%
<b>Total</b>	<u>100.00%</u>		<u>8.164%</u>

**Weighted Cost of Debt**

<b>Total Debt</b>	3.27%
<b>Preferred Stock</b>	0.31%
<b>Weighted Cost of Debt</b>	<u>3.57%</u>