

Exhibit No. \_\_ (BJH-2)

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

DOCKET NO. UG-060518

EXHIBIT NO. \_\_ (BJH-2)

BRIAN HIRSCHKORN

REPRESENTING AVISTA CORPORATION

**Avista Utilities**  
**Proposed Natural Gas Decoupling Mechanism**  
**Example Application of Earnings Test**

<b>Margin Shortfall between Current Period (Feb '07 - June '07) &amp; 2004 Test Year</b>	<b>\$ 400,000</b>
<b>Deferred Revenue during Feb '07 - June '07 Period (90% of Margin difference)</b>	<b>\$ 360,000</b>

**Example 1 - Earnings Test not met: 2006 Commission Basis ROR exceeds 9.11%(1)**  
**(assumes 100% of DSM target met)**

2006 Commission Basis ROR less Authorized ROR equals Excess ROR  
 $9.18\% - 9.11\% = 0.07\%$

Excess ROR times Rate Base equals Excess Net Income  
 $0.07\% \times \$136 \text{ million} = \$95,200$

Excess Net Income divided by revenue conversion factor = Surcharge Revenue Reduction  
 $\$95,200 / 0.621746 = \$153,117$

Oct. '07 - Sept. '08 Surcharge =  $\$360,000 - \$153,117 = \$206,883$

**\$206,883 transferred to balancing account upon implementation of surcharge**  
**\$153,117 carry-over in deferred revenue account**

**Example of following year revenue deferral:**

	<u>Prior Year</u> <u>Carry-Over</u> <u>Balance</u>	<u>90% of</u> <u>Current Mo.</u> <u>Margin</u> <u>Shortfall</u>	<u>Remaining</u> <u>Prior Year</u> <u>Carry-Over</u>	<u>Current Mo.</u> <u>Deferral</u> <u>Recorded</u>	<u>Deferral</u> <u>Balance</u>
	<b>\$153,117</b>				<b>\$153,117</b>
July '07	<b>\$153,117</b>	\$20,000	<b>\$133,117</b>	\$0	<b>\$153,117</b>
Aug	<b>\$153,117</b>	\$20,000	<b>\$113,117</b>	\$0	<b>\$153,117</b>
Sept	<b>\$153,117</b>	\$50,000	<b>\$63,117</b>	\$0	<b>\$153,117</b>
Oct	<b>\$153,117</b>	\$60,000	<b>\$3,117</b>	\$0	<b>\$153,117</b>
Nov	<b>\$153,117</b>	\$100,000	<b>\$0</b>	\$96,883	<b>\$250,000</b>
Dec	<b>\$153,117</b>	\$140,000		\$140,000	<b>\$390,000</b>
Jan '08	<b>\$153,117</b>	\$150,000		\$150,000	<b>\$540,000</b>
Feb	<b>\$153,117</b>	\$140,000		\$140,000	<b>\$680,000</b>
Mar	<b>\$153,117</b>	\$120,000		\$120,000	<b>\$800,000</b>
Apr	<b>\$153,117</b>	\$80,000		\$80,000	<b>\$880,000</b>
May	<b>\$153,117</b>	\$60,000		\$60,000	<b>\$940,000</b>
June	<b>\$153,117</b>	\$20,000		\$20,000	<b>\$960,000</b>

(1) Based on Commission Order No. 05 in Docket No. UG-050483

**Avista Utilities**  
**Proposed Natural Gas Decoupling Mechanism**  
**Example Application of DSM Tests**

<b>Margin Shortfall between Current Period (Feb '07 - June '07) &amp; 2004 Test Year</b>	<b>\$ 400,000</b>
<b>Deferred Revenue during Feb '07 - June '07 Period (90% of Margin difference)</b>	<b>\$ 360,000</b>

**Example 2 - Surcharge Level based on Actual DSM savings during 2006**

<b>2006 DSM Target Savings</b>	<b>1,062,000 therms</b>				<b>Earnings Test Not Met - from Page 1</b>	
<b><u>Earnings Test met - Company not over-earning</u></b>					<b><u>Surcharge Amount(2)</u></b>	<b><u>Deferred Rev Carryover(3)</u></b>
<b><u>Actual Savings</u></b>	<b><u>Actual / Target</u></b>	<b><u>Surchg. % of Margin diff.(1)</u></b>	<b><u>Surcharge Amount</u></b>	<b><u>Deferred Rev Carryover(3)</u></b>		
1,100,000	104%	90%	\$360,000	\$0	\$206,883	\$153,117
800,000	75%	60%	\$240,000	\$120,000	\$206,883	\$153,117
700,000	66%	0%	\$0	\$360,000	\$0	\$360,000
1,000,000	94%	80%	\$320,000	\$40,000	\$206,883	\$153,117

(1) Based on the following table:

<b><u>Actual DSM Savings/ Target Savings</u></b>	<b><u>Surcharge as a % of Margin Difference</u></b>
< 70%	0%
70% - 80%	60%
80% - 90%	70%
90% - 100%	80%
> 100%	90%

(2) Based on the lower result of either the earnings test (\$206,883) or the DSM test

(3) Total deferred revenue amount of \$360,000 less surcharge amount - carryover would be used to offset future deferrals as shown on Page 1

**DRAFT**

AVISTA CORPORATION  
dba Avista Utilities

**SCHEDULE 159**

**NATURAL GAS CONSERVATION RATE ADJUSTMENT**

**PURPOSE:**

To allow the Company to recover the fixed costs of providing Natural Gas distribution service as authorized by the Commission. Recovery of these fixed distribution costs removes the financial incentive for the Company to increase natural gas sales and allows the Company to fully support all cost-effective natural gas conservation measures.

**APPLICABLE:**

To Natural Gas Customers served under General Service Schedule 101 and Large General Service Schedules 111 and 112.

**MONTHLY RATE:**

\$0. \_\_ per therm

**SPECIAL TERMS AND CONDITIONS:**

This Schedule reflects a rate adjustment to General Service Schedule 101 and Large General Service Schedules 111 and 112 to allow the Company to recover the fixed costs of providing Natural Gas distribution service as authorized by the Commission in Order No. \_\_.

The monthly rate set forth above reflects the recovery of lost revenue recorded by the Company during the past year resulting from reduced customer usage due to the implementation of natural gas conservation measures.

The monthly rate set forth above cannot reflect more than a 2% annual increase in the total rate billed to customers for natural gas service.

This Schedule is a three-year pilot program, effective October 1, 2007 through September 30, 2010, with the monthly rate subject to change annually based on Commission approval of a filing by the Company.

Issued	August 1, 2007	Effective	October 1, 2007
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Issued by Avista Corporation  
By Kelly Norwood, Vice President - State & Federal Regulation

**Avista Corporation**  
**Proposed Natural Gas Decoupling Mechanism**  
**Accounts to be Used for Mechanism**

Monthly deferred revenues resulting from a margin shortfall would be recorded in the deferral account by crediting Account 407.4 - Regulatory Credits and debiting Account 186 - Miscellaneous Deferred Debits. Associated deferred tax entries would be recorded by debiting Account 410.1 - Deferred Tax Expense (Debits) and crediting Account 283 - Accumulated Deferred Taxes. These entries would increase current net income to reflect the impact of the additional deferred revenue. The same accounts would be used if the monthly calculation resulted in a reduction to deferred revenue with the debits and credits reversed.

Interest computed on the Deferred Revenue balance sheet account would be recorded by debiting Account 186 – Miscellaneous Deferred Debits and crediting the non-operating Account 419 – Interest Income. Related deferred taxes would be recorded as a debit to Account 410.2 – Deferred Tax Expense (Debits - non-operating) with the credit to Account 283- Accumulated Deferred Taxes.

When an amount is approved for recovery through a surcharge there would be an entry to transfer the allowed amount from Account 186 – Miscellaneous Deferred Debits into Account 182.3 – Other Regulatory Assets.

Finally, as revenue is collected from customers through a surcharge, the regulatory asset would be amortized by debit entries to Account 407.3 – Regulatory Debits that would offset the revenue collected from customers, and credit entries to Account 182.3 – Other Regulatory Assets. Associated deferred taxes would be recorded in Account 283 – Accumulated Deferred Taxes and Account 411.1 Deferred Tax Expense (Credits). These entries offset the effect of the surcharge revenue resulting in no current net income.

Each of the balance sheet accounts and the 407 accounts would have unique sub-accounts that would specifically identify the amounts associated with the gas decoupling mechanism.

**Avista Utilities**  
**Proposed Natural Gas Decoupling Mechanism**  
**Illustrative Accounting Examples**

If the monthly calculation results in a shortfall or surcharge direction, example \$50,000

		Debit	Credit
Misc Deferred Debits - Decoupling Deferred Revenue	186xxx.GD.WA	\$ 50,000.00	
Regulatory Credits - Decoupling Deferred Revenue	4074xx.GD.WA		\$ 50,000.00
Deferred Tax Expense	410100.GD.WA	\$ 17,500.00	
Deferred Taxes - Decoupling Deferred Revenue	283xxx.GD.WA		\$ 17,500.00

If the monthly calculation results in an overage or rebate direction, example -\$25,000

		Debit	Credit
Regulatory Credits - Decoupling Deferred Revenue	4074xx.GD.WA	\$ 25,000.00	
Misc Deferred Debits - Decoupling Deferred Revenue	186xxx.GD.WA		\$ 25,000.00
Deferred Taxes - Decoupling Deferred Revenue	283xxx.GD.WA	\$ 8,750.00	
Deferred Tax Expense	410100.GD.WA		\$ 8,750.00

Enter Interest Income on Deferred Revenue balance, example \$2,000

		Debit	Credit
Misc Deferred Debits - Decoupling Deferred Revenue	186xxx.GD.WA	\$ 2,000.00	
Interest Income	419xxx.ZZ.ZZ		\$ 2,000.00
Deferred Tax Expense	410200.ZZ.ZZ	\$ 700.00	
Deferred Taxes - Decoupling Deferred Revenue	283xxx.GD.WA		\$ 700.00

At the time a Deferred Revenue Balance is approved for collection through rates - transfer into Regulatory Asset acct, example \$750,000 surcharge

		Debit	Credit
Regulatory Asset - Deferred Revenue Approved for Collection	1823xx.GD.WA	\$ 750,000.00	
Misc Deferred Debits - Decoupling Deferred Revenue	186xxx.GD.WA		\$ 750,000.00

As revenues are collected through customer rates, amortize balancing acct, example \$10,000 surcharge

		Debit	Credit
Regulatory Debits - Decoupling Revenue Collected	4073xx.GD.WA	\$ 10,000.00	
Regulatory Asset - Deferred Revenue Approved for Collection	1823xx.GD.WA		\$ 10,000.00
Deferred Taxes - Decoupling Deferred Revenue	283xxx.GD.WA	\$ 3,500.00	
Deferred Tax Expense	411100.GD.WA		\$ 3,500.00