

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-080416

DOCKET NO. UG-080417

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

DON M. FALKNER

REPRESENTING AVISTA CORPORATION

**CORRECTION FOR COMPUTATIONAL ERRORS - FEDERAL INCOME TAX ADJUSTMENT**

**COMPUTATIONAL ERROR #1 - CORRECT FOR TAX IMPACT OF SUBSIDIARY LOSS - Mr. Majoros uses the entire Pre-Tax Loss and subtracts that from Avista's total tax instead of the Tax Effect of the Pre-Tax Loss. The Pre-Tax Loss should have been subtracted from the total "Avista Taxable Income", not "Avista Tax".**

<u>Majoros Calculation</u>				<u>CORRECTED Calculation</u>			
Year	Savings (Pre-tax Loss)	Tax Impact of Pre-tax Loss (35%)		Year	Savings (Pre-tax Loss)	Tax Impact of Pre-tax Loss (35%)	
2005	5,720,073	not calculated		2005	5,720,073	2,002,026	
2006	2,928,917	not calculated		2006	2,928,917	1,025,121	
Avista Taxable Income	Avista Tax	Effective Tax Rate		Avista Taxable Income	Avista Tax	Effective Tax Rate	
2005	90,243,037	31,585,063	35.0%	2005	90,243,037	31,585,063	35.0%
		<u>(5,720,073)</u>				<u>(2,002,026)</u>	
		25,864,990	28.7%			29,583,037	32.8%
2006	142,824,529	49,988,585	35.0%	2006	142,824,529	49,988,585	35.0%
		<u>(2,928,917)</u>				<u>(1,025,121)</u>	
		47,059,668	32.9%			48,963,464	34.3%
Average Calculated by Mr. Majoros			31%	Actual Average Calculated by the Company			34%

**COMPUTATIONAL ERROR #2 - CORRECT FOR WASHINGTON JURISDICTIONAL ALLOCATION - Mr. Majoros fails to calculate the "Tax Impact of Pre-tax Loss" as noted in Computational Error #1. Further, Mr. Majoros fails to then calculate the Jurisdictional Allocation of the Tax Impact for the Washington Jurisdiction's share of the loss.**

<u>Majoros Calculation</u>			<u>CORRECTED Calculation</u>		
Year	Savings (Pre-tax Loss)	Tax Impact of Pre-tax Loss (35%)	Year	Savings (Pre-tax Loss)	Tax Impact of Pre-tax Loss (35%)
2005	5,720,073	not calculated	2005	5,720,073	2,002,026
2006	2,928,917	not calculated	2006	2,928,917	1,025,121
Total	8,648,990		Total	8,648,990	3,027,147
2 Year Average	4,324,495		2 Year Average	4,324,495	1,513,573
Washington's Share		not calculated	Washington's Share (60.17%) (1)		910,717

(1) Note 7/Note 4 Allocators used to determine WA Jurisdictional Allocation.