

Exhibit No. ____ (DPK-3)
Docket UE-090134/UG-090135
and UG-060518 (consolidated)
Witness: Danny P. Kermode

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND) TRANSPORTATION COMMISSION,) Complainant,) v.) AVISTA CORPORATION, d/b/a) AVISTA UTILITIES,) Respondent.)) In the Matter of the Petition of) AVISTA CORPORATION, d/b/a) AVISTA UTILITIES,) For an Order Authorizing) Implementation of a Natural Gas) Decoupling Mechanism and to Record) Accounting Entries Associated With) the Mechanism.))	DOCKETS UE-090134 and UG-090135 (consolidated) DOCKET UG-060518 (consolidated)
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EXHIBIT TO TESTIMONY OF

DANNY P. KERMODE

**STAFF OF WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Natural Gas – Results of Operations (Schedule 1.1)

August 17, 2009

Avista Corporation
Natural Gas - Results of Operations (Schedule 1.1)
Twelve Months Ended September 30, 2008
(000's of Dollars)

Line No.	(a) DESCRIPTION	(b) Unadjusted Results	(c) Total Restating Adjustments		(d) Restated Results	(e) Total Pro Forma Adjustments		(f) Pro Forma Results	(g) Staff Proposed	(h) Results at Staff Rates	
			Source	EMA-3 (b)		Schedule 1.2	(b) + (c)				Schedule 1.3
	RESULT OF OPERATIONS										
1	REVENUES										
2	Total General Business	\$220,020	(\$6,144)	\$213,876	-	\$213,876		280	\$214,156		
3	Total Transportation	3,486	(1,775)	1,711	-	1,711		-	1,711		
4	Other Revenues	135,812	(131,399)	4,413	(2,561)	1,852		-	1,852		
5	Total Gas Revenues	359,318	(139,318)	220,000	(2,561)	217,439		280	217,719		
6											
7	EXPENSES										
8	Exploration and Development		-	-	-	-			-		
9											
10	Production										
11	City Gate Purchases	309,146	(151,865)	157,281	-	157,281			157,281		
12	Purchased Gas Expense	737	-	737	70	807			807		
13	Net Nat Gas Storage Trans	(18,687)	18,687	0	-	0			0		
14	Total Production	291,196	(133,178)	158,018	70	158,088			158,088		
15											
16	Underground Storage										
17	Operating Expenses	408	-	408	1	409			409		
18	Depreciation	260	(15)	245	155	400			400		
19	Taxes	113	(40)	73	129	202			202		
20	Total Underground Storage	781	(55)	726	285	1,011			1,011		
21											
22	Distribution										
23	Operating Expenses	6,260	-	6,260	552	6,812			6,812		
24	Depreciation	5,659	(66)	5,593	-	5,593			5,593		
25	Taxes	18,282	(8,465)	9,817	(98)	9,719		1	9,720		
26	Total Distribution	30,201	(8,531)	21,670	454	22,124		1	22,125		
27											
28	Customer Accounting	4,884	(220)	4,664	340	5,005		11	5,015		
29	Customer Service & Information	5,002	(4,270)	732	21	753			753		
30	Sales Expenses	545	-	545	32	577			577		
31	Total Customer	10,431	(4,490)	5,941	393	6,335		11	6,345		
32	Administrative & General										
33	Operating Expenses	9,202	(148)	9,054	633	9,687		1	9,688		
34	Depreciation	1,414	341	1,755	-	1,755			1,755		
35	Taxes	23	(5)	18	-	18			18		
36	Total Admin. & General	10,639	188	10,827	633	11,460		1	11,461		
37											
38	Total Gas Expense	343,248	(146,065)	197,183	1,834	199,017		12	199,029		
39											
40	OPERATING INCOME BEFORE FIT	16,070	6,747	22,817	(4,395)	18,422		268	18,690		
41	FEDERAL INCOME TAX										
42	Current Accrual	5,138	2,232	7,370	(1,538)	5,832		94	5,925		
43	Deferred FIT	(1,042)	7	(1,035)	-	(1,035)			(1,035)		
44	Amort ITC	(30)	-	(30)	-	(30)			(30)		
45											
46	NET OPERATING INCOME	12,004	\$4,508	\$16,512	(\$2,857)	\$13,655		\$174	\$13,830		
47											
48	RATE BASE										
49	PLANT IN SERVICE										
50	Underground Storage	13,539	-	13,539	8,614	22,153			22,153		
51	Distribution Plant	237,485	(52)	237,433	-	237,433			237,433		
52	General Plant	23,944	-	23,944	-	23,944			23,944		
53	Total Plant in Service	274,968	(52)	274,916	8,614	283,530		0	283,530		
54	ACCUMULATED DEPRECIATION										
55	Underground Storage	7,516	-	7,516	-	7,516			7,516		
56	Distribution Plant	80,580	-	80,580	266	80,846			80,846		
57	General Plant	8,155	-	8,155	-	8,155			8,155		
58	Total Accum. Depreciation	96,251	0	96,251	266	96,517		0	96,517		
59											
60	DEFERRED FIT		(27,651)	(27,651)	(473)	(28,124)			(28,124)		
61	GAS INVENTORY		11,064	11,064	1,047	12,111			12,111		
62	CUSTOMER DEPOSITS		(830)	(830)	-	(830)			(830)		
63	GAIN ON SALE OF BUILDING		(65)	(65)	-	(65)			(65)		
64											
65	TOTAL RATE BASE	\$178,717	(\$17,534)	\$161,183	\$8,922	\$170,105		\$0	\$170,105		
66	RATE OF RETURN	6.72%		10.24%		8.03%			8.13%		

Avista Corporation
Gas Results of Operations
Washington Restating Adjustments (Schedule 1.2)
Twelve Months Ended September 30, 2008

(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)
(000's of Dollars)			R-1	R-2	R-3	R-4	R-5	R-6
Line No.	DESCRIPTION	Total Restating Adjustments	Deferred FIT Rate Base	Deferred Gain on Office Building	Gas Inventory	Weatherization and DSM Investment	Customer Advances	Depreciation True-up
		<i>Source</i>						
	RESULT OF OPERATIONS							
1	REVENUES							
2	Total General Business	\$ (6,144)						
3	Total Transportation	(1,775)						
4	Other Revenues	(131,399)						
5	Total Gas Revenues	(139,318)	0	0	0	0	0	0
6								
7	EXPENSES							
8	Exploration and Development	0						
9								
10	Production							
11	City Gate Purchases	(151,865)						
12	Purchased Gas Expense	0						
13	Net Nat Gas Storage Trans	18,687						
14	Total Production	(133,178)	0	0	0	0	0	0
15								
16	Underground Storage							
17	Operating Expenses	0						
18	Depreciation	(15)						(15)
19	Taxes	(40)						
20	Total Underground Storage	(55)	0	0	0	0	0	(15)
21								
22	Distribution							
23	Operating Expenses	0						
24	Depreciation	(66)						(53)
25	Taxes	(8,465)						
26	Total Distribution	(8,531)	0	0	0	0	0	(53)
27								
28	Customer Accounting	(220)						
29	Customer Service & Information	(4,270)						
30	Sales Expenses	0						
		(4,490)	0	0	0	0	0	0
31	Administrative & General	0						
32	Operating Expenses	(148)						
33	Depreciation	341						(15)
34	Taxes	(5)						
35	Total Admin. & General	188	0	0	0	0	0	(15)
36								
37	Total Gas Expense	(146,065)	0	0	0	0	0	(83)
38								
39	OPERATING INCOME BEFORE FIT	6,747	0	0	0	0	0	83
40	FEDERAL INCOME TAX							
41	Current Accrual	2,232						29
42	Deferred FIT	7						
43	Amort ITC	0						
44								
45	NET OPERATING INCOME	\$4,508	\$0	\$0	\$0	\$0	\$0	\$54
46								
47	RATE BASE							
48	PLANT IN SERVICE							
49	Underground Storage	0						
50	Distribution Plant	(52)					(52)	
51	General Plant	0						
52	Total Plant in Service	(52)	0	0	0	0	(52)	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
58	DEFERRED FIT	(27,651)	(27,674)	23				
59	GAS INVENTORY	11,064			11,064			
60	CUSTOMER DEPOSITS	(830)						
61	GAIN ON SALE OF BUILDING	(65)		(65)				
62	TOTAL RATE BASE	(\$17,534)	(\$27,674)	(\$42)	\$11,064	\$0	(\$52)	\$0
63	RATE OF RETURN	-25.71%						

Avista Corporation
Gas Results of Operations
Washington Restating Adjustments (Schedule 1.2)
Twelve Months Ended September 30, 2008
(a)

	(i) R-7	(j) R-8	(k) R-9	(l) R-10	(m) R-11	(n) R-12	(o) R-13	(p) R-14	
Line No.	DESCRIPTION	Revenue Normalization & Gas Cost Adjust	Eliminate B & O Taxes	Property Tax	Uncollectible Expense	Regulatory Expense Adjustment	Injuries and Damages	FIT	Net Gains/losses
RESULT OF OPERATIONS									
1	REVENUES								
2	Total General Business	\$1,695	\$ (7,839)						
3	Total Transportation	(1,700)	(75)						
4	Other Revenues	(131,399)							
5	Total Gas Revenues	(131,404)	(7,914)	0	0	0	0	0	0
6									
7	EXPENSES								
8	Exploration and Development								
9									
10	Production								
11	City Gate Purchases	(151,865)							
12	Purchased Gas Expense								
13	Net Nat Gas Storage Trans	18,687							
14	Total Production	(133,178)	0	0	0	0	0	0	0
15									
16	Underground Storage								
17	Operating Expenses								
18	Depreciation								
19	Taxes			(40)					
20	Total Underground Storage	0	0	(40)	0	0	0	0	0
21									
22	Distribution								
23	Operating Expenses								
24	Depreciation								(13)
25	Taxes	67	(7,908)	(703)					
26	Total Distribution	67	(7,908)	(703)	0	0	0	0	(13)
27									
28	Customer Accounting	5			(143)				
29	Customer Service & Information	(4,270)							
30	Sales Expenses	(4,265)	0	0	(143)	0	0	0	0
31	Administrative & General								
32	Operating Expenses	3				14	(65)		
33	Depreciation	356							
34	Taxes			(5)					
35	Total Admin. & General	359	0	(5)	0	14	(65)	0	0
36									
37	Total Gas Expense	(137,017)	(7,908)	(748)	(143)	14	(65)	0	(13)
38									
39	OPERATING INCOME BEFORE FIT	5,613	(6)	748	143	(14)	65	0	13
40	FEDERAL INCOME TAX								
41	Current Accrual	1,965	(2)	262	50	(5)	23	3	5
42	Deferred FIT							7	
43	Amort ITC								
44									
45	NET OPERATING INCOME	\$3,648	(\$4)	\$486	\$93	(\$9)	\$42	(\$10)	\$8
46									
47	RATE BASE								
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	RATE OF RETURN								

Avista Corporation
Gas Results of Operations
Washington Restating Adjustments (Schedule 1.2)
Twelve Months Ended September 30, 2008
(a)

(000's of Dollars)		(q)	(r)	(s)	(t)	(u)	R-20	R-21
Line No.	DESCRIPTION	Eliminate A/R Expenses	Office Space Charges to Subs	Restate Excise Taxes	Misc Restating Adjustments	Restate Debt Interest	Customer Deposit	Board of Dir Meeting Costs
		R-15	R-16	R-17	R-18	R-19	Staff Proposed	Staff Proposed
	RESULT OF OPERATIONS							
1	REVENUES							
2	Total General Business							
3	Total Transportation							
4	Other Revenues							
5	Total Gas Revenues	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
15								
16	Underground Storage							
17	Operating Expenses							
18	Depreciation							
19	Taxes							
20	Total Underground Storage	0	0	0	0	0	0	0
21								
22	Distribution							
23	Operating Expenses							
24	Depreciation							
25	Taxes			79				
26	Total Distribution	0	0	79	0	0	0	0
27								
28	Customer Accounting	(85)					3	
29	Customer Service & Information							
30	Sales Expenses	(85)	0	0	0	0	3	0
31	Administrative & General							
32	Operating Expenses		(2)		(86)			(12)
33	Depreciation							
34	Taxes							
35	Total Admin. & General	0	(2)	0	(86)	0	0	(12)
36								
37	Total Gas Expense	(85)	(2)	79	(86)	0	3	(12)
38								
39	OPERATING INCOME BEFORE FIT	85	2	(79)	86	0	(3)	12
40	FEDERAL INCOME TAX							
41	Current Accrual	30	1	(28)	30	(134)	(1)	4
42	Deferred FIT							
43	Amort ITC							
44								
45	NET OPERATING INCOME	\$55	\$1	(\$51)	\$56	\$134	(\$2)	\$8
46								
47	RATE BASE							
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
53	ACCUMULATED DEPRECIATION							
54	Underground Storage							
55	Distribution Plant							
56	General Plant							
57	Total Accum. Depreciation	0	0	0	0	0	0	0
58	DEFERRED FIT							
59	GAS INVENTORY							
60	CUSTOMER DEPOSITS						(830)	
61	GAIN ON SALE OF BUILDING							
62	TOTAL RATE BASE	\$0	\$0	\$0	\$0	\$0	(\$830)	\$0
63	RATE OF RETURN							

Avista Corporation
Gas Results of Operations
Pro Forma Adjustments (Schedule 1.3)
Twelve Months Ended September 30, 2008
(000'S of Dollars)

PF 8 PF 9 PF 10

Line No.	DESCRIPTION	Pro Forma Information Services	Pro Forma Employee Benefits	Pro Forma Insurance
	<i>Source</i>			
	RESULT OF OPERATIONS			
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		60	
13	Net Nat Gas Storage Trans			
14	Total Production	0	60	0
15				
16	Underground Storage			
17	Operating Expenses		1	
18	Depreciation			
19	Taxes			
20	Total Underground Storage	0	1	0
21				
22	Distribution			
23	Operating Expenses		358	
24	Depreciation			
25	Taxes			
26	Total Distribution	0	358	0
27				
28	Customer Accounting		229	
29	Customer Service & Information		14	
30	Sales Expenses		21	
31				
32	Administrative & General			
33	Operating Expenses		504	(19)
34	Depreciation			
35	Taxes			
36	Total Admin. & General	0	504	(19)
37				
38	Total Gas Expense	0	1,186	(19)
39				
40	OPERATING INCOME BEFORE FIT	0	(1,186)	19
41	FEDERAL INCOME TAX			
42	Current Accrual		(415)	7
43	Deferred FIT			
44	Amort ITC			
45				
46	NET OPERATING INCOME	\$0	(\$771)	\$12
47				
48	RATE BASE			
49	PLANT IN SERVICE			
50	Underground Storage			
51	Distribution Plant			
52	General Plant			
53	Total Plant in Service	0	0	0
54	ACCUMULATED DEPRECIATION			
55	Underground Storage			
56	Distribution Plant			
57	General Plant			
58	Total Accum. Depreciation	0	0	0
59	DEFERRED FIT			
60	GAS INVENTORY			
61	GAIN ON SALE OF BUILDING			
62				
63	TOTAL RATE BASE	\$0	\$0	\$0
64				

Avista Corporation
Summary of Adjustments - Gas Operations (Schedule 1.4)
Twelve Months Ended September 30, 2008
(000's of Dollars)

Line No.	(a)	(b)			(c)		(d)			(e)			(f)		(g)		(h)	
		Avista Corporation						Staff Adjusted						Difference				
		Avista Adjusted			Rev Requirement Impact			Staff Adjusted			Rev Requirement Impact			Revenue Requirement				
Adj. No.	Per Books	NOI	Net Rate Base		Impact	NOI	Rate Base	Impact *	NOI	Rate Base	Impact *	Impact						
1		12,004	178,717		5,641	12,004	178,717	5,641				(g)-(d)						
2	Adjustments																	
3	R-1 (c)			(27,674)	(3,862)			(27,674)	(3,862)				-					
4	R-2 (d)			(42)	(6)			(42)	(6)				-					
5	R-3 (e)			11,064	1,544			11,064	1,544				-					
6	R-4 (f)			0	0			0	0				-					
7	R-5 (g)			(52)	(7)			(52)	(7)				-					
8	R-6 (h)		54		(87)		54		(87)				-					
9	R-7 (i)		3,648		(5,865)		3,648		(5,865)				-					
10	R-8 (j)		(4)		6		(4)		6				-					
11	R-9 (k)	C	193		(310)		486		(781)				(471)					
12	R-10 (l)		93		(150)		93		(150)				-					
13	R-11 (m)		(9)		14		(9)		14				-					
14	R-12 (n)		42		(68)		42		(68)				-					
15	R-13 (o)		(10)		16		(10)		16				-					
16	R-14 (p)		8		(13)		8		(13)				-					
17	R-15 (q)		55		(88)		55		(88)				-					
18	R-16 (r)		1		(2)		1		(2)				-					
19	R-17 (s)		(51)		82		(51)		82				-					
20	R-18 (t)		56		(90)		56		(90)				-					
21	R-19 (u)		149		(240)		134		(215)				24					
22	R-20	C			0		(2)	(\$830)	(112)				(112)					
23	R-21	C			0		8	\$0	(13)				(13)					
27	Total Restating Adjustments		4,225	(16,704)		(9,123)	4,508	(17,534)		(9,694)			(572)					
28																		
29	Restated		16,229	162,013		(3,483)	16,512	161,183		(4,054)								
30																		
28	Pro Forma Adjustments																	
21	PF-1	C	(511)			821	(297)			477			(344)					
22	PF-2	C	(44)			70	(27)			43			(27)					
23	PF-3		(1,778)	8,922		4,103	(1,778)	8,922		4,103			-					
24	PF-4	C	294	1,234		(301)	-	-		-			301					
25	PF-5	C	(596)	6,094		1,809	-	-		-			(1,809)					
26	PF-6	C	(57)			92	\$0			-			(92)					
27	PF-7	C	(\$99)			159	\$3			(5)			(164)					
28	PF-8	C	(292)			469	\$0			-			(469)					
29	PF-9	C	(681)			1,095	(\$771)			1,240			145					
30	PF-10	C	(51)			82	\$12			(20)			(102)					
31	PF-11					-				-			-					
27	Total Pro Forma Adjustments		(3,814)	16,250		8,398	(2,857)	8,922		5,838			(2,561)					
28			NOI	Rate Base			NOI	Rate Base										
29	Pro Forma Results		12,416	178,263		4,916	13,655	170,105		1,784			(3,133)					
30													Impact of Change in Weighted Cost of Capital	(1,504)	(1,504)			
31													Adjusted Revenue Requirement	280	(4,637)			

Capital Structure

Avista Filed Capital Structure

Staff Adjusted Capital Structure

Cost of Capital	Percent of Total	Cost	Weighted Cost	Percent of Total	Cost	Weighted Cost
Total Debt	52.49%	6.570%	3.45%	54.60%	6.570%	3.59%
Preferred Stock	0.00%	0.000%	0.00%	0.00%	0.000%	0.00%
Common Stock	47.51%	11.000%	5.23%	45.40%	10.000%	4.54%
Total	100.00%		8.68%	100.00%		8.13%

Avista Corporation
Natural Gas Operations
Revenue Requirement Computation (Schedule 2)
Twelve Months Ended September 30, 2008
(000's of Dollars)

Line
No.
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Revenue Requirement Computation

	At Pro Forma Results
Pro Forma Rate Base	\$170,105
Weighted Cost of Capital	<u>8.130%</u>
Operating Income Requirement	<u>13,830</u>
Pro Forma Net Operating Income (Loss)	\$13,655
Operating Income Deficiency	174
Revenue Conversion Factor	62.2038%
Additional Revenue Requirement	<u>\$280</u>
Amount filed	<u>4,918</u>
Difference	<u><u>\$ (4,638)</u></u>

Avista Corporation
Natural Gas Operations
Revenue Conversion Factor (Schedule 3)
Twelve Months Ended September 30, 2008

Line
No.

Schedule for the Computation of Revenue Conversion Factor

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	Revenues		100.0000%
	Uncollectables		0.2599%
	WUTC Regulatory Fee		0.2000%
	Utility Revenue Tax		3.8420%
	Total Revenue Sensitive Items	Ln 6 thru Ln 8	<u>4.3019%</u>
	Net Operating Income before FIT	Ln 4 - Ln 9	95.6981%
	Effective Income Tax Rate at 35%	35% * Ln 11	<u>33.4943%</u>
	Total adjustments	Ln 9 + Ln 13	<u><u>37.7962%</u></u>
	Revenue Conversion Factor	1-(Ln 14 / Ln 4)	<u><u>62.2038%</u></u>

Avista Corporation
Natural Gas - Results of Operations
Pro Forma Capital Structure and Cost of Capital (Schedule 4)
Twelve Months Ended September 30, 2008
(000's of Dollars)

Line

No.

Pro Forma Capital Structure and Cost of Capital

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Weighted Cost of Capital

	Percent of Total	<u>Cost</u>	Weighted <u>Cost</u>
Total Debt	54.60%	6.57%	3.59%
Common Stock	45.40%	10.00%	4.54%
Total	100.00%		8.13%