Exhibit No. __(DBD-4T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518

(consolidated)

REBUTTAL TESTIMONY OF

DAVE B. DEFELICE

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Dave DeFelice. I am employed by Avista Corporation as a Senior Business Analyst. My business address is 1411 East Mission, Spokane, Washington.

Q. Have you previously provided direct testimony in this Case?

A. Yes. My testimony covered the Company's proposed regulatory treatment of capital investments in utility plant through 2009.

Q. What is the scope of your rebuttal testimony in this proceeding?

A. My rebuttal testimony will first review the Company's proposed regulatory treatment of capital investments in utility plant and why this method is the best method to match revenues, expenses and rate base during the 2010 rate period. I will also address the adjustments related to capital expenditures proposed by Commission Staff witness Mr. Kermode and by Public Counsel witness Mr. Larkin, Jr., and why their methods do not fairly state costs and rate base for the 2010 rate year. Finally, I will provide an alternate approach for the Commission to consider, should the Commission choose to use a method other than that proposed by Avista.

Q. Are you sponsoring any exhibits?

A. Yes. I am sponsoring Exhibit No. __(DBD-5) through Exhibit No. __(DBD-10), which were prepared under my direction, and have been included to provide supporting information for revised adjustments as proposed in this testimony.

II. COMPANY'S PRO FORMA RATE BASE PROPOSAL

Q. How was rate base for the pro forma rate year developed for this case?

A. As in prior rate cases, Avista started with rate base for the historical test year, which for this case is the average of monthly averages for the twelve months ended September 30, 2008. Adjustments were made to reflect new additions, accumulated depreciation and deferred federal income taxes through December 2009, such that the proposed rate base reflects the net plant in service that will be used to serve customers at the commencement of the 2010 pro forma rate year. This means that the Company depreciated <u>all</u> plant that was in service at September 30, 2008 an additional 15 months, to reflect the reduction to rate base for this additional accumulated depreciation.

The Company included only new investment through December 2009 (<u>excluding the plant investment for customer growth or new revenue</u>), with the exception of the 2010 Noxon Unit #3 generation plant upgrade addition, as described below.

Q. What did the Company's request for rate relief include regarding new investment in utility plant to serve customers?

A. In this case, we proposed to include in retail rates the costs associated with utility plant that is in-service, and will be used to provide energy service to our customers at the start of the 2010 pro forma rate year.

The utility plant investment that we have included in this case represents utility plant that will be "used and useful" in providing service to customers during the period that new retail rates from this filing will be in effect. The costs associated with the investment will be "known and measurable" prior to the time that rates go into effect, and finally, including the costs associated with this investment in retail rates provides a proper "matching" of revenues from customers, with the costs associated with providing service to customers (including the cost of utility plant to serve customers).

In the WUTC's Third Supplemental Order, in Docket No. U-85-36, dated April 1986, the Commission stated, at page 29, that, "a utility's rate base shown on the books is adjusted to take into account known and measureable changes that will occur during the period rates will be in effect; such pro forma adjustments correct what would otherwise cause a miscalculation of the value of property that is used and useful for service".

If utility plant investment that is being used to serve customers is not reflected in retail rates, then the retail rates will not be "just, reasonable, and sufficient," i.e., it would not be just or reasonable for customers to receive the benefit provided by the utility investment without paying for it, and the retail rates would not provide revenues "sufficient" to provide recovery of the costs associated with providing service to customers.

III. COMMISSION STAFF'S PROPOSAL

Q. Please summarize your understanding of Staff's proposal relating to the 2008 and 2009 electric capital, excluding the Noxon generating facility upgrades planned for 2009 and 2010.

A. Staff recommends rejection of the Company's proposal, as filed in its direct case, to include in rate base net plant through December 2009. Staff rejects the Company's proposal claiming it does not reflect the average of monthly averages basis for the test period, and because Staff believes that Avista failed to recognize off-setting factors. Company witness Mr. Norwood addresses these issues raised by Staff in his rebuttal testimony.

While Staff rejected the Company's original proposal, Staff has proposed to include certain generation, transmission and distribution capital projects that met certain criteria determined by Staff, including projects required by laws, regulations or directives from regulatory bodies, as well as projects related to reliability. For this subset of plant additions, Staff only included projects completed during the period October 1, 2008 through June 30, 2009. The net rate base associated with this subset of assets proposed by Staff is $21,252,000 and represents $3,216,000 of revenue requirement. A detailed listing of projects (system capital expenditures and Washington allocated capital expenditures) that Staff included in its proposal is provided in Exhibit No. ___(DBD-5).

Historically, the majority of the Company's annual capital projects are completed and transferred to plant-in-service during the second half of the year, after the construction season has finished. By Staff including only those capital expenditures that had actually transferred to plant-in-service during the first half of 2009, the majority of Avista's 2009 capital has been excluded in Staff's proposal.

Q. What is the overall impact of Staff's proposed adjustments for electric plant?

A. Staff's proposed adjustments removed $14,515,000 from the Company's proposed electric rate base by including only a small subset of assets (primarily generation, transmission and two distribution projects), by further limiting this subset to only assets that had transferred to plant in service by June 30, 2009, and by reducing the Noxon 2010 upgrade investment, described below. The revenue requirement reduction associated with these adjustments is

$6,455,000[1]. The result is ratepayers will receive the benefit of these assets that are used and useful at December 31, 2009, for the entire 2010 rate year[2] without paying for the cost.

Q. Please summarize Staff's proposal relating to the 2008 and 2009 natural gas capital.

A. Staff recommends rejection of the Company's proposal to include in rate base net plant that will be added through December 2009. Staff rejected the Company's proposal for the same reasons it recommended rejection of the Company's proposal related to electric plant (concerns related to the three principles of "known and measurable", "off-setting factors" and "matching"). Mr. Norwood addresses these issues raised by Staff in his rebuttal testimony.

Staff's rejection of Avista's proposed adjustments removed $7,328,000 from the Company's proposed natural gas rate base and reduced the Company's natural gas revenue requirement by $1,442,000[3]. Company witness Mr. Howell, in his rebuttal testimony, will explain that the Company's natural gas capital additions are in fact known and measureable and that these additions to rate base have minimal or no off-setting factors. With regard to the "matching" principle, as Company witness Mr. Hirschkorn explains in his rebuttal testimony, the margin from a new customer is less than the costs to hook up and serve the new customer, and the Company has not included the capital in this case associated with hooking up new customers. Only the non-revenue producing capital has been included in the pro forma rate base adjustments, therefore, there is a proper matching related to the proposed capital additions.

[1] This amount does not include the impact related to the Restate Debt Adjustment.
[2] Even if Avista were to file a new general rate case in early 2010, an eleven-month procedural schedule would cause new rates from that case to become effective at the end of 2010 or early 2011.
[3] This amount does not include the impact related to the Restate Debt Adjustment.

Q. Please summarize Staff's proposal relating the Noxon generating facility upgrades planned for 2009 and 2010.

A. Staff accepted Avista's proposal to include the Noxon generating facility upgrades in rate base, since the additional generation from these upgrades was already factored into the Company's power supply model. The 2009 upgrade was accepted as proposed, however, Staff reduced the 2010 upgrade by 25%, since the upgrade will be in service in April 2010, only 75% of the year.

Q. Is Staff's proposed adjustment relating to the 2010 Noxon upgrade consistent with prior ratemaking treatment and does it provide proper matching of revenues and costs?

A. No. 100% of the additional generation from the upgrade has already been factored into the power supply model[4], which is consistent with the treatment of generating facility upgrades in prior rate cases. Since 100% of the benefit has been recognized in this case, 100% of the cost needs to be reflected to provide a proper matching.

Q. Even if the Company agreed with the 25% reduction that Staff proposed, which it does not, was the adjustment proposed by Staff accurate?

A. No, it was not. As demonstrated in Exhibit No. ___(DBD-6), Staff computed the 25% reduction accurately and combined it with the 2009 upgrade data. However, Staff incorrectly transferred the computed data into its adjustment in its revenue requirement model.

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[4] In the Partial Settlement Stipulation filed September on September 4, 2009, all parties, including Staff, agreed to the power supply adjustments, which had factored the Noxon 2010 upgrade at 100%.

Net operating income was overstated by $333,000 and rate base was understated by $593,000, which results in an understatement of $603,000 in Staff's revenue requirement.

Q. If Staff had used 100% of the 2010 upgrade in addition to using correct data, what is the impact to Staff's revenue requirement?

A. Staff's revenue requirement would increase $816,000.

IV. PUBLIC COUNSEL'S PROPOSALS

Q. Please summarize Public Counsel's proposal relating to the 2008 and 2009 electric capital, excluding the Noxon generating facility upgrades planned for 2009 and 2010.

A. Public Counsel rejected the Company's proposal to include additions through December 2009, with the exception of generation plant. Public Counsel opposed the Company's proposal for the non-generation assets, since the Company did not reflect any corresponding increase in revenues (See Direct Testimony of Mr. Larkin, page 14, lines 7-8.)

Q. Do you agree with Public Counsel's statement that the Company did not reflect additional revenues or reflect other "off-sets" in its original capital investment recovery proposal?

A. No, I do not. The Company's adjustments to reflect 2008 and 2009 capital additions excluded all capital that was for customer growth or new revenue. The Company has spent, on average, over the past four years approximately $16.4 million per year in Washington for the hook-up of new electric customers and approximately $8.9 for the hook-up of new natural gas customers. By excluding the costs associated with this capital from the Company's case, the "new revenue" that will be generated from new customers was properly excluded, to provide a proper matching of revenues and costs. Stated another way, the Company <u>purposely excluded</u> this new revenue-producing capital so a proper matching would occur, since the new revenue was also excluded.

Another way to view this is to look at what Avista's rate request would have been by including these capital expenditures (and excluding any additional revenue, as done in this case). For electric service, Avista request would have been approximately $2.5 million more than requested and for natural gas service, the request would have been approximately $1.3 million more than requested.

Q. Public Counsel proposed to include the generation assets. Please summarize your understanding of Public Counsel's adjustment to accomplish this.

A. Public Counsel computed an average rate base amount for generation assets with two adjustments: one for the period October 1, 2008 through December 31, 2008 (2008) and one for the period January 1, 2009 through June 30, 2009 (2009).

For the 2008 period, Public Counsel computed the net change each month in cost and in accumulated depreciation and then took the total change for the 3 months and divided by 3, to get an average change.

For cost, this average change represents the net of additions and retirements recorded during this 3 month period. For accumulated depreciation, this average change represents the net of depreciation on <u>all</u> generation assets (not just on the additions for the period) and retirements recorded. By using only the net additions to determine the adjustment for cost but using depreciation expense on <u>all</u> assets for accumulated depreciation, there is a serious <u>mismatch</u> by using this method to determine rate base change during this period of time. In addition, by using a 3 month average for the period ending December 31, 2008, the method appears to be stating this sub-set of generation assets on an average of monthly average basis at December 31, 2008.

For the 2009 period (January 1, 2009 through June 30, 2009), this same average method was used for the net change in cost and in accumulated depreciation. This adjustment also included the $17.1 million Noxon upgrade that was completed in May 2009, which will be discussed below. Again, this calculation is like using “apples and oranges” to compute a change in rate base by using only the additions for the costs but using depreciation expense on all assets, not just the current period plant additions, for the change to accumulated depreciation. In addition, by using a 6 month average for the period ending June 30, 2009, the method appears to be stating this sub-set of generation assets on an average of monthly average basis at June 30, 2009.

This method has improperly stated rate base on Avista’s generation assets (which represents over $1 billion in costs and approximately 40% of Avista’s plant). A portion of the assets is stated at AMA September 30, 2008, a portion is stated at what appears to be AMA December 31, 2008 and another portion is stated at what appears to be AMA June 30, 2009.

In summary, this method used by Public Counsel has not produced an accurate basis of Avista’s rate base that will be used to serve customers in 2010. Rate base has been understated and a proper matching of revenues and costs will not result from this method.

Q. Please summarize Public Counsel’s proposal relating the Noxon generating facility upgrades planned for 2009 and 2010.

A. Public Counsel stated that they agreed with Avista’s proposal relating to the 2009 and 2010 Noxon facility upgrades, which were reflected on a 2010 AMA basis using 100% of the costs. However, because Public Counsel included the 2009 upgrade in its proposed adjustment for all generating plant, described above, Avista's adjustment for 2009 was unintentionally restated in error. Rather than reflecting the 2009 upgrade at 100% of cost, the upgrade was reflected at approximately $1.8 million, only approximately 17% of the total cost. As demonstrated in Exhibit No. ___(DBD-7), net operating income was overstated by approximately $306,000 and rate base was understated by approximately $8,709,000, which results in an understatement of approximately $1,476,000 in Public Counsel's electric revenue requirement.

Q. What is the overall impact of Public Counsel's proposed adjustments for electric plant?

A. Public Counsel's proposed adjustments removed $41,340,000 from the Company's proposed electric rate base by including only a small subset of assets (generation plant), by further limiting this subset to only assets that had transferred to plant in service by June 30, 2009, and by using a method using average changes over a period of time that does not properly reflect the true basis of those assets. The electric revenue requirement reduction associated with this adjustment is $10,807,000. If the Commission were to approve this adjustment, the Company would not have the opportunity to earn its allowed rate of return on investment during the rate year. The proposal provided by Public Counsel severely understates the capital investment that will be used to serve customers in the 2010 rate year. The result is rate payers will receive the benefit of these assets that are used and useful at December 31, 2009, for the entire 2010 rate year without paying for the cost.

Q. Please summarize Public Counsel's proposal relating to the 2008 and 2009 natural gas capital.

A. Public Counsel recommended rejection of the Company's proposal to include in natural gas rate base the net plant that will be used and useful during 2008 and 2009. Public Counsel rejected the Company's proposal for the same reasons it recommended rejection of the Company's proposal related to electric plant.

Public Counsel's rejection of Avista's proposed adjustments removed $7,328,000 from the Company's proposed natural gas rate base, and reduced the Company's natural gas revenue requirement by $1,142,000. Avista rejects Public Counsel's proposal for natural gas capital investments for the same reasons we reject their electric capital investment proposal. If the Commission were to approve this adjustment, the Company would not have the opportunity to earn its allowed rate of return on investment during the rate year. The proposal provided by Public Counsel severely understates the capital investment that will be used to serve customers in the 2010 rate year. The result is rate payers will receive the benefit of these assets that are used and useful at December 31, 2009, the entire 2010 rate year without paying for the cost.

V. ALTERNATE PROPOSAL

Q. After reviewing Staff's and Public Counsel's direct testimony, does Avista still believe the method used in its direct case to determine its plant rate base and revenue requirement associated with capital investment in the case is the proper method?

A. Yes, we do. The objective is to include in retail rates the investment, or rate base, that is providing service to customers, and ensure that there is a proper matching of revenues and expenses during the period that rates are in effect. The Company believes the method it proposed in the original filed case provides the proper matching of revenue and costs. Rate base on all non-revenue producing plant was adjusted to the December 31, 2009 level, which coincides with the date the new rates from this case will become effective. For electric generation and transmission rate base, the production property adjustment was used to reduce the pro forma 2009 rate base back to the test year to accomplish the proper matching, as explained by Mr. Norwood and Company witness Ms. Knox. And, because it does not pro form in 2010 capital (except for the Noxon upgrade), it is inherently conservative, in that it only reflects rate base at the beginning of the rate period (2010) and not rate base as it grows through that period. Mr. Norwood expands on this in his rebuttal testimony.

Q. Has the Company analyzed what its rate request would have been if the Company had used a method similar to Commission Staff's approach to determine rate base in this case?

A. Yes. While the Company does not agree with the approach that Staff has used to compute their proposed adjustment, we have taken their method and made what we believe to be reasonable adjustments to arrive at an alternative pro forma rate base, should the Commission decide to use Staff's method.

Q. Please summarize the adjustments Avista made using Staff's methodology.

A. Avista's alternate approach included the following components:

First, rate base at September 31, 2008 was not adjusted, leaving this rate base stated on an AMA basis for the test year, as proposed by Staff. Historically, Avista has annualized major plant additions during the test year (adjusted these assets to and end of period basis) which Staff agreed to in previous rate cases. While Avista believes this is the proper treatment, Avista has not included this adjustment in this alternate analysis, to simplify the analysis.

Second, Staff proposed to include certain generation, transmission and distribution capital projects that met certain criteria determined by Staff, including projects required by laws, regulations or directive from regulatory bodies and projects related to reliability. For this subset of plant additions, Staff only included projects completed during the period October 1, 2008 through June 30, 2009, since those were costs that Staff could audit prior to preparation of their testimony. Avista's alternative approach used this same subset of assets, but included capital expenditures for this subset that will be incurred by the end of 2009, prior to new rates taking effect. Avista, in its original filing and through discovery, provided support for all of the projects that will be completed in 2009. In addition, as described further in Company witnesses Mr. Storro's and Mr. Kinney's rebuttal testimony, all of these projects will be completed during 2009.

Finally, Avista identified additional major rate base additions including six electric distribution projects, four natural gas distribution projects and three general plant projects that were completed and in service by July 31, 2009 (the latest date this data was available.) All of these proposed rate base additions were included and explained in our original filing. While Avista believes it would have been proper to include the all expenditures that will occur by the end of 2009 for this group of assets, to be conservative Avista only factored in actual transfers to plant as of July 31, 2009. In addition, to also be conservative and reflect Staff's concerns regarding off-setting factors, Avista reduced the costs and rate base associated with this group of assets for any possible estimated future revenues or cost savings. Company witness Ms. Cummins describes the six electric distribution projects, explains how customers will benefit from these projects and describes the Company's approach to determine the off-sets that were used. Company witness Mr. Howell describes three of the four natural gas distribution projects, explains how customers will benefit from these projects and describes the Company's approach to determine the off-sets that were used. I describe below, the remaining natural gas distribution project and the three general plant projects that were used in this analysis.

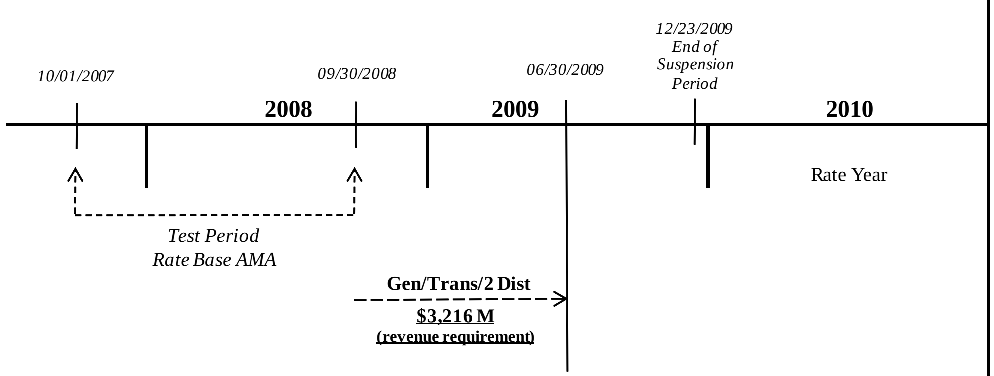
For all of the assets included in the Company's alternate approach, the Company computed the costs and net rate base amount at a 2010 AMA basis, per Staff's recommended approach.

Q. Please summarize the results of this alternate approach that Avista used for electric service.

A. Staff had proposed to include $21,252,403 of net rate base for the generation, transmission and distribution projects that Staff had identified and had been completed by June 30, 2009. The revenue requirement associated with this group of capital investment, as proposed by Staff, is $3,216,000. Illustration 1 depicts Staff's electric capital investment proposal, and illustrates that Staff is only including capital investment for a portion of the assets that will be in service prior to the effective date of new rates from this case.

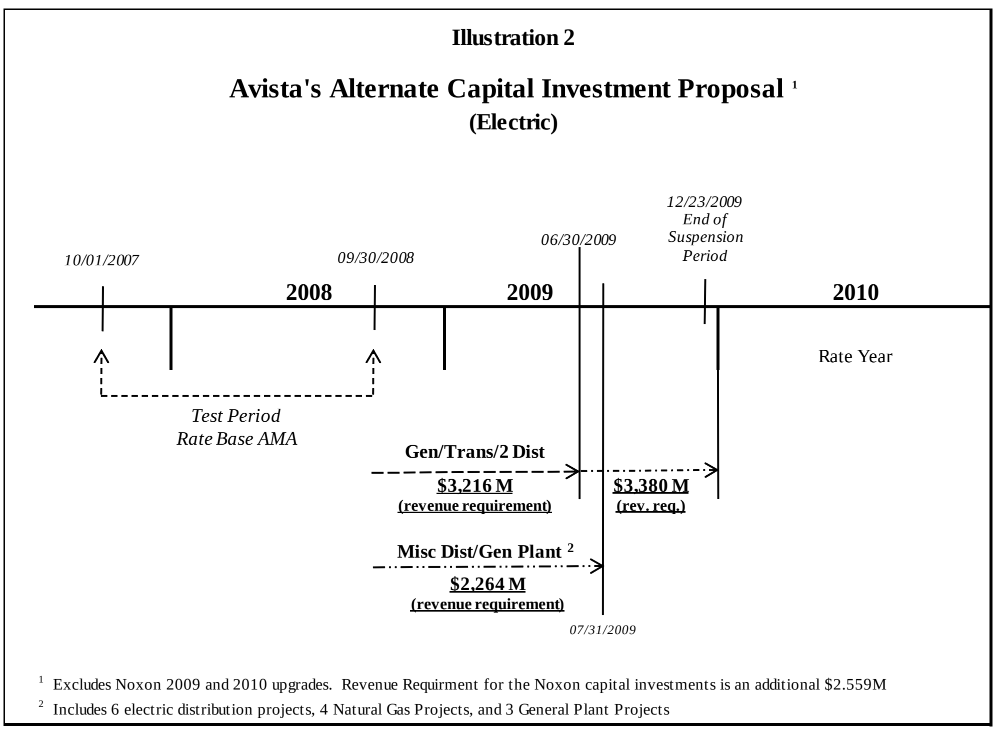
Illustration 1

Commission Staff's Capital Investment Proposal [1]
(Electric)



[1] Excludes Noxon 2009 and 2010 upgrades. Revenue Requirment for the Noxon capital investments is an additional $2.559M

By including, in its alternate proposal, capital expenditures that will be incurred and in service through the end of 2009, as described above, for the same projects that were identified by Staff, there is an additional $20,623,669 of net rate base and $3,380,000 of revenue requirement in addition to Staff's proposal. The calculation of this adjustment is provided in Exhibit No. ___(DBD-8). For the additional electric distribution projects (including the electric allocated share of the general plant additions), there is an additional $13,214,661 of net rate base and $2,264,000 of revenue requirement. A listing of the projects and the calculation of this adjustment is provided in Exhibit No. ___(DBD-9). Illustration 2 depicts the Company's alternate proposal and illustrates the addition of the projects identified above and the associated revenue requirement.



Q. Please summarize the results of this alternate approach that Avista used for natural gas service.

A. For the additional natural gas distribution projects (including the natural gas allocation of general plant additions), there is an additional $5,516,286 of rate base and $894,000 of revenue requirement. A listing of the projects and the calculation of this adjustment is provided in Exhibit No. ___(DBD-10).

Q. Please compare the Company's original request for capital investment recovery and the alternate approach provided above.

A. The original request, as adjusted for the Partial Settlement Stipulation filed on September 4, 2009[5], as compared to the revenue requirement and rate base using the alternate approach is summarized in Table 1.

Table 1

Capital Revenue Requirement and Rate Base Analysis(1)

(000's)

	ELECTRIC		NATURAL GAS	
	Revenue Requirment	Rate Base	Revenue Requirment	Rate Base
Avista Original Request: (2)				
2008 Adjustment - Adjust Test Period to end of period December 31, 2008	$ 3,182	$ 21,445	$ (332)	$ 1,234
Noxon Upgrades 2009 & 2010	2,559	15,938	-	-
2009 Adjustment - Capital Additions	11,506	65,041	2,577	14,348
2009 Adjustment - Depreciate 2008 Vintage Plant	(5,944)	(52,657)	(932)	(8,254)
Avista Original Request (2)	$ 11,303	$ 49,767	$ 1,313	$ 7,328
Avista's Alternate Approach:				
Noxon Upgrades 2009 & 2010	$ 2,559	$ 15,938	$ -	$ -
Staff's Gen/Trans. Assets - Additions Ocotober 1, 2008 through June 30, 2009	3,216	21,252	-	-
Staff's Gen/Trans Assets - Additions July 1, 2009 through December 31, 2009	3,380	20,624	-	-
Additional Distribution/General Plant Projects	2,264	13,215	894	5,516
Total Avista's Alternate Approach	$ 11,419	$ 71,029	$ 894	$ 5,516

(1) Includes the impact of the Restate Debt Adjustment but excludes the impact of the Production Property Adjustment.

(2) Adjusted for Capital Structure agreed to in Partial Settlement Stipulation.

It can be seen that both methods produce similar results. The electric revenue requirement using the alternate approach is $11,419,000, which is slightly higher than the Company's original request of $11,303,000. The natural gas revenue requirement using the alternate approach is $894,000, which is slightly less than the Company's original request of $1,313,000.

VI. CAPITAL PROJECT DESCRIPTIONS

Q. For the distribution and general plant capital projects that Avista identified that were completed by July 31, 2009, to the extent not addressed by other Company witnesses, please provide a description of the projects.

A. In Avista's direct testimony all of the projects were thoroughly described. However, in my rebuttal testimony and in that of Ms. Cummins and Mr. Howell, we will summarize the information previously provided in its direct testimony and will provide any updates, where available.

The six electric distribution projects are described by Ms. Cummins in her rebuttal testimony. Three of the four natural gas distribution projects that were identified are described by Mr. Howell in his rebuttal testimony. A description of the remaining natural gas distribution project and the three general plant projects follows:

> **Replace Gas ERTs with Batteries Older than 10 years - $733,000 Washington Cost**
> This project replaced gas ERTs that are greater than 10 years old, which is their economic life. ERT battery life is finite and although that life is greater than 10 years, it was determined to be cost effective to replace the ERTS's prior to them failing in the field. Replacement of individual ERT's upon failure is more expensive due to the additional time and individual nature of the repair. Replacement of the batteries is necessary to ensure continued reliable metering operation by ensuring the ERT technology operates properly. Approximately 12,000 ERTs have been replaced in Washington. Completion of this project will provide a slight reduction to O&M costs in the near term, with the expectation that future cost increases will be avoided due to a reduced number of meter failures. The Company factored in a 10% efficiency factor for the near term reduction to O&M costs for the alternate method.

[5] The Partial Settlement Stipulation addressed the Cost of Capital, which impacts the Restate Debt Adjustment, which in turn impacts the capital investment revenue requirement and rate base.

EVP Enterprise Voice Portal - $1,847,298 System Cost

In June 2009, Avista replaced the current IVR with another that offers speech recognition. The new IVR will replace the current functionality and will offer several new self-service transactions, such as the ability to sign up for Avista's Comfort Level Billing program and Automatic Payment Service. Prior to the upgrade, approximately 43% of customer calls were handled by the IVR. Avista believes the new system may increase the IVR calls by as much as 5%, which would represent costs savings of approximately 40% of the cost of the new system, which was factored into the proposed rate base adjustment, for the alternate method.

HVAC Renovation Project 2008 - $3,918,002 System Cost

In 2007, Avista initiated a multi-year HVAC renovation at its headquarters facilities in Spokane. The project is needed to replace equipment that is now 50 years old. Present estimates indicate cost savings of $432,000 per year in energy use, a 36% reduction in energy costs once all phases have been completed, tentatively planned to be completed in 2013. The project will also achieve asbestos abatement and life safety (fire sprinkler) additions. The 2008 phase of the project, which was completed and transferred to service in December 2008, will produce energy savings estimated at $95,000. This represents cost savings of approximately 20% of the costs of the 2008 renovation, which was factored into the proposed rate base adjustment, for the alternate method.

Spokane Valley Facility Purchase - $3,034,919 System Cost

Avista's main office building was constructed in 1958, and expanded in 1978. To address the Company's need for additional office space, in 2008, the Company purchased and remodeled existing space formerly used by Horizon Credit Union nine miles from the main office. The Company expects no cost savings by moving the call center operations to this facility.

Q. With regard to these capital projects the Company has included in the alternate proposal to determine rate base additions, what has Avista done to address Staff's concerns related to off-sets?

A. In order to be conservative (err on the side of over-stating benefits), in the development of the alternate rate base approach, the Company analyzed each capital project listed above to identify any possible increase in revenues and/or reduction in expenses associated with the capital projects. The Company was liberal in our estimates of the benefits and erred on the side of overstating the benefits in response to Staff's concerns.

VII. CONCLUSION

Q. Please summarize your rebuttal testimony.

A. The Company's original proposed pro forma rate base adjustments will result in a proper matching of revenues to cost of service for rate making purposes. Without the proposed adjustment, the Company would not have the opportunity to earn its allowed rate of return on investment actually used to serve customers during the rate year. Also, as explained in Mr. Norwood's rebuttal testimony, Avista only proposed to reflect new investment in utility plant through December 31, 2009, even though rates from this case will remain in place for 2010. Avista did not propose to include the planned 2010 capital additions in this case, so if the Commission were to approve Avista's proposed rate base additions through 2009 as originally filed, there would be a mismatch, but the mismatch would be <u>in the customers' favor</u>, as further illustrated by Mr. Norwood.

Both proposals provided by Staff and Public Counsel severely understate the capital investment that will be used to serve customers in the 2010 rate year. If the Commission were to accept Staff's and other parties' proposed reductions to rate base, it would further compound the under-recovery of costs for Avista, and would result in the Company having a substantial amount of utility plant in service serving customers in 2010, but for which customers are not paying the cost.

Avista has provided an alternate approach to show that if the Company were to use a similar approach to that used by Staff the rate request would not materially change.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.