

Exhibit T-\_\_\_\_ (RJL-T)  
Docket Nos. UE-991606, UG-991607  
Witness: Richard J. Lurito, Ph.D.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, )

Complainant, )

v. )

AVISTA CORPORATION, )

Respondent. )

DOCKET NOS. UE-991606, UG-991607

RECEIVED  
RECORDS MANAGEMENT  
00 MAY -5 PM 4:44  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

DIRECT TESTIMONY

OF

RICHARD J. LURITO, Ph.D.

ON BEHALF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

May 5, 2000

WUTC		
DOCKET NO. <u>UE-991606</u>		
EXHIBIT # <u>T-632</u>		
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

WASHINGTON JURISDICTIONAL ELECTRIC  
AND GAS OPERATIONS OF AVISTA UTILITIES  
FAIR OVERALL RATE OF RETURN

<u>Type of Capital</u> <u>(A)</u>	<u>Capital Structure Ratios</u> <u>(B)</u>	<u>Cost Rates</u> <u>(C)</u>	<u>Weighted Cost Rates</u> <u>(D)</u>	<u>Overall Cost of Capital</u> <u>(E)</u>
A. Long-Term Debt	40.0%	7.44%	2.98%	
B. Short-Term Debt	8.5	6.0	0.51	
C. Preferred Stock	9.5	8.22	0.78	
D. Common Equity	<u>42.0</u>	<u>10.40</u>	<u>4.37</u>	
E. Total	100.0%			8.64%

Closing Market Prices, Dividends And  
 Dividend Yields For Five Selected  
 Utilities For The Six Months  
 Ended March 31, 2000

<u>Company</u>	<u>October, 1999</u>			<u>November, 1999</u>			<u>December, 1999</u>			<u>January, 2000</u>			<u>February, 2000</u>			<u>March, 2000</u>		
	<u>Price</u>	<u>Div.</u>	<u>Yield</u>	<u>Price</u>	<u>Div.</u>	<u>Yield</u>	<u>Price</u>	<u>Div.</u>	<u>Yield</u>	<u>Price</u>	<u>Div.</u>	<u>Yield</u>	<u>Price</u>	<u>Div.</u>	<u>Yield</u>	<u>Price</u>	<u>Div.</u>	<u>Yield</u>
CH Energy Group	37.44	2.16	5.77	33.44	2.16	6.46	33.00	2.16	6.55	31.50	2.16	6.86	31.25	2.16	6.91	30.38	2.16	7.11
Hawaiian Electric Ind.	33.75	2.48	7.35	30.56	2.48	8.12	28.88	2.48	8.59	30.00	2.48	8.27	31.13	2.48	7.97	31.81	2.48	7.80
RGS Energy Group	24.94	1.80	7.22	22.31	1.80	8.07	20.50	1.80	8.78	22.00	1.80	8.18	20.88	1.80	8.62	21.25	1.80	8.47
United Illuminating Co.	51.75	2.88	5.57	51.75	2.88	5.57	51.38	2.88	5.61	50.00	2.88	5.76	40.63	2.88	7.09	39.25	2.88	7.34
WPS Resources Corp.	28.88	2.02	7.00	26.31	2.02	7.68	25.13	2.02	8.04	20.38	2.02	9.91	23.56	2.02	8.57	25.94	2.02	7.79

Source: Standard & Poor's Stock Guide

AVERAGE DIVIDEND YIELDS FOR  
FIVE SELECTED UTILITIES FOR SIX  
MONTHS ENDED MARCH 31, 2000

<u>Company</u>	<u>Average Dividend Yield</u>
CH Energy Group	6.61%
Hawaiian Electric Ind.	8.02
RGS Energy Group	8.22
United Illuminating Co.	6.16
WPS Resources Corp.	<u>8.16</u>
Average:	7.43%

Five-Year And Ten-Year  
Historical Trend Growth Rates In Earnings,  
Dividends And Book Value Per Share For The  
Group Of Five Comparable Utilities

<u>Company</u>	<u>Historical Growth Rates</u> <sup>1/</sup>		<u>Historical Growth Rates</u> <sup>1/</sup>		<u>Historical Growth Rates</u> <sup>1/</sup>	
	<u>Earnings Per Share</u>		<u>Dividends Per Share</u>		<u>Book Value Per Share</u>	
	<u>5-Year</u>	<u>10-Year</u>	<u>5-Year</u>	<u>10-Year</u>	<u>5-Year</u>	<u>10-Year</u>
CH Energy Group	0.75%	2.71%	0.40%	2.04%	1.28%	2.93%
Hawaiian Electric Ind.	1.58	1.84	0.66	1.75	0.96	1.35
RGS Energy Group	3.60	2.61	0.16	1.71	0.87	1.67
United Illuminating Co.	0.50	<1.97>	0.40	2.52	0.45	1.82
WPS Resources Corp.	<0.96>	<0.36>	1.06	2.25	0.73	2.61
Average:	1.09%	0.97%	0.54%	1.97%	0.77%	1.53%

Source: 1999 Annual Reports and Value Line Investment Surveys for  
January 7, February 18, and March 10, 2000.

<sup>1/</sup> The growth rates shown are trend values.

Returns On Common Equity Capital, Retention  
Ratios And Growth From Retained Earnings  
For The Group Of Five Comparable Utilities

<u>Company</u>	<u>Earned Returns on Equity</u>			<u>Retention Ratios</u>			<u>Growth From Retained Earnings<sup>1</sup></u>			<u>Current Allowed Return on Equity</u>
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>1999</u>
CH Energy Group	10.9%	10.4%	10.2%	28.3%	25.9%	25.0%	3.1%	2.7%	2.6%	10.5%
Hawaiian Electric	11.6	11.5	11.1	11.6	6.4	17.6	1.3	0.7	2.0	11.4
RGS Energy Group	11.2	11.2	11.8	21.7	22.1	28.6	2.4	2.5	3.4	11.5
United Illuminating	9.9	10.2	11.5	6.8	10.0	22.4	0.7	1.0	2.6	11.5
WPS Resources	<u>10.8</u>	<u>9.3</u>	<u>12.0</u>	<u>8.6</u>	<u>&lt;7.7&gt;</u>	<u>15.6</u>	<u>0.9</u>	<u>&lt;0.7&gt;</u>	<u>1.9</u>	<u>12.1</u>
Average:	10.9%	10.5%	11.3%	15.4%	11.3%	21.8%	1.7%	1.2%	2.5%	11.4%

Source: 1999 Annual Reports

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<sup>1</sup>Earned return on common equity times retention ratio

GROWTH RATE PROJECTIONS FOR  
 THE GROUP OF FIVE COMPARABLE  
 UTILITIES

<u>Company</u>	<u>Value Line Projections</u>			<u>S&amp;P/Zack's/IBES Projections</u>		
	<u>EPS</u>	<u>DPS</u>	<u>BVS</u>	<u>S&amp;P EPS</u>	<u>Zack's EPS</u>	<u>IBES EPS</u>
CH Energy Group	1.5%	0.5%	3.0%	1.0%	1.0%	1.0%
Hawaiian Electric Ind.	2.0	0.5	2.0	3.0	3.3	3.23
RGS Energy Group	2.5	0.0	3.0	2.0	2.3	2.5
United Illuminating Co.	3.0	0.0	2.0	3.0	3.3	2.33
WPS Resources Corp.	<u>8.0</u>	<u>2.0</u>	<u>5.5</u>	<u>3.0</u>	<u>3.0</u>	<u>3.2</u>
Average:	3.4%	0.6%	3.1%	2.4%	2.6%	2.5%

Sources: Value Line Investment Surveys for  
 January 7, February 18 and March 10, 2000.  
 Standard & Poor's Earnings Guide for April, 2000  
 Zack's Investment Surveys, April 7, 2000.  
 IBES Surveys.

Demonstration That With a 10.4% Rate of Earnings On Book Equity,  
 Given a Cost Of Common Equity Of 10.15%, The Market Price  
 Can Be Expected To Be Approximately 4% Above Book Value

I. Given:

- r = Rate of Earnings on Book Equity = .104
- k = Cost of Common Equity = .1015
- G = Estimated Long Run Growth in Equity Capital = 9.0%
- b = Retention Ratio = .23
- f = Cost of Financing = .04
- Mo/Bo = Expected Market to Book Ratio = 1.04
- g<sub>BV</sub> = Annual Growth Rate in Book Value Per Share
- D<sub>1</sub> = Dividends Per Share
- g<sub>RE</sub> = Annual Growth from Retained Earnings
- g<sub>S</sub> = Annual Growth Rate from Sales of Stock at Net Proceeds  
 Above Book Value Per Share

II. DCF Formula

$$M_0 = \frac{D_1}{k - g_{BV}}$$

Dividing both sides by Bo produces

$$M_0/B_0 = (D_1/B_0) / k - g_{BV}$$

Where  $D_1 = r(1 - b)B_0$

$k = .1015$ , as given

$$g_{BV} = (1 + g_{RE})(1 + g_S) - 1$$

Where  $g_{RE} = rb$

$$g_S = \frac{1 + (G - rb)}{1 + (G - rb)} - 1$$

$$\frac{(M_0/B_0)(1 - f)}{(1.04)(1 - .04)}$$

III. Solution

$$D_1/B_0 = (.104)(.77) = .08$$

$$g_{RE} = rb = (.104)(.23) = .0239$$

$$g_S = \frac{1 + (.09 - .0239) - 1}{1 + (.09 - .0239)} = 0$$

$$\frac{(1.04)(1 - .04)}{(1.04)(1 - .04)}$$

$$g_{BV} = (1 + .0239)(1 + 0) - 1 = .0239$$

$$g_{BV} = .0239$$

$$M_0/B_0 = \frac{.08}{.1015 - .0239} @ 1.04$$



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D. Common Equity	<u>42.0</u>	<u>10.40</u>	<u>4.37</u>	
E. Total:	100.0%			8.82%