

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

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

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:

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

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