

**Avista Utilities  
Proposed Natural Gas Decoupling Mechanism  
Example Application of DSM Tests**

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 2 - Surcharge Level based on Actual DSM savings during 2006**

<b>2006 DSM Target Savings</b>	<b>1,062,000 therms</b>	
<b><u>Earnings Test met - Company not over-earning</u></b>		
<u>Actual Savings</u>	<u>Actual / Target</u>	<u>Surchg. % of Margin diff.(1)</u>
<u>Surcharge Amount</u>	<u>Deferred Rev Carryover(3)</u>	<u>Surcharge Amount(2)</u>
<u>Deferred Rev Carryover(3)</u>	<b><u>Earnings Test Not Met - from Page 1</u></b>	
<u>Surcharge Amount(2)</u>	<u>Deferred Rev Carryover(3)</u>	
1,100,000	104%	90%
800,000	75%	60%
700,000	66%	0%
1,000,000	94%	80%

(1) Based on the following table:

<u>Actual DSM Savings/ Target Savings</u>	<u>Surcharge as a % of Margin Difference</u>
< 70%	0%
70% - 80%	60%
80% - 90%	70%
90% - 100%	80%
> 100%	90%

(2) Based on the lower result of either the earnings test (\$206,883) or the DSM test

(3) Total deferred revenue amount of \$360,000 less surcharge amount - carryover would be used to offset future deferrals as shown on Page 1