

Exhibit No. __ (EJK-2)
Dockets UE-120436, et al.
Witness: Edward J. Keating

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION, d/b/a
AVISTA UTILITIES,**

Respondent.

**DOCKETS UE-120436/UG-120437
(consolidated)**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**AVISTA CORPORATION d/b/a AVISTA
UTILITIES,**

Respondent.

**DOCKETS UE-110876/UG-110877
(consolidated)**

EXHIBIT TO TESTIMONY OF

Edward J. Keating

**STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Gas - Staff's Revenue Requirement Model

September 19, 2012

Avista Corporation
Natural Gas - Results of Operations (Schedule 1.1)
 Twelve Months Ended December 31, 2011

(000's of Dollars)

Line No.	(a) DESCRIPTION	(b) Unadjusted Results	(c) Total Restating Adjustments	(d) Restated Results	(e) Total Pro Forma Adjustments	(f) Results	(g) Staff Proposed	(h) Results at Staff Rates
	Source	EMA-3	Schedule 1.2	(b) + (c)	Schedule 1.3	(e) + (d)	Increase of 0.80%	(f) + (g)
1	RESULT OF OPERATIONS							
2	REVENUES							
3	Total General Business	\$162,860	(\$20,978)	\$141,882	\$0	\$141,882	\$1,135	\$143,017
4	Total Transportation	3,538	(1,337)	2,201	-	2,201	-	2,201
5	Other Revenues	98,841	(97,206)	1,635	-	1,635	-	1,635
6	Total Gas Revenues	265,239	(119,521)	145,718	-	145,718	1,135	146,853
7								
8	EXPENSES							
9	Exploration and Development	-	-	-	-	-	-	-
10								
11	Production							
12	City Gate Purchases	191,302	(111,295)	80,007	-	80,007	-	80,007
13	Purchased Gas Expense	14	(3)	11	48	59	-	59
14	Net Nat Gas Storage Trans	(4,366)	5,333	967	-	967	-	967
15	Total Production	186,950	(105,965)	80,985	48	81,033	-	81,033
16								
17	Underground Storage							
18	Operating Expenses	585	88	673	-	673	-	673
19	Depreciation	395	-	395	(63)	332	-	332
20	Taxes	19	-	19	3	22	-	22
21	Total Underground Store	999	88	1,087	(60)	1,027	-	1,027
22								
23	Distribution							
24	Operating Expenses	8,854	-	8,854	740	9,594	-	9,594
25	Depreciation	6,652	(3)	6,649	325	6,974	-	6,974
26	Taxes	14,264	(6,608)	7,656	57	7,713	44	7,757
27	Total Distribution	29,770	(6,611)	23,159	1,122	24,281	44	24,325
28								
29	Customer Accounting	6,121	(428)	5,693	333	6,026	5	6,031
30	Customer Service & Inform	9,783	(8,960)	823	29	852	-	852
31	Sales Expenses	3	-	3	-	3	-	3
32	Total Customer Service	15,907	(9,388)	6,519	362	6,881	5	6,886
33	Administrative & General							
34	Operating Expenses	11,384	(79)	11,305	149	11,454	2	11,456
35	Depreciation	2,734	-	2,734	581	3,315	-	3,315
36	Regulatory Amortization	(186)	(263)	(449)	-	(449)	-	(449)
37	Taxes	-	-	-	1	1	-	1
38	Total Admin. & General	13,932	(342)	13,590	731	14,321	2	14,323
39								
40	Total Gas Expense	247,558	(122,218)	125,340	2,203	127,543	51	127,594
41								
42	Operating Income Before F	17,681	2,697	20,378	(2,203)	18,175	1,085	19,260
43								
44	Federal Income Tax							
45	Current Accrual	(591)	844	253	(770)	(517)	380	(137)
46	Debt Interest	-	81	81	-	81	-	81
47	Deferred FIT	5,719	(28)	5,691	-	5,691	-	5,691
48	Amort ITC	(27)	-	(27)	-	(27)	-	(27)
49	Total Income Tax	5,101	897	5,998	(770)	5,228	380	5,608
50								
51	NET OPERATING INCOME	\$12,580	\$1,800	\$14,380	(\$1,433)	\$12,947	705	\$13,652
52								
53	RATE BASE							
54	PLANT IN SERVICE							
55	Underground Storage	\$22,008	\$0	\$22,008	\$0	\$22,008	-	\$22,008
56	Distribution Plant	281,279	-	281,279	-	281,279	-	281,279
57	General Plant	38,971	-	38,971	-	38,971	-	38,971
58	Total Plant in Service	342,258	-	342,258	-	342,258	-	342,258
59								
60	ACCUMULATED DEPRECIATION							
61	Underground Storage	8,286	-	8,286	-	8,286	-	8,286
62	Distribution Plant	97,489	-	97,489	-	97,489	-	97,489
63	General Plant	10,926	-	10,926	-	10,926	-	10,926
64	Total Accum. Depreciat	116,701	-	116,701	-	116,701	-	116,701
65								
66	Deferred FIT	(41,707)	(297)	(42,004)	-	(42,004)	-	(42,004)
67	Gas Inventory	13,753	(10,773)	2,980	-	2,980	-	2,980
68	Gain on Sale of Building	(14)	14	-	-	-	-	-
69	Other	(1,010)	(2)	(1,012)	-	(1,012)	-	(1,012)
70	Working Capital	-	3,568	3,568	-	3,568	-	3,568
72	TOTAL RATE BASE	196,579	(\$7,490)	189,089	-	\$189,089	\$0	\$189,089
73	RATE OF RETURN	6.40%		7.60%		6.85%		7.22%

Avista Corporation
Natural Gas - Results of Operations (Schedule 1.2)
 Twelve Months Ended December 31, 2011
(000's of Dollars)

Line No.	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
	Restating Adjustments	Total Restating Adjustments	1.01 Deferred FIT Rate Base	1.02 Deferred Debits and Credits	1.03 Gas Inventory & JP Restating	1.04 ADJ FIT	1.05 Working Capital	2.01 Revenue Normalization & Gas Cost Adjust	2.02 Eliminate B & O Taxes	2.03 Uncollectible Expense	2.04 Regulatory Expense Adjustment
RESULT OF OPERATIONS											
1	REVENUES										
2	Total General Business	\$ (20,978)						\$ (15,016)	\$ (5,962)		
3	Total Transportation	\$ (1,337)						(1,247)	(90)		
4	Other Revenues	\$ (97,206)						(97,206)			
5	Total Gas Revenues	(119,521)	-	-	-	-	-	(113,469)	(6,052)	-	-
7	EXPENSES										
8	Exploration and Development	-									
10	Production										
11	City Gate Purchases	(111,295)						(111,295)			
12	Purchased Gas Expense	(3)						(3)			
13	Net Nat Gas Storage Trans	5,333						5,333			
14	Total Production	(105,965)	-	-	-	-	-	(105,965)	-	-	-
16	Underground Storage										
17	Operating Expenses	88			88						
18	Depreciation	-									
19	Taxes	-									
20	Total Underground Storage	88	-	-	88	-	-	-	-	-	-
22	Distribution										
23	Operating Expenses	-									
24	Depreciation	(3)									
25	Taxes	(6,608)						(565)	(6,045)		
26	Total Distribution	(6,611)	-	-	-	-	-	(565)	(6,045)	-	-
28	Customer Accounting	(428)		1				(64)		(365)	
29	Customer Service & Information	(8,960)						(8,953)			
30	Sales Expenses	-									
31		(9,388)	-	1	-	-	-	(9,017)	-	(365)	-
33	Administrative & General										
34	Operating Expenses	(79)		44				(29)			44
35	Depreciation/Amortization	-									
36	Regulatory Amortization	(263)						(263)			
37	Taxes	-									
38	Total Admin. & General	(342)	-	44	-	-	-	(292)	-	-	44
40	Total Gas Expense	(122,216)	-	45	88	-	-	(115,839)	(6,045)	(365)	44
42	Operating Income Before FIT	2,697	-	(45)	(88)	-	-	2,370	(7)	365	(44)
44	Federal Income Tax										
45	Current Accrual	844	-	(16)	(31)	(20)		830	(2)	128	(15)
46	Debt Interest	81	3	-	116	-	(38)	-	-	-	-
47	Deferred FIT	(28)									
48	Amort ITC	-									
49	Total Income Tax	897	3	(16)	85	(20)	(38)	830	(2)	128	(15)
51	NET OPERATING INCOME	\$1,800	(\$3)	(\$29)	(\$173)	\$20	\$38	\$1,540	(\$5)	\$237	(\$29)
RATE BASE											
54	PLANT IN SERVICE										
55	Underground Storage	\$0									
56	Distribution Plant	\$0									
57	General Plant	\$0									
58	Total Plant in Service	-	-	-	-	-	-	-	-	-	-
60	ACCUMULATED DEPRECIATION										
61	Underground Storage	-									
62	Distribution Plant	-									
63	General Plant	-									
64	Total Accum. Depreciation	-	-	-	-	-	-	-	-	-	-
66	Deferred FIT	(297)	(297)								
67	Gas Inventory	(10,773)			(10,773)						
68	Gain on Sale of Building	14		14							
69	Other	(2)		(2)							
70	Working Capital	3,568					3,568				
72	TOTAL RATE BASE	(\$7,490)	(\$297)	\$12	(\$10,773)	\$0	\$3,568	\$0	\$0	\$0	\$0

Avista Corporation
Natural Gas - Results of Operations (Schedule 1.3)
 Twelve Months Ended December 31, 2011
 (000's of Dollars)

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)
	Pro Forma Adjustments	Total Pro Forma Adjustments	3.00 Pro Forma Labor Non-Exec	3.01 Pro Forma Labor Exec	3.02 Pro Forma Employee Benefits	3.03 Pro Forma Insurance	3.04 Pro Forma Property Tax	3.05 Pro Forma Atmospheric Testing	3.06 Restating 2011 Capital	4.00 Planned Capital Add 2012	4.01 Planned Capital Add 2013 AMA	4.02 Depreciation Study	4.03 O&M Offsets
Line No.	DESCRIPTION	Source: Sum (c) thru (m)											
	RESULT OF OPERATIONS												
1	REVENUES												
2	Total General Business	\$0											
3	Total Transportation	\$0											
4	Other Revenues	\$0											
5	Total Gas Revenues	-											
6													
7	EXPENSES												
8	Exploration and Development	-											
9													
10	Production												
11	City Gate Purchases	-											
12	Purchased Gas Expense	48	18	(14)	44								
13	Net Nat Gas Storage Trans	-											
14	Total Production	48	18	(14)	44								
15													
16	Underground Storage												
17	Operating Expenses	-											
18	Depreciation	(63)										(63)	
19	Taxes	3					3						
20	Total Underground Storage	(60)					3					(63)	
21													
22	Distribution												
23	Operating Expenses	740	185		368			187					
24	Depreciation	325											325
25	Taxes	57					57						
26	Total Distribution	1,122	185		368		57	187					325
27													
28	Customer Accounting	333	105		228								
29	Customer Service & Information	29	9		20								
30	Sales Expenses	-											
31													
32	Administrative & General												
33	Operating Expenses	149	100	(181)	258	(28)							
34	Depreciation	581											581
35	Regulatory Amortizations	-											
36	Taxes	1					1						
37	Total Admin. & General	731	100	(181)	258	(28)	1						581
38													
39	Total Gas Expense	2,203	417	(195)	918	(28)	61	187					843
40													
41	Operating Income Before FIT	(2,203)	(417)	195	(918)	28	(61)	(187)					(843)
42													
43	Federal Income Tax												
44	Current Accrual	(770)	(146)	68	(321)	10	(21)	(65)					(295)
45	Debt Interest	-											
46	Deferred FIT	-											
47	Amort ITC	-											
48	Total FIT	(770)	(146)	68	(321)	10	(21)	(65)					(295)
49													
50	NET OPERATING INCOME	(1,433)	(\$271)	\$127	(\$597)	\$18	(\$40)	(\$122)	\$0	\$0	\$0	(\$548)	\$0
51													
52	RATE BASE												
53	PLANT IN SERVICE												
54	Underground Storage	\$0							\$	-	\$	-	\$
55	Distribution Plant	\$0								-		-	
56	General Plant	\$0								-		-	
57	Total Plant in Service	-								-		-	
58													
59	ACCUMULATED DEPRECIATION												
60	Underground Storage	-								-		-	
61	Distribution Plant	-								-		-	
62	General Plant	-								-		-	
63	Total Accum. Depreciation	-								-		-	
64													
65	Deferred FIT	-								-		-	
66	Gas Inventory	-								-		-	
67	Gain on Sale of Building	-								-		-	
68	Other Revenues	-								-		-	
69	Working Capital	-								-		-	
70													
71	TOTAL RATE BASE	-	\$0	\$0	\$0	\$0	-	\$0	\$0	\$0	\$0	\$0	\$0

Avista Corporation
Natural Gas - Results of Operations (Schedule 1.4)
 Twelve Months Ended December 31, 2011

(000's of Dollars)

Line No.	(a)	(b) Avista Corporation			(e) Staff Adjusted			(h) Difference RR Impact (g)-(d)
		(c) NOI	(d) Net Rate Base	(f) RR Impact	(e) NOI	(f) Rate Base	(g) RR Impact *	
1	Per Books	12,580	\$196,579	5,858	12,580	196,579	5,858	
2								
3	Deferred FIT Rate Base	(3)	(297)	(35)	(\$3)	(\$297)	(35)	-
4	Deferred Debits and Credits	(29)	12	48	(\$29)	\$12	48	-
5	Gas Inventory & JP Restating	(123)	649	284	(\$173)	(\$10,773)	(1,153)	(1,437)
6	FIT Adjustment	-	-	-	\$20	\$0	(32)	(32)
7	Working Capital	-	-	-	\$38	\$3,568	413	413
8	Rev Norm - Gas Cost Adj	1,541	-	(2,482)	\$1,540	\$0	(2,480)	2
9	Eliminate B&O Taxes	(5)	-	8	(\$5)	\$0	8	-
10	Uncollectible Expense	237	-	(382)	\$237	\$0	(382)	-
11	Regulatory Expense Adj	(29)	-	47	(\$29)	\$0	47	-
12	Injuries and Damages	(121)	-	195	(\$121)	\$0	195	-
13	FIT / DFIT Expense	10	-	(16)	\$10	\$0	(16)	-
14	Net Gains/Losses	2	-	(3)	\$2	\$0	(3)	-
15	Eliminate A/R Expenses	-	-	-	\$0	\$0	-	-
16	Office Space Charges to Subs	1	-	(2)	\$1	\$0	(2)	-
17	Restate Excise Taxes	(1)	-	2	(\$1)	\$0	2	-
18	Misc Restating Adjustments	16	-	(26)	\$58	\$0	(93)	(68)
19	Restating Incentive Adjustment	(132)	-	213	(\$43)	\$0	69	(143)
20	Restate Debt Interest **	22	-	(35)	\$98	\$0	(158)	(122)
21	Non-recurring expenses	-	-	-	\$200	\$0	(322)	(322)
22								
23		1,386	364	(2,184)	1,800	(7,490)	(3,894)	(1,709)
24								
25		13,966	196,943	3,675	14,380	189,089	1,964	
26								
27								
28	Labor Non-Executive	(382)	-	615	(271)	-	436	(179)
29	Labor Executive	8	-	(13)	127	-	(205)	(192)
30	Pro Forma Employee Benefits	(597)	-	961	(597)	\$0	961	-
31	Pro Forma Insurance	18	-	(29)	18	\$0	(29)	-
32	Pro Forma Property Tax	(182)	-	293	(40)	-	64	(229)
33	Pro Forma Atmospheric Testing	(122)	-	196	(122)	\$0	196	-
34	Restating 2011 Capital	(156)	7,165	1,203	-	\$0	-	(1,203)
35	Planned Capital Add 2012	(905)	5,255	2,156	\$0	\$0	-	(2,156)
36	Planned Capital Add 2013 AMA	(270)	641	520	\$0	\$0	-	(520)
37	Depreciation Study	(326)	-	525	(\$548)	\$0	883	358
38	O&M Offsets	8	-	(13)	\$0	\$0	-	13
39		(2,906)	13,061	6,415	(1,433)	-	2,308	(4,108)
40								
41		11,060	210,004	10,090	12,947	189,089	4,272	(5,817)
42								
43								
44								
45								
46								
47								
48								
49								
50								
51								
52								
53								
54								
55								
56								
57								
58								
59								

Impact of Δ in Weighted COC (3,137) (3,137)
 Adjusted RR 1,135 (8,954)

0.80% Increase

Avista Filed Capital Structure

Staff Adjusted Capital Structure

	Percent of Total	Cost	Weighted Cost	Percent of Total	Cost	Weighted Cost
Total Debt	51.60%		2.97%	54.00%		3.08%
Preferred Stock				0.00%		0.00%
Common Stock	48.40%		5.28%	46.00%		4.14%
Total	100.00%		8.25%	100.00%		7.22%

* Revenue Requirement impact of adjustments based on company filed Weighted Cost of Capital of 8.25%

Line No.	Revenue Requirement Computation		At Pro Forma Results
1			
2			
3			
4			
5			
6			
7	Total Pro Forma Average Rate Base		\$189,089
8	Weighted Cost of Capital		7.22%
9	Operating Income Requirement	Ln 7 x Ln 8	<u>13,652</u>
10			
11	Pro Forma Net Operating Income (Loss)		\$12,947
12			
13	Operating Income Deficiency	Ln 9 - Ln 11	705
14			
15	Revenue Conversion Factor		62.0951%
16			
17	Additional Revenue Requirement	Ln 13 / Ln 15	<u>\$1,135</u>
18			
19	Amount filed		<u>10,088</u>
20	Difference	Ln 17 - Ln 19	<u><u>\$ (8,953)</u></u>
21			
22			
23			
24			
25			
26			
27			
28			

Line
 No.

Revenue Conversion Factor Computation

1			
2			
3			
4	Revenues		100.0000%
5			
6	WUTC Regulatory Fee		0.2000%
7	Utility Revenue Tax	3.852% - (Ln 8 * 3.852%)	3.8353%
8	Uncollectables		0.4338%
9	Total Revenue Sensitive Items	Ln 6 thru Ln 8	<u>4.4691%</u>
10			
11	Net Operating Income before FIT	Ln 4 - Ln 9	95.5309%
12			
13	Effective Income Tax Rate at 35%	35% x Ln 11	<u>33.4358%</u>
14	Total adjustments	Ln 9 + Ln 13	<u><u>37.9049%</u></u>
15			
16	Revenue Conversion Factor	1 - (Ln 14 / Ln 4)	<u><u>62.0951%</u></u>
17			
18			
19			
20			
21			

Line
 No.

Pro Forma Cost of Capital

	Percent of Total	Cost	Weighted Cost
Weighted Cost of Capital			
Term Debt	54.00%	5.70%	3.08%
Preferred			
Common Equity	46.00%	9.00%	4.14%
Total	<u>100.00%</u>		<u>7.22%</u>