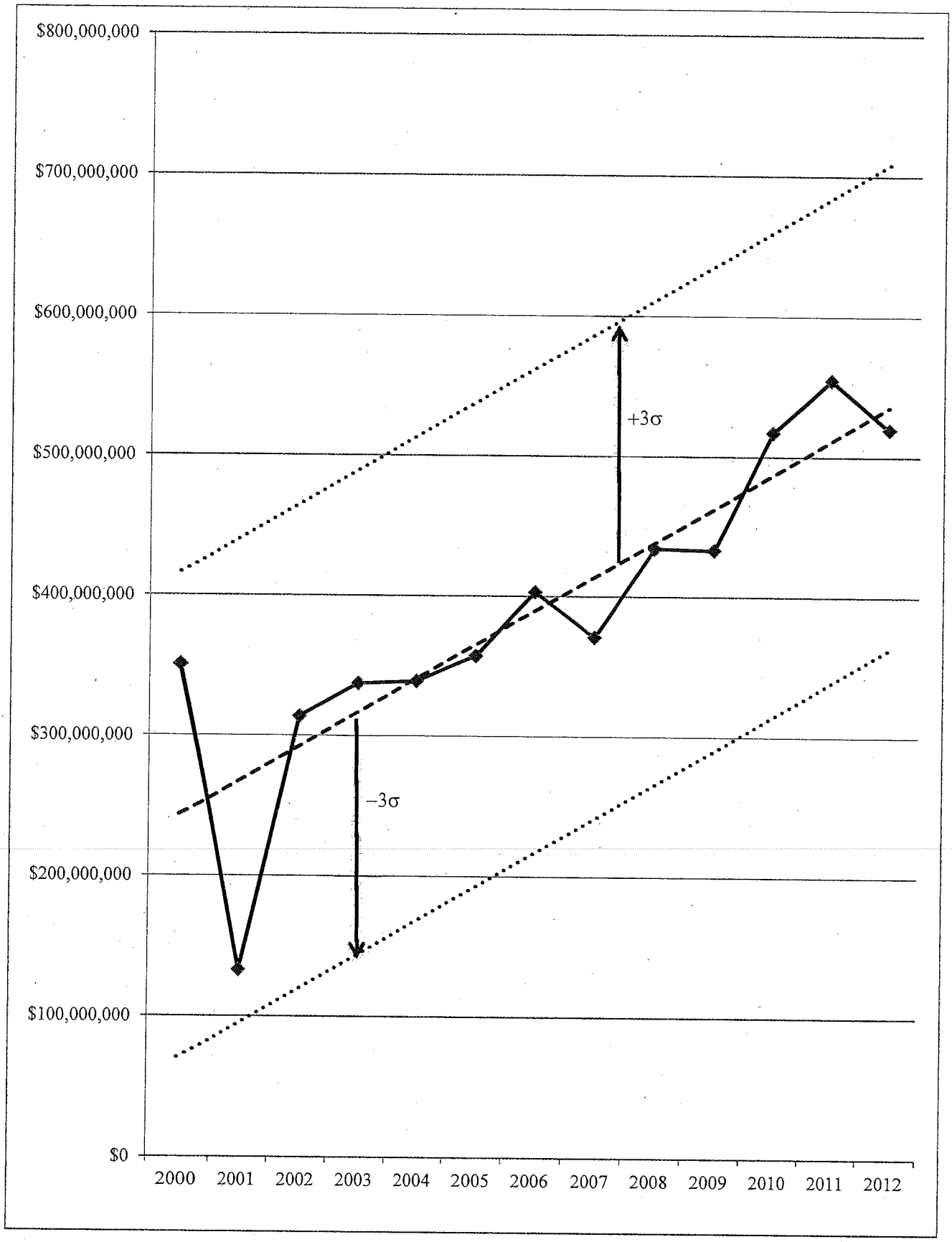
AVISTA CORPORATION
WASHINGTON ELECTRIC OPERATIONS
Multiple Regression Analysis of Historical Net Revenues

Year	Avista/Wash Net Revenues Electric Ops.* Y	Washington Gross State Prod. [000,000] † X1	Heating Degree Days• X2
2000	$350,806,697	$227,704	7181
2001	$133,140,612	$230,322	6799
2002	$313,848,824	$237,117	6817
2003	$337,347,645	$247,056	6348
2004	$339,179,511	$257,979	6318
2005	$357,315,203	$279,333	6538
2006	$403,091,120	$300,145	6343
2007	$370,911,524	$325,118	6540
2008	$434,401,313	$333,720	7052
2009	$433,321,385	$332,600	6976
2010	$517,391,707	$342,702	6320
2011	$554,853,690	$357,056	6861
2012	$519,777,563	$375,730	6256

	X2	X1	Constant
Coefficients	3644.535655	1797.553311	-166442417
Std. Error	58108.51951	357.4425569	419504920
R-squared	0.723127407	63222412.55	#N/A
F-statistic	13.05884774	10	#N/A
T-statistic	1.04394E+17	3.99707E+16	#N/A

* Data from Company response to ICNU DR-1.19.
† Data from U.S. Department of Commerce, Bureau of Labor Statistics
• Data from Company response to PC-063, Part B.


$800,000,000
$700,000,000
$600,000,000
$500,000,000
$400,000,000
$300,000,000
$200,000,000
$100,000,000
$0
+3σ
−3σ
2000
2001
2002
2003
2004
2005
2006
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2008
2009
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2012

AVISTA CORPORATION
WASHINGTON ELECTRIC UTILITY OPERATIONS
VARIANCE ANALYSIS

Year	X	Y Net Revenues	x X-Xavg.	y Y-Yavg	x-squared	xy	y-squared
2000	1	350,806,697	-6	-38,838,441	36	233030646	1,508,424,499,310,480
2001	2	133,140,612	-5	-256,504,526	25	1282522630	65,794,571,858,484,700
2002	3	313,848,824	-4	-75,796,314	16	303185256	5,745,081,215,986,600
2003	4	337,347,645	-3	-52,297,493	9	156892479	2,735,027,774,085,050
2004	5	339,179,511	-2	-50,465,627	4	100931254	2,546,779,508,503,130
2005	6	357,315,203	-1	-32,329,935	1	32329935	1,045,224,697,104,220
2006	7	403,091,120	0	13,445,982	0	0	180,794,431,944,324
2007	8	370,911,524	1	-18,733,614	1	-18733614	350,948,293,500,996
2008	9	434,401,313	2	44,756,175	4	89512350	2,003,115,200,630,620
2009	10	433,321,385	3	43,676,247	9	131028741	1,907,614,552,005,010
2010	11	517,391,707	4	127,746,569	16	510986276	16,319,185,891,271,800
2011	12	554,853,690	5	165,208,552	25	826042760	27,293,865,653,936,700
2012	13	519,777,563	6	130,132,425	36	780794550	16,934,448,036,380,600
Sum	91	5,065,386,794			182	4,428,523,263	144,365,081,613,144,000
Average	7	389,645,138					

slope (b) = (Σxy)/(Σ x-squared) =	24,332,545.4	
intercept (a) = Yavg. - (b)Xavg. =	219,317,320.2	
r-squared = (b)(Σxy)/(Σ y-squared) =	0.746421795	
variance of y given x = (1/n-2)(Σ y-squared - bΣxy) =	3,327,985,296,034,000	1,996,791,177,620,400
standard deviation of y given x = (variance)1/2 =	57,688,693	44,685,469
3 standard deviation units = S.D. x 3 =	173,066,079	134,056,408

	40% of Variance

Year	Actual Net Revenues	Predicted Net Revenues	+3s	-3s
2000	$350,806,697	$243,649,866	$416,715,944	$70,583,787
2001	$133,140,612	$267,982,411	$441,048,490	$94,916,332
2002	$313,848,824	$292,314,956	$465,381,035	$119,248,877
2003	$337,347,645	$316,647,502	$489,713,581	$143,581,423
2004	$339,179,511	$340,980,047	$514,046,126	$167,913,968
2005	$357,315,203	$365,312,593	$538,378,671	$192,246,514
2006	$403,091,120	$389,645,138	$562,711,217	$216,579,059
2007	$370,911,524	$413,977,683	$587,043,762	$240,911,605
2008	$434,401,313	$438,310,229	$611,376,308	$265,244,150
2009	$433,321,385	$462,642,774	$635,708,853	$289,576,695
2010	$517,391,707	$486,975,320	$660,041,399	$313,909,241
2011	$554,853,690	$511,307,865	$684,373,944	$338,241,786
2012	$519,777,563	$535,640,410	$708,706,489	$362,574,332

Reference: Statistical Inference for Management and Economics, Hemtoberger, et al, Allyn and Bacon, 1975, pp. 284-287.

AVISTA CORPORATION
WASHINGTON ELECTRIC UTILITY OPERATIONS
COST OF EQUITY IMPACT OF RISK REDUCTION
2000-2012

Assume: With Decoupling, Historical Net Revenue Variance Reduced 40%

1) Standard Devition of Annual Revenues

s = $57,688,693		s = one standard deviation unit (historical)
3s = $173,066,079		3s = 3 standard deviation units (historical)
3s* = $134,056,408	2.3238s	3s* = 3 standard deviation units (40% variance)

2) Probability (p) Difference in Negative Outcomes Between 3 Standard Deviation Units (Histo and 3 Standard Deviation Units (Variance Reduced 40%)

p(3s) =	0.49865	
less p(3s*, 2.3238s) =	0.48996	
	0.00869	or 0.87% of average revenues

3) Basis Point Impact of 0.87% Reduction in Average Annual Net Revenues

a) Average Annual Net Revenues 2000-2012 = $389.645 Million
x .00869
Annual Net Revenue Reduction = $3.386 Million

b) Average Avista Electric Rate Base 2000/2012 = $876.683 Million
Average Common Equity Ratio 2006/2012 = 46.68%
Then, a 1% Equity Return Reduction Produces A Revenue Reduction Of:
= (1% x 46.68% x $876.683 M)/(1-35% Tax Rate), or
= $6.29 Million

c) If a 1% Equity Return Reduction Reduces Annual Revenues $6.29 Million,
Then, A $3.386 Million reduction due to lower volatility = 0.54% or 54 Basis Points