

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	
)	
v.)	DOCKET NOS. UE-150204 and
)	UG-150205 (Consolidated)
)	
AVISTA CORPORATION, DBA)	
AVISTA UTILITIES,)	
)	
Respondent.)	
_____)	

EXHIBIT NO. ____ (MPG-3)

**2016 NATURAL GAS ATTRITION STUDY,
CALCULATION OF GENERAL REVENUE REQUIREMENT**

JULY 27, 2015

AVISTA UTILITIES
2016 NATURAL GAS ATTRITION STUDY
Calculation of General Revenue Requirement
Washington - Natural Gas System
Twelve Months Ended September 30, 2014
(000's of Dollars)

Line No.	Description	(a) Attrition Balances	(b) Revenue Growth Factor	(c) Attrition Adjusted Balances	(d) After Attrition Adjustments (i)	(e) 2016 Revenue Requirement
1	Attrition Rate Base	\$268,842	1.000000	\$ 243,120	\$0	\$ 268,842
2	Proposed Rate of Return			7.46%		7.46%
3	Net Operating Income Requirement			\$18,137	\$0	\$20,056
4	Attrition Net Operating Income	<u>\$ 14,211</u>	1.000000	<u>\$ 18,270</u>	<u>\$ -</u>	<u>\$ 15,906</u>
5	Net Operating Income Deficiency			(\$133)	\$0	\$4,150
6	Conversion Factor			0.62014	0.62014	0.62014
7	Attrition Revenue Requirement			(\$215)	(\$1)	\$6,691
8	Total General Business Revenues					\$ 170,914
9	Percentage Revenue Increase					<u><u>3.91%</u></u>

Notes: (i) The Adjustment included after the attrition calculated revenue requirement of \$11.280 million shown above was deemed necessary in order to account for atmospheric testing expenses (or \$707,000). This adjustment represents amounts not included in the September 30, 2014 normalized Commission Basis Results used as the starting point of the Company's updated Attrition Analysis.

AVISTA'S 2016 NATURAL GAS ATTRITION REVENUE REQUIREMENT

\$000s		Determine Base Cost and Revenue to Escalate					Escalate Non-Energy Cost			Other Cost & Revenue Adjustments		
		09.2014 Commission Basis Report Restated Totals	EOP 12.14 Plant & Regulatory Amorts Adjs	Pro Forma Revenue Normalization Adjustment	Exclude Normalized Gas Costs and Revenue	December 2014 EOP Escalation Base	Escalation Factor	Escalation Amount *[F]=[G]	Trended 2016 Non-Energy Cost [E]+[G]=[H]	(plus) 09.2014 Pro- Formed Gas Cost/Revenue	(plus) Revenue Growth	2016 Revenue and Cost [H]+[I]+[J]=[K]
Line No.	DESCRIPTION	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]
REVENUES												
1	Total General Business	\$ 152,365	\$ -	\$ 14,366	\$ (92,098)	\$ 74,633	0.00%		74,633	\$ 92,098	\$ -	\$ 166,731
2	Total Transportation	\$ 3,973	\$ -	\$ 210	\$ -	\$ 4,183	0.00%		4,183	\$ -	\$ -	\$ 4,183
3	Other Revenues	\$ 277	\$ -	\$ -	\$ -	\$ 277	0.00%		277	\$ -	\$ -	\$ 277
4	Total Gas Revenues	\$ 156,615	\$ -	\$ 14,576	\$ (92,098)	\$ 79,093		\$ -	\$ 79,093	\$ 92,098	\$ -	\$ 171,191
		74,142				79,093						
EXPENSES												
Production Expenses												
5	City Gate Purchases	\$ 82,473	\$ -	\$ 5,394	\$ (87,867)	\$ -			-	\$ 87,867	\$ -	\$ 87,867
6	Purchased Gas Expense	\$ 839	\$ -	\$ (1)	\$ -	\$ 838	4.53%	38	876	\$ -	\$ -	\$ 876
7	Net Nat Gas Storage Trans	\$ -	\$ -	\$ -	\$ -	\$ -			-	\$ -	\$ -	\$ -
8	Total Production	\$ 83,312	\$ -	\$ 5,393	\$ (87,867)	\$ 838		\$ 38	\$ 876	\$ 87,867	\$ -	\$ 88,743
Underground Storage												
9	Operating Expenses	\$ 858	\$ -	\$ -	\$ -	\$ 858	4.53%	39	897	\$ -	\$ -	\$ 897
10	Depreciation/Amortization	\$ 392	\$ 14	\$ -	\$ -	\$ 406	11.67%	47	453	\$ -	\$ -	\$ 453
11	Taxes	\$ 223	\$ -	\$ -	\$ -	\$ 223	11.67%	26	249	\$ -	\$ -	\$ 249
12	Total Underground Storage	\$ 1,473	\$ 14	\$ -	\$ -	\$ 1,487		\$ 112	\$ 1,599	\$ -	\$ -	\$ 1,599
Distribution												
13	Operating Expenses	\$ 10,666	\$ -	\$ -	\$ -	\$ 10,666	4.53%	484	11,150	\$ -	\$ -	\$ 11,150
14	Depreciation/Amortization	\$ 8,381	\$ 450	\$ -	\$ -	\$ 8,831	11.67%	1,031	9,862	\$ -	\$ -	\$ 9,862
15	Taxes	\$ 8,858	\$ -	\$ 558	\$ (3,528)	\$ 5,888	11.67%	687	6,576	\$ 3,528	\$ -	\$ 10,104
16	Total Distribution	\$ 27,905	\$ 450	\$ 558	\$ (3,528)	\$ 25,385		\$ 2,202	\$ 27,587	\$ 3,528	\$ -	\$ 31,115
17	Customer Accounting	\$ 6,353	\$ -	\$ 82	\$ (519)	\$ 5,916	4.53%	268	6,184	\$ 519	\$ -	\$ 6,703
18	Customer Service & Information	\$ 933	\$ -	\$ -	\$ -	\$ 933	4.53%	42	975	\$ -	\$ -	\$ 975
19	Sales Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	4.53%	-	-	\$ -	\$ -	\$ -
Administrative & General												
20	Operating Expenses	\$ 12,171	\$ -	\$ 29	\$ (184)	\$ 12,016	4.53%	545	12,561	\$ 184	\$ -	\$ 12,745
21	Depreciation/Amortization	\$ 4,316	\$ 708	\$ -	\$ -	\$ 5,024	11.67%	586	5,610	\$ -	\$ -	\$ 5,610
22	Regulatory Amortizations	\$ 11	\$ 1,143	\$ (11)	\$ -	\$ 1,143	0.00%	-	1,143	\$ -	\$ -	\$ 1,143
23	Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	11.67%	-	-	\$ -	\$ -	\$ -
24	Total Admin. & General	\$ 16,498	\$ 1,851	\$ 18	\$ (184)	\$ 18,183		\$ 1,131	\$ 19,314	\$ 184	\$ -	\$ 19,498
25	Total Gas Expense	\$ 136,474	\$ 2,315	\$ 6,052	\$ (92,098)	\$ 52,743		\$ 3,793	\$ 56,536	\$ 92,098	\$ -	\$ 148,634
		\$ 54,001				\$ 52,743						
26	OPERATING INCOME BEFORE FIT	\$ 20,141	\$ (2,315)	\$ 8,524	\$ -	\$ 26,350		\$ (3,793)	\$ 22,557	\$ -	\$ -	\$ 22,557

AVISTA'S 2016 NATURAL GAS ATTRITION REVENUE REQUIREMENT

S000s		Determine Base Cost and Revenue to Escalate					Escalate Non-Energy Cost			Other Cost & Revenue Adjustments		
CBR Line No.	DESCRIPTION	09.2014	EOP 12.14	Pro Forma	Exclude	December 2014	Escalation Factor	Escalation	Trended 2016	(plus) 09.2014 Pro-Formed Gas Cost/Revenue	(plus) Revenue Growth	2016 Revenue and Cost [H]+[I]+[J]=[K]
		Commission Basis Report Restated Totals [A]	Plant & Regulatory Amorts Adj [B]	Revenue Normalization Adjustment [C]	Normalized Gas Costs and Revenue [D]	EOP Escalation Base [E]		Amount [F]=[G]	Non-Energy Cost [E]+[G]=[H]			
FEDERAL INCOME TAX												
27	Current Accrual	\$ 3,947	\$ (810)	2,984	-	\$ 6,120		(1,328)	4,793	-	-	4,793
28	Debt Interest	\$ (74)	\$ (23)	\$ -	\$ -	\$ (97)		(102)	(199)			(199)
29	Deferred FIT	\$ 2,079	\$ -	\$ -	\$ -	\$ 2,079			2,079			2,079
30	Amort ITC	\$ (22)	\$ -	\$ -	\$ -	\$ (22)			(22)			(22)
31	NET OPERATING INCOME	\$ 14,211	\$ (1,482)	\$ 5,541	\$ -	\$ 18,270		\$ (2,364)	\$ 15,906	\$ -	\$ -	\$ 15,906
RATE BASE												
PLANT IN SERVICE												
32	Underground Storage	\$ 24,932	\$ 72	\$ -	\$ -	\$ 25,004	11.67%	\$ 2,918	27,922			\$ 27,922
33	Distribution Plant	\$ 332,439	\$ 4,548	\$ -	\$ -	\$ 336,987	11.67%	\$ 39,332	376,319			\$ 376,319
34	General Plant	\$ 58,679	\$ 1,095	\$ -	\$ -	\$ 59,774	11.67%	\$ 6,977	66,751			\$ 66,751
35	Total Plant in Service	\$ 416,050	\$ 5,715	\$ -	\$ -	\$ 421,765		\$ 49,227	\$ 470,992			\$ 470,992
ACCUMULATED DEPRECIATION/AMORT												
36	Underground Storage	\$ (9,345)	(75)	\$ -	\$ -	\$ (9,420)	11.67%	(1,099)	(10,519)			(10,519)
37	Distribution Plant	\$ (113,282)	(1057)	\$ -	\$ -	\$ (114,339)	11.67%	(13,345)	(127,684)			(127,684)
38	General Plant	\$ (16,998)	(421)	\$ -	\$ -	\$ (17,419)	11.67%	(2,033)	(19,452)			(19,452)
39	Total Accumulated Depreciation/Amortization	\$ (139,625)	(1553)	\$ -	\$ -	\$ (141,178)		(16,478)	(157,656)			(157,656)
40	NET PLANT	\$ 276,425	4162	\$ -	\$ -	\$ 280,587		\$ 32,749	\$ 313,336			\$ 313,336
41	DEFERRED TAXES	\$ (58,355)	(1856)	\$ -	\$ -	\$ (60,211)	11.67%	(7,028)	(67,238)			(67,238)
42	Net Plant After DFIT	\$ 218,070	2306	\$ -	\$ -	\$ 220,376		25,721	246,098			246,098
43	GAS INVENTORY	\$ 12,801	\$ -	\$ -	\$ -	\$ 12,801	0.00%	-	12,801			12,801
44	GAIN ON SALE OF BUILDING	\$ -	\$ -	\$ -	\$ -	\$ -	0.00%	-	-			-
45	OTHER	\$ (428)	\$ -	\$ -	\$ -	\$ (428)	0.00%	-	(428)			(428)
46	WORKING CAPITAL	\$ 10,371	\$ -	\$ -	\$ -	\$ 10,371	0.00%	-	10,371			10,371
47	TOTAL RATE BASE	\$ 240,814	\$ 2,306	\$ -	\$ -	\$ 243,120		\$ 25,721	\$ 268,842			\$ 268,842
								\$ 6,430				10.58%
48	RATE OF RETURN	5.90%				7.51%						5.92%
ATTRITION ADJUSTED REVENUE REQUIREMENT												
49	Proposed Rate of Return	7.46%				7.46%						7.46%
50	Net Operating Income Requirement	\$ 17,965				\$ 18,137						\$ 20,056
51	Net Operating Income per Above	14,211				18,270						15,906
52	Net Operating Income Deficiency	\$ 3,754				\$ (134)						\$ 4,149
53	Conversion Factor	0.62014				0.62014						0.62014
54	Revenue Requirement	\$ 6,053				\$ (215)						\$ 6,691
55	Revenue Growth Factor											1.00000
56	Attrition Adjusted Revenue Requirement											\$ 6,691

*Note: Adjustment in Column [B] includes the Regulatory Amortization associated with the deferral of the Natural Gas portion of the Project Compass Customer Information System (CIS) project as this amount is not included in the 09.2014 Commission Basis. This amount is not escalated as shown in column [F]. Also adjusted Net Plant and depreciation to EOP 12.31.2014 in Column [B] to reflect appropriate level necessary prior to 1.5-year escalation. See Andrews Workpapers for details.