

AVISTA UTILITIES
2015 NATURAL GAS ATTRITION STUDY
Calculation of General Revenue Requirement
Washington - Natural Gas System
Twelve Months Ended December 31, 2013
(000's of Dollars)

| Line No. | Description | (a) Attrition Balances | (b) Revenue Growth Factor | (c) Attrition Adjusted Balances | (d) After Attrition Adjustments (i) | (e) Final Balances | (f) 2014 Temporary Rate Increase | (g) 2015 Revenue Requirement |
|----------|---|---------------------------|------------------------------|------------------------------------|--|-----------------------|-------------------------------------|---------------------------------|
| 1 | Attrition Rate Base | 247,796 | 1.000000 | \$247,796 | \$0 | \$247,796 | | |
| 2 | Proposed Rate of Return | | | 6.77% | | 6.77% | | |
| 3 | Net Operating Income Requirement | | | \$16,776 | \$0 | \$16,776 | | |
| 4 | Attrition Net Operating Income | \$ 11,707 | 1.000000 | \$11,707 | (\$171) | \$11,536 | \$12,379 | |
| 5 | Net Operating Income Deficiency | | | \$5,069 | \$171 | \$5,240 | | |
| 6 | Revenue Conversion Factor | | | 0.62063 | 0.62063 | 0.62063 | | |
| 7 | Attrition Revenue Deficiency (Surplus) | | | \$8,167 | \$276 | \$8,443 | \$1,358 | \$7,085 |
| 8 | Total General Business Revenues | | | | | \$ 148,671 | \$ 150,029 | \$ 157,114 |
| 9 | Rate of Return (pre-attrition adjustment) | | | | | 4.66% | 5.00% | |
| 10 | Percentage Revenue Increase | | | | | 5.68% | | 4.51% |
| 11 | Attrition-Based Revenue Requirement | | | | | \$ 157,114 | | |

Notes: (i) The Adjustment included after the attrition calculated revenue requirement of \$8.167 million shown above was deemed necessary by Avista in order to account for 1/3 of atmospheric testing expenses (or \$262,000). This adjustment represents amounts not included in the 12/31/2013 normalized commission basis results used as the starting point of the Company's updated attrition analysis. See workpapers included with Staff_DR_115-Attachment E. Staff does not contest this adjustment.

AVISTA UTILITIES
Proposed Cost of Capital
Washington - Natural Gas System

| Proposed Cap Structure | | | |
|-------------------------------|------------------------------|-------------|--------------------------|
| <u>Component</u> | <u>Capital Structure</u> | <u>Cost</u> | <u>Weighted Cost</u> |
| Total Debt | 58.00% | 5.32% | 3.09% |
| Common | 42.00% | 8.75% | 3.68% |
| Total | <u>100.00%</u> | | <u>6.77%</u> |

over 2014
 \$7,085

Revenue Conversion Factor
Washington -Natural Gas System
Twelve Months Ended December 31, 2013

| <u>Line No.</u> | <u>Description</u> | <u>Factor</u> |
|---------------------|----------------------------------|-----------------------|
| 1 | Revenues | <i>1.000000</i> |
| | Expense: | |
| 2 | Uncollectibles | 0.004850 |
| 3 | Commission Fees | 0.002000 |
| 4 | Washington Excise Tax | 0.038333 |
| 5 | Total Expense | <u>0.045183</u> |
| 6 | Net Operating Income Before FIT | <i>0.954817</i> |
| 7 | Federal Income Tax @ 35% | <u>0.334186</u> |
| 8 | REVENUE CONVERSION FACTOR | <u><u>0.62063</u></u> |

AVISTA'S 2015 NATURAL GAS ATTRITION REVENUE REQUIREMENT

| CBR Line No. | DESCRIPTION | Determine Base Cost and Revenue to Escalate | | | | | Escalate Non-Energy Cost | | | Other Cost & Revenue Adjustments | | |
|-------------------------------------|--------------------------------|---|------------------------------|--|--|-------------------------------|--------------------------|-------------------|------------------------------|--|-----------------------|-----------------------|
| | | Dec 2013 Commission Basis Report | Proposed Working Capital AMA | Incremental Revenue Normalization Adjustment | Exclude Normalized Gas Costs and Revenue | December 2013 Escalation Base | Escalation Factor | Escalation Amount | Trended 2015 Non-Energy Cost | (plus) 12.2013 Pro-Formed Gas Cost/Revenue | (plus) Revenue Growth | 2015 Revenue and Cost |
| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| REVENUES | | | | | | | | | | | | |
| 1 | Total General Business | \$ 144,257 | \$ - | \$ 638 | \$ (82,905) | \$ 61,990 | 2.05% | | 61,990 | \$ 82,905 | \$ 2,967 | \$ 147,862 |
| 2 | Total Transportation | \$ 3,915 | \$ - | \$ (139) | \$ - | \$ 3,776 | 6.48% | | 3,776 | | \$ 245 | \$ 4,021 |
| 3 | Other Revenues | \$ 403 | \$ - | \$ - | \$ - | \$ 403 | 19.35% | | 403 | | \$ 78 | \$ 481 |
| 4 | Total Gas Revenues | \$ 148,575 | \$ - | \$ 499 | \$ (82,905) | \$ 66,169 | | \$ - | \$ 66,169 | \$ 82,905 | \$ 3,289 | \$ 152,363 |
| EXPENSES | | | | | | | | | | | | |
| Production Expenses | | | | | | | | | | | | |
| 5 | City Gate Purchases | \$ 76,801 | \$ - | \$ 2,358 | \$ (79,159) | \$ - | | | - | \$ 79,159 | 1,665 | 80,824 |
| 6 | Purchased Gas Expense | \$ 891 | \$ - | \$ (4) | \$ - | \$ 887 | 6.39% | 57 | 944 | | | 944 |
| 7 | Net Nat Gas Storage Trans | \$ - | \$ - | \$ - | \$ - | \$ - | | - | - | | | - |
| 8 | Total Production | \$ 77,692 | \$ - | \$ 2,354 | \$ (79,159) | \$ 887 | | \$ 57 | \$ 944 | \$ 79,159 | \$ 1,665 | \$ 81,767 |
| Underground Storage | | | | | | | | | | | | |
| 9 | Operating Expenses | \$ 820 | \$ - | \$ - | \$ - | \$ 820 | 6.39% | 52 | 872 | | | 872 |
| 10 | Depreciation/Amortization | \$ 380 | \$ - | \$ - | \$ - | \$ 380 | 10.27% | 39 | 419 | | | 419 |
| 11 | Taxes | \$ 158 | \$ - | \$ - | \$ - | \$ 158 | 8.26% | 13 | 171 | | | 171 |
| 12 | Total Underground Storage | \$ 1,358 | \$ - | \$ - | \$ - | \$ 1,358 | | \$ 104 | \$ 1,462 | \$ - | \$ - | \$ 1,462 |
| Distribution | | | | | | | | | | | | |
| 13 | Operating Expenses | \$ 10,820 | \$ - | \$ - | \$ - | \$ 10,820 | 6.39% | 692 | 11,512 | | | 11,512 |
| 14 | Depreciation/Amortization | \$ 7,925 | \$ - | \$ - | \$ - | \$ 7,925 | 10.27% | 814 | 8,739 | | | 8,739 |
| 15 | Taxes | \$ 8,116 | \$ - | \$ 19 | \$ (3,178) | \$ 4,957 | 8.26% | 410 | 5,367 | \$ 3,178 | \$ 114 | \$ 8,659 |
| 16 | Total Distribution | \$ 26,861 | \$ - | \$ 19 | \$ (3,178) | \$ 23,702 | | \$ 1,915 | \$ 25,617 | \$ 3,178 | \$ 114 | \$ 28,909 |
| 17 | Customer Accounting | \$ 6,270 | \$ - | \$ 3 | \$ (402) | \$ 5,871 | 6.39% | 375 | 6,246 | \$ 402 | \$ 14 | \$ 6,662 |
| 18 | Customer Service & Information | \$ 983 | \$ - | \$ - | \$ - | \$ 983 | 6.39% | 63 | 1,046 | | | 1,046 |
| 19 | Sales Expenses | \$ 3 | \$ - | \$ - | \$ - | \$ 3 | 6.39% | 0 | 3 | | | 3 |
| Administrative & General | | | | | | | | | | | | |
| 20 | Operating Expenses | \$ 11,862 | \$ - | \$ 1 | \$ (166) | \$ 11,697 | 6.39% | 748 | 12,445 | \$ 166 | \$ 6 | \$ 12,617 |
| 21 | Depreciation/Amortization | \$ 3,868 | \$ - | \$ - | \$ - | \$ 3,868 | 10.27% | 397 | 4,265 | | | 4,265 |
| 22 | Regulatory Amortizations | \$ 91 | \$ - | \$ - | \$ - | \$ 91 | 0.00% | - | 91 | | | 91 |
| 23 | Taxes | \$ - | \$ - | \$ - | \$ - | \$ - | 8.26% | - | - | | | - |
| 24 | Total Admin. & General | \$ 15,821 | \$ - | \$ 1 | \$ (166) | \$ 15,656 | | \$ 1,145 | \$ 16,801 | \$ 166 | \$ 6 | \$ 16,973 |
| 25 | Total Gas Expense | \$ 128,988 | \$ - | \$ 2,377 | \$ (82,905) | \$ 48,460 | | \$ 3,660 | \$ 52,120 | \$ 82,905 | \$ 1,799 | \$ 136,823 |
| 26 | OPERATING INCOME BEFORE FIT | \$ 19,587 | \$ - | \$ (1,878) | \$ - | \$ 17,709 | | \$ (3,660) | \$ 14,049 | \$ - | \$ 1,491 | \$ 15,540 |

AVISTA'S 2015 NATURAL GAS ATTRITION REVENUE REQUIREMENT

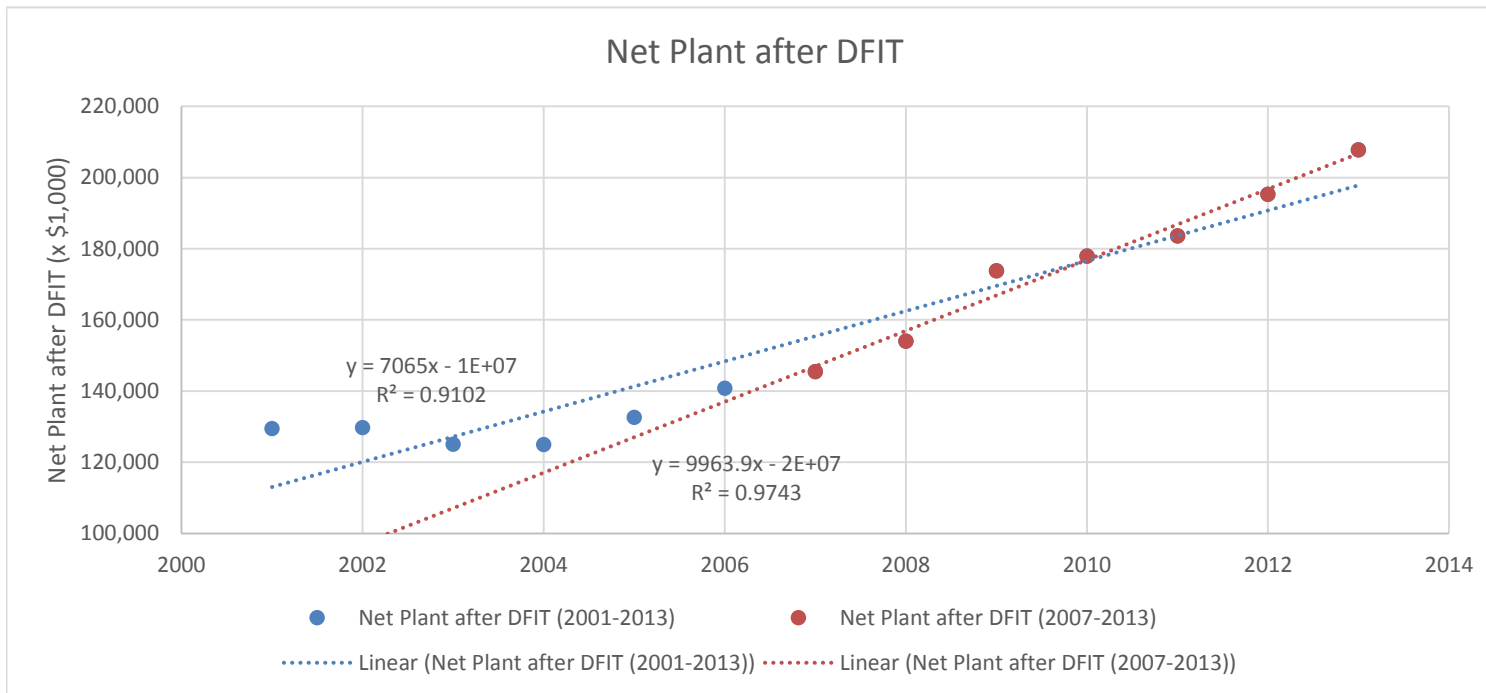
| CBR Line No. | DESCRIPTION | Determine Base Cost and Revenue to Escalate | | | | | Escalate Non-Energy Cost | | | Other Cost & Revenue Adjustments | | |
|--------------------|--|---|------------------------------------|---|---|----------------------------------|--------------------------|----------------------|------------------------------------|---|--------------------------|--------------------------|
| | | Dec 2013 Commission Basis Report | Proposed Working Capital AMA | Incremental Revenue Normalization | Exclude Normalized Gas Costs and Revenue | December 2013 Escalation Base | Escalation Factor | Escalation Amount | Trended 2015 Non-Energy Cost | (plus) 12.2013 Pro- Formed Gas Cost/Revenue | (plus) Revenue Growth | 2015 Revenue and Cost |
| | | [A] | [B] | [C] | [D] | [E] | [F] | [G] | [H] | [I] | [J] | [K] |
| | FEDERAL INCOME TAX | | | | | | | | | | | |
| 27 | Current Accrual | \$ 4,253 | \$ - | \$ (657) | | \$ 3,596 | | (1,281) | 2,315 | - | 522 | 2,837 |
| 28 | Debt Interest | \$ (56) | \$ (51) | \$ - | | \$ (107) | | (276) | (383) | | | (383) |
| 29 | Deferred FIT | \$ 1,403 | \$ - | \$ - | | \$ 1,403 | | | 1,403 | | | 1,403 |
| 30 | Amort ITC | \$ (24) | \$ - | \$ - | | \$ (24) | | | (24) | | | (24) |
| 31 | NET OPERATING INCOME | \$ 14,011 | \$ 51 | \$ (1,221) | \$ - | \$ 12,841 | | \$ (2,102) | \$ 10,738 | \$ - | \$ 969 | \$ 11,707 |
| | RATE BASE | | | | | | | | | | | |
| | PLANT IN SERVICE | | | | | | | | | | | |
| 32 | Underground Storage | \$ 24,711 | \$ - | \$ - | | \$ 24,711 | 8.72% | \$ 2,155 | 26,866 | | | \$ 26,866 |
| 33 | Distribution Plant | \$ 313,469 | \$ - | \$ - | | \$ 313,469 | 8.72% | 27,334 | 340,803 | | | 340,803 |
| 34 | General Plant | \$ 52,223 | \$ - | \$ - | | \$ 52,223 | 8.72% | 4,554 | 56,777 | | | 56,777 |
| 35 | Total Plant in Service | \$ 390,403 | \$ - | \$ - | \$ - | \$ 390,403 | | 34,043 | 424,446 | | | 424,446 |
| | ACCUMULATED DEPRECIATION/AMORT | | | | | | | | | | | |
| 36 | Underground Storage | \$ (9,088) | \$ - | \$ - | | \$ (9,088) | 8.72% | (792) | (9,880) | | | (9,880) |
| 37 | Distribution Plant | \$ (108,662) | \$ - | \$ - | | \$ (108,662) | 8.72% | (9,475) | (118,137) | | | (118,137) |
| 38 | General Plant | \$ (14,724) | \$ - | \$ - | | \$ (14,724) | 8.72% | (1,284) | (16,008) | | | (16,008) |
| 39 | Total Accumulated Depreciation/Amortization | \$ (132,474) | \$ - | \$ - | \$ - | \$ (132,474) | | (11,552) | (144,026) | | | (144,026) |
| 40 | NET PLANT | \$ 257,929 | \$ - | \$ - | \$ - | \$ 257,929 | | \$ 22,491 | \$ 280,420 | | | 280,420 |
| 41 | DEFERRED TAXES | \$ (50,170) | \$ - | \$ - | | \$ (50,170) | 8.72% | (4,375) | (54,545) | | | (54,545) |
| 42 | Net Plant After DFIT | \$ 207,759 | \$ - | \$ - | \$ - | \$ 207,759 | | 18,117 | 225,876 | | | 225,876 |
| 43 | GAS INVENTORY | \$ 11,702 | \$ - | \$ - | | \$ 11,702 | 0.00% | - | 11,702 | | | 11,702 |
| 44 | GAIN ON SALE OF BUILDING | \$ - | \$ - | \$ - | | \$ - | 0.00% | - | - | | | - |
| 45 | OTHER | \$ (332) | \$ - | \$ - | | \$ (332) | 0.00% | - | (332) | | | (332) |
| 46 | WORKING CAPITAL | \$ 5,695 | \$ 4,855 | \$ - | | \$ 10,550 | 0.00% | - | 10,550 | | | 10,550 |
| 47 | TOTAL RATE BASE | \$ 224,824 | \$ 4,855 | \$ - | \$ - | \$ 229,679 | | \$ 18,117 | \$ 247,796 | | | \$ 247,796 |
| 48 | RATE OF RETURN | 6.23% | | | | | | | | | | 4.72% |
| | ATTRITION ADJUSTED REVENUE REQUIREMENT | | | | | | | | | | | |
| 49 | Proposed Rate of Return | | | | | | | | | | | 6.77% |
| 50 | Net Operating Income Requirement | | | | | | | | | | | \$ 16,776 |
| 51 | Net Operating Income per Above | | | | | | | | | | | 11,707 |
| 52 | Net Operating Income Deficiency | | | | | | | | | | | \$ 5,069 |
| 53 | Conversion Factor | | | | | | | | | | | 0.62063 |
| 54 | Revenue Requirement | | | | | | | | | | | \$ 8,167 |
| 55 | Revenue Growth Factor | | | | | | | | | | | 1.00000 |
| 56 | Attrition Adjusted Revenue Requirement | | | | | | | | | | | \$ 8,168 |
| 57 | Plus After Attrition Adjustments | | | | | | | | | | | \$ 8,444 |

Growth Trends - Net Plant after DFIT (Natural Gas)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Net Plant after DFIT (2001-2013) | 129,500 | 129,740 | 125,044 | 124,950 | 132,617 | 140,789 | 145,500 | 154,054 | 173,806 | 177,901 | 183,553 | 195,287 | 207,759 |
| Net Plant after DFIT (2007-2013) | | | | | | | 145,500 | 154,054 | 173,806 | 177,901 | 183,553 | 195,287 | 207,759 |

Regression 2001-2013
 Regression 2007-2013
 Weighted 50-50 (not plotted)

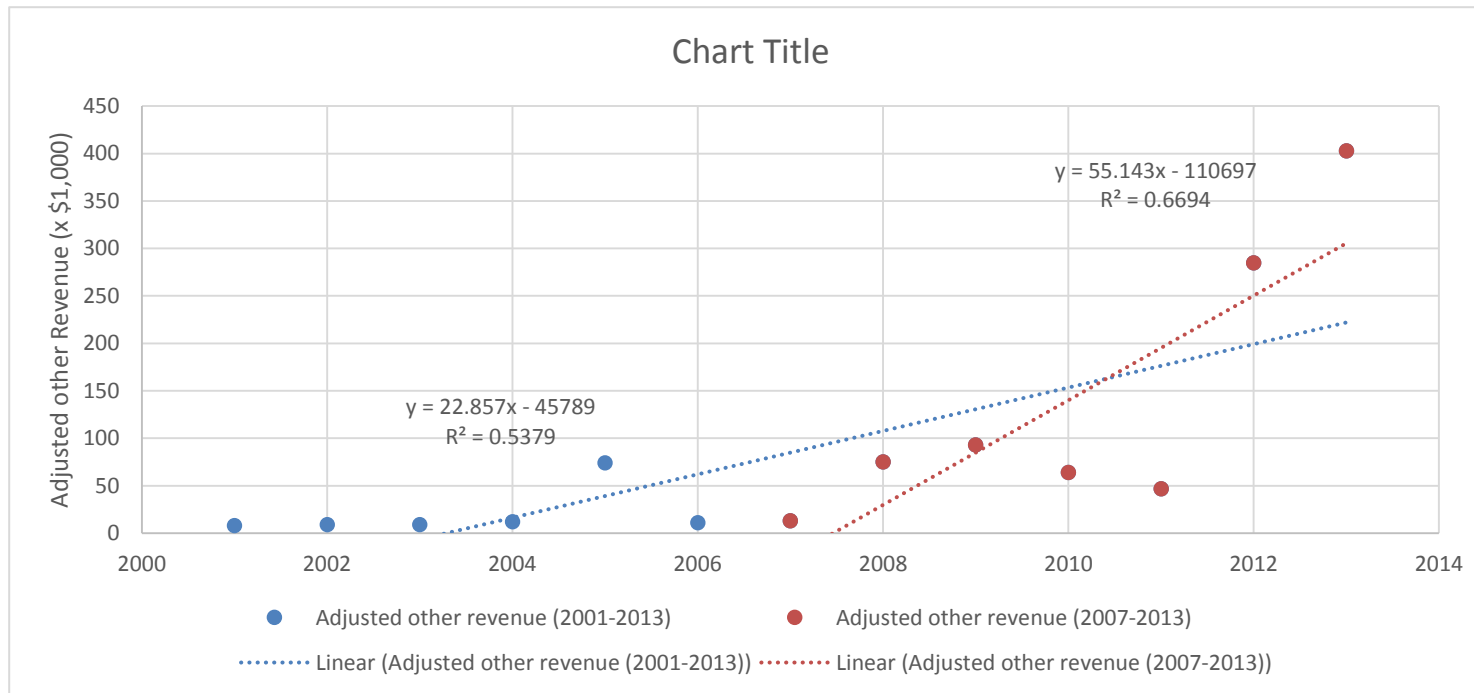
| Slope (Annual \$) | Rate | 2 year |
|-------------------|----------|--------|
| 7,065 | 0.036178 | |
| 9,964 | 0.051022 | |
| | 0.0436 | 8.72% |



Growth Trends - Adjusted Other Revenue

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Adjusted other revenue (2001-2013) | 8 | 9 | 9 | 12 | 74 | 11 | 13 | 75 | 93 | 64 | 47 | 285 | 403 |
| Adjusted other revenue (2007-2013) | | | | | | | 13 | 75 | 93 | 64 | 47 | 285 | 403 |

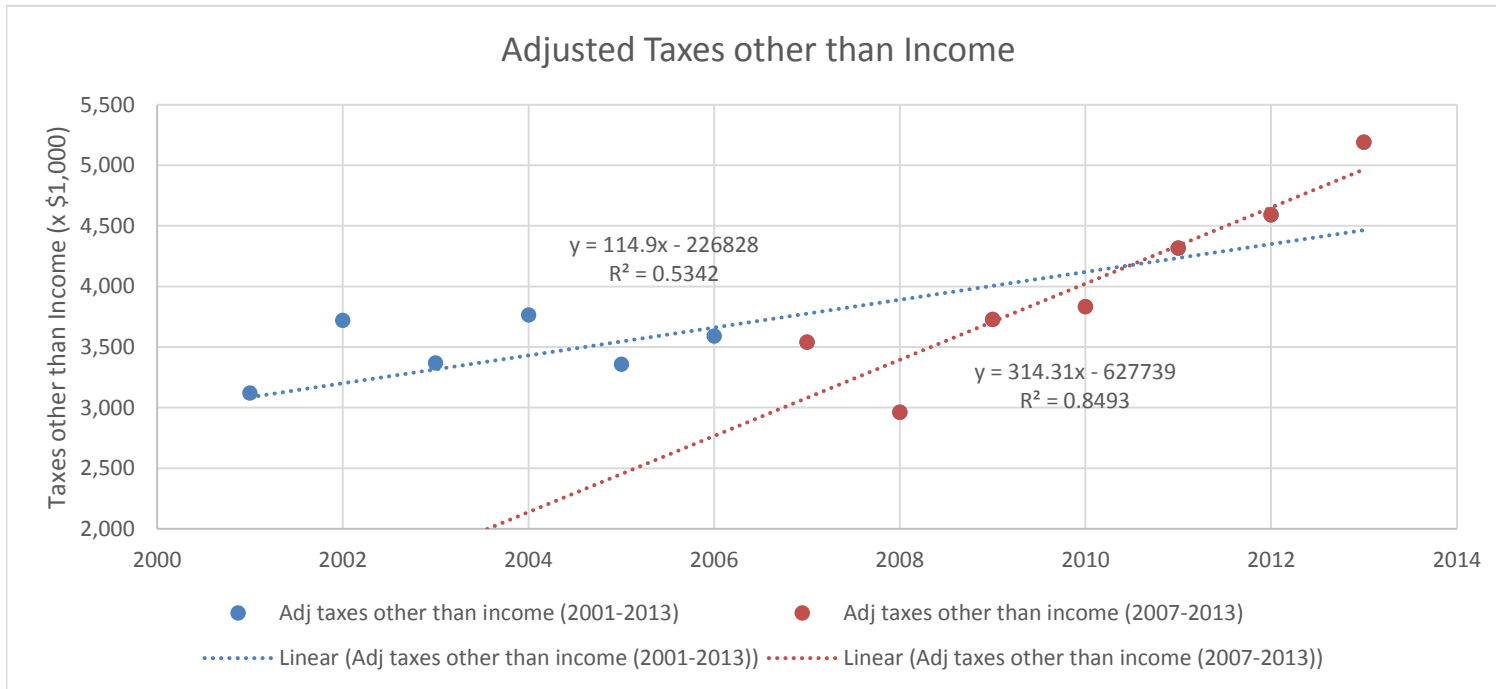
| | Slope (Annual \$) | Rate | 2 year |
|------------------------------|-------------------|----------|----------|
| Regression (2001-2013) | 22.9 | 0.056824 | 0.113648 |
| Regression (2007-2013) | 55.1 | 0.136725 | 0.273449 |
| Weighted 50-50 (not plotted) | | 0.096774 | 19.35% |



Growth Trends - Adjusted Taxes other than Income

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Adj taxes other than income (2001-2013) | 3,119 | 3,720 | 3,367 | 3,765 | 3,357 | 3,589 | 3,541 | 2,961 | 3,728 | 3,834 | 4,317 | 4,592 | 5,191 |
| Adj taxes other than income (2007-2013) | | | | | | | 3,541 | 2,961 | 3,728 | 3,834 | 4,317 | 4,592 | 5,191 |

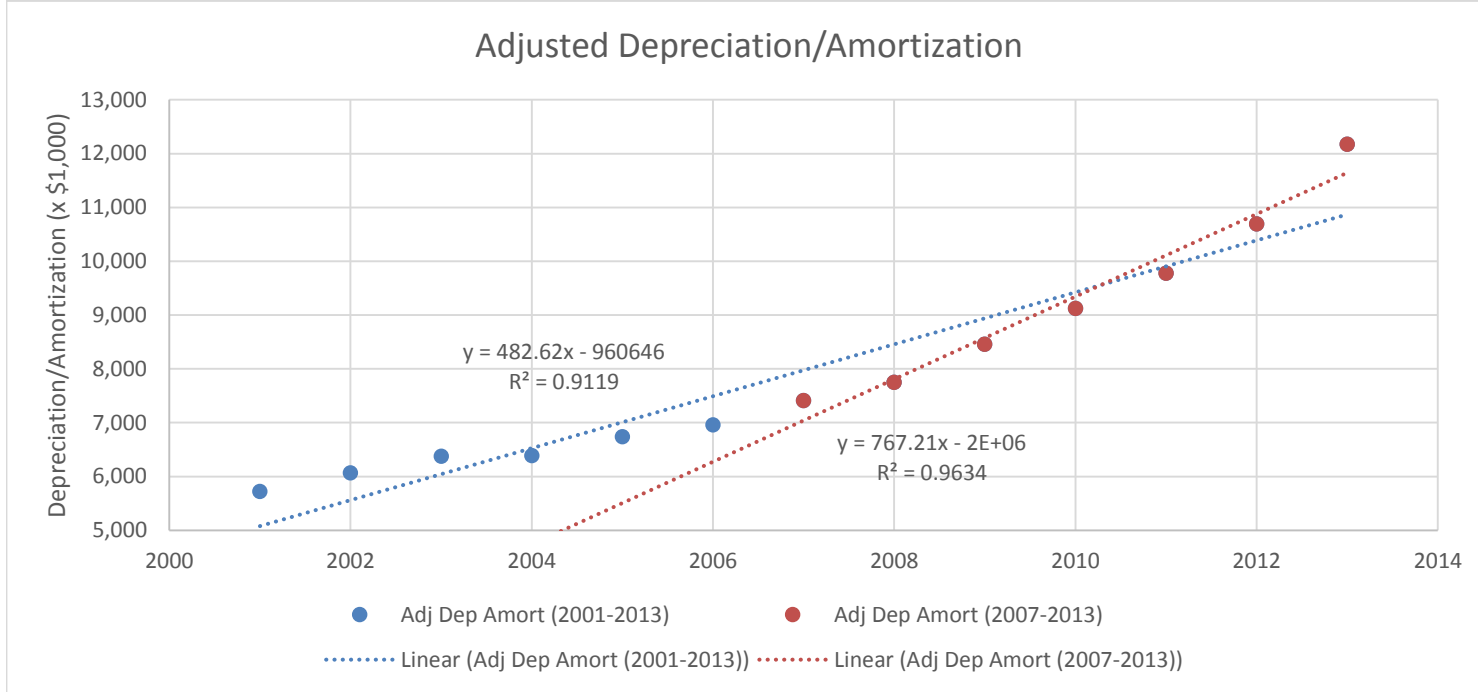
| | Slope (Annual \$) | Rate | 2 year |
|------------------------|-------------------|---------|--------|
| Regression (2001-2013) | 115 | 0.02215 | |
| Regression (2007-2013) | 314 | 0.06049 | |
| Weighted 50-50 | | 0.04132 | 8.26% |



Growth Trends - Adjusted Depreciation/Amortization

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|--------|
| Adj Dep Amort (2001-2013) | 5,724 | 6,068 | 6,379 | 6,391 | 6,741 | 6,963 | 7,413 | 7,752 | 8,456 | 9,127 | 9,778 | 10,692 | 12,173 |
| Adj Dep Amort (2007-2013) | | | | | | | 7,413 | 7,752 | 8,456 | 9,127 | 9,778 | 10,692 | 12,173 |

| | Slope (Annual \$) | Rate | 2 year |
|------------------------------|-------------------|----------|--------|
| Regression (2001-2013) | 483 | 0.039678 | |
| Regression (2007-2013) | 767 | 0.063008 | |
| Weighted 50-50 (not plotted) | | 0.051343 | 10.27% |



Growth Trends - Adjusted Operating Expense (natural gas)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Adj Op Exp (2001-2013) | 16,390 | 19,734 | 20,837 | 20,042 | 20,675 | 20,604 | 21,291 | 21,878 | 24,669 | 26,056 | 27,901 | 30,802 | 31,098 |
| Adj Op Exp (2001-2013, excl. 2009-2012) | 16,390 | 19,734 | 20,837 | 20,042 | 20,675 | 20,604 | 21,291 | 21,878 | | | | | 31,098 |
| Adj Op Exp (2009-2012) | | | | | | | | | 24,669 | 26,056 | 27,901 | 30,802 | |

| | Slope (Annual \$) | Rate | 2 year |
|---|-------------------|---------|---|
| Regression 2001-2013 | 1,094 | 0.03519 | |
| Regression 2001-2012 (de-weight 09-12) | 792 | 0.02547 | |
| Regression 2001-2013 (excl. 2009-2012) | 994 | 0.03196 | 6.39% (Shown in plot below; used for attrition analysis) |
| Avista-proposed rate | | 0.04 | 8.00% |

