

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					\$ 151,882	\$ 153,240	\$ 160,325
9	Rate of Return (pre-attrition adjustment)					4.66%	5.00%	
10	Percentage Revenue Increase					5.56%		4.42%
11	Attrition-Based Revenue Requirement					\$ 160,325		

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

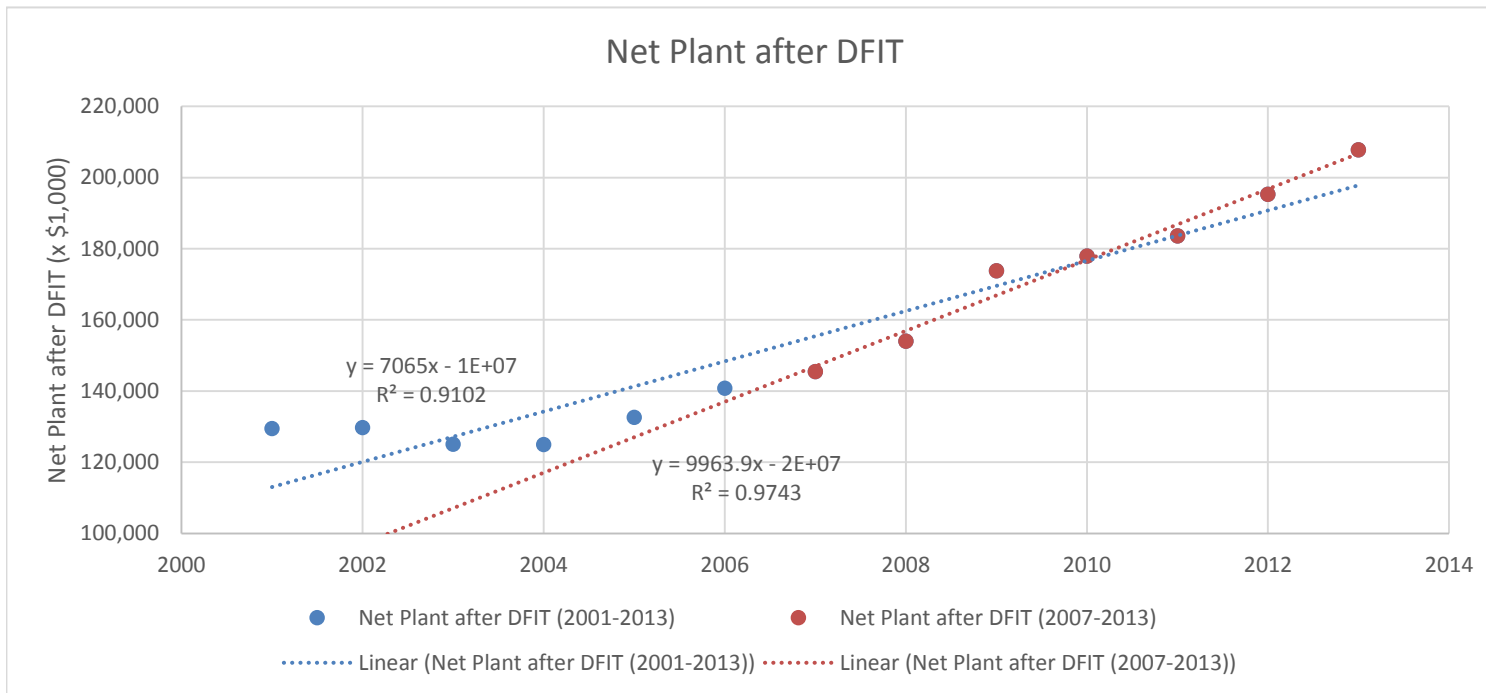
CBR Line No.	DESCRIPTION	Determine Base Cost and Revenue to Escalate					Escalate Non-Energy Cost			Other Cost & Revenue Adjustments		
		Dec 2013 Commission Basis Report	Proposed Working Capital AMA	Incremental Revenue Normalization	Exclude Normalized Gas Costs and Revenue	December 2013 Escalation Base	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											4.72%
	ATTRITION ADJUSTED REVENUE REQUIREMENT											
49	Proposed Rate of Return		6.77%									6.77%
50	Net Operating Income Requirement	\$ 15,221										\$ 16,776
51	Net Operating Income per Above	14,011										11,707
52	Net Operating Income Deficiency	\$ 1,210										\$ 5,069
53	Conversion Factor	0.62063										0.62063
54	Revenue Requirement	\$ 1,949										\$ 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)

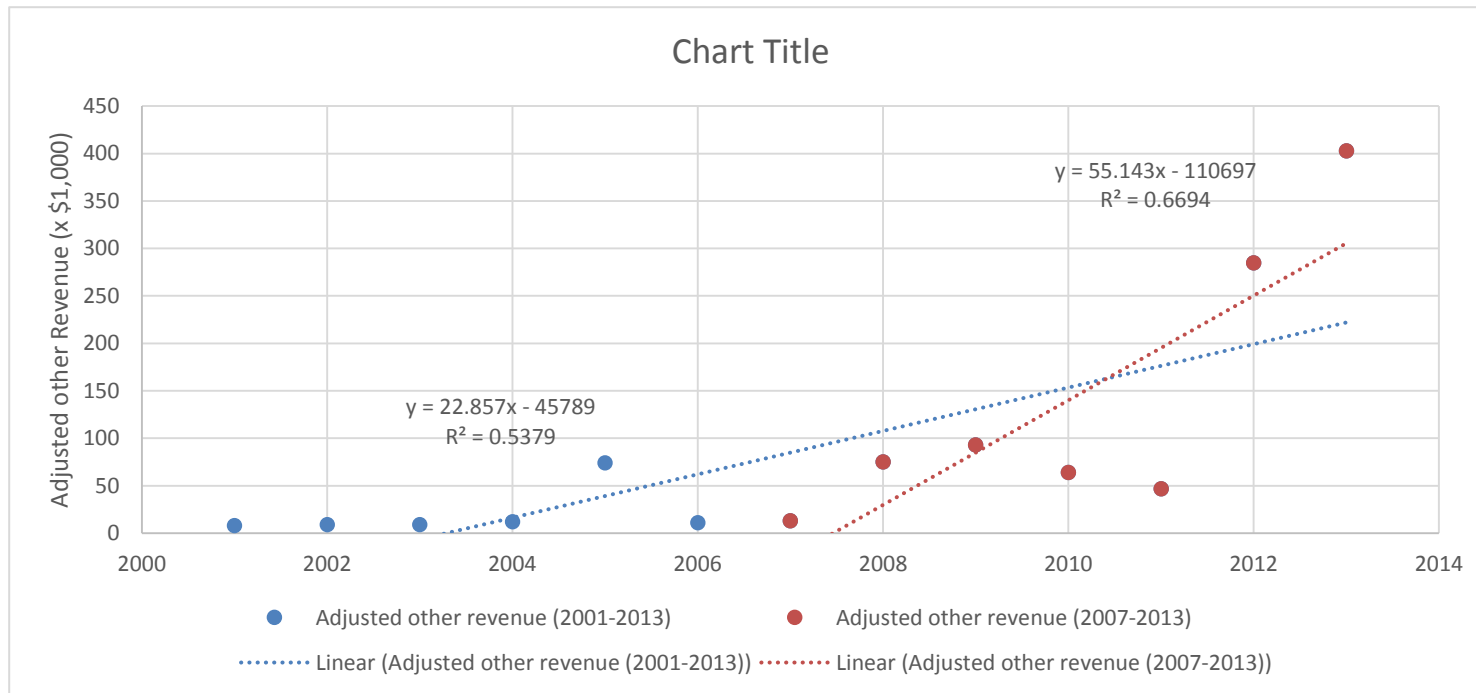
Slope (Annual \$)	Rate	2 year
7,065	0.036178	
9,964	0.051022	
	0.0436	8.72%



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

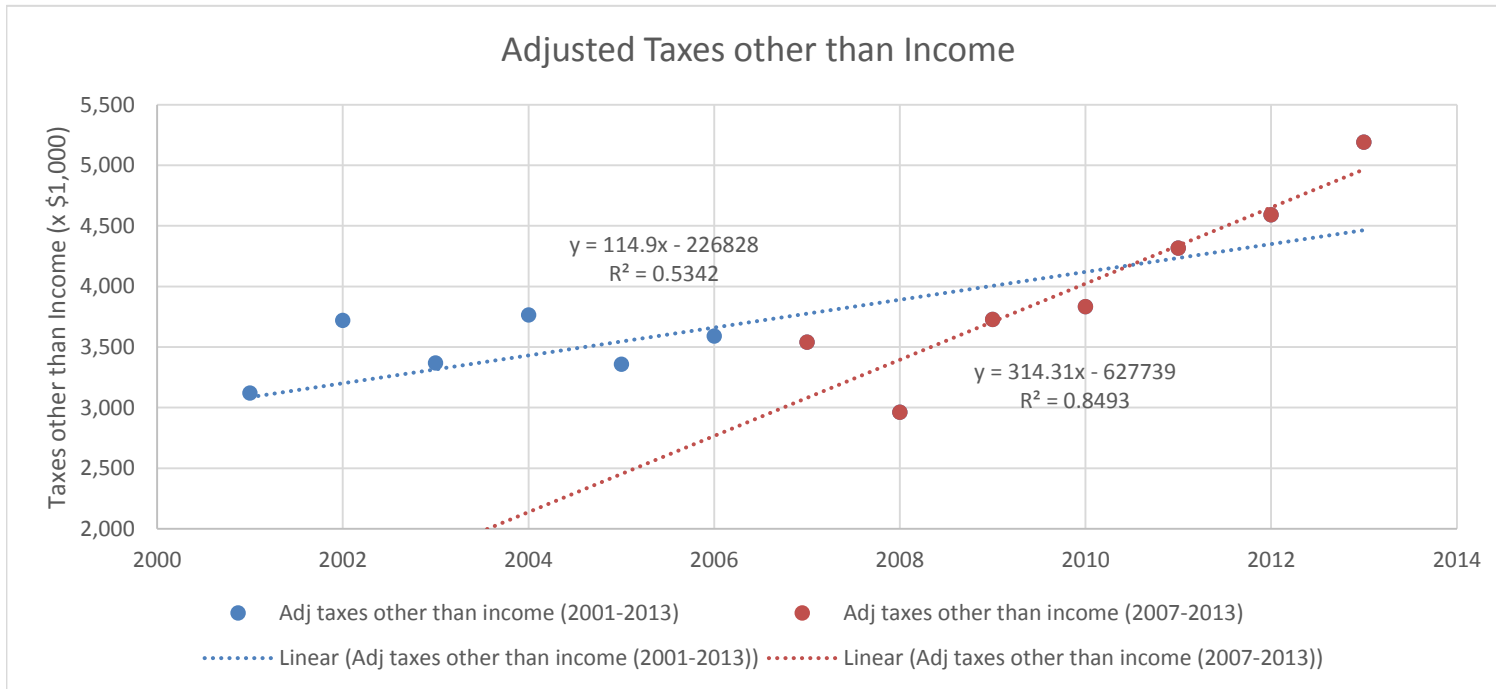
	Slope (Annual \$)	Rate	2 year
Regression (2001-2013)	22.9	0.056824	0.113648
Regression (2007-2013)	55.1	0.136725	0.273449
Weighted 50-50 (not plotted)		0.096774	19.35%



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

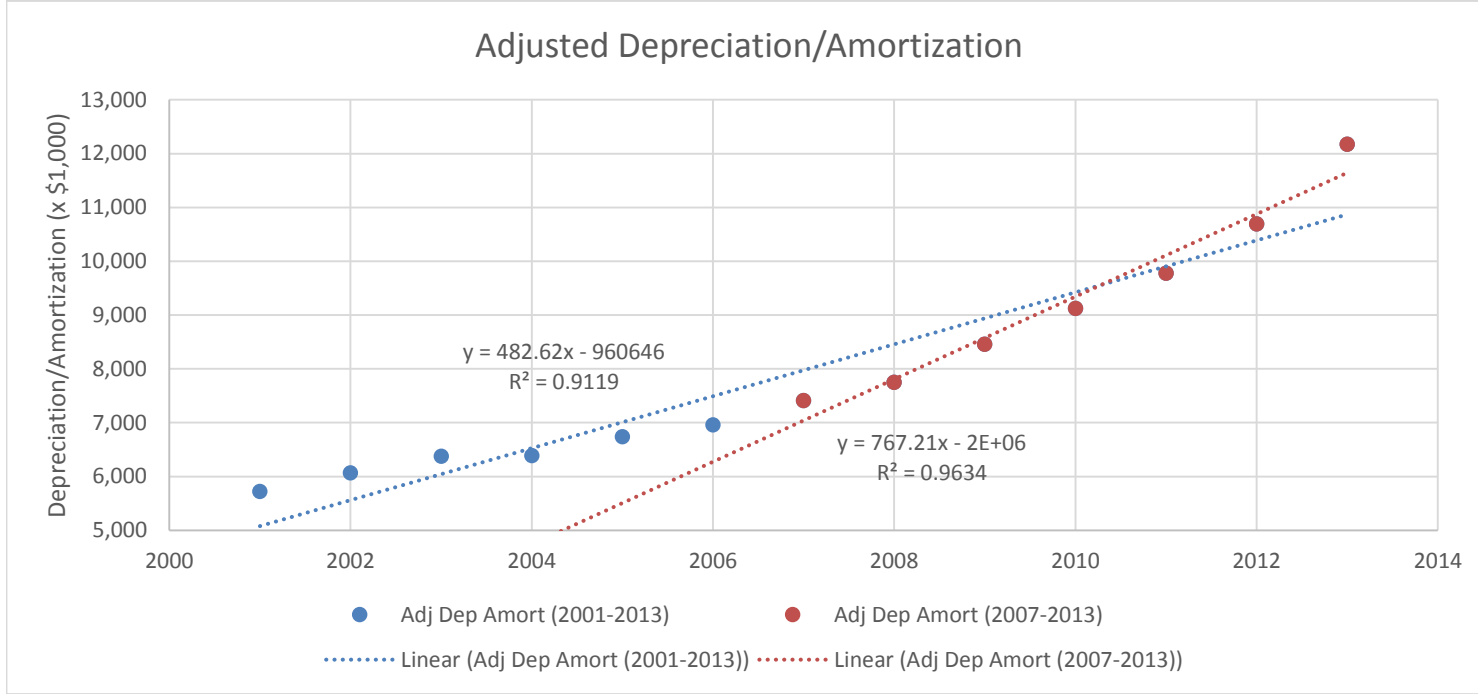
	Slope (Annual \$)	Rate	2 year
Regression (2001-2013)	115	0.02215	
Regression (2007-2013)	314	0.06049	
Weighted 50-50		0.04132	8.26%



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%

