

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06 _____

DIRECT TESTIMONY OF

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

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Q. Please state your name, business address, and present position with Avista Corporation.

A. My name is Elizabeth M. Andrews. I am employed by Avista Corporation as a Senior Regulatory Analyst in the State and Federal Regulation Department. My business address is 1411 East Mission, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I am a 1990 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. That same year, I passed the November Certified Public Accountant exam, earning my CPA License in August 1991. I worked for Lemaster & Daniels, CPAs from 1990 to 1993, before joining the Company in August 1993. I served in various positions within the sections of the Finance Department, including General Ledger Accountant and Systems Support Analyst until 2000. For the past six years, I have served in the State and Federal Regulation Department. I have also attended several utility accounting and ratemaking courses.

Q. As a Senior Regulatory Analyst, what are your responsibilities?

A. Aside from special projects, I am responsible for the preparation of normalized revenue requirement and pro forma studies for the various jurisdictions in which the Company provides utility services. During the last six years I have assisted in the Company's electric and natural gas general rate filings in Washington and Idaho.

Q. What is the scope of your testimony in this proceeding?

1 A. My testimony and exhibits in this proceeding will generally cover accounting and
2 financial data in support of the Company's need for the proposed rate increase. I will explain pro
3 formed operating results, including expense and rate base adjustments made to the current
4 authorized levels approved in Docket Nos. UE-050482 and UG-050483 (*Consolidated*), Order
5 No. 5 "Approving and Adopting Settlement Agreement With Conditions" on December 21,
6 2005.

7 I incorporate the Washington share of the proposed adjustments of witnesses in this case.
8 For example, Company witness Mr. Peterson will explain the proposed adjustments related to the
9 inclusion of new hydro and thermal generation capital additions, and the Company's decision to
10 purchase the Rathdrum facility. Company witness Mr. Johnson prepared the total system pro
11 forma power supply adjustment. While I provide the revenue requirement impact of the pro
12 forma transmission revenues and expenses adjustment, and the transmission capital project
13 adjustment, Company witness Mr. Kinney provides additional operational detail and support
14 regarding these adjustments. I also discuss the proposed reduction of the Rate of Return (ROR)
15 from 9.11% to 8.99%, to reflect the Company's updated weighted average cost of debt, and how
16 the revenue impact of this change is reflected in the revenue requirement calculation and the pro
17 forma debt interest adjustment.

18 **Q. Are you sponsoring any exhibits to be introduced in this proceeding?**

19 A. Yes. I am sponsoring Exhibit No. ____ (EMA-2), which was prepared by me.
20 This Exhibit consists of worksheets, which show the current authorized, pro forma, and proposed
21 electric operating results and rate base for the State of Washington, the Company's calculation of

1 the general revenue requirement, the derivation of the net operating income to gross revenue
2 conversion factor, and the pro forma adjustments proposed in this filing.

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4 **II. REVENUE REQUIREMENT SUMMARY**

5 **Q. Would you please summarize the results of the Company's pro forma**
6 **Production/Transmission Update for the electric operating system for the Washington**
7 **jurisdiction?**

8 A. Yes. The starting point for the Company's case is our current authorized levels
9 for net operating income and rate base approved in Docket Nos. UE-050482 and UG-050483
10 (*Consolidated*), Order No. 5 "Approving and Adopting Settlement Agreement With Conditions"
11 on December 21, 2005. Adjusting the current authorized levels for transmission and power
12 supply pro forma, normalizing, and rate base adjustments, the pro forma electric ROR for the
13 Company's Washington electric operations is 6.87%, well below the Company's requested ROR
14 of 8.99%. The incremental revenue requirement necessary to provide the Company an
15 opportunity to earn its requested ROR is \$28,851,000 for the electric operations. The overall
16 electric increase is 8.8%, as discussed further by Company witness Mr. Hirschorn, who explains
17 how this would be spread among customer classes.

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19 **III. WASHINGTON ELECTRIC REQUEST**

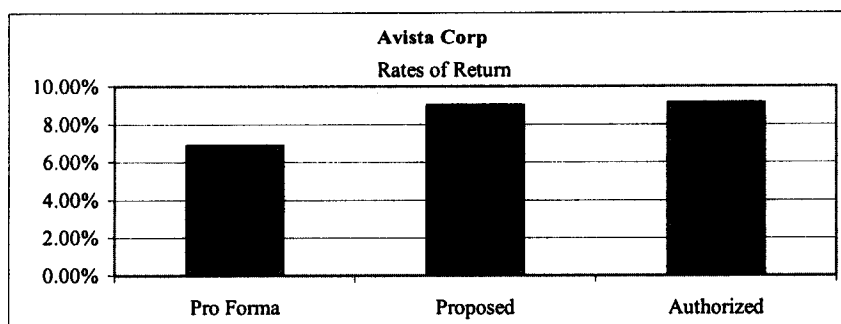
20 **Q. On what period is the Company basing its need for additional electric**
21 **revenue?**

1 A. The current authorized rates are based upon a 2004 test year, with pro forma
 2 adjustments for the 2006 calendar-year rate period. The Company has proposed that changes in
 3 electric rates resulting from this filing would go into effect early in 2007. The pro forma
 4 adjustments included in this case reflect a rate period of January through December 2007 for
 5 power supply and transmission related revenues and expenses, and March 2007 for completed
 6 production and transmission capital projects (with the exception of the Colstrip Unit 3 upgrade
 7 estimated to be completed June 2007, see footnote at page 9).

8 **Q. Could you please summarize the different rates of return that you will be**
 9 **presenting in your testimony?**

10 A. Yes. There are two different rates of return that will be discussed. The pro forma
 11 ROR of 6.87% determined in my Exhibit No. ____ (EMA-2), and the requested ROR of 8.99%,
 12 reduced 12 basis points from the current authorized level of 9.11% to reflect the Company's
 13 updated weighted average cost of debt. For purposes of comparison, please refer to the following
 14 graph (Illustration 1):

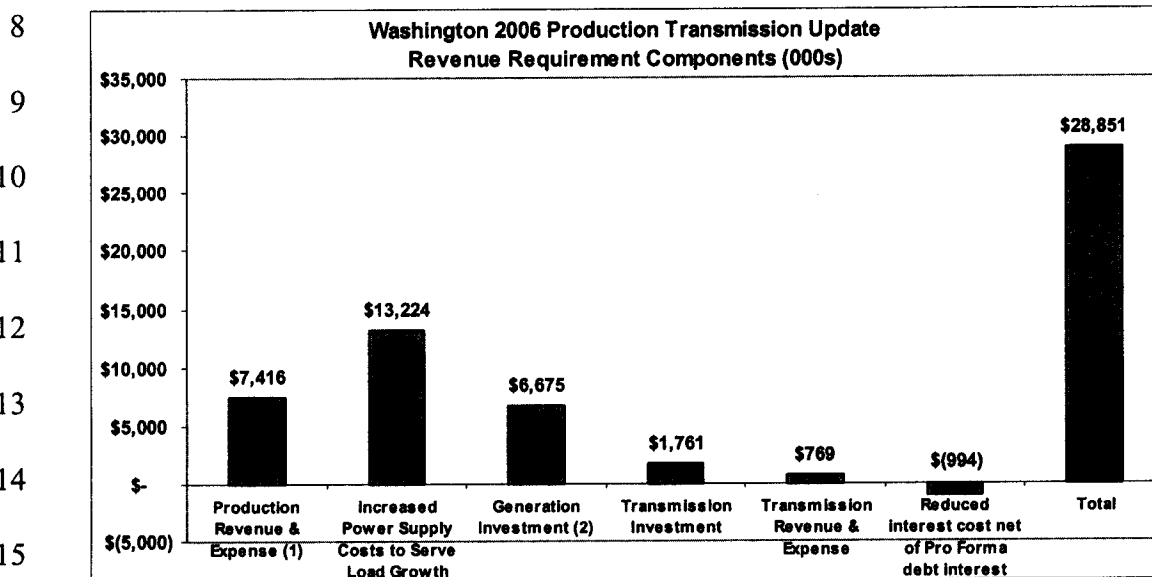
15 **Illustration 1: Rates of Return**



1 Q. What are the primary factors driving the Company's need for an electric
2 rate increase?

3 A. The Company's electric request is primarily driven by changes in various
4 operating cost components associated with power supply costs and plant investment associated
5 with generation and transmission. The bar chart (Illustration 2) below depicts the cost
6 components included in the Company's request:

7 **Illustration 2: Revenue Requirement Components**



16 (1)Includes reduction due to Rathdrum CT lease expense.

(2)Includes Rathdrum CT investment

17 This chart shows that the increased power costs to serve retail load, above the level
18 included in base rates, is approximately \$13.2 million or 45% of the overall request. Other net
19 increases in power supply production revenues and expenses comprise approximately \$7.4
20 million or 26%. Net rate base increased approximately \$54.5 million due to additional plant
21 investment in hydro and thermal generation, transmission plant, and the purchase of the
22 previously leased Rathdrum CT. The depreciation and return on additional net plant investments

1 make up approximately \$6.7 million or 23%, and \$1.8 million or 6% of the Company's request
2 related to generation and transmission investment, respectively. Net transmission expenses make
3 up the remaining 3% increase. Offsetting these cost components listed above is approximately
4 \$1 million or a 3% reduction in the Company's request due to reduced interest costs, net of pro
5 forma debt interest.¹

6 **Q. Please describe the impact of increased net power supply expense.**

7 A. Net power supply expense is the sum of purchased power costs and fuel expense,
8 less wholesale revenues, or sales for resale. The increase in the net power supply costs is
9 primarily driven by wholesale electric and natural gas costs to serve increasing load
10 requirements. Pro forma 2007 system loads are 72 aMW higher than the 2004 loads that the
11 current power supply expenses are based on. The increased power supply expense to meet this
12 load is approximately \$26.2 million (Washington allocation). The remaining increase in power
13 supply expense is primarily driven by increased fuel expense that is higher than the level
14 currently in base rates. As explained by Mr. Johnson, offsetting some of the additional expense
15 is an increase in wholesale sales revenue and the elimination of the Rathdrum CT lease expense
16 because of the purchase of the plant.

17 The power supply costs associated with the increased retail load described above have
18 been reduced in the power supply adjustment by incremental production and transmission-related
19 retail revenue from increased retail sales. The 2007 pro forma Washington retail sales are
20 347,955 MWhs greater than sales reflected in approved rates in Docket No. UE-050482. These

¹ This information can also be seen on the pie chart provided by Company witness Mr. Norwood at Exhibit No. __ (KON-1T) page 2. However, in that depiction, the reduction due to the debt interest has been net against the generation investment.

1 additional sales produce a Retail Revenue Credit of approximately \$13.6 million, calculated
2 using the average production and transmission cost (\$39.03 per MWh) embedded in current rates.
3 Therefore, the \$26.2 million increase in power supply costs associated with increased load
4 requirements has been offset by \$13.6 million of increased retail revenue for a net impact of
5 approximately \$12.6 million.

6 **Q. You state that current rates contain an average production and transmission**
7 **cost of \$39.03 per MWh. How was that amount determined?**

8 A. The Retail Revenue Credit rate is used in the Company's Energy Recovery
9 Mechanism (ERM) to account for production and transmission-related retail revenue associated
10 with retail loads that differ from the test year. At the conclusion of the Company's last general
11 rate case, Docket No. UE-050482, the cost of service study was re-run including the approved
12 revenue increase and all settlement and Commission-ordered adjustments to determine the Retail
13 Revenue Credit. The total production-related amount divided by annual retail sales (MWhs)
14 produced an average of \$32.89 per MWh. The total transmission-related amount divided by
15 annual retail sales MWhs produced an average of \$6.14 per MWh. The production and
16 transmission values added together equal \$39.03 per MWh. This unit value represents the
17 average portion of current retail rates to recover production and transmission costs.

18 **Q. How did you determine the revenue requirement associated with the increase**
19 **in rate base?**

20 A. Total pro forma Washington electric rate base increased \$54.5 million. This net
21 figure is the gross plant increase less the offsetting increases in accumulated depreciation and

1 deferred income taxes. The rate base growth results in an increase of \$8.4 million (increase in
2 revenue requirement) using the requested 8.99% ROR.

3 **Q. What were the major components of the \$54.5 million increase in total rate**
4 **base?**

5 A. To continue to meet the needs of our customers, the Company has invested
6 additional amounts in thermal and hydro generating facilities, as well as additional transmission
7 investment, which combined represents \$21.1 million of the increases in gross plant for
8 Washington.

9 The transmission upgrades are part of a multi-year project to increase transfer capability
10 and improve reliability on our transmission system. Mr. Kinney is sponsoring testimony that
11 details the overall transmission project. The total project is broken down into a number of sub-
12 projects that are placed in service at different times. The increase in rate base for the specific
13 transmission sub-projects with completion dates through March 2007 are included in the table
14 below, which lists the estimated system costs and Washington's share included in this case.

Transmission Projects	Cost: System / WA (000s)	In-Service Date
Palouse Reinforcement Project	\$10,901 / \$7,103	Dec-06
Beacon – Bell #5 230 kV line	\$2,000 / \$1,303	Mar-07
West of Hatwai (WoH) Telecom	\$3,160 / \$2,059	Nov-06
Dry Creek 115 kV Substation	\$1,726 / \$1,125	Aug-06
Total	\$17,787 / \$11,590	

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19 The rate base adjustments also include hydro and thermal generation project upgrades
20 undertaken by the Company to improve operating efficiency, reliability, and increase generation
21 at Colstrip Units 3 & 4, Cabinet Gorge Unit 4, and Noxon Rapids Unit 4. Mr. Peterson sponsors
22 testimony that details these project upgrades. The table below includes the four specific

1 generation project upgrades that have been included in rate base, listing the estimated system
2 costs, Washington's share, and their expected in-service dates².

Generation Projects ⁽¹⁾	Cost: System / WA (000s)	In-Service Date
Cabinet Gorge Unit 4	\$4,800 / \$3,128	Mar-07
Noxon Rapids Unit 4	\$4,294 / \$2,798	Mar-07
Colstrip Unit 4	\$2,952 / \$1,923	Jun-06
Colstrip Unit 3	\$2,548 / \$1,660	Jun-07
Total	\$14,594 / \$9,509	
⁽¹⁾ The additional generation from the Cabinet Gorge Unit 4 and Colstrip Units 3 & 4 project upgrades have been included in the AURORA model as discussed by Company witness Mr. Kalich.		

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8 Later in my testimony, I will address the \$20.4 million net rate base adjustment labeled
9 "Pro Forma Capital Projects" included in Exhibit No. ___(EMA-2), page 4, which explains the
10 detail behind the normalizing and pro forma net operating income and rate base adjustments.

11 **Q. What other rate base pro forma adjustments are included besides the**
12 **generation and transmission upgrades discussed above?**

13 A. A pro forma adjustment for the purchase of Rathdrum CT was also included,
14 which adds \$36.7 million in gross plant for Washington. As explained by Mr. Peterson, in
15 September 2005, the Utility purchased the Rathdrum CT, which had previously been included as
16 a leased asset for book purposes. The rate base adjustment labeled "Pro Forma Rathdrum"
17 included in Exhibit No. ___(EMA-2), page 4, includes the cost of the Rathdrum CT in rate base of
18 \$34.1 million (Washington), including the costs associated with depreciation expense,
19 accumulated depreciation and deferred income taxes not previously included. Mr. Johnson
20 discusses the impact on power supply expenses of the removal of the Rathdrum CT lease from

² Upgrade projects with a March 2007 completion date were chosen for this adjustment, with the exception of Colstrip Unit 3, which has a completion date of June 2007, in order to match generation included within the power supply model and power supply adjustment included in this case.

1 the power supply model versus the current authorized power supply expenses included in Docket
2 No. UE-050482.

3 The adjustments to rate base described above, in the amount of \$57.8 million, reflect
4 gross plant investment changes. This amount is offset by accumulated depreciation,
5 amortization, and deferred federal income tax to produce the net \$54.5 million, or 6.9% increase
6 to total rate base.

7 **Q. Please discuss the offsetting impact due to the reduction in ROR proposed.**

8 A. The Company has chosen to include in this case the reduction in ROR from
9 9.11% to 8.99% to reflect the updated weighted average cost of debt from 4.85% to 4.73%. This
10 12 basis point reduction in ROR reduced the revenue requirement proposed in this case by \$1.0
11 million, net of the pro forma debt interest adjustment.

12 The updated weighted average cost of debt was determined using the weighted average
13 estimated quarterly results from December 31, 2005 through December 31, 2006, which
14 decreased the pro forma cost from 8.44% to 8.22% as shown in Illustration 3 below. No other
15 changes are being proposed for the Company's capital structure or cost of capital.

16 **Illustration 3: Proposed Capital Structure & Cost of Capital**

Washington Electric			
Proposed Capital Structure & Cost of Capital			
<u>Component</u>	<u>Capital Structure</u>	<u>Pro Forma Cost</u>	<u>Pro Forma Weighted Cost</u>
Total Debt	53.40%	8.22%	4.39%
Trust Preferred Securities	5.18%	6.60%	0.34%
Preferred Stock	1.42%	7.39%	0.10%
Common Equity	<u>40.00%</u>	10.40%	<u>4.16%</u>
TOTAL	100.00%		8.99%

} 4.73%

1 **Revenue Requirement**

2 **Q. Would you please explain what is shown in Exhibit No. ____ (EMA-2)?**

3 A. Yes. Exhibit No. ____ (EMA-2) shows current authorized and pro forma electric
4 operating results and rate base for the State of Washington. Page 1, column (b) shows the
5 authorized operating results and components of the average-of-monthly-average rate base as
6 approved per Docket No. UE-050482; column (c) is the total of all adjustments to net operating
7 income and rate base; and column (d) is pro forma results of operations, all under existing rates.
8 Page 1, column (e) shows the revenue increase required which would allow the Company to earn
9 an 8.99% rate of return. Column (f) reflects pro forma electric operating results with the
10 requested increase of \$28,851,000.

11 Page 2 shows the calculation of the \$28,851,000 revenue requirement at the requested
12 8.99% rate of return. Page 3 shows the derivation of the net operating income to gross revenue
13 conversion factor approved per Docket No. UE-050482. The conversion factor takes into
14 account uncollectible accounts receivable, Commission fees, and Washington State excise taxes.
15 Federal income taxes are reflected at 35%.

16 And lastly, page 4 begins with authorized operating results and rate base per Docket No.
17 UE-050482 in column (b). Individual pro forma and additional normalizing adjustments begin in
18 column (PF1) and continue through column (PF5). The final column on page 4 is the Total Pro
19 Forma operating results and rate base showing the total requested \$28,851,000.

1 **Pro Forma Adjustments**

2 Q. Would you please explain each of the adjustments included on page 4 of your
3 Exhibit No. ___(EMA-2), the reason for the adjustment, and its effect on the State of
4 Washington net operating income and/or rate base?

5 A. Yes, but before I begin, I will note that in addition to the explanation of
6 adjustments provided here, the Company has also provided workpapers outlining additional
7 details related to each of the adjustments.

8 Column (PF1), **Pro Forma Power Supply**, was made under the direction of Mr. Johnson
9 and is explained in detail in his testimony. This adjustment normalizes power supply-related
10 revenues and expenses to reflect the twelve-month period January 1, 2007 through December 31,
11 2007, as compared to the authorized levels of power supply approved in Docket No. UE-050482.
12 This adjustment calculates the Washington jurisdictional share of those figures, which is partially
13 offset by additional revenue from increased retail sales. The net effect of the power supply
14 adjustment decreases Washington net operating income by \$12,830,000.

15 Column (PF2), **Pro Forma Transmission Rev/Exp**, was made under the direction of Mr.
16 Kinney and is explained in detail in his testimony. This adjustment normalizes transmission-
17 related revenues and expenses to reflect the twelve-month period January 1, 2007 through
18 December 31, 2007 as compared to the authorized levels of transmission revenue and expense
19 approved in Docket No. UE-050482. The net effect of the transmission revenue and expense
20 adjustments decreases Washington net operating income by \$769,000.

21 Column (PF3), **Pro Forma Capital Projects**, pro forms in the capital cost and expenses
22 associated with the major generation and transmission project upgrades. These projects (with the

1 exception of Colstrip Unit 3) are expected to be completed and transferred to plant-in-service
2 near the time new rates are expected to be approved. The capital costs have been averaged for
3 their appropriate pro forma period with the associated depreciation expense and property tax, as
4 well as the appropriate accumulated depreciation and deferred income tax rate base offsets. This
5 adjustment decreases Washington net operating income by \$90,000 and increases rate base by
6 \$20,404,000.

7 Column (PF4), **Pro Forma Rathdrum**, pro forms in the capital cost and expenses
8 associated with the purchase of Rathdrum CT. Mr. Johnson discusses the exclusion of the
9 previous operating lease expense, currently included in base rates, and Mr. Peterson discusses the
10 decision to purchase this facility. This adjustment decreases Washington net operating income
11 by \$254,000 and increases rate base by \$34,100,000.

12 Column (PF5), **Pro Forma Debt Interest**, restates debt interest using the Company's
13 updated pro forma weighted average cost of debt³. The Federal income tax effect of the restated
14 level of interest as compared to the previous authorized level decreases Washington net operating
15 income by \$332,000.

16 The last column, Pro Forma Total, reflects total pro forma results of operations and rate
17 base consisting of authorized levels per Docket No. UE-050482 and the total of all pro forma
18 adjustments.

19 **Q. Referring back to page 1, line 42, of Exhibit No. ____ (EMA-2), what is the**
20 **pro forma electric rate of return determined by the Company?**

³ The tax deductible interest expense for the pro forma adjustments, "Pro Forma Capital Projects" and "Pro Forma Rathdrum," are included in each respective pro forma adjustment.

1 A. For the State of Washington, the pro forma rate of return is 6.87% under present
2 rates. Thus, the Company will not, on a pro forma basis, expect to realize the 8.99% rate of
3 return requested by the Company in this case.

4 **Q. How much additional net operating income would be required for the State**
5 **of Washington electric operations to allow the Company an opportunity to earn its**
6 **proposed 8.99% rate of return on a pro forma basis?**

7 A. The net operating income deficiency amounts to \$17,934,000, as shown on page
8 2, line 5, of Exhibit No. ____ (EMA-2). The resulting revenue requirement is shown on line 7 and
9 amounts to \$28,851,000. This increase is 8.8% over general business revenues as discussed
10 further by Mr. Hirschhorn (see Exhibit No. ____ (BJH-3)).

11 **Q. Have there been any changes to the Company's system and jurisdictional**
12 **procedures as approved in the Company's previous rate proceedings Docket Nos. UE-**
13 **991606, UE-011595 or UE-050482?**

14 A. No. For ratemaking purposes, the Company allocates revenues, expenses and rate
15 base between electric and gas services and between Washington, Idaho, and Oregon jurisdictions
16 where electric and/or gas service is provided. The current methodology was implemented in
17 1994 and has not changed. In Docket No. UE-050482, consistent with the accepted allocation
18 methodology, the Company reflected the reallocation of costs resulting from the sale of the
19 Company's California gas distribution properties in April 2005.

20 For this case, all Washington allocations or ratios as approved in Docket No. UE-050482
21 (i.e. Washington electric operation allocations, revenue conversion factor,
22 Production/Transmission (P/T) ratio, etc.), remained unchanged. The conversion factor and P/T

1 ratio will be the same factors used in determining the costs associated with the calculation of the
2 deadband and sharing bands approved in the Company's recent Energy Recovery Mechanism
3 (ERM) per Docket No. UE-060181, Order No. 03, dated June 16, 2006.

4 **Q. Does that conclude your pre-filed direct testimony?**

5 **A. Yes, it does.**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-06 _____

EXHIBIT NO. ____ (EMA-2)

ELIZABETH M. ANDREWS

REPRESENTING AVISTA CORPORATION

AVISTA UTILITIES
ELECTRIC RESULTS OF OPERATION
WASHINGTON PRO FORMA RESULTS
Authorized Per Order UE-050482 versus Pro Forma 2007
(000'S OF DOLLARS)

Line No.	DESCRIPTION	WITH PRESENT RATES			WITH PROPOSED RATES	
		Authorized UE-050482	Total Adjustments	Pro Forma Total	Proposed Revenues & Related Exp	Pro Forma Proposed Total
	a	b	c	d	e	f
REVENUES						
1	Total General Business	\$306,786		\$306,786	\$28,851	\$335,637
2	Interdepartmental Sales	752		752		752
3	Sales for Resale	40,460	8,638	49,098		49,098
4	Total Sales of Electricity	347,998	8,638	356,636	28,851	385,487
5	Other Revenue	9,919	(322)	9,597		9,597
6	Total Electric Revenue	357,917	8,316	366,233	28,851	395,084
EXPENSES						
Production and Transmission						
7	Operating Expenses	102,749	22,771	125,520		125,520
8	Purchased Power	49,877	6,019	55,896		55,896
9	Depreciation and Amortization	23,422	1,735	25,157		25,157
10	Taxes	7,554	183	7,737		7,737
11	Total Production & Transmission	183,602	30,708	214,310	0	214,310
Distribution						
12	Operating Expenses	13,101		13,101		13,101
13	Depreciation	10,009		10,009		10,009
14	Taxes	18,233		18,233	1,114	19,347
15	Total Distribution	41,343	0	41,343	1,114	42,457
16	Customer Accounting	7,610		7,610	91	7,701
17	Customer Service & Information	269		269		269
18	Sales Expenses	709		709		709
Administrative & General						
19	Operating Expenses	31,276		31,276	55	31,331
20	Depreciation	6,085		6,085		6,085
21	Taxes	3		3		3
22	Total Admin. & General	37,364	0	37,364	55	37,419
23	Total Electric Expenses	270,897	30,708	301,605	1,260	302,865
24	OPERATING INCOME BEFORE FIT	87,020	(22,392)	64,628	27,591	92,219
FEDERAL INCOME TAX						
25	Current Accrual	14,089	(8,408)	5,681	9,657	15,338
26	Deferred Income Taxes	880		880		880
27	Amortized Investment Tax Credit					
28	SETTLEMENT EXCHANGE POWER					
29	NET OPERATING INCOME	\$72,051	(\$13,984)	\$58,067	\$17,934	\$76,001
RATE BASE						
PLANT IN SERVICE						
30	Intangible	\$21,374		\$21,374		\$21,374
31	Production	651,373	46,168	697,541		697,541
32	Transmission	232,082	11,590	243,672		243,672
33	Distribution	457,203		457,203		457,203
34	General	63,155		63,155		63,155
35	Total Plant in Service	1,425,187	57,758	1,482,945	0	1,482,945
36	ACCUMULATED DEPRECIATION	430,791	2,536	433,327		433,327
37	ACCUM. PROVISION FOR AMORTIZATION	47,788		47,788		47,788
38	Total Accum. Depreciation & Amort.	478,579	2,536	481,115	0	481,115
39	GAIN ON SALE OF BUILDING	(715)		(715)		(715)
40	DEFERRED TAXES	(155,008)	(718)	(155,726)		(155,726)
41	TOTAL RATE BASE	\$790,885	\$54,504	\$845,389	\$0	\$845,389
42	RATE OF RETURN	9.11%		6.87%		8.99%

AVISTA UTILITIES
Calculation of General Revenue Requirement
Washington - Electric System
Authorized Per Order UE-050482 versus Pro Forma 2007

Line No.	Description	(000's of Dollars)
1	Pro Forma Rate Base	\$845,389
2	Proposed Rate of Return	<u>8.99%</u>
3	Net Operating Income Requirement	\$76,001
4	Pro Forma Net Operating Income	<u>\$58,067</u>
5	Net Operating Income Deficiency	\$17,934
6	Conversion Factor	0.621611
7	Revenue Requirement	\$28,851
8	Total General Business Revenues at pro forma loads per Exh No. ____ (BJH-3)	327,740
9	Percentage Revenue Increase	<u><u>8.80%</u></u>

AVISTA UTILITIES
Revenue Conversion Factor
Washington - Electric System
Authorized Per Order UE-050482 versus Pro Forma 2007

<u>Line No.</u>	<u>Description</u>	<u>Factor</u>
1	Revenues	1.000000
	Expense:	
2	Uncollectibles	0.003168
3	Commission Fees	0.001900
4	Washington Excise Tax	0.038607
5	Franchise Fees	0.000000
6	Total Expense	<u>0.043675</u>
7	Net Operating Income Before FIT	0.956325
8	Federal Income Tax @ 35%	<u>0.334714</u>
9	REVENUE CONVERSION FACTOR	<u><u>0.621611</u></u>

AVISTA UTILITIES
 ELECTRIC RESULTS OF OPERATION
 WASHINGTON RESTATED RESULTS
 Authorized Per Order UE-050482 versus Pro Forma 2007
 (000'S OF DOLLARS)

Line No.	DESCRIPTION	Per Authorized UE-050482	Pro Forma Power Supply	Pro Forma Transmission Rev/Exp	Pro Forma Capital Projects	Pro Forma Rathdrum	Pro Forma Debt Interest	Pro Forma TOTAL
	a	b	PF1	PF2	PF3	PF4	PF5	-
REVENUES								
1	Total General Business	\$306,786						\$306,786
2	Interdepartmental Sales	752						\$752
3	Sales for Resale	40,460	8,638					49,098
4	Total Sales of Electricity	347,998	8,638	0	0	0	0	356,636
5	Other Revenue	9,919	(78)	(244)				9,597
6	Total Electric Revenue	357,917	8,560	(244)	0	0	0	366,233
EXPENSES								
Production and Transmission								
7	Operating Expenses	102,749	22,279	492				125,520
8	Purchased Power	49,877	6,019					55,896
9	Depreciation and Amortization	23,422			475	1,260		25,157
10	Taxes	7,554			183			7,737
11	Total Production & Transmission	183,602	28,298	492	658	1,260	0	214,310
Distribution								
12	Operating Expenses	13,101						13,101
13	Depreciation	10,009						10,009
14	Taxes	18,233						18,233
15	Total Distribution	41,343	0	0	0	0	0	41,343
16	Customer Accounting	7,610						7,610
17	Customer Service & Information	269						269
18	Sales Expenses	709						709
Administrative & General								
19	Operating Expenses	31,276						31,276
20	Depreciation	6,085						6,085
21	Taxes	3						3
22	Total Admin. & General	37,364	0	0	0	0	0	37,364
23	Total Electric Expenses	270,897	28,298	492	658	1,260	0	301,605
24	OPERATING INCOME BEFORE FIT	87,020	(19,738)	(736)	(658)	(1,260)	0	64,628
FEDERAL INCOME TAX								
25	Current Accrual	14,089	(6,908)	(258)	(568)	(1,006)	332	5,681
26	Deferred Income Taxes	880						880
27	NET OPERATING INCOME	\$72,051	(\$12,830)	(\$478)	(\$90)	(\$254)	(\$332)	\$58,067
RATE BASE								
PLANT IN SERVICE								
28	Intangible	\$21,374						\$21,374
29	Production	651,373			9,509	36,659		\$697,541
30	Transmission	232,082			11,590			\$243,672
31	Distribution	457,203						\$457,203
32	General	63,155						63,155
33	Total Plant in Service	1,425,187	0	0	21,099	36,659	0	1,482,945
34	ACCUMULATED DEPRECIATION	430,791			297	2,239		433,327
35	ACCUM. PROVISION FOR AMORTIZATION	47,788						47,788
36	Total Accum. Depreciation & Amort.	478,579	0	0	297	2,239	0	481,115
37	GAIN ON SALE OF BUILDING	(715)						(715)
38	DEFERRED TAXES	(155,008)			(398)	(320)		(155,726)
39	TOTAL RATE BASE	\$790,885	\$0	\$0	\$20,404	\$34,100	\$0	\$845,389
40	RATE OF RETURN	9.11%						6.87%
Revised Allowed Rate of Return		8.99%						
Revenue Conversion Factor		0.621611						
NOI Requirement		-950	12,830	478	1,924	3,320	332	17,934
Revenue Requirement		-1,528	20,640	769	3,096	5,340	534	28,851