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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO.	)	**CASE NO. AVU-E-04-1/ AVU-G-04-1**

DIRECT TESTIMONY OF PATRICIA HARMS

IDAHO PUBLIC UTILITIES COMMISSION

JUNE 21, 2004

Q. Please state your name and address for the record.

A. My name is Patricia Harms. My business address is 472 West Washington Street, Boise, Idaho.

Q. By whom are you employed and in what capacity?

A. I am employed by the Idaho Public Utilities Commission (Commission) as an auditor.

Q. Give a brief description of your educational background and experience.

A. I graduated from Boise State University, Boise, Idaho in 1981 with a B.A. degree in Business Administration, emphasis in Accounting. I am a Certified Public Accountant licensed by the State of Idaho. Prior to joining the Commission Staff in 2000, I was employed by the State of Alaska as an In Charge Auditor and performed both financial and performance audits of governmental agencies. I have attended many seminars and classes involving auditing and accounting. While at the Commission I have audited a number of utilities including water, electric and telephone utilities and provided comments and testimony in a number of cases that dealt with general rates, hook-up fees, accounting issues, and other regulatory issues. I have also completed the National Association of Regulatory Utility Commissioners' (NARUC) annual regulatory studies program at Michigan

State University. I also attend meetings of NARUC's Staff Subcommittee on Accounting and Finance. I am a member of the State/Federal Joint Oversight team for the Qwest 272 Audit.

Q. What is the purpose of your testimony?

A. I have prepared Staff's revenue requirement exhibits for Case Nos. AVU-E-04-1 and AVU-G-04-1. My testimony summarizes the Staff adjustments, rate base, revenue requirement and revenue requirement increase proposed in these cases.

Staff calculates an **electric** rate base of $418,277,000, an electric revenue requirement deficiency of $23,078,000 and an overall revenue percentage increase of 15.78%. Staff witness Hessing discusses Staff's total revenue allocation to customer classes, which includes the Power Cost Adjustment and Demand Side Management rider rate adjustments in addition to the general rate adjustment.

Staff calculates a **natural gas** rate base of $58,867,000, a natural gas revenue requirement deficiency of $3,105,000 and an overall revenue percentage increase of 5.98%.

ELECTRIC SECTION

Q. What exhibits are you sponsoring associated with the electric utility operations?

A. I am sponsoring Staff Exhibit Nos. 101 and 102. These exhibits outline Staff's proposed electric revenue requirement and itemize the adjustments to Avista Corporation's (Avista; Company) proposed electric test year numbers. I also prepared Staff Exhibit Nos. 103 and 104 related to specific Staff adjustments proposed in this case on transmission and advertising. Finally, I am also sponsoring Staff Exhibit No. 105 which calculates a deferral of return related to the Coyote Springs 2 project.

Q. What is the purpose of Staff Exhibit No. 101?

A. This exhibit shows the overall electric net operating income requirement, revenue requirement deficiency and percent increase for the Idaho jurisdiction as calculated by Staff and, for comparison purposes, as calculated by the Company.

Q. What revenue requirement does Staff propose?

A. The total Idaho electric net operating income requirement proposed by Staff is $38,691,000 as shown on Exhibit No. 101, line 3. This results in an overall electric base rate increase of $23,078,000 (line 9) or 15.78% (line 11). The Company had calculated an overall electric base rate increase of $35,222,000 or 24.08%.

Q. How is this revenue requirement calculated?

A. Staff calculated the electric revenue requirement using Avista's proposed 2002 proformed test year, Staff's adjustments, and Staff's proposed rate of return while deferring the return on the Coyote Springs 2 project.

Q. What is the effect of deferring the return on the Coyote Springs 2 project?

A. This deferral using Staff's recommended return reduces the Company's electric revenue requirement by $487,000 (Staff Exhibit No. 101, line 8) or $13,045 per $1 million in Coyote Springs 2 gross plant. Deferral of the return on Coyote Springs 2 in this case would reduce the revenue requirement but still provides the same net present value over 10 years. The deferred balance accrues a carrying charge at the return authorized in this case to allow the Company the opportunity to earn the same revenue it would have earned had the return not been deferred. The intent of this deferral is to help mitigate the large base rate increase in conjunction with recovery of deferred power supply costs. A further discussion of this deferred return and its calculation in Exhibit No. 105 is contained at the end of my testimony in this electric proceeding.

Q. What is the purpose of Staff Exhibit No. 102?

A. This schedule shows the Company Electric Pro Forma Totals (from Company Exhibit No. 14, page 9 of 10, column aj) in the first column, Staff's proposed adjustments in the succeeding columns, and Staff's Electric Pro Forma Totals in the last column. For each Staff adjustment on Staff Exhibit No. 102, the net operating income is shown on line 27, total rate base on line 39, and revenue requirement change on line 40. Net operating income is comprised of operating income before federal income taxes (line 24) less the sum of the current accrual and deferred income taxes on lines 25 and 26 of Staff Exhibit No. 102.

AVISTA'S PRO FORMA TOTALS

Q. How did Avista calculate its Pro Forma Totals on Company witness Falkner's Exhibit No. 14, page 9 of 10, column aj?

A. The Company presented electric financial results for the 2002 test year that were revised by Standard Commission Basis Adjustments as well as additional pro forma and normalizing adjustments. Staff witness Stockton discusses the Company's Standard Commission Basis Adjustments (Company Exhibit No. 14, pages 4 through 7, columns c through x) and proposes the Commission adopt them.

Q. What does Staff recommend regarding each electric adjustment proposed by the Company in columns y through ai on Company Exhibit No. 14, pages 7 through 9?

A. The Commission Staff places these known and measurable adjustments into two categories. First, there are two adjustments Staff accepts as reasonable in the amount proposed by the Company. Second, the remaining adjustments proposed by Avista have merit, but for a variety of reasons require a modification. I will discuss each adjustment category and each adjustment individually.

Q. In addition to the Standard Commission Basis Adjustments, which Avista pro forma adjustments do Staff recommend the Commission adopt?

A. Staff recommends the Commission adopt Avista's Electric Pro Forma Insurance adjustment proposed in Company Exhibit No. 14, page 8 of 10, column ad. This adjustment increases operating expenses by $998,000. Staff witness Stockton testifies about these costs in greater detail.

Staff also recommends the Commission adopt Avista's Pro Forma Power Supply adjustment proposed in Company Exhibit No. 14, page 8 of 10, column ab. This adjustment decreases net operating income by $7,832,000. Staff witness Sterling discusses the Company's Pro Forma Power Supply adjustment.

Q. Which Avista adjustments have merit but should be attributed a different dollar amount than that proposed by the Company?

A. All of the electric adjustments proposed by the Company in columns y through ai on Company Exhibit No. 14, pages 7 through 9, should be revised except for the adjustments relating to insurance and power supply. In many instances (Coyote Springs 2, Cabinet Gorge, Vegetation Management and Labor), Staff recommends that the Company's adjustments be revised to reflect actual costs instead of estimates. In other instances (Transmission, Small Generation, Capital Costs Small Generation Options and Pensions), Staff recommends disallowing a portion of the costs proposed by the Company as explained later in my testimony. Staff's revisions to these adjustments are included on Staff Exhibit No. 102.

Transmission

Q. Please explain Staff's adjustment E1 on Exhibit No. 102, page 1 of 3.

A. The first adjustment relates to three transmission projects estimated for completion after the Company's proposed 2002 test year. Two of these projects were estimated for completion after the Company's rate case filing. These projects are included in the Company's filing (Company Exhibit No. 14, page 9 of 10, column ah) as if they were in service the entire year and use engineering estimates as the cost basis of the Company's adjustment. The Company increased rate base by $8,849,000 and decreased net operating income by $249,000 to reflect project estimated costs, depreciation, property taxes and income taxes.

However, one of the three projects, the Beacon to Bell line, included within the Company's filing has been suspended until 2005 and should therefore be removed. Additionally, actual costs for the remaining two projects, Beacon to Rathdrum line and Pinecreek Substation Rebuild, are less than those included in the Company's filing; therefore the pro forma rate base and operating results should reflect these actual costs. These two updates result in reduced rate base of $438,000 and $615,000. Finally, the Company's filing has not reflected any reduced costs or increased revenues associated with the projects to provide proper matching. Therefore, including the plant investment as if the plant had been in operation the full year is unreasonable.

The Commission, in Order No. 29505 dated May 25, 2004 for Idaho Power Company, clearly recognizes that transmission projects generate revenue or reduce expenses. As noted on page 7, "the Commission expects all utilities to attempt to identify expense saving and revenue producing effects when proposing rate base adjustments for major plant additions." Avista's proposed plant adjustment does not provide any increased revenue or expense savings to match the project costs it proposes. Although the Commission stated in Order No. 29505 that the proxy calculation should not be used as precedent in other cases, it is unreasonable to expect the Commission to allow full recovery of plant investment as if the plant had been in operation the full year without a corresponding adjustment to revenues and expenses. To that end, Staff has proposed adjustment E1.

Adjustment E1 reduces rate base costs for these transmission projects to reflect actual costs provided by the Company during Staff's May 2004 on-site audit and removes the annualization of rate base costs for these projects. Plant annualization adjustments include new plant investment in the calculation of rate base as if it were in service the entire year when it was not. The Company's annualization of these costs is replaced by Staff's calculation of the projects' actual costs as if the projects were in rate base for one month (December 31, 2002) of the test year. This adjustment is necessary because the Company did not provide expense saving and revenue producing effects for this annualized rate base adjustment. Staff's adjustment reduces the Company-proposed Idaho electric rate base by $8,518,000 and reduces the Company-proposed Idaho electric operating expenses for associated depreciation, property and state income taxes by $358,000. After federal income taxes, the effect of this adjustment increases Idaho electric net operating income by $230,000. The net effect of this adjustment decreases the Company's Idaho electric revenue requirement by $1,592,000.

However, if the Commission chooses to annualize the projects' costs rather than deny the adjustment outright until Avista's next rate case, an adjustment is required to eliminate the potential mismatch between revenues, expenses and rate base. Using a ratio of revenues to plant and maintenance expense to plant, a proxy for imputed revenues and maintenance expense reductions can be developed. These ratios applied to the plant additions produces approximately $270,000 of Idaho electric revenue to be imputed and $30,000 of reduced Idaho electric maintenance expenses using a method similar to that identified in Order No. 29505, Case No. IPC-E-03-13. Although this methodology does not provide precedential value, it offers the Commission the option to include new transmission investment in rate base while protecting customers from inequities of a mismatch.

If these projects are included in this case, the corrected annualized costs result in a $7,801,000 rate base increase. As noted previously, based upon the most recent Commission Order discussing this issue, an adjustment imputing revenue increases and expense reductions is required before these projects can be included in rate base without the inequities of a mismatch.

The rate base amount of $7,801,000 reflects a change in depreciation rates to incorporate the Washington rates recommended by Staff witness English in this alternative rate base calculation. See Staff Exhibit No. 103 for a table including these proposals.

Q. Has the Company annualized other construction projects completed in or after its proposed test year?

A. Yes. The Company has annualized the Coyote Springs 2, Small Generation and Cabinet Gorge project costs.

Q. Has Staff accepted annualization of these Company-proposed adjustments?

A. Yes. The increased revenues or reduced expenses associated with these projects are included in the Company's power supply model and, as a result, provide adequate matching of the revenue and expenses of these investments in plant.

Cabinet Gorge

Q. Please explain why adjustment E2 on Exhibit No.

102, page 1 of 3 reduces rate base for Cabinet Gorge.

A. Adjustment E2 relates to the Cabinet Gorge construction project completed after the Company's proposed 2002 test year. Based upon estimates of the total plant cost, the Company's proposed adjustment (Company Exhibit No. 14, page 9 of 10, column ai) increased Idaho electric rate base by $2,232,000 and reduced Idaho electric net operating income by $17,000. Staff proposes reducing the costs in the Company's filing associated with Cabinet Gorge to those actually incurred as of April 2004 because the project was completed in March 2004. Staff's adjustment reduces the Company-proposed Idaho electric rate base by $110,000 and reduces the Company-proposed Idaho electric operating expenses for associated property and state income taxes by $2,000. After federal income taxes, this adjustment increases Idaho electric net operating income by $1,000. The net effect of this adjustment is a $17,000 decrease in the Company's Idaho electric revenue requirement.

Small Generation (Boulder Park and Kettle Falls)

Q. Please explain why adjustment E3 on Exhibit No. 102, page 1 of 3 reduces depreciation for Boulder Park.

A. The Company's adjustment to annualize the costs of Boulder Park (Company Exhibit No. 14, page 7 of 10, column z which annualized costs for both Boulder Park and

Kettle Falls) used 5% as the depreciation rate for Account 344 (Generators) instead of 4.14% as approved by the State of Washington. Staff witness English recommends the Commission adopt the depreciation rates approved by the State of Washington. As a result, Staff's proposed adjustment reduces Idaho electric depreciation expense by $88,000 and reduces Idaho electric accumulated depreciation by $44,000. The after-tax effect is an increase in Idaho electric net operating income of $57,000 and an increase in Idaho electric rate base of $13,000. The net effect of this adjustment is an $87,000 decrease in the Company's Idaho electric revenue requirement.

Q. Please explain why adjustment E4 on Exhibit No. 102, page 1 of 3 reduces Boulder Park costs by 10%.

A. Staff witness Sterling has reviewed the Boulder Park cost overruns and recommends that 10% of the project costs be disallowed. Staff's proposed adjustment reduces Idaho electric rate base (including changes in accumulated depreciation and taxes) by $1,085,000. Staff's proposed adjustment also reduces Idaho electric depreciation expense by $44,000. This adjustment, after taxes, increases Idaho electric net operating income by $31,000. The net effect of this adjustment on the Company's Idaho electric revenue requirement is a

$205,000 decrease.

Q. Did Commission Staff review the prudency of the Kettle Falls project costs?

A. Yes. Staff witness Sterling reviewed the project costs and recommended allowance of all costs included in the Company's Pro forma adjustment for Kettle Falls.

Skookumchuck

Q. Please explain why Staff proposes adjustment E5 on Exhibit No. 102, page 1 of 3 related to Skookumchuck.

A. Avista has entered into a Purchase and Sale Agreement to sell its interest in the Skookumchuck hydroelectric plant (see Case No. AVU-E-04-2). On a going-forward basis, this plant is not used and useful because it will no longer be owned by the Company. Staff's proposed adjustment removes the financial effects of this plant. Staff's adjustment, after taxes, reduces Idaho electric rate base by $104,000, increases Idaho electric net operating income by $8,000 and reduces the Company's Idaho electric revenue requirement by $28,000.

Deferred Federal Income Tax

Q. Please explain why Staff proposes adjustment E6 on Exhibit No. 102, page 1 of 3 to reduce deferred taxes in rate base.

A. Pursuant to Internal Revenue Service tax changes, Avista is now allowed to expense and deduct certain plant and inventory in the current period that were once required to be capitalized. This tax benefit resulted in a 2003 refund on taxes paid by the Company in prior years and is the basis of Staff's proposed $9,966,000 reduction in Idaho electric rate base. Staff witness English will provide additional details regarding this adjustment, which reduces the Company's Idaho electric revenue requirement by $1,442,000.

Coyote Springs 2

Q. Please explain why Staff proposes adjustment E7 on Exhibit No. 102, page 1 of 3 that reduces the Company's Coyote Springs 2 Pro Forma adjustment.

A. The Company's filing (Company Exhibit No. 14, page 7 of 10, column y) included Coyote Springs 2 project costs that were a combination of actual and estimated costs. The Company's pro forma adjustment increased Idaho electric rate base by $36,965,000 and decreased Idaho electric net operating income by $1,896,000. The adjustment proposed by Staff witness Stockton reduces the Company-proposed Idaho electric rate base by $1,621,000 and increases the Company-proposed Idaho electric net operating income by $172,000 to reflect actual costs as of the end of April 2004. This adjustment incorporates the latest insurance payment received by Avista for the transformer and reduces the Company's Idaho electric revenue requirement by $504,000.

Q. Did Commission Staff review the prudency of the project's costs?

A. Yes. Staff witness Sterling reviewed the Coyote Springs 2 project costs and recommended allowance of all incurred costs.

Small Generation Options

Q. Please explain Staff's proposed adjustment E8 on Exhibit No. 102, page 2 of 3 that reduces the Company's Small Generation Options Pro Forma adjustment.

A. The Company's filing included capital project costs associated with leased turbines that the Commission in Order No. 29130 stated should be removed from the Power Cost Adjustment deferral accounts. These projects (Kettle Falls Bi-Fuel, Devil's Gap, and Othello) are not used and useful on a going-forward basis because the projects were never completed or beneficial to the customers. Staff's adjustment, as discussed in more detail by Staff witness Stockton, removes the rate base treatment of these projects. This adjustment reduces Idaho electric rate base by $539,000 and has no impact on Idaho electric net operating income. This adjustment reduces the Company's Idaho electric revenue requirement by $78,000.

Labor (Executive and Non-Executive)

Q. Please explain why Staff proposes the adjustments to executive and non-executive labor expenses (adjustments E9 and E10 on page 2 of 3, Exhibit No. 102).

A. In its filing (Company Exhibit No. 14, pages 8 and 9 of 10, columns ae and af) the Company proposed adjustments to these expense categories for expected increases. As a result, the Company's pro forma adjustment decreases Idaho electric net operating income by $705,000 and $15,000 for non-executive and executive labor, respectively. Staff witness Stockton discusses these adjustments in more detail and proposes Staff adjustments E9 and E10 to reflect actual labor expenses incurred during 2004. These adjustments proposed by Staff increase Idaho electric net operating income by $26,000 for non-executive labor and $9,000 for executive labor. These adjustments decrease the Company's Idaho electric revenue requirement by $41,000 (non-executive labor) and $14,000 (executive labor).

Vegetation Management

Q. Please explain why Staff proposes adjustment E11 on Exhibit No. 102, page 2 of 3 to vegetation management expenses.

In its filing (Company Exhibit No. 14, page 9 of 10, column ag) the Company proposed an adjustment for this expense category to reflect planned increases in these vegetation management expenses as discussed in more detail by Staff witness Stockton. The Company-proposed adjustment reduces Idaho electric net operating income by $785,000.

The adjustment proposed by Staff represents an average of the actual amounts expended for vegetation management during 1998 through 2003. This average reflects the variability in the amount expended from year to year due to the cyclical nature of the vegetation management program and recognizes that the amount recorded in the test year is abnormally low in comparison to other years. This adjustment increases Idaho electric net operating income by $288,000. This adjustment reduces the Company's Idaho electric revenue requirement by $451,000.

Accounts Receivable Fees

Q. Please explain why Staff proposes to remove accounts receivable fees in adjustment E12 on Exhibit No. 102 on page 2 of 3.

A. These fees are associated with the Accounts Receivable Sale Program. Staff witness Stockton discusses this adjustment in more detail. Staff has removed these fees from the filed expenses and increased Idaho electric net operating income by $357,000 because the Company states that this program is like a working capital addition to rate base. Staff witness Stockton has calculated a negative cash working capital for the Company. As a result, working capital should not be included in the Company's filing. This adjustment reduces the Company's Idaho electric revenue requirement by $558,000.

Pensions

Q. Please explain why Staff proposes adjustment E13 on Exhibit No. 102 on page 2 of 3 to pensions.

A. Staff witness English addresses this adjustment in his testimony. He disagrees with the Company's treatment of pension expense because the Company uses an actuarial assumption of future rates of return that are significantly different than those used for 2004. Additionally, he believes that recovery of pension expense in this case should be based on the actual amount of cash that a company is required to contribute to the pension plan to meet its minimum funding liability and avoid interest and penalties. Staff's proposed adjustment increases Idaho electric net operating income by $554,000. This adjustment reduces the Company's Idaho electric revenue requirement by $867,000.

Depreciation Expense

Q. Please explain why Staff proposes adjustment E14 on Exhibit No. 102 on page 2 of 3 to depreciation expense.

A. Staff recommends that the Company's depreciation rates authorized be the same as those in its Washington jurisdiction because logic dictates that plant in Idaho would not depreciate faster than the same plant in Washington. Staff witness English discusses this adjustment in further detail and notes that the current overall depreciation rates of Avista for its Idaho jurisdiction are significantly higher than rates more recently approved by this Commission. The adjustment increases Idaho electric net operating income by $432,000 and reduces the Company's Idaho electric revenue requirement by $676,000.

Corporate Fees

Q. Please explain why Staff proposes adjustment E15 on Exhibit No. 102 on page 2 of 3 related to Corporate Fees.

A. Staff proposes reducing these expenses to reflect costs attributable to the Company's affiliates. Staff witness Stockton discusses this adjustment in greater detail. The adjustment increases Idaho electric net operating income by $74,000 and reduces the Company's

Idaho electric revenue requirement by $116,000.

Legal Expenses

Q. Please describe Staff adjustment E16 on Exhibit No. 102 (page 3 of 3) related to legal expenses.

A. This adjustment reduces expenses for legal costs that should have been directly assigned to unregulated affiliates or were for extraordinary events that will not recur (such as the bankruptcy filing of Enron Corporation and the closed Federal Energy Regulatory Commission investigation). Staff witness English discusses this adjustment in greater detail. This adjustment increases Idaho electric net operating income by $366,000 and reduces the Company's Idaho electric revenue requirement by $573,000.

Miscellaneous Expenses

Q. Please describe Staff adjustment E17 on Exhibit No. 102 (page 3 of 3) related to miscellaneous expenses.

A. Staff witness English proposes reducing expenses by amounts pertaining to the promotion of corporate image, holiday lunches and charitable organizations. This adjustment increases Idaho electric net operating income by $250,000 and reduces the Company's Idaho electric revenue requirement by $391,000.

Western Electricity Coordinating Council (WEEC) Dues

Q. Please explain why Staff proposes adjustment E18 on Exhibit No. 102 (page 3 of 3) related to WECC dues.

A. The Company is no longer a member of WECC and therefore is no longer incurring the expenses for WECC administrative and security dues. Staff's adjustment increases Idaho electric net operating income by $10,000 and reduces the Company's Idaho electric revenue requirement by $16,000.

Avista is still incurring expenses associated with the Pacific Northwest Security Coordinator (PNSC) and as a result, Staff has not adjusted the expenses associated with the PNSC.

Advertising Expenses

Q. Please explain why Staff proposes adjustment E19 on Exhibit No. 102 (page 3 of 3) to advertising expenses.

A. Staff has removed costs associated with advertising expenses that include the naming rights contract for Avista Stadium and rotunda signage at the Spokane airport (see Staff Exhibit No. 104 for a further description of these and other advertising costs). Due to the nature of this advertising, the Company did not provide copies of them to Staff. Staff has observed the

Avista sign at the airport and photographs of the Avista Stadium sign; neither provides educational messages related to the Company's operations. Therefore, this advertising is image related and should be recorded below-the-line.

Staff's adjustment also removes expenses associated with the Company's sponsorship of Spokane Hoopfest and the Spokane Interplayers Ensemble.

While Staff does not discourage Avista from providing sponsorships and Company presence in its community, these expenses should be recorded as below-the-line expenses that are not paid by regulated customers. This Commission has consistently disallowed charitable contributions and image advertising for ratemaking purposes. These costs should continue to be disallowed for ratemaking purposes because they are not a cost of providing electrical service to the Company's customers.

Finally, Staff has removed the expenses allocated to the utility's electrical operations for an educational radio spot relating to the reduction in natural gas expenses residential customers were to pay in 2002. These costs are not appropriate for the electrical utility and should have been allocated only to the Company's gas operations.

Staff's adjustment for the preceding items increases Idaho electric net operating income by $36,000 and reduces the Company's Idaho electric revenue requirement by $56,000.

Avista Foundation

Q. Please explain why Staff proposes adjustment E20 on Exhibit No. 102 on page 3 of 3 related to Avista Foundation.

A. The Avista Foundation (Foundation) is a charitable organization that was created by Avista Corp. While Staff does not discourage the charitable efforts of the Company, the costs (primarily consulting/legal fees) associated with the creation of the Foundation are not related to the provision of electrical service to customers and should be removed from the Company's filing. The adjustment increases Idaho electric net operating income by $5,000 and reduces the Company's Idaho electric revenue requirement by $8,000.

Restate Debt Interest

Q. Please describe Staff adjustment E21 on Exhibit No. 102, page 3 of 3 related to the restatement of debt interest.

A. This adjustment restates debt interest using the Staff-proposed embedded weighted average cost of debt and applies this percentage (4.69%) to Staff's pro forma rate base. This restatement decreases the Idaho electric current federal income tax accrual by $9,000 and reduces the Company's Idaho electric revenue requirement by $14,000.

Deferred Return on Coyote Springs 2 Project

Q. Please describe Exhibit No. 105 that calculates a deferred return on the Coyote Springs 2 project.

A. Line 22 on this exhibit reflects the deferred Idaho electric revenue requirement per million dollars of Coyote Springs 2 gross plant. This $13,054 is the difference between the present value of the revenue requirement return of $119,155 in year one (line 19) and the levelized return of $106,101 (line 21). This deferral changes from year to year because the revenue requirement associated with the Coyote Springs 2 project decreases each year as a result of increasing accumulated depreciation.

The deferral account activity (lines 26 through 30 on Exhibit No. 105) shows that the deferral of return is reversed within the ten-year period. This confirms that the overall effect of this proposal is to defer the return and not deny the return on the Coyote Springs 2 project. Full recovery of this return deferral is completed in year 10 as shown on line 30.

Because this deferral is reflected on Exhibit

No. 101, line 8 after the conversion factor has been applied, the Idaho electric deferral amount of $8,345 (line 28) must be grossed up for ratemaking purposes to reflect the deferral on the same basis as the Idaho electric revenue requirement deficiency on Exhibit No. 101, line 7. This results in an Idaho electric deferral of $13,054 per million dollars of Coyote Springs 2 gross plant or $486,797 as reflected on Exhibit No. 101, line 8 and note (1).

Q. Does this conclude your direct testimony in this electric proceeding?

A. Yes, it does.

GAS SECTION

Q. What exhibits are you sponsoring associated with the gas utility operations?

A. I am sponsoring Staff Exhibit Nos. 106 and 107. These exhibits outline Staff's proposed Idaho gas revenue requirement and itemize Staff's adjustments to Avista's proposed test year numbers for the gas operations. I also prepared Staff Exhibit No. 108 related to the advertising adjustment proposed by Staff in this gas case.

Q. What is the purpose of Staff Exhibit No. 106?

A. This exhibit shows the overall natural gas net operating income requirement, revenue requirement deficiency and percent increase for the Idaho jurisdiction as calculated by Staff and, for comparison purposes, as calculated by the Company.

Q. What revenue requirement does Staff propose?

A. The total Idaho gas net operating income requirement proposed by Staff is $5,445,000 as shown on Staff Exhibit No. 106, line 3. This results in an overall Idaho gas base rate increase of $3,105,000 (line 7) or 5.98% (line 9). The Company had calculated an overall Idaho gas base rate increase of $4,754,000 or 9.16%.

Q. How is this revenue requirement calculated?

A. Staff calculated the Idaho gas revenue requirement using Avista's proposed 2002 proformed test year, Staff's adjustments, and Staff's proposed rate of return.

Q. What is the purpose of Staff Exhibit No. 107?

A. This schedule shows the Company Pro Forma Gas Total (from Company Exhibit No. 15, page 7 of 8, last column) in the first column, Staff's proposed adjustments in the succeeding columns, and Staff's Pro Forma Gas Total in the last column.

AVISTA'S PRO FORMA TOTALS

Q. How did Avista calculate its Pro Forma Totals on Company witness Falkner's Exhibit No. 15, page 7 of 8 (last column)?

A. The Company presented Idaho gas financial results for the 2002 test year that were revised by Standard Commission Basis Adjustments as well as additional pro forma and normalizing adjustments. Staff witness Stockton discusses the Company's Standard Commission Basis Adjustments (Company Exhibit No. 15, pages 4 through 6, columns c through o) and proposes the Commission adopt them except for the Company's gas inventory adjustment that increases Idaho gas rate base by $1,572,000 (Company Exhibit No. 15, page 4, column e). The Gas Inventory section of this testimony and Staff witness Stockton's testimony discuss Staff's view of this adjustment in greater detail.

Q. What does Staff recommend regarding each adjustment proposed by the Company in columns p through t on Company Exhibit No. 15, pages 6 through 7?

A. The Commission Staff places these known and measurable adjustments into two categories. First, there is one adjustment Staff accepts as reasonable in the amount proposed by the Company. Second, the remaining adjustments proposed by Avista have merit, but require a modification. I will discuss each adjustment category and each adjustment individually.

Q. In addition to the Standard Commission Basis Adjustments, which Avista pro forma adjustment does Staff recommend the Commission adopt?

A. Staff recommends the Commission adopt Avista's Pro Forma Insurance adjustment proposed in Company Exhibit No. 15, page 7 of 8, column r. This adjustment increases Idaho gas operating expenses by $202,000. Staff witness Stockton testifies to these costs in greater detail.

Q. Which Avista pro forma adjustments have merit but should be attributed a different dollar amount than that proposed by the Company?

A. The adjustments to labor costs (executive and non-executive) proposed by the Company in columns s and t on Company Exhibit No. 15, page 7 of 8 should be revised to represent actual costs as discussed in Staff witness Stockton's testimony.

The Pro Forma Revenue Gas Supply adjustment proposed in Company Exhibit No. 15, page 6 of 8, column p decreases Idaho gas net operating income by $112,000. Staff witness Fuss discusses the Company's Gas Supply adjustment and proposes a minor adjustment related to it.

The adjustment to pension costs proposed by the Company in column q on Company Exhibit No. 15, page 7 of 8 should be revised as discussed later in my testimony and in Staff witness English's testimony. Staff's revisions to these adjustments are included on Staff Exhibit No. 107.

Gas Inventory

Q. Please describe Staff's adjustment G1 on Exhibit No. 107, page 1 of 2 that reduces Idaho gas rate base for gas inventory.

A. The first adjustment eliminates gas inventory from rate base as discussed in greater detail by Staff witness Stockton. Inventory is a component of working capital. Because the Company is not eligible to rate base and earn a return on cash working capital, it should be removed from rate base. Staff witness Stockton discusses this adjustment in further detail. This adjustment reduces Idaho gas rate base by $1,572,000 and decreases the Company's Idaho gas revenue requirement by $227,000.

Deferred Federal Income Tax

Q. Please explain why Staff proposes adjustment G2 on Exhibit No. 107, page 1 of 2 to reduce deferred taxes in rate base.

A. Pursuant to Internal Revenue Service tax changes, Avista is now allowed to expense and deduct certain plant and inventory in the current period that were once required to be capitalized. This tax benefit resulted in a 2003 refund on taxes paid by the Company in prior years and is the basis of Staff's $2,639,000 reduction in Idaho gas rate base. This adjustment reduces the Company's Idaho gas revenue requirement by $382,000. Staff witness English will provide additional details regarding this adjustment.

Labor (Executive and Non-Executive)

Q. Please explain why Staff proposes adjustments G3 and G4 on Exhibit No. 107, page 1 of 2 to executive and non-executive labor.

A. In its filing (Company Exhibit No. 15, page 7 of 8, columns s and t) the Company proposed adjustments to these labor expense categories for expected increases. The Company-proposed adjustments decreased Idaho gas net operating income by $174,000 and $8,000 for non-executive and executive labor, respectively. Staff witness Stockton discusses these adjustments in more detail and proposes adjustments to reflect actual labor expenses incurred during 2004. The adjustments proposed by Staff increase Idaho gas net operating income by $2,000 for executive labor and $6,000 for non-executive labor. These adjustments reduce the Company's Idaho gas revenue requirement by $3,000 (executive labor) and $9,000 (non-executive labor).

Accounts Receivable Fees

Q. Please explain why Staff proposes to remove account receivable fees in adjustment G5 on Exhibit No. 107, page 1 of 2.

A. These fees are associated with the Accounts Receivable Sale Program. Staff witness Stockton discusses this adjustment in more detail. Staff has removed these fees from the filed expenses because the Company states that this program is like a working capital addition to rate base. Staff witness Stockton has calculated a negative cash working capital for the Company. As a result, working capital should not be included in the Company's filing. This adjustment increases Idaho gas net operating income by $56,000 and reduces the Company's Idaho gas revenue requirement by $88,000.

Pensions

Q. Please explain why Staff proposes adjustment G6 on Exhibit 107, page 1 of 2 to pensions.

A. Staff witness English addresses this adjustment in his testimony. He disagrees with the Company's treatment of pension expense because the Company uses an actuarial assumption of future rates of return that are significantly different than those used for 2004. Additionally, he believes that recovery of pension expense in this case should be based on the actual amount of cash that a company is required to contribute to the pension plan to meet its minimum funding liability and avoid interest and penalties. Staff's proposed adjustment increases Idaho gas net operating income by $137,000 and decreases the Company's Idaho gas revenue requirement by $214,000.

Depreciation Expense

Q. Please explain why Staff proposes adjustment G7 on Exhibit No. 107, page 1 of 2 to depreciation expense.

A. Staff recommends that the Company's depreciation rates authorized be the same as those in its Washington jurisdiction because logic dictates that plant in Idaho would not depreciate faster than the same plant in Washington. Staff witness English discusses this adjustment in further detail and notes that the current overall depreciation rates of Avista for its Idaho jurisdiction are significantly higher than rates more recently approved by this Commission. The adjustment increases Idaho gas net operating income by $28,000 and reduces the Company's Idaho gas revenue requirement by $44,000.

Legal Expenses

Q. Please describe Staff adjustment G8 on Exhibit No. 107, page 2 of 2 related to legal expenses.

A. This adjustment reduces expenses for legal costs that should have been directly assigned to affiliates or were for extraordinary events that will not recur (such as the bankruptcy filing of Enron Corporation) as discussed in greater detail by Staff witness English. This adjustment increases Idaho gas net operating income by $13,000 and reduces the Company's Idaho gas revenue requirement by $20,000.

Miscellaneous Expenses

Q. Please describe Staff adjustment G9 on Exhibit No. 107, page 2 of 2 related to miscellaneous expenses.

A. Staff witness English proposes reducing expenses by amounts pertaining to the promotion of corporate image, holiday lunches and charitable organizations. This adjustment increases Idaho gas net operating income by $71,000 and reduces the Company's Idaho gas revenue requirement by $111,000.

Corporate Fees

Q. Please explain why Staff proposes adjustment G10 on Exhibit No. 107, page 2 of 2 related to Corporate Fees.

A. Staff proposes reducing these expenses to reflect costs attributable to the Company's affiliates. The adjustment increases Idaho gas net operating income by $17,000 and reduces the Company's Idaho gas revenue requirement by $27,000. Staff witness Stockton discusses this adjustment in greater detail.

Advertising Expenses

Q. Please explain why Staff proposes adjustment G11 on Exhibit No. 107, page 2 of 2 to advertising expenses.

A. Staff has removed costs associated with advertising expenses that include the naming rights contract for Avista Stadium and rotunda signage at the Spokane airport (see Staff Exhibit No. 108 for a further description of these and other advertising costs). Due to the nature of this advertising, the Company did not provide copies of them to Staff. Staff has observed the Avista sign at the airport and photographs of the Avista Stadium sign; neither provides educational messages related to the Company's operations. Therefore, this advertising is image related and should be recorded below-the-line.

Staff's adjustment also removes expenses associated with the Company's sponsorship of Spokane Hoopfest and the Spokane Interplayers Ensemble (see Staff Exhibit No. 108).

While Staff does not discourage the Company from providing sponsorships and Company presence in its community, these expenses should be recorded as below-the-line expenses that are not paid by regulated customers. This Commission has consistently disallowed charitable contributions and image advertising for ratemaking purposes. These costs should continue to be disallowed for ratemaking purposes because they are not a cost of providing gas service to the Company's customers.

Finally, Staff has added expenses originally allocated to the utility's electrical operations for an educational radio spot relating to the reduction in natural gas expenses residential customers were to pay in 2002. These costs are more appropriately wholly allocated to the Company's gas operations.

Staff's net adjustment for the preceding items increases Idaho gas net operating income by $6,000 and decreases the Company's Idaho gas revenue requirement by $9,000.

Avista Foundation

Q. Please explain why Staff proposes adjustment G12 on Exhibit No. 107, page 2 of 2 related to Avista Foundation.

A. The Avista Foundation (Foundation) is a charitable organization that was created by Avista Corp. While Staff does not discourage the charitable efforts of the Company, the costs (primarily consultant/legal fees) associated with the creation of the Foundation are not related to the provision of gas service to customers and should be removed from the Company's filing. The adjustment increases Idaho gas net operating income by $1,000 and decreases the Company's Idaho gas revenue requirement by $2,000.

Actual Therm Usage

Q. Please describe Staff adjustment G13 on Exhibit No. 107, page 2 of 2 related to the Company's Cost of Service Study.

A. Staff witness Fuss identified this adjustment during his review of the Company's Cost of Service Study and provides further detail about it in his testimony. The Company understated revenue when calculating its Pro Forma Gas Supply adjustment. The actual therm usage adjustment reduces the Company's Idaho gas revenue requirement by $23,000.

Schedule M Allocator

Q. Please describe Staff adjustment G14 on Exhibit No. 107, page 2 of 2 related to the Company's Jurisdictional Separation Study.

A. Staff witness Fuss identified this adjustment during his review of the Company's Jurisdictional Separation Study and describes the reason for it in his testimony. He recommends, and the Company agrees, that the appropriate allocator be used to distribute certain gas costs. This adjustment reduces Idaho's share of taxes. The Company's Idaho gas revenue requirement is reduced by $3,000.

Restate Debt Interest

Q. Please describe Staff adjustment G15 on Exhibit No. 107, page 2 of 2 related to the restatement of debt interest.

A. This adjustment restates debt interest using the Staff-proposed embedded weighted average cost of debt and applies this percentage (4.69%) to Staff's pro forma rate base. This restatement increases the current Idaho gas federal income tax accrual by $49,000 and increases the Staff-proposed Idaho gas revenue requirement by $77,000.

Q. Does this conclude your direct testimony in this gas proceeding?

A. Yes, it does.

AVISTA UTILITIES
STAFF'S CALCULATION OF GENERAL REVENUE REQUIREMENT
IDAHO ELECTRIC SYSTEM
TEST YEAR 2002
(000'S OF DOLLARS)

Line No.	Description	STAFF IDAHO	COMPANY IDAHO
1	Pro Forma Rate Base	$418,277	$440,207
2	Proposed Rate of Return	9.250%	9.820%
3	Net Operating Income Requirement	$38,691	$43,228
4	Pro Forma Net Operating Income	$23,627	$20,712
5	Net Operating Income Deficiency	$15,064	$22,516
6	Conversion Factor	0.63926135	0.63926135
7	Revenue Requirement Deficiency	$23,565	$35,222
8	Levelized Deferred (1) Return on Coyote Springs 2	(487)	0
9	Revised Revenue Requirement Deficiency	$23,078	$35,222
10	Total General Business Revenues	$146,248	$146,248
11	Percentage Revenue Increase	15.78%	24.08%
12	Revenue Increase without Levelization	16.11%	

(1) This reflects the deferral of the Company's return on the Coyote Springs 2 plant for the first 10 years of its life. The deferral is calculated on Staff Exhibit No. 105.
The effect of this deferral is $13,054 per $1 million in Coyote Springs 2 gross plant.

Total gross plant as proposed by Staff witness Stockton equals	37,291,000	
multiplied by	13,054	per million
	486,797	
	487	at 000s level.

Exhibit No. 101
Case No. AVU-E-04-1/
AVU-G-04-1
P. Harms, Staff
6/21/04

AVISTA UTILITIES
STAFF PRO FORMA IDAHO ELECTRIC RESULTS OF OPERATION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

			STAFF'S ADJUSTMENTS:						
Line No.	DESCRIPTION	Company Pro Forma TOTAL	E1 Transmission	E2 Cabinet Gorge	E3 Boulder Park Depr.	E4 Boulder Park Disallow.	E5 Skookum-chuck	E6 Deferred FIT	E7 Coyote Springs 2
	REVENUES								
1	Total General Business	$146,138							
2	Interdepartmental Sales	110							
3	Sales for Resale	16,976							
4	Total Sales of Electricity	163,224	0	0	0	0	0	0	0
5	Other Revenue	4,701					(4)		
6	Total Electric Revenue	167,925	0	0	0	0	(4)	0	0
	EXPENSES								
	Production and Transmission								
7	Operating Expenses	38,447					(2)		(174)
8	Purchased Power	46,559							
9	Depreciation and Amortization	10,846	(232)		(88)	(44)	(10)		(94)
10	Taxes	3,894	(126)	(2)	1	(4)	(4)		0
11	Total Production & Transmission	99,746	(358)	(2)	(87)	(48)	(16)	0	(268)
	Distribution								
12	Operating Expenses	6,495							
13	Depreciation	5,670							
14	Taxes	4,097	4						3
15	Total Distribution	16,262	4	0	0	0	0	0	3
16	Customer Accounting	4,296							
17	Customer Service & Information	1,480							
18	Sales Expenses	421							
	Administrative & General								
19	Operating Expenses	17,889							
20	Depreciation	3,878							
21	Taxes	1							
22	Total Admin. & General	21,768	0	0	0	0	0	0	0
23	Total Electric Expenses	143,973	(354)	(2)	(87)	(48)	(16)	0	(265)
24	OPERATING INCOME BEFORE FIT	23,952	354	2	87	48	12		265
	FEDERAL INCOME TAX								
25	Current Accrual	774	264	3	30		4		93
26	Deferred Income Taxes	2,466	(140)	(2)		17			
27	NET OPERATING INCOME (line 24 - line 25 - line 26)	$20,712	$230	$1	$57	$31	$8	$0	$172
	RATE BASE								
	PLANT IN SERVICE								
28	Intangible	11,353							
29	Production	310,208		(111)		(1,062)	(199)		(3,324)
30	Transmission	109,162	(8,718)			(27)			1,519
31	Distribution	257,165							
32	General	36,363				(3)			
33	Total Plant in Service	724,251	(8,718)	(111)	0	(1,092)	(199)	0	(1,805)
34	ACCUMULATED DEPRECIATION	218,458	(125)		(44)	(22)	(68)		(95)
35	ACCUM. PROVISION FOR AMORTIZATION	3,368							
36	Total Accum. Depreciation & Amort.	221,826	(125)	0	(44)	(22)	(68)	0	(95)
37	GAIN ON SALE OF BUILDING	(625)							
38	DEFERRED TAXES	(61,593)	75	1	(31)	(15)	27	(9,966)	89
39	TOTAL RATE BASE (line 33- line 36 + line 37+ line 38)	$440,207	($8,518)	($110)	$13	($1,085)	($104)	($9,966)	($1,621)
40	REVENUE REQUIREMENT INCREASE (DECREASE)	$31,297	($1,592)	($17)	($87)	($205)	($28)	($1,442)	($504)

AVISTA UTILITIES
STAFF PRO FORMA IDAHO ELECTRIC RESULTS OF OPERATION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	STAFF'S ADJUSTMENTS (continued): E8 Small Gen. Options	E9 Labor (Non-Exec.)	E10 Labor (Exec.)	E11 Vegetation Management	E12 Accts. Rec. Fees	E13 Pension Expense	E14 Depr. Expense	E15 Corp. Fees
	REVENUES								
1	Total General Business								
2	Interdepartmental Sales								
3	Sales for Resale								
4	Total Sales of Electricity	0	0	0	0	0	0	0	0
5	Other Revenue								
6	Total Electric Revenue	0	0	0	0	0	0	0	0
	EXPENSES								
	Production and Transmission								
7	Operating Expenses		(12)	3	5		(296)		
8	Purchased Power								
9	Depreciation and Amortization							(137)	
10	Taxes								
11	Total Production & Transmission	0	(12)	3	5	0	(296)	(137)	0
	Distribution								
12	Operating Expenses		(2)		(453)		(203)		
13	Depreciation							(348)	
14	Taxes		1		5	6		7	1
15	Total Distribution	0	(1)	0	(448)	6	(203)	(341)	1
16	Customer Accounting		(7)			(556)	(106)		
17	Customer Service & Information		0				(2)		
18	Sales Expenses		(1)				(14)		
	Administrative & General								
19	Operating Expenses		(19)	(17)			(240)		(115)
20	Depreciation							(186)	
21	Taxes						9		
22	Total Admin. & General	0	(19)	(17)	0	0	(231)	(186)	(115)
23	Total Electric Expenses	0	(40)	(14)	(443)	(550)	(852)	(664)	(114)
24	OPERATING INCOME BEFORE FIT	0	40	14	443	550	852	664	114
	FEDERAL INCOME TAX								
25	Current Accrual		14	5	155	193	298	232	40
26	Deferred Income Taxes								
27	NET OPERATING INCOME (line 24 - line 25 - line 26)	$0	$26	$9	$288	$357	$554	$432	$74
	RATE BASE								
	PLANT IN SERVICE								
28	Intangible								
29	Production	(829)							
30	Transmission								
31	Distribution								
32	General								
33	Total Plant in Service	(829)	0	0	0	0	0	0	0
34	ACCUMULATED DEPRECIATION								
35	ACCUM. PROVISION FOR AMORTIZATION								
36	Total Accum. Depreciation & Amort.	0	0	0	0	0	0	0	0
37	GAIN ON SALE OF BUILDING								
38	DEFERRED TAXES	290							
39	TOTAL RATE BASE (line 33- line 36 + line 37+ line 38)	($539)	$0	$0	$0	$0	$0	$0	$0
40	REVENUE REQUIREMENT INCREASE (DECREASE)	($78)	($41)	($14)	($451)	($558)	($867)	($676)	($116)

Exhibit No. 102
Case No. AVU-E-04-1/
AVU-G-04-1
P. Harms, Staff
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AVISTA UTILITIES
STAFF PRO FORMA IDAHO ELECTRIC RESULTS OF OPERATION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	STAFF'S ADJUSTMENTS (continued): E16 Legal Expenses	E17 Misc. Expenses	E18 WECC Expenses	E19 Advertising Expenses	E20 Avista Foundation	E21 Debt Int. Restate	Staff Pro Forma TOTAL
	REVENUES							
1	Total General Business							$146,138
2	Interdepartmental Sales							110
3	Sales for Resale							16,976
4	Total Sales of Electricity	0	0	0	0	0	0	163,224
5	Other Revenue							4,697
6	Total Electric Revenue	0	0	0	0	0	0	167,921
	EXPENSES							
	Production and Transmission							
7	Operating Expenses	(454)		(15)				37,502
8	Purchased Power							46,559
9	Depreciation and Amortization							10,241
10	Taxes							3,759
11	Total Production & Transmission	(454)	0	(15)	0	0	0	98,061
	Distribution							
12	Operating Expenses							5,837
13	Depreciation							5,322
14	Taxes							4,124
15	Total Distribution	0	0	0	0	0	0	15,283
16	Customer Accounting							3,627
17	Customer Service & Information							1,478
18	Sales Expenses				(56)			350
	Administrative & General							
19	Operating Expenses	(115)	(388)			(8)		16,987
20	Depreciation							3,692
21	Taxes	6	4		1			21
22	Total Admin. & General	(109)	(384)	0	1	(8)	0	20,700
23	Total Electric Expenses	(563)	(384)	(15)	(55)	(8)	0	139,499
24	OPERATING INCOME BEFORE FIT	563	384	15	55	8	0	28,422
	FEDERAL INCOME TAX							
25	Current Accrual	197	134	5	19	3	(9)	2,454
26	Deferred Income Taxes							2,341
27	NET OPERATING INCOME (line 24 - line 25 - line 26)	$366	$250	$10	$36	$5	$9	$23,627
	RATE BASE							
	PLANT IN SERVICE							
28	Intangible							11,353
29	Production							304,683
30	Transmission							101,936
31	Distribution							257,165
32	General							36,360
33	Total Plant in Service	0	0	0	0	0	0	711,497
34	ACCUMULATED DEPRECIATION							218,104
35	ACCUM. PROVISION FOR AMORTIZATION							3,368
36	Total Accum. Depreciation & Amort.	0	0	0	0	0	0	221,472
37	GAIN ON SALE OF BUILDING							(625)
38	DEFERRED TAXES							(71,123)
39	TOTAL RATE BASE (line 33- line 36 + line 37+ line 38)	$0	$0	$0	$0	$0	$0	$418,277
40	REVENUE REQUIREMENT INCREASE (DECREASE)	($573)	($391)	($16)	($56)	($8)	($14)	$23,565

AVISTA UTILITIES
ELECTRIC TRANSMISSION ADJUSTMENT
(000'S OF DOLLARS)
(EXHIBIT NO. 102, PAGE 1 OF 3, E1)

Calculation of Adjustment to Rate Base for Transmission Projects

Line No.	IDAHO JURISDICTION	Plant	Accum. Depr.	Deferred FIT (Rate Base)	Imputed Revenues	Maintenance Expense	Book Depr. Expense	Property Taxes	Idaho State Income Tax	Current FIT Accrual	Deferred FIT (Optg. Stmt.)
	Method of Calculation:										
	Avista Method:										
1	Annualization of Engineering Estimates	9,050	126	(75)	0	0	252	136	(4)	(285)	150
	Staff Method:										
2	Actual Costs as if in Place 12/31/02	332	1	0	0	0	20	10	0	(21)	10
	Difference in Method (Staff minus Avista):										
3	Adjustment E1 on Staff Exhibit No. 102	(8,718)	(125)	75	0	0	(232)	(126)	4	264	(140)
	Alternative Method not used by Staff:										
4	Actual Costs Annualized*	7,978	112	(65)	270	(30)	225	120	0	(356)	130
	Alternative Method Difference:										
5	(Alternative minus Avista Method)	(1,072)	(14)	10	270	(30)	(27)	(16)	4	(71)	(20)
	Imputed Revenue Increase:		$270								
	Imputed Maintenance Cost Decrease:		$30								

* This line does not include restatement of debt interest expense affect on the current accrual for Federal Income Tax (FIT) .

Exhibit No. 103
Case No. AVU-E-04-1/
AVU-G-04-1
P. Harms, Staff
6/21/04

AVISTA UTILITIES
ELECTRIC ADVERTISING EXPENSES ADJUSTMENT
(EXHIBIT NO. 102, PAGE 3 OF 3, E19)

Vendor Description	Purpose	Electric
Adventures in Advertising	Western Energy Institute annual meeting.	162.23
Brett Sports & Entertainment	Avista Stadium naming rights contract. Agreement includes stadium naming rights, signage, television, radio, website and print ads, product promotion and marketing opportunities, substantial media exposure, customer messaging opportunities (safety, service, customer assistance) and other marketing and promotional opportunities.	44,258.90
Brett Sports & Entertainment	Agreement covers activities at Joe Albi Stadium and various team sporting clubs. Agreement includes signage, radio, print and website advertising, the Avista Hero school program, the Avista Community MVP and other promotional considerations.	16,565.47
Community Colleges of Spokane	Annual sponsorship and advertising agreement. Avista receives scoreboard signage for all athletic events, program advertising, product and service marketing opportunities, promotional opportunities, public address recognition at all events and other considerations.	632.27
Eastern Washington University	Agreement includes signage, print and radio advertising, in-game promotions, program advertising and other promotional considerations.	4,742.03
Gonzaga University:	Agreement includes signage, in-game promotions, print and radio advertising and other promotional considerations.	126.45 7,397.56
Hanna & Associates:	Labor, prep. work and radio promotional spots for gas decreases during 2002. Promotional ads also included description of how to save money on fuel bills by conserving energy.	243.42 1,390.46 1,439.68 1,231.35 3,945.31 1,991.65 3,137.24 28,569.11
Hospital Activity Book	Community-oriented advertisement in the Hospital Activity Book for Children.	106.85
Interspace Services Inc.:	Advertising/signage agreement with Interspace Airport Advertising. Contract includes rotunda signage on the main concourse at the Spokane International Airport.	3,604.60 3,604.60 3,604.60 17,590.46
Leadership Spokane	Sponsorship of community education project.	316.14
Playstream LLC	Audio production costs related to an interview with Gary Ely for posting on the Avista Corp. website.	28.45

AVISTA UTILITIES
ELECTRIC ADVERTISING EXPENSES ADJUSTMENT
(EXHIBIT NO. 102, PAGE 3 OF 3, E19)

Vendor Description	**Purpose**	**Electric**
Spokane Arena	Avista receives signage at the Arena as well as other promotional considerations as agreed upon by the City and Avista.	7,587.24
Spokane Hoopfest Association	Annual marketing and advertising sponsorship for Hoopfest of Spokane. Avista is the "master scoreboard" sponsor for this event and is listed as an official sponsor in all marketing, advertising, promotional and collateral material for this event.	3,793.62
Spokane Interplayers	Annual sponsorship of the Spokane Interplayers Ensemble. Agreement includes program/playbill advertising and other promotional opportunities.	1,163.38
Spokane Youth Sports Association	One-time sponsorship of fundraising event.	442.59
University of Idaho	Agreement includes radio and print advertising, signage, message center recognition, public address recognition, marketing opportunities and other promotional considerations.	6,322.70
Washington State University	One time contribution to the Dept. of Marketing and the College of Business and Economics related to position on the school's marketing advisory committee.	1,264.54

Total Advertising Adjustment to Allocate to Idaho Electric System	$165,262.90
Allocation Percentage	33.557%
Allocation to Idaho based upon number of customers	$55,457.27

This schedule is based on the Company's response to IPUC Audit Data Request No. 65

AVISTA UTILITIES
STAFF PRO FORMA IDAHO ELECTRIC
TEN-YEAR LEVELIZED REVENUE REQUIREMENT CALCULATION

Line No.			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
1	Book basis	$1,000,000										
2	Book life (in years)	35										
3	Annual book depreciation	$28,571										
4	Return on common equity	10.40%										
5	Weighted cost of debt	4.35%										
6	Rate of return	9.25%										
7	Conversion factor	0.639261										
8	Gross plant		$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000	$1,000,000
	Accumulated depreciation											
9	Beginning balance		0	-28,571	-57,142	-85,713	-114,284	-142,855	-171,426	-199,997	-228,568	-257,139
10	Current year depreciation		-28,571	-28,571	-28,571	-28,571	-28,571	-28,571	-28,571	-28,571	-28,571	-28,571
11	Ending balance (line 9 + line 10)		-28,571	-57,142	-85,713	-114,284	-142,855	-171,426	-199,997	-228,568	-257,139	-285,710
12	Average begin & end of year ((line 9 + line 11)/2)		-14,286	-42,857	-71,428	-99,999	-128,570	-157,141	-185,712	-214,283	-242,854	-271,425
13	Net plant (average) (line 8 + line 12)		$985,714	$957,143	$928,572	$900,001	$871,430	$842,859	$814,288	$785,717	$757,146	$728,575
14	Rate of return proposed by Staff		9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%	9.25%
15	Net optg. income requirement - return (line 13 x line 14)		$91,179	$88,536	$85,893	$83,250	$80,607	$77,964	$75,322	$72,679	$70,036	$67,393
16	Tax effect of interest (35% x line 5 x line 13)		-15,007	-14,573	-14,138	-13,703	-13,268	-12,833	-12,398	-11,963	-11,528	-11,093
17	Total (line 15 + line 16)		$76,171	$73,963	$71,755	$69,548	$67,340	$65,132	$62,924	$60,716	$58,508	$56,301
18	Conversion factor		0.639261	0.639261	0.639261	0.639261	0.639261	0.639261	0.639261	0.639261	0.639261	0.639261
19	Revenue requirement - return (line 17/line 18)		$119,155	$115,701	$112,247	$108,794	$105,340	$101,886	$98,433	$94,979	$91,525	$88,071
20	Present value	$673,492	$109,066	$96,938	$86,082	$76,369	$67,684	$59,922	$52,989	$46,801	$41,281	$36,360
21	Levelized revenue requirement	$106,101										
22	Deferred revenue requirement (line 21 - line 19)		-13,054	-9,600	-6,146	-2,692						
23	Recovery of deferred revenue requirement						761	4,215	7,669	11,122	14,576	18,030
24	Adjusted revenue requirement - return (line 19 + line 22 + line 23)		$106,101	$106,101	$106,101	$106,101	$106,101	$106,101	$106,101	$106,101	$106,101	$106,101
25	Present value	$673,492	$97,118	$88,895	$81,369	$74,479	$68,173	$62,401	$57,118	$52,282	$47,855	$43,803
	Deferral Account Activity											
26	Beginning balance deferred return		$0	$8,345	$15,253	$20,593	$24,219	$25,973	$25,681	$23,154	$18,186	$10,550
27	Carrying cost on begin balance (line 6 x line 26)		0	772	1,411	1,905	2,240	2,402	2,375	2,142	1,682	976
28	Current year deferred return (line 22 x line 18)		8,345	6,137	3,929	1,721	0	0	0	0	0	0
29	Current year recovery (line 23 x line 18)		0	0	0	0	-487	-2,694	-4,902	-7,110	-9,318	-11,526
30	Ending balance		$8,345	$15,253	$20,593	$24,219	$25,973	$25,681	$23,154	$18,186	$10,550	$0

Exhibit No. 105
Case No. AVU-E-04-1/
AVU-G-04-1
P. Harms, Staff
6/21/04

AVISTA UTILITIES
STAFF'S CALCULATION OF GENERAL REVENUE REQUIREMENT
IDAHO GAS
TEST YEAR 2002
(000'S OF DOLLARS)

Line No.	Description	STAFF IDAHO	COMPANY IDAHO
1	Pro Forma Rate Base	$58,867	$63,078
2	Proposed Rate of Return	9.250%	9.820%
3	Net Operating Income Requirement	$5,445	$6,194
4	Pro Forma Net Operating Income	$3,460	$3,155
5	Net Operating Income Deficiency	$1,985	$3,039
6	Conversion Factor	0.63926135	0.63926135
7	Revenue Requirement Deficiency	$3,105	$4,754
8	Total General Business Revenues	$51,919	$51,896
9	Percentage Revenue Increase	5.98%	9.16%

Exhibit No. 106
Case No. AVU-E-04-1/
AVU-G-04-1
P. Harms, Staff
6/21/04

AVISTA UTILITIES
STAFF PRO FORMA IDAHO GAS RESULTS OF OPERATION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

Line No.	DESCRIPTION	Company Pro Forma TOTAL	STAFF'S ADJUSTMENTS: G1 Gas Inventory	G2 Deferred FIT	G3 Labor (Exec.)	G4 Labor (Non-Exec.)	G5 Accts. Rec. Fees	G6 Pension Expense	G7 Depr. Expense
	REVENUES								
1	Total General Business	$50,952							
2	Total Transportation	944							
3	Other Revenues	656							
4	Total Gas Revenues	52,552	0	0	0	0	0	0	0
	EXPENSES								
5	Exploration and Development	0							
	Production								
6	City Gate Purchases	35,638							
7	Purchased Gas Expense	79						(3)	
8	Net Nat Gas Storage Trans	86						(2)	
9	Total Production	35,803	0	0	0	0	0	(5)	0
	Underground Storage								
10	Operating Expenses	134							
11	Depreciation	111							(6)
12	Taxes	45							
13	Total Underground Storage	290	0	0	0	0	0	0	(6)
	Distribution								
14	Operating Expenses	2,207						(83)	
15	Depreciation	2,125							
16	Taxes	1,349					1		
17	Total Distribution	5,681	0	0	0	0	1	(83)	0
18	Customer Accounting	2,068				(4)	(87)	(59)	
19	Customer Service & Information	261				(1)		(4)	
20	Sales Expenses	234				(1)		(8)	
	Administrative & General								
21	Operating Expenses	3,812			(3)	(4)		(53)	
22	Depreciation	618							(37)
23	Taxes	11						2	
24	Total Admin. & General	4,441	0	0	(3)	(4)	0	(51)	(37)
25	Total Gas Expense	48,778	0	0	(3)	(10)	(86)	(210)	(43)
26	OPERATING INCOME BEFORE FIT	3,774	0	0	3	10	86	210	43
	FEDERAL INCOME TAX								
27	Current Accrual	3,554			1	4	30	73	15
28	Deferred FIT	(2,917)							
29	Amort ITC	(18)							
30	NET OPERATING INCOME (line 26 - lines 27 to 29)	$3,155	0	0	2	6	56	137	28
	RATE BASE: PLANT IN SERVICE								
31	Underground Storage	5,041							
32	Distribution Plant	88,538							
33	General Plant	6,709							
34	Total Plant in Service	100,288	0	0	0	0	0	0	0
	ACCUMULATED DEPRECIATION								
35	Underground Storage	2,294							
36	Distribution Plant	26,397							
37	General Plant	2,702							
38	Total Accum. Depreciation	31,393	0	0	0	0	0	0	0
39	DEFERRED TAXES	(7,192)		(2,639)					
40	GAS INVENTORY	1,572	(1,572)						
41	GAIN ON SALE OF BUILDING	(197)							
42	TOTAL RATE BASE (line 34 - line 38 + lines 39 to 41)	$63,078	($1,572)	($2,639)	$0	$0	$0	$0	$0
43	REVENUE REQUIREMENT INCREASE (DECREASE)	$4,192	($227)	($382)	($3)	($9)	($88)	($214)	($44)

Exhibit No. 107
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P. Harms, Staff
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AVISTA UTILITIES
STAFF PRO FORMA IDAHO GAS RESULTS OF OPERATION
TWELVE MONTHS ENDED DECEMBER 31, 2002
(000'S OF DOLLARS)

		STAFF'S ADJUSTMENTS (continued):								
Line No.	DESCRIPTION	G8 Legal Expenses	G9 Misc. Expenses	G10 Corp. Fees	G11 Advertising Expenses	G12 Avista Foundation	G13 Actual Therm Usage	G14 Schedule M Allocator	G15 Debt. Int. Restate	Staff Pro Forma TOTAL
	REVENUES									
1	Total General Business						$23			$50,975
2	Total Transportation									944
3	Other Revenues									656
4	Total Gas Revenues	0	0	0	0	0	23	0	0	52,575
	EXPENSES									
5	Exploration and Development									0
	Production									
6	City Gate Purchases									35,638
7	Purchased Gas Expense									76
8	Net Nat Gas Storage Trans									84
9	Total Production	0	0	0	0	0	0	0	0	35,798
	Underground Storage									
10	Operating Expenses									134
11	Depreciation									105
12	Taxes									45
13	Total Underground Storage	0	0	0	0	0	0	0	0	284
	Distribution									
14	Operating Expenses									2,124
15	Depreciation									2,125
16	Taxes									1,350
17	Total Distribution	0	0	0	0	0	0	0	0	5,599
18	Customer Accounting									1,918
19	Customer Service & Information									256
20	Sales Expenses				(9)					216
	Administrative & General									
21	Operating Expenses	(20)	(111)	(26)		(2)				3,593
22	Depreciation									581
23	Taxes		2							15
24	Total Admin. & General	(20)	(109)	(26)	0	(2)	0	0	0	4,189
25	Total Gas Expense	(20)	(109)	(26)	(9)	(2)	0	0	0	48,260
26	OPERATING INCOME BEFORE FIT	20	109	26	9	2	23	0	0	4,315
	FEDERAL INCOME TAX									
27	Current Accrual	7	38	9	3	1	8	(2)	49	3,790
28	Deferred FIT									(2,917)
29	Amort ITC									(18)
30	NET OPERATING INCOME (line 26 - lines 27 to 29)	13	71	17	6	1	15	2	(49)	3,460
	RATE BASE: PLANT IN SERVICE									
31	Underground Storage									5,041
32	Distribution Plant									88,538
33	General Plant									6,709
34	Total Plant in Service	0	0	0	0	0	0	0	0	100,288
	ACCUMULATED DEPRECIATION									
35	Underground Storage									2,294
36	Distribution Plant									26,397
37	General Plant									2,702
38	Total Accum. Depreciation	0	0	0	0	0	0	0	0	31,393
39	DEFERRED TAXES									(9,831)
40	GAS INVENTORY									0
41	GAIN ON SALE OF BUILDING									(197)
42	TOTAL RATE BASE (line 34 - line 38 + lines 39 to 41)	$0	$0	$0	$0	$0	$0	$0	$0	58,867
43	REVENUE REQUIREMENT INCREASE (DECREASE)	($20)	($111)	($27)	($9)	($2)	($23)	($3)	$77	$3,105

AVISTA UTILITIES
GAS ADVERTISING EXPENSES ADJUSTMENT
(EXHIBIT NO. 108, PAGE 2 OF 2, G11)

Vendor Description	Purpose	Gas
Adventures in Advertising	Western Energy Institute annual meeting.	94.36
Brett Sports & Entertainment	Avista Stadium naming rights contract. Agreement includes stadium naming rights, signage, tv, radio, website and print ads, product promotion and marketing opportunities, substantial media exposure, customer messaging opportunities (safety, service, customer assistance) and other marketing and promotional opportunities.	25,741.10
Brett Sports & Entertainment	Agreement covers activities at Joe Albi Stadium and various team sporting clubs. Agreement includes signage, radio, print and website advertising, the Avista Hero school program, the Avista Community MVP and other promotional considerations.	9,634.53
Community Colleges of Spokane	Annual sponsorship and advertising agreement. Avista receives scoreboard signage for all athletic events, program advertising, product and service marketing opportunities, promotional opportunities, public address recognition at all events and other considerations.	367.73
Eastern Washington University	Agreement includes signage, print and radio advertising, in-game promotions, program advertising and other promotional considerations.	2,757.97
Gonzaga University:	Agreement includes signage, in-game promotions, print and radio advertising and other promotional considerations.	73.55 4,302.44
Hospital Activity Book	Community-oriented advertisement in the Hospital Activity Book for Children.	62.15
Interspace Services Inc.:	Advertising/signage agreement with Interspace Airport Advertising. Contract includes rotunda signage on the main concourse at the Spokane International Airport.	2,096.45 2,096.45 2,096.45 10,230.66
Leadership Spokane	Sponsorship of community education project.	183.86
Playstream LLC	Audio production costs related to an interview with Gary Ely for posting on the Avista Corp. website.	16.55
Spokane Arena	Avista receives signage at the Arena as well as other promotional considerations as agreed upon by the City and Avista.	4,412.76
Spokane Hoopfest Association	Annual marketing and advertising sponsorship for Hoopfest of Spokane. Avista is the "master scoreboard" sponsor for this event and is listed as an official sponsor in all marketing, advertising, promotional and collateral material for this event.	2,206.38

AVISTA UTILITIES
GAS ADVERTISING EXPENSES ADJUSTMENT
(EXHIBIT NO. 108, PAGE 2 OF 2, G11)

Vendor Description	Purpose	Gas
Spokane Interplayers	Annual sponsorship of the Spokane Interplayers Ensemble. Agreement includes program/playbill advertising and other promotional opportunities.	676.62
Spokane Youth Sports Association	One-time sponsorship of fundraising event.	257.41
University of Idaho	Agreement includes radio and print advertising, signage, message center recognition, public address recognition, marketing opportunities and other promotional considerations agreed upon.	3,677.30
Washington State University	One time contribution to the Dept. of Marketing and the College of Business and Economics related to position on the school's marketing advisory committee.	735.46
Subtotal of Image Advertising and Charitable Contributions to remove from Company Filing		$71,720.18
Reduce Staff's Proposed Adjustment by the Gas Radio Spot Expenses Originally Allocated to Electrical System that should have been recorded to gas operations only:		(243.42)
		(1,390.46)
		(1,439.68)
		(1,231.35)
		(3,945.31)
		(1,991.65)
		(3,137.24)
		(28,569.11)
Total Advertising Adjustment to Allocate to Idaho Gas		$29,771.96
Allocation Percentage		31.703%
Allocation to Idaho based upon number of customers		$9,438.60

This schedule is based on the Company's response to IPUC Audit Data Request No. 65

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF JUNE 2004, SERVED THE FOREGOING **DIRECT TESTIMONY OF PATRICIA HARMS,** IN CASE NO. AVU-E-04-1/AVU-G-04-1, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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