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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. )**

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**CASE NO. AVU-E-04-1/  
AVU-G-04-1**

**DIRECT TESTIMONY OF KATHY STOCKTON**

**IDAHO PUBLIC UTILITIES COMMISSION**

**JUNE 21, 2004**

1 Q. Please state your name and business address?

2 A. My name is Kathy Stockton. My business  
3 address is 472 West Washington Street, Boise, Idaho.

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

6 A. I am employed as a Senior Auditor by the  
7 Idaho Public Utilities Commission.

8 Q. Please describe your educational background  
9 and professional experience.

10 A. I received my B.B.A. degree in Accounting  
11 from Boise State University in December 1992. Following  
12 graduation I was employed by the Idaho State Tax  
13 Commission as a Tax Enforcement Technician. In that  
14 capacity I performed desk audits on individual state  
15 income tax returns. I was promoted to Tax Auditor and  
16 later to Senior Tax Auditor. In my capacity as an  
17 auditor, I performed audits on Special Fuel and Motor Fuel  
18 Tax returns, International Fuels Tax Agreement Returns and  
19 Special Fuel User tax returns. I accepted employment with  
20 the Idaho Public Utilities Commission Staff in July of  
21 1995. I attended the National Association of Regulated  
22 Utilities Commissioners Annual Regulatory Studies program  
23 at Michigan State University. I have conducted numerous  
24 audits and cases for electric, gas, and water utilities.  
25 I have previously presented testimony before this

1 Commission.

2 Q. What is the purpose of your testimony?

3 A. The purpose of my testimony is to present  
4 Commission Staff (Staff) adjustments to the revenue  
5 requirement proposed by Avista Corporation (Avista;  
6 Company) in Company witness Falkner's testimony. I  
7 propose adjustments to both net operating income and rate  
8 base for both gas and electric operations. I will also  
9 discuss the Company's Commission Basis Adjustments and why  
10 they are appropriate, as well as Staff's acceptance of the  
11 Company's Pro forma Insurance adjustment.

12 Q. Would you please summarize your testimony in  
13 this case?

14 A. Yes. I recommend 12 Staff adjustments (7  
15 Electric and 5 Gas) to the Company-proposed test year  
16 revenue requirement in the following areas:

17 Electric

18 (1) Coyote Springs 2 - increases net income  
19 by \$172,000; decreases rate base by  
20 \$1,621,000; and decreases the total  
21 revenue requirement by \$504,000.

22 (2) Capital Costs of Small Generation  
23 Options - decreases rate base by  
24 \$539,000; and decreases the total  
25 revenue requirement by \$78,000.

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- (3) Non-Executive Labor - increases net income by \$26,000; and decreases the total revenue requirement by \$41,000.
  - (4) Executive Labor - increases net income by \$9,000; and decreases the total revenue requirement by \$14,000.
  - (5) Vegetation Management - increases net income by \$288,000; and decreases the total revenue requirement by \$451,000.
  - (6) Accounts Receivable Program fees - increases net income by \$357,000; and decreases the total revenue requirement by \$558,000.
  - (7) Corporate Fees and Expenses - increases net income by \$74,000; and decreases the total revenue requirement by \$116,000.
- Gas
- (1) Gas Inventory - decreases rate base by \$1,572,000; and decreases the total revenue requirement by \$227,000.
  - (2) Non-Executive Labor - increases net income by \$6,000; and decreases the total revenue requirement by \$9,000.
  - (3) Executive Labor - increases net income by \$2,000; and decreases the total

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revenue requirement by \$3,000.

(4) Accounts Receivable Program fees - increases net income by \$56,000; and decreases the total revenue requirement by \$88,000.

(5) Corporate Fees and Expenses - increases net income by \$17,000; and decreases the total revenue requirement by \$27,000.

Q. Did Staff perform an audit in preparing its case?

A. Yes. In assessing the Company's Application, Staff reviewed and audited the Company's books and records for the 2002 test year.

Q. Does Staff agree with the use of a 2002 test year?

A. Staff accepts the average of monthly average, 2002 test year and agrees with the beginning results of operations.

Q. Does Staff accept the allocation method used by the Company?

A. Staff has reviewed the method the Company uses to assigned and allocate common costs and common general plant between services and between jurisdictions. Staff finds the allocation methodology to be sound and acceptable.

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Q. Do you have any exhibits that support your testimony?

A. Yes. I am sponsoring 12 exhibits discussed in my testimony: Staff Exhibits No. 109 through 115 related to my electric adjustments; and Staff Exhibits No. 116 through 120 related to my gas adjustments.

**ELECTRIC SECTION**

Q. Would you please enumerate the Standard Commission Basis Adjustments to Electric Results of Operations proposed by Avista?

A. The Company adjustments detailed in Company Exhibit No. 14, beginning with page 4 of 10, by column letter designation are:

- b. Per Results Report
- c. Deferred FIT Rate Base
- d. Deferred Gain on Office Building
- e. Colstrip 3 AFUDC Elimination
- f. Colstrip Common AFUDC
- g. Kettle Falls Disallowance
- h. MOPS Deferred costs
- i. Weatherization & DSM Investment
- j. Customer Advances
- k. Revenue Adjustment
- l. Hydro Relicensing Adjustment
- m. Eliminate Franchise Fees
- n. Property Tax
- o. Uncollectible Expense
- p. Regulatory Expense
- q. Injuries and Damages
- r. Federal Income Tax
- s. Restate Debt Interest
- t. Idaho PCA
- u. Nez Perce Settlement Adjustment
- v. Remove Misc Tariffs Adjustment

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- w. PGE Monetization Amortization Adjustment
- x. Payroll Clearing Adjustment

The Company adjustments begin with the Column b, which starts with the December 2002 Results of Operations Report. The Results of Operations reports are filed monthly, for both gas and electric, with the Commission. The amounts in the report are for the twelve months ended December 31, 2002. The net operating income dollar amounts tie back to the Company's general ledger. The Company computes rate base using the average of monthly averages method.

Q. Does the Staff accept the Standard Commission Basis Adjustments?

A. Yes. Staff has audited these adjustments and finds them acceptable.

Q. Please explain the reasonableness of the Company Pro Forma Insurance adjustment and why Staff accepts the Company's adjustment.

A. The Company's adjustment updates the 2002 insurance expense for general liability, directors and officer liability, property and other policies to the actual cost of insurance policies that are in effect for 2004. Staff has verified that the policy expenses have increased, and that these changes are known and measurable. Staff has verified that the insurance costs

1 that are properly charged to the various non-utility  
2 operations have been excluded from the Company's  
3 adjustment. Staff accepts this Company adjustment as  
4 filed.

5 **STAFF ELECTRIC ADJUSTMENTS TO RATE BASE & NET OPERATING**  
6 **INCOME**

7 Q. Please explain Staff's adjustment to the  
8 Company's Pro Forma Coyote Springs 2 adjustment.

9 A. Staff's adjustment brings the Company's  
10 adjustment to the actual balance as of April 30, 2004.  
11 This adjustment incorporates the latest insurance payment  
12 received for the transformer. In a confidential response  
13 to Staff Production Request No. 268, the Company indicated  
14 that additional insurance proceeds had been received.  
15 Staff included the actual balance as of April 30, 2004 to  
16 capture those insurance proceeds. Staff's adjustment  
17 includes the effect of this insurance payment on the  
18 Company's net plant investment in the Coyote Springs 2  
19 project; in contrast, the Company's filing estimated the  
20 net operating income numbers for 2004 and based the rate  
21 base numbers on the average of the projected plant  
22 balances at 12/31/2003 and 12/31/2004. I have verified  
23 that the Coyote Springs 2 project was transferred from  
24 Avista Power (an un-regulated subsidiary of Avista  
25 Corporation) to Avista Utilities at cost. Staff was

1 provided with access to the plant records for Coyote  
2 Springs 2 during two on-site audits in Spokane. Staff  
3 witness Sterling has reviewed the prudence of this  
4 project.

5 Q. What is the effect of Staff's adjustment to  
6 the Company's Pro Forma Coyote Springs 2 adjustment?

7 A. Staff's adjustment increases Idaho electric  
8 net income by \$172,000; decreases rate base by \$1,621,000;  
9 and decreases the total revenue requirement by \$504,000 as  
10 shown on Staff Exhibit No. 109.

11 Q. Please explain Staff's adjustment to the  
12 Company's adjustment - Capital Costs Small Gen Options.

13 A. In Order No. 29130 issued August 9, 2002 in  
14 Case No. AVU-E-02-6 the Commission stated:

15 We find that the PCA mechanism is for  
16 recovery of variable costs and is not  
17 an appropriate vehicle for recovery of  
18 capital costs. Accordingly, we direct  
19 the Company to remove the capital costs  
20 associated with Kettle Falls Bi-Fuel  
21 (\$56,598), Devil's Gap (\$96,743), and  
22 Othello (\$744,884) from the PCA deferral  
23 accounts together with corresponding  
24 adjustments to the carrying charges.

25 Order 29130 at 15.

26 The Company proposed to amortize the total of  
27 the capital costs and the related carrying charge of  
28 \$921,184 over a 5-year period beginning January 2003, and  
29 Commission Staff concurred. Staff also agreed that the

1 direct inclusion in rates of any amortized expense would  
2 be addressed in a future rate proceeding. Consequently,  
3 the Company has asked to include the capital cost  
4 amortization expense in rates. The Company has also asked  
5 to earn a return on the unamortized capital cost balance  
6 by including it in rate base.

7 Staff finds it reasonable to include the  
8 \$184,000 in amortized expenses for recovery in this rate  
9 case. However, Staff does not find it reasonable to  
10 include the \$829,000 unamortized balance in rate base.  
11 The Company had pursued various projects in order to avoid  
12 the additional high-costs purchases of energy from the  
13 wholesale markets during the 2000/2001 energy crisis. The  
14 projects were terminated prior to completion after the  
15 energy crisis subsided. The projects were never completed  
16 or beneficial (used and useful) to the customers.  
17 Therefore, the Company should not be entitled to earn a  
18 return on assets that are not used and useful. Because  
19 the plant investment is not used and useful, it does not  
20 meet the regulatory requirement for inclusion in rate  
21 base. Recovery of the actual capital expenditures without  
22 earning a return on the investment is the appropriate  
23 regulatory treatment in this case. Staff therefore  
24 removes the rate base portion of the Company's pro forma  
25 adjustment.

1 Q. What is the effect of Staff's adjustment to  
2 the Company's adjustment - Capital Costs Small Gen  
3 Options?

4 A. Staff's adjustment decreases Idaho electric  
5 rate base by \$539,000; and decreases the total revenue  
6 requirement by \$78,000 as shown on Staff Exhibit No. 110.

7 Q. Please explain Staff's adjustment to the  
8 Company's Pro Forma Labor Non-Executive and Executive  
9 adjustments.

10 A. Traditionally, ratemaking principles have  
11 allowed for the inclusion of known and measurable changes  
12 to test year expenses. Wages and salaries in the test  
13 year are usually adjusted to reflect pay changes in the  
14 current level of expense and better match the expenses on  
15 a going-forward basis. The Company has included two  
16 adjustments that reflect known and measurable changes to  
17 the test period union and non-union wages and salaries, as  
18 well as known and measurable changes to the executive  
19 salaries. The test period expenses for wages and salaries  
20 is restated with the increases in wage and salaries for  
21 2002, 2003, and 2004, as if they were in place during the  
22 entire pro forma test year. When the Company filed its  
23 case, the amount of the increase for 2004 was estimated to  
24 be 3.5% for both union and non-union employees. In  
25 response to Staff Production Request 245, the actual

1 salary increase in 2004 for non-union employees was 2.9%,  
2 and not the 3.5% used in calculating the Company Pro Forma  
3 Labor adjustments for Executive and Non-executive labor.  
4 Staff's adjustments replace the estimate used by the  
5 Company with the actual salary increases for 2002, 2003,  
6 and 2004. Staff's adjustment not only updates the non-  
7 union budgeted 3.5% salary increase to the actual 2.9%  
8 increase, but also updated the Pro Forma Labor Executive  
9 adjustment for changes in salaries and staffing that  
10 resulted from the retirement of several key executives and  
11 the subsequent hiring of replacements for those positions.

12 Q. What is the effect of Staff's adjustment to  
13 the Company's Pro Forma Labor Non-Executive adjustment?

14 A. Staff's adjustment increases Idaho electric  
15 net operating income by \$26,000, and decreases the total  
16 revenue requirement by \$41,000 as shown on Staff Exhibit  
17 No. 111.

18 Q. What is the effect of Staff's adjustment to  
19 the Company's Pro Forma Labor - Executive adjustment?

20 A. Staff's adjustment increases Idaho electric  
21 net operating income by \$9,000 and decreases the total  
22 revenue requirement by \$14,000 as shown on Staff Exhibit  
23 No. 112.

24 Q. Please explain Staff's adjustment to the  
25 Company's Pro Forma Vegetation Management adjustment.

1           A.       Staff's adjustment reflects replacing the  
2 Company's requested vegetation management expenses with an  
3 average of the actual amounts expended for vegetation  
4 management during the years 1998 through 2003. It is  
5 appropriate to use actual dollars, as these amounts are  
6 known and measurable, rather than an estimate based on a  
7 budget. The budgeted number is just that - a budgeted  
8 number, an estimate. Because the Company has some  
9 flexibility in the budgeting process, and because it is  
10 not known what the company will actually expend for  
11 vegetation management, it is more appropriate to look at  
12 what has taken place in the past. The past expenses are  
13 known and measurable. The vegetation management budget  
14 has been reduced in many years based on the Company cash  
15 flow and earnings results. There is no reason to believe  
16 it will be different in the future.

17                       In the prior electric rate case (AVU-E-98-11)  
18 Staff found that the five-year average of the actual  
19 amounts booked for tree-trimming costs (vegetation  
20 management) was \$1,205,893. The five year average similar  
21 to that used in the last rate case is \$1,217,048. The  
22 average of the actual amounts booked for vegetation  
23 management for the years 1998 through 2003 is \$1,322,464.  
24 Staff notes that the amount recorded in 2002 was  
25 abnormally low at \$550,255. The amounts expended by year

1 tend to fluctuate because of the nature of the program.  
2 Staff is aware that the vegetation management program  
3 expenditures are not the same from year to year, as  
4 integrated vegetation management includes specific  
5 treatments for each tree-trimming circuit, and each  
6 circuit is different in size, and the requirements for  
7 each circuit are different. The integrated management  
8 approach does not take a one size fits all approach, thus  
9 the fluctuation in expenditures from year to year.

10 Staff proposes to adjust the Company's Pro  
11 Forma Vegetation Management adjustment to reflect the  
12 average amount actually expensed during the six-year  
13 period from 1998 through 2003. Staff asserts that a six-  
14 year average is reasonable, given the fluctuation in the  
15 amounts actually expended from year to year. The last  
16 electric rate case used a 1997 test year. The six-year  
17 average reflects the activity in vegetation management  
18 from the last rate case through the end of 2003. This  
19 six-year average allows the Staff to use known and  
20 measurable expenses in calculating an appropriate amount  
21 for future recovery in rates. The average reflects the  
22 variability in the amount expended from year to year due  
23 to the cyclical nature of the vegetation management  
24 program, and recognizes that the amount recorded in the  
25 test year is abnormally low in comparison to other years.

1 Q. What is the effect of Staff's adjustment to  
2 the Company's Pro Forma Vegetation Management adjustment?

3 A. Staff's adjustment increases Idaho electric  
4 net operating income by \$288,000; and decreases the total  
5 revenue requirement by \$451,000 as shown on Staff Exhibit  
6 No. 113.

7 Q. Please explain Staff's Account Receivable  
8 Program Fees adjustment.

9 A. This adjustment removes the fees associated  
10 with the Company's Accounts Receivable Sale Program. The  
11 Accounts Receivable Sale Program was initiated in 1988  
12 when the Company entered into a five-year agreement to  
13 sell \$30 million of its accounts receivable. At that  
14 time, the effect of the program was to reduce the  
15 Company's need for financing and provide the Company with  
16 a source of funds at a much lower effective cost. This  
17 arrangement was a true sale of assets because the accounts  
18 receivable were sold without recourse to the Company. The  
19 Company previously agreed in a letter to Staff that the  
20 sale of the accounts receivable and all costs associated  
21 with the program would not be included or recovered  
22 through the Company's cost of capital. Since 1988, the  
23 Company has expanded the limit to sell up to \$125 million  
24 of the Company's accounts receivables.

25 In Production Request 261, the Staff asked

1 the Company to "explain and quantify the benefits of the  
2 Accounts Receivable Sale program for the ratepayer." The  
3 Company stated, in response to Production Request 261:

4 The Accounts Receivable Sale program  
5 is a cost effective approach of funding  
6 the cost of carrying customer receivables  
7 on the Company's balance sheet. The  
8 alternative to factoring accounts  
9 receivable would be a working capital  
10 addition to rate base at the Company's  
11 authorized rate of return.

12 While the response does not specifically explain the  
13 benefits of the program for the ratepayer, it does state  
14 that the program is like a working capital addition to  
15 rate base, or a substitute for such a program.

16 Q. Why have you proposed disallowing the fees  
17 associated with the Accounts Receivable Sale Program?

18 A. I have calculated a negative cash working  
19 capital for the Company. Because the Company asserts that  
20 the Accounts Receivable Sale Program is a substitute for a  
21 working capital requirement and the Company does not have  
22 a working capital requirement, I have removed the fees  
23 associated with the Accounts Receivable Program.

24 Q. What is the effect of Staff's Accounts  
25 Receivable Program fees adjustment?

A. Staff's adjustment increases Idaho electric  
net operating income by \$357,000 and decreases the total  
revenue requirement by \$558,000 as shown on Staff Exhibit

1 No. 114.

2 Q. Please explain working capital.

3 A. Working capital is the amount of capital  
4 needed to run the business between the time expenses are  
5 disbursed to provide the services paid for by consumers  
6 and the revenues from those services are received.  
7 Working capital includes prepayments, inventories, and  
8 cash working capital. Cash working capital is the average  
9 amount of capital (cash) that is supplied by the investors  
10 over and above the investment in plant and other rate base  
11 items that is required to fill the gap between the time  
12 when expenditures are made to provide services and the  
13 time collections are received for these services.  
14 Historically this Commission has used the balance sheet  
15 method for determining cash working capital for large  
16 utilities.

17 Q. What is the balance sheet method for  
18 determining cash working capital?

19 A. The balance sheet method of cash working  
20 capital evaluates the need for cash working capital by  
21 identifying whether investors, usually shareholders, are  
22 providing the working capital or whether it is being  
23 provided from some other source. Using the balance sheet  
24 method I have calculated a negative cash working capital  
25 for Avista Corporation. At the corporate level, the cash

1 working capital requirement is a negative \$139,799  
2 million. This negative amount indicates that shareholders  
3 were not the source of working capital, and subsequently  
4 no return to the shareholders should be allowed. The  
5 Company does not readily maintain the information  
6 necessary to perform a working capital analysis at the  
7 Avista Utilities level, let alone for Avista Utilities,  
8 Electric Operations, at the Idaho Jurisdictional level.  
9 Therefore, Avista Corp data must be used to calculate cash  
10 working capital.

11 Q. Did the Company request a return on cash  
12 working capital?

13 A. No, the Company did not request a return on  
14 cash working capital, nor did they request a return on  
15 materials and supplies (inventory), and prepayments.

16 Q. Has the Commission authorized negative cash  
17 working capital?

18 A. Historically, the Commission has not  
19 recognized negative cash working capital, finding that the  
20 cash working capital allowance in those cases should be  
21 zero. In Case No. SOU-W-94-1 the Commission stated,  
22 "Because the Commission has never recognized negative cash  
23 working capital, we find that the working capital  
24 allowance in this case should be zero." Order No. 25785  
25 at 3.

1                   Consequently, to the extent the Accounts  
2 Receivable Sale Program is a substitutes for working  
3 capital, the program fees too should not be allowed  
4 recovery.

5           Q.       Please explain Staff's Corporate Fees and  
6 Expenses adjustment.

7           A.       Staff's Corporate Fees and Expenses  
8 adjustment allocates 50% of the amounts recorded in FERC  
9 account 930.27, Corporate Fees and Expenses, Electric  
10 Operations, for the Idaho jurisdiction, to affiliates to  
11 reflect the benefit received by the other affiliates from  
12 these activities. In Staff Production Request 112, the  
13 Staff inquired of the Company how the Board of Directors  
14 fees and other expenses were allocated to Avista Utilities  
15 and to the other subsidiaries. The request specifically  
16 asked the Company to:

17                   identify expenses associated with  
18 bond issuances, analyst fees, rating  
19 agencies, Board of Directors' fees, and  
20 shareholder expenses and how they are  
allocated to Avista Corp. and its  
subsidiaries, including the utility and  
Idaho Gas and Electric Operations.

21  
22 The Company's response did not identify the expenses  
23 specifically. The response further stated:

24                   Other costs related to Avista's debt  
25 and equity financing activities, such  
as Board of Director fees, rating agency  
fees and other shareholder costs, are

1 generally recorded to FERC account 930.2,  
2 Miscellaneous General Expenses. These  
3 account 930 costs are primarily assigned  
4 the common-to-all utility code '7' which  
5 spreads those expenses initially to both  
6 electric and gas operations, and then to  
7 all state jurisdictions, through  
8 application of the 'Four Factor'.

9 Q. Did the Company's response provide the amount  
10 of or indicate that the other subsidiaries were allocated  
11 any portion of these expenses?

12 A. No. The Company did not provide Staff with  
13 any information showing the subsidiaries' portion of these  
14 expenses prior to being allocated to the utility  
15 operations using the common-to-all utility code. This  
16 utility code does not include the subsidiaries in the  
17 allocation process. Therefore, due to the nature of the  
18 allocation method, any apportionment to the subsidiaries  
19 must be done prior to the expenses being allocated to  
20 utility operations through the current allocation process.

21 The Board of Directors of Avista Corporation is  
22 responsible for all subsidiaries including Avista  
23 Utilities. Because the other subsidiaries are included in  
24 the required SEC filings, and the Annual Report to  
25 Shareholders, among other things, the other subsidiaries  
benefit from these activities, and therefore should bear  
some of the costs. Therefore, the Staff adjustment  
assigns 50% of these activities to the other affiliated

1 subsidiaries.

2 Q. Did you allocate 50% of the total in the  
3 930.2 account to the other subsidiaries?

4 A. No, I allocated 50% of sub-account 930.27  
5 Corporate Fees and Expenses to the other subsidiaries,  
6 since this was the sub-account used by the Company for  
7 Board of Directors' fees, shareholder expenses, and other  
8 corporate expenses.

9 Q. How did you determine that 50% was the  
10 appropriate allocation percentage?

11 A. Absent any further information from the  
12 Company, I used the 50% allocation based on what other  
13 utility companies in Idaho use to allocate a portion of  
14 the Board of Directors fees and other related expenses to  
15 affiliates. In Case No. IPC-E-03-13, Staff witness Leckie  
16 recommended that the cost of the Document Management  
17 System be allocated equally between the ratepayers and the  
18 shareholders, because that is the same allocation  
19 percentage (50%) that IDACORP uses to allocate Board of  
20 Director fees. Moreover, Order No. 29505 from that case  
21 states:

22 The Commission finds that including  
23 the entire cost of the Shareowners'  
24 Document Management System in rate base  
25 would be unfair to ratepayers. Because  
the system benefits IDACORP in its  
administrative responsibilities much like  
the fees paid to its Board of Directors,  
we find that it should be allocated the

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same as the Board of Director's fees in this case. Therefore, only one-half the cost of the system should be included in Idaho Power's rate base.

Similarly, Intermountain Gas Company's utility operations is allocated 50% of the Board of Directors fees and other similar expenses, with the remaining 50% allocated to other affiliates.

Q. What is the effect of Staff's Corporate Fees and Expenses adjustment?

A. Staff's adjustment increases Idaho electric net operating income \$74,000; and decreases the total revenue requirement by \$116,000 as shown on Staff Exhibit No. 115.

Q. Do you have additional adjustments for Electric Operations?

A. No I do not.

**GAS SECTION**

Q. Would you please enumerate the Standard Commission Basis Adjustments to Gas Results of Operations proposed by Avista?

A. The Company adjustments as detailed in Company Exhibit No. 15, beginning with page 4 of 8, by column letter designation are:

- b. Per Results Report
- c. Deferred FIT Rate Base
- d. Deferred Gain on Office Building
- e. Gas Inventory

- 1 f. Weatherization & DSM Investment
- 2 g. Customer Advances
- 3 h. Eliminate Franchise Fees
- 4 i. Property Tax
- 5 j. Uncollectible Expense
- 6 k. Regulatory Expense Adjustment
- 7 l. Injuries and Damages
- 8 m. Federal Income Tax
- 9 n. Restate Debt Interest
- 10 o. Payroll Clearing Adjustment

11 The Company adjustments begin with the Column  
12 b, which starts with the December 2002 Results of  
13 Operations Report. The Results of Operations reports are  
14 filed monthly, for both gas and electric, with the  
15 Commission. The amounts in the report are for the twelve  
16 months ended December 31, 2002. The net operating income  
17 dollar amounts tie back to the Company's general ledger.  
18 The Company computes rate base using the average of  
19 monthly averages method.

20 Q. Does the Staff accept the Standard Commission  
21 Basis Adjustments?

22 A. Staff has audited these adjustments and with  
23 the exception of the Gas Inventory adjustment, Staff finds  
24 them acceptable.

25 Q. Please explain the reasonableness of the  
Company Pro Forma Insurance Adjustment and why Staff  
accepts the Company's adjustment.

A. The Company's adjustment updates the 2002  
insurance expense for general liability, directors and

1 officer liability, property and other policies to the  
2 actual cost of insurance policies that are in effect for  
3 2004. Staff has verified that the policy expenses have  
4 increased, and that these changes are known and  
5 measurable. Staff has verified that the insurance costs  
6 that are properly charge to the various non-utility  
7 operations have been excluded from the Company's  
8 adjustment. Staff accepts this adjustment as filed by  
9 Avista.

10 **STAFF GAS ADJUSTMENTS TO RATE BASE & NET OPERATING INCOME**

11 Q. Please explain Staff's adjustment to the  
12 Company's Gas Inventory Pro Forma adjustment.

13 A. This adjustment removes the Company's Pro  
14 Forma Gas Inventory adjustment from rate base. Although  
15 the Company has been including a gas inventory adjustment  
16 since 1984, Staff has not identified a rationale to  
17 justify continuing its current inclusion in rate base.

18 Gas inventory is normally considered part of  
19 working capital. Working capital includes inventories,  
20 prepayments, minimum and compensating bank balances, and  
21 cash working capital. Typically three kinds of  
22 inventories are included in working capital: fuel stocks,  
23 construction material in inventory, and materials and  
24 supplies held for operating and maintenance purposes.  
25 Working capital is generally allowed in recognition that a

1 company pays some of its expenses before it receives  
2 revenue, and to the extent shareholders supply that money,  
3 they should earn a return on it. However, as described  
4 previously in my testimony, Staff identified a negative  
5 cash working capital for Avista Corporation so cash  
6 working capital is not an appropriate rate base addition.  
7 Therefore, including gas inventory in rate base for this  
8 case also is not appropriate. As previously discussed,  
9 the Commission has not historically recognized negative  
10 cash working capital and had consequently found that the  
11 cash working capital allowance in those cases should be  
12 zero.

13 Q. What is the effect of Staff's Gas Inventory  
14 adjustment?

15 A. Staff's Gas Inventory adjustment decreases  
16 Idaho gas rate base by \$1,572,000; and decreases the total  
17 revenue requirement by \$227,000 as shown on Staff Exhibit  
18 No. 116.

19 Q. Please explain Staff's adjustment to the  
20 Company's Executive and Non-Executive Labor Pro Forma  
21 adjustments.

22 A. As previously stated in the electric section,  
23 ratemaking principles have traditionally allowed for the  
24 inclusion of known and measurable changes to test year  
25 expenses. Wages and salaries in the test year are usually

1 adjusted to reflect pay changes in the current level of  
2 expense and better match the expenses on a going-forward  
3 basis. As previously discussed, Staff's adjustments  
4 replace the estimate used by the Company with the actual  
5 salary increases for 2002, 2003, and 2004. Staff's  
6 adjustment not only updates the non-union budgeted 3.5%  
7 salary increase to the actual 2.9% increase, but also  
8 updated the Pro Forma Labor - Executive adjustment for  
9 changes in salaries and staffing that resulted from the  
10 retirement of several key executives and the subsequent  
11 hiring of replacements for those positions.

12 Q. What is the effect of Staff's adjustment to  
13 the Company's Pro Forma Labor Non-Executive adjustment?

14 A. Staff's adjustment increases Idaho gas net  
15 operating income by \$6,000; and decreases the total  
16 revenue requirement by \$9,000 as shown on Staff Exhibit  
17 No. 117.

18 Q. What is the effect of Staff's adjustment to  
19 the Company's Pro Forma Labor Executive adjustment?

20 A. Staff's adjustment increases Idaho gas net  
21 operating income by \$2,000; and decreases the total  
22 revenue requirement by \$3,000 as shown on Staff Exhibit  
23 No. 118.

24 Q. Please explain Staff's adjustment to the  
25 Accounts Receivable Sale Program Fees?

1           A.     As stated in the electric section of my  
2 testimony, this adjustment removes the fees associated  
3 with the Company's Accounts Receivable Sale Program. The  
4 Company has equated the fees associated with this program  
5 with working capital. As I stated previously, Avista  
6 Corporation has a negative cash working capital making a  
7 working capital adjustment or expenditures associated with  
8 working capital inappropriate in this case. As previously  
9 discussed, the Commission has not historically recognized  
10 negative cash working capital and has found that the cash  
11 working capital allowance in those cases should be zero.  
12 therefore, Staff has simply removed these fees in this  
13 case.

14           Q.     What is the effect of Staff's Accounts  
15 Receivable Program fees adjustment?

16           A.     Staff's adjustment increases Idaho gas net  
17 operating income by \$56,000; and decreases the total  
18 revenue requirement by \$88,000 as shown on Staff Exhibit  
19 No. 119.

20           Q.     Please explain Staff's Corporate Fees and  
21 Expenses adjustment.

22           A.     As I stated in the electric section, Staff's  
23 Corporate Fees and Expenses adjustment allocates 50% of  
24 the amounts recorded in the corresponding natural gas FERC  
25 account 1930.27, Corporate Fees and Expenses, Gas

1 Operations, for the Idaho jurisdiction to the other  
2 subsidiaries for the same reasons enumerated.

3 Q. What is the effect of Staff's Corporate Fees  
4 and Expenses adjustment?

5 A. Staff's adjustment increases Idaho gas net  
6 operating income by \$17,000; and decreases the total  
7 revenue requirement by \$27,000 as shown on Staff Exhibit  
8 No. 120.

9 Q. Do you have additional adjustments for Gas  
10 Operations?

11 A. No, I do not.

12 Q. Does this conclude your direct testimony?

13 A. Yes, it does.

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

Avista Utilities - Electric Operations Coyote Springs 2 Adjustment		COYOTE SPRINGS 2		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue			
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses	1,296	1,122	(174)
8	Purchased Power			
9	Depreciation and Amortization	1,629	1,535	(94)
10	Taxes	24	24	0
11	Total Production & Transmission	2,949	2,681	268
Distribution				
12	Operating Expenses			
13	Depreciation			
14	Taxes	(32)	(29)	3
15	Total Distribution	(32)	(29)	3
16	Customer Accounting			
17	Customer Service & Information			
18	Marketing			
Administrative & General				
19	Operating Expenses	0	0	0
20	Depreciation			
21	Taxes			
22	Total Admin. & General	0	0	0
23	Total Electric Expenses	2,917	2,652	(265)
24	Operating Income before FIT	(2,917)	(2,652)	265
Federal Income Taxes				
25	Current Accrual	35.0% (1,021)	(928)	93
26	Deferred Income Taxes			
27	NET OPERATING INCOME	(\$1,896)	(\$1,724)	\$172
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
28	Intangible			
29	Production	39,096	35,772	(3,324)
30	Transmission	0	1,519	1,519
31	Distribution			
32	General			
33	Total Plant in Service	39,096	37,291	(1,805)
34	ACCUMULATED DEPRECIATION	1,629	1,534	(95)
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	1,629	1,534	(95)
37	GAIN ON SALE OF BUILDING			
38	DEFERRED TAXES	(502)	(413)	89
39	TOTAL RATE BASE	\$36,965	\$35,344	(\$1,621)
40	Revenue Requirement Increase (Decrease)			(\$504)

Exhibit No. 109  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Capital Costs of Small Generation Options Adjustment		CAPITAL COSTS OF SMALL GENERATION OPTIONS		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue			
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses			0
8	Purchased Power			
9	Depreciation and Amortization	184	184	0
10	Taxes			0
11	Total Production & Transmission	184	184	0
Distribution				
12	Operating Expenses			
13	Depreciation			
14	Taxes	0	0	0
15	Total Distribution	0	0	0
16	Customer Accounting	0	0	0
17	Customer Service & Information			
18	Marketing			
Administrative & General				
19	Operating Expenses	0	0	0
20	Depreciation			
21	Taxes			
22	Total Admin. & General	0	0	0
23	Total Electric Expenses	184	184	0
24	Operating Income before FIT	(184)	(184)	0
Federal Income Taxes				
25	Current Accrual	35.0%		
26	Deferred Income Taxes	(64)	(64)	0
27	NET OPERATING INCOME	(\$120)	(\$120)	\$0
<b>RATE BASE</b>				
PLANT IN SERVICE				
28	Intangible			
29	Production	829	0	(829)
30	Transmission			
31	Distribution			
32	General			
33	Total Plant in Service	829	0	(829)
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			
38	DEFERRED TAXES	(290)	0	290
39	TOTAL RATE BASE	\$539	\$0	(\$539)
40	Revenue Requirement Increase (Decrease)			(\$78)

Exhibit No. 110  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Non-Executive Labor Adjustment		NON-EXECUTIVE LABOR ADJUSTMENT		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue	0	0	0
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses	390	378	(12)
8	Purchased Power			
9	Depreciation and Amortization			0
10	Taxes			0
11	Total Production & Transmission	390	378	(12)
Distribution				
12	Operating Expenses	272	270	(2)
13	Depreciation			
14	Taxes	(12)	(11)	1
15	Total Distribution	260	259	(1)
16	Customer Accounting	140	133	(7)
17	Customer Service & Information	3	3	0
18	Marketing	18	17	(1)
Administrative & General				
19	Operating Expenses	273	254	(19)
20	Depreciation			
21	Taxes			
22	Total Admin. & General	273	254	(19)
23	Total Electric Expenses	1,084	1,044	(40)
24	Operating Income before FIT	(1,084)	(1,044)	40
Federal Income Taxes				
25	Current Accrual	35.0% (379)	(365)	14
26	Deferred Income Taxes			
27	NET OPERATING INCOME	(\$705)	(\$679)	\$26
<b>RATE BASE</b>				
PLANT IN SERVICE				
28	Intangible			
29	Production			0
30	Transmission			
31	Distribution			
32	General			
33	Total Plant in Service	0	0	0
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			
38	DEFERRED TAXES			0
39	TOTAL RATE BASE	\$0	\$0	\$0
40	Revenue Requirement Increase (Decrease)			(\$41)

Exhibit No. 111  
Case No. AVU-E-04-1/  
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K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Executive Labor Adjustment		EXECUTIVE LABOR ADJUSTMENT		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue	0	0	0
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses	23	26	3
8	Purchased Power			3
9	Depreciation and Amortization			0
10	Taxes			0
11	Total Production & Transmission	23	26	3
Distribution				
12	Operating Expenses			0
13	Depreciation			0
14	Taxes	0	0	0
15	Total Distribution	0	0	0
16	Customer Accounting			0
17	Customer Service & Information			0
18	Marketing			0
Administrative & General				
19	Operating Expenses		(17)	(17)
20	Depreciation			(17)
21	Taxes			(17)
22	Total Admin. & General	0	(17)	(17)
23	Total Electric Expenses	23	9	(14)
24	Operating Income before FIT	(23)	(9)	14
Federal Income Taxes				
25	Current Accrual	35.0% (8)	(3)	5
26	Deferred Income Taxes			
27	NET OPERATING INCOME	(\$15)	(\$6)	\$9
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
28	Intangible			
29	Production			0
30	Transmission			0
31	Distribution			0
32	General			0
33	Total Plant in Service	0	0	0
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			0
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			0
38	DEFERRED TAXES			0
39	TOTAL RATE BASE	\$0	\$0	\$0
40	Revenue Requirement Increase (Decrease)			(\$14)

Exhibit No. 112  
Case No. AVU-E-04-1/  
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K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Vegetation Management Adjustment		VEGETATION MANAGEMENT ADJUSTMENT		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue	0	0	0
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses	150	155	5
8	Purchased Power			
9	Depreciation and Amortization			0
10	Taxes			0
11	Total Production & Transmission	150	155	5
Distribution				
12	Operating Expenses	1,070	617	(453)
13	Depreciation			
14	Taxes	(13)	(8)	5
15	Total Distribution	1,057	609	(448)
16	Customer Accounting			
17	Customer Service & Information			
18	Marketing			
Administrative & General				
19	Operating Expenses	0	0	0
20	Depreciation			
21	Taxes			
22	Total Admin. & General	0	0	0
23	Total Electric Expenses	1,207	764	(443)
24	Operating Income before FIT	(1,207)	(764)	443
Federal Income Taxes				
25	Current Accrual	35.0% (422)	(267)	155
26	Deferred Income Taxes			
27	NET OPERATING INCOME	(\$785)	(\$497)	\$288
<b>RATE BASE</b>				
PLANT IN SERVICE				
28	Intangible			
29	Production			
30	Transmission			
31	Distribution			
32	General			
33	Total Plant in Service	0	0	0
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			
38	DEFERRED TAXES			0
39	TOTAL RATE BASE	\$0	\$0	\$0
40	Revenue Requirement Increase (Decrease)			(\$451)

Exhibit No. 113  
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AVU-G-04-1  
K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Accounts Receivable Fees Adjustment		ACCOUNTS RECEIVABLE FEES		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue	0	0	0
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses			
8	Purchased Power			0
9	Depreciation and Amortization			0
10	Taxes			0
11	Total Production & Transmission	0	0	0
Distribution				
12	Operating Expenses			
13	Depreciation			0
14	Taxes	0	6	6
15	Total Distribution	0	6	6
16	Customer Accounting	0	(556)	556
17	Customer Service & Information			
18	Marketing			
Administrative & General				
19	Operating Expenses			
20	Depreciation			0
21	Taxes			
22	Total Admin. & General	0	0	0
23	Total Electric Expenses	0	(550)	(550)
24	Operating Income before FIT	0	550	550
Federal Income Taxes				
25	Current Accrual	35.0%	0	193
26	Deferred Income Taxes			193
27	NET OPERATING INCOME	<u>\$0</u>	<u>\$357</u>	<u>\$357</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
28	Intangible			
29	Production			
30	Transmission			0
31	Distribution			
32	General			
33	Total Plant in Service	0	0	0
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			0
38	DEFERRED TAXES			0
39	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
40	Revenue Requirement Increase (Decrease)			<u>(\$558)</u>

Exhibit No. 114  
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K. Stockton, Staff  
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AVISTA UTILITIES  
ELECTRIC PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Electric Operations Corporate Fees and Expenses Adjustment		CORPORATE FEES AND EXPENSES		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Interdepartmental Sales			
3	Sales For Resale			
4	Total Sales of Electricity	0	0	0
5	Other Revenue	0	0	0
6	Total Electric Revenue	0	0	0
<b>EXPENSES</b>				
Production and Transmission				
7	Operating Expenses			0
8	Purchased Power			
9	Depreciation and Amortization			0
10	Taxes			0
11	Total Production & Transmission	0	0	0
Distribution				
12	Operating Expenses			0
13	Depreciation			
14	Taxes	0	1	1
15	Total Distribution	0	1	1
16	Customer Accounting			
17	Customer Service & Information			
18	Marketing			
Administrative & General				
19	Operating Expenses	0	(115)	(115)
20	Depreciation			
21	Taxes			
22	Total Admin. & General	0	(115)	(115)
23	Total Electric Expenses	0	(114)	(114)
24	Operating Income before FIT	0	114	114
Federal Income Taxes				
25	Current Accrual	35.0%	40	40
26	Deferred Income Taxes			
27	NET OPERATING INCOME	<u>\$0</u>	<u>\$74</u>	<u>\$74</u>
<b>RATE BASE</b>				
PLANT IN SERVICE				
28	Intangible			
29	Production			0
30	Transmission			
31	Distribution			
32	General			
33	Total Plant in Service	0	0	0
34	ACCUMULATED DEPRECIATION			0
35	ACCUM. PROVISION FOR AMORTIZATION			
36	Total Accum. Depreciation & Amort.	0	0	0
37	GAIN ON SALE OF BUILDING			
38	DEFERRED TAXES			0
39	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
40	Revenue Requirement Increase (Decrease)			<u>(\$116)</u>

Exhibit No. 115  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
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AVISTA UTILITIES  
GAS PRO FORMA ADJUSTMENTS  
IDAHO PUBLIC UTILITIES COMMISSION STAFF  
TWELVE MONTHS ENDED DECEMBER 31, 2002  
(000'S OF DOLLARS)

Avista Utilities - Gas Operations Gas Inventory Adjustment		GAS INVENTORY ADJUSTMENT		
Line No.	Description	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENSES</b>				
5	Exploration & Development Production			
6	City Gate Purchases			
7	Purchased Gas Expense			
8	Net Nat. Gas Storage Trans			
9	Total Production	<u>0</u>	<u>0</u>	<u>0</u>
Underground Storage				
10	Operating Expenses			
11	Depreciation			
12	Taxes			
13	Total Underground Storage	<u>0</u>	<u>0</u>	<u>0</u>
Distribution				
14	Operating Expenses			
15	Depreciation			
16	Taxes			
17	Total Distribution	<u>0</u>	<u>0</u>	<u>0</u>
18	Customer Accounting			
19	Customer Service & Information			
20	Sales			
Administrative and General				
21	Operating Expenses			
22	Depreciation			
23	Taxes			
24	Total Admin. & General	<u>0</u>	<u>0</u>	<u>0</u>
25	Total Gas Expense	<u>0</u>	<u>0</u>	<u>0</u>
26	Operating Income before FIT	0	0	0
Federal Income Taxes				
27	Current Accrual	35.0%	0	0
28	Deferred FIT			
29	Amort ITC			
30	NET OPERATING INCOME	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
31	Underground Storage			
32	Distribution Plant			
33	General Plant			
34	Total Plant in Service	<u>0</u>	<u>0</u>	<u>0</u>
<b>ACCUMULATED DEPRECIATION</b>				
35	Underground Storage			
36	Distribution Plant			
37	General Plant			
38	Total Accum. Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
39	DEFERRED TAXES			
40	GAS INVENTORY	1,572	0	(1,572)
41	GAIN ON SALE OF BUILDING			
42	TOTAL RATE BASE	<u>\$1,572</u>	<u>\$0</u>	<u>(\$1,572)</u>
43	Revenue Requirement Increase (Decrease)			<u>(\$227)</u>

Exhibit No. 116  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
6/21/04

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

Avista Utilities - Gas Operations Non-Executive Labor Adjustment		NON-EXECUTIVE LABOR ADJUSTMENT		
Line No.	Description	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENSES</b>				
5	Exploration & Development Production			
6	City Gate Purchases			
7	Purchased Gas Expense	5	5	0
8	Net Nat. Gas Storage Trans	2	2	0
9	Total Production	<u>7</u>	<u>7</u>	<u>0</u>
Underground Storage				
10	Operating Expenses	0	0	0
11	Depreciation			
12	Taxes			
13	Total Underground Storage	<u>0</u>	<u>0</u>	<u>0</u>
Distribution				
14	Operating Expenses	111	111	0
15	Depreciation			
16	Taxes	(3)	(3)	0
17	Total Distribution	<u>108</u>	<u>108</u>	<u>0</u>
18	Customer Accounting	78	74	(4)
19	Customer Service & Information	5	4	(1)
20	Sales	10	9	(1)
Administrative and General				
21	Operating Expenses	60	56	(4)
22	Depreciation			
23	Taxes			
24	Total Admin. & General	<u>60</u>	<u>56</u>	<u>(4)</u>
25	Total Gas Expense	<u>268</u>	<u>258</u>	<u>(10)</u>
26	Operating Income before FIT	(268)	(258)	10
Federal Income Taxes				
27	Current Accrual (at 35%)	(94)	(90)	4
28	Amort ITC			
29	Deferred FIT			
30	NET OPERATING INCOME	<u>(\$174)</u>	<u>(\$168)</u>	<u>6</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
31	Underground Storage			
32	Distribution Plant			
33	General Plant			
34	Total Plant in Service	<u>0</u>	<u>0</u>	<u>0</u>
<b>ACCUMULATED DEPRECIATION</b>				
35	Underground Storage			
36	Distribution Plant			
37	General Plant			
38	Total Accum. Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
39	DEFERRED TAXES			
40	GAS INVENTORY			
41	GAIN ON SALE OF BUILDING			
42	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
43	Revenue Requirement Increase (Decrease)			<u>(\$9)</u>

Exhibit No. 117  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
6/21/04

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

Avista Utilities - Gas Operations Executive Labor Adjustment		EXECUTIVE LABOR ADJUSTMENT		
Line No.	Description	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENSES</b>				
5	Exploration & Development			
	Production			
6	City Gate Purchases			
7	Purchased Gas Expense			0
8	Net Nat. Gas Storage Trans	11	11	0
9	Total Production	<u>11</u>	<u>11</u>	<u>0</u>
	Underground Storage			
10	Operating Expenses			0
11	Depreciation			
12	Taxes			
13	Total Underground Storage	<u>0</u>	<u>0</u>	<u>0</u>
	Distribution			
14	Operating Expenses			0
15	Depreciation			
16	Taxes	0	0	0
17	Total Distribution	<u>0</u>	<u>0</u>	<u>0</u>
18	Customer Accounting			0
19	Customer Service & Information			0
20	Sales			0
	Administrative and General			0
21	Operating Expenses	2	(1)	(3)
22	Depreciation			
23	Taxes			0
24	Total Admin. & General	<u>2</u>	<u>(1)</u>	<u>(3)</u>
25	Total Gas Expense	<u>13</u>	<u>10</u>	<u>(3)</u>
26	Operating Income before FIT	(13)	(10)	3
	Federal Income Taxes			0
27	Current Accrual (at 35%)	(5)	(4)	1
28	Amort ITC			
29	Deferred FIT			0
30	NET OPERATING INCOME	<u>(\$8)</u>	<u>(\$6)</u>	<u>\$2</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
31	Underground Storage			
32	Distribution Plant			
33	General Plant			
34	Total Plant in Service	<u>0</u>	<u>0</u>	<u>0</u>
<b>ACCUMULATED DEPRECIATION</b>				
35	Underground Storage			
36	Distribution Plant			
37	General Plant			
38	Total Accum. Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
39	DEFERRED TAXES			
40	GAS INVENTORY			
41	GAIN ON SALE OF BUILDING			
42	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
43	Revenue Requirement Increase (Decrease)			<u>(\$3)</u>

Exhibit No. 118  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
6/21/04

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

Avista Utilities - Gas Operations Accounts Receivable Fees Adjustment		ACCOUNTS RECEIVABLE FEES ADJUSTMENT		
Line No.	DESCRIPTION	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business	\$0	\$0	\$0
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENSES</b>				
5	Exploration & Development			
	Production			
6	City Gate Purchases			
7	Purchased Gas Expense			
8	Net Nat. Gas Storage Trans			
9	Total Production	<u>0</u>	<u>0</u>	<u>0</u>
	Underground Storage			
10	Operating Expenses			
11	Depreciation			
12	Taxes			
13	Total Underground Storage	<u>0</u>	<u>0</u>	<u>0</u>
	Distribution			
14	Operating Expenses			
15	Depreciation			
16	Taxes	0	1	1
17	Total Distribution	<u>0</u>	<u>1</u>	<u>1</u>
18	Customer Accounting		(87)	(87)
19	Customer Service & Information			
20	Sales			
	Administrative and General			
21	Operating Expenses			
22	Depreciation			
23	Taxes			
24	Total Admin. & General	<u>0</u>	<u>0</u>	<u>0</u>
25	Total Gas Expense	<u>0</u>	<u>(86)</u>	<u>(86)</u>
26	Operating Income before FIT	0	86	86
	Federal Income Taxes			
27	Current Accrual	35%	0	30
28	Deferred FIT			
29	Amort ITC			
30	NET OPERATING INCOME	<u>\$0</u>	<u>\$56</u>	<u>\$56</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
31	Underground Storage			
32	Distribution Plant			
33	General Plant			
34	Total Plant in Service	<u>0</u>	<u>0</u>	<u>0</u>
<b>ACCUMULATED DEPRECIATION</b>				
35	Underground Storage			
36	Distribution Plant			
37	General Plant			
38	Total Accum. Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
39	DEFERRED TAXES			
40	GAS INVENTORY			
41	GAIN ON SALE OF BUILDING			
42	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
43	Revenue Requirement Increase (Decrease)			<u>(\$88)</u>

Exhibit No. 119  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
6/21/04

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

Avista Utilities - Gas Operations Corporate Fees and Expenses Adjustment		CORPORATE FEES AND EXPENSES ADJUSTMENT		
Line No.	Description	Company Adjustment Idaho	Staff Adjustment Idaho	Net Adjustment Idaho
<b>REVENUES</b>				
1	Total General Business			
2	Total Transportation			
3	Other Revenues			
4	Total Gas Revenues	0	0	0
<b>EXPENSES</b>				
5	Exploration & Development			
Production				
6	City Gate Purchases			
7	Purchased Gas Expense			0
8	Net Nat. Gas Storage Trans	0	0	0
9	Total Production	0	0	0
Underground Storage				
10	Operating Expenses			0
11	Depreciation			
12	Taxes			
13	Total Underground Storage	0	0	0
Distribution				
14	Operating Expenses			0
15	Depreciation			
16	Taxes	0	0	0
17	Total Distribution	0	0	0
18	Customer Accounting			0
19	Customer Service & Information			0
20	Sales			0
Administrative and General				
21	Operating Expenses	0	(26)	(26)
22	Depreciation			
23	Taxes			0
24	Total Admin. & General	0	(26)	(26)
25	Total Gas Expense	0	(26)	(26)
26	Operating Income before FIT	0	26	26
Federal Income Taxes				
27	Current Accrual (at 35%)	0	9	9
28	Amort ITC			
29	Deferred FIT			0
30	NET OPERATING INCOME	<u>\$0</u>	<u>\$17</u>	<u>17</u>
<b>RATE BASE</b>				
<b>PLANT IN SERVICE</b>				
31	Underground Storage			
32	Distribution Plant			
33	General Plant			
34	Total Plant in Service	0	0	0
<b>ACCUMULATED DEPRECIATION</b>				
35	Underground Storage			
36	Distribution Plant			
37	General Plant			
38	Total Accum. Depreciation	0	0	0
39	DEFERRED TAXES			
40	GAS INVENTORY			
41	GAIN ON SALE OF BUILDING			
42	TOTAL RATE BASE	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
43	Revenue Requirement Increase (Decrease)			<u>(\$27)</u>

Exhibit No. 120  
Case No. AVU-E-04-1/  
AVU-G-04-1  
K. Stockton, Staff  
6/21/04

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21ST DAY OF JUNE 2004, SERVED THE FOREGOING **DIRECT TESTIMONY OF KATHY STOCKTON**, 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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\_\_\_\_\_  
SECRETARY