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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-08-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-08-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	
NATURAL GAS SERVICE TO ELECTRIC)	DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE)	OF
STATE OF IDAHO)	ELIZABETH M. ANDREWS
)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

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Exhibit No. 13:	
Schedule 1 - Electric Revenue Requirement and Results of Operations	(pgs 1-9)
Schedule 2 - Natural Gas Revenue Requirement and Results of Operations	(pgs 1-7)

1 I. INTRODUCTION

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

4 A. My name is Elizabeth M. Andrews. I am employed
5 by Avista Corporation as Manager of Revenue Requirements in
6 the State and Federal Regulation Department. My business
7 address is 1411 East Mission, Spokane, Washington.

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

10 A. I am a 1990 graduate of Eastern Washington
11 University with a Bachelor of Arts Degree in Business
12 Administration, majoring in Accounting. That same year, I
13 passed the November Certified Public Accountant exam,
14 earning my CPA License in August 1991. I worked for
15 Lemaster & Daniels, CPAs from 1990 to 1993, before joining
16 the Company in August 1993. I served in various positions
17 within the sections of the Finance Department, including
18 General Ledger Accountant and Systems Support Analyst until
19 2000. In 2000, I was hired into the State and Federal
20 Regulation Department as a Regulatory Analyst until my
21 promotion to Manager of Revenue Requirements in early 2007.
22 I have also attended several utility accounting, ratemaking
23 and leadership courses.

24 **Q. As Manager of Revenue Requirements, what are your**
25 **responsibilities?**

1 A. As Manager of Revenue Requirements, aside from
2 special projects, I am responsible for the preparation of
3 normalized revenue requirement and pro forma studies for
4 the various jurisdictions in which the Company provides
5 utility services. During the last eight years I have
6 assisted or lead the Company's electric and/or natural gas
7 general rate filings in Idaho, Washington, and Oregon.

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

10 A. My testimony and exhibits in this proceeding will
11 generally cover accounting and financial data in support of
12 the Company's need for the proposed increase in rates. I
13 will explain pro formed operating results including expense
14 and rate base adjustments made to actual operating results
15 and rate base.

16 I incorporate the Idaho share of the proposed
17 adjustments of several witnesses in this case. For
18 example, Company witnesses Mr. DeFelice sponsors and
19 describes the Company's pro forma 2007 and 2008 capital
20 additions adjustments and Mr. Howard discusses the Spokane
21 River Relicensing efforts by the Company. Other Company
22 witnesses, for example Mr. Vermillion, explains other
23 issues impacting the Company, like the Clark Fork River
24 dissolved gas issue, the Montana Riverbed lease expense,
25 and the Colstrip mercury emissions O&M expense. Mr. Kinney

1 discusses the transmission net expenses, Asset Management
2 program expenses, and the transmission capital expenditures
3 included in Mr. DeFelice's pro forma capital adjustments,
4 and Mr. Paulson discusses the impact of the completion of
5 the Advanced Meter Reading (AMR) project investment.
6 Lastly, Company witnesses Mr. Johnson, prepared the total
7 system pro forma power supply adjustment, while Ms. Knox
8 sponsors the revenue normalization and pro forma production
9 property adjustments.

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

12 A. Yes. I am sponsoring Exhibit No. 13, Schedule 1
13 (Electric) and Schedule 2 (Natural Gas), which were
14 prepared under my direction. These Exhibit Schedules
15 consist of worksheets, which show actual 2007 operating
16 results, pro forma, and proposed electric and natural gas
17 operating results and rate base for the State of Idaho, the
18 Company's calculation of the general revenue requirement,
19 the derivation of the net operating income to gross revenue
20 conversion factor, and the pro forma adjustments proposed
21 in this filing.

22

1 **II. COMBINED REVENUE REQUIREMENT SUMMARY**

2 **Q. Would you please summarize the results of the**
3 **Company's pro forma study for both the electric and natural**
4 **gas operating systems for the Idaho jurisdiction?**

5 A. Yes. After taking into account all standard
6 Commission Basis adjustments, as well as additional pro
7 forma and normalizing adjustments, the pro forma electric
8 and natural gas rates of return ("ROR") for the Company's
9 Idaho jurisdictional operations are 4.97% and 5.21%,
10 respectively. Both return levels are below the Company's
11 requested rate of return of 8.74%. The incremental revenue
12 requirement for base retail rates, necessary to give the
13 Company an opportunity to earn its requested ROR is
14 \$32,328,000 for the electric operations and \$4,725,000 for
15 the natural gas operations. The overall base electric
16 increase is 16.73%, while the proposed bill increase for
17 customers, as explained by Mr. Hirschhorn, is 15.8%.
18 Whereas, the base natural gas increase, as well as the
19 overall bill increase, is 5.77%.

20 **Q. What is the Company's rate of return that was**
21 **last authorized by this Commission for it's electric and**
22 **natural gas operations in Idaho?**

23 A. The Company's currently authorized rate of return
24 for its Idaho operations is 9.25%, effective September 9,
25 2004 for both our electric and natural gas systems.

1 **III. ELECTRIC SECTION**

2 **Changes Since the 2002 Test Period**

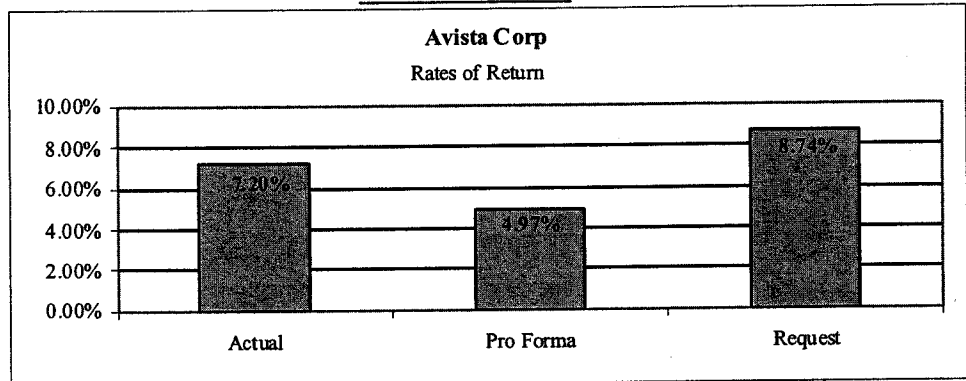
3 Q. On what test period is the Company basing its
4 need for additional electric revenue?

5 A. The test period being used by the Company is the
6 twelve-month period ending December 31, 2007, presented on
7 a pro forma basis. Currently authorized rates are based
8 upon the 2002 test year utilized in Case No. AVU-E-04-1,
9 that were later adjusted to include the second half of
10 Coyote Springs 2 generating plant in Case No, AVU-E-05-1.

11 Q. By way of summary, could you please explain the
12 different rates of return that you will be presenting in
13 your testimony?

14 A. Yes. As shown in Chart No. 1 below, there are
15 three different rates of return that will be discussed.
16 The actual ROR earned by the Company during the test
17 period, the Pro Forma ROR determined in my Exhibit No.13,
18 Schedule 1, and the requested ROR.

19 **Chart No. 1**

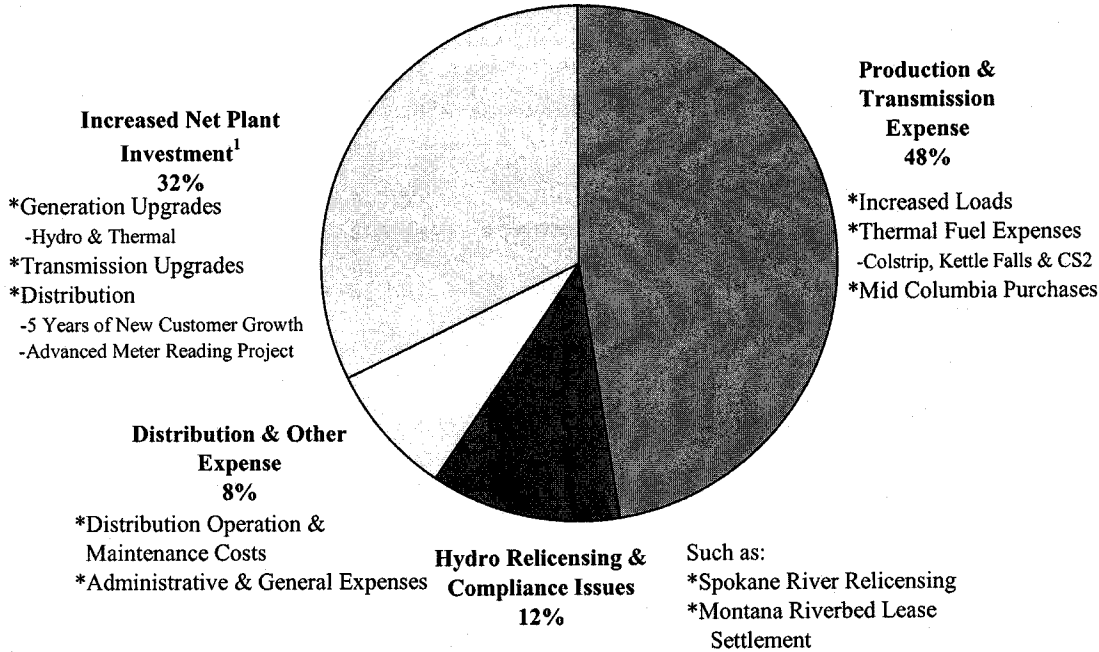


1 Q. What are the primary factors driving the
2 Company's need for an electric increase?

3 A. Chart No. 2 below, shows the primary factors
4 driving the electric revenue requirement in this case.
5 Additional detail regarding these items are explained in
6 more detail later in my testimony.

7 **Chart No. 2**

8 **Primary Electric Revenue Requirement Factors**



20 ¹Includes return on investment, depreciation and taxes, offset by the tax benefit of interest.

21

22 Q. Please describe the primary factors driving the
23 Company's need for an electric increase?

24 A. There are numerous factors that have impacted the
25 Company's Idaho electric results of operations since the

1 2002 test year. Net Operating Income ("NOI") has declined
2 approximately \$14 million, or 34%, and total rate base has
3 increased approximately \$102.5 million, or 23%. During
4 this same time period, the average number of customers has
5 increased approximately 11%. The Company's electric
6 request is driven by changes in various operating cost
7 components, but as shown by the pie chart (Chart No. 2
8 above), primarily power supply costs, plant investment or
9 rate base growth associated with generation, transmission
10 and distribution plant (including pro forma capital
11 spending requirements during 2008) and by various hydro
12 relicensing efforts impacting the Utility.

13 **Q. Please explain each of the four components or**
14 **segments shown in Chart No. 2 above.**

15 A. The first segment, Production and Transmission
16 expense increases, as explained below, comprise
17 approximately 48% of the overall request. As already
18 noted, net rate base for the Idaho jurisdiction increased
19 approximately \$102.5 million, primarily due to additional
20 plant investment in generation, both hydro and thermal, and
21 transmission plant. In addition, gross distribution plant
22 increased significantly due to the 11% customer growth
23 since the Company's previous general rate case in Idaho and
24 due to the inclusion of rate base in this case of the AMR
25 project investment planned for completion in fourth quarter

1 of 2008. The depreciation recovery, taxes associated with
2 plant, and the return on additional plant investment offset
3 by the tax benefit of interest (excluding rate base
4 associated with hydro relicensing efforts noted below),
5 make up approximately 32% of the Company request.

6 The hydro relicensing and compliance efforts pro
7 formed into this case make up approximately 12% of the
8 overall request, and include, the intangible and production
9 net rate base and expenses associated with the Spokane
10 River relicensing, and other hydro compliance related
11 issues, for example the Montana Riverbed Settlement lease
12 expense.

13 The remaining cost category, Distribution and Other
14 expense, which includes increases to all other operating
15 categories, such as distribution expenses, customer
16 service, taxes and administrative and general, total
17 approximately 8% of the overall request.

18 **Q. Please describe the impact of the next segment,
19 increased net power supply expense.**

20 A. As discussed in detail in Mr. Johnson's
21 testimony, the level of Idaho's share of power supply
22 expense has increased by approximately \$33.4 million (\$94.3
23 million on a system basis) from the level currently in base
24 rates.

