

Avista Corp.
1411 East Mission P.O. Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



SENT ELECTRONICALLY AND VIA OVERNIGHT MAIL

May 5, 2009

Public Utility Commission of Oregon
Attn: Filing Center
550 Capitol St NE #215
Salem, OR 97308-2148

Re: Avista Utilities, UG 171(1) Order No. 09-125
Request to Terminate Automatic Adjustment Clause / Claimed
Violation of ORS 756.040

On April 10, 2009, the Commission issued Order No. 09-125 in UG 171(1) requiring Avista to file tariffs establishing an automatic adjustment clause (AAC) to refund \$1.98 million plus interest to its customers, effective June 1, 2009. On April 30, 2009, Avista submitted the compliance tariff in a separate filing (Advice No. 09-02-G). Avista requested that the effective date of June 1, 2009, be suspended to allow the Parties time to have further discussions to attempt to resolve this matter, or to have the matter otherwise resolved through the hearing process.

Order No. 09-125 also provides, at page 5, that, "At any time after filing the tariffs, Avista or any other person may file a request that the Commission terminate or modify the automatic adjustment clause because allowing it to become effective would have a material adverse effect on Avista's customers or would result in a constitutional violation." Avista hereby requests that the Commission terminate the AAC, because allowing it to become effective would result in a constitutional violation, insofar as the resulting return on equity (ROE) would be confiscatory. Avista respectfully requests that the Commission approve Avista's request to suspend the AAC and that it expedite its determination of Avista's request to terminate the AAC.

On April 14, 2009, the Commission issued a "Temporary Administrative Rule" which changed the time period used for the earnings review from the "applicable tax year" to the period during which the automatic adjustment clause would be in effect. Avista is providing ROE results for both the 2007 tax year (old rule) and the June 1, 2009–May 31, 2010 refund period (temporary rule). The ROE results for both periods indicate that any refund would result in confiscatory rates by violating the "fair and reasonable" rate provisions of ORS 756.040, irrespective of which period is used.

In Avista's 2007 Tax Report filed on October 15, 2008, Avista initially claimed that a rate adjustment in connection with its tax report for 2007 would violate ORS 756.040. Avista hereby reasserts that claim in the present filing. Consideration of such a claim is expressly allowed by OAR 860-022-0041(10). Accordingly, Avista is proposing no refund in connection with its tax report for 2007 and requests that the AAC be terminated.

OAR 860-022-0041(10) - Annual Tax Reports and Automatic Adjustment Clauses Relating to Utility Taxes, provides for relief where there has been a demonstration that the AAC would violate the “fair and reasonable” rate provisions of ORS 756.040:

At any time, a utility may file a claim that a rate adjustment under the automatic adjustment clause violates ORS 756.040 or other applicable law. In making a determination regarding a potential violation of ORS 756.040, the Commission will perform an earnings review using the utility’s results of operations report for the applicable year.

Avista’s position finds support in the Attorney General’s Opinion of December 27, 2005, addressing several questions concerning the implementation of SB 408. In its Opinion, at page 16, the Office of Attorney General opined that “[r]egardless of the approach finally adopted by the Commission, the rate ultimately allowed must be ‘fair and reasonable’ under ORS 756.040(1).” The Opinion noted that ORS 756.040 “essentially codifies” the constitutional standard established by the United States Supreme Court for avoiding confiscatory utility rates. *See Federal Power Commission v. Hope Natural Gas Pipeline (“Hope”),* 320 US 591, 64 SCt 281, 88 LEd 333 (1944). It went on to observe, at page 16, that:

ORS 756.040 thus limits utilities’ exposure to rate reductions, regardless of how the Commission exercises its discretion in the application of the expression “properly attributed.” In other words, chapter 845 addresses the tax component of rates. ORS 756.040 deals more broadly with the Commission’s obligation to set rates at or above the constitutional floor.

Specifically, ORS 756.040 provides, in part, that rates are fair and reasonable if the rates provide a return to the equity holder that is “commensurate with the return on investments in other enterprises having corresponding risks.”

ORS 756.040 General powers. (1)... In respect thereof the commission shall make use of the jurisdiction and powers of the office to protect such customers, and the public generally, from unjust and unreasonable exactions and practices and to obtain for them adequate service at fair and reasonable rates. The commission shall balance the interests of the utility investor and the consumer in establishing fair and reasonable rates. Rates are fair and reasonable for the purposes of this subsection if the rates provide adequate revenue both for operating expenses of the public utility or telecommunications utility and for capital costs of the utility, with a return to the equity holder that is:

- (a) Commensurate with the return on investments in other enterprises having corresponding risks; and
 - (b) Sufficient to ensure confidence in the financial integrity of the utility, allowing the utility to maintain its credit and attract capital.
- (2) – (3) [omitted]

● Analysis for 2007 Tax Year (Old Rule)

The imposition of a \$2.38 million dollar refund (\$1.98 million plus interest) would violate ORS 756.040, based on an earnings review for Avista using its results of operations report for the 2007 tax year. The earnings report shows Avista earned a rate

of return (ROR) of 3.58% for its Oregon operations for the calendar year 2007. The 2007 results include an accrual (expense) of \$2.338 million, which includes \$1.8 million related to an estimated 2007 SB 408 refund and approximately \$538,000 for the remainder of the 2006 refund. The report also shows a return on equity (ROE) of negative 0.37%.

As shown on page 1 of the attached schedule (Attachment A), by removing the \$2.338 million accrual for SB 408, the ROE would have been 3.17%. The ROE drops to -0.44% with the accrual of the \$1.98 million 2007 SB 408 refund including interest. This ROE of -0.44% is well below any measure of what would be considered to be a return on equity that is “commensurate with the return on investments in other enterprises having corresponding risks.” The range of ROE recommendations, by all parties, in general rate cases is well above this result. The table below provides a summary comparison of these ROEs:

Authorized ROE	10.25%
Actual 2007 ROE (Excluding 2007 SB 408 refund)	3.17%
Actual ROE with 2007 SB 408 refund accrued	-0.44%


The parties had previously reviewed the data and other assumptions surrounding the derivation of the -0.44% return on equity and agreed that it accurately reflected the impact on Avista’s 2007 return on equity, were it to refund the agreed-upon level of \$1.98 million plus interest. As such, it would result in confiscatory rates by violating the “fair and reasonable” rate provisions of ORS 756.040.

- Analysis for June 1, 2009-May 31, 2010 Refund Period (Temporary Rule)

After the Commission issued its “Temporary Administrative Rule” on April 14, 2009, which changed the time period used for the earnings review from the “applicable tax year” to the period during which the automatic adjustment clause would be in effect, Avista undertook a study to determine the ROE during the rate adjustment period. Attachment B shows actual results of operations for 2008 adjusted for a variety of customary restating adjustments, including weather and additional revenues, and further proforms the results beyond 2008 to the refund period, including potential general rate relief in early 2010. It demonstrates that excluding any Senate Bill 408 refund, the ROE is projected to be 4.64% and that a refund of \$2.4 million would result in an ROE of only 2.55%. These ROE results indicate that any refund would result in confiscatory rates by violating the “fair and reasonable” rate provisions of ORS 756.040.

Hence, the ROE results for both the 2007 tax period and the June 1, 2009-May 31, 2010 refund period indicate that any refund would result in confiscatory rates by violating the “fair and reasonable” rate provisions of ORS 756.040. A copy of this filing has been served on all parties to these proceedings as indicated in the attached certificate of service. If you have any questions, please contact Ron McKenzie at (509) 495-4320.

Sincerely,



Kelly Norwood
Vice President, State and Federal Regulation
Attachments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Utilities, UG 171(1) Order No. 09-125 Request to Terminate Automatic Adjustment Clause / Claimed Violation of ORS 756.040, by electronic mail, and by mailing a copy thereof where paper service has not been waived, to the following:

W

**CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD LLP**

CHAD M STOKES (C)

1001 SW 5TH - STE 2000
PORTLAND OR 97204
cstokes@cablehuston.com

W

**CITIZEN'S UTILITY BOARD OF
OREGON**

G. CATRIONA MCCrackEN (C) (HC)
LEGAL COUNSEL/STAFF ATTY

610 SW BROADWAY - STE 308
PORTLAND OR 97205
catriona@oregoncub.org

W

**CITIZENS' UTILITY BOARD OF
OREGON**

OPUC DOCKETS

610 SW BROADWAY STE 308
PORTLAND OR 97205
dockets@oregoncub.org

GORDON FEIGNER (C) (HC)
ENERGY ANALYST

610 SW BROADWAY, SUITE 308
PORTLAND OR 97205
gordon@oregoncub.org

ROBERT JENKS (C) (HC)

610 SW BROADWAY STE 308
PORTLAND OR 97205
bob@oregoncub.org

DANIEL W MEEK ATTORNEY AT LAW

DANIEL W MEEK (C) (HC)
ATTORNEY AT LAW

10949 SW 4TH AVE
PORTLAND OR 97219
dan@meek.net

DEPARTMENT OF JUSTICE

JASON W JONES (C) (HC)
ASSISTANT ATTORNEY GENERAL

REGULATED UTILITY & BUSINESS
SECTION
1162 COURT ST NE
SALEM OR 97301-4096
jason.w.jones@state.or.us

W

ENERGY ACTION NORTHWEST

EDWARD A FINKLEA (C)

PO BOX 8308
PORTLAND OR 97207
efinklea@energyactionnw.org

KAFOURY & MCDUGAL

LINDA K WILLIAMS (C) (HC)
ATTORNEY AT LAW

10266 SW LANCASTER RD
PORTLAND OR 97219-6305
linda@lindawilliams.net

W

**NORTHWEST INDUSTRIAL GAS
USERS**

PAULA E PYRON (C)
EXECUTIVE DIRECTOR

4113 WOLF BERRY CT
LAKE OSWEGO OR 97035-1827
ppyron@nwigu.org

Dated at Spokane, Washington this 5th day of May 2009.



Patty Olsness
Rates Coordinator

AVISTA UTILITIES
UG 171(1) Order No. 09-125

Request to Terminate Automatic Adjustment Clause / Claimed Violation of ORS 756.040

Attachment A

Avista Corporation
Oregon Gas
Impact of SB 408 on Return on Equity
2007

AVERAGE 2007 CAPITAL STRUCTURE

Line No.	Per Earnings Test Results	Remove SB 408 Accruals in 2007	Adjusted	Include 2007 Tax Report Amount Incl Interest	Adjusted
1	Net operating income	\$3,438,175	\$3,438,175		\$3,438,175
2	Remove SB 408 accrual in 2007		2,338,488		2,338,488
3	Remove associated DFIT		-818,471		-818,471
4	Include 2007 tax report amount			0	-2,379,877
5	Include associated DFIT			0	832,957
6	Adjusted net operating income	\$3,438,175	\$1,520,017	\$4,958,192	-\$1,546,920
7	Debt return requirement	3,576,415		3,576,415	3,576,415
8	Preferred stock requirement	21,299		21,299	21,299
9	Net income available for common	-\$159,539		\$1,360,478	-\$186,442
10	Equity return percentage	-0.18%		1.53%	-0.21%
11	Equity component of capital structure	48.25%		48.25%	48.25%
12	Implied return on equity	-0.37%		3.17%	-0.44%
13	Rate base	\$88,744,795		\$88,744,795	\$88,744,795
14	Weighted cost of debt & pref. trust	4.030%		4.030%	4.030%
15	Debt return requirement	\$3,576,415		\$3,576,415	\$3,576,415
16	Weighted cost of preferred stock	0.024%		0.024%	0.024%
17	Preferred stock requirement	\$21,299		\$21,299	\$21,299
18	Long-Term Debt	47.46%	7.74%	3.673%	
19	Preferred Securities	4.97%	7.19%	0.357%	
20	Preferred Stock	0.64%	3.70%	0.024%	
21	Common Equity	46.93%	10.25%	4.810%	
22	Total	100.00%		8.864%	

AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

Attachment A
Page 2 of 5

JURISDICTION:	Oregon	DATE PREPARED:	12/31/2008
CASE NO:	UG 171	WITNESS:	N/A
REQUESTER:	OPUC Staff	RESPONDER:	Ron McKenzie/Jeanne Pluth
TYPE:	Data Request	DEPT:	State and Federal Regulation
REQUEST NO.:	26	TELEPHONE:	(509) 495-4320/2204

REQUEST:

Please demonstrate how the net operating income of \$3,438,175 was derived in relationship to Table 1 of the results of operations report. Provide the detailed calculation and indicate which column is the beginning point to measure net operating income.

RESPONSE:

Table 1 of the originally filed results of operations report shows net operating income of \$3,242,914 on line 16 under column (c), "Earnings Test Results UM-903." The \$3,242,914 net income amount reflects earnings test adjustments with debt interest being calculated using the capital structure ratios for debt and preferred trust securities from UG 153, the most recent rate case that precedes the 2007 calendar year.

The net operating income of \$3,438,175 was derived by modifying the Earnings Test Results net income of \$3,242,914 for debt interest calculated using an average capital structure and average costs for debt and preferred trust securities for 2007. The attached Sheet 1 is the revised Table 1 based on the average capital structure and the average debt and preferred trust securities costs.

The difference in net income caused by switching to the average capital structure and the average debt and preferred trust securities costs amounts to \$195,261 (\$3,438,175-\$3,242,914). The attached Sheets 2 and 3 are the restate debt interest sheets that show the tax adjustments under the two interest calculation methods. Sheet 2 is the originally filed restate debt interest adjustment and Sheet 3 is the restate debt interest adjustment based on the average capital structure and the average debt and preferred trust securities costs. The difference between the tax amounts on Sheet 2 and Sheet 3 amounts to \$195,261.

AVISTA UTILITIES
Oregon
Twelve Months Ending December 31, 2007

	Per Results Reports	Earnings Test Adjustments	Earnings Test Results UM-903	Weather Normalization Sales/Purch	Total Type I Results	Total Type II Adjustments	Earnings Test Incl. Type II Adj.
	A	B	C	D	E	F	G
OPERATING REVENUES							
1 Total General Business	\$126,653,589	0	\$126,653,589	\$3,421,043	\$130,074,632	0	\$130,074,632
2 Transportation	2,621,225	0	2,621,225	0	2,621,225	0	2,621,225
3 Other	49,085,316	0	49,085,316	0	49,085,316	(8,115,052)	40,970,264
4 Total Operating Revenues	178,360,130	0	178,360,130	3,421,043	181,781,173	(8,115,052)	173,666,121
OPERATING EXPENSES							
5 Gas Purchased	141,691,049	0	141,691,049	2,691,041	144,382,090	(8,105,225)	136,276,865
6 Operations & Maintenance	10,322,431	280,061	10,602,492	18,063	10,620,555	0	10,620,555
7 Administrative & General	6,384,301	(61,596)	6,322,705	10,828	6,333,533	0	6,333,533
8 Taxes Other Than Income	8,718,797	(538,488)	8,180,309	79,389	8,259,698	0	8,259,698
9 Depreciation & Amortization	7,438,934	0	7,438,934	0	7,438,934	0	7,438,934
10 Total Operating Expenses	174,555,512	(320,023)	174,235,489	2,799,321	177,034,810	(8,105,225)	168,929,585
11 OPERATING INCOME BEFORE INCOME TAX	3,804,618	320,023	4,124,641	621,722	4,746,363	(9,827)	4,736,536
INCOME TAXES							
12 Current Federal Income Taxes	1,851,659	47,381	1,899,040	203,241	2,102,281	(3,212)	2,099,069
13 Deferred Federal Income Taxes	(1,155,935)	0	(1,155,935)	0	(1,155,935)	0	(1,155,935)
14 State Income Taxes	(66,205)	9,566	(56,639)	41,034	(15,605)	(649)	(16,254)
15 Total Income Taxes	629,519	56,947	686,466	244,275	930,741	(3,861)	926,880
16 NET OPERATING INCOME	\$3,175,099	\$263,076	\$3,438,175	\$377,447	\$3,815,622	(\$5,966)	\$3,809,656
AVERAGE RATE BASE							
17 Utility Plant in Service	\$189,013,843	52,994	\$189,066,837	\$0	\$189,066,837	0	\$189,066,837
18 Less: Accumulated Depreciation & Amortization	83,113,289	0	83,113,289	0	83,113,289	0	83,113,289
19 Net Utility Plant	105,900,554	52,994	105,953,548	0	105,953,548	0	105,953,548
20 Accumulated Deferred Income Taxes	(18,180,851)	0	(18,180,851)	0	(18,180,851)	0	(18,180,851)
21 Inventory and Other	972,098	0	972,098	0	972,098	0	972,098
22 TOTAL AVERAGE RATE BASE	\$88,691,801	\$52,994	\$88,744,795	\$0	\$88,744,795	\$0	\$88,744,795
23 RATE OF RETURN	3.58%		3.87%		4.30%		4.29%
24 IMPLIED RETURN ON EQUITY	(1.00%)		(0.38%)		0.53%		0.51%

UM-903 Earnings Test Calculation

25 EARNINGS THRESHOLD - Return on Equity	12.45% ⁽¹⁾
26 EQUITY EARNINGS AT THRESHOLD RATE	\$5,185,168
27 EQUITY EARNINGS ACTUAL	(\$158,262)
28 100% OF NOI EXCEEDING THRESHOLD	(\$5,343,430)
29 100% OF REVENUE EXCEEDING THRESHOLD	(\$9,089,244)
30	
32 33% REVENUE ADJ DUE TO SPRING REVIEW () = Under Threshold	(\$2,999,451)
33	
34 Conversion factor	0.587885

	AVISTA COST OF CAPITAL		
	Capital Structure (2)	Cost (3)	Weighted Cost
Long-Term Debt	47.46%	7.74%	3.67%
Preferred Securities	4.97%	7.19%	0.36%
Preferred Stock	0.64%	3.70%	0.02%
Common Equity	46.93%	10.25%	4.81%
Total	100.00%		8.86%

Type I: Adjustments for uncollectible estimate, debt synchronization, salaries, incentives, dues, prior period true-ups

Type II: Adjustment for Gas Cost Incentive

(1) Earnings Threshold: calculated as the sum of 10.25% authorized ROE, plus 200 basis points (per Order 05-1053), plus 20% of any change in the risk free rate for the 12-month calendar year (per Order 04-203).

(2) Capital Structure: Authorized Capital Structure per Order No. 03-570.

(3) Cost as of Twelve Months Ending December 31, 2007.

AVERAGE

AVISTA UTILITIES
Oregon
Twelve Months Ending December 31, 2007
Restate Debt Interest

Net Gas Plant per Results Reports (W-APL-12A)		\$105,900,554
	<u>Rate Base Adjustments</u>	
	Deferred FIT Rate Base	(18,180,851)
	Inventory & Other adjustment	<u>972,098</u>
Adjusted Net Rate Base		88,691,801
Adjustment to Rate Base for Type I		<u>52,994</u>
Adjusted Net Rate Base (After Type I)		88,744,795
Weighted Cost of Debt		
+ Weighted Cost of Pref. Securities		<u>3.47%</u>
Restate Debt Interest Deduction		3,079,444
Actual Interest Deduction (W-FIT-12A)		<u>3,401,331</u>
Change in Interest Deduction		(321,887)
Change in Federal Income Tax-Current	35%	<u>105,225</u>
Change in State Income Tax-Current	6.60%	<u>21,245</u>

AVISTA UTILITIES
Oregon
Twelve Months Ending December 31, 2007
Restate Debt Interest

Net Gas Plant per Results Reports (W-APL-12A)		\$105,900,554
<u>Rate Base Adjustments</u>		
Deferred FIT Rate Base		(18,180,851)
Inventory & Other adjustment		<u>972,098</u>
Adjusted Net Rate Base		88,691,801
Adjustment to Rate Base for Type I		<u>52,994</u>
Adjusted Net Rate Base (After Type I)		88,744,795
Weighted Cost of Debt		
+ Weighted Cost of Pref. Securities		<u>4.03%</u>
Restate Debt Interest Deduction		3,576,415
Actual Interest Deduction (W-FIT-12A)		<u>3,401,331</u>
Change in Interest Deduction		175,084
Change in Federal Income Tax-Current	35%	<u>(57,235)</u>
Change in State Income Tax-Current	6.60%	<u>(11,556)</u>

AVISTA UTILITIES
UG 171(1) Order No. 09-125

Request to Terminate Automatic Adjustment Clause / Claimed Violation of ORS 756.040

Attachment B

Avista Utilities
Oregon Jurisdiction

Calculation of Return on Equity Results during Refund Period under "Temporary Administrative Rule" per Order No. 09-135

[June 1, 2009 - May 31, 2010]

	RESTATING ADJUSTMENTS FOR THE REFUND PERIOD (JUNE 1, 2009 THROUGH MAY 31, 2010)												Restated Total			
	A	B	C	D	E	F	G	H	I	J	K	L		M	N	O
	Per Reports	Earnings Test Adjustments	Earnings Test Results UM-903	Weather Normalization Sales/Purch	Total Including Type I Results	Restate Debt Interest	2008 EOP Rate Base Adj	Refund Period Revenue Adj	Remove SB 408 2008 Accrual	10% Gas Costs Deferral Adj	2009 Capital Adj	Labor & O&M Costs Adj	Projected Revenue	Adjusted Total	SB 408 Refund (2007)	
OPERATING REVENUES																
1	128,122,860	-	128,122,860	(8,870,300)	119,252,560	-	-	1,927,183	-	-	-	-	1,736,000	122,915,743	-	122,915,743
2	2,391,049	-	2,391,049	-	2,391,049	-	-	18,156	-	-	-	-	-	2,409,205	-	2,409,205
3	67,984,820	-	67,984,820	-	67,984,820	-	-	(67,836,051)	-	-	-	-	-	148,769	-	148,769
4	198,498,729	-	198,498,729	(8,870,300)	189,628,429	-	-	(65,890,712)	-	-	-	-	1,736,000	125,473,717	-	125,473,717
OPERATING EXPENSES																
5	161,530,160	-	161,530,160	(6,903,362)	154,626,798	-	-	(66,069,465)	-	(813,659)	-	8,161	-	87,751,835	-	87,751,835
6	11,052,994	239,662	11,292,656	(50,339)	11,242,317	-	-	(2,251,282)	-	-	-	867,165	9,852	9,868,052	-	9,868,052
7	7,005,583	(223,165)	6,782,418	(28,270)	6,754,148	-	-	6,200	-	-	-	47,526	5,533	6,813,407	-	6,813,407
8	4,582,832	519,792	5,102,624	(187,137)	4,915,487	-	-	41,041	-	-	314,457	-	36,624	5,307,609	-	5,307,609
9	4,510,874	2,156,743	6,667,617	-	6,667,617	-	-	479,968	(1,450,000)	-	481,209	-	-	8,558,671	-	8,558,671
10	188,682,443	2,693,032	191,375,475	(7,169,108)	184,206,367	-	-	(67,793,538)	(1,450,000)	(813,659)	795,666	922,852	52,009	115,919,697	2,379,877	118,299,574
11	9,816,286	(2,693,032)	7,123,254	(1,701,192)	5,422,062	-	-	1,902,826	1,450,000	813,659	(795,666)	(922,852)	1,683,991	9,554,020	(2,379,877)	7,174,143
INCOME TAXES																
12	414,173	(175,424)	238,749	(556,120)	(317,371)	43,199	(172,446)	622,034	-	284,781	(516,192)	(301,680)	550,497	192,822	-	192,822
13	1,346,054	(754,860)	591,194	-	591,194	-	-	-	507,500	-	-	-	-	1,098,694	(832,957)	265,737
14	-	(35,417)	(35,417)	(112,279)	(147,696)	8,721	(32,518)	125,587	-	53,701	(97,339)	(60,908)	111,143	(39,309)	-	(39,309)
15	1,760,227	(965,701)	794,526	(668,399)	126,127	51,920	(204,964)	747,621	507,500	338,482	(613,531)	(362,588)	661,640	1,252,207	(832,957)	419,250
16	8,056,059	(1,727,331)	6,328,728	(1,032,793)	5,295,935	(51,920)	204,964	1,155,205	942,500	475,177	(182,135)	(560,264)	1,022,351	8,301,814	(1,546,920)	6,754,894
AVERAGE RATE BASE																
17	213,787,056	9,777	213,796,833	-	213,796,833	-	16,380,152	-	-	-	20,963,759	-	-	251,140,744	-	251,140,744
18	87,678,732	-	87,678,732	-	87,678,732	-	774,812	-	-	-	221,826	-	-	88,675,370	-	88,675,370
19	126,108,324	9,777	126,118,101	-	126,118,101	-	15,605,340	-	-	-	20,741,933	-	-	162,465,374	-	162,465,374
20	(19,232,070)	-	(19,232,070)	-	(19,232,070)	-	(2,755,553)	-	-	-	(407,512)	-	-	(22,395,135)	-	(22,395,135)
21	3,235,848	-	3,235,848	-	3,235,848	-	1,901,786	-	-	-	-	-	-	5,137,634	-	5,137,634
22	110,112,102	9,777	110,121,879	-	110,121,879	-	14,751,573	-	-	-	20,334,421	-	-	145,207,873	-	145,207,873
23	7.32%	-	5.75%	-	4.81%	-	-	-	-	-	-	-	-	5.72%	-	4.65%
24	7.72%	-	4.58%	-	2.70%	-	-	-	-	-	-	-	-	4.64%	-	2.55%

See Oregon SB 408 Adjustment Descriptions

**Avista Utilities
Oregon Jurisdiction**

**Oregon SB 408 Adjustment Descriptions
Twelve Months Ended May 31, 2010**

(A) Per Results Report

Results of Operations Report amounts are for the average of monthly averages twelve months ended December 31, 2008. Dollar figures agree to the Company's financial general ledger records in total.

(B) Earning Test Adjustments

Adjusts 2008 results of operations for Commission approved adjustments, including Uncollectible Expense, Salaries & Wages, Incentive Pay, Memberships & Dues, Remove Prior Period and SB 408 True-ups, and Restate Debt Interest.

(C) Earnings Test Results UM-903 – Subtotal

(D) Weather Normalized Sales/Purchases

This adjustment normalizes weather sensitive gas therm sales by eliminating the effect of temperature deviations above or below historical normals. This adjustment restates revenue and gas cost to reflect the change in therm sales if weather had been normal based upon energy rates and the authorized weighted average cost of gas in effect during the year. The adjustment reflects a winter season consisting of October through June and historical normals computed on a twenty-five year rolling average per the settlement in Docket No. UG-181 (Order No. 08-185).

(E) Total Including Type I Results – Subtotal

(F) Restate Debt Interest

This adjustment reflects the federal income tax effect of the restated level of interest expense for the 2008 period. Interest expense is determined using a forecasted weighted cost of debt, the capital structure ratios and long-term debt costs at December 31, 2009.

(G) 2008 End of Period (EOP) Rate Base Adjustment

This adjustment adjusts 2008 results from an average of monthly averages (AMA) basis to and end of period basis.

(H) Refund Period (6/1/2009 – 5/31/2010) Revenue Adjustment

This adjustment restates revenue to the amount expected from forecasted loads and customers for the refund period (June 2009 through May 2010) at the current rates effective November 1, 2008. The weighted average cost of gas and amortization of prior gas costs and demand side management costs approved in the November 1, 2008 Purchased Gas Adjustment (PGA) are reflected in the pro forma revenue. PGA tracked gas costs have been restated to match the commodity, demand, and amortizations included in the pro forma revenue. This adjustment also eliminates the Senate Bill 408 refund amount returned to customers during 2008 and the related credit to amortization expense.

(I) Remove SB 408 2008 Accrual

This adjustment removes the 2008 accrual for the estimated 2008 Oregon SB 408 refund.

(J) 10% Gas Costs Deferral Adjustment

This adjustment reflects the 10% amount of non-deferred Purchase Gas Costs that are expected to benefit earnings during the period June 1, 2009 through October 31, 2009. The weighted average cost of natural gas will be reset on November 1, 2009.

(K) EOP December 31, 2009 Capital Adjustment

This adjustment pro forms in capital cost, depreciation and property taxes associated with forecasted capital projects. This adjustment includes all projects expected to be completed and transferred to plant-in-service by December 31, 2009. The capital costs have been averaged for their appropriate pro forma period with the associated depreciation expense and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets.

(L) Labor and Other O&M Costs during Refund Period Adjustment

This adjustment brings 2008 test period wages and other operations and maintenance costs forward to refund period levels. Wages are based on actual March 1, 2009 labor rates. Other O&M costs are based on projected costs through the Refund Period ending May 31, 2010.

(M) General Rate Case (GRC) Projected Revenues for Period March 1, 2010 through May 31, 2010

This adjustment pro forms an estimated \$7 million rate relief granted March 1, 2010, the final three months of the refund period (i.e. March 1, 2010 through May 31, 2010).

(N) Adjusted Total – Subtotal**(O) SB 408 Refund (2007)**

This adjustment reflects the 2007 SB 408 refund to customers, including interest.