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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF AVISTA CORPORATION DBA	)	CASE NO. AVU-E-19-04
AVISTA UTILITIES FOR AUTHORITY TO	)	
INCREASE ITS RATES AND CHARGES	)	
FOR ELECTRIC SERVICE IN IDAHO	)	**STIPULATION AND SETTLEMENT**

This Stipulation and Settlement ("Stipulation") is entered into by and among Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), the Staff of the Idaho Public Utilities Commission ("Staff"), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), the Community Action Partnership Association of Idaho, Inc. ("CAPAI"), the Idaho Conservation League ("ICL"), and Walmart, Inc. ("Walmart"). These entities are collectively referred to as the "Parties" and singularly as a "Party", and represent all who have appeared in these proceedings. The Parties understand this Stipulation is subject to approval by the Idaho Public Utilities Commission ("IPUC" or the "Commission").

I. INTRODUCTION

1. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of all the issues raised in the proceeding, is in the public interest and its acceptance by the Commission represents a reasonable resolution of the multiple issues identified in this case. The Parties, therefore, recommend that the Commission, in accordance with RP 274, approve the Stipulation and all of its terms and conditions without material change or condition.

II. BACKGROUND

2. On June 10, 2019, Avista filed an Application with the Commission for authority to increase revenue effective January 1, 2020, for electric service in Idaho. The Company proposed an increase in electric base revenue of $5.255 million or 2.1% for 2020. By Order No. 34368, dated July 1, 2019, the Commission suspended the proposed schedules of rates and charges for electric service.

3. Petitions to intervene in this proceeding were filed by Clearwater, Idaho Forest, CAPAI, ICL, and Walmart. The Commission granted these interventions in IPUC Order Nos. 34369, 34374 and 34384.

4. A settlement conference was noticed and held on October 1, 2019, and was attended by the Parties to this case. As a compromise of positions in this case, and for other consideration as set forth below, the Parties agree to the following terms:

III. TERMS OF THE STIPULATION AND SETTLEMENT

5. Overview of Settlement and Revenue Requirement. The Parties agree that Avista should be allowed to implement revised tariff schedules designed to decrease annual base electric revenue by $7.188 million, or 2.84% (on a billed basis the decrease is 2.80%), with an effective

date of December 1, 2019. The Parties will take all necessary steps to establish an approval process that will allow for the Stipulation to be approved and become effective by December 1, 2019.

6. Cost of Capital. The Parties agree to a 9.5 percent return on equity, with a 50.0 percent common equity ratio, which represents a continuation of the presently authorized ROE and capital structure. The capital structure and resulting rate of return is as set forth below:

Component	Capital Structure	Cost	Weighted Cost
Debt	50.00%	5.20%	2.60%
Common Equity	50.00%	9.50%	4.75%
Total	100.00%		7.35%

A. ELECTRIC REVENUE REQUIREMENT

7. Overview of Electric Revenue Requirement. Below is a summary table and descriptions of the electric revenue requirement components agreed to by the Parties, effective December 1, 2019:

Table No. 1

	SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT EFFECTIVE DECEMBER 1, 2019 (000s of Dollars)				
		Revenue Requirement		**Rate Base**	
	Amount as Filed:	**$**	**5,255**	**$**	**836,820**
	Adjustments:				
a.)	Cost of Capital	$	(2,211)		
b.)	Company 2019 Net Rate Base Updates	$	(317)	$	(1,299)
c.)	Miscellaneous Company Updates: Reduce Property Taxes, Colstrip/CS2 Major Maintenance Expense, Colstrip Regulatory Amortization and remove non-recurring AFUDC DFIT Expense.	$	(990)	$	(58)
d.)	Remove Officer Incentives and Reduce Non-Officers Incentives	$	(438)		
e.)	Reduce Officer Labor Expenses	$	(32)		
f.)	Adjust Employee Benefits	$	86		
g.)	Remove Certain 2019 Capital Projects	$	(1,215)	$	(7,713)
h.)	Revise Fee Free Amortization and Annual Expense	$	(370)		
i.)	Restate Uncollectibles	$	(163)		
j.)	Weather Normalization Adjustment	$	(287)		
k.)	Update Net Pro Forma Power Supply Expense and Transmission Revenues				
i.)	Update Pro Forma Gas Prices	$	(1,620)		
ii.)	Include Palouse and Rattlesnake Wind PPA Contracts in PCA	$	(4,288)		
iii.)	Revise Transmission Revenues	$	(520)		
l.)	Remove 2020 Expense				
i.)	2020 Non-Union Labor Increase	$	(274)		
ii.)	2020 Remove IS/IT 2020 Expense	$	(255)		
m.)	Miscellaneous Adjustments: Reclassification of non-utility flights and fixed costs, as well as expired lease expense associated with the airplane; reclassification of other administrative and general expenses; adjust intervenor funding, and an agreed upon overall expense adjustment to reflect level of approved expenses	$	451		
	Adjusted Amounts Effective December 1, 2019	**$**	**(7,188)**	**$**	**827,750**

a. Cost of Capital. As previously described (see Paragraph 6 above). This adjustment reduces the overall revenue requirement by $2,211,000.

b. Company 2019 Net Rate Base Updates. Reflects adjustments to net rate base to update information related to 2019 capital additions, including related depreciation expense, as well as the impact on Accumulated Depreciation and Accumulated Deferred Federal

Income Taxes, to reflect balances as of December 31, 2019. This adjustment decreases the overall revenue requirement by $317,000 and reduces net rate base by $1,299,000.

c. Miscellaneous Company Updates. Reflects adjustments for updated information, including: removal of certain 2018 AFUDC DFIT[1] expense as non-recurring, major maintenance expense associated with the Company's Colstrip generation plant, property taxes, and correction of DFIT within the Colstrip regulatory amortization adjustment[2]. This adjustment decreases the overall revenue requirement by $990,000 and reduces net rate base by $58,000.

d. Remove Officer Incentives and Reduce Non-Officer Incentives. Reflects the removal of all officer incentives. This adjustment also reduces incentives for non-officers to 2018 target versus the Company's 6-year average. This adjustment decreases the overall revenue requirement by $438,000.

e. Reduce Officer Labor Expenses. Reduce officer labor expenses to 2018 test period levels allocated 90% utility / 10% non-utility. This adjustment decreases the overall revenue requirement by $32,000.

f. Update Pension and Medical Expenses. Reflects updated information related to incremental pension and medical expenses in 2019, and includes 401K expense based on 2018 test period levels adjusted for 3% labor increases. This adjustment increases the overall revenue requirement by $86,000.

g. Remove 2019 Capital Additions. Remove capital investments related to: 1) Digital Grid Network project; 2) Rattlesnake Flats Interconnection and

[1] Allowance for Funds Used Under Construction ("AFUDC"); Deferred Federal Income Taxes ("DFIT")

[2] The Parties otherwise accept the Colstrip Regulatory Amortization adjustment as filed by the Company, including approval of the Colstrip capital additions included in the Regulatory Asset through 2019. The resulting regulatory amortization beginning December 1, 2019 totals $863,000 annually.

Transmission/Substation projects; 3) Distribution asset project (Metro Line); 4) IS/IT Mobile Application and Customer Facing Technology projects; and 5) Transmission/Substation upgrade project, all originally planned for 2019. The projects have been removed for review in the Company's next general rate case due to timing of completion of projects. This adjustment decreases the overall revenue requirement by $1,215,000 and reduces net rate base by $7,713,000.

h. Revise Fee Free Amortization and Annual Expense. Adjust the annual Fee Free[3] expense to approximately $311,000 and Fee Free deferral balance to approximately $696,000 to reflect actual amounts through April 2019 and estimated balances for the remainder of the year. This adjustment also revises the amortization expense of the Fee Free deferral balance ($696,000) to reflect a three-year amortization beginning December 1, 2019 of $232,000. This adjustment decreases the overall revenue requirement by $370,000.[4]

i. Restate Uncollectibles. Restate uncollectible expense based on the 12 month actual expense balance as of June 2019. This adjustment decreases the overall revenue requirement by $163,000.

j. Weather Normalization Adjustment. Reflects higher normalized load revenues net of power supply expense from that included in the Company's original filing. This adjustment decreases the overall revenue requirement by $287,000.

k. Power Supply and Transmission Related Net Expenses.

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[3] The Fee Free program allows customers to make payments by credit or debit card without paying a service fee. This program was approved in Commission order No. 33494, case Nos. AVU-E-16-01 and AVU-G-16-01 and successfully implemented in February 2017.

[4] The Company will update the deferral balance in its next general rate case to reflect actual expenses deferred through November 2019 and true-up any remaining amounts to amortize up or down for the remainder of the three-year amortization.

i. Update Pro Forma Gas Prices. Restates pro forma power supply net expenses to reflect updated natural gas forward prices for January 2020 through December 2020 contract months based on the most recent one-month settlement period. This adjustment decreases the overall revenue requirement by $1,620,000.

ii. Include Palouse Wind and Rattlesnake Flats Wind PPAs in PCA. Reflects the removal of the Palouse Wind and Rattlesnake Wind Power Purchase Agreements ("PPA") net expenses from base power supply expense. This adjustment decreases the overall revenue requirement by $4,288,000. See Paragraphs 8 (Palouse) and 9 (Rattlesnake) below for further information.

iii. Revise Transmission Revenues. Revise 2018 actual transmission revenues to reflect a three year prior average for each month of November and December, to normalize those months to remove the impact of the October 2018 Enbridge pipeline rupture on Company transmission revenues. The resulting annual transmission revenues will also be reflected in the PCA authorized base effective December 1, 2019.

l. Remove 2020 Expense.

i. 2020 Labor Increase. Removes the 2020 incremental non-executive, non-union labor increases. 2020 union labor increases, however were included based on union contract increases for 2020. This adjustment decreases the overall revenue requirement by $274,000.

ii. Reduce 2020 IS/IT Expenses. Reduce 2020 IS/IT expense included by the Company by 50%. Incremental IS/IT expense included for 2020 reflect actual contractual obligations. This adjustment decreases the overall revenue requirement by $255,000.

m. Miscellaneous Adjustments. Reflects the net change in operating expenses related to: 1) reclassification of non-utility flights and fixed costs, as well as expired lease expense associated with the airplane ($93,000); 2) amortization of 2018 intervenor funding over two-year period ($20,000); 3) removal of miscellaneous A&G expenses (accounts 912, 921, and 923, totaling $36,000); and 4) an agreed upon increase to overall expense to reflect a level of approved expenses ($600,000). The net effect of this adjustment increases the overall revenue requirement by $451,000.

8. Palouse Wind. The Parties agree that, for purposes of this case, the recovery of costs related to the Palouse Wind PPA will continue to be included in the PCA, subject to the current sharing (90% customer, 10% Company).[5] Idaho will continue to be assigned its proportional share of all environmental attributes.

9. Rattlesnake Wind. The Parties agree that, for purposes of this case, the recovery of costs related to the Rattlesnake Wind PPA will be included in the PCA, subject to the current sharing (90% customer, 10% Company).[6] Idaho will be assigned its proportional share of all environmental attributes.

B. OTHER SETTLEMENT COMPONENTS

10. PCA Authorized Level of Expense. The new level of power supply revenues, expenses, retail load and Load Change Adjustment Rate resulting from the December 1, 2019

[5] The Palouse Wind PPA is a 30-year contract that was executed in 2011 by the Company and purchases all of its output (105 MW nameplate capacity) and environmental attributes. The project began commercial operation in December 2012.

[6] The Rattlesnake Flat Wind PPA is a 20-year contract which consists of 50 Siemen's S-129 2.9 MW wind turbines with a total capacity of approximately 145 MW's. The project will be directly connected to the Avista electric system and is expected to begin commercial operation in December 2020.

settlement revenue requirement for purposes of the monthly PCA mechanism calculations are detailed in the attached Appendix A, incorporated by reference herein.

11. Electric Fixed Cost Adjustment Mechanisms Authorized Base. The new level of baseline values for the electric and natural gas fixed cost adjustment mechanism ("FCA") resulting from the December 1, 2019 settlement revenue requirements are detailed in the attached Appendix B, incorporated by reference herein.

C. COST OF SERVICE/RATE SPREAD/RATE DESIGN/LOW INCOME

12. Cost of Service/Rate Spread (Base Rate Changes). The Parties do not agree on any particular cost of service methodology. In recognition, however, that certain rate schedules are well above their relative cost of service the Parties agree that Schedules 11/12 and 21/22 will receive a revenue decrease well above the overall percentage base rate change in order to move these schedules closer to cost-of-service parity. The remaining schedules will receive revenue decreases below the overall percentage base rate change, at varying levels, that will move the majority of these schedules closer to their relative cost-of-service. The Parties have agreed to restate present base revenue reflecting the agreed-upon electric weather normalization adjustment.

13. Rate Design. The Parties agree that the base revenue changes would be collected through the volumetric energy rates, with no changes to the basic charges. [7] Appendix C provides a summary of the current and revised rates and charges (as per the Settlement) for electric service.

14. Resulting Percentage Change by Electric Service Schedule. The following table reflects the agreed-upon percentage change by schedule for electric service:

[7] This includes the proposed addition of banded LED rates and administrative changes as described in the direct testimony of Company witness Mr. Miller on pp. 13-14. In addition, the Parties agree with the Company's proposal to incorporate the current Schedule 72 (Permanent Federal Tax Rate Credit) as part of base rates and to cancel Schedule 72 altogether.

Effective December 1, 2019

<u>**Rate Schedule**</u>	**Decrease in Base Rates**	**Decrease in Billing Rates**
Residential Schedule 1	-1.0%	-1.0%
General Service Schedules 11/12	-8.4%	-8.2%
Large General Service Schedules 21/22	-4.5%	-4.4%
Extra Large General Service Schedule 25	-1.0%	-1.0%
Clearwater Paper Schedule 25P	-1.0%	-1.0%
Pumping Service Schedules 31/32	-1.6%	-1.5%
Street & Area Lights Schedules 41-48	0.0%	0.0%
Overall	**-2.8%**	**-2.8%**

15. <u>Low Income Issues</u>. The Parties agree to increase funding for the Low Income Weatherization Program from the current Commission-approved levels of $800,000 to $850,000.

D. <u>ENERGY EFFICIENCY COMMITMENTS</u>

16. For consideration related to the agreed-upon revenue requirement adjustments discussed above, Avista, as a part of the give-and-take of settlement negotiations, and for other settlement considerations, agrees to the following:

a. The parties agree that Avista will establish an Energy Efficiency Assistance Fund ("EEAF"). The purpose of the EEAF is to provide additional funding for projects that are not otherwise fully funded through existing energy efficiency incentives, or do not otherwise qualify for traditional energy efficiency funding. The EEAF will be funded and disbursed as follows:

    i. The final deferral balance related to the "AFUDC Equity Tax Deferral", addressed in Case Nos. AVU-E-19-02 and AVU-G-19-01, as ordered in Commission Order No. 34326 will be a source of funding. The estimated deferral balance is approximately $800,000.

    ii. Avista will contribute below-the-line dollars of $800,000 in 2019 as a match to the estimated AFUDC Equity Tax Deferral (in subsection i.).

    iii. The funding will be disbursed as directed by the EEAF Advisory Group, a new committee of stakeholders tasked with determining which existing or new programs should receive this funding to address energy efficiency, weatherization, conservation, and low-income needs in Avista's Idaho service territory.

iv. The EEAF Advisory Group will consider the needs of all parties and remain flexible on the timing of any disbursements. Any entity seeking funding must first attempt to qualify their applicable project under Avista's existing energy efficiency programs.

v. The committee will initially consist of representatives from the following stakeholders: Avista, Staff, the Lewiston Community Action Partnership, ICL, Idaho Forest, and Clearwater. The Committee may add representatives at its discretion.

b. Clearwater DSM Assistance: Avista agrees to work with Clearwater to attempt to qualify the following projects for DSM funding under Tariff Schedule 90:

- Variable speed drives on the No. 1 paper machine hydropulper.
- Variable speed drives on the No. 4 power boiler demineralized water pumps.
- Energy efficient chillers and compressors for the Lurgi system.
- A variable speed drive on the No.1 paper machine white water system.
- Variable speed drives on the two waste water outfall pumps.

Tariff Schedule 90 allows for possible DSM funding of up to 70% of the cost of the project, subject to meeting certain specified cost-effectiveness criteria. The portion of the estimated cost of these identified projects that is not reimbursed under Schedule 90 will be considered for funding through the EEAF, who will consider the needs of all parties and remain flexible on the timing of any disbursements.

c. Idaho Forest DSM Assistance: Avista agrees to work with Idaho Forest to attempt to qualify the following projects for DSM funding under Tariff Schedule 90, upon closing of the Proposed Transaction:

- Installation of information technology to gather plant information data (PI Data) on energy usage at Idaho Forest's Lewiston plant, and through an installed interface, transmit real time energy load information data for each operating station to Idaho Forest and Avista. This may serve as a useful demonstration project for data interfaces with other customers on Avista's system. The total estimated cost is $300,000.

- Replacement of aging compressors, saws and other equipment with state of the art machinery at Idaho Forest's Lewiston and Grangeville plants, in order to increase productivity and energy efficiency.

Tariff Schedule 90 allows for possible DSM funding of up to 70% of the cost of the project, subject to meeting certain specified cost-effectiveness criteria. The portion of the estimated cost of these identified projects that is not reimbursed under Schedule 90 will be considered for funding through the EEAF, who will consider the needs of all parties and remain flexible on the timing of any disbursements.

IV. OTHER GENERAL PROVISIONS

17. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in RP 272, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

18. The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to RP 274. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement terms embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

19. If the Commission rejects any part or all of this Stipulation or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party

shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such case, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case, in accordance with law.

20. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

21. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

22. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

23. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 11th day of October, 2019.

Avista Corporation

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By:______________________________
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