Office of the Secretary
Service Date
July 17, 2009

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR THE AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE IN IDAHO.	)))))	**CASE NOS. AVU-E-09-01 AVU-G-09-01** **ORDER NO. 30856**

On January 23, 2009, Avista Corporation dba Avista Utilities filed an Application seeking authority to increase its "base" rates[1] for electric and natural gas service by 12.8% and 3.0%, respectively. More specifically, the Company proposed to increase its annual revenues for electric service by $31.2 million and its annual revenues for natural gas service by $2.7 million. To offset the requested electric increase, the Company proposed to decrease the Power Cost Adjustment (PCA) rates by $12.3 million. On February 11, 2009, the Commission suspended the Company's Application and subsequently granted intervention to five parties.

On June 5, 2009, the parties convened a settlement conference to discuss the possibility of settling some or all of the issues in this case. As set out in greater detail below, all the parties subsequently executed a Stipulation and Settlement Agreement that resolved the entire case. The parties recommended that Avista be allowed to increase its annual electric rates by $12.548 million and its annual gas rates by $1.939 million. To mitigate the proposed rate increases, the parties also agreed to reduce the Company's PCA rates and the Company's Purchase Gas Adjustment (PGA) rates.[2] These offsetting rate adjustments would result in an overall average electric revenue increase of 1.5% and no overall increase for natural gas. The specific electric and gas rates for individual customers will vary by class.

Based upon our review of the Application, the settlement, the testimony of the parties and the public comments, we approve the Stipulation and Settlement as set out in greater detail below.

[1] Generally base rates are combined with the annual Power Cost Adjustment (PCA) rates to produce a customer's overall electric rate. The PCA mechanism is used to track changes in revenues and costs associated with annual variations in hydroelectric generation, secondary prices, thermal fuel prices, changes in power contract revenue and expenses. Order No. 29590 at 1.

[2] The PGA is a deferred accounting mechanism for over- and under-collections and a true-up for natural gas purchases in the spot market.

BACKGROUND

A. The Company's Application

In its Application, Avista sought an annual revenue increase of $31.2 million for electric service and $2.74 million for natural gas service. Application at 1-2. The Company asserted that it needed the additional electric revenue to cover increased power supply costs, capital investments in upgrading infrastructure, and relicensing costs associated with its Spokane River hydroelectric facilities. The Company also cited increased operating costs and capital investments to support its request to increase its natural gas revenues. *Id.* at 4.

The Company requested a capital structure of 50% common equity and 50% debt, an 11.0% return on common equity, and a return on rate base of 8.8%. The Company's rate case is based upon a 12-month test year ending September 30, 2008. *Id.* at 5. The Company alleged that unless it can increase its rates, the Company will not have an opportunity to realize a fair return on its investments. *Id.*

For electric customers, Avista proposed an overall increase in its base electric revenue of 12.8%. As part of its filing, the Company also proposed to decrease its PCA rates by 5.0%, resulting in an overall net increase in base electric rates of 7.8%. The Company also proposed to increase the residential electric service charge from $4.60 to $5.00 per month. *Id.* at 14.

For natural gas customers, Avista proposed to increase overall rates by approximately 3.0%. The increase in gas rates included the Company's proposal to increase the residential gas service charge from $4.00 to $4.25 per month. *Id.* at 15.

B. The Parties

In its Notice of Application dated February 11, 2009, the Commission established a deadline for intervention. The Commission subsequently granted intervention to five parties. The parties in this case and their respective counsel are listed below:

Avista Corporation:	David J. Meyer, Vice President & Chief Counsel for Regulatory Affairs
Commission Staff:	Donald L. Howell, II Kristine A. Sasser Deputy Attorneys General

Idaho Forest Group, LLP:	Dean J. Miller McDevitt & Miller LLP
Clearwater Paper Corporation:	Conley E. Ward Michael C. Creamer Givens Pursley LLP
Idaho Conservation League:	Betsy Bridge
Idaho Community Action Network:	Rowena Pineda Carrie Tracy
Community Action Partnership of Idaho:	Brad M. Purdy

C. Course of Proceedings

On February 11, 2009, the Commission issued its Notice of Application and a deadline for intervention. In Order No. 30728, the Commission suspended the Company's proposed rates for a period of six months, or until August 23, 2009. On March 17, 2009, the Commission issued a Notice of Scheduling for this case. All of the parties, except the Idaho Conservation League (ICL) and the Idaho Community Action Network (ICAN), prefiled direct testimony on May 29, 2009.

The parties convened a settlement conference on June 5, 2009. All of the parties except ICL attended and participated in the settlement conference. As a result of the settlement negotiations, all of the parties (including ICL) executed the Stipulation and Settlement. On June 16, 2009, Avista and Staff filed a Motion with the Commission for approval of the Stipulation and Settlement. The Motion urged the Commission to adopt and approve the Stipulation and Settlement in its entirety. The Motion requested that the Commission consider the settlement at the scheduled technical hearing. Motion at 3. On June 24, 2009, the Company and Staff each filed supplemental testimony in support of the Stipulation and Settlement.

The Commission convened public hearings in Moscow and Coeur d'Alene on June 16 and 17, 2009, respectively. On June 29, 2009, the Commission convened its technical hearing. All of the parties except the Idaho Community Action Network entered appearances and participated in the technical hearing. Avista witness Kelly Norwood and Staff witness Randy Lobb testified in support of the Stipulation and Settlement. Based upon the Settlement, the parties moved and the Commission ordered that the prefiled direct testimony be spread upon the record without the presentation of the witnesses. Tr. at Vol. III, p. 24.

PUBLIC COMMENTS AND TESTIMONY

The Commission received nearly 200 customer comments regarding the proposed increase in Avista's electric and gas rates. The vast majority of these comments were from residential customers and a few small commercial customers. The commenters generally opposed any increase in rates. Tr. at 664-65. In her review of the public comments, Staff witness Marilyn Parker testified that the original filing of this case generated an unusually high number of comments opposed to the Company's rate increases. Many "comments came from customers who said they had never commented on a rate case before." Tr. at 665.

Two customers testified at the Moscow public hearing. The first customer was a landlord with several rental properties and urged the Commission to do all it could to limit the rate increase. Tr. at 10. The other customer also opposed the rate increase because of the poor economic conditions in the Company's service territory. *Id.* at 13.

THE STIPULATION AND SETTLEMENT

Following the settlement conference, all of the parties executed the Stipulation and Settlement resolving all of the issues raised in this proceeding. Stipulation at ¶ 1. For the most part, the Stipulation adopted positions advocated by the Staff in its direct testimony. The proposed Staff adjustments to the Company's revenue and rate base requests included the true-up of "estimated" 2009 expenses to actual 2009 expenses, and excluded pro forma adjustments beyond December 31, 2009 (i.e., no 2010 adjustments). Lobb, Tr. at 472. The agreed revenue and rate base adjustments are discussed within the Stipulation and Settlement and portrayed in summary tables for both gas and electric service. See Tables at pp. 5-6, ¶¶ 9-12; App. at p. 1. As part of the Settlement, Staff agreed to modify its recommendation in three areas: FERC relicensing costs; rate base treatment for expenses attributable to the Montana riverbed litigation; and net power supply costs for electric service. Tr. at 747. The more significant elements of the Stipulation and Settlement are addressed below.

1. Spokane River Relicensing. In the Stipulation, the parties agreed that Avista should be allowed to raise its base electric rates to recover $9.438 million in additional annual revenue. *Id.* at ¶ 8. However, the parties also recognized that Avista had an application to relicense the Company's Spokane River hydroelectric facilities pending at the Federal Energy

Regulatory Commission (FERC). Consequently, the parties agreed that if FERC issued a new license for the Spokane River facilities prior to July 22, 2009, the Company's annual revenue requirement for electric service should be increased to $12.548 million. *Id.* at n. 2 and ¶ 9(i). Two days after the parties filed the Stipulation and Settlement, FERC issued a new 50-year license for the Spokane River facilities. 127 F.E.R.C. ¶ 61,265 (June 18, 2009).

2. Overall Revenues and Capital Structure. With the Spokane River relicensing included, the parties agreed that Avista should be allowed to increase its Idaho base rates by $12,548,000 in additional annual electric revenue and $1,939,000 in additional annual natural gas revenue. These increases represent a 5.70% and a 2.11% increase in electric and natural gas base revenues, respectively. The parties agree that Avista's capital structure should consist of 50% common equity and 50% long-term debt. In the Stipulation, the parties adopted Staff's recommended return on equity of 10.5%, and agreed that the cost of debt should be 6.60%. These components produce an authorized rate of return of 8.55%. *Id.* at ¶ 8 at p. 4.

3. Power Supply. The parties agreed to adopt Staff's two adjustments for the Company's electric power supply. First, Avista will remove short-term power supply contracts and recover these costs through the PCA. Second, the Company will recalculate average natural gas forward prices using a more current period of May 1 through May 31, 2009, for the unhedged portion of the generation. These two power supply adjustments reduce the Company's originally requested revenue requirement by $13.869 million. Stipulation at 5-7.

4. Workforce Compensation. The Stipulation adopts the Staff's proposal to reduce wages for executive and non-executive employees to reflect actual wages in 2009 and to eliminate any pro forma increase in 2010. For ratemaking purposes, the Stipulation also removes pay increases for the Company's executives in 2009 and 2010. These two adjustments reduce the annual revenue requirement by $358,000 for electric service and $94,000 for natural gas service. Summary Tables at 5-6.

5. Rate Spread and Rate Design. In the Stipulation, the parties agreed that the increase in electric base revenue will be spread on a uniform percentage basis to all schedules. Stipulation at ¶ 15(a). A uniform percentage increase will be applied to each energy rate within each electric service schedule. Parties agreed that there will be no increase in the basic minimum monthly charge or demand charge for Schedules 11, 21 and 25. Parties also agreed that the

current residential monthly charge for electric service and gas service shall remain unchanged at $4.60 per month and $4.00 per month, respectively. *Id.* at ¶ 15(d).

6. Cost of Service. The Stipulation provides that the Company will update its cost of service analysis as part of its next general rate case. More specifically, the Company will prepare an analysis of the impacts of allocating 100% of transmission costs to demand. The analysis will also examine allocating transmission costs to reflect any peak and off-peak seasonal cost differences over 7 months, rather than assuming an equal weighting over 12 months. The Company will compile 12 months of continuous load data for analyzing costs of service and will share "the results of the consultant's analysis of such data with interested parties as soon as it becomes available." *Id.* at ¶ 13.

7. Customer Service Issues. The Stipulation provides that Avista will maintain funding for the low-income weatherization program at $465,000 (including administrative overhead) and that this amount will be revisited in a future proceeding. *Id.* at 16(b). Avista will also provide $25,000 to the Idaho Community Action agencies for outreach and education about energy conservation and efficiency. This amount shall be funded through the Energy Efficiency Rider. *Id.* at ¶ 16(c). The Company will work with Staff to assess the efficiencies of Avista's deposit policies and new payment plans, and develop procedures to decrease payment defaults. *Id.* at ¶¶ 16(d) and (e).

8. Other Issues. As part of the Stipulation, the Company agreed to withdraw its request to amend the PCA sharing ratio. The sharing ratio shall remain at 90%/10%. *Id.* at ¶ 14. The Company also agreed to submit its efficiency program expenditures for both electric and natural gas (from January 1, 2008 through November 30, 2008) in a subsequent docket for reviewing prudency and recovery.[3] The parties agreed that the Idaho electric rate base should be $576,291,000 and the Idaho natural gas rate base should be $90,028,000. Gas Table at p. 6; App. 1 at p. 1.

THE TECHNICAL HEARING

The Commission held its technical hearing on June 29, 2009. As previously mentioned, all of the parties except the Idaho Community Action Network entered appearances.

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[3] On June 30, 2009, the Company filed an Application to recover the cost of its energy efficiency services through the "energy efficiency tariff riders," Schedules 91 (electric) and 191 (natural gas). See Case Nos. AVU-E-09-06 and AVU-G-09-04.

The Commission Staff and the Company presented testimony in support of the Stipulation and Settlement.

1. Avista. The Company's Vice-President of Regulatory Affairs, Kelly Norwood, testified in support of the Stipulation. Mr. Norwood stated that the Stipulation, if approved by the Commission, would resolve all of the issues in the Company's filing. Tr. at 725. He noted that the Stipulation and Settlement represented a compromise among differing points of views of the parties but in the final analysis, the Stipulation represented a fair, just and reasonable compromise of the issues and was in the public interest. Tr. at 725-26.

Mr. Norwood explained that under the terms of the Settlement, Avista would be allowed to increase electric base revenue by approximately 5.7% overall. This revenue increase will be offset by an overall 4.2% revenue decrease in the current PCA surcharge. If the Stipulation and Settlement are approved, an average residential customer using 982 kilowatt hours per month would see a monthly rate increase of about 1.5% or about $1.50 per month. Tr. at 726-27.

Under the Stipulation, Avista would be allowed to revise its natural gas rates to recover $1.939 million in additional annual revenue, which represents an increase of 2.11%. This base rate increase would be offset by an equivalent decrease in the Power Purchase Gas Adjustment (PGA). As a result, a residential customer using an average of 65 therms per month would see no increase in their monthly gas bill. Tr. at 727. The stipulated revenue increases for most electric schedules and the stipulated gas rates are set out in Appendix 1 to this Order.

Mr. Norwood explained that this rate case is more than just recovering "year-over-year changes in utility operation costs[.]" Tr. at 730. He stated that Avista was investing large amounts of capital to upgrade its existing infrastructure to meet growing customer demand; meet new reliability standards; satisfy environmental requirements; and end litigation regarding the Company's generating resources. *Id.* He asserted that the settlement represents a reasonable compromise among the parties and is in the public interest. Tr. at 744.

2. The Staff. The Utilities Division Administrator, Randy Lobb, urged the Commission to adopt the Stipulation and Settlement. He testified that the Staff conducted a comprehensive audit of test year results and concluded that the proposed settlement "is just and reasonable and should be approved by the Commission." Tr. at 746. He pointed out that the

electric revenue requirement agreed upon by the parties was about 60% less than originally proposed by the Company. *Id.* at 749.

Mr. Lobb explained the three areas where the Staff agreed to modify its revenue requirement recommendations. First, Staff increased its power supply cost adjustment by $586,000 to reflect a more recent 30-day period for forward gas prices. Tr. at 751. Second, Staff removed all proposed increases in executive compensation for 2009 and 2010, but added $75,000 to account for the indirect overhead expenses for this labor. Tr. at 553. Finally, Staff modified its adjustment for Information Services to reflect two employee positions that the Staff originally thought were unfilled. *Id.* Consequently, Staff changed this final adjustment by $96,000.

Mr. Lobb concluded by explaining that the Staff agreed to an August 1, 2009 implementation date for new rates because the parties had resolved all issues in the case. He testified that the "accelerated implementation date was reasonable given that comprehensive settlement would reduce the need for lengthy hearings, complicated deliberations and time consuming development of the final Commission Order." Tr. at 761. He also insisted that implementing new rates at the first of the month "would simplify calculation of monthly power supply costs for determination of PCA deferral balances." *Id.*

DISCUSSION AND FINDINGS

A. Standards of Review

In this case, all of the parties have signed the Stipulation and Settlement Agreement. Our Procedural Rule 276 recognizes that the Commission is not bound by the parties' settlement agreement. IDAPA 31.01.01.276. The Commission will independently review any settlement to determine whether it is fair, just and reasonable; in the public interest; or otherwise in accordance with law or regulatory policy. *Id.* Furthermore, the proponents of a proposed settlement have the burden of showing that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. Our settlement rules permit the Commission to convene an evidentiary hearing so that the parties may develop a record in support of a proposed settlement. In this case, Staff and Avista offered supplemental testimony at the technical hearing that addressed the settlement. Pursuant to Rule 276, the Commission may accept, reject, or amend a proposed settlement. IDAPA 31.01.01.276.

B. Commission Findings

In this case, the parties insist that the settlement is just and reasonable, and in the public interest. The parties assert that the Stipulation and Settlement represents a reasonable resolution of the disputed issues and that it is in the public interest for the Commission to approve the Stipulation and Settlement.

Based upon our review of the Stipulation and Settlement, the direct testimonies submitted by the parties, the testimony supporting the Stipulation, and the public comments, we find that the record is extensive and further proceedings are not necessary. Based upon our review of the direct testimony, the supplemental testimony and the Stipulation, we recognize that disputes among the parties were numerous and significant. In addition, this case has generated many customer comments opposed to the increases originally requested by the Company.

After reviewing this record, we find the Stipulation and Settlement is fair, just and reasonable. The Stipulation represents a reasonable compromise of the positions held by the parties and we find it is in the public interest. IDAPA 31.01.01.274-276. We appreciate the parties for their diligent work on the settlement and their ability to resolve all of the issues in this case. In particular, we note that the Stipulation and Settlement represents a significant reduction in the requested revenue increase – about 60% less than originally requested. Tr. at 749.

Accordingly, we find it reasonable to authorize Avista to increase its jurisdictional electric base rates to recover an additional $12.548 million in annual revenues. This represents an overall average increase in base electric revenues of 5.7%. The parties recommend and we approve that the increase in base electric revenue be offset by an overall reduction in PCA revenues of 4.2%. Thus, the net increase in total base electric revenue is 1.5%.

We further find it reasonable for Avista to increase its jurisdictional natural gas base rates to recover an additional $1.939 million in annual revenues. When this increase is offset with the agreed-upon decrease in the PGA, there is no net annual increase in total gas revenue.

The Stipulation and Settlement also contains provisions for non-revenue issues such as a cost-of-service analysis, support for low-income assistance programs, and evaluation of new payment plans and deposit policies. Given the current economic conditions in northern Idaho, we direct the Company to vigorously pursue these cost-of-service and customer service provisions.

Given the agreement of the parties, we further find that it is reasonable that Avista implement the rates contemplated in the Stipulation and Settlement effective August 1, 2009. Following the issuance of this Order, Avista shall prepare and submit new electric and natural gas rate schedules consistent with this Order.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Avista Corporation dba Avista Utilities is an electric utility subject to the Commission's regulation under the Idaho Public Utilities Law. *Idaho Code* § 61-119 and 61-129. The rates of all its tariff schedule gas and electric customers in the State of Idaho are subject to the Commission's regulation.

Based upon the record, we find that the Company's present rates do not provide it with an opportunity to earn a fair and reasonable return on its investment. *Idaho Code* § 61-622. Allowing the Company to increase its base rates for electric service by $12.548 million and base rates for gas service by $1.939 million will provide Avista with the opportunity to earn a fair and reasonable return. *Id.* The approved changes in the annual electric PCA and the gas PGA will mitigate the increases in electric and gas revenues. The Company is authorized to earn an overall rate of return of 8.55%. We find the Stipulation and Settlement is reasonable and is in the public interest.

We further find the 12-month test year ending September 30, 2008 is the appropriate test year for use in this proceeding. We further find the Company's Idaho electric rate base to be $576,291,000 and the Idaho natural gas rate base to be $90,028,000. We further find that the Company's net power supply expense is $153.92 million. The Commission further finds that the other rate design issues contained in the Stipulation are fair, just and reasonable.

O R D E R

IT IS HEREBY ORDERED that the Joint Motion by Avista and the Staff for Approval of the Stipulation and Settlement is granted. The Commission approves the Stipulation and Settlement.

IT IS FURTHER ORDERED that Avista is authorized a return on common equity of 10.5%, and an overall rate of return of 8.55%. As set out in the approved Stipulation and Settlement, the Company is authorized to recover $12.548 million in additional annual base revenues for electric service and $1.939 million in additional annual base revenues for gas service.

IT IS FURTHER ORDERED that the increase in base electric rates be offset by a reduction in the Power Cost Adjustment (PCA) surcharge of 4.2%. Avista shall also offset the increase in base gas rates by reducing its Weighted Average Cost of Gas (WACOG) in Schedule 150 by 2.662 cents per therm.

IT IS FURTHER ORDERED that the Company file new electric and natural gas base rate schedules in conformance with the authorized revenues set out in this Order within seven (7) days of the service date of this Order. If the new rate schedules are approved, the change in electric and natural gas base rates shall become effective on August 1, 2009.

IT IS FURTHER ORDERED that the parties shall comply with all of the terms and conditions contained in the Stipulation and Settlement Agreement. Avista shall prepare updated cost-of-service data consistent with the terms of the Stipulation and share this data with interested parties when it becomes available.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 17th day of July 2009.

~~JIM D.~~ KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

Commissioner Redford out of the office
MACK A. REDFORD, COMMISSIONER

ATTEST:

Barbara Barrows
Assistant Commission Secretary

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AVISTA UTILITIES
IDAHO ELECTRIC, CASE NO. AVU-E-09-01
ORDERED INCREASE BY SERVICE SCHEDULE
12 MONTHS ENDED SEPTEMBER 30, 2008
(000's of Dollars)

Line No.	Type of Service	Schedule Number	Base Tariff Revenue at Present Rates (1) ($)	Ordered General Increase ($)	Ordered Base Tariff Revenue ($)	Base Tariff Increase (%)	Total Billed Revenue at Present Rates (2) ($)	General Incr. as a % of Billed Revenue ($)	Ordered PCA Decrease ($)	Ordered General & PCA Increase ($)	Total Increase in Base Revenue (%)	Total Increase in Billed Revenue (%)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
1	Residential Service	1	86,358	4,918	91,276	5.7%	93,722	5.2%	(3,090)	1,827	2.1%	1.9%
2	General Service	11, 12	27,841	1,587	29,428	5.7%	30,110	5.3%	(860)	727	2.6%	2.4%
3	Large General Service	21, 22	46,634	2,660	49,294	5.7%	51,461	5.2%	(1,883)	777	1.7%	1.5%
4	Extra Large General Service	25	14,497	825	15,322	5.7%	16,577	5.0%	(836)	(11)	-0.1%	-0.1%
5	Potlatch	25P	37,941	2,161	40,102	5.7%	43,897	4.9%	(2,415)	(254)	-0.7%	-0.6%
6	Pumping Service	31, 32	4,139	235	4,374	5.7%	4,539	5.2%	(156)	79	1.9%	1.7%
7	Street and Area Lighting Service	41-49	2,842	162	3,004	5.7%	2,957	5.5%	(37)	125	4.4%	4.2%
8	Total		220,252	12,548	232,800	5.7%	243,263	5.2%	(9,277)	3,270	1.5%	1.3%

(1) Excludes all present rate adjustments (see below).

(2) Includes all rate adjustments prior to August 1,2009: Schedule 66 - Temporary PCA Adjustment, Schedule 91 - Energy Efficiency Rider Adjustment and Schedule 59 - Residential and Farm Energy Rate Adjustment.

AVISTA UTILITIES

IDAHO GAS, CASE NO. AVU-G-09-01

NATURAL GAS SERVICE CHANGE IN RATES [1]			
Customer Class (Schedule)	**General Base Increase**	**Decrease in WACOG**	**Net Change**
General Services (101)	2.1%	-2.1%	0%
Lg. General Services (111)	2.1%	-2.4%	-0.3%
Interruptible Services (131)	1.3%	-2.8%	-1.5%
Transportation Service (146)	2.8%	_	2.8%
[1] The percentages are calculated with all current Schedule 150 revenue included in base rate revenue.			

Source: Stipulation at 14.