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IDAHO PUBLIC
UTILITIES COMMISSION

August 4, 2010

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington Street
Boise, ID 83702

Re: Case Nos. AVU-E-10-01 and AVU-G-10-01
Testimony in Support of the Stipulation and Settlement

Dear Ms. Jewell:

Enclosed for filing with the Commission in the above-referenced docket are the original and nine (9) copies (one (1) copy designated as reporter's copy) plus a computer disk as required by Rule 231.05. of Kelly Norwood's Direct Testimony in Support of the Stipulation and Settlement.

Sincerely,

Kelly Norwood

Kelly O. Norwood
Vice President

Enclosures

c: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 4th day of August, 2010, served Avista's Testimony in Support of the Stipulation and Settlement in Docket No. AVU-E-10-01 and AVU-G-10-01 upon the following parties, by mailing a copy thereof, properly addressed with postage prepaid to:

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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 TO ELECTRIC AND NATURAL GAS CUSTOMERS IN THE STATE OF IDAHO	CASE NO. AVU-E-10-01 CASE NO. AVU-G-10-01 DIRECT TESTIMONY OF KELLY O. NORWOOD IN SUPPORT OF THE STIPULATION AND SETTLEMENT

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Kelly O. Norwood and I am employed as the Vice-President of State and Federal Regulation for Avista Utilities ("Company" or "Avista"), at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you briefly describe your educational background and professional experience?

A. Yes. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 29 years, I have spent approximately 18 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department (power supply and natural gas supply) in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

Q. What is the scope of your pre-filed testimony in this proceeding?

A. The purpose of my testimony is to describe and support the Stipulation and Settlement ("Stipulation"), filed on July 26, 2010 between 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 ("CAPAI"), the Snake River Alliance ("Snake River"), the Idaho Conservation League ("Conservation League"), and the Company, which, if approved by the Commission, would resolve all of the issues in the Company's filing. These entities are collectively referred to as the "Parties," and represent all parties in the above-referenced cases that participated in settlement discussions.[1]

The Stipulation is the product of settlement discussions held in the Commission offices on July 6 and 8, 2010, which were attended by signatories to the Stipulation. The Stipulation between the Parties resolved all issues associated with the calculation of the Company's requested revenue requirement, all issues related to rate spread and rate design, provides additional funding for low income energy efficiency measures and education, and also provides for future workshops to address certain customer service-related issues.

The Stipulation represents a compromise among differing points of view. Concessions were made by all Parties to reach a balancing of interests. As will be explained in the

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[1] The Idaho Community Action Network and North Idaho Energy Logs, Inc., as intervenors, were provided notice of the settlement discussions, but did not participate.

following testimony, the Stipulation represents a fair, just and reasonable compromise of the issues and is in the public interest.

Q. Please explain how the Parties arrived at the Stipulation in this proceeding.

A. The Stipulation is the end result of extensive audit work conducted through the discovery process and hard bargaining by all Parties in this proceeding. I would like to express my appreciation to all Parties involved in this proceeding for their efforts in arriving at this Stipulation and to this Commission for your willingness to hear this matter promptly, in light of the proposed October 1 effective date.

Q. Would you briefly summarize the Stipulation?

A. Yes. Under the terms of the settlement agreement, Avista would be allowed to implement revised tariff schedules designed to recover $21.25 million in additional annual electric revenue, which represents a 9.25% increase in electric annual base tariff revenues. Avista would also be allowed to implement revised tariff schedules designed to recover $1.85 million in additional annual natural gas revenue, which represents a 2.6% increase in natural gas annual base tariff revenues. Included in the Stipulation is a rate impact mitigation plan wherein the increases are partially offset by $17.5 million of Deferred State Income Taxes (DSIT) that would be passed through to customers.

This DSIT represents the balance of Idaho state deferred income taxes from prior years, which is discussed below.

The Parties agree that this settlement is not contingent upon any specific methodology for individual components of the revenue requirement determination, but all Parties support the overall increase to the Company's revenue requirement, and agree that the overall increase represents a fair, just and reasonable compromise of the issues in this proceeding and that this Stipulation is in the public interest.

As part of the Stipulation, the annual funding level of the existing low-income Demand Side Management programs would be increased to $700,000, up from the current $465,000. The funding to assist low-income energy efficiency outreach and education would be increased from $25,000 to $40,000.

Q. Would you briefly summarize the rate impact mitigation plan?

A. Yes. The DSIT reflected on the Company's balance sheet totals approximately $11.1 million, and when adjusted for the effect of the revenue conversion factor of 0.63676, totals approximately $17.5 million, representing normalization of state income taxes for a period of years. As part of this mitigation plan, the Parties agree to credit $17 million of the DSIT to <u>electric</u> customers over two years to help offset the rate impact, and $0.5 million to <u>natural</u>

gas customers for one year to help offset a portion of the first year rate increase.

The $17 million DSIT credit would offset electric prices for customers for two years, reducing the impact of the electric rate increase effective Oct. 1, 2010, from an overall 9.25 percent to 3.59 percent. With the offsetting credit, a residential customer using an average of 1,000 kilowatt-hours a month would see a $3.50 per month increase, or 4.3 percent, for a revised monthly bill of $84.40.

As part of the phase-in of the DSIT, electric rates would increase 3.92 percent Oct. 1, 2011, and 1.74 percent Oct. 1, 2012, after which the temporary credit would expire. This is shown in the following table:

	Year 1 (October 1, 2010)		**Year 2 (October 1, 2011)**		**Year 3 (October 1, 2012)**	
Total Increase	$21.25 million	9.25%	$21.25 million	9.25%	$21.25 million	9.25%
Less - DSIT Credit	$13.00 million	5.66%	$4.00 million	1.74%	$0.00 million	0.00%
Less - Prior Increase	$0.00 million	0.00%	$8.25 million	3.59%	$17.25 million	7.51%
Net Increase to Customers	**$8.25 million**	**3.59%**	**$9.00 million**	**3.92%**	**$4.00 million**	**1.74%**

The DSIT credit would reduce, for one year, the natural gas rate increase from 2.6 percent to 1.9 percent. The revised monthly bill for a customer using an average of 65 therms a month would increase $1.71 from $57.69 to $59.40.

Q. Please elaborate on the DSIT funds that are being used to mitigate the impact of the rate increase.

A. Deferred SIT (DSIT) has been on the Company's books since the mid-1990s. Deferrals ceased when rates were approved in Case Nos. AVU-E-09-01 and AVU-G-09-01 that reflected the flow-through method for state income taxes. The switch to the flow-through method provided the opportunity to make the DSIT balances available to partially offset the general rate case electric and natural gas rate increases.

The DSIT balances were created by the differences between book and tax depreciation. The tax effect of the difference between book and tax depreciation was deferred and created the balance of deferred state income taxes.

The balance of deferred state income taxes is the result of normalizing state income taxes for ratemaking purposes. Case Nos. AVU-E-09-01 and AVU-G-09-01 reflected the switch to the flow-through method for state income taxes.

II. HISTORY OF FILING

Q. Please describe the Company's general rate case request, as filed.

A. On March 23, 2010, Avista filed an Application with the Commission for authority to increase revenue for electric and natural gas service in Idaho by 14% and 3.6%, respectively. If approved, the Company's revenues for electric base retail rates would have increased by $32.1

million annually; Company revenues for natural gas service would have increased by $2.6 million annually.

The Company proposed to spread the electric revenue increase by rate schedule, utilizing the results of the cost of service study, on a basis which: 1) moved the rates for all the schedules closer to the cost of providing service, and 2) resulted in a reasonable range in the proposed percentage increase across the schedules. The Company also proposed to raise the monthly electric residential basic charge to $6.75 from the current $4.60 charge.

The Company proposed utilizing the results of the natural gas cost of service study, as a guide in spreading the overall revenue increase to its natural gas service schedules and proposed to raise the natural gas residential basic charge to $6.75 from the current $4.00.

Q. What are the primary factors causing the Company's request for an electric rate increase in this filing?

A. The Company's electric request is driven primarily by an increase in production and transmission expenses, due to the addition of the Lancaster plant Power Purchase Agreement (PPA) in base rates, the termination of some low-cost power purchases, reduced hydro generation, and increased fuel costs. These costs equate to approximately 80% of the Company's overall request. In addition, 12% of the request is due to investing large amounts of capital in the Company's hydro and thermal generation projects, and transmission and distribution upgrades. In addition, the Company continues to experience increasing costs related to meeting new reliability standards, from additional compliance requirements, and the need to replace aging infrastructure. It is simply not possible to cut other costs enough to offset these cost increases, as explained in the Company's original filing.

Q. What are the primary factors driving the Company's request for a natural gas rate increase?

A. The Company's natural gas request is primarily driven by the inclusion in this case of the increased plant investment and inventory associated with the transfer of additional capacity and deliverability in the Jackson Prairie Storage facility from Avista Energy to Avista Utilities, effective May 1, 2011. Other changes are due to various operating cost components, mainly administrative and general expenditures.

III. ELEMENTS OF THE STIPULATION

Q. Please describe the terms of the Stipulation entered into by the Parties.

A. While the Parties to the stipulation agreed that this would be a settlement with no party accepting a specific methodology for certain elements of the revenue requirement determination, the Stipulation does specify an agreed-upon level of power supply costs upon which to set the new base power supply costs for the monthly power cost adjustment (PCA) calculation purposes, and it identifies other specific items that I will address in my testimony below.

Q. Where is the new level of power supply costs for the PCA calculation purposes found in the agreement?

A. The agreed-upon level of power supply costs for the monthly PCA calculation purposes is provided in Attachment A to the Stipulation.

Q. What is the proposed effective date of the Stipulation?

A. The Parties have requested implementation of the Stipulation on October 1, 2010. This proposed effective date is an integral part of the Stipulation that was part of the negotiated resolution of all of the issues.

Q. Please explain the settlement terms relating to the recovery of Lancaster costs.

A. The Lancaster power plant is a 275 MW gas-fired combined-cycle combustion turbine located in Rathdrum, Idaho. Avista Utilities will purchase all of the output of the plant through 2026. In Case No. AVU-E-09-01, a settlement was reached in which the purchase of the output from the Lancaster generating plant was found to be reasonable with the recovery of the fixed and variable costs through the PCA. Those costs have now been incorporated into the base revenue requirement in this case.

Q. Please explain the settlement terms relating to cost of service.

A. As part of this rate case, the Company prepared an analysis of using a peak credit method of classifying production costs, allocating 100% of transmission costs to demand, and allocating transmission costs to reflect any peak and off-peak seasonal cost differences over seven months, rather than assuming an equal weighting over twelve months. The Parties agree to take into account, for purposes of rate spread in this proceeding, the allocation of 100% of transmission costs to demand. The Parties have otherwise agreed to exchange information and convene a public workshop, prior to the Company's next general rate case, with respect to the possible use of a revised peak credit method for classifying production costs, as well as consideration of the use of a 12 CP (whether "weighted" or not) versus a 7 CP or other method for allocating transmission costs.

The Parties have also agreed to move all electric rate schedules approximately 25% toward unity (except for the Street and Area Lighting Schedules, which will receive a percentage increase equal to the overall increase in revenue requirement).

The Parties agreed to move all natural gas rate schedules approximately 60% toward unity (except for

Transportation Service Schedule 146, which will receive a full decrease to unity).

Q. Please explain the settlement terms relating to prudence of energy efficiency expenditures.

A. The Parties agree that Avista's expenditures for electric and natural gas energy efficiency programs from January 1, 2008 through November 30, 2008, and from December 1, 2008 through December 31, 2009 are prudent and recoverable.

Q. Please describe the customer service-related portion of the Stipulation.

A. There are three areas that were addressed in the Stipulation, as follows:

(a) Low-Income Weatherization Funding - The Parties agree that the annual level of funding of $465,000 to the Community Action Partnership (CAP) agencies for funding of weatherization (which includes administrative overhead) should be increased to $700,000. The continuation and level of such funding will be revisited in the Company's next general rate filing, or other appropriate proceeding. This total amount will be funded through the Energy Efficiency Tariff Rider (Schedules 91 and 191).

(b) Funding for Outreach for Low-Income Conservation - The Parties agree to annual funding of $40,000 to the Idaho CAP for purposes of providing low-income outreach and education concerning conservation. This amount will be funded through the Energy Efficiency Tariff Rider (Schedules 91 and 191), and will be in addition to the $700,000 of Low-Income Weatherization Funding. The continuation and level of such funding will be revisited in the Company's next general rate filing or other appropriate proceedings.

(c) Other Service Commitments - The Parties agree to several other service commitments as follows:

(i) The Company will review its policies and address in its next general rate case the appropriateness of charging for services it now provides without charge to customers or other parties, e.g., establishing new accounts or managing tenant/landlord accounts. The Company will also reexamine its existing non-recurring charges to determine whether those amounts cover a reasonable portion of the Company's current cost to provide those services.

(ii) The Company will use its best efforts to meet or exceed its current contact center service level standards.

(iii) In coordination with Staff, the Company will develop and conduct a study on Avista's deposit policy and practices with respect to residential customers. Among the objectives of the study would be to determine if the current deposit policy correctly identifies customers who pose a credit risk to the Company, whether it encourages customers who pose a credit risk to improve payment habits, and whether it reduces the amount of credit and collection activity as well as bad debt associated with those customer accounts.

(iv) The Company will hold at least five Senior Energy Conservation workshops in different Idaho communities prior to December 31, 2011.

(v) The Company will begin tracking and reporting to the Commission monthly data regarding customer credit activity.

(vi) The Company will actively monitor the Low Income Weatherization and Low Income Energy Conservation Education Programs to assure that the stated goals and objectives of these programs are achieved and that costs associated with these programs are prudently incurred.

(vii) The Company will work with Commission Staff to address Staff's concerns about Avista's policies and practices with respect to: (a) opening and closing customer accounts, and (b) offering term payment arrangements to customers.

Q. Does the Company have other programs in place to mitigate the impacts on customers of the proposed rate increase?

A. Yes. We have a history of making it a priority within our Company to maintain meaningful programs to assist our customers that are least able to pay their energy bills. We also have programs to assist our entire customer base, i.e., not just our low-income customers. Some of the key programs that we offer or support are as follows:

Programs designed to assist customers include:

- **Increased DSM Energy Efficiency Programs and Funding.** In January 2009 Avista proposed, and the IPUC approved, modifications to the Company's energy efficiency program offerings. The modifications further broadened the technical and financial support Avista provides to its customers, and provides customers with increased opportunity to manage their energy bills. In 2008 Avista also launched the award-winning "Every Little Bit" energy efficiency promotional campaign which integrates all of the Company's energy efficiency programs into one location.

- **Project Share.** Project Share is a voluntary program allowing customers to donate funds that are distributed through community action agencies to customers in need. In addition to the customer and employee contributions in 2009 of $81,700 in Idaho, the Company contributed $111,800, Idaho's share, to the program in 2009.

- **Comfort Level Billing.** The Company offers the option for all customers to pay the same bill amount each month of the year by averaging their annual usage. Under this program, customers can avoid unpredictable winter heating bills.

- **Payment Arrangements.** The Company's Contact Center Representatives work with customers to set up payment arrangements to pay energy bills.

- **CARES Program.** Customer Assistance Referral and Evaluation Services provides assistance to special-needs customers through access to specially trained (CARES) representatives who provide referrals to area agencies and churches for help with housing, utilities, medical assistance, etc.

- **Gatekeepers Program.** Avista has implemented the Gatekeepers Program, a program that trains field personnel to be aware of signs that a customer may be having difficulty with daily living tasks (e.g., paper or mail not collected, disheveled appearance, etc). The CARES representatives conducted training of company-wide field personnel who come into contact with residential customers on a regular basis. In the event employees identify a customer having difficulty, the employee is asked to notify the CARES representatives who would contact appropriate community resources for assistance.

- **Senior Energy Outreach.** Avista has developed specific strategic outreach efforts to reach our more vulnerable customers (seniors and disabled customers) with energy efficiency information that emphasizes comfort and safety.

- **Senior Publications.** Avista has created a one-page advertisement that has been placed in senior resource directories and targeted senior publications to reach seniors with information about energy efficiency, Comfort Level Billing, Avista CARES and energy assistance. A brochure with the same information has also been created for distribution through senior meal delivery programs and other senior home-care programs.

- **Power to Conserve.** In partnership with KREM television, a half-hour television program is annually developed that covers low-cost and no-cost ways to save energy at home. The goal of the program is to help limited income seniors and other vulnerable populations with their energy bills by providing home energy conservation education. The program provides helpful energy conservation tips, information on community resources and ways for customers to manage their energy bills. A DVD of the program has also been produced which is included as part of energy conservation kits provided in senior conservation workshops.

- **Every Little Bit House.** In partnership with KREM television, the long-running "Power to Conserve" program was updated to profile energy efficiency work done on an actual Avista customer's home utilizing the low income weatherization program provided by SNAP. The program utilizes a series of commercial vignettes that are specifically targeted to provide helpful energy conservation tips, information on community resources and ways for customers to manage their energy bills. Its primary target audience is limited income, senior and vulnerable customers.

Q. Please describe the accounting treatment agreed to by the Parties for three specific issues.

A. The Parties agree to the accounting treatment for the following items:

(a) Coeur d'Alene Tribe Settlement and Spokane River Relicensing Deferrals - The Parties agree to a ten-year amortization of the remaining balances beginning October 1, 2010 of the CDA Settlement Deferral, the Spokane River Deferral, and the Spokane River PM&E Deferral.

(b) Colstrip Lawsuit Settlement - The Parties agree to eliminate the amortization of the deferred costs, due to insurance proceeds received subsequent to the original filing of the case.

(c) Jackson Prairie (JP) Storage - The parties agree to the revised accounting treatment proposed by the Company for its existing cushion gas using the net book value of the utility assets at February 2010 to record the transfer of the cushion gas from non-recoverable (FERC Account No. 352.3), which is a depreciable asset, to recoverable (FERC

Account No. 117.1), which is a non-depreciable asset. The JP assets that will transfer from Avista Energy on May 1, 2011, will include plant assets, operations and maintenance expenses, as well as cushion gas that will be recorded in both recoverable and non-recoverable FERC accounts using a similar allocation method.

IV. RATE SPREAD & RATE DESIGN

Q. How did the Stipulation address rate spread?

A. The table on Page 3 of Attachment B of the Stipulation shows the impact on the energy rates under each service schedule of the agreed-upon electric increase. The proposed electric revenue increase of $21,250,000 represents an overall increase of 9.25% in base rates and is spread based on the Company's proposed methodology of moving all electric rate schedules approximately 25% toward unity (except for the Street and Area Lighting Schedules, which will receive a percentage increase equal to the overall increase in revenue requirement). The application of the DSIT credit to electric customers is spread based on each schedule's contribution to the general increase in this case, which represents a first year reduction in revenue of 5.66%. The first year net increase to electric revenue as a result of the general increase and the DSIT credit is 3.59% of base rates.

Page 8 of the Stipulation shows the impact on each service schedule of the agreed-upon natural gas increases. The increased natural gas revenue requirement of $1,850,000 represents an overall increase of 2.6% in base rates. The natural gas increase is spread based on the Company's proposed methodology of moving all natural gas rate schedules approximately 60% towards unity (except for the Transportation Service Schedule 146, which will receive a full movement to unity). The application of the DSIT credit to natural gas customers is spread based on each schedule's contribution to base revenues including the general increase in this case. The net increase to natural gas revenue as a result of the general increase and the DSIT credit is 1.9% of base rates.

Q. What is the basis of the Stipulation relating to the rate design?

A. The Stipulation outlined increases in the basic charges, monthly minimum charges, and demand charges in Schedules 11, 21, 25, and 31, as shown in Attachment B, page 3 of the Stipulation. Otherwise, a uniform percentage increase is applied to each energy rate within each electric service schedule excluding Schedule 1, residential service where block differentials remain constant.

The Parties also agreed that the current residential electric basic charge of $4.60 would be increased to $5.00

per month and the residential natural gas basic charge of $4.00 per month would remain unchanged.

V. CONCLUSION

Q. What is the effect of the Stipulation?

A. The Stipulation represents a negotiated compromise on a variety of issues among the Parties. Thus, the Parties have agreed that no particular party shall be deemed to have approved the facts, principles, methods, or theories employed by any other in arriving at these stipulated provisions, and that the terms incorporated should not be viewed as precedent setting in subsequent proceedings except as expressly provided.

Q. In conclusion, why is this Stipulation in the public interest?

A. This Stipulation strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.

The Parties have agreed that the Company has demonstrated need for a revenue requirement increase for both its electric and natural gas customers. The Stipulation provides for recovery of these costs. In the final analysis, however, any settlement reflects a compromise in the give-and-take of negotiations. The Commission, therefore, has before it a Stipulation that is supported by sound analysis and supporting evidence, the approval of which is in the public interest.

Q. Does this conclude your pre-filed direct testimony?

A. Yes, it does.