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AVISTA
Corp.

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August 14, 2014

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

Re: Case Nos. AVU-E-14-05 and AVU-G-14-01
Comments of Avista Corporation

Enclosed for filing with the Commission are an original and seven copies of the Comments of Avista Corporation in support of the Stipulation and Settlement in the above-referenced dockets.

Please direct any questions related to this filing to Patrick Ehrbar at 509.495.8620.

Sincerely,

David J. Meyer
Vice President, Chief Counsel for Regulatory
& Governmental Affairs

Enclosures

c: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 14th day of August, 2014, served Avista's comments in support of the Stipulation and Settlement in Case Nos. AVU-E-14-05 and AVU-G-14-01, upon the following parties, by electronic mail:

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION TO INITIATE DISCUSSIONS WITH INTERESTED PARTIES ON AN EXTENSION OF THE EXISTING RATE PLAN.	)))))	CASE No. AVU-E-14-05 CASE No. AVU-G-14-01 **COMMENTS OF AVISTA IN SUPPORT OF SETTLEMENT STIPULATION**

I. INTRODUCTION

1 On July 23, 2014, the Idaho Public Utilities Commission ("IPUC" or the "Commission") issued Order No. 33080 which provided that interested parties could file written comments in support of the Settlement Stipulation no later than August 15, 2014. Avista Corporation ("Avista" or "Company") provides the following comments in support of the Settlement Stipulation.

2 The Settlement Stipulation, agreed to by all of the parties participating in this proceeding, and through the give-and-take of negotiation, produces an end result that is just and reasonable, and in the public interest. The Settlement provides base rate certainty over the next year (2015), which would benefit all customers, as they plan and budget for their needs. As such, it extends the existing rate plan for an additional year. It would prohibit Avista from making further changes in base rates prior to January 1, 2016, and would provide Avista with the opportunity to manage its costs in order to earn the agreed-upon return on equity. Finally, in order to allay any concerns that Avista might somehow "over-earn" during the 2015 rate-plan extension, Avista would continue the earnings test that would refund back to customers 50% of any earnings that exceed a 9.8% return on equity ("ROE") during 2015, based on actual, consolidated results for its Idaho electric and natural gas operations.

II. BACKGROUND

3 In Case Nos. AVU-E-12-08 and AVU-G-12-07, the Commission previously approved a settlement that provided for a rate plan that set base rates for a period extending through January 1, 2015.

4 On March 24, 2014, in compliance with the minimum sixty-day notice requirement of Rule 122 of the IPUC Rules of Procedure "Notice of Intent to File a General Rate Case," Avista provided notice to the IPUC that the Company intended to file a combined electric and natural gas general rate case on or after June 2, 2014.

5 Between May 22 and May 27, 2014, Avista had informal discussions, individually, with the Staff of the Idaho Public Utilities Commission, Clearwater Paper Corporation, the Idaho Forest Group, LLC, the Idaho Conservation League, the Community Action Partnership Association of Idaho, and the Snake River Alliance, representing all intervenors and interested parties in the Company's last general rate case (Case Nos. AVU-E-12-08 and AVU-G-12-07).

6 As a part of those informal discussions, Avista explained a proposal to extend the existing rate plan approved by the Commission in the Company's last general rate case, and

avoid the need for Avista to immediately file a general rate case that would otherwise take effect on or after the expiration of the existing rate plan on January 1, 2015. All of the parties expressed a willingness to engage in settlement discussions for the purpose of exploring an extension of the existing rate plan. As part of this process, Avista furnished information to Staff and interested parties about the size and scope of the anticipated general rate filing and responded to requests for additional information.

7 On May 30, 2014, Avista filed a request with the Commission for approval to initiate settlement discussions with the Parties. On June 11, 2014, the Commission issued Order No. 33051 and formally notified the public and interested parties of Avista's intent to engage in settlement discussions, pursuant to Rule 273. The Order set a settlement conference for June 25, 2014, so the Parties could discuss the Company's desire to avoid filing a general rate case in 2014, and extend the existing rate plan for an additional period of time.

8 On June 25, 2014, the Parties (signatories to this Stipulation) met for the purpose of exploring a settlement that would extend the existing base rates for an additional year. The Parties were able to reach agreement among themselves on terms and conditions such that Avista would not seek to implement a change in base rates prior to 2016. In addition, under the Stipulation, the increases in rates that would otherwise occur on January 1, 2015, resulting from the expiration of the BPA Credit (1.3%), and the PGA Deferral Credit (1.7%), will not occur, but will be replaced with other credits or rebates to customers.

III. CURRENT IDAHO RATE PLAN ELEMENTS

9 The current and existing Idaho Rate Plan from Case Nos. AVU-E-12-08 and AVU-G-12-07 contains the following elements:

10 **Rate Freeze** - The current Avista Rate Plan in Idaho provides for no new electric or natural gas general rate increases to become effective prior to January 1, 2015.

11 **BPA Credit** - Avista's electric customers are currently receiving a rebate of $3.865 million (1.3% on Schedule 97), related to the prior settlement with the Bonneville Power Administration ("BPA"), for the 15-month period October 1, 2013 through December 31, 2014. Retail electric rates would increase 1.3% effective January 1, 2015 with the expiration of this rebate.

12 **PGA Deferral Credit** - Avista's natural gas customers are currently receiving a rebate of $1.55 million (1.7% on Schedule 197), related to a Purchased Gas Cost Adjustment ("PGA") deferral credit balance, for the 15-month period October 1, 2013 through December 31, 2014. Retail natural gas rates would increase 1.7% effective January 1, 2015 with the expiration of this rebate.

13 **2013 Earnings Test** - In the Company's last general rate case, the Company agreed to an after-the-fact earnings test, where it would share with customers one-half of any earnings in excess of the 9.8% ROE, on a consolidated basis for electric and natural gas, for each of the years 2013 and 2014. For the 2013 earnings test, Avista deferred a benefit of $3.914 million for electric customers, and $444,000 for natural gas customers.

14 **Natural Gas Energy Efficiency Funding Balance** - Avista currently has a Schedule 191 Natural Gas Energy Efficiency funding balance due customers of $653,000 (the current Schedule 191 tariff rate is zero and no energy efficiency projects are ongoing).

IV. TERMS OF THE SETTLEMENT AGREEMENT

15 The terms of the Settlement Agreement are provided below. Included as Attachment A is a schematic of the components of the Rate Extension Plan.

16 A. Avista would not file an electric or natural gas general rate case in 2014, and would not file for new electric or natural gas base rates to be effective prior to January 1, 2016.[1]

17 B. The BPA Credit and the PGA Deferral Credit would be replaced using other deferral balances such that customers would not experience rate increases effective January 1, 2015.

18 1. The $653,000 Schedule 191 Natural Gas Energy Efficiency funding balance and the $444,000 2013 natural gas earnings test deferral would be used to replace the 1.7% PGA Deferral Credit ($1,179,000) on natural gas Schedule 197 from January 1, 2015 to December 31, 2015, which would result in no rate increase for customers January 1, 2015. The language on Schedule 197 would be revised to describe the new rebate.

19 2. $3.201 million of the $3.914 million 2013 electric earnings test deferral would be used to replace the 1.3% BPA credit on electric Schedule 97 from January 1, 2015 to December 31, 2015, which would result in no rate increase for customers January 1, 2015. The language on Schedule 97 would be revised to describe the new rebate.

20 3. The remaining $713,000 of the 2013 electric earnings test deferral would be credited to customers through the Power Cost Adjustment ("PCA") over a one-year period beginning October 1, 2014.

21 4. Any differences between the estimated 2015 electric and natural gas credits, and the actual amounts rebated to customers through December 31, 2015 on Schedules 97 and 197, would be added to, or subtracted from, the PCA and PGA deferral balances, respectively.

22 C. **Project Compass**[2] – Eighty-percent (80%) of the revenue requirement associated with Project Compass during 2015, beginning the month the Project goes

[1] Accordingly, the Parties agree that Avista will not file another electric or natural gas general rate case before May 31, 2015, and while it may request an effective date earlier than January 1, 2016, final approved new rates would not go into effect prior to January 1, 2016. This does not apply to tariff filings authorized by or contemplated by the terms of the Power Cost Adjustment (PCA), or the Purchased Gas Cost Adjustment tariff (PGA), or other miscellaneous filings.

into service, would be deferred for recovery in a future proceeding. The 80% figure was arrived at through negotiation for calendar year 2015 only, and is unrelated to any assessment or determination of the prudence of the Project. The deferral is due, in part, to the uncertainty of the timing of the in-service date for the project. In its next general rate case, Avista will address the prudence of Project Compass, and request full recovery of the cost of the project on a going-forward basis.[3]

23 D. **CS2/Colstrip O&M Amortization** – The three-year amortization of the 2013 Coyote Springs 2/Colstrip O&M deferral balance of $1.253 million ($418,000 per year) would begin January 1, 2016, instead of January 1, 2015.[4]

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[2] Project Compass involves the replacement of Avista's legacy Customer Information System, which is composed of three highly-connected applications, which include:

- Customer Service System – this application supports the traditional utility business functions of meter reading, customer billing, payment processing, credit, collections, field requests and customer service orders;
- Work Management System – this application is used to create orders for service and emergency calls and for construction jobs for customers and Company operations; and
- Electric & Gas Meter Application – this application hosts the data for the Company's in-service electric and gas meters.

Together, these three applications have been connected over time with many other applications and systems required to conduct all aspects of Avista's customer service, and natural gas and electric business operations.

[3] Eighty-percent of the estimated 2015 electric revenue requirement is $2.663 million (Idaho share), plus $0.637 million for natural gas (Idaho share), for an estimated total of $3.3 million. There would be no carrying charge on the deferral.

[4] Per Order No. 32371 (Case No. AVU-E-11-01), the Company was allowed to defer changes in O&M costs related to its Coyote Springs 2 (CS2) natural gas-fired generating plant located near Boardman, Oregon, and its fifteen (15) percent ownership share of the Colstrip 3 & 4 coal-fired generating plants located in southeastern Montana in order to address the large variability in year-to-year O&M costs, beginning in 2011. The Company compares actual, non-fuel, O&M expenses for the Coyote Springs 2 and Colstrip 3 & 4 plants with the amount of expenses authorized for recovery in base rates in the applicable deferral year, and defers the difference from that currently authorized. The deferral occurs annually, with no carrying charge, with deferred costs being amortized over a three-year period, beginning in January of the year following the period costs are deferred. In Case No. AVU-E-12-08, the beginning of the amortization of the 2013 deferral was delayed from 2014 to 2015. This Stipulation delays the beginning of the amortization of the 2013 deferral for one year

24 E. **Earnings Test** – Any earnings test deferral for 2014 would be set aside to support the one-year extension of the Rate Plan as explained below:

25 1. An ROE deadband would be established for 2015 between the authorized ROE of 9.8% and 9.5%.
26 2. During the calendar year 2015, if Avista earns less than a 9.5% ROE, on an actual consolidated basis for electric and natural gas, any earnings test deferral balance from 2014 would be used to move Avista's earnings up to, or up toward, the 9.5% ROE on an actual consolidated basis.
27 3. Any 2014 earnings test deferral balance that is not needed to achieve a 9.5% ROE for 2015, e.g., Avista earns more than 9.5% ROE during 2015, would continue to be held as a deferral for future credit to customers.
28 4. During the 2015 calendar year, if Avista earns more than a 9.8% ROE, on an actual consolidated basis for electric and natural gas, Avista would defer, for future rebate to customers, 50% of any earnings above the 9.8%.

29 F. **Meet and Confer Regarding Low-Income Issues -** On or before October 1, 2014, Avista will meet with Commission Staff and other interested Parties to this case to review the following issues:

30 1. Cost-effectiveness and appropriate funding of natural gas and electric demand-side management ("DSM") programs for low-income customers: Prior to the meeting, Avista will provide the Parties with the 2013 DSM Impact Evaluation prepared by its consultant, Cadmus, as well as current information pertaining to the cost-effectiveness of its low-income programs in Idaho. In addition, Avista will provide its analysis of when and under what conditions natural gas DSM programs will become cost-effective and program funding resumes.
31 2. Electric and natural gas usage by low-income customers in Avista's Idaho service territory and potential rate-design implications for such customers: Prior to the meeting, Avista will provide usage data for its Idaho residential customers for 2011-2013. Avista will consult with the Parties to identify their specific data requirements.
32 3. No later than December 1, 2014, the Parties will determine if a formal filing with the Commission is warranted based upon review of low-income DSM program cost-effectiveness and low-income usage.

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from 2015 to 2016, consistent with the one-year extension of the rate plan. The amortization of any deferral from 2014 will begin in 2015.

V. THE STIPULATION IS IN THE PUBLIC INTEREST

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

20 The terms of the Settlement agreement represent a one-year rate plan extension designed to provide the Company with an opportunity to earn a fair rate of return while continuing to closely manage its costs during this one-year period. The Parties have agreed that the Company has demonstrated the need for revenue requirement increases for both its electric and natural gas operations, and that the Settlement Stipulation is designed to address the multiple purposes of addressing the Company's needs while minimizing the impact to customers from changes in retail rates. Further, the Stipulation provides base rate certainty in 2015 while reducing the administrative burden to all parties and the Commission associated with a general rate case. The Company will have the opportunity to manage its costs under the given rates to earn a fair return.

VI. CONCLUSION

21 Avista respectfully requests that the Commission approve the Settlement Stipulation. The Settlement Stipulation strikes a reasonable balance between the interests of the Company and its customers.

22 RESPECTFULLY SUBMITTED this 14th day of August 2014.

Kelly O. Norwood
Vice President, State & Federal Regulation
for Avista Corporation