

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



RECEIVED

2010 AUG -5 AM 10: 15

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,

A handwritten signature in cursive script that reads "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:

Jean D Jewell, Secretary
Idaho Public Utilities Commission
Statehouse
Boise, ID 83720-5983
Jean.jewell@puc.idaho.gov

Brad M. Purdy
Attorney at Law
2019 N 17th Street
Boise, ID 83720
bmpurdy@hotmail.com

Kristine Sasser
Donald Howell
Deputy Attorneys General
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702-0659
kristine.sasser@puc.idaho.gov
donald.howell@puc.idaho.gov

Peter J. Richardson
Greg M. Adams
Richardson & O'Leary PLLC
515 N. 27th Street
PO Box 7218
Boise, ID 83702
peter@richardsonandoleary.com
greg@richardsonandoleary.com

Howard Ray
Clearwater Paper
803 Mill Road
P.O. Box 1126
Lewiston, ID 83501-1126
howard.ray@clearwaterpaper.com

Dean J. Miller
McDevitt & Miller, LLP
420 W. Bannock St.
PO Box 2564-83701
Boise, ID 83701-2564
joe@mcdevitt-miller.com

Scott Atkison
Idaho Forest Products
171 Highway 95 N.
Grangeville, ID 83530
scotta@idahoforestgroup.com

Larry Crowley
Energy Strategies Institute
5549 South Cliffs Edge Avenue
Boise, ID 83716
crowleyla@aol.com

Rowena Pineda
3450 Hill Rd
Boise, ID 83703-4715
Rowena@idahocan.org

Lee Ann Hall
3518 S. Edmunds St.
Seattle, WA 98118
leann@nwfco.org

Ken Miller
Snake River alliance
Box 1731
Boise, ID 83701
kmiller@snakeriveralliance.org

Rob Pluid, President
Clark Fairchild, Vice President
Tom Ozford, Secretary Treasurer
North Idaho Energy Logs Inc.
P.O. Box 571
Moyie Springs, ID 83845
robpluid@gmail.com
energylogs@gmail.com
oxford@meadowcrk.com

Benjamin J. Otto
Idaho Conservation league
710 N. 6th St.
PO Box 844
Boise, ID 83702
botto@idahoconservation.org



Patty Olsness
Rates Coordinator

RECEIVED

DAVID J. MEYER
VICE PRESIDENT, CHIEF COUNSEL FOR REGULATORY &
GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
FACSIMILE: (509) 495-8851

2010 AUG -5 AM 10: 15
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-10-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-10-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	DIRECT TESTIMONY
NATURAL GAS SERVICE TO ELECTRIC)	OF KELLY O. NORWOOD
AND NATURAL GAS CUSTOMERS IN THE)	IN SUPPORT OF THE
STATE OF IDAHO)	STIPULATION AND
)	SETTLEMENT

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

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

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

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

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

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

25 A. The purpose of my testimony is to describe and
26 support the Stipulation and Settlement ("Stipulation"),

1 filed on July 26, 2010 between the Staff of the Idaho Public
2 Utilities Commission ("Staff"), Clearwater Paper Corporation
3 ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"),
4 the Community Action Partnership Association of Idaho
5 ("CAPAI"), the Snake River Alliance ("Snake River"), the
6 Idaho Conservation League ("Conservation League"), and the
7 Company, which, if approved by the Commission, would resolve
8 all of the issues in the Company's filing. These entities
9 are collectively referred to as the "Parties," and represent
10 all parties in the above-referenced cases that participated
11 in settlement discussions.¹

12 The Stipulation is the product of settlement
13 discussions held in the Commission offices on July 6 and 8,
14 2010, which were attended by signatories to the Stipulation.
15 The Stipulation between the Parties resolved all issues
16 associated with the calculation of the Company's requested
17 revenue requirement, all issues related to rate spread and
18 rate design, provides additional funding for low income
19 energy efficiency measures and education, and also provides
20 for future workshops to address certain customer service-
21 related issues.

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

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.

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

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

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

14 **Q. Would you briefly summarize the Stipulation?**

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

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

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

11 As part of the Stipulation, the annual funding level
12 of the existing low-income Demand Side Management programs
13 would be increased to \$700,000, up from the current
14 \$465,000. The funding to assist low-income energy
15 efficiency outreach and education would be increased from
16 \$25,000 to \$40,000.

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

19 A. Yes. The DSIT reflected on the Company's balance
20 sheet totals approximately \$11.1 million, and when adjusted
21 for the effect of the revenue conversion factor of 0.63676,
22 totals approximately \$17.5 million, representing
23 normalization of state income taxes for a period of years.
24 As part of this mitigation plan, the Parties agree to credit
25 \$17 million of the DSIT to electric customers over two years
26 to help offset the rate impact, and \$0.5 million to natural

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

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

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

	Year 1		Year 2		Year 3	
	(October 1, 2010)		(October 1, 2011)		(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	<u>\$0.00 million</u>	<u>0.00%</u>	<u>\$8.25 million</u>	<u>3.59%</u>	<u>\$17.25 million</u>	<u>7.51%</u>
Net Increase to Customers	\$8.25 million	3.59%	\$9.00 million	3.92%	\$4.00 million	1.74%

14
15 The DSIT credit would reduce, for one year, the natural
16 gas rate increase from 2.6 percent to 1.9 percent. The
17 revised monthly bill for a customer using an average of 65
18 therms a month would increase \$1.71 from \$57.69 to \$59.40.

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

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

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

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

18 **II. HISTORY OF FILING**

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

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

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

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

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

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

18 A. The Company's electric request is driven primarily
19 by an increase in production and transmission expenses, due
20 to the addition of the Lancaster plant Power Purchase
21 Agreement (PPA) in base rates, the termination of some low-
22 cost power purchases, reduced hydro generation, and
23 increased fuel costs. These costs equate to approximately
24 80% of the Company's overall request. In addition, 12% of
25 the request is due to investing large amounts of capital in
26 the Company's hydro and thermal generation projects, and

1 transmission and distribution upgrades. In addition, the
2 Company continues to experience increasing costs related to
3 meeting new reliability standards, from additional
4 compliance requirements, and the need to replace aging
5 infrastructure. It is simply not possible to cut other
6 costs enough to offset these cost increases, as explained in
7 the Company's original filing.

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

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

18 **III. ELEMENTS OF THE STIPULATION**

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

21 A. While the Parties to the stipulation agreed that
22 this would be a settlement with no party accepting a
23 specific methodology for certain elements of the revenue
24 requirement determination, the Stipulation does specify an
25 agreed-upon level of power supply costs upon which to set
26 the new base power supply costs for the monthly power cost

1 adjustment (PCA) calculation purposes, and it identifies
2 other specific items that I will address in my testimony
3 below.

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

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

9 **Q. What is the proposed effective date of the**
10 **Stipulation?**

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

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

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

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

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

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

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

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

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

5 A. The Parties agree that Avista's expenditures for
6 electric and natural gas energy efficiency programs from
7 January 1, 2008 through November 30, 2008, and from December
8 1, 2008 through December 31, 2009 are prudent and
9 recoverable.

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

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

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

23 (b) Funding for Outreach for Low-Income Conservation -
24 The Parties agree to annual funding of \$40,000 to the Idaho
25 CAP for purposes of providing low-income outreach and
26 education concerning conservation. This amount will be

1 funded through the Energy Efficiency Tariff Rider (Schedules
2 91 and 191), and will be in addition to the \$700,000 of Low-
3 Income Weatherization Funding. The continuation and level of
4 such funding will be revisited in the Company's next general
5 rate filing or other appropriate proceedings.

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

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

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

21 (iii) In coordination with Staff, the Company will
22 develop and conduct a study on Avista's deposit
23 policy and practices with respect to
24 residential customers. Among the objectives of
25 the study would be to determine if the current
26 deposit policy correctly identifies customers

1 who pose a credit risk to the Company, whether
2 it encourages customers who pose a credit risk
3 to improve payment habits, and whether it
4 reduces the amount of credit and collection
5 activity as well as bad debt associated with
6 those customer accounts.

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

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

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

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

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

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

10 Programs designed to assist customers include:

- 11 • **Increased DSM Energy Efficiency Programs and Funding.**
12 In January 2009 Avista proposed, and the IPUC approved,
13 modifications to the Company's energy efficiency
14 program offerings. The modifications further broadened
15 the technical and financial support Avista provides to
16 its customers, and provides customers with increased
17 opportunity to manage their energy bills. In 2008
18 Avista also launched the award-winning "Every Little
19 Bit" energy efficiency promotional campaign which
20 integrates all of the Company's energy efficiency
21 programs into one location.
22
- 23 • **Project Share.** Project Share is a voluntary program
24 allowing customers to donate funds that are distributed
25 through community action agencies to customers in need.
26 In addition to the customer and employee contributions
27 in 2009 of \$81,700 in Idaho, the Company contributed
28 \$111,800, Idaho's share, to the program in 2009.
29
- 30 • **Comfort Level Billing.** The Company offers the option
31 for all customers to pay the same bill amount each
32 month of the year by averaging their annual usage.
33 Under this program, customers can avoid unpredictable
34 winter heating bills.
35
- 36 • **Payment Arrangements.** The Company's Contact Center
37 Representatives work with customers to set up payment
38 arrangements to pay energy bills.
39

- 1
2
3
4
5
6
7
- **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.
 - 8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
 - **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.
 - 27
28
29
30
31
32
33
34
35
 - **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.
 - 36
37
38
39
40
41
42
43
44
45
46
47
48
49
 - **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.

1 • **Every Little Bit House.** In partnership with KREM
2 television, the long-running "Power to Conserve"
3 program was updated to profile energy efficiency work
4 done on an actual Avista customer's home utilizing the
5 low income weatherization program provided by SNAP.
6 The program utilizes a series of commercial vignettes
7 that are specifically targeted to provide helpful
8 energy conservation tips, information on community
9 resources and ways for customers to manage their
10 energy bills. Its primary target audience is limited
11 income, senior and vulnerable customers.
12

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

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

17 (a) Coeur d'Alene Tribe Settlement and Spokane River
18 Relicensing Deferrals - The Parties agree to a ten-year
19 amortization of the remaining balances beginning October 1,
20 2010 of the CDA Settlement Deferral, the Spokane River
21 Deferral, and the Spokane River PM&E Deferral.

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

26 (c) Jackson Prairie (JP) Storage - The parties agree
27 to the revised accounting treatment proposed by the Company
28 for its existing cushion gas using the net book value of the
29 utility assets at February 2010 to record the transfer of
30 the cushion gas from non-recoverable (FERC Account No.
31 352.3), which is a depreciable asset, to recoverable (FERC

1 Account No. 117.1), which is a non-depreciable asset. The
2 JP assets that will transfer from Avista Energy on May 1,
3 2011, will include plant assets, operations and maintenance
4 expenses, as well as cushion gas that will be recorded in
5 both recoverable and non-recoverable FERC accounts using a
6 similar allocation method.

7 **IV. RATE SPREAD & RATE DESIGN**

8 **Q. How did the Stipulation address rate spread?**

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

