

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF AVISTA CORPORATION DBA AVISTA</b>	)	<b>CASE NOS. AVU-E-10-01</b>
<b>UTILITIES FOR AUTHORITY TO</b>	)	<b>AVU-G-10-01</b>
<b>INCREASE ITS RATES AND CHARGES FOR</b>	)	
<b>ELECTRIC AND NATURAL GAS SERVICE</b>	)	<b>NOTICE OF</b>
<b>IN IDAHO</b>	)	<b>PROPOSED SETTLEMENT</b>
	)	
	)	<b>NOTICE OF AMENDED</b>
	)	<b>SCHEDULE AND TECHNICAL</b>
	)	<b>HEARING</b>
	)	
	)	<b>ORDER NO. 32043</b>

---

In March 2010, Avista Corporation dba Avista Utilities filed an Application seeking authority to increase the Company's base rates for electric and natural gas service in Idaho by averages of 14% and 3.6%, respectively. In Order No. 31038, the Commission suspended the proposed increases and subsequently scheduled this matter for an evidentiary hearing. Intervention was granted to: Clearwater Paper Corporation; Idaho Forest Group; Idaho Community Action Network (ICAN); Community Action Partnership Association of Idaho (CAPAI); Idaho Conservation League (ICL); Snake River Alliance; and North Idaho Energy Logs. The Commission Staff also participated as a party.

The parties scheduled settlement conferences in this matter for July 6 and 8, 2010. All parties attended the settlement conferences except ICAN and Idaho Energy Logs. Based upon settlement discussions, the participating parties agreed to resolve and settle all issues raised in this proceeding. On July 26, 2010, the settling parties filed a Motion to approve the Settlement Stipulation and to change the scheduled date for the technical hearing. The settling parties represent that the settlement is in the public interest and that all its terms and conditions are fair, just and reasonable.

**NOTICE OF PROPOSED SETTLEMENT**

The settlement parties agreed that annual revenues for Avista's electric and natural gas service may increase by \$21.25 million (9.25%) and \$1.85 million (2.62%), respectively. However, these proposed revenue increases are to be offset by \$17.5 million of deferred state

NOTICE OF PROPOSED SETTLEMENT  
 NOTICE OF AMENDED SCHEDULE  
 AND TECHNICAL HARING  
 ORDER NO. 32043

income tax over a two-year period. The tax offset would result in an average net increase in base rates of 3.95% for electric service and an average increase of 1.9% for natural gas revenues. The parties propose that new electric and natural gas base rates become effective October 1, 2010.

1. Rate Mitigation. As mentioned above, the proposed revenue increases are offset by \$17.5 million of deferred state income tax over a two-year period. The parties agreed to use \$17 million of the tax refund to mitigate the increase for electric customers (\$13.0 million in the first year and \$4.0 million in the second year). The settling parties also propose to use \$0.5 million to offset the increase for natural gas service in the first year. The table below shows the proposed increase for electric revenues and the offsetting deferred taxes. Stipulation at 3-4.

Electric Revenues with Tax Offset						
	Year 1 October 1, 2010		Year 2 October 1, 2011		Year 3 October 1, 2012	
Revenue Increase	\$21.25 M	9.25%	\$21.25 M	9.25%	\$21.25 M	9.25%
Less Tax Credit	\$13.0 M	5.66%	\$ 4.0 M	1.74%	0	0
Less Prior Increase	0	0	\$ 8.25 M	3.59%	\$17.25 M	7.51%
Net Increase	\$ 8.25 M	3.59%	\$ 9.00 M	3.92%	\$ 4.0 M	1.74%

2. Lancaster Plant. The settling parties also agreed that the fixed and variable operating costs of the Lancaster power plant be recovered in the base electric rates of the Company. Lancaster is a 275 MW gas-fired combined-cycle combustion turbine located in Rathdrum, Idaho. Stipulation ¶ 8. Idaho's share of Lancaster's operating costs is \$7.5 million.

3. Efficiency Programs. The parties also agreed that Avista's expenditures for energy efficiency programs for both electric and natural gas service for calendar years 2008 and 2009 are prudent and recoverable. These costs are \$6.222 million for 2008 and \$7.805 million for 2009. These costs are not included in base rates but are funded through the energy efficiency tariff rider.

4. Cost of Service. The settling parties have also agreed to a proposed cost of service. They have agreed to allocate 100% of transmission costs to demand and allocate transmission costs to reflect any peak and off-peak seasonal cost differences over 7 months, rather than over 12 months. Prior to the Company's next general rate case, the parties have also agreed to exchange information and convene a public workshop to determine whether other changes should be made to the Company's cost of service. In particular, the parties will discuss whether the cost of service should use a 12-month coincident-peak (CP) – whether "weighted" or

not – versus a 7-month CP or some other method for allocating transmission costs. Stipulation at ¶ 11.

The parties have also agreed to move all electric rate schedules toward recovering their cost of service approximately 25% (except for street and area lighting schedules which will receive a percentage increase equal to the overall increase in revenue requirement). The parties also agreed to move natural gas rate schedules toward recovering its class cost of service approximately 60% (except for Transportation Services Schedule 146). Stipulation at ¶¶ 11-12(a).

5. Rate Design. Given the agreed revenue increases and the changes to cost of service, the settling parties propose the following rate changes for the major classes of electric and natural gas service:

Major Customer Class	Proposed Base Rate Increase	Proposed Net Increase with Tax Refund
<b>ELECTRIC</b>		
Residential (Schedule 1)	11.0%	4.3%
Business (Schedule 11)	6.6%	2.6%
Large Business (Schedule 21)	8.7%	3.4%
Industrial (Schedule 25)	9.8%	3.8%
Clearwater Paper (Schedule 25P)	7.2%	2.8%
Pumping (Schedule 31)	13.5%	5.2%
<b>OVERALL</b>	9.3%	3.59%
<b>GAS</b>		
Residential/Business (Schedule 101)	3.4%	2.6%
Large Business (Schedule 111)	0.2%	-0.3%
Interruptible (Schedule 131)	1.0%	0.6%
Transport (Schedule 146)	-6.9%	-8.6%
<b>OVERALL</b>	2.6%	1.9%

Source: Stipulation at 8.

6. Monthly Basic Charge. The parties agreed that the current monthly basic charge for residential electric customers should be increased from \$4.60 per month to \$5.00 per month. The basic monthly charge for residential natural gas customers will remain unchanged at \$4.00 per month. Stipulation at ¶ 12.

7. Customer Service Issues. The settlement stipulation also provides that Avista will increase the annual funding for low-income weatherization from \$465,000 to \$700,000. The increased funds for weatherization will be recovered through the energy efficiency tariff rider

(Schedules 91 and 191). The parties also agreed that the Company will provide \$40,000 to the Community Action Partnership (CAP) agencies for low-income outreach and education programs concerning energy conservation. The Company will also conduct five energy conservation workshops for seniors in different Idaho communities no later than December 31, 2011. Stipulation at ¶ 16(a), (b).

8. Proposed Effective Date. Given the settlement of all issues, the parties propose that the effective date for new electric and natural gas rates should be October 1, 2010. To meet this proposed effective date, the parties also agreed that the technical hearing initially scheduled for September 22-24, 2010 should be vacated and rescheduled for August 26, 2010. The existing deadline of August 5, 2010, for the pre-filing of Staff/Intervenor testimony would remain. Parties supporting or opposing the settlement should file testimony no later than August 5, 2010.

#### **DISCUSSION AND FINDINGS**

Without discussing the merits of the proposed Stipulation and Settlement, we find it is reasonable to amend the procedural schedule in this matter. The initial deadline for filing direct testimony by the Staff and Intervenors shall remain the same – August 5, 2010. Given the fact that most of the parties to this case have entered into the settlement, we find it also reasonable to vacate the initial technical hearing of September 22 and instead reschedule the technical hearing to August 26, 2010. Accordingly, we adopt the schedule set out below.

Avista/Staff/Intervenor prefile testimony in support or opposition to the settlement	August 5, 2010
Rebuttal testimony due	August 19, 2010
Technical hearing (Boise)	August 26, 2010

YOU ARE FURTHER NOTIFIED that the parties shall serve their testimony on each other via e-mail. Testimony and exhibits filed in this case must conform to Rules 230 and 231. Parties shall file an original and nine (9) paper copies of testimony with the Commission Secretary on the dates such documents are due.

**AMENDED NOTICE OF TECHNICAL HEARING**

YOU ARE HEREBY NOTIFIED that consistent with the Commission's decision above, the technical hearing previously scheduled in this matter will be changed to **THURSDAY, AUGUST 26, 2010, COMMENCING AT 9:30 A.M. (MDT) AT THE COMMISSION'S HEARING ROOM, 472 WEST WASHINGTON STREET, BOISE, IDAHO.** All parties intending to offer testimony in this matter shall present their testimony at the technical hearing in Boise.

YOU ARE FURTHER NOTIFIED that the Settlement Stipulation together with its accompanying Motion and attachments can be viewed at the Commission's office in Boise, Idaho. The Settlement Stipulation is also available for viewing on the Commission's web site at [www.puc.idaho.gov](http://www.puc.idaho.gov) by clicking on "File Room" and then "Electric Cases."

YOU ARE FURTHER NOTIFIED that the Commission is not bound by any settlement reached by the parties. The Commission will independently review any settlement proposed to determine whether the settlement is just, fair and reasonable, and in the public interest, or otherwise in accordance with law or regulatory policy. The Commission may accept the settlement, reject the settlement, or state additional conditions under which the settlement will be accepted. IDAPA 31.01.01.274-.276.

YOU ARE FURTHER NOTIFIED that written public comments concerning the proposed settlement be served upon the Commission and Avista at the following addresses:

Commission Secretary  
Idaho Public Utilities Commission  
PO Box 83720  
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street  
Boise, ID 83702-5918

Kelly Norwood, Vice President  
State & Federal Regulation  
Avista Utilities  
PO Box 3727  
1411 East Mission Avenue  
Spokane, WA 99220-3727  
E-mail: [kelly.norwood@avistacorp.com](mailto:kelly.norwood@avistacorp.com)

David J. Meyer  
Vice President & Chief Counsel  
Reg. & Gov't Affairs  
Avista Corporation  
PO Box 3727  
1411 East Mission Avenue  
Spokane, WA 99220-3727  
E-mail: [david.meyer@avistacorp.com](mailto:david.meyer@avistacorp.com)

These comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at [www.puc.idaho.gov](http://www.puc.idaho.gov). Click the "Comments and Questions" icon and complete the comment form using the case number as it appears on the front of this document. These comments must also be sent to Avista at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that all hearings and prehearing conferences in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act (ADA). Persons needing the help of a sign language interpreter or other assistance in order to participate in or to understand testimony and argument at a public hearing may ask the Commission to provide a sign language interpreter or other assistance at the hearing. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

IDAHO PUBLIC UTILITIES COMMISSION  
PO BOX 83710  
BOISE, IDAHO 83720-0074  
(208) 334-0338 (Telephone)  
(208) 334-3762 (FAX)  
Email: [secretary@puc.idaho.gov](mailto:secretary@puc.idaho.gov)

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

### **ORDER**

IT IS HEREBY ORDERED that the settling parties' Motion to revise the procedural schedule is granted. The schedule and technical hearing in this case are modified as set out above. The parties shall comply with the modified case schedule.


DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 29<sup>th</sup>  
day of July 2010.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

O:AVU-E-10-01\_AVU-G-10-01\_dh\_Settlement