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**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION	)	
OF AVISTA CORPORATION DBA	)	CASE NOS. AVU-E-11-01
AVISTA UTILITIES FOR AUTHORITY TO	)	AVU-G-11-01
INCREASE ITS RATES AND CHARGES	)	
FOR ELECTRIC AND NATURAL GAS	)	
SERVICE IN IDAHO	)	<b>STIPULATION AND SETTLEMENT</b>

This Stipulation is entered into by and among Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), 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"), and the Idaho Conservation League ("Conservation League"). These entities are collectively referred to as the "Parties," and represent all parties in the above-referenced cases that participated in settlement discussions. The Parties understand this Stipulation is subject to approval by the Idaho Public Utilities Commission ("IPUC" or the "Commission").

## I. INTRODUCTION

1. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of all the issues raised in the proceeding and that this Stipulation and its acceptance by the Commission represent a reasonable resolution of the multiple issues identified in this Stipulation. The Parties, therefore, recommend that the Commission, in accordance with RP 274, approve the Stipulation and all of its terms and conditions without material change or condition.

## II. BACKGROUND

2. On July 5, 2011, Avista filed an Application with the Commission for authority to increase revenue from electric and natural gas service in Idaho by 3.7% and 2.7%, respectively. If approved, the Company's revenues for electric base retail rates would have increased by \$9.0 million annually; Company revenues for natural gas service would have increased by \$1.9 million annually. The Company requested an effective date of August 5, 2011 for its proposed electric and natural gas rate increases. By Order No. 32292, dated July 14, 2011, the Commission suspended the proposed schedules of rates and charges for electric and natural gas service for a period of thirty (30) days plus five (5) months, from August 5, 2011, until such time as the Commission enters an Order accepting, rejecting or modifying the Application in this matter.

3. Petitions to intervene in this proceeding were filed by Clearwater, Idaho Forest, CAPAI and the Idaho Conservation League. By various orders, the Commission granted these interventions. *See*, IPUC Order Nos. 32296 and 32317.

4. A settlement conference was noticed and held in the Commission offices on August 17, 2011, and was attended by signatories to this Stipulation; further discussions ensued.

Based upon the settlement discussions among the Parties, as a compromise of positions in this case, and for other consideration as set forth below, the Parties agree to the following terms:

### III. TERMS OF THE STIPULATION AND SETTLEMENT

5. Overview of Settlement and Revenue Requirement. The Parties agree that Avista should be allowed to implement revised tariff schedules designed to recover \$2.8 million in additional annual electric revenue, and \$1.1 million in additional annual natural gas revenue, which represent a 1.1% and 1.6% increase in electric and natural gas annual base tariff revenues, respectively. New electric and natural gas rates would become effective October 1, 2011.

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.

6. Net Impact of All Proposed Revenue Adjustments on October 1, 2011. By means of separate filings, several other rate adjustments are proposed to also take effect on October 1, 2011. With respect to electric service, these proposed adjustments include the following<sup>1</sup>: a decrease of \$2.2 million in Schedule 59 for Residential Exchange benefits for residential and small farm customers; a decrease of \$15.5 million in Schedule 66 Power Cost Adjustment (PCA) rates. In addition, an increase of \$8.7 million for the previously-approved adjustment for Deferred State Income taxes (DSIT) in Schedule 99, as part of the Settlement approved in Case No.(s) AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. After taking into account the agreed-upon increase of \$2.8 million in electric general rate increase revenues, the net overall reduction resulting from all of the proposed aforementioned adjustments, if approved

<sup>1</sup> These proposed rate changes are included for illustrative purposes and are not part of this Stipulation.

as filed would total approximately \$6.2 million.<sup>2</sup> Attachment A sets forth these proposed October 1 adjustments in more detail, and by service schedule. The following table summarizes these proposed revenue adjustments:

<b><u>Electric - October 1, 2011 Revenue Change</u></b>	
Schedule 99 - DSIT Increase	\$ 8,698,844
Schedule 59 - Residential Exchange	\$ (2,207,088)
Schedule 66 - PCA Decrease	\$ (15,517,483)
GRC Rate Increase	\$ 2,800,000
<b>Total Revenue Change</b>	<b>\$ (6,225,727)</b>

With respect to natural gas service, the following rate adjustments, by means of separate filings, are proposed to take effect on October 1, 2011<sup>3</sup>: an increase of \$0.8 million in Schedules 150/155 for Purchased Gas Costs (PGA)<sup>4</sup>; a decrease of \$2.9 million in Demand-Side Management (DSM) tariff rider Schedule 191. In addition, an increase of \$0.5 million for the previously-approved adjustment for Deferred State Income Taxes (DSIT) in Schedule 199, as part of the Settlement approved in Case No.(s) AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. After taking into account the agreed-upon increase of \$1.1 million in natural gas general rate revenues, the net overall decrease resulting from all of the proposed aforementioned adjustments, if approved as filed, would be \$0.525 million. Attachment A sets forth these proposed October 1, 2011 adjustments in more detail, and by service schedule. The following table summarizes these proposed revenue adjustments:

<sup>2</sup> As part of this Settlement, Avista has also agreed to withdraw its filed-for decrease of \$0.74 million in electric Demand-Side Management (DSM) Tariff Schedule 91, and will do so by means of a separate filing.

<sup>3</sup> These proposed rate changes are included for illustrative purposes and are not part of this Stipulation.

<sup>4</sup> On August 26, 2011, Avista will update its pending PGA (Case No. AVU-G-11-04) to reflect a decline in forward natural gas prices since the August 15, 2011 PGA filing which, if approved by the Commission, would result in a 0.98% overall increase versus the previously-filed 1.53% increase. The revised proposed rates have been incorporated into the net proposed October 1, 2011 Revenue Change and Attachments A and C to this Stipulation.

**Natural Gas - October 1, 2011 Revenue Change**

Schedule 199 - DSIT Increase	\$	470,423
Schedule 150/155 - PGA Increase	\$	776,190
Schedule 191 - DSM Decrease	\$	(2,871,236)
GRC Rate Increase	\$	1,100,000
<b>Total Revenue Change</b>	<b>\$</b>	<b>(524,623)</b>

7. Effective Date for New Rates In This Proceeding. The Parties agree, as an integral part of the Settlement, that the effective date for new electric and natural gas rates should be October 1, 2011.

8. Limitation on Effective Date of Any New Rates Established By Subsequent General Rate Filing. The Company agrees that it will not seek to make effective a change in base electric or natural gas rates prior to April 1, 2013, by means of a general rate filing. (Any filing of a general rate case, however, may be made prior to April 1, 2013, but shall not request an effective date prior to April 1, 2013.) This will not prevent the Company, however, from otherwise seeking to implement other rate changes affecting the rates billed to customers, including, but not limited to, adjustments under the power cost adjustment (PCA) mechanism, purchased gas cost adjustments (PGA); DSM tariff rider adjustments; etc.

9. PCA Authorized Level of Expense. The new level of power supply expense, retail load and Clearwater Paper generation, and Load Change Adjustment Rate resulting from the settlement revenue requirement for purposes of the monthly PCA mechanism calculations, are detailed in Attachment B.

10. Cost of Service. 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 on a weighted twelve month basis. The Parties have agreed to exchange information and convene a public workshop, prior to the Company's next general rate case, with respect to

the method of allocation of demand and energy among the customer classes such as the possible use of a revised peak credit method for classifying production costs, as well as consideration of the use of a 12 Coincident Peak (CP) (whether “weighted” or not) versus a 7 CP or other method for allocating transmission costs. This workshop will also address the merits of inclining or declining block rates for service schedules 11, 21, 25 and 31. The Parties agreed, however, to spread the electric rate increase on a uniform percentage basis for purposes of this Settlement.

As for natural gas, the Company prepared a cost of service study and proposed that all rate schedules be moved to unity. For settlement purposes, the Parties agreed to spread the natural gas rate increase on a uniform percentage basis.

11. Rate Spread/Rate Design.

(a) As indicated above, the Parties agree that the increase in base revenue would be spread to all electric and natural gas rate schedules on a uniform percentage basis.

(b) The Parties agree that there will be an increase in the basic charges, monthly minimum charges, and demand charges in Schedules 11, 21, 25 and 146, as shown in Attachment C.

(c) A uniform percentage increase will be applied to each energy rate within each electric service schedule excluding Schedule 1, residential service, where the block differential remains constant. In addition, the second block in Schedule 11 will be reduced by \$0.00773 as contemplated in the Company’s original filing<sup>5</sup>, and the remaining revenue requirement, after accounting for the changes in the basic charge and demand charge, will be applied to the first energy block.

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<sup>5</sup> See Direct Testimony of Patrick Ehrbar, Page 15.

(d) The Parties agree that the current residential electric basic charge of \$5.00 per month will be increased to \$5.25, and the residential natural gas basic charge of \$4.00 per month will be increased to \$4.25.

(e) Attachment C provides a summary of the current and revised rates and charges (as per the Settlement) for electric and natural gas service.

12. Resulting Percentage Increase by Schedule. The following tables reflect the agreed-upon percentage increase by schedule for electric and natural gas service:

**Electric Increase Percentage by Schedule**

<b>Rate Schedule</b>	<b>Increase in Base Rates</b>	<b>Net Increase in Billing Rates*</b>
Residential Schedule 1	1.1%	-2.1%
General Service Schedule 11/12	1.1%	-1.1%
Large General Service Schedule 21/22	1.1%	-1.4%
Extra Large General Service Schedule 25	1.1%	-3.9%
Clearwater Paper Schedule 25P	1.1%	-5.2%
Pumping Service Schedule 31/32	1.1%	0.0%
Street & Area Lights Schedules	1.1%	2.7%
<b>Overall</b>	<b>1.1%</b>	<b>-2.4%</b>

\* Net Increase includes the effects of the proposed changes in Schedule 59 (Residential Exchange), Schedule 66 (Power Cost Adjustment), Schedule 99 (Deferred State Income Tax) and the General Rate Increase, all effective on October 1, 2011 if approved.

**Natural Gas Increase Percentage by Schedule**

<b>Rate Schedule</b>	<b>Increase in Base Rates</b>	<b>Net Increase in Billing Rates**</b>
General Service Schedule 101	1.6%	-0.5%
Large General Service Schedule 111/112	1.6%	-1.8%
Interruptible Sales Service Schedule 131/132	1.6%	-10.6%
Transportation Service Schedule 146	1.6%	3.0%
<b>Overall</b>	<b>1.6%</b>	<b>-0.8%</b>

\*\* Net Increase includes the effects of the proposed changes in Schedule 150/155 (PGA), Schedule 191 (Energy Efficiency Rider), Schedule 199 (Deferred State Income Tax) and the General Rate Increase, all effective on October 1, 2011 if approved.

13. Customer Service-Related Issues.

(a) Funding for Outreach for Low-Income Conservation. The Parties agree to annual funding of \$50,000 to CAPAI for purposes of providing low-income outreach and education concerning conservation (representing an increase of \$10,000 from previous funding levels). 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 currently in place.

(b) Collaboration on Low-Income Weatherization. The Company and interested parties will meet and confer prior to the Company's next general rate filing in order to assess the Low Income Weatherization and Low Income Energy Conservation Education Programs and discuss appropriate levels of low-income weatherization funding in the future.

14. Other Accounting Matters/Deferrals. The Parties agree to the following accounting treatment for the following items:

(a) Costs Associated With Acquisition From Palouse Wind, LLC. The Company has signed a 30-year power purchase agreement with Palouse Wind, LLC, to acquire all of the power produced by a wind project that is expected to produce approximately 40 aMW. Deliveries are expected to begin in the second half of 2012. The annual cost of the Idaho share of the purchased power under the contract is expected to be approximately \$6.5 million. Under terms of this Settlement, the Company shall include 100% of the costs associated with power purchases from the wind project through the Power Cost Adjustment (PCA) until such costs, subject to prudence review, are reflected in general rates.



(b) Deferred Accounting Treatment For The Variability In Certain Generating Plant Operation and Maintenance (O&M) Costs. In order to address the large variability in year-to-year O&M costs, beginning in 2011 the Company will be 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.

The Company will compare 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 defer the difference from that currently authorized. The deferral will occur 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. The amount of expense to be included for recovery in future general rate cases would be the actual O&M expense recorded in the test period, less any amount deferred during the test period, plus the amortization of previously deferred costs.

The Company would defer the operations and maintenance expenses referenced above in Account 182.3 – Other Regulatory Assets. The deferrals would be allocated to the Idaho and Washington jurisdictions based on the Production / Transmission allocation percentages in place at the time the deferrals are made, and placed in separate Idaho and Washington sub-accounts. Account 182.3 – Other Regulatory Assets would be debited, and Account 407.4 – Regulatory Credits will be credited as the deferrals are recorded. Amortization will be recorded by debiting Account 407.3 – Regulatory Debits, and crediting Account 182.3 – Other Regulatory Assets.

#### **IV. OTHER GENERAL PROVISIONS**

15. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in RP 272, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

16. The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to RP 274. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement terms embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

17. If the Commission rejects any part or all of this Stipulation or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such

case, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case. The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing testimony and briefs.

18. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

19. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

20. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

21. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 26<sup>th</sup> day of August, 2011.

Avista Corporation

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