BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR ELECTRIC AND NATURAL GAS SERVICE IN IDAHO.	)	CASE NO. AVU-E-11-1/ AVU-G-11-1

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IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF RANDY LOBB
IN SUPPORT OF THE STIPULATION
AND SETTLEMENT

IDAHO PUBLIC UTILITIES COMMISSION

SEPTEMBER 9, 2011

Q. Please state your name and business address for the record.

A. My name is Randy Lobb and my business address is 472 West Washington Street, Boise, Idaho.

Q. By whom are you employed?

A. I am employed by the Idaho Public Utilities Commission as Utilities Division Administrator.

Q. What is your educational and professional background?

A. I received a Bachelor of Science Degree in Agricultural Engineering from the University of Idaho in 1980 and worked for the Idaho Department of Water Resources from June of 1980 to November of 1987. I received my Idaho license as a registered professional Civil Engineer in 1985 and began work at the Idaho Public Utilities Commission in December of 1987. My duties at the Commission currently include case management and oversight of all technical Staff assigned to Commission filings. I have conducted analysis of utility rate applications, rate design, proposed tariffs and customer petitions. I have testified in numerous proceedings before the Commission including cases dealing with rate structure, cost of service, power supply, line extensions, regulatory policy and facility acquisitions.

Q. What is the purpose of your testimony in this case?

A. The purpose of my testimony is to describe the Stipulation (the Proposed Settlement) filed in this case and to explain the rationale for Staff's support.

Q. Please summarize your testimony.

A. Staff believes that the comprehensive Proposed Settlement resolving all issues in the general rate case and agreed to by all parties to the case is in the public interest, is just and reasonable and should be approved by the Commission.

Q. How is your testimony organized?

A. My testimony is subdivided under the following headings:

Stipulation Overview

Q. Please provide an overview of the Stipulation and Settlement.

A. The Stipulation filed with the Commission provides for an annual overall increase in electric base revenue of $2.8 million or 1.14% and an overall increase in natural gas revenue of $1.1 million or 1.6%. The revenue increase would be uniformly spread among the customer classes and be effective on October 1, 2011. The Stipulation also provides for a stay-out provision that prohibits any new electric or natural gas base rate increases prior to April 1, 2013.

The Stipulation and Settlement specifically identifies annual power supply cost levels for the Power Cost Adjustment (PCA) mechanism, future treatment of costs related to the Palouse Wind Power Purchase agreement and deferred accounting treatment for variable non fuel Operation and Maintenance (O&M) costs associated with the Company's thermal generating plants.

The Stipulation also provides for a public workshop to discuss cost of service and rate design issues. Additionally, the Stipulation specifies a $10,000 annual increase in low income education funding and an Avista sponsored workshop to discuss the future of low income programs.

Finally, the Stipulation describes the overall impact of the base rate increases when combined with other electric and natural gas rate adjustments either pending before the Commission or proposed for filing. The net effect is a 2.4% **decrease** in billed electric rates and a

0.8% **decrease** in billed natural gas rates.

Although the Stipulation represents a comprehensive settlement of all revenue requirement issues in the case, it does not specifically identify revenue adjustments to the Company's case or specify an authorized return on equity (ROE).

Q. How does the annual base revenue requirement increase for electric and natural gas service proposed in the Stipulation compare to the increase originally proposed by Avista?

A. Avista originally proposed to increase annual base electric revenue by $9 million or 3.7% and increase annual base natural gas revenue by $1.9 million or 2.7%. The Stipulated Settlement provides for an increase in annual base electric revenue of $2.8 million or approximately 31% of the original request. The Stipulated Settlement provides for an increase in annual natural gas revenue of $1.1 million or 58% of the Company's original request. These modest increases come with an agreement that there can be no new base rate increases prior to April 1, 2013. The Stipulation and Settlement is attached as Staff Exhibit No. 101.

The Settlement Process

Q. Would you please describe the process leading to the Stipulated Settlement?

A. Yes. The Company filed its rate application with the Commission on July 5, 2011 and Staff immediately began its review. Based on the relatively modest revenue increase requested, the relatively high requested return on equity (ROE) of 10.9% and potential adjustments in other cost categories, Staff believed reasonable settlement of the case was possible.

A settlement workshop was then scheduled for August 17, 2011 in the Commission hearing room with all parties of record in the case invited to participate. Workshop participants included Commission Staff, Avista, Clearwater Paper Company, Idaho Forest Group, the Community Action Partnership of Idaho (CAPAI) and the Idaho Conservation League.

Settlement discussions focused on revenue requirement issues such as appropriate ROE, company salaries, O&M costs, load adjustments and acceptable test period. Other issues discussed included rate design, low income weatherization funding and cost of service.

The parties to the case stated their positions on the various revenue requirement issues and presented proposals on various other topics. Negotiations on individual issues and a total settlement package ensued. Although settlement was not reached at the workshop, negotiations continued informally through the week of

August 22, 2011 until the Stipulated Settlement was reached.

Q. How did Commission Staff evaluate the Stipulated Settlement to determine that it was reasonable?

A. The standard used by Staff to evaluate the Settlement in this case as in prior cases is whether the result is a better outcome for customers than could reasonably be anticipated through litigation. In other words, Staff evaluated the merits of the Stipulated Settlement by comparing it to what might be expected if the case proceeded to hearing. Staff believes the base rate increase and stay-out provision in addition to the other settlement terms represent a reasonable resolution of this case and a good deal for customers.

Of course the Commissioners make the final decision on Company revenue requirement based on the record at hearing. The parties to the case make revenue requirement adjustment recommendations on the record for the Commission to consider. The outcome at hearing in terms of revenue requirement must therefore be evaluated based on both the adjustments to the Company's revenue request that are presented on the record and how the Commission might decide each adjustment.

Revenue Adjustments

Q. What type of adjustments to the Company's proposed revenue requirement had Staff identified and what was the dollar value of those adjustments?

A. The two largest adjustments identified by Staff affecting both electric and natural gas revenue requirement were ROE and salaries. Staff maintained that an ROE lower than the ROE of 10.9% as proposed by the Company was appropriate. A lower ROE could lower the Company's revenue requirement request by as much as $5 million and $825 thousand for electric and natural gas service, respectively. Salary adjustments identified by Staff included elimination of all salary increases back to year end 2010 ($1 million electric, $265 thousand natural gas). Other possible adjustments identified by Staff included elimination of 2012 capital additions and transmission revenue/expenses, elimination of proposed increases in vegetative management expenses and removal of the Company's proposed Energy Efficiency Load Adjustment.

Q. How confident was Staff that its adjustments could be justified on the record and accepted by the Commission upon hearing?

A. Staff took a very aggressive approach to developing its revenue requirement adjustments in preparation for settlement negotiations, but was reasonably confident that at least some of the proposed adjustments would be accepted by the Commission at hearing. Similar

ROE and employee salary adjustments were favorably addressed by the Commission in the recent PacifiCorp general rate case (PAC-E-10-7). However, other proposed adjustments in vegetative management, transmission revenue/expenses and the effects of energy efficiency on load have not been addressed at hearing and were less certain to be accepted by the Commission.

Q. Why are a new return on equity and other specific revenue requirement adjustments not specified in the Stipulation?

A. Specific adjustments and ROE were not specified in the Stipulation to facilitate agreement on the overall revenue requirement. While the Settlement parties generally agreed on a reasonable level of revenue, there was considerable disagreement on the individual adjustments proposed to reach that revenue level. This was particularly true with respect to ROE. Rather than specify an ROE that all parties could not support, the Stipulation simply specified an overall revenue requirement that could be fully supported.

Q. How do customers benefit from the stay-out provision?

A. The stay-out provision provides benefit to customers by prohibiting any new electric or natural gas base rate increase prior to April 1, 2013. This provision provides an extended period of base rate stability that Staff believes would otherwise not occur.

Cost of Service

Q. Please describe the Stipulated Settlement with respect to electric customer class cost of service, revenue spread among classes and rate design.

A. While not accepting any specific class cost of service allocation, the Stipulation specifies that Avista will hold cost of service workshops for interested parties prior to the next general rate case. Staff agrees that the workshops, designed to address production and transmission cost allocation methodologies, will help improve the general cost of service understating of all participants.

The Stipulation specifies that the Company sponsored workshop will also address non residential energy block rate design. Given the workshop proposal and the modest base rate increase proposed for both electric and natural gas service, Staff believes uniform revenue spread among the customer classes and continued application of the existing rate structure is reasonable.

Rate Impact

Q. The Stipulation provides for an increase in the monthly residential customer charge. Why does Staff support the increase?

A. Staff supported the limited customer charge increase as part of a negotiated settlement and to recognize the increased investment made by the Company to install more sophisticated automated meters. The monthly increase proposed is 25 cents per month for both electric and natural gas.

Q. What is the impact on residential customer bills of the proposed base rate Settlement and how will customers bills change overall with the other proposed rate changes effective on October 1, 2011?

A. A residential customer using 1000 kWh per month will see a monthly base rate bill increase of 73 cents. A natural gas customer using 75 therms per month will see a monthly base rate bill increase of $1.12. When the other scheduled rate changes including Schedule 59, the residential and farm energy rate adjustment, Schedule 66, the temporary power cost adjustment and Schedule 99, the deferred state income tax adjustment are applied, the overall bill of a residential electric customer using 1000 kWh will **decrease** by $1.89.

When scheduled rate changes in other natural gas costs including Schedule 150 and 155 PGA rates, Schedule 191, the Energy Efficiency Rider Adjustment and Schedule 199, the deferred state income tax adjustment are applied, the monthly overall bill of a residential natural gas customer **decreases** by 38 cents. Overall rate changes for each customer class on a percentage basis are shown on page 7 of the Stipulation.

Q. Doesn't the Commission have to individually approve the rate changes described in the other schedules?

A. Yes. While the Stipulation describes how electric and natural gas rates could change overall with changes in other rate schedules, Commission approval of the Stipulation will only approve changes to base rates. Rate changes due to the PCA, PGA, DSM tariff riders and the residential and farm energy rate adjustment must be specifically approved by the Commission in those cases. The deferred state income tax adjustment for gas and electric service was previously approved by Commission Order No. 32070 in Case No. AVU-E-10-1 and AVU-G-10-1.

Other Issues

Q. Would you please explain Staff's support for the Settlement terms dealing with the Palouse Wind power purchase agreement and the deferred accounting treatment for nonfuel variable costs associated with the Company's thermal plants?

A. Yes. Staff believes it is reasonable for the Company to track the costs of the Palouse wind power purchase agreement through the PCA once the project comes on line. This treatment is consistent with that of other power purchase agreements that occur in between rate cases.

The length of the stay-out in conjunction with the project online date will still allow the Commission to evaluate the prudency of the agreement before any associated costs are placed in customer rates.

Staff also believes it is reasonable to track and defer for three-year amortization, the non fuel O&M cost associated with the Company's thermal plants. The Company maintains that it incurs significant overhaul costs for one of three thermal plants, Coyote Springs II, Colstrip 3 and Colstrip 4, each year over a three-year period. Deferral of these costs with a three-year amortization will level out the annual O&M costs in customer rates and allow reasonable cost recovery. The Commission will still have the opportunity to review the prudency of these costs in the Company's next general rate case.

Q. Would you please explain Staff's support for a Company-sponsored low income weatherization workshop and additional funding for low income DSM education?

A. Yes. Staff believes it is time to discuss all issues associated the Company's low income weatherization program to assure the program is cost effective, that it remains cost effective and that sufficient funds based on need are made available. Consequently, Staff supports and will participate in the low income weatherization workshop. Staff further agrees to an increase of $10,000 per year in additional funding for low income education programs in an effort to improve energy affordability. The increase in low income education funding helps fill a growing need for information to assist customers in reducing their monthly bills.

Q. Does this conclude your testimony in this proceeding?

A. Yes, it does.

David J. Meyer, Esq.
Vice President and Chief Counsel of
Regulatory and Governmental Affairs
Avista Corporation
1411 E. Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 495-4316, Fax: (509) 495-8851

Donald L. Howell, II
Kristine Sasser
Deputy Attorneys General
Idaho Public Utilities Commission Staff
P.O. Box 83720
Boise, ID 83720-0074
Phone: (208) 334-0312, Fax: (208) 334-3762

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	)	**STIPULATION AND SETTLEMENT**

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[1]: 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

[1] These proposed rate changes are included for illustrative purposes and are not part of this Stipulation.

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

Electric - October 1, 2011 Revenue Change		
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
Total Revenue Change	**$**	**(6,225,727)**

With respect to natural gas service, the following rate adjustments, by means of separate filings, are proposed to take effect on October 1, 2011[3]: an increase of $0.8 million in Schedules 150/155 for Purchased Gas Costs (PGA)[4]; 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:

[2] 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.
[3] These proposed rate changes are included for illustrative purposes and are not part of this Stipulation.
[4] 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
Total Revenue Change	**$**	**(524,623)**

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[5], 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.

[5] See Direct Testimony of Patrick Ehrbar, Page 15.