

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



September 29, 2009

Oregon Public Utility Commission  
Attn: Filing Center  
Administrative Regulatory Operations  
550 Capitol St. N.E. Suite 215  
Salem, OR 97308-2551

RE: UG186 – Stipulation Resolving Cost of Capital, Revenue Requirement and Rate Spread/Rate Design Issues

Avista Corporation d/b/a/ Avista Utilities, hereby submits for filing an original and five copies of the Stipulation Resolving All Cost of Capital, Revenue Requirement and Rate Spread/Rate Design Issues in UG 186.

Sincerely,

A handwritten signature in black ink, appearing to read "David Meyer", with a horizontal line extending to the right.

David Meyer  
Vice President and Chief Counsel  
Avista Corporation  
509-495-4316  
David.Meyer@avistacorp.com

Enclosures  
cc: Service List

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served Avista's Stipulation Resolving Cost of Capital, Revenue Requirement and Rate Spread/Rate Design Issues in Docket UG-186, upon the parties listed below by mailing a copy thereof, postage prepaid and/or by electronic mail.

W Chad Stokes  
Tommy Brooks  
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W Citizens' Utilities Board  
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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 29th day of September 2009.

  
\_\_\_\_\_  
Patty Olsness  
Rates Coordinator

1 **BEFORE THE PUBLIC UTILITY COMMISSION**

2 **OF OREGON**

3 UG 186

4 In the Matter of ) STIPULATION RESOLVING ALL  
5 AVISTA CORPORATION ) REVENUE REQUIREMENT AND RATE  
6 Application for a General Rate Increase ) SPREAD/RATE DESIGN ISSUES  
7 \_\_\_\_\_)

8  
9 This Stipulation is entered into for the purpose of resolving all issues in this Docket. As  
10 such, this Stipulation resolves all revenue requirement issues, including cost of capital issues, as  
11 well as rate spread and rate design.

12 **PARTIES**

13 The Parties to this Stipulation are Avista Corporation (or the “Company”), the Staff of  
14 the Public Utility Commission of Oregon (“Staff”), the Citizens’ Utility Board (“CUB”), and the  
15 Northwest Industrial Gas Users (“NWIGU”) (collectively, “Parties”).

16 **BACKGROUND**

17 1. On June 25, 2009, Avista filed revised tariff schedules to effect a general rate  
18 increase for Oregon retail customers of approximately \$14,205,000, or 11.6 percent of its annual  
19 revenues. The filing was suspended by the Commission at its July 16, 2009 public meeting.

20 2. Avista filed supplemental opening direct testimony on September 1, 2009 to  
21 respond to the Information Requests submitted by CUB regarding the timing of rate base  
22 additions.

23 3. On September 15, 2009, Staff served on all of the Parties its report of issues and  
24 proposed adjustments to Avista’s revenue requirement filing. Staff’s report was provided for  
25 settlement purposes only.



<b>SUMMARY TABLE OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE</b>		
(000s of Dollars)		
	<b>Revenue Requirement</b>	<b>Rate Base</b>
<b>Amount as Filed</b>	<b>\$14,205</b>	<b>\$147,649</b>
<b>Adjustments:</b>		
<b>a. Rate of Return</b> Adjust return on equity to 10.1 percent, adjust cost of debt to 6.28 percent, and adjust capital structure to 50% Equity and 50% Debt	<b>(1,936)</b>	-
<b>b. Common Property Capital Projects</b> Removes pro forma 2009 and 2010 general plant capital projects.	<b>(333)</b>	<b>(1,601)</b>
<b>c. 2010 Reinforcement Capital Projects</b> Removes pro forma 2010 capital additions due to delays in completion.	<b>(886)</b>	<b>(6,026)</b>
<b>d. Remove 2009 Capital Project</b> Removes 2009 ERT capital project from pro forma additions.	<b>(318)</b>	<b>(2,022)</b>
<b>e. Uncollectibles Expense</b> Adjusts pro forma uncollectibles amount.	<b>(55)</b>	-
<b>f. Remove Portion of Pro Formed Employee</b> Allocates FTE to all jurisdictions.	<b>(141)</b>	-
<b>g. Wage and Salary</b> Adjusts for PUC wage and salary model.	<b>(717)</b>	<b>(365)</b>
<b>h. Remove Wage &amp; Salary Adjustment</b> Removes earnings test adjustment.	<b>(21)</b>	<b>(10)</b>
<b>i. Customer Forecast for 2010 Test Period</b> Adjusts Customer Forecast for 2010 Test Period.	<b>(229)</b>	-
<b>j. Bonuses and Incentives</b> Adjusts bonuses and Incentives for 50/50 sharing.	<b>(65)</b>	-
<b>k. Customer Service Expense</b> Removes costs included in test period related to Customer Service Expense.	<b>(19)</b>	-
<b>l. Advertising Expense</b> Removes excess Category A and Category C expenses.	<b>(85)</b>	-
<b>m. O&amp;M Distribution</b> Adjusts pro forma forecasted costs related to O&M Distribution costs.	<b>(56)</b>	-
<b>n. Administrative and General Expenses</b> Adjusts pro forma forecasted costs related to Administrative and General costs.	<b>(242)</b>	-
<b>o. FIT/SIT</b> Flow through adjustment.	<b>146</b>	-
<b>p. Cash Working Capital Adjustment</b> Adjusts rate base for the turning effect of the sale of receivables.	<b>(498)</b>	<b>(4,210)</b>
<b>Total Adjustments</b>	<b>(5,455)</b>	<b>(14,234)</b>
<b>Adjusted Revenue Requirement and Rate Base</b>	<b>\$ 8,750</b>	<b>\$ 133,415</b>

1 a. Rate of Return – This adjustment reduces Avista’s requested cost of capital to an  
 2 overall cost of capital equal to 8.19% based on the following components: a capital  
 3 structure consisting of 50% common stock equity and 50% long-term debt, return on  
 4 equity of 10.10%, and a long-term debt cost of 6.28%. This combination of capital  
 5 structure and capital costs is shown in the schedule below:

Agreed-upon	<b>Percent of Total Capital</b>		
Cost of Capital	<b>Cost</b>	<b>Component</b>	
Long-term Debt	50.0%	6.28%	3.14%
Common Equity	50.0%	10.10%	5.05%
<b>Total</b>	<b>100.0%</b>	<b>8.19%</b>	

11 b. Common Property Capital Projects - This adjustment removes a portion of 2009  
 12 and 2010 pro formed common property additions.

13 c. 2010 Reinforcement Capital Projects – This adjustment removes the 2010 pro  
 14 formed capital additions that will not be complete in 2010, including the East Medford  
 15 Reinforcement Project and the Roseburg Reinforcement Project.

16 d. Remove 2009 Capital Project – This adjustment removes the pro formed 2009  
 17 Natural Gas ERT Replacement capital project.

18 e. Uncollectibles Expense – This adjustment reflects using a revised 3-year  
 19 historical average for uncollectible accounts receivables and for updating the conversion  
 20 factor resulting from this change.

21 f. Remove Portion of Pro Formed Employee – The Company originally included the  
 22 entire cost of a new employee devoted solely to Oregon operations. This adjustment

1 removes approximately 91 percent of the adjustment originally proposed by the Company  
2 to reflect only Oregon operations.

3 g. Wage and Salary Adjustment – This wage and salary adjustment adjusts wages  
4 and salaries based on market studies for 2007 as a base year. In addition, non-union labor  
5 was adjusted for a 3.8% CPI adjustment for 2008 and no increase for 2009 or 2010.  
6 Union labor was adjusted 3.5% for 2008, 3.0% for 2009 and 2.25% for 2010.

7 h. Remove Wage and Salary Adjustment – This adjustment removes the earnings  
8 test adjustment for wages and salaries included in the Company’s original request.

9 i. Customer Forecast for 2010 test period - Staff adjusted the customer forecast for  
10 the 2010 test period based on normalized historic growth.

11 j. Bonuses and Incentives - The incentive calculation shall reduce the original  
12 amount proposed by the Company (70/30 sharing) to reflect a 50/50 sharing of bonuses  
13 and incentives.

14 k. Customer Service Expense - Staff’s proposed adjustment removes costs included  
15 in the test period related to Customer Service expenses.

16 l. Advertising Expense - This adjustment removes costs related to advertising  
17 expense for Category C costs and costs in excess of the limit for Category A advertising.

18 m. O&M Distribution – This adjustment revises the forecasted O&M Distribution  
19 costs that had been pro formed in the case.

20 n. Administrative and General Expenses - This adjustment revises the forecasted  
21 Administrative and General expenses that had been pro formed in the case.

22 o. FIT/SIT – This adjustment is a flow through adjustment for the federal and state  
23 tax impact of rate base adjustments.

1 p. Working Capital Adjustment – This adjustment proposes to account for the  
2 benefit that customers receive by the Company’s Accounts Receivable Sales program.

3 7. **Rate Changes Proposed To Be Effective November 1, 2009:** The Parties support  
4 having new rates consistent with this Stipulation be effective November 1, 2009.

5 8. **Senate Bill 408 Refund for the 2007 Tax Report:** Coincident with the November  
6 1, 2009 effective date of the general rate increase in Docket No. UG 186, the Parties support a  
7 \$2.4 million refund related to the Senate Bill 408 2007 Tax Report (Docket No. UG 171(1)) also  
8 to be effective on November 1, 2009. The refund rate will be in place during the months of  
9 November and December of 2009, and expire on December 31, 2009. The refund will be  
10 allocated to each rate schedule on an equal percent of margin basis as each rate schedule would  
11 have otherwise received if the amortization had taken place over a 12 month period. Avista  
12 anticipates that the increased revenues agreed upon in Docket No. UG 186 will be equivalent to  
13 the refund amount during the refund period; however, any over or under-refunded difference  
14 from the \$2.4 million, including a carrying cost on the difference, will be carried forward to be  
15 included with the next Senate Bill 408 tariff filing. The refund resolves all issues in Docket No.  
16 UG 171(1) and the Company agrees to withdraw its claim that a refund would result in  
17 confiscatory rates, contingent upon Commission approval of this Settlement.

18 9. **Rate Spread:** The Parties support the spread of the overall revenue increase of  
19 \$8.750 million, or 7.10%, to the Company’s service schedules, which takes into account the  
20 results of the cost of service studies included in the Company’s filing. The resulting revenue  
21 increase percentage for each of the service schedules is as follows:

22	Residential Service Sch. 410	7.71%
23	General Service Sch. 420	6.72%



1	Large General Service Sch. 424	2.67%
2	Interruptible Service Sch. 440	1.52%
3	Seasonal Service Sch. 444	3.14%
4	Transportation Service Sch. 456	18.24%

5 The calculation of the revenue increase by service schedule is shown on Page 1 of  
6 Attachment B.

7 10. **Rate Design:** The Parties support rate design changes as follows: the monthly  
8 customer charges under Residential Service Schedule 410 and General Service Schedule 420 will  
9 be increased by \$0.50, from \$6.00 to \$6.50 for Schedule 410 and from \$8.00 to \$8.50 for  
10 Schedule 420. The monthly customer charge for Large General Service Schedule 424 will be  
11 increased by \$2.00, from \$46.00 to \$48.00 per month. The usage (therm) charge within each of  
12 the sales service schedules will be increased by the appropriate amount to result in the total  
13 revenue increase for each schedule.

14 For Transportation Service Schedule 456, the monthly customer charge will be increased  
15 by \$62.50 per month, from \$187.50 to \$250.00. The remaining revenue increase within the  
16 Schedule is reflected through a uniform percentage increase applied to the block (usage) rates  
17 within the Schedule.

18 The present and proposed rates, as well as the increases to all rate components within the  
19 schedules, are shown on Page 2 of Attachment B.

20 11. The Parties agree that this Stipulation is in the public interest and results in an  
21 overall fair, just and reasonable outcome.

22 12. The Parties agree that this Stipulation represents a compromise in the positions of  
23 the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this

1 Stipulation shall not be admissible as evidence in this or any other proceeding. Further, this  
2 Stipulation sets forth the entire agreement between the Parties and supercedes any and all prior  
3 communications, understandings, or agreements, oral or written, between the Parties pertaining  
4 to the subject matter of this Stipulation.

5 13. This Stipulation will be offered into the record in this proceeding as evidence  
6 pursuant to OAR 860-014-0085. The Parties agree to use best efforts to prepare and submit the  
7 Stipulation and supporting materials to the Commission in time to permit the Commission to put  
8 rates into effect by November 1, 2009. The Parties agree to support this Stipulation throughout  
9 this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the  
10 Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the  
11 hearing authorized to respond to the Commission's questions on the Party's position as may be  
12 appropriate.

13 14. If this Stipulation is challenged by any other party to this proceeding, the Parties to  
14 this Stipulation reserve the right to cross-examine witnesses and put on such case as they deem  
15 appropriate to respond fully to the issues presented, including the right to raise issues that are  
16 incorporated in the settlement embodied in this Stipulation. Notwithstanding this reservation of  
17 rights, the Parties agree that they will continue to support the Commission's adoption of the  
18 terms of this Stipulation.

19 15. Should the Commission fail to adopt the Stipulation, or should the Commission  
20 materially modify the Stipulation, any Party hereto shall have the right to withdraw from the  
21 Stipulation and proceed with a resolution of all issues in this proceeding.

22 16. By entering into this Stipulation, no Party shall be deemed to have approved,  
23 admitted, or consented to the facts, principles, methods, or theories employed by any other Party

1 in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any  
2 provision of this Stipulation is appropriate for resolving the issues in any other proceeding.

3 17. This Stipulation may be executed in counterparts and each signed counterpart shall  
4 constitute an original document. The Parties further agree that any facsimile copy of a Party's  
5 signature is valid and binding to the same extent as an original signature.

6 18. This Stipulation may not be modified or amended except by written agreement  
7 among all Parties who have executed it.

8 This Stipulation is entered into by each Party on the date entered below such Party's  
9 signature.

10

11 DATED this 29<sup>th</sup> day of September 2009.

12

13 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

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17

18 By: [Signature]

By: \_\_\_\_\_

19

20 Date: 9/29/09

Date: \_\_\_\_\_

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24 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

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26

27

28 By: \_\_\_\_\_

By: \_\_\_\_\_

29

30 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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11 DATED this \_\_\_\_ day of September 2009.

12  
13 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

14  
15  
16  
17  
18 By: \_\_\_\_\_

By:  \_\_\_\_\_

19  
20 Date: \_\_\_\_\_

Date: 9/29/09 \_\_\_\_\_

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23  
24 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

25  
26  
27  
28 By: \_\_\_\_\_

By: \_\_\_\_\_

29  
30 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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13 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

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18 By: \_\_\_\_\_

By: \_\_\_\_\_

19

20 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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24 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

25

26

27

28 By:  \_\_\_\_\_

By: \_\_\_\_\_

29

30 Date: 9/28/09 \_\_\_\_\_

Date: \_\_\_\_\_

31

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13 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

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16

17

18 By: \_\_\_\_\_

By: \_\_\_\_\_

19

20 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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24 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

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28 By: \_\_\_\_\_

By:  \_\_\_\_\_

29

30 Date: \_\_\_\_\_

Date: 9-28-09

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Avista Utilities  
UG 186  
Results of Operations  
Twelve Months Ended December 31, 2010  
(\$000)

	Results Per Company Filing (1)	Adjustments (2)	0 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
<b>SUMMARY SHEET</b>					
1	<b>Operating Revenues</b>				
2	\$120,417	\$451	\$120,868	\$8,750	\$129,618
3	2,386	0	2,386	0	2,386
4	149	0	149	0	149
5	<u>\$122,952</u>	<u>\$451</u>	<u>\$123,403</u>	<u>\$8,750</u>	<u>\$132,153</u>
6	<b>Operating Expenses</b>				
7	\$89,027	\$210	\$89,237	\$0	\$89,237
8	10,663	(839)	9,824	0	9,824
9	7,577	(397)	7,181	0	7,181
10	<u>\$107,267</u>	<u>(\$1,025)</u>	<u>\$106,242</u>	<u>\$0</u>	<u>\$106,242</u>
11	<b>Depreciation &amp; Amortization</b>				
12	5,499	(237)	5,262	0	5,262
13	5,389	(154)	5,235	0	5,235
14	(73)	1,016	943	3,355	4,298
15	0	(54)	(54)	0	(54)
16	<u>\$118,082</u>	<u>(\$454)</u>	<u>\$117,627</u>	<u>\$3,355</u>	<u>\$120,982</u>
17	<u>\$4,870</u>	<u>\$905</u>	<u>\$5,776</u>	<u>\$5,151</u>	<u>\$10,927</u>
18	<b>Average Rate Base</b>				
19	\$266,488	(\$9,979)	\$256,509	\$0	\$256,509
20	(95,789)	(241)	(96,030)	0	(96,030)
21	(25,201)	195	(25,006)	0	(25,006)
22	0	0	0	0	0
23	<u>\$145,498</u>	<u>(\$10,024)</u>	<u>\$135,474</u>	<u>\$0</u>	<u>\$135,474</u>
24	<b>Net Utility Plant</b>				
25	\$0	\$0	\$0	\$0	\$0
26	0	0	0	0	0
27	0	0	0	0	0
28	2,151	0	2,151	0	2,151
29	0	0	0	0	0
30	0	0	0	0	0
31	0	0	0	0	0
32	0	0	0	0	0
33	0	0	0	0	0
34	<u>\$147,649</u>	<u>(\$14,234)</u>	<u>\$133,415</u>	<u>\$0</u>	<u>\$133,415</u>
35	3.30%		4.33%		8.19%
36	N/A		2.38%		10.10%
	<b>Rate of Return Implied Return on Equity</b>				





Avista Utilities  
UG 186

Adjustments to Results of Operations - Income Taxes  
Twelve Months Ended December 31, 2010  
(\$000)

	Uncollectibles Expense (S-1)	O & M Distribution (S-2)	Common Property Ratebase (S-3)	Remove Reinforce Projects (S-4)	O&M Only Oregon Corp Employee (S-5)	W&S Adjustment (3 year model) (S-6)	Remove ERT from Ratebase (S-7)	Adjust Customer Forecast (S-8)	Adjust Bonuses and Incentives (S-9)	Customer Service Expense (S-10)	Advertising Expense Adjust (S-11)	A & G Accounts 920 through 935 (S-12)	FIT SIFT Adjust (S-13)	Remove Avista W&S Adjustment (S-14)	CUB/NWIGU Working Cap Adjust (S-15)	Total Adjustments (Base Rates)
1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$451	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$451
2	(54)	(55)	(29)	(90)	(136)	(653)	(30)	229	(63)	(18)	(82)	(233)	0	(19)	0	(\$1,233)
3	0	0	(111)	(79)	0	0	(47)	0	0	0	0	0	0	0	0	(\$237)
4	0	0	(50)	(189)	0	(11)	(63)	0	0	0	0	0	(219)	(0)	(132)	(\$666)
5	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
6	\$54	\$55	\$190	\$358	\$136	\$664	\$140	\$222	\$63	\$18	\$82	\$234	\$219	\$19	\$132	\$2,587
7	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
8	\$54	\$55	\$190	\$358	\$136	\$664	\$140	\$222	\$63	\$18	\$82	\$234	\$219	\$19	\$132	\$2,587
9	\$4	\$4	\$13	\$24	\$9	\$44	\$9	\$15	\$4	\$1	\$5	\$15	\$14	\$1	\$9	\$171
10	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
11	\$4	\$4	\$13	\$24	\$9	\$44	\$9	\$15	\$4	\$1	\$5	\$15	\$14	\$1	\$9	\$171
12	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
13	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
14	\$50	\$51	\$177	\$334	\$127	\$620	\$131	\$207	\$59	\$17	\$77	\$219	\$205	\$18	\$123	\$2,416
15	18	18	62	117	44	217	46	72	21	6	27	76	72	6	43	\$845
16	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
17	\$18	\$18	\$62	\$117	\$44	\$217	\$46	\$72	\$21	\$6	\$27	\$76	\$72	\$6	\$43	\$845
18	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
19	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
20	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
21	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
22	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	\$0
23	\$22	\$22	\$75	\$141	\$53	\$261	\$55	\$87	\$25	\$7	\$32	\$91	\$86	\$7	\$52	\$1,016

**Avista Utilities**  
**UG 186**  
**Tax Calculation**  
**Twelve Months Ended December 31, 2010**  
**(\$000)**

	0 Per Company Filing (1)	Adjustments (2)	0 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
<b>Income Tax Calculations</b>					
1 Book Revenues	\$122,952	\$451	\$123,403	\$8,750	\$132,153
2 Book Expenses Other than Depreciation	112,583	(1,233)	111,349	212	111,561
3 State Tax Depreciation	5,499	(237)	5,262	0	5,262
4 Interest	4,874	(666)	4,208	0	4,208
5 Less: Schedule M Differences	184	0	184	0	184
6 State Taxable Income	(\$188)	\$2,587	\$2,400	\$8,538	\$10,938
7 Add OR Depletion Adjustment					
8 Total State Taxable Income	(\$188)	\$2,587	\$2,400	\$8,538	\$10,938
9 State Income Tax @ 6.60%	(\$12)	\$171	\$159	\$564	\$723
10 State Tax Credits	0	0	0	0	0
11 Net State Income Tax	(\$12)	\$171	\$159	\$564	\$723
12 Additional Tax Depreciation	0	0	0	0	0
13 Plus: Other Schedule M Differences	0	0	0	0	0
14 Federal Taxable Income	(\$176)	\$2,416	\$2,241	\$7,974	\$10,215
15 Federal Tax @ 35%	(61)	845	784	2,791	3,575
16 Federal Tax Credits	0	0	0	0	0
17 Current Federal Tax	(\$61)	\$845	\$784	\$2,791	\$3,575
18 ITC Adjustment					
19 Deferral	0	0	0	0	0
20 Less: Amortization	0	0	0	0	0
21 Total ITC Adjustment	\$0	\$0	\$0	\$0	\$0
22 Provision for Deferred Taxes	\$0	\$0	\$0	\$0	\$0
23 Total Income Tax	(\$73)	\$1,016	\$943	\$3,355	\$4,298

Revenue Sensitive Costs and Cost of Capital  
Twelve Months Ended December 31, 2010  
(\$000)

REVENUE SENSITIVE COSTS	
Revenues	1.00000
Operating Revenue Deductions	
Uncollectible Accounts	0.00609
Taxes Other - Franchise	0.02110
- Oregon Commission Fees	0.00250
- Resource supplier	0.00069
State Taxable Income	<u>0.96963</u>
State Income Tax	0.06400
Federal Taxable Income	<u>0.90563</u>
Federal Income Tax @ 35%	0.31697
ITC	
Current FIT	<u>0.31697</u>
Other	
Total Excise Taxes	<u>0.38097</u>
Total Revenue Sensitive Costs	<u>0.41134</u>
Utility Operating Income	0.58866
Net-to-Gross Factor	<u>1.69877</u>

COST OF CAPITAL - SETTLED		% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	50.0%	6.28%	3.14%	
Preferred Stock	0.0%	0.00%	0.00%	
Common Equity	50.0%	10.10%	5.05%	
Total	<u>100.0%</u>		<u>8.19%</u>	

COST OF CAPITAL - FILED		% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	48.55%	6.80%	3.30%	
Preferred Stock	0.00%	0.00%	0.00%	
Common Equity	51.45%	11.00%	5.66%	
Total	<u>100.00%</u>		<u>8.96%</u>	

Avista Utilities  
Docket No. UG 186  
Oregon - Natural Gas  
Settlement Rate Spread

Line No.	OREGON TOTAL	Residential Service SCH 410	General Service SCH 420	Large General Service SCH 424	Interruptible Service SCH 440	Seasonal Service SCH 444	Special Contract Service SCH 447	Transportation Service SCH 456
1	CURRENT REVENUE	\$ 74,355,807	\$ 36,342,651	\$ 4,876,152	\$ 5,143,278	\$ 217,070	\$ 403,670	\$ 1,982,625
2	COST OF GAS	\$ 53,594,273	\$ 29,320,596	\$ 4,387,386	\$ 4,635,274	\$ 198,407	\$ -	\$ -
3	CURRENT MARGIN	\$ 20,761,534	\$ 7,022,055	\$ 488,766	\$ 508,004	\$ 18,663	\$ 403,670	\$ 1,982,625
4	% of Current Margin excl Sch 447	67.45%	22.81%	1.59%	1.65%	0.06%		6.44%
5	Total Revenue Requirement	\$ 8,750,000						
6	Revenue Requirement as a Percent of Margin Revenue	28.06%						
7	Staff Proposed Percentage of Overall Margin Increase	98.36%	124.00%	95.00%	55.00%	130.00%		65.00%
8	Increase as a Percent of Total Current Margin	27.60%	34.79%	26.66%	15.43%	36.48%		18.24%
9	PROPOSED MARGIN REVENUE INCREASE	\$ 8,750,000	\$ 2,443,114	\$ 130,281	\$ 78,395	\$ 6,807	\$ -	\$ 361,586
10	Percentage Revenue Increase	7.10%	6.72%	2.67%	1.52%	3.14%		18.24%

**Avista Utilities  
Docket No. UG 186  
Oregon - Natural Gas  
Settlement Rates By Schedule**

<u>Present Rates</u>	<u>Change</u>	<u>Proposed Rates</u>
<b>Residential Service Schedule 410</b>		
\$6.00 Customer Charge	\$0.50/month	\$6.50 Customer Charge
All Therms - \$1.36785/Therm	\$0.10462/therm	All Therms - \$1.47247/Therm
<b>General Service Schedule 420</b>		
\$8.00 Customer Charge	\$0.50/month	\$8.50 Customer Charge
All Therms - \$1.29272/Therm	\$0.08709/therm	All Therms - \$1.37981/Therm
<b>Large General Service Schedule 424</b>		
\$46.00 Customer Charge	\$2.00/month	\$48.00 Customer Charge
All Therms - \$1.18131/Therm	\$0.03134/therm	All Therms - \$1.21265/Therm
<b>Interruptible Service Schedule 440</b>		
All Therms - \$0.89041/Therm	\$0.01357/therm	All Therms - \$0.90398/Therm
<b>Seasonal Service Schedule 444</b>		
All Therms - \$1.17586/Therm	\$0.03688/therm	All Therms - \$1.21274/Therm
<b>Transportation Service Schedule 456</b>		
\$187.50 Customer Charge	\$62.50/month	\$250.00 Customer Charge
1st 10,000 Therms - \$0.13148/Therm	\$0.02318/therm	1st 10,000 Therms - \$0.15466/Therm
Next 20,000 Therms - \$0.07906/Therm	\$0.01394/therm	Next 20,000 Therms - \$0.09300/Therm
Next 20,000 Therms - \$0.06496/Therm	\$0.01145/therm	Next 20,000 Therms - \$0.07641/Therm
Next 200,000 Therms - \$0.05080/Therm	\$0.00896/therm	Next 200,000 Therms - \$0.05976/Therm
Over 250,000 Therms - \$0.02568/Therm	\$0.00453/therm	Over 250,000 Therms - \$0.03021/Therm