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AVISTA Corp.

January 28, 2015

Public Utility Commission of Oregon
3930 Fairview Industrial Dr SE
Salem, OR 97302-1166

Attention: Filing Center

Via Electronic and Overnight Mail

RE: Docket No. UG-284 – Testimony in Support of Settlement Stipulation

Avista Corporation, dba Avista Utilities, hereby encloses the following documents for filing with the Commission:

- The original plus 5 copies of the Testimony in Support of the Settlement Stipulation

The original documents have been sent via overnight mail. Please direct any questions related to the transmission of this filing to me at 509.495.8620 or via email at pat.ehrbar@avistacorp.com.

Sincerely,

Patrick Ehrbar
Manager, Rates & Tariffs

Enclosure

cc: See attached service list

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the Testimony in Support of Settlement Stipulation, in the Oregon Natural Gas General Rate Case Filing of Avista Utilities, a division of Avista Corporation, Docket UG 284, upon the parties listed below by mailing a copy thereof, postage prepaid and/or by electronic mail.

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I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 28th day of January, 2015.

Patrick Ehrbar
Manager, Rates & Tariffs

PUBLIC UTILITY COMMISSION
OF
OREGON

UG 284

STAFF/AVISTA/NWIGU/CUB EXHIBIT 100

Joint Testimony in Support of Stipulation
In the Matter of Avista's
Request for a General Rate Revision

January 28, 2015

Q. Please state your names and positions.

A. My name is Marianne Gardner. I am employed by the Public Utility Commission of Oregon ("PUC") as a Senior Revenue Requirement Analyst in the Rates, Finance and Audit Program of the Energy Division. I am a graduate of Oregon State University with a Masters of Business Administration and a graduate of Montana State University with a Bachelor of Science in Accounting. I joined the PUC in March 2013. I have approximately 20 years of professional accounting experience, including thirteen years as a cost accountant with responsibilities including cost accounting, budgeting, product costing and the preparation of management reports, four years' experience in public accounting working in the areas of audit, tax and financial accounting for individual and small business clientele, and three years' experience in non-profit accounting for an agency administrating funds under the Federal Job Training Partnership Act.

My name is Patrick D. Ehrbar. I am employed by Avista Utilities ("Company") as the Manager of Rates and Tariffs in the State & Federal Regulation Department. My primary areas of responsibility include electric and natural gas rate design, customer usage and revenue analysis, and tariff administration. I am a 1995 graduate of Gonzaga University with a Bachelors degree in Business Administration. In 1997 I graduated from Gonzaga University with a Masters degree in Business Administration. I started with Avista in April 1997, working on energy efficiency programs, and later as one of the Company's key Account Executives where I was responsible for, among other things, being the primary point of contact for numerous commercial and industrial customers. I joined the State and Federal Regulation Department as a Senior Regulatory Analyst in 2007. Responsibilities in this role included being the discovery coordinator for the Company's rate cases, line extension policy tariffs, as well as miscellaneous regulatory issues. In November 2009, I was promoted to my current role.

My name is Bob Jenks. I am the Executive Director of the Citizens' Utility Board ("CUB") located at 610 SW Broadway, Suite 400, Portland OR 97205. I am a graduate of Willamette University with a Bachelor of Science Degree in Economics. I have provided testimony and comments in a multiplicity of PUC dockets for the last twenty years. Prior to joining CUB, between 1982 and 1991, I worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Group and the Fund for Public Interest Research on a variety of public policy issues. As one of CUB's economists, my responsibilities include the review of utility and telecom filings in Oregon and in this particular docket the representation of residential customers' concerns arising from Avista's General Rate Case filing.

My name is Edward Finklea. I am an experienced energy law attorney serving as the Executive Director of the Northwest Industrial Gas Users ("NWIGU") since August 2012. From 1986 through 2008, I was lead counsel for NWIGU in all regulatory interventions concerning various interstate pipelines, and before state regulatory commissions concerning regulation of the regional natural gas local distribution companies (LDCs). NWIGU is a non-profit trade association of approximately 40 industrial and commercial natural gas end users who have facilities in the states of Oregon, Washington and Idaho. NWIGU provides information to its members on natural gas issues that impact their facilities and represents its members' interests in proceedings before the Federal Energy Regulatory Commission and the Pacific Northwest state utility commissions, including the PUC of Oregon. As Executive Director, my responsibilities include the review of all filings made by LDCs in

Oregon as well as the representation of the industrial customers in connection with this Docket. My witness qualifications have been included as Exhibit 106.

Hereafter, Staff, the Company, CUB and NWIGU will collectively be referred to as the "Parties."

Q. What is the purpose of your joint testimony?

A. The purpose of our joint testimony is to describe and support the Stipulation, filed on January 21, 2015, between Commission Staff, CUB, NWIGU, and the Company in Docket UG 284 (the "Stipulation"), which resolved all issues among the Parties for the general rate increase filed on September 2, 2014.

The Stipulation is the product of settlement discussions, open to all parties to the UG 284 Docket. The Stipulation between the Parties, resolved all issues, including revenue requirement and cost of capital issues, as well as rate spread and rate design.

Q. Have you prepared any Exhibits?

A. Yes. The Parties' Exhibit 101 is the Stipulation filed with the Commission on January 21, 2015.

Background

Q. Please describe the background behind the Company's original general rate case filing.

A. On September 2, 2014, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $9,140,000, or 9.1 percent of its annual revenues. The filing was suspended by the Commission on September 8, 2014.

On January 5, 2015, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of September 24, 2014, settlement conferences were held on December 15, 2014 and January 13, 2015. As a result of the settlement discussions, the Parties have agreed to settle all issues in this Docket, including the revenue requirement and rate spread/design issues, on the following terms, subject to the approval of the Commission.

Revenue Requirement for Rate Change on March 1, 2015

Q. What is the overall increase in revenue and timing of the rate change agreed to by the Parties in the Stipulation?

A. The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a reduction in Avista's revenue requirement increase request from $9.140 million to a base revenue increase of $6.112 million and support having the new rates be effective March 1, 2015. The implementation date is an integral part of this Settlement.

Included in the $6.112 million base revenue increase is the revenue requirement of $0.262 million related to Aldyl A Pipe Replacement. This revenue requirement was approved for recovery in Phase 2 of Avista's last general rate case, UG-246. Currently, the revenue requirement for Phase 2 Aldyl A Pipe Replacement Costs is being recovered through tariff Schedule 497. Consistent with the provisions of Schedule 497, the energy charges recovered in that schedule will end at such time as the costs associated with the Phase 2 Aldyl A Pipe Replacement are included in base rates in this general rate case. Accordingly, the rates under Schedule 497 will be set at $0.00/therm on the effective date of the tariffs filed in compliance with the Commission order in this docket.

Recognizing that the March 1, 2015 effective date is prior to the expiration of the statutory suspension period (July 3, 2015), the Parties have agreed that Avista will provide an early rate implementation credit of $0.850 million to customers. This annualized credit will be provided to customers until new rates are in effect from the Company's next general rate case. Table 1 below details the agreed upon revenue changes:

Table 1 – Summary of Revenue Adjustments

Revenue Item	Amount
Base Revenue Increase	$ 6,112,000
Cancellation of Schedule 497	$ (262,000)
Early Rate Implementation Credit[1] Schedule 491	$ (850,000)
Net Revenue Increase	$ 5,000,000

This Stipulation represents the settlement of all revenue requirement issues in the Company's filing.

Q. What was the Company's position with respect to the need for additional rate relief?

A. The Company explained in its original filing that its need for additional rate relief is due primarily to increased capital investment in plant used to serve Oregon

[1] The early implementation credit of $850,000 was a negotiated amount between the Parties giving recognition to the fact that Avista will be receiving increased revenues earlier than if the case were litigated, and also took into account the base revenue increase of $6,112,000 and the net revenue increase of $5,000,000 effective March 1, 2015. As such, it was interrelated with the overall negotiated revenue increase. Accordingly, the $850,000 revenue credit should not be viewed in isolation. Per the directive of Administrative Law Judge Patrick Power on page 2 of the Prehearing Conference Memorandum dated September 24, 2014 in this Docket, with new rates effective earlier than the end of the statutory suspension period, the calculation of additional revenue, or value, to the Company from implementing a $5,850,000 revenue increase March 1, 2015 instead of July 3, 2015, is approximately $1,550,000. However, because the $850,000 revenue credit, the $6,112,000 base revenue increase, and the $5,000,000 net revenue increase are negotiated numbers and <u>all</u> include consideration by Parties related to the early implementation date, the $1,550,000 million dollar amount does not reflect the value placed by each Party on early implementation. That is, if a different implementation date were to occur, other than March 1, 2015, a pro-rate share of the $1,550,000 million in isolation, would not represent the value placed by each party on early implementation.

customers. Over 74% (or approximately $6.7 million) of the Company's request for additional rate relief relates to the increase in rate base, and associated cost of capital. These investments reflect replacement and maintenance of Avista's aging system and technology to sustain reliability and safety. Major projects include the Company's Customer Information System (Project Compass), continuing replacement of Aldyl-A natural gas pipe, compliance with municipal requirements (i.e., street/highway relocations), and the systematic replacement of aging infrastructure, among others.

The remaining 26% (or approximately $2.4 million) of the Company's requested revenue requirement relates to an increase in operating and maintenance (O&M) and administrative and general (A&G) expenditures, and the net change in retail revenues since its last rate case filed in 2013.

Q. Please provide how many data requests Avista responded to, and the general issues explored.

A. Avista responded to 387 data requests, including 127 that were provided with the Company's filed case. The data requests covered a broad range of areas including, but not limited to, cost of capital, capital additions, employees wages and benefits, federal and state income taxes, working capital, operating and maintenance costs and various administrative and general related expenses, as well as issues related to load forecasting and Avista's long run incremental cost study.

Q. What revenue requirement adjustments to Avista's originally-filed case are included in the Stipulation (Exhibit 101)?

A. Table 2, at page 4 of the Stipulation is reproduced below, and provides a summary of the adjustments to Avista's originally-filed case:

TABLE 2: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE

($000s of Dollars)

		Revenue Requirement	Rate Base
Amount as filed:		**$9,140**	**$198,448**
Adjustments:			
a	**Rate of Return**		
	Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	**(853)**	**-**
b	**Revenue Sensitive - uncollectible rate and state tax rate**		
	Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "f" below.	**(147)**	**-**
c	**Uncollectibles**		
	Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	**(39)**	**-**
d	**Working Cash**		
	Removes the additional working capital rate base adjustment to include only materials and supplies.	**(501)**	**(4,641)**
e	**Interest Synchronization**		
	Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	**61**	**-**
f	**State Taxes**		
	Revises level of SIT to an agreed-upon level.	**(317)**	**-**
g	**Escalation**		
	Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	**(97)**	**-**
h	**Advertising and Marketing**		
	This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	**(40)**	**-**
i	**D&O Insurance**		
	This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	**(31)**	**-**
j	**Various A&G Expenses**		
	Revises the Company's expected administrative and general expenses related to meals and other expenses.	**(44)**	**-**
k	**Capital Additions**		
	Adjusts capital additions to reflect the updated information and end-of period rate base at February 28, 2015, prior to rates going into effect on March 1, 2015.	**286**	**2,750**
l	**Distribution O&M**		
	Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	**(602)**	**-**
m	**Other Gas Supply Expense**		
	Reduces the Company's natural gas supply expense to an agreed-upon level.	**(60)**	**-**
n	**Memberships and Dues**		
	Reduces the Company's membership and dues expense to an agreed-upon level.	**(3)**	**-**
o	**Regulatory Commission Expense**		
	Reduces the Company's regulatory commission expense to an agreed-upon level.	**(76)**	**-**
p	**Allocation Factors**		
	Includes a reduction in allocated expense to an agreed-upon level.	**(100)**	**-**
q	**Incentives**		
	Includes reduction to incentives to agreed-upon level.	**(11)**	**(76)**
r	**Wages & Salaries**		
	Revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.	**(108)**	**-**
s	**Medical Benefits**		
	Includes a reduction to medical expenses to an agreed-upon level.	**(170)**	**-**
t	**Pensions**		
	Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	**(282)**	**(4,318)**
u	**Property Tax**		
	Includes updates to the Company's property tax expense to an agreed-upon level.	**134**	**-**
v	**Insurance**		
	Includes updates to the Company's insurance expense.	**(28)**	
	Total Adjustments:	**($3,028)**	**($6,285)**
Adjusted Base Revenue Requirement & Rate Base - Effective Mar. 1, 2015:		**$6,112**	**$192,163**
	Expiration of Schedule 497	**($262)**	
	Early Rate Implementation Credit Schedule 491	**($850)**	
Net Revenue Increase Effective Mar. 1, 2015		**$5,000**	**$192,163**

Q. What is the basis of the Stipulation relating to Issue (a), Rate of Return Adjustment?

A. The Company's original filed requested cost of capital was as follows:

Originally Filed Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.56%	2.72%
Common Equity	51.0%	9.90%	5.05%
Total	**100.0%**		**7.77%**

This adjustment revises the Company requested cost of capital to a capital structure comprised of 51% common stock equity and 49% long-term debt, with a return on equity (ROE) of 9.50%, and cost of debt of 5.452%. The revised cost of debt of 5.452% reflects the most recent financings of the Company, which lowers the overall cost of debt from the 5.56% included in the original filing. The 9.50% ROE, combined with the 51% equity layer, is a negotiated rate that the Parties support as reasonable, and reflects the give and take on other issues in the case. This combination of capital structure and capital costs produces a rate of return of 7.516%, as shown in the table below:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.452%	2.67%
Common Equity	51.0%	9.500%	4.85%
Total	**100.0%**		**7.516%**

Q. Please explain the basis of the Stipulation relating to Issue (b), Revenue Sensitive – Uncollectible Rate and State Tax Rate Adjustment?

A. This adjustment revises the State Income Tax (SIT) rate included in the Company's direct filing to factor in future use of SIT credits expected during the rate year. This adjustment also revises the uncollectible rate to 0.5313 percent calculated on a three-year historical average. These changes impact the Conversion Factor and adjustment Issue (f) below.

The result of this adjustment decreased the Company's requested revenue requirement by $147,000.

Q. Please explain the basis of the Stipulation relating to Issue (c), Uncollectibles Adjustment?

A. This adjustment reduces the Company's uncollectible expense by adjusting the three-year historical average used to estimate the level of uncollectible customer accounts receivable during the rate year.

The result of this adjustment decreased the Company's requested revenue requirement by $39,000.

Q. Please describe Issue (d), the Working Capital Adjustment?

A. In the Company's direct filing, the Company included an increase to total rate base for the Company's calculated cash working capital using the Investor Supplied Working Capital (ISWC) method. The Parties agreed, for settlement purposes, to remove the Company's proposed working capital adjustment, including in rate base only its inventory of materials and supplies.

The result of this adjustment decreased the Company's requested revenue requirement by $501,000 and rate base by $4,641,000.

Q. What is the basis of the Stipulation relating to Issue (e), the Interest Synchronization Adjustment?

A. This adjustment is simply a flow-through adjustment for the federal and state tax impact of the cost of debt component of rate of return, and increases the Company's requested revenue requirement by $61,000.

Q. Please explain the basis of the Stipulation relating to Issue (f), State Taxes Adjustment.

A. This adjustment reduces the level of SIT to an agreed-upon level, including the impact of the future use of SIT credits expected during the rate year as noted in Item (b) above.

The result of this adjustment reduced the Company's requested revenue requirement by $317,000.

Q. What formed the basis for the agreement on Issue (g), Expense Escalation Adjustment?

A. In the Company's direct filing, the Company included increases to non-labor O&M and A&G expenses based on forecasts through 2015. The Company used a CPI of 2.1% year over year for 2014 and 2015. The Parties agreed, for settlement purposes, to use a lower forecasted inflation factor to determine the 2014 and 2015 expense levels.

The result of this adjustment decreased the Company's requested revenue requirement by $97,000.

Q. Please explain the basis of the Stipulation relating to Issue (h), Advertising and Marketing Adjustment.

A. In the Company's direct filing, the Company included increases to advertising and marketing expenses based on forecasts through 2015. The Parties agreed, for settlement purposes, to use lower inflation factors for 2014 and 2015 expenses.

The result of this adjustment decreased the Company's requested revenue requirement by $40,000.

Q. How did the Parties arrive at the Stipulation relating to Issue (i), Directors & Officers (D&O) Insurance Adjustment?

A. In the Company's direct filing, the Company included increases for D&O insurance premiums expected in 2015. The Parties agreed, for settlement purposes, to remove 50% of certain D&O premium layers.

The result of this adjustment decreased the Company's requested revenue requirement by $31,000.

Q. What formed the basis for the agreement on Issue (j), Various Administrative and General Expenses Adjustment?

A. This adjustment removes 50% of certain administrative and general expenses related to meals and other expenses included in the Company's filed case.

The result of this adjustment decreased the Company's requested revenue requirement by $44,000.

Q. What is the basis of the Stipulation relating to Issue (k), Capital Additions Adjustment?

A. In the Company's direct filing, the Company included Oregon capital projects that would become operational and transfer to plant-in-service through March 31, 2015, the associated accumulated depreciation and accumulated deferred federal income taxes (ADFIT) on an end-of-period (EOP) basis, and the annual level of associated depreciation expense and property taxes.

This adjustment includes updated information to reflect known changes to capital additions and related costs from that included in the Company's direct filed case, as well as to remove March 2015 capital additions as filed, to reflect plant and associated accumulated depreciation and ADFIT on an EOP basis as of February 28, 2015. The net effect of this adjustment results in inclusion of net plant that is in-service and used and useful prior to rates going into effect on March 1, 2015. In support of this adjustment, prior to March 1, 2015, the Company agrees to provide an Officer's Certification attesting to the fact that the capital additions, including Project Compass, are in-service, used and useful, and providing service to Oregon customers.

This adjustment increased the Company's requested revenue requirement by $286,000 and rate base by $2,750,000.

Q. What is the basis of the Stipulation relating to Issue (l), Distribution Operating and Maintenance Expenses Adjustment?

A. In the Company's filed case it had included test period level distribution O&M expenses, adjusted for inflation. During the process of the case the Company determined expenses related to its Atmospheric Testing program experienced during the historical test period would not remain at that level during the rate year. This adjustment reduces the Company's Atmospheric Testing expense to reflect expected rate period levels and adjusts for revised CPI.

The result of this adjustment decreased the Company's requested revenue requirement by $602,000.

Q. How did the Parties arrive at the Stipulation relating to Issue (m), Other Gas Supply Expense Adjustment?

A. This adjustment reduces the Company's natural gas supply expense to an agreed-upon level, based on an escalation of other gas supply expense from prior periods to the rate year.

The result of this adjustment decreased the Company’s requested revenue requirement by $60,000.

Q. Please explain the basis of the Stipulation relating to Issue (n), Memberships & Dues Adjustment.

A. This adjustment reduces the Company's membership and dues expense to an agreed-upon level.

The result of this adjustment decreased the Company’s requested revenue requirement by $3,000.

Q. Please explain the basis of the Stipulation relating to Issue (o), Regulatory Commission Expense Adjustment.

A. This adjustment reduces the Company's regulatory commission expense to an agreed-upon level

The result of this adjustment decreased the Company’s requested revenue requirement by $76,000.

Q. Please explain the basis of the Stipulation relating to Issue (p), Allocation Factors Adjustment.

A. The Parties agreed, for settlement purposes, to include a reduction in allocated expenses to an agreed-upon level.

The result of this adjustment decreased the Company's requested revenue requirement by $100,000.

Q. Please explain the basis of the Stipulation relating to Issue (q), Incentive Compensation Adjustment.

A. This adjustment includes a reduction to incentives to an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $11,000 and rate base by $76,000.

Q. How did the Parties arrive at the Stipulation relating to Issue (r), Wages and Salaries Adjustment?

A. This adjustment changes pro forma wages and salaries to reflect adjustments proposed by Staff. Wages & salaries were adjusted using the Commission's three-year Wage and Salary Model. Staff also adjusted the test year full time equivalent (FTE) levels, associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.

The result of this adjustment decreased the Company's requested revenue requirement by $108,000.

Q. Please explain the basis of the Stipulation relating to Issue (s), Medical Benefits Adjustment.

A. This adjustment includes an update to medical expenses for costs expected during the rate period and additional adjustments resulting in an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $170,000.

Q. Please explain the basis of the Stipulation relating to Issue (t), Pension Expense & Prepaid Pension Asset Adjustment?

A. In the Company's direct filing, the Company proposed rate base treatment of its prepaid pension assets, net of accumulated deferred federal income taxes (ADFIT). The Parties agreed to remove the utility prepaid pension asset (net of ADFIT) from this Docket, as the current UM 1633 Pension Investigation Docket is still in progress. This adjustment also includes an update to pension expenses for costs expected during the rate period and an additional adjustment resulting in an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $282,000 and rate base by $4,318,000.

Q. Please explain the basis of the Stipulation relating to Issue (u), Property Taxes Adjustment.

A. This adjustment includes an update to property tax expenses for costs expected during the rate period and an additional adjustment resulting in an agreed-upon level for settlement purposes.

The result of this adjustment increased the Company's requested revenue requirement by $134,000.

Q. Please explain the basis of the Stipulation relating to Issue (v), Insurance Adjustment.

A. This adjustment includes an update to insurance expenses for costs expected during the rate period.

The result of this adjustment decreased the Company's requested revenue requirement by $28,000.

Resolution of Rate Design and Rate Spread Issues

Q. What is the agreement of the Parties relating to the Long-Run Incremental Cost Study?

A. The Company agrees and the Parties support that in future rate cases filed by the Company, it will make the following adjustments to its Long Run Incremental Cost study:

a. Natural Gas Planning will be allocated on a volumetric basis rather than on a customer-count basis.

b. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main costs minus main extension costs.

c. Storage investment will be allocated on the basis of January sales rather than annual sales.

Q. What is the agreement of the Parties relating to rate design and rate spread?

A. The Parties agree there is no precedent being established by the agreed-upon one-time rate spread. The Parties further agree that a party to this rate spread agreement is not agreeing with the general proposition that when costs are generally increasing, some customer classes should receive price signals suggesting that costs are decreasing, or as viewed by other Parties that the rates currently charged to some customers are inequitably too high from a cost-of-service standpoint. Notwithstanding the above reservation of positions, the Parties all support the spread of the March 1, 2015 overall billed revenue increase of $5.00 million, or 4.9%, to the Company's service schedules as follows:

	Base Rate Increase	**Net Overall Increase**
Residential Service Sch. 410	6.72%	5.3%
General Service Sch. 420	8.20%	6.9%
Large General Service Sch. 424	-1.38%	-1.6%
Interruptible Service Sch. 440	-1.58%	-1.8%
Seasonal Service Sch. 444	-1.52%	-1.8%
Special Contract Sch. 447	0.0%	0.0%
Transportation Service Sch. 456	-7.00%	-8.1%

The calculation of the revenue increase by service schedule is shown on Page 1 Attachment B to the Stipulation (Exhibit 101).

Q. What other terms associated with rate design and rate spread are contained in the Stipulation?

A. The Parties support the following rate design. For Residential Service Schedule 410, the monthly customer charge will remain at the current $8.00. The monthly customer charge for General Service Schedule 420 will be increased by $2.00 per month, from $12.00 to $14.00. For Large General Service Schedule 424, the monthly customer charge will remain unchanged at $50.00 per month, and the volumetric (per therm) rate will be decreased by the appropriate amount to equal the total revenue decrease for that schedule. For Interruptible Service Schedule 440 and Seasonal Service Schedule 444, the volumetric rate will be decreased by the appropriate amount to equal the total revenue decrease for those schedules. Finally, for Transportation Service Schedule 456, the monthly customer charge will remain at $275.00 per month. The revenue decrease for the Schedule is reflected through a uniform percentage decrease applied to the volumetric rates within the Schedule.

The present and proposed base rates, as well as the increases to all rate components within the schedules, are shown on Page 2 of Attachment B to the Stipulation (Exhibit 101).

Customer Count Tracking Mechanism

Q. Please describe the Customer Count Tracking Mechanism.

A. Beginning on March 1, 2015, Avista will compare, on a monthly basis, the actual number of its Oregon customers at the end of each month, by rate schedule, to the number of customers included in the Company's general rate case (i.e.,"base" number of customers). If the actual number of customers in the month is higher than the base level, the margin associated with the number of customers above the base level of customers will be deferred, by rate schedule, and returned on an equal percent margin basis across all customers. If the actual number of customers in the month is less than the base number of customers, there will be no deferral recorded for that month. This tracking mechanism is the subject of a separate Application for Authorization to Defer Certain Expenses or Revenues filed coincident with the Settlement Stipulation on January 21, 2015. Because an application to defer is only granted for a one-year period, the Company agrees to file for a reauthorization to defer as necessary to comply with subsection (a) below. Because the two matters are interrelated (in fact, this Stipulation is dependent upon Commission approval of the Deferral Application), the Parties request that both filings be acted upon by the Commission at the same time.

a. **Term of Mechanism** – The mechanism will be effective as of the effective date of the Settlement, proposed to be March 1, 2015, and will end when new base rates are implemented from the Company's next general rate case.

b. **Base Level of Customers, Usage, and Margin by Rate Schedule** – Appendix C to the Stipulation (Exhibit 101) contains the base level of customers by month and by rate schedule. Appendix C also contains the average annual use per customer, shaped by month, for each rate schedule, as well as the stipulated margin by rate schedule, net of the Schedule 491 "Early Implementation Credit," that will be used to calculate any deferral.

c. **Rate Adjustment** – On May 1, 2016, the Company will file a tariff and supporting workpapers with the Commission to rebate to customers, effective November 1, 2016 (i.e., coincident with any PGA adjustment), any deferrals from the March 2015 through February 2016 12-month deferral period. If the tracking mechanism extends beyond February 2016, the Company would continue to file on May 1 of each successive year for a November 1 rate adjustment to return to customers any deferrals from the prior March through February deferral period.

d. **Deferral Limitation** – The Parties agree that the Company will not defer more than $530,000 under the mechanism in any rolling 12-month period for which the deferral is in effect.

e. **Interest on Deferrals** – Interest will accrue on deferrals at the Company's authorized rate of return of 7.516%, similar to other Company deferrals.

f. **Interest on Amortization of Deferrals** – Once a deferral balance is approved for amortization, interest will accrue at the Modified Blended Treasury Rate, similar to other Company amortizations.

Statements of the Parties[2]

Statement of Avista

Q. Does Avista support the Settlement Stipulation resolving all Revenue Requirement and Rate Spread/Rate Design Issues?

A. Yes. The Settlement strikes a reasonable balance between the interests of Avista's customers and the Company on all revenue requirement and rate spread and rate design issues. This Settlement Stipulation, if approved, would provide a measure of certainty around the recovery of costs impacting the Company. The Settlement Stipulation was a compromise among differing interests and represents give-and-take. The Settlement Stipulation also reaches consensus around all issues regarding rate spread and rate design. The Settlement Stipulation was entered into following extensive discovery, audit and review of the Company's filing, its books and its records.

For these reasons, the Settlement is in the public interest and should be approved by the Commission.

Statement of Staff

Q. Does Staff support the Stipulation Resolving all Revenue Requirement and Rate Spread/Rate Design Issues submitted for filing in this docket?

[2] The Statements provided by each Party represent their views only as it relates to the Settlement, and should not be construed as being the views of the Parties collectively.

A. Yes. Staff has filed separate testimony detailing their position on the settlement. That testimony is included as Exhibit 102.

<u>Statement of CUB</u>

Q. Does CUB support the Settlement Stipulation resolving all Revenue Requirement and Rate Spread/Rate Design Issues?

A. Yes. The Settlement strikes a reasonable balance between the interests of Avista's customers and the Company on all revenue requirement and rate spread and rate design issues. However, it was, and is, important to CUB that it be clear that there is no precedent being established by the agreed-upon one-time rate spread contained within this Docket, and that it also be clear that CUB, as a party to this rate spread agreement, is not agreeing with the general proposition that when costs are generally increasing, some customer classes should receive price signals suggesting that costs are decreasing. With that spelled out, CUB found that this Settlement Stipulation, if approved, would provide a measure of certainty around the recovery of costs impacting the Company and was in the best interests of customers. While the Settlement Stipulation is a compromise among differing interests and represents give-and-take it is, nonetheless, in the public interest and should be approved by the Commission.

<u>Statement of NWIGU</u>

Q. Please explain why NWIGU believes the settlement is in the public interest.

A. NWIGU believes the Stipulation is in the public interest and recommends the Commission approve the settlement because the best interests of Avista's natural gas customers are served by the underlying fair compromise on revenue requirement and rate spread and design issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement addressed in the Stipulation, NWIGU supports the settlement as the agreement reached on capital costs has brought down the overall net gas revenue requirement increase to $5 million, which is a significant reduction from Avista's requested increase of $9.140 million. The settlement on capital costs includes an early rate implementation credit of $850,000, which was an important consideration for NWIGU and other stakeholders. In addition, NWIGU believes the 9.5 percent ROE is appropriate and reflects current market conditions. NWIGU supports this Stipulation as an overall result that is a fair compromise between Avista and its customers in current financial markets.

NWIGU also finds this Stipulation to be in the public interest as the spread of the gas rate increase will bring natural gas rates closer to parity. NWIGU had significant concerns with the Company's cost study, as it understated the costs to residential and general rate schedules, and overstated costs for high load factor customers, including Schedule 456 transporters. Despite these issues with the cost study, the Company's cost study still showed that industrial rate schedules are significantly above cost of service. The Stipulation is a reasonable compromise, and it is important from NWIGU's perspective that Schedule 456 is moved towards its relative cost of service. Moving rates closer to cost is appropriate, and is a significant reason NWIGU supports the Stipulation.

For the reasons set forth above, NWIGU believes the Stipulation is in the public interest and should be approved by the Commission.

<u>Conclusion</u>

Q. Do the Parties agree that the Stipulation provided as Exhibit 101 is in the public interest and results in an overall fair, just and reasonable outcome?

A. Yes, the Parties do.

Q. What do the Parties recommend regarding the Stipulation?

A. We recommend that the Commission adopt the Stipulation in its entirety, with new retail rates effective March 1, 2015.

Q. Does this conclude your joint testimony?

A. Yes.

PUBLIC UTILITY COMMISSION
OF
OREGON

UG 284

STAFF/AVISTA/NWIGU/CUB EXHIBIT 101

Stipulation of the Parties
In the Matter of Avista's
Request for a General Rate Revision

January 28, 2015

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 284

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision.	)))))	STIPULATION RESOLVING ALL ISSUES

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

PARTIES

The Parties to this Stipulation are Avista Corporation ("Avista" or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties"). These Parties represent all who intervened and appeared in this proceeding.

BACKGROUND

1. On September 2, 2014, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $9,140,000, or 9.1 percent of its annual revenues. The filing was suspended by the Commission on September 8, 2014, in Order No. 14-311.

2. On January 5, 2015, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only.

3. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of September 24, 2014, settlement conferences were held on December 15, 2014 and January 13, 2015.

4. As a result of the settlement discussions, the Parties have agreed to settle all issues in this Docket, including the revenue requirement and rate spread/design issues, on the following terms, subject to the approval of the Commission.

AGREEMENT

5. **Revenue Requirement:** The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a reduction in Avista's revenue requirement increase request from $9.140 million to a base revenue increase of $6.112 million and support having the new rates be effective March 1, 2015. The implementation date is an integral part of this Settlement.

Included in the $6.112 million base revenue increase is the revenue requirement of $0.262 million related to Aldyl A Pipe Replacement. This revenue requirement was approved for recovery in Phase 2 of Avista's last general rate case, UG-246. Currently, the revenue requirement for Phase 2 Aldyl A Pipe Replacement Costs is being recovered through tariff Schedule 497. Consistent with the provisions of Schedule 497, the energy charges recovered in that schedule will end at such time as the costs associated with the Phase 2 Aldyl A Pipe Replacement are included in base rates in this general rate case. Accordingly, the rates under Schedule 497 will be set at $0.00/therm on the effective date of the tariffs filed in compliance with the Commission order in this docket.

Recognizing that the March 1, 2015 effective date is prior to the expiration of the statutory suspension period (July 3, 2015), the Parties have agreed that Avista will provide an early rate implementation credit of $0.850 million to customers. This annualized credit will be provided to customers until new rates are in effect from the Company's next general rate case. Table 1 below details the agreed upon revenue changes:

Table 1 – Summary of Revenue Adjustments

Revenue Item	Amount
Base Revenue Increase	$ 6,112,000
Cancellation of Schedule 497	$ (262,000)
Early Rate Implementation Credit[1] Schedule 491	$ (850,000)
Net Revenue Increase	$ 5,000,000

This Stipulation represents the settlement of all revenue requirement issues in the Company's filing. The Parties support the adjustments to Avista's revenue requirement request shown in Table 2 below:

[1] The early implementation credit of $850,000 was a negotiated amount between the Parties giving recognition to the fact that Avista will be receiving increased revenues earlier than if the case were litigated, and also took into account the base revenue increase of $6,112,000 and the net revenue increase of $5,000,000 effective March 1, 2015. As such, it was interrelated with the overall negotiated revenue increase. Accordingly, the $850,000 revenue credit should not be viewed in isolation. Per the directive of Administrative Law Judge Patrick Power on page 2 of the Prehearing Conference Memorandum dated September 24, 2014 in this Docket, with new rates effective earlier than the end of the statutory suspension period, the calculation of additional revenue, or value, to the Company from implementing a $5,850,000 revenue increase March 1, 2015 instead of July 3, 2015, is approximately $1,550,000. However, because the $850,000 revenue credit, the $6,112,000 base revenue increase, and the $5,000,000 net revenue increase are negotiated numbers and all include consideration by Parties related to the early implementation date, the $1,550,000 million dollar amount does not reflect the value placed by each Party on early implementation. That is, if a different implementation date were to occur, other than March 1, 2015, a pro-rate share of the $1,550,000 million in isolation, would not represent the value placed by each party on early implementation.

		Revenue Requirement	Rate Base
TABLE 2: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE			
($000s of Dollars)			
Amount as filed:		**$9,140**	**$198,448**
Adjustments:			
a	**Rate of Return**		
	Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	(853)	-
b	**Revenue Sensitive - uncollectible rate and state tax rate**		
	Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "f" below.	(147)	-
c	**Uncollectibles**		
	Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	(39)	-
d	**Working Cash**		
	Removes the additional working capital rate base adjustment to include only materials and supplies.	(501)	(4,641)
e	**Interest Synchronization**		
	Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	61	-
f	**State Taxes**		
	Revises level of SIT to an agreed-upon level.	(317)	-
g	**Escalation**		
	Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	(97)	-
h	**Advertising and Marketing**		
	This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	(40)	-
i	**D&O Insurance**		
	This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	(31)	-
j	**Various A&G Expenses**		
	Revises the Company's expected administrative and general expenses related to meals and other expenses.	(44)	-
k	**Capital Additions**		
	Adjusts capital additions to reflect the updated information and end-of period rate base at February 28, 2015, prior to rates going into effect on March 1, 2015.	286	2,750
l	**Distribution O&M**		
	Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	(602)	-
m	**Other Gas Supply Expense**		
	Reduces the Company's natural gas supply expense to an agreed-upon level.	(60)	-
n	**Memberships and Dues**		
	Reduces the Company's membership and dues expense to an agreed-upon level.	(3)	-
o	**Regulatory Commission Expense**		
	Reduces the Company's regulatory commission expense to an agreed-upon level.	(76)	-
p	**Allocation Factors**		
	Includes a reduction in allocated expense to an agreed-upon level.	(100)	-
q	**Incentives**		
	Includes reduction to incentives to agreed-upon level.	(11)	(76)
r	**Wages & Salaries**		
	Revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.	(108)	-
s	**Medical Benefits**		
	Includes a reduction to medical expenses to an agreed-upon level.	(170)	-
t	**Pensions**		
	Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	(282)	(4,318)
u	**Property Tax**		
	Includes updates to the Company's property tax expense to an agreed-upon level.	134	-
v	**Insurance**		
	Includes updates to the Company's insurance expense.	(28)	
	Total Adjustments:	**($3,028)**	**($6,285)**
Adjusted Base Revenue Requirement & Rate Base - Effective Mar. 1, 2015:		**$6,112**	**$192,163**
	Expiration of Schedule 497	**($262)**	
	Early Rate Implementation Credit Schedule 491	**($850)**	
Net Revenue Increase Effective Mar. 1, 2015		**$5,000**	**$192,163**

The following information provides an explanation for each of the adjustments in Table 2 above. Attachment A summarizes the Company's filed rate case and the stipulated adjustments. The numbers in parenthesis represent the agreed-upon increase or decrease in revenue requirement associated with the item.

a. Rate of Return – (-$853,000) This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.516% based on the following components: a capital structure consisting of 51% common stock equity and 49% long-term debt, return on equity of 9.50%, and a long-term debt cost of 5.452%. This combination of capital structure and capital costs is shown in the schedule below:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.452%	2.67%
Common Equity	51.0%	9.500%	4.85%
Total	**100.0%**		**7.516%**

b. Revenue Sensitive – uncollectible rate and state tax rate – (-$147,000) Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. The adjustment also revises the uncollectible rate to 0.5313 percent calculated on a three-year historical average. These changes impact the Conversion Factor and adjustment "f" below.

c. Uncollectibles – (-$39,000) Reduces the Company's uncollectible expense by adjusting the three -year historical average.

d. Working Capital – (-$501,000) Removes the additional working capital rate base adjustment to include only materials and supplies. This adjustment reduces rate base $4,641,000.

e. Interest Synchronization – (+$61,000) This adjustment includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.

f. State Taxes – (-$317,000) – This adjustment reduces the level of SIT to an agreed-upon level.

g. Expense Escalation – (-$97,000) This adjustment reduces non-labor expenses based on a lower forecasted inflation factor (Consumer Price Index or CPI) for calendar years 2014 and 2015.

h. Advertising and Marketing – (-$40,000) This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.

i. Directors & Officers (D&O) Insurance – (-$31,000) This reduces the Company's D&O insurance to exclude 50% of various D&O insurance layers.

j. Various Administrative & General (A&G) Expenses – (-$44,000) This adjustment revises the Company's expected administrative and general expenses related to meals and other expenses.

k. Capital Additions – (+$286,000) This adjustment revises capital additions to include updated information, and reflects the end-of period rate base at February 28, 2015, prior to rates going into effect on March 1, 2015[2]. This adjustment increases rate base $2,750,000.

l. Distribution Operating & Maintenance (O&M) Expenses – (-$602,000) This adjustment reduces the Company's Atmospheric Testing expense to reflect expected rate period levels and adjusts for revised CPI.

m. Other Gas Supply Expense – (-$60,000) Reduces the Company's natural gas supply expense to an agreed-upon level.

[2] Prior to March 1, 2015, the Company will provide an Officer's Certification attesting to the fact that the capital additions, including Project Compass, are in-service, used and useful, and providing service to Oregon customers.

n. Memberships & Dues – (-$3,000) This adjustment reduces the Company's membership and dues expense to an agreed-upon level.

o. Regulatory Commission Expense – (-$76,000) Reduces the Company's regulatory commission expense to an agreed-upon level.

p. Allocation Factors – (-$100,000) This adjustment includes a reduction in allocated expenses to an agreed-upon level.

q. Incentive Compensation – (-$11,000) This adjustment includes a reduction to incentives to an agreed-upon level. This adjustment reduces rate base $76,000.

r. Wages and Salaries – (-$108,000) This adjustment revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.

s. Medical Benefits – (-$170,000) Includes an adjustment to reduce medical expenses to an agreed-upon level.

t. Pension Expense & Prepaid Pension Asset – (-$282,000) This adjustment removes the rate base treatment of the Company’s prepaid pension asset from this Docket, reducing rate base by $4,318,000, and revises the Company's pension expense to an agreed-upon level.

u. Property Taxes – (+$134,000) This adjustment includes updates to the Company's property tax expense to an agreed-upon level.

v. Insurance – (-$28,000) This adjustment includes updates to the Company's insurance expense.

6. **Long-Run Incremental Cost Study:** The Parties agree that in future rate cases filed by the Company, it will make the following adjustments to its Long Run Incremental Cost study:

a. Natural Gas Planning will be allocated on a volumetric basis rather than on a customer-count basis.

b. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main costs minus main extension costs.

c. Storage investment will be allocated on the basis of January sales rather than annual sales.

7. **Rate Spread:** The Parties agree there is no precedent being established by the agreed-upon one-time rate spread. The parties further agree that a party to this rate spread agreement is not agreeing with the general proposition that when costs are generally increasing, some customer classes should receive price signals suggesting that costs are decreasing, or as viewed by other Parties that the rates currently charged to some customers are inequitably too high from a cost-of-service standpoint. Notwithstanding the above reservation of positions, the Parties all support the spread of the March 1, 2015 overall billed revenue increase[3] of $5.00 million, or 4.9%, to the Company's service schedules as follows:

[3] The net overall or billed revenue increase includes the base general rate increase of $6.112 million, the reduction of $0.262 associated with the expiration of Schedule 497 (Aldyl A Pipe Replacement Program Capital Project Costs), and the $0.85 million temporary credit to customers for the early implementation of the general rate increase.

	Base Rate Increase	Net Overall Increase
Residential Service Sch. 410	6.72%	5.3%
General Service Sch. 420	8.20%	6.9%
Large General Service Sch. 424	-1.38%	-1.6%
Interruptible Service Sch. 440	-1.58%	-1.8%
Seasonal Service Sch. 444	-1.52%	-1.8%
Special Contract Sch. 447	0.0%	0.0%
Transportation Service Sch. 456	-7.00%	-8.1%

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

8. **Rate Design:** The Parties support the following rate design. For Residential Service Schedule 410, the monthly customer charge will remain at the current $8.00. The monthly customer charge for General Service Schedule 420 will be increased by $2.00 per month, from $12.00 to $14.00. For Large General Service Schedule 424, the monthly customer charge will remain unchanged at $50.00 per month, and the volumetric (per therm) rate will be decreased by the appropriate amount to equal the total revenue decrease for that schedule. For Interruptible Service Schedule 440 and Seasonal Service Schedule 444, the volumetric rate will be decreased by the appropriate amount to equal the total revenue decrease for those schedules. Finally, for Transportation Service Schedule 456, the monthly customer charge will remain at $275.00 per month. The revenue decrease for the Schedule is reflected through a uniform percentage decrease applied to the volumetric rates within the Schedule.

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

9. **<u>Customer Count Tracking Mechanism:</u>**

Beginning on March 1, 2015, Avista will compare, on a monthly basis, the actual number of its Oregon customers at the end of each month, by rate schedule, to the number of customers included in the Company's general rate case (i.e.,"base" number of customers). If the actual number of customers in the month is higher than the base level, the margin associated with the number of customers above the base level of customers will be deferred, by rate schedule, and returned on an equal percent margin basis across all customers. If the actual number of customers in the month is less than the base number of customers, there will be no deferral recorded for that month. This tracking mechanism is the subject of a separate Application for Authorization to Defer Certain Expenses or Revenues filed coincident with this Settlement Stipulation. Because an application to defer is only granted for a one-year period, the Company agrees to file for a reauthorization to defer as necessary to comply with subsection (a) below. Because the two matters are interrelated (in fact, this Stipulation is dependent upon Commission approval of the Deferral Application), the Parties request that both filings be acted upon by the Commission at the same time.

a. **Term of Mechanism** – The mechanism will be effective as of the effective date of the Settlement, proposed to be March 1, 2015, and will end when new base rates are implemented from the Company's next general rate case..

b. **Base Level of Customers, Usage, and Margin by Rate Schedule** – Appendix C to the Stipulation contains the base level of customers by month and by rate schedule. Appendix C also contains the average annual use per customer, shaped by month, for each rate schedule, as well as the stipulated margin by rate schedule, net of the

Schedule 491 "Early Implementation Credit," that will be used to calculate any deferral.

c. **Rate Adjustment** – On May 1, 2016, the Company will file a tariff and supporting workpapers with the Commission to rebate to customers, effective November 1, 2016 (i.e., coincident with any PGA adjustment), any deferrals from the March 2015 through February 2016 12-month deferral period. If the tracking mechanism extends beyond February 2016, the Company would continue to file on May 1 of each successive year for a November 1 rate adjustment to return to customers any deferrals from the prior March through February deferral period.

d. **Deferral Limitation** – The Parties agree that the Company will not defer more than $530,000 under the mechanism in any rolling 12-month period for which the deferral is in effect.

e. **Interest on Deferrals** – Interest will accrue on deferrals at the Company's authorized rate of return of 7.516%, similar to other Company deferrals.

f. **Interest on Amortization of Deferrals** – Once a deferral balance is approved for amortization, interest will accrue at the Modified Blended Treasury Rate, similar to other Company amortizations.

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

11. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. Without the written consent of all Parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this Docket, are not admissible in the instant or any subsequent proceeding unless

independently discoverable or offered for other purposes allowed under ORS 40.190. Nothing in this paragraph precludes a party from stating as a factual matter what the Parties agreed to in this Stipulation or in the Parties' testimony supporting the stipulation.

12. Further, this Stipulation sets forth the entire agreement between the Parties and supersedes any and all prior communications, understandings, or agreements, oral or written, between the Parties pertaining to the subject matter of this Stipulation.

13. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to use best efforts to prepare and submit the Stipulation and supporting materials to the Commission in time to permit the Commission to take action that will allow rates to go into effect by March 1, 2015. The Parties agree to support this Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the hearing authorized to respond to the Commission's questions on the Party's position as may be appropriate.

14. If this Stipulation is challenged by any other party to this proceeding, the Parties to this Stipulation reserve the right to 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 embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

15. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation, or imposes additional material conditions in approving this Stipulation, any Party disadvantaged by such action shall have the

rights provided in OAR 860-001-0350(9) and shall be entitled to seek reconsideration or appeal of the Commission's Order.

16. By entering into this Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving the issues in any other proceeding.

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

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

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

DATED this 21st day of January 2015.

AVISTA CORPORATION

By: ____________________________
David J. Meyer

Date: 1/21/15

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ____________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ____________________________
G. Catriona McCracken

Date: ____________________________

DATED this _____ day of January 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Mike [signature]
Michael Weirich

Date: 1/2/15

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
G. Catriona McCracken

Date: ____________________________

DATED this _____ day of January 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: 1/21/15

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
G. Catriona McCracken

Date: ____________________________

DATED this _____ day of January 2015.

AVISTA CORPORATION

By: ____________________________
David J. Meyer

Date: __________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________________
Michael Weirich

Date: __________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ____________________________
Chad M. Stokes

Date: __________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ____________________________
G. Catriona McCracken

Date: 1-21-15

Avista Utilities
UG 284
Twelve Months Ended December 31, 2015
(000)

		Company Filed 2015 Results at Reasonable Return (1)	Stipulated Adjustments (2)	2015 Adjusted (3)	Stipulated Price Increase (4)	Results at Stipulated Return (5)
1	**Operating Revenues**					
2	General Business	$104,037	$0	$94,897	$6,112.40	$101,010
3	Transportation	$3,320	$0	$3,320	$0	$3,320
4	Other Revenues	$153	$0	$153	$0	$153
5	**Total Operating Revenues**	$107,510	$0	$98,370	$6,112	$104,483
6	**Operating Expenses**					$0
7	Gas Purchased	$49,086	$0	$49,086	$0	$49,086
8	OPUC Fees	$356	$0	$326	$20	$346
9	Franchise Fees	$2,181	$0	$1,996	$124	$2,120
10	Uncollectibles	$610	($38)	$523	$32	$555
11	General Operations & Maintenance	$12,613	($737)	$11,876	$0	$11,876
12	Admin & General Expenses	$7,777	($275)	$7,502	$0	$7,502
13	**Total Operation & Maintenance**	$72,623	($1,050)	$71,309	$177	$71,486
14	Depreciation	$7,828	142	$7,970	$0	$7,970
15	Amortization	$2,126	(153)	$1,973	$0	$1,973
16	Taxes Other than Income	$2,313	0	$2,313	$0	$2,313
17	Income Taxes	$7,201	314	$4,038	$2,258	$6,296
18	**Total Operating Expenses**	$92,091	(747)	$87,603	$2,435	$90,038
19	**Net Operating Revenues**	$15,419	$748	$10,767	$3,676	$14,443
20	**Average Rate Base**					
21	Utility Plant in Service	$339,602	$1,640	$341,242	$0	$341,242
22	Accumulated Depreciation & Amortization	($110,159)	$797	($109,362)	$0	($109,362)
23	Accumulated Deferred Income Taxes	($44,585)	$237	($44,348)	$0	($44,348)
24	Accumulated Deferred Inv. Tax Credit	$0	$0	$0	$0	$0
25	**Net Utility Plant**	$184,858	$2,674	$187,532	$0	$187,532
26	Plant Held for Future Use	$0	$0	$0	$0	$0
27	Acquisition Adjustments	$0	$0	$0	$0	$0
28	Working Capital	$6,728	($4,641)	$2,087	$0	$2,087
29	Fuel Stock	$2,544	$0	$2,544	$0	$2,544
30	Materials & Supplies	$0	$0	$0	$0	$0
31	Customer Advances for Construction	$0	$0	$0	$0	$0
32	Weatherization Loans	$0	$0	$0	$0	$0
33	Prepayments	$4,318	($4,318)	$0	$0	$0
34	Misc. Deferred Debits & Credits	$0	$0	$0	$0	$0
35	Misc. Rate Base Additions/(Deductions)	$0	$0	$0	$0	$0
36	**Total Average Rate Base**	$198,448	($6,285)	$192,163	$0	$192,163
37	**Rate of Return**	7.77%		5.60%		**7.516%**
38	**Implied Return on Equity**	9.90%		5.75%		**9.50%**

Avista Utilities
Docket No. UG 284
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 **BASE** MARGIN (from Avista/903 Ehrbar/page 2 of 4)	$ 47,670,000	$ 31,376,000	$ 11,731,000	$ 667,000	$ 458,000	$ 43,000	$ 320,000	$ 3,075,000
2	% of Current Margin excl Sch 447	100.00%	66.26%	24.78%	1.41%	0.97%	0.09%		6.49%
3	**Present Base Revenue (from Avista/903 Ehrbar/page 2 of 4)**	**$ 98,217,000**	**$ 61,343,000**	**$ 27,875,000**	**$ 3,376,000**	**$ 2,030,000**	**$ 198,000**	**$ 320,000**	**$ 3,075,000**
4	Total **Margin** Increase as % of Present Base Revenue (Line 5 divided by Line 3)	**6.22%**	**6.72%**	**8.20%**	**-1.38%**	**-1.58%**	**-1.52%**	**0.00%**	**-7.00%**
5	**Total Margin Revenue Increase (Line 3 times Line 4)**	**$ 6,112,000**	**$ 4,124,062**	**$ 2,284,948**	**$ (46,690)**	**$ (32,060)**	**$ (3,010)**	**$ -**	**$ (215,250)**
6	PROPOSED **BASE** MARGIN (Line 1 plus Line 5)	$ 53,782,000	$ 35,500,062	$ 14,015,948	$ 620,310	$ 425,940	$ 39,990	$ 320,000	$ 2,859,750
7	% of Proposed Margin excl Sch 447	100.00%	66.40%	26.22%	1.16%	0.80%	0.07%		5.35%
8	**Present Billed Revenue**	$ 101,218,000	$ 63,128,000	$ 28,664,000	$ 3,494,000	$ 2,290,000	$ 205,000	$ 320,000	$ 3,117,000
9	Percentage Billed Revenue Increase (Line 5 divided by Line 8)	**6.0%**	**6.5%**	**8.0%**	**-1.3%**	**-1.4%**	**-1.5%**	**0.0%**	**-6.9%**
10	Summary:								
11	Base Rate Increase (Line 5)	$ 6,112,000	$ 4,124,062	$ 2,284,948	$ (46,690)	$ (32,060)	$ (3,010)	$ -	$ (215,250)
12	Cancellation of Schedule 497 (UG-246 Step 2 Increase)	$ (262,000)	$ (183,000)	$ (85,000)	$ 1,000	$ (3,000)	$ -	$ -	$ 8,000
13	Schedule 491 - Early Implementation Tariff ($850,000 times Line 7)	$ (850,000)	$ (564,421)	$ (222,842)	$ (9,862)	$ (6,772)	$ (636)		$ (45,468)
14	**Total Rate Adjustment**	**$ 5,000,000**	**$ 3,376,642**	**$ 1,977,106**	**$ (55,552)**	**$ (41,832)**	**$ (3,646)**	**$ -**	**$ (252,718)**
15	Total Billed Revenue Impact (Line 14 divided by Line 8)	**4.9%**	**5.3%**	**6.9%**	**-1.6%**	**-1.8%**	**-1.8%**	**0.0%**	**-8.1%**

16 Rate Spread:
17 Schedule 410 -- 0.5% Above the Overall Base Revenue % Increase
18 Schedule 420 -- Up to 2.2% Above the Sch 410 Base Revenue Increase
19 Schedule 424 -- Reduce Margin Revenue by 7.0%
20 Schedule 440 -- Reduce Margin Revenue by 7.0%
21 Schedule 444 -- Reduce Margin Revenue by 7.0%
22 Schedule 456 -- Reduce Margin Revenue by 7.0%

Basic Charge:
Schedule 410 -- $8.00 (no increase)
Schedule 420 -- $14.00 ($2.00 increase)

23 The base rate increase was spread based on Staff's Settlement proposal with one exception:
24 1. For Schedule 447, Staff proposed a 1.0% reduction of base revenue or $11,000 rate reduction. Customers served under this rate schedule have negotiated fixed rates with Commission approval. Those rates should not change.
25

26 The Early Implementation Tariff Schedule 491 credit ($850,000) has been spread based on a percentage of proposed margin (excluding Sch 447) as reflected on line 7 above.

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Settlement Rates by Schedule

Present Base Rates	Change	Proposed Base Rates
Residential Service Schedule 410		
$8.00 Customer Charge	$0.00/month	$8.00 Customer Charge
All Therms - $0.46998/Therm	$0.08400/therm	All Therms - $0.55398/Therm
General Service Schedule 420		
$12.00 Customer Charge	$2.00/month	$14.00 Customer Charge
All Therms - $0.38147/Therm	$0.07610/therm	All Therms - $0.45757/Therm
Large General Service Schedule 424		
$50.00 Customer Charge	$0.00/month	$50.00 Customer Charge
All Therms - $0.13908/Therm	-$0.01051/therm	All Therms - $0.12857/Therm
Interruptible Service Schedule 440		
All Therms - $0.11584/Therm	-$0.00816/therm	All Therms - $0.10768/Therm
Seasonal Service Schedule 444		
All Therms - $0.17082/Therm	-$0.01208/therm	All Therms - $0.15874/Therm
Transportation Service Schedule 456		
$275.00 Customer Charge	$0.00/month	$275.00 Customer Charge
1st 10,000 Therms - $0.15016/Therm	-$0.01092/therm	1st 10,000 Therms - $0.13924/Therm
Next 20,000 Therms - $0.09037/Therm	-$0.00657/therm	Next 20,000 Therms - $0.08380/Therm
Next 20,000 Therms - $0.07428/Therm	-$0.00540/therm	Next 20,000 Therms - $0.06888/Therm
Next 200,000 Therms - $0.05814/Therm	-$0.00423/therm	Next 200,000 Therms - $0.05391/Therm
Over 250,000 Therms - $0.02949/Therm	-$0.00214/therm	Over 250,000 Therms - $0.02735/Therm

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Cancellation of Schedule 497

Capital Cost Recovery (Adlyl A Pipe Replacement from UG-246)

Line No.	Type of Service	Schedule Number	Total Proforma Therms	Schedule 497 Rate Per Therm	Schedule 497 Total Revenue
	(a)	(b)	(c)	(d)	(e)
1	Residential	410	49,097,140	**$ (0.00372)**	$ (182,641)
2	General Service	420	26,450,079	**$ (0.00323)**	$ (85,434)
3	Large General Service	424	4,438,427	**$ 0.00021**	$ 932
4	Interruptible Service	440	3,945,585	**$ (0.00068)**	$ (2,683)
5	Seasonal Service	444	253,423	**$ (0.00073)**	$ (185)
6	Transportation Service	456			
7	Block 1		4,973,548	**$ 0.00038**	$ 1,890
8	Block 2		8,894,640	**$ 0.00023**	$ 2,046
9	Block 3		6,464,231	**$ 0.00019**	$ 1,228
10	Block 4		15,641,729	**$ 0.00015**	$ 2,346
11	Block 5		653,094	**$ 0.00007**	$ 46
12	Total		36,627,242		$ 7,556
13	Special Contract	447	7,979,130	**$ -**	$ -
14	Total		128,791,026		$ (262,455)

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Schedule 491 Early Rate Implementation Credit

Schedule 491
Early Rate Implementation Credit Calculation

Line No.	Type of Service	Schedule Number	Total Proforma Therms		Schedule 491 Rate Per Therm		Schedule 491 Total Revenue
	(a)	(b)	(c)		(d)		(e)
1	Residential	410	49,097,140	**$**	**(0.01150)**	$	(564,420)
2	General Service	420	26,450,079	**$**	**(0.00843)**	$	(222,842)
3	Large General Service	424	4,438,427	**$**	**(0.00222)**	$	(9,862)
4	Interruptible Service	440	3,945,585	**$**	**(0.00172)**	$	(6,772)
5	Seasonal Service	444	253,423	**$**	**(0.00251)**	$	(636)
6	Transportation Service	456					
7	Block 1		4,973,548	**$**	**(0.00231)**	$	(11,474)
8	Block 2		8,894,640	**$**	**(0.00139)**	$	(12,349)
9	Block 3		6,464,231	**$**	**(0.00114)**	$	(7,377)
10	Block 4		15,641,729	**$**	**(0.00089)**	$	(13,972)
11	Block 5		653,094	**$**	**(0.00045)**	$	(296)
12	Total		36,627,242			$	(45,468)
13	Special Contract	447	7,979,130	**$**	**-**	$	-
14	Total		128,791,026			$	(850,000)

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Customer Count Tracking Mechanism

Customers (1)		Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
	Sch 410	86,834	86,704	86,421	86,007	85,645	85,381	85,318	85,791	86,513	87,066	87,720	87,695
	Sch 420	11,412	11,371	11,358	11,329	11,278	11,251	11,232	11,238	11,321	11,404	11,477	11,500
	Sch 424	80	81	80	83	80	80	80	80	80	80	81	85
	Sch 440	33	33	34	34	34	37	38	37	35	34	35	34
	Sch 444	1	1	2	2	2	5	9	9	4	2	2	2
	Sch 447	3	3	3	3	3	3	3	3	3	3	3	3
	Sch 456	35	35	35	35	35	35	35	35	35	35	35	35

Use Per Customer (1)		Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
	Sch 410	66.7	48.2	27.8	17.4	15.0	14.1	13.7	31.6	64.2	98.7	94.2	75.3
	Sch 420	261.8	188.6	113.9	76.0	71.5	71.9	71.9	152.1	259.4	383.8	379.3	299.7
	Sch 424	5,003.4	3,881.1	3,048.2	2,815.7	3,227.4	3,633.7	3,385.7	5,872.6	6,744.0	6,824.5	5,530.8	5,087.0
	Sch 440	9,043.0	7,845.7	5,923.7	5,383.2	5,955.1	6,724.5	11,797.6	12,875.5	13,694.7	12,131.6	11,484.9	10,533.9
	Sch 444	5.4	423.0	369.2	1,792.0	1,964.7	2,459.3	15,295.4	9,331.4	1,596.5	1,545.5	658.5	1.4
	Sch 447	227,046.3	225,474.3	223,858.7	227,721.7	213,644.0	216,698.0	216,046.7	221,569.3	221,767.3	229,230.3	236,876.7	238,080.7
	Sch 456	91,594.6	88,398.8	84,130.9	82,613.3	78,430.3	81,395.7	80,362.6	88,546.2	89,649.7	95,613.0	99,664.6	94,290.6

Margin: (2)	Sch 410	Sch 420	Sch 424	Sch 440	Sch 444	Sch 456	
Basic Charge	$ 8.00	$ 14.00	$ 50.00			$ 275.00	
Per Therm:							
Base Rate (Sch 410 - 456)	$ 0.55398	$ 0.45757	$ 0.12857	$ 0.10768	$ 0.15874	$ 0.07492	(3)
Sch 491 - Early Rate Implementation Credit	$ (0.01150)	$ (0.00843)	$ (0.00222)	$ (0.00172)	$ (0.00251)	$ (0.00124)	(3)
Total Margin Rate	$ 0.54248	$ 0.44914	$ 0.12635	$ 0.10596	$ 0.15623	$ 0.07368	

The margin rate for Schedule 447 will be the special contract rate approved by the Commission for any new customers.

(1) Provided or calculated from the electronic workpapers of Company witness Ehrbar
(2) Stipulation Attachment B
(3) Melded volumetric margin rate

PUBLIC UTILITY COMMISSION
OF
OREGON

UG 284

STAFF/AVISTA/NWIGU/CUB AFFIDAVITS

In the Matter of Avista's
Request for a General Rate Revision

January 28, 2015

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-284

In the Matter of	)	
	)	
AVISTA CORPORATION, dba AVISTA UTILITIES	)	AFFIDAVIT OF PATRICK D. EHRBAR
	)	
Request for a General Rate Revision	)	

STATE OF WASHINGTON	)
	) as
County of Spokane	)

I, Patrick D. Ehrbar, being first duly sworn on oath, depose and say:

1. I am the Manager of Rates and Tariffs of Avista Utilities ("Avista").

2. On behalf of Avista, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Gardner, et.al. (Exhibit 100).

3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

SIGNED this 28th day of January, 2015.

Patrick D. Ehrbar

SUBSCRIBED AND SWORN to before me this 28th day of January, 2015.

Patty L. Hanson

Notary Public for Spokane

My Commission Expires: 11/23/2017

PATTY L HANSON
Commission Expires
NOTARY
PUBLIC
11-23-2017
STATE OF WASHINGTON

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-284

In the Matter of	)	
	)	
AVISTA CORPORATION, dba AVISTA	)	
UTILITIES	)	AFFIDAVIT OF BOB JENKS
	)	
Request for a General Rate Revision	)	
	)	

STATE OF OREGON)
) as
County of Multnomah)

I, Bob Jenks, being first duly sworn on oath, depose and say:

1. I am the Executive Director of the Citizens' Utility Board Of Oregon ("CUB").

2. On behalf of CUB, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Gardner, et.al. (Exhibit 100).

3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

SIGNED this 27 day of January, 2015.

Bob Jenks

SUBSCRIBED AND SWORN to before me this 27th day of January, 2015.

Notary Public for Citizen's Utility Board
My Commission Expires: 10/16/2018

OFFICIAL STAMP
LESLIE ADRIENNE MURRAY
NOTARY PUBLIC-OREGON
COMMISSION NO. 933906
MY COMMISSION EXPIRES NOVEMBER 16, 2018

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-284

In the Matter of	)	
	)	
AVISTA CORPORATION, dba AVISTA UTILITIES	)	AFFIDAVIT OF EDWARD A. FINKLEA
	)	
Request for a General Rate Revision	)	

STATE OF OREGON)
) as
County of Multnomah)

I, Edward A. Finklea, being first duly sworn on oath, depose and say:

1. I am the Executive Director of the Northwest Industrial Gas Users ("NWIGU").

2. On behalf of NWIGU, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Gardner, et.al. (Exhibit 100).

3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

SIGNED this 28th day of January, 2015.

Edward A. Finklea
Edward A. Finklea

SUBSCRIBED AND SWORN to before me this 28th day of January, 2015.

Notary Public for OREGON
My Commission Expires: JUNE 25, 2017

OFFICIAL SEAL
SHANNON MARIE KIMMEL
NOTARY PUBLIC-OREGON
COMMISSION NO. 478046
MY COMMISSION EXPIRES JUNE 25, 2017