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August 24, 2020

Public Utility Commission of Oregon
Attn: Filing Center
201 High St. SE, Suite 100
Salem, OR 97301

RE: UG 389 – Joint Testimony in Support of Second Partial Settlement Stipulation

Attached for electronic filing, in lieu of physical copies as permitted in Order No. 20-088, is the Joint Testimony in Support of the Second Partial Settlement Stipulation in Docket UG-389. Also enclosed is Exhibit No. 201, which is a copy of the Second Partial Settlement Stipulation.

Please direct any questions regarding this filing to Patrick D. Ehrbar at (509) 495-8620.

Sincerely,

/s/ David J. Meyer

David J. Meyer
Vice President and Chief Counsel for Regulatory
and Governmental Affairs

Enclosure

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 389

STAFF/AVISTA/AWEC/CUB EXHIBIT 200

**Joint Testimony in Support of the
Second Partial Settlement Stipulation**

August 24, 2020

I. INTRODUCTION

Q. Please state your names and positions.

A. My name is Marianne Gardner. I am employed by the Public Utility Commission of Oregon ("PUC") recently serving as the Program Manager, Rates and Accounting in the Rates, Finance and Audit Division of the Utility Program. 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 have approximately 22 years of professional accounting experience, including cost accounting, public accounting, and non-profit accounting. My responsibilities include research, analysis, and recommendations on a range of cost, revenue and policy issues for electric and natural gas utilities. In this docket, I am the Revenue Requirements Summary Witness for Staff.

My name is Annette M. Brandon. I am employed by Avista Utilities ("Company") as a Manager of Regulatory Affairs in the Regulatory Affairs Department. I am a 2002 graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration – Professional Accounting. I started with Avista in January 1999 as a Budget Analyst in the Company's Transmission department. I spent three years in the Company's Tax Department before moving to Resource Accounting for the next eight years. In this role, I was primarily responsible for accounting for natural gas and associated budgeting and reporting requirements. I joined the Regulatory Affairs department as a Regulatory Analyst in 2012 and was promoted to my current role in 2013. My primary responsibilities relate to oversight of the purchase gas cost adjustment filings, Power Supply including general rate case adjustments, monthly/annual reporting, key contact for the Company's compensation and benefits programs, and revenue requirement for Oregon.

My name is Joseph D. Miller. I am a 1999 graduate of Portland State University with a Bachelor's degree in Business Administration, majoring in Accounting. In 2005, I graduated from Gonzaga University with a Master's degree in Business Administration. I joined the Company in March 2008, after spending eight years in both the public and private accounting sector. I started with Avista as a Natural Gas Accounting Analyst in the Company's Resource Accounting Department. In January 2009, I joined the State and Federal Regulation Department as a Regulatory Analyst. My primary responsibility was coordinating discovery for the Company's general rate case filings. In my current role as Senior Manager of Rates and Tariffs, I am responsible for the Company's electric and natural gas rate design and tariff administration, among other things.

My name is William Gehrke. I am an Economist with the Oregon Citizens' Utility Board ("CUB"). As one of CUB's economists, my responsibilities include the review of utility and telecommunications filings in Oregon on behalf of residential customers. In this particular docket, I am representing residential customers' concerns arising from Avista's General Rate Case filing.

My name is Bradley G. Mullins, and I am an Independent Energy and Utilities Consultant representing large energy consumers before state regulatory commissions. I am appearing in this matter on behalf of the Alliance of Western Energy Consumers ("AWEC"), a non-profit trade association of commercial and industrial electric and gas users in the states of Oregon, Idaho and Washington.

Hereafter, Staff, the Company, CUB and AWEC 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 Second Partial Settlement Stipulation, filed on August 13, 2020 between Staff, CUB, AWEC, and the Company in Docket No. UG-389 (the "Second Stipulation"), which resolved all issues (except for Working Capital) among the Parties for the general rate increase filed on March 13, 2020. The Second Stipulation is the product of settlement discussions, open to all parties in this proceeding.

Q. Have you prepared any Exhibits?

A. Yes. The Parties' Exhibit No. Joint Testimony/201 is the Second Stipulation filed with the Commission on August 13, 2020.

II. BACKGROUND

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

A. On March 13, 2020, Avista filed revised tariff schedules to affect a general rate increase for Oregon retail customers of $6,777,000, 6.8% of its annual revenues or 9.8% margin increase. The filing was suspended by the Commission on March 16, 2020, per its Order No. 20-086. Pursuant to Administrative Law Judge Allan J. Arlow's Prehearing Conference Notice of Telephone Prehearing Conference Memorandum of April 3, 2020, the first settlement conference, held telephonically, occurred on May 7, 2020.

As a result of that first settlement discussion, the Parties agreed to settle all issues in this Docket concerning the Cost of Capital, including Capital Structure, Long-Term Debt Cost and Return on Equity, subject to the approval of the Commission, which was filed on May 18, 2020. Staff, CUB, and AWEC filed Opening Testimony on July 21, 2020, in response to the

Company's original filing on March 13, 2020. On August 3, 2020, a second telephonic settlement conference was held, and was attended by all Parties.

As a result of the settlement discussion held on August 3, 2020, the Parties have agreed to settle all remaining issues in this Docket, except Working Capital. This includes adjustments to the revenue requirement, rate spread and rate design issues, Allowance for Funds Used During Construction (AFUDC) accounting treatment, changes in customer deposit requirements, and modifications to the language regarding the Comfort Level Billing program. The issue of Working Capital will continue to be reviewed by the Parties under the existing Procedural Schedule.

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 over 67% (or approximately $4.5 million) of the Company's need for additional rate relief relates to increases in total rate base, including changes in net plant investment (including return on investment, depreciation and taxes[1], offset by the tax benefit of interest), representing an increase of approximately $31.9 million in additional net rate base for the Oregon jurisdiction over the current authorized amount.[2] The remaining 33% (or approximately $2.3 million) of the Company's requested revenue requirement relates to an increase in Operations and Maintenance ("O&M") and administrative and general ("A&G") expenditures. These rate base and expense-related

[1] The largest portion of the overall increase in taxes are associated with the inclusion of the new Corporate Activity Tax ("CAT Tax") as described in adjustment 3.03, increasing the Company's proposed revenue requirement by approximately $1.1 million.
[2] The authorized amounts for this analysis include rate base authorized for rates that were effective January 15, 2020.

revenue requirement increases are net of the change in retail revenues since our last rate case filed in 2019.

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

A. Avista responded to 293 data requests, with over 474 subparts, including 121 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, employee wages and benefits, working capital, operating and maintenance costs, property tax, regulatory expense and various administrative and general related expenses, as well as issues related to load forecasting and Avista's long run incremental cost study.

Q. Did Staff, CUB and AWEC propose adjustments to the Company's Initial Filing?

A. Yes, each of these parties filed opening testimony on July 21, 2020, in which the Parties proposed adjustments to the Company's direct filing.

III. SUMMARY OF THE FIRST PARTIAL SETTLEMENT STIPULATION

Q. What revenue requirement adjustments to Avista's originally filed case are included in the First Partial Settlement Stipulation?

A. The adjustments reached in the First Partial Settlement Stipulation amounted to a total reduction in Avista's revenue requirement increase request from $6.777 million to a base revenue increase request of $5.685 million. The adjustments to Avista's revenue requirement reflected in the first Partial Settlement Stipulation are shown in Table No. 1 below:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base (First Partial Settlement)

	Revenue Requirement	Rate Base
	$6,777	$304,664
Cost of Capital		
Adjusts return on equity to 9.40%, long-term debt cost to 5.07%, with a common stock equity component of 50%, and overall Cost of Capital of 7.24%.	(1,092)	-
Total Adjustments:	($1,092)	$0
	$5,685	$304,664

This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.24% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 9.40%, and a long-term debt cost of 5.07%. This combination of capital structure and capital costs is shown in the Table No. 2 below.[3]

Table No. 2 – Agreed-Upon Cost of Capital

AGREED-UPON COST OF CAPITAL			
	Capital Structure	Debt Cost	Weighted Cost
Long Term Debt	50.00%	5.07%	2.54%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.24%

IV. TERMS OF THE SECOND PARTIAL SETTLEMENT STIPULATION

Q. What revenue requirement adjustments to Avista's originally filed case are included in the Second Stipulation (Exhibit No. Joint Testimony/101)?

[3] The agreed-upon capital structure (50/50) and cost of equity (9.4%) represent a continuation of currently approved levels approved in Docket No. UG-366.

A. The Parties support further reductions to Avista's requested revenue requirement to reflect the additional adjustments discussed below. The adjustments reached in this Second Stipulation through negotiation, which resolve all remaining issues with the exception of Working Capital, amount to a further reduction in Avista's revenue requirement increase request from $5.685 million (as shown above) to a base revenue increase request of $4.212 million. The Parties support the further adjustments to Avista's revenue requirement request, as shown in Table No. 3 below:

Table No. 3:

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)			
		Revenue Requirement	**Rate Base**
	Results of Partial Settlement Stipulation:	**$5,685**	**$304,664**
Second Settlement Stipulation Adjustments:			
a	**Wages & Salaries** This adjustment is related to reductions associated with the Company's overall increases related to overtime, full-time employee equivalents (FTE), and associated payroll taxes, as well as expenses related to Executive Officer salaries.	**(239)**	**(58)**
b	**Advertising Expense** This adjustment removes the impact of certain Category A advertising expenses not applicable to Oregon operations.	**(4)**	
c	**Customer Accounts & Services** This adjustment decreases Customer Accounts & Services to reflect the most recent (June 2020) All-Urban CPI.	**(10)**	
d	**Operation and Maintenance (O&M) expense** This adjustment reduces the level of O&M expense based on a three-year trend analysis scaled up by All Urban CPI, among other items.	**(350)**	
e	**Administrative and General (A&G) expense** This adjustment reduces the level of A&G expense based on a three-year trend analysis scaled up by All Urban CPI, among other items.	**(31)**	

f	**Atmospheric Testing** This adjustment updates the escalation factor to the June 2020 All-Urban CPI.	**(3)**	
g	**Rate Case Expense** This adjustment updates the escalation factor to the June 2020 All-Urban CPI.	**(1)**	
h	**Plant in Service** This adjustment reduces the overall level of 2020 pro forma capital additions.	**(100)**	**(1,092)**
i	**O&M Offset** This adjustment reflects O&M offsets related to efficiencies resulting from the implementation of several Enterprise Technology projects to an agreed-upon level.	**(90)**	
j	**2020 Capital (Average Depreciation)** This adjustment reduces the level of depreciation expense related to 2020 pro forma capital additions.	**(70)**	
k	**2020 Capital (Net Salvage)** This adjustment is related to negative net salvage associated with plant retirements.	**(13)**	
l	**Medical Benefit Expense** This adjustment is related to a 5% increase in medical benefit expense over 2019 test period levels.	**70**	
m	**Pension Benefit Expense** This adjustment decreases pension benefit expense to an agreed-upon level.	**(256)**	
n	**Other Gas Expense** This adjustment reduces the level of Other Gas expense to reflect a three-year trend analysis scaled up by All-Urban CPI.	**(6)**	
o	**Taxes Other Than Income - Property** This adjustment reflects an adjustment based on a three year average property tax rate.	**(7)**	
p	**Director and Officer (D&O) Insurance** This adjustment reflects a sharing of 50/50 between shareholders and rate payers related to Oregon-allocated D&O insurance.	**(44)**	
q	**Load and Revenue Forecast** This adjustment is related to an updated load forecast for the test year.	**(6)**	
r	**Other Revenue** This adjustment reflects an increase in Other Revenue due to customer growth.	**(5)**	
s	**Allocations** This adjustment reflects the correction/removal of certain expenses related to depreciation and amortization expenses inadvertently included in the original case.	**(492)**	
t	**Depreciation Expense** This adjustment reflects a correction for a formula error related to transportation depreciation expense.	**177**	**(188)**
u	**Meals, Entertainment, and Miscellaneous O&M Expenses** This adjustment is related to a removal of certain expenses related to meals, entertainment and miscellaneous O&M expense.	**(31)**	
v	**Miscellaneous Restating** This adjustment removes the impact of an AFUDC deferral which was put in base rates in Docket No. UG 366 on January 15, 2020.	**163**	
w	**Legal Expense** This adjustment is related to a reduction in certain legal expenses.	**(15)**	
x	**Miscellaneous Operations & Maintenance (O&M)** This adjustment is related to a reduction to miscellaneous O&M expenses.	**(76)**	
y	**Tax Apportionment** This adjustment is related to the weighted average approach to calculating the Oregon Tax Apportionment.	**(34)**	
	Total Adjustments:	**($1,473)**	**($1,338)**
	Adjusted Base Revenue Requirement & Rate Base after Second Settlement Stipulation:	**$4,212**	**$303,326**

Q. Do the Stipulating Parties agree on all of the methodologies employed by the Parties to determine each adjustment?

A. No, the Parties do not necessarily agree upon the methodologies used to determine the final adjustments included in the Stipulation, however the Parties believe that the agreed-upon adjustments result in a reasonable financial settlement to address all of the issues in this docket, and result in an overall revenue requirement and rate spread and rate design that will produce rates that are fair, just and reasonable.

Q. Please explain the basis of the Second Stipulation relating to Issue (a), Wages & Salaries?

A. Staff proposed an adjustment to the Company's Wages and Salaries expense for reductions associated with overtime, full-time employee equivalents (FTE), and associated payroll taxes. AWEC proposed an adjustment to the Company's Wages and Salaries expense for Executive Officer salaries. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $239,000. The adjustment also reduces rate base by $58,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (b), Advertising Expense Adjustment?

A. Staff proposed an adjustment to remove the impact of certain Category A expenses they believed were not applicable to Oregon operations. For settlement purposes, the Parties agreed-upon a lower level of advertising expense, thereby reducing the proposed revenue requirement by $4,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (c), Customer Account & Services Adjustment.

A. Staff proposed an adjustment to Customer Accounts & Services to reflect the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $10,000.

Q. Please describe Issue (d), Operations & Maintenance (O&M) Adjustment?

A. Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI, among other items. AWEC also recommended an adjustment, where AWEC proposed removing all generic escalation from non-labor O&M expenses. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $350,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (e), Administrative and General (A&G).

A. Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI, among other items. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $31,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (f), Atmospheric Testing.

A. Staff proposed an adjustment to update the escalation factor to the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the revenue requirement by $3,000.

Q. Please discuss the basis for adjustment (g) Rate Case Expense.

A. Staff proposed an adjustment to update the escalation factor to the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the revenue requirement by $1,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (h), Plant in Service.

A. In their testimony, Staff proposed a number of proposed adjustments to the plant additions included in the Company's original filing. These related to, among other items, certain Enterprise Technology projects as well as the overall level of 2020 pro forma capital additions. For its part, AWEC also proposed in testimony a number of adjustments to plant and plant-related items (discussed below). For settlement purposes, the Parties agreed to a reduction in revenue requirement of $100,000. The adjustment also reduces rate base by $1.1 million. In addition, Avista agrees to provide an Officer Attestation, prior to the rate effective date, to the fact that Enterprise Technology and natural gas distribution projects above $250,000 are in-service for Oregon customers as of December 31, 2020 and describe the actual costs for those projects for review by the Parties. If these projects are not complete and in service by December 31, 2020, the revenue requirement associated with the projects will be removed from the test year rate base and the January 15, 2021 base rate change.

Q. Please explain the basis of the Second Stipulation relating to Issue (i), O&M Offset.

A. Staff proposed an adjustment to reflect O&M offsets related to efficiencies resulting from the implementation of several Enterprise Technology projects. For settlement purposes, the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $90,000.

Q. How did the Parties arrive at the Second Stipulation relating to Issue (j), 2020 Capital (Average Depreciation)?

A. In Opening Testimony, AWEC proposed an adjustment to reflect depreciation expense on an "average of monthly average" basis, rather than on an "end of period" basis, for 2020 pro forma capital additions. To resolve this issue for settlement purposes, the Parties agree to a reduction to the level of depreciation expense, resulting in a decrease to the revenue requirement of $70,000. While there was not necessarily agreement regarding the methodology employed to arrive at the adjustment, the adjustment represented the approximate impact of calculating accumulated depreciation based on the "end of period" plant levels in Avista's pro-forma capital adjustment.

Q. Please explain the basis of the Second Stipulation relating to Issue (k), Capital (Net Salvage)?

A. AWEC proposed a reduction related to negative net salvage associated with plant retirements. For settlement purposes, the Parties agree to a $13,000 reduction in revenue requirement.

Q. Please explain the basis of the Second Stipulation relating to Issue (l), Medical Benefit Expense?

A. The Parties agreed to a 5% increase in medical benefit expense over 2019 test period levels, for settlement purposes. The result increases revenue requirement by $70,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (m), Pension Benefit Expense?

A. In testimony, Staff proposed the use of the actual 2019 base year discount rate as the basis for calculating the pension expense. For settlement purposes, the Parties agree to a decrease in pension benefit expense, resulting in a reduction in the revenue requirement of $256,000.

Q. How did the Parties arrive at the Second Stipulation relating to Issue (n), Other Gas Expense.

A. Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI. For settlement purposes, the Parties agree to a reduction in Other Gas Expense, resulting in a decrease in the revenue requirement of $6,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (o), Taxes Other Than Income.

A. Staff proposed an adjustment based on a three year average property tax rate. For settlement purposes, the Parties agree to a reduction in the revenue requirement of $7,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (p), Director and Officer (D&O) Insurance.

A. In testimony, Staff proposed a sharing of 50/50 between shareholders and rate payers related to the Oregon-allocated D&O insurance. For settlement purposes, the Parties agree to a reduction in the revenue requirement of $44,000.

Q. Please explain the stipulated terms for the Load Forecasting Adjustment, Issue (q).

A. The Company presented an updated load forecast for the test year. For settlement purposes, the Parties agreed to use the revised forecast for Rate Schedules 424, 440, 444, and 456. This adjustment decreases the proposed revenue requirement by $6,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (r), Other Revenue.

A. For settlement purposes the Parties agreed to reflect an increase in Other Revenue due to customer growth. This adjustment decreases the proposed revenue requirement by $5,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (s), Allocations.

A. This adjustment reflects the correction/removal of certain expenses related to depreciation and amortization expenses inadvertently included in the original case. The Parties agree in this Stipulation to correct for that error, which results in a decrease to the revenue requirement of $492,000.

Q. Please explain the context for the Stipulating Parties' agreement regarding issue (t), Depreciation Expense.

A. This adjustment reflects the correction for a formula related to depreciation transportation expense inadvertently included in the Company's original filing. The Parties agree in this Stipulation to correct for that error, which results in an increase to the revenue requirement of $177,000. The adjustment also reduces rate base by $188,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (u), Meals, Entertainment, and Miscellaneous Expense.

A. Staff proposed to remove certain expenses related to meals and entertainment expenses, and miscellaneous O&M expenses. For settlement purposes, the Parties agree to reduce the revenue requirement by $31,000.

Q. Please explain the basis for the Stipulating Parties' agreement regarding issue (v), Miscellaneous Restating.

A. This adjustment removes the impact of an AFUDC deferral which was inadvertently included in the Company's filed case. This deferral was put in base rates in Docket No. UG 366 on January 15, 2020. This adjustment increases the proposed revenue requirement by $163,000.

Q. Please explain the basis for the Stipulating Parties' agreement regarding issue (w), Legal Expenses.

A. In testimony, AWEC proposed a reduction in certain legal expenses. For settlement purposes the Parties agree to a reduction in the proposed revenue requirement of $15,000.

Q. How did the Parties arrive at the Second Stipulation adjustment relating to Issue (x), Miscellaneous Operations and Maintenance Adjustment?

A. In testimony, AWEC proposed a reduction to miscellaneous O&M expenses. For settlement purposes, the Parties agreed to a reduction in the proposed revenue requirement of $76,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (y), Tax Apportionment.

A. In testimony, CUB proposed that a weighted average approach to calculating the Oregon Tax Apportionment. For settlement purposes, the Parties agreed to CUB's adjustment which reduces the proposed revenue requirement by $34,000.

V. RESOLUTION OF RATE SPREAD

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

A. The Parties support the spread of the January 15, 2021 overall billed revenue increase of $4.212 million, or 4.2 percent, to the Company's service schedules as shown in Table No. 4 below (and as shown in Attachment B to the Second Stipulation). The agreed-upon rate spread was based on a discrete customer impact offset ("CIO") adjustment to the cost of service results, as described by AWEC witness Mr. Mullins in his opening testimony, with two modifications. The first modification changed the CIO adjustment cap from 150% of the average rate increase to 125%. The second modification changed the CIO adjustment floor from 0.0% to 0.5%.

Table No. 4: Agreed-Upon Rate Spread[4]

Schedule Description	Rate Schedule	Revenue Increase ($000s)	% Increase in Base Revenue	% Increase in Billed Revenue*
Residential	410	$2,709	6.0%	4.3%
General Service	420	$1,481	7.6%	5.2%
Large General Service	424	$2	0.5%	0.2%
Interruptible Service	440	$8	0.5%	0.2%
Seasonal Service	444	$0	0.5%	0.2%
Transportation Service	456	$12	0.5%	0.5%
Total		**$4,212**	**6.1%**	**4.2%**

* Billed Revenue includes base rate revenue plus revenues associated with natural gas supply, energy efficiency, intervenor funding, and other items.

The revenue requirement shown in Table No. 4 above does not reflect the final determination related to Working Capital, which is still at issue among the Parties. In its testimony set to be filed on or about August 18, 2020, the Company will provide the proposed rate spread which includes the effects of the Working Capital along with the revenue requirement agreed to in this Stipulation.

Q. Please explain why the Second Stipulation regarding rate spread is reasonable?

A. The Stipulating Parties agree that the rate spread show in Table No. 4 above represents a compromise that fairly balances the interests of the Stipulating Parties. While the Parties may each hold different positions on rate spread issues, the Stipulating Parties support the Stipulation on cost of service and believe it results in rates that are fair, just and reasonable.

[4] Reproduced from Table No. 4, on page 11 of the Settlement Stipulation

VI. RESOLUTION OF RATE DESIGN

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

A. The Parties support the following rate design: The Schedule 410 customer charge will increase from $10.00 to $10.50, and Schedule 420 will remain unchanged at $17.00. To address Parties concerns related to recovering customer related costs under Interruptible Schedule 440 the Parties agree to a customer charge of $75.00 per month.[5] All other rate design components are as proposed by the Company in its original filing. Attachment C to the Settlement Stipulation provides the agreed-upon base rates. [6]

Q. Please explain why the Second Stipulation regarding rate design is reasonable.

A. The Stipulating Parties agree that the monthly increase in the basic charge represents a reasonable compromise that fairly balances the interests of the Stipulating Parties.

VII. RESIDENTIAL BILL CHANGE

Q. What is the impact to the average residential bill as a result of the agreement of the Parties?

A. For the revenue requirement included in this Stipulation, based on an average usage level of 47 therms per month, the average bill for a Schedule 410 residential customer, which includes both base and adder schedules[7], would increase $2.42 per month, or 4.3

[5] The Company contends that the average cost per month for Meter Reading, Billing, Meters and Services is $181.99 based on the Company's filed LRIC Study.
[6] The agreed-upon billing determinants reflect the updated load adjustments as discussed in Section 7 item q above.
[7] "Adder" schedules recover costs associated with natural gas supply (Schedules 461 and 462), energy efficiency (Schedules 469 and 478), intervenor funding (Schedule 476), and other items.

percent, from $56.40 to $58.82. This bill change does not include the Working Capital adjustment, previously discussed.

VIII. DECOUPLING BASE

Q. Please describe any changes to the natural gas decoupling base as a result of the agreement by the Parties.

A. Attachment D to the Second Stipulation reflects the new decoupling base effective January 15, 2021 that is supported by the Parties. The new decoupling base provides the "Monthly Allowed Customers" and "Monthly Decoupled Revenue per Customer" which incorporate the effects of the settlement revenue requirement and billing determinants discussed above. In its testimony set to be filed on or about August 18, 2020, the Company will provide the proposed decoupling base which includes the effects of the Working Capital along with the revenue requirement agreed to in this Stipulation.

IX. OTHER ITEMS

Transportation Rate Schedules

Q. Please describe any changes to the Transportation Rate Schedules as a result of the agreement by the Parties.

A. The Parties agree to add new transportation Schedules 425 and 439 as described by Company witness Mr. Miller in his pre-filed testimony. In Opening Testimony, CUB expressed concerns about possible cost shifting due to the expansion of Avista's transportation customer schedules. To address CUB's concern regarding possible future cost shift, the new transportation Schedules 425 and 439 will be limited to ten customers on each rate schedule.

If either of these Schedules are to reach the ten-customer limit, the Company will, in a subsequent general rate case, address the concern in order to adjust the limit on customers.

Curtailment Penalties

Q. What is the agreement of the Parties relating to the recording of Entitlement and Curtailment Penalty Revenue?

A. Avista agrees that all entitlement and curtailment penalties are, and will be, returned to core customers in the annual PGA filings. Avista will make a housekeeping filing to correct the updated curtailment penalty amount specified in Rule 20 from $1 to $10.

Allowance for Funds Used During Construction (AFUDC)

Q. Please describe the changes related to the recording of AFUDC as agreed to by the Parties.

A. Due to recommendations made by the Federal Energy Regulatory Commission (FERC) in a recent audit of Avista, the Parties agree that the Company would defer the AFUDC difference calculated between using the State AFUDC rate and the FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3), which is included in rate base, and amortize this regulatory asset over the composite remaining life of the plant-in-service.

Customer Deposits

Q. What is the agreement of the Parties relating to Customer Deposits?

A. In Opening Testimony, CUB requested that customer deposits be temporary lifted for residential due to current economic conditions. In response to CUB's testimony, Parties have agreed support the temporarily suspension the collection of residential customer deposits for two years from the effective date in this case.

Comfort Level Billing (CLB) Program

Q. What agreement has the Company made concerning its Comfort Level Billing Program?

A. Avista agrees to further promote its CLB program to customers via bill inserts, social media, its website, and when customer's call in to the Call Center with financial hardship. Avista also agrees to add language to its website that promotes CLB to inform Oregon customers that those customers with past due balances are eligible for levelized payments plans or equal pay arrearage plans per OAR 860-021-0415 and directing those customers to contact the Company.

X. Statements of the Parties[8]

Statement of Avista

Q. Does Avista support the Second Stipulation which resolves all issues (except for working capital) in this Docket, including adjustments to the revenue requirement, rate spread and rate design issues, and additional reporting for certain capital projects?

A. Yes. The Settlement strikes a reasonable balance between the interests of Avista's customers and the Company on certain revenue requirement items, rate spread and

[8] 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.

rate design issues, and additional reporting for certain capital projects. The Second Stipulation was a compromise among differing interests and represents give-and-take. The Second Stipulation also reaches consensus around all issues regarding rate spread and rate design. The Second Stipulation was entered into following the filing of testimony from Staff, CUB and AWEC, 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.

<u>Statement of Staff</u>

Q. Ms. Gardner, please explain why Staff believes the Second Stipulation is in the public interest.

A. Staff supports the Stipulation as a reasonable compromise of the issues in this rate case that balances customers' interests and shareholder interests, and that results in fair, just and reasonable rates. Staff notes that Avista's Interest Rate Risk Management Plan remains the subject of an independent third-party review per Order 19-331, issued in Docket UG 366, and was therefore not addressed in this rate case. Staff is confident none of the terms of the Stipulation are contrary to Commission precedent. For those agreed-to terms for which there is no Commission precedent, Staff's agreement was based on Staff's evaluation and analysis of the issues, further informed by Staff practice in other rate cases. Staff's position on these adjustments is supported by its opening testimony, a further evaluation of the available information and the conclusion that the agreed-to adjustments fall within a reasonable range of outcomes at this time.

Statement of CUB

Q. Please explain why CUB believes the Second Stipulation is in the public interest.

A. CUB believes the Settlement Stipulation is in the public interest as a reasonable compromise of the issues addressed by Staff, AWEC and CUB in this docket. CUB believes that the settlement is a fair compromise that protects Avista's Oregon residential ratepayers from an unreasonable increase to rates. This stipulation will provide a reduction of the Company's initial revenue requirement request of $6,777,000. CUB is supportive of the rate spread proposed in this case, because AWEC's CIO method moves all customer classes closer to the cost of service. The Stipulation addresses the CUB's issues such as Customer Deposits, Transportation customer expansion, residential customer rate design, comfort level billing and curtailment revenues.

In these difficult economic times, it was important to CUB to maintain a low residential customer charge and to expand options for customers to enroll in equal payment programs. Further, CUB's concerns about potential cost shifting related to the proposed expansion of the Company's transportation schedule are alleviated through the compromise to put a cap on this program. CUB will continue to evaluate the cost impacts of this program in upcoming regulatory proceedings. Based on the adjustments in this case, CUB felt that the balance of issues in the Stipulation is reasonable.

Statement of AWEC

Q. Please explain why AWEC believes the Second Settlement Stipulation is in the public interest.

A. AWEC believes the Settlement 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 rate design issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement, and rate spread and rate design issues addressed in the Settlement Stipulation, AWEC supports the Settlement Stipulation as it has brought down the overall gas revenue requirement increase from $6,777,000 as originally filed to $4,212,000, generally consistent with the testimony and litigation positions of AWEC and other parties.

Further, the rate increase is spread consistent with the recommendation of AWEC using a CIO adjustment as reflected in my opening testimony. The adjustments to my original recommendation including changing the CIO adjustment cap from 150 percent to 125 percent, and changing the CIO adjustment floor from 0.0 percent to 0.5 percent. AWEC believes the settlement represents a fair compromise of the rate spread issues as it recognizes the results of Avista's long run incremental cost study showing that some rate classes are well above cost of service. While the settlement does not completely move all rates to cost of service, AWEC supports the proposed margin revenue allocation because it makes a gradual movement to cost based rates. The overall result is a fair compromise between Avista and its customers.

XI. CONCLUSION

Q. Do the Parties agree that the Second Stipulation provided as Exhibit No. Joint Testimony/101 is in the public interest and results in an overall fair, just and reasonable outcome?

A. Yes, the Parties do. The Stipulating Parties have reviewed Avista's opening testimony, Staff and the Intervenors' opening testimony, the Parties' responses to data requests, and carefully analyzed the issues. The Stipulating Parties find that the adjustments and agreements in this Stipulation represent a reasonable resolution of the issues presented by the Parties and will result in rates that are fair, just and reasonable.

Q. What do the Parties recommend regarding the Stipulation?

A. We recommend that the Commission adopt the Stipulation in its entirety.

Q. Does this conclude your Joint Testimony?

A. Yes.

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 389

STAFF/AVISTA/AWEC/CUB EXHIBIT 201

**Second Partial Settlement Stipulation of the Parties
In the Matter of Avista's
Request for a General Rate Revision**

August 24, 2020

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 389

In the Matter of	)	
	)	
AVISTA CORPORATION, dba AVISTA UTILITIES	)	SECOND PARTIAL SETTLEMENT STIPULATION
	)	
Request for a General Rate Revision.	)	

This Second Partial Settlement Stipulation ("Second Stipulation") is entered into for the purpose of resolving all remaining issues in this Docket, with the exception of Working Capital.

PARTIES

The Parties to this Second Stipulation are Avista Corporation ("Avista" or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Oregon Citizens' Utility Board ("CUB"), and the Alliance of Western Energy Consumers ("AWEC") (collectively, "Parties"). These Parties represent all who intervened and appeared in this proceeding.[1]

BACKGROUND

1. On March 13, 2020, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $6,777,000, or 6.8% of its annual revenues. The filing was suspended by the Commission on March 16, 2020, per its Order No. 20-086.

[1] The Parties previously entered into a Partial Settlement on Cost of Capital, which was filed on May 18, 2020.

2. Pursuant to Administrative Law Judge Allen J. Arlow's Prehearing Conference Notice of Telephone Prehearing Conference Memorandum of April 3, 2020, the first settlement conference, held telephonically, occurred on May 7, 2020.

3. As a result of that first settlement discussion, the Parties agreed to settle all issues in this Docket concerning the Cost of Capital, including Capital Structure, Long-Term Debt Cost and Return on Equity, subject to the approval of the Commission, which was filed on May 18, 2020.

4. Staff, CUB, and AWEC filed Opening Testimony on July 21, 2020, in response to the Company's original filing on March 13, 2020. On August 3, 2020, a second telephonic settlement conference was held, and was attended by all Parties.

5. As a result of the settlement discussion held on August 3, 2020, the Parties have agreed to settle all remaining issues in this Docket, except Working Capital. This includes adjustments to the revenue requirement, rate spread and rate design issues, Allowance for Funds Used During Construction (AFUDC) accounting treatment, changes in customer deposit requirements, and modifications to the language regarding the Comfort Level Billing program, based on the following terms, subject to the approval of the Commission. The issue of Working Capital will continue to be reviewed by the Parties under the existing Procedural Schedule.

SUMMARY OF THE FIRST PARTIAL SETTLEMENT STIPULATON

6. **Adjustments to Filed Revenue Requirement:**

The adjustments reached in the first Partial Settlement amounted to a total reduction in Avista's revenue requirement increase request from $6.777 million to a base revenue increase request of $5.685 million. The adjustments to Avista's revenue requirement reflected in the first Partial Settlement Stipulation are shown in Table No. 1 below:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base (Partial Settlement)

	Revenue Requirement	Rate Base
	$6,777	**$304,664**
Cost of Capital Adjusts return on equity to 9.40%, long-term debt cost to 5.07%, with a common stock equity component of 50%, and overall Cost of Capital of 7.24%.	**(1,092)**	**-**
Total Adjustments:	**($1,092)**	**$0**
	$5,685	**$304,664**

This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.24% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 9.40%, and a long-term debt cost of 5.07%. This combination of capital structure and capital costs is shown in the Table No. 2 below.[2]

Table No. 2 – Agreed-Upon Cost of Capital

AGREED-UPON COST OF CAPITAL			
	Capital Structure	**Debt Cost**	**Weighted Cost**
Long Term Debt	50.00%	5.07%	2.54%
Common Equity	50.00%	9.40%	4.70%
Total	100.00%		7.24%

[2] The agreed-upon capital structure (50/50) and cost of equity (9.4%) represent a continuation of currently approved levels approved in Docket No. UG-366.

TERMS OF THE SECOND SETTLEMENT STIPULATON

7. **Adjustments to Revenue Requirement:**

The Parties support further reductions to Avista's requested revenue requirement to reflect the additional adjustments discussed below. The adjustments reached in this Second Stipulation through negotiation, which resolve all remaining issues with the exception of Working Capital, amount to a further reduction in Avista's revenue requirement increase request from $5.685 million (as shown above) to a base revenue increase request of $4.212 million. The Parties support the further adjustments to Avista's revenue requirement request, as shown in Table No. 3 below:

Table No. 3 – Summary of Adjustments to Revenue Requirement and Rate Base (Second Stipulation)

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)			
		Revenue Requirement	**Rate Base**
	Results of Partial Settlement Stipulation:	**$5,685**	**$304,664**
Second Settlement Stipulation Adjustments:			
a	**Wages & Salaries** This adjustment is related to reductions associated with the Company's overall increases related to overtime, full-time employee equivalents (FTE), and associated payroll taxes, as well as expenses related to Executive Officer salaries.	**(239)**	**(58)**
b	**Advertising Expense** This adjustment removes the impact of certain Category A advertising expenses not applicable to Oregon operations.	**(4)**	
c	**Customer Accounts & Services** This adjustment decreases Customer Accounts & Services to reflect the most recent (June 2020) All-Urban CPI.	**(10)**	
d	**Operation and Maintenance (O&M) expense** This adjustment reduces the level of O&M expense based on a three-year trend analysis scaled up by All Urban CPI, among other items.	**(350)**	
e	**Administrative and General (A&G) expense** This adjustment reduces the level of A&G expense based on a three-year trend analysis scaled up by All Urban CPI, among other items.	**(31)**	

	Second Settlement Stipulation Adjustments (Continued):	Revenue Requirement	Rate Base
f	**Atmospheric Testing** This adjustment updates the escalation factor to the June 2020 All-Urban CPI.	(3)	
g	**Rate Case Expense** This adjustment updates the escalation factor to the June 2020 All-Urban CPI.	(1)	
h	**Plant in Service** This adjustment reduces the overall level of 2020 pro forma capital additions.	(100)	(1,092)
i	**O&M Offset** This adjustment reflects O&M offsets related to efficiencies resulting from the implementation of several Enterprise Technology projects to an agreed-upon level.	(90)	
j	**2020 Capital (Average Depreciation)** This adjustment reduces the level of depreciation expense related to 2020 pro forma capital additions.	(70)	
k	**2020 Capital (Net Salvage)** This adjustment is related to negative net salvage associated with plant retirements.	(13)	
l	**Medical Benefit Expense** This adjustment is related to a 5% increase in medical benefit expense over 2019 test period levels.	70	
m	**Pension Benefit Expense** This adjustment decreases pension benefit expense to an agreed-upon level.	(256)	
n	**Other Gas Expense** This adjustment reduces the level of Other Gas expense to reflect a three-year trend analysis scaled up by All-Urban CPI.	(6)	
o	**Taxes Other Than Income - Property** This adjustment reflects an adjustment based on a three year average property tax rate.	(7)	
p	**Director and Officer (D&O) Insurance** This adjustment reflects a sharing of 50/50 between shareholders and rate payers related to Oregon-allocated D&O insurance.	(44)	
q	**Load and Revenue Forecast** This adjustment is related to an updated load forecast for the test year.	(6)	
r	**Other Revenue** This adjustment reflects an increase in Other Revenue due to customer growth.	(5)	
s	**Allocations** This adjustment reflects the correction/removal of certain expenses related to depreciation and amortization expenses inadvertently included in the original case.	(492)	
t	**Depreciation Expense** This adjustment reflects a correction for a formula error related to transportation depreciation expense.	177	(188)
u	**Meals, Entertainment, and Miscellaneous O&M Expenses** This adjustment is related to a removal of certain expenses related to meals, entertainment and miscellaneous O&M expense.	(31)	
v	**Miscellaneous Restating** This adjustment removes the impact of an AFUDC deferral which was put in base rates in Docket No. UG 366 on January 15, 2020.	163	
w	**Legal Expense** This adjustment is related to a reduction in certain legal expenses.	(15)	
x	**Miscellaneous Operations & Maintenance (O&M)** This adjustment is related to a reduction to miscellaneous O&M expenses.	(76)	
y	**Tax Apportionment** This adjustment is related to the weighted average approach to calculating the Oregon Tax Apportionment.	(34)	
	Total Adjustments:	**($1,473)**	**($1,338)**
	Adjusted Base Revenue Requirement & Rate Base after Second Settlement Stipulation:	**$4,212**	**$303,326**

The following information provides an explanation for each of the adjustments in Table No. 2 above. Attachment A summarizes the Company's filed rate case and the stipulated adjustments. The numbers in parenthesis below represent the agreed-upon increase or decrease in revenue requirement associated with the item.

a) Wages and Salaries (-$239,000): Staff proposed an adjustment to the Company's Wages and Salaries expense for reductions associated with overtime, full-time employee equivalents (FTE), and associated payroll taxes. AWEC proposed an adjustment to the Company's Wages and Salaries expense for Executive Officer salaries. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $239,000. The adjustment also reduces rate base by $58,000.

b) Advertising Expense (-$4,000): Staff proposed an adjustment to remove the impact of certain Category A expenses they believed were not applicable to Oregon operations. For settlement purposes, the Parties agreed-upon a lower level of advertising expense, thereby reducing the proposed revenue requirement by $4,000.

c) Customer Accounts & Services (-$10,000): Staff proposed an adjustment to Customer Accounts & Services to reflect the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $10,000.

d) Operations & Maintenance (O&M) Adjustment (-$350,000): Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI, among other items. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $350,000.

e) Administrative and General (A&G) Adjustment (-$31,000): Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI, among other items. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $31,000.

f) Atmospheric Testing (-$3,000): Staff proposed an adjustment to update the escalation factor to the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the revenue requirement by $3,000.

g) Rate Case Expense (-$1,000): Staff proposed an adjustment to update the escalation factor to the most recent (June 2020) All-Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the revenue requirement by $1,000.

h) Plant in Service (-$100,000): In their testimony, Staff proposed a number of proposed adjustments to the plant additions included in the Company's original filing. These related to, among other items, certain Enterprise Technology projects as well as the overall level of 2020 pro forma capital additions. For its part, AWEC also proposed in testimony a number of adjustments to plant and plant-related items (discussed in ¶17 and ¶18 below). For settlement purposes, the Parties agreed to a reduction in revenue requirement of $100,000. The adjustment also reduces rate base by $1.1 million. In addition, Avista agrees to provide an Officer Attestation, prior to the rate effective date, to the fact that Enterprise Technology and natural gas distribution projects above $250,000 are in-service for Oregon customers as of December 31, 2020 and describe the actual costs for those projects for review by the Parties. If these projects are not complete and in service by December 31, 2020, the revenue requirement associated with the projects will be removed from the test year rate base and the January 15, 2021 base rate change.

i) O&M Offset (-$90,000): Staff proposed an adjustment to reflect O&M offsets related to efficiencies resulting from the implementation of several Enterprise Technology projects. For settlement purposes, the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $90,000.

j) 2020 Capital (Average Depreciation) (-$70,000): AWEC proposed an adjustment to reflect depreciation expense on an "average of monthly average" basis, rather than on an "end of period" basis, for 2020 pro forma capital additions. For settlement purposes, the Parties agree to a reduction to the level of depreciation expense, resulting in a decrease to the revenue requirement of $70,000.

k) 2020 Capital (Net Salvage) (-$13,000): AWEC proposed a reduction related to negative net salvage associated with plant retirements. For settlement purposes, the Parties agree to a $13,000 reduction in revenue requirement.

l) Medical Benefit Expense (+$70,000): The Parties agreed to a 5% increase in medical benefit expense over 2019 test period levels, for settlement purposes. The result increases revenue requirement by $70,000.

m) Pension Benefit Expense (-$256,000): In testimony, Staff proposed the use of the actual 2019 base year discount rate as the basis for calculating the pension expense. For settlement purposes, the Parties agree to a decrease in pension benefit expense, resulting in a reduction in the revenue requirement of $256,000.

n) Other Gas Expense (-$6,000): Staff proposed an adjustment based on a three-year trend analysis scaled up by All Urban CPI. For settlement purposes, the Parties agree to a reduction in Other Gas Expense, resulting in a decrease in the revenue requirement of $6,000.

o) Taxes Other Than Income - Property (-$7,000): Staff proposed an adjustment based on a three year average property tax rate. For settlement purposes, the Parties agree to a reduction in the revenue requirement of $7,000.

p) Director and Officer (D&O) Insurance (-$44,000): In testimony, Staff proposed a sharing of 50/50 between shareholders and rate payers related to the Oregon-allocated D&O insurance. For settlement purposes, the Parties agree to a reduction in the revenue requirement of $44,000.

q) Load and Revenue Forecast (-$6,000): The Company presented an updated load forecast for the test year. For settlement purposes, the Parties agreed to use the revised forecast for Rate Schedules 424, 440, 444, and 456. This adjustment decreases the proposed revenue requirement by $6,000.

r) Other Revenue (-$5,000): For settlement purposes the Parties agreed to reflect an increase in Other Revenue due to customer growth. This adjustment decreases the proposed revenue requirement by $5,000.

s) Allocations (-$492,000): This adjustment reflects the correction/removal of certain expenses related to depreciation and amortization expenses inadvertently included in the original case. The Parties agree in this Stipulation to correct for that error, which results in a decrease to the revenue requirement of $492,000.

t) Depreciation Expense (+$177,000): This adjustment reflects the correction for a formula related to depreciation transportation expense inadvertently included in the Company's original filing. The Parties agree in this Stipulation to correct for that error, which results in an increase to the revenue requirement of $177,000.

u) Meals, Entertainment, and Miscellaneous O&M Expenses (-$31,000): Staff proposed to remove certain expenses related to meals and entertainment expenses, and miscellaneous O&M expenses. For settlement purposes, the Parties agree to reduce the revenue requirement by $31,000.

v) Miscellaneous Restating (+$163,000): This adjustment removes the impact of an AFUDC deferral which was inadvertently included in the Company's filed case. This deferral was put in base rates in Docket No. UG 366 on January 15, 2020. This adjustment increases the proposed revenue requirement by $163,000.

w) Legal Expense (-$15,000): In testimony, Staff proposed a reduction in certain legal expenses. For settlement purposes the Parties agree to a reduction in the proposed revenue requirement of $15,000.

x) Miscellaneous Operations and Maintenance (O&M) (-$76,000): In testimony, AWEC proposed a reduction to miscellaneous O&M expenses. For settlement purposes, the Parties agreed to a reduction in the proposed revenue requirement of $76,000.

y) Tax Apportionment (-$34,000): In testimony, CUB proposed that a weighted average approach to calculating the Oregon Tax Apportionment. For settlement purposes, the Parties agreed to CUB's adjustment which reduces the proposed revenue requirement by $34,000.

8. **Proposed Effective Date:** The proposed rate effective date is January 15, 2021.

9. **Rate Spread:** The Parties support the spread of the January 15, 2021, overall billed revenue increase of $4.212 million, or 4.2 percent, to the Company's service schedules as shown in Table No. 4 below (and as shown in Attachment B to the Second Stipulation). The agreed-upon rate spread was based on a discrete customer impact offset ("CIO") adjustment to the cost of service results, as described by AWEC witness Mr. Mullins in his opening testimony, with two modifications. The first modification changed the CIO adjustment cap from 150% of the average rate increase to 125%. The second modification changed the CIO adjustment floor from 0.0% to 0.5%.

Table No. 4: Agreed-Upon Rate Spread

Schedule Description	Rate Schedule	Revenue Increase ($000s)	% Increase in Base Revenue	% Increase in Billed Revenue*
Residential	410	$2,709	6.0%	4.3%
General Service	420	$1,481	7.6%	5.2%
Large General Service	424	$2	0.5%	0.2%
Interruptible Service	440	$8	0.5%	0.2%
Seasonal Service	444	$0	0.5%	0.2%
Transportation Service	456	$12	0.5%	0.5%
Total		**$4,212**	**6.1%**	**4.2%**

* Billed Revenue includes base rate revenue plus revenues associated with natural gas supply, energy efficiency, intervenor funding, and other items.

The revenue requirement shown in Table No. 4 above does not reflect the final determination related to Working Capital, which is still at issue among the Parties. In its testimony set to be filed on or about August 18, 2020, the Company will provide the proposed rate spread which includes the effects of the Working Capital along with the revenue requirement agreed to in this Stipulation.

10. **Rate Design:** The Parties support the following rate design: The Schedule 410 customer charge will increase from $10.00 to $10.50, and Schedule 420 will remain unchanged at $17.00. To address Parties concerns related to recovering customer related costs under Interruptible Schedule 440 the Parties agree to a customer charge of $75.00 per month.[3] All other rate design components are as proposed by the Company in its original filing. Attachment C to the Settlement Stipulation provides the agreed-upon base rates.[4]

11. **Residential Bill Change:** For the revenue requirement included in this Stipulation, based on an average usage level of 47 therms per month, the average bill for a Schedule 410 residential customer, which includes both base and adder schedules[5], would increase $2.42 per month, or 4.3 percent, from $56.40 to $58.82. This bill change does not include the Working Capital adjustment, previously discussed.

12. **Decoupling:** Attachment D to the Second Stipulation reflects the new decoupling base effective January 15, 2021 that is supported by the Parties. The new decoupling base provides the "Monthly Allowed Customers" and "Monthly Decoupled Revenue per Customer" which incorporate the effects of the settlement revenue requirement and billing determinants discussed above. In its testimony set to be filed on or about August 18, 2020, the Company will provide the proposed decoupling base which includes the effects of the Working Capital along with the revenue requirement agreed to in this Stipulation.

13. **Transportation Rate Schedules:** The Parties agree to add new transportation Schedules 425 and 439 as described by Company witness Mr. Miller in his pre-filed testimony.

[3] The Company contends that the average cost per month for Meter Reading, Billing, Meters and Services is $181.99 based on the Company's filed LRIC Study.
[4] The agreed-upon billing determinants reflect the updated load adjustments as discussed in Section 7 item q above.
[5] "Adder" schedules recover costs associated with natural gas supply (Schedules 461 and 462), energy efficiency (Schedules 469 and 478), intervenor funding (Schedule 476), and other items.

To address concern regarding possible future cost shift, the new transportation Schedules 425 and 439 will be limited to ten customers on each rate schedule. If either of these Schedules are to reach the ten-customer limit, the Company will, in a subsequent general rate case, address the concern in order to adjust the limit on customers.

14. **Curtailment Penalties:** Avista agrees that all entitlement and curtailment penalties are, and will be, returned to core customers in the annual PGA filings. Avista will make a housekeeping filing to correct the updated curtailment penalty amount specified in Rule 20 from $1 to $10.

15. **Allowance for Funds Used During Construction (AFUDC):** Due to recommendations made by the Federal Energy Regulatory Commission (FERC) in a recent audit of Avista, the Parties agree that the Company would defer the AFUDC difference calculated between using the State AFUDC rate and the FERC AFUDC rate as a regulatory asset (i.e. FERC Account No. 182.3), which is included in rate base, and amortize this regulatory asset over the composite remaining life of the plant-in-service.

16. **Customer Deposits:** Avista agrees to temporarily suspend the collection of residential customer deposits for two years from the rate effective date in this proceeding.

17. **Comfort Level Billing (CLB) Program:** Avista agrees to further promote its CLB program to customers via bill inserts, social media, its website, and when customer's call in to the Call Center with financial hardship. Avista also agrees to add language to its website that promotes CLB to inform Oregon customers that those customers with past due balances are eligible for levelized payments plans or equal pay arrearage plans per OAR 860-021-0415, and directing those customers to contact the Company.

18. The Parties agree that this Second Stipulation is in the public interest and results in an overall fair, just and reasonable outcome, and will serve to reduce the number of contested adjustments in this case.

19. The Parties agree that this Second 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 Second Stipulation or in the Parties' testimony supporting the stipulation.

20. Further, this Second 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.

21. This Second Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Second Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the Second 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.

22. If this Second Stipulation is challenged by any other party to this proceeding, the Parties to this Second 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 Second Stipulation. Notwithstanding this

reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Second Stipulation.

23. The Parties have negotiated this Second Stipulation as an integrated document. If the Commission rejects all or any material portion of this Second Stipulation, or imposes additional material conditions in approving this Second 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.

24. By entering into this Second 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 Second Stipulation. No Party shall be deemed to have agreed that any provision of this Second Stipulation is appropriate for resolving the issues in any other proceeding.

25. This Second Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document. The Parties further agree that any electronically-generated signature of a Party is valid and binding to the same extent as an original signature.

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

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

AVISTA CORPORATION

By: /s/ David J. Meyer
David J. Meyer

Date: August 13, 2020

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________
Johanna Riemenschneider

Date: ______________________

reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Second Stipulation.

23. The Parties have negotiated this Second Stipulation as an integrated document. If the Commission rejects all or any material portion of this Second Stipulation, or imposes additional material conditions in approving this Second 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.

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

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: /s/ Johanna Riemenschneider
David J. Meyer	Johanna Riemenschneider
Date: ______________________	Date: August 13, 2020

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________________
Chad M. Stokes

Date: 08-13-2020

OREGON CITIZENS' UTILITY BOARD

By: ______________________________
Michael P. Goetz

Date: ______________________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________________
Michael P. Goetz

Date: ________8/13/20_____________

Avista Utilities
UG 389
Twelve Months Ended 12.31.2021
($000)

PRESENT RATES

SUMMARY SHEET	Base Period Results Per Company Filing 12 ME 12.31.19 (1)	Company Adjustments to Base Period (2)	Restated Company 12 ME 12.31.2021 Test Year (1) + (2) (3)	Company Proposed incremental Rev. requirement (4)	Company Filed 12.31.2021 Results at Reasonable Return (3) + (4) (5)	Staff Adjustments to Company 12.31.2021 Results Test Year (6)	Staff Adjusted 12.31.2021 Company Results (3) + (6) (7)	Staff Required Change for Reasonable Return (8)	Staff Results at Reasonable Return (7) + (8) (9)
Operating Revenues									
General Business	$88,988	($23,005)	$65,983	$6,777	$72,760	$6	$65,989	$4,212	$70,201
Transportation	$2,951	$3	$2,954	$0	$2,954	$0	$2,954	$0	$2,954
Other Revenues	$52,794	($52,611)	$183	$0	$183	$5	$188	$0	$188
Total Operating Revenues	$144,733	($75,613)	$69,120	$6,777	$75,897	$11	$69,131	$4,212	$73,343
Operating Expenses									$0
Gas Purchased	$87,176	($87,176)	$0	$0	$0	$0	$0	$0	$0
OPUC Fees	$612	($289)	$323	$32	$355	$0	$323	$20	$343
Franchise Fees	$1,966	($426)	$1,540	$151	$1,691	$0	$1,541	$94	$1,635
Uncollectibles	$56	$259	$315	$23	$338	$0	$315	$14	$330
General Operations & Maintenance	$4,746	$3,831	$8,577	$0	$8,577	($174)	$8,403	$0	$8,403
Admin & General Expenses	$16,335	$458	$16,793	$0	$16,793	($1,327)	$15,466	$0	$15,466
Total Operation & Maintenance	$110,891	($83,342)	$27,549	$206	$27,755	($1,500)	$26,048	$128	$26,176
Depreciation	$11,083	$3,987	$15,070	$0	$15,070	$92	$15,162	$0	$15,162
Amortization	$249		$249	$0	$249	$158	$407	$0	$407
Taxes Other than Income	$6,131	($612)	$5,519	$0	$5,519	($16)	$5,503	$0	$5,503
Income Taxes	$1,194	$1,559	$2,753	$1,701	$4,454	$323	$3,076	$1,057	$4,133
Total Operating Expenses	$129,548	($78,408)	$51,140	$1,907	$53,047	($944)	$50,196	$1,185	$51,382
Net Operating Revenues	$15,185	$2,795	$17,980	$4,870	$22,850	$954	$18,934	$3,026	$21,961
Average Rate Base									
Utility Plant in Service	$474,210	$49,626	$523,836	$0	$523,836	($1,150)	$522,686	$0	$522,686
Less: Accumulated Depreciation & Amortization	($135,955)	($14,544)	($150,499)	$0	($150,499)	($188)	($150,687)	$0	($150,687)
Accumulated Deferred Income Taxes	($72,787)	($1,735)	($74,522)	$0	($74,522)	$0	($74,522)	$0	($74,522)
Accumulated Deferred Inv. Tax Credit		$0	$0	$0	$0	$0	$0	$0	$0
Net Utility Plant	$265,468	$33,347	$298,815	$0	$298,815	($1,338)	$297,477	$0	$297,477
Plant Held for Future Use	$0	$0	$0	$0	$0	$0	$0	$0	$0
Acquisition Adjustments	$0	$0	$0	$0	$0	$0	$0	$0	$0
Working Capital	$3,656	$159	$3,815	$0	$3,815	$0	$3,815	$0	$3,815
Fuel Stock	$2,377	$0	$2,377	$0	$2,377	$0	$2,377	$0	$2,377
Materials & Supplies	$0	$0	$0	$0	$0	$0	$0	$0	$0
Customer Advances for Construction	$0	$0	$0	$0	$0	$0	$0	$0	$0
Weatherization Loans	$0	$0	$0	$0	$0	$0	$0	$0	$0
Prepayments	$0	$0	$0	$0	$0	$0	$0	$0	$0
Misc. Deferred Debits & Credits	($343)	$0	($343)	$0	($343)	$0	($343)	$0	($343)
Misc. Rate Base Additions/(Deductions)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total Average Rate Base	$271,158	$33,506	$304,664	$0	$304,664	($1,338)	$303,326	$0	$303,326
Rate of Return	5.60%		5.90%		7.50%		6.24%		7.24%
Implied Return on Equity	6.100%		6.100%		9.900%		7.404%		9.400%

Avista Utilities
Proposed Revenue Increase by Schedule
Oregon - Natural Gas
Pro Forma 12 Months Ended December 31, 2021
(000s of Dollars)

Line No.	Type of Service	Schedule Number	Distribution Revenue Under Present Rates	Proposed GRC Increase	Distribution Revenue Under Proposed Rates	Therms (000s)	**Distribution Revenue Percentage Increase**	Billed Revenue Under Present Rates	Proposed GRC Increase	Billed Revenue Under Proposed Rates	**Billed Revenue Percentage Increase**
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Residential	410	$44,931	$2,709	$47,640	52,670	**6.0%**	$63,250	$2,709	$65,959	**4.3%**
2	General Service	420	$19,385	$1,481	$20,866	29,002	**7.6%**	$28,609	$1,481	$30,089	**5.2%**
3	Large General Service	424/425	$496	$2	$498	3,264	**0.5%**	$1,565	$2	$1,567	**0.2%**
4	Interruptible Service	439/440	$1,623	$8	$1,631	13,929	**0.5%**	$3,743	$8	$3,751	**0.2%**
5	Seasonal Service	444	$34	$0	$34	199	**0.5%**	$99	$0	$99	**0.2%**
6	Transportation Service	456	$2,299	$12	$2,311	27,049	**0.5%**	$2,218	$12	$2,230	**0.5%**
7	Special Contract	447	$175	$0	$175	5,856	**0.0%**	$175	$0	$175	**0.0%**
8	Total		$68,943	$4,212	$73,155	131,968	**6.1%**	$99,658	$4,212	$103,871	**4.2%**

Avista Utilities
Comparison of Present & Proposed Natural Gas Rates
Oregon - Natural Gas

Present Base Rates	Base Tariff Change	Proposed Base Rates
Residential Service Schedule 410		
$10.00 Customer Charge	$0.50/month	$10.50 Customer Charge
All Therms - $0.63943/Therm	$0.04076/therm	All Therms - $0.68019/Therm
General Service Schedule 420		
$17.00 Customer Charge	$0.00/month	$17.00 Customer Charge
All Therms - $0.58382/Therm	$0.05104/therm	All Therms - $0.63486/Therm
Large General Service Schedule 424 and 425		
$50.00 Customer Charge	$5.00/month	$55.00 Customer Charge
All Therms - $0.13887/Therm	-$0.00055/therm	All Therms - $0.13832/Therm
Interruptible Service Schedule 439 and 440		
$0.00 Customer Charge	$75.00/month	$75.00 Customer Charge
All Therms - $0.11652/Therm	-$0.00184/therm	All Therms - $0.11468/Therm
Seasonal Service Schedule 444		
All Therms - $0.17155/Therm	$0.00086/therm	All Therms - $0.17241/Therm
Seasonal Minimum Charge: $ 5,810.92		Seasonal Minimum Charge: $ 5,840.04
Transportation Service Schedule 456		
$275.00 Customer Charge	$25.00/month	$300.00 Customer Charge
1st 10,000 Therms - $0.15876/Therm	$0.00014/therm	1st 10,000 Therms - $0.15890/Therm
Next 20,000 Therms - $0.09555/Therm	$0.00008/therm	Next 20,000 Therms - $0.09563/Therm
Next 20,000 Therms - $0.07853/Therm	$0.00007/therm	Next 20,000 Therms - $0.07860/Therm
Next 200,000 Therms - $0.06147/Therm	$0.00005/therm	Next 200,000 Therms - $0.06152/Therm
Over 250,000 Therms - $0.03118/Therm	$0.00003/therm	Over 250,000 Therms - $0.03121/Therm
Schedule 456 Monthly Minimum Charge $ 2,698.69		Schedule 456 Monthly Minimum Charge $ 2,725.78

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Decoupled Revenue by Rate Schedule - Natural Gas
Docket No. UG-389 Rates Effective January 15, 2021

	TOTAL	RESIDENTIAL SCHEDULE 410	SM COMMERCIAL & INDUSTRIAL SCH. 420	LG COMMERCIAL & INDUSTRIAL SCH. 424/425	INTERRUPTIBLE SCH 439/440	SEASONAL SCH 444	TRANSPORTATION SCH 456/447
1 Total Normalized 2021 Margin Revenue	$ 68,943,000	$ 44,931,000	$ 19,385,000	$ 496,000	$ 1,623,000	$ 34,000	$ 2,474,000
2 Settlement Margin Revenue Increase	$ 4,212,000	$ 2,709,000	$ 1,481,000	$ 2,000	$ 8,000	$ -	$ 12,000
3 Total Delivery Revenue (2021 Test Year) (Ln 1 + Ln 2)	$ 73,155,000	$ 47,640,000	$ 20,866,000	$ 498,000	$ 1,631,000	$ 34,000	$ 2,486,000
4 Customer Bills (2021 Test Year)	1,271,356	1,125,295	144,309	857	450	37	408
5 Proposed Basic Charges		$10.50	$17.00	$55.00	$75.00	$0.00	$300.00
6 Basic Charge Revenue (Ln 4 * Ln 5)	$ 14,464,960	$ 11,815,598	$ 2,453,253	$ 47,129	$ 33,780	$ -	$ 115,200
7 Decoupled Revenue (Ln 6 - Ln 3)	$ 58,690,040	$ 35,824,403	$ 18,412,747	$ 450,871	$ 1,597,220	$ 34,000	$ 2,370,800
8 Normalized Therms (2021 Test Year)	131,968,306	52,669,603	29,002,292	3,264,235	13,929,025	198,830	32,904,321
		Residential	Non-Residential Group				Exempt from Decoupling Mechanism
9 Average Number of Customers (Line 8 / 12 mos.)		93,775	12,138				
10 Annual Therms		52,669,603	46,394,382				
11 Basic Charge Revenues		$ 11,815,598	$ 2,534,162				
12 Customer Bills		1,125,295	145,653				
13 Average Basic Charge		$10.50	$17.40				

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Decoupled Revenue Per Customer - Natural Gas
Docket No. UG-389 Rates Effective January 15, 2021

Line No.		Source	Residential	Non-Residential Schedules*
	(a)	(b)	(c)	(d)
1	Decoupled Revenue	Page 1	$ 35,824,403	$ 20,494,838
2	Test Year Number of Customers 2021	Revenue Data	93,775	12,138
3	Decoupled Revenue Per Customer	(1) / (2)	$ 382.03	$ 1,688.52

*Schedules 420, 424, 425, 439, 440, and 444

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Monthly Decoupled Revenue Per Customer - Natural Gas
Docket No. UG-389 Rates Effective January 15, 2021

Line No.		Source	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
1															
2	**Natural Gas Delivery Volume**														
3	*Residential*														
4	- Weather-Normalized Therm Delivery Volume	Monthly Rate Year	8,676,502	6,962,438	6,276,681	4,433,535	2,529,145	1,683,573	1,404,461	1,359,425	1,369,522	3,004,514	6,118,531	8,851,276	52,669,603
5	- % of Annual Total	% of Total	16.47%	13.22%	11.92%	8.42%	4.80%	3.20%	2.67%	2.58%	2.60%	5.70%	11.62%	16.81%	100.00%
6															
7	*Non-Residential Sales**														
8	- Weather-Normalized Therm Delivery Volume	Monthly Rate Year	6,056,803	5,233,025	4,778,562	3,650,474	2,460,876	2,136,004	2,232,358	2,293,829	2,458,385	3,658,899	5,194,291	6,240,876	46,394,382
9	- % of Annual Total	% of Total	13.06%	11.28%	10.30%	7.87%	5.30%	4.60%	4.81%	4.94%	5.30%	7.89%	11.20%	13.45%	100.00%
10															
11	**Monthly Decoupled Revenue Per Customer ("RPC")**														
12	*Residential*														
13	- Decoupled Revenue per Customer	Page 2 - Decoupled RPC													$ 382.03
14	- Monthly Decoupled Revenue per Customer	(5) x (13)	$ 62.93	$ 50.50	$ 45.53	$ 32.16	$ 18.34	$ 12.21	$ 10.19	$ 9.86	$ 9.93	$ 21.79	$ 44.38	$ 64.20	$ 382.03
15	- Monthly Allowed Customers		94,058	94,061	94,074	93,970	93,808	93,521	93,213	93,012	93,005	93,534	94,222	94,817	
16	*Non-Residential Sales**														
17	- Decoupled Revenue per Customer	Page 2 - Decoupled RPC													$ 1,688.52
18	- Monthly Decoupled Revenue per Customer	(9) x (17)	$ 220.44	$ 190.46	$ 173.92	$ 132.86	$ 89.56	$ 77.74	$ 81.25	$ 83.48	$ 89.47	$ 133.17	$ 189.05	$ 227.14	$ 1,688.52
19	- Monthly Allowed Customers		12,173	12,194	12,189	12,161	12,147	12,127	12,087	12,069	12,059	12,082	12,143	12,221	
20	*Schedules 420, 424, 425, 439, 440, and 444.														