

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 201

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 31, 2011

1 **Q. Please state your names and positions.**

2 A. My name is Deborah Garcia. I am employed by the PUC as a Senior
3 Revenue Requirement Analyst in the Electric and Natural Gas Section. My Business
4 address is 550 Capitol Street NE Suite 215, Salem, Oregon 97301-2551. I joined the PUC
5 in 1989 and I have provided testimony and comments on policy and financial issues in a
6 variety of PUC dockets.

7 My name is Kelly O. Norwood. I am employed by Avista Utilities (“the Company”)
8 as the Vice President of State & Federal Regulation. I am a graduate of Eastern Washington
9 University with a Bachelor of Arts Degree in Business Administration, majoring in
10 Accounting. I joined the Company in June of 1981. Over the past 29 years, I have spent
11 approximately 18 years in the Rates Department with involvement in cost of service, rate
12 design, revenue requirements and other aspects of ratemaking. I spent approximately 11
13 years in the Energy Resources Department (power supply and natural gas supply) in a
14 variety of roles, with involvement in resource planning, system operations, resource
15 analysis, negotiation of power contracts, and risk management. I was appointed Vice
16 President of State & Federal Regulation in March 2002.

17 My name is Bob Jenks. I am the Executive Director of the Citizens’ Utility Board
18 (“CUB”) located at 610 SW Broadway, Suite 400, Portland OR 97205. I am a graduate of
19 Willamette University with a Bachelor of Science Degree in Economics. I have provided
20 testimony and comments in a variety of PUC dockets. Between 1982 and 1991, I worked
21 for the Oregon State Public Interest Research Group, the Massachusetts Public Interest
22 Group and the Fund for Public Interest Research on a variety of public policy issues. As
23 Executive Director of CUB, my responsibilities include the review of all utility and telecom

1 filings in Oregon and in this particular docket the representation of customers concerns that
2 have arisen from this Docket.

3 My name is Paula E. Pyron. I am an experienced energy law attorney serving the
4 last nine years as the Executive Director of the Northwest Industrial Gas Users (“NWIGU”).
5 NWIGU is a non-profit trade association of 38 industrial-sized natural gas end users who
6 have facilities in the states of Oregon, Washington and Idaho. NWIGU provides
7 information to its members on natural gas issues that impact their facilities and represents its
8 members’ interests in proceedings before the Federal Energy Regulatory Commission and
9 the Pacific Northwest state utility commissions, including the PUC of Oregon. As
10 Executive Director, my responsibilities include the review of all filings made by LDCs in
11 Oregon as well as the representation of the industrial customers in connection with this
12 Docket.

13 Hereafter, Staff, the Company, CUB and NWIGU will collectively be referred to as
14 the “Parties.”

15 **Q. What is the purpose of your joint testimony?**

16 A. The purpose of our joint testimony is to describe and support the Stipulation,
17 filed on January 31, 2011, between Commission Staff, CUB, NWIGU, and the Company in
18 Docket UG 201 (the “Stipulation”), which resolved all issues for the general rate increase
19 filed on September 30, 2010.

20 The Stipulation is the product of settlement discussions, open to all parties to the UG
21 201 Docket. The Stipulation between the Parties, resolved all issues, including revenue
22 requirement and cost of capital issues, as well as rate spread and rate design.

23 **Q. Have you prepared any Exhibits?**

1 A. Yes. The Parties' Exhibit 101 is the Stipulation filed January 31, 2011.

3 **Background**

4 **Q. Please describe the background behind the Company’s original general**
5 **rate case filing.**

6 A. On September 30, 2010, Avista filed revised tariff schedules to effect a
7 general rate increase for Oregon retail customers of approximately \$5,446,000, or 5.6
8 percent of its annual revenues. The filing was suspended by the Commission on October 20,
9 2010. Avista later filed supplemental direct testimony on December 3, 2010, in order to
10 update the accounting and financial data which the Company asserted would justify an even
11 greater increase in revenue requirement of \$6.429 million; the Company, however, did not
12 alter its original request for \$5.446 million of rate relief.

On December 22, 2010, 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 Report of October 26, 2010, settlement conferences were held on January 18-19, 2011. 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, subject to the approval of the Commission.

1 **Revenue Requirement for Rate Changes proposed to be Effective**

2 **March 15, 2011 and June 1, 2011**

3 **Q. What is the overall increase in revenue and timing of rate changes**
4 **agreed to by the Parties in the Stipulation?**

5 A. The Parties have agreed to an adjusted revenue requirement increase (change
6 in base rates) of \$2,975,000, which will be implemented in two phases: \$2.004 million of
7 the agreed-upon increase will be implemented on March 15, 2011, and \$971,000 of the
8 overall increase will be implemented on June 1, 2011.

9 The Parties have also agreed to support deferred accounting treatment for two capital
10 additions (Medford IMP Pipe Replacement and the Roseburg Reinforcement), which are
11 expected to be in service on or about November 1, 2011, and subsequent recovery of
12 prudently incurred capital addition costs in rates, after the Company provides a certification
13 of completion and supporting cost documentation (including bidding documentation as
14 described in the Joint Stipulation for the Roseburg Reinforcement Project Phase II), as
15 further discussed below. Any additional rate increase will occur on June 1, 2012 for
16 recovery of revenue requirement and deferred revenue requirement costs associated with the
17 Roseburg Reinforcement Project and the Medford Integrity Management Pipe Replacement
18 Project that are found to have been prudently incurred.

19 **Q. Please explain the Company's need for additional rate relief that has been**
20 **agreed to by the Parties.**

21 A. The Company's need for additional rate relief is due in part to an increase in
22 overall net rate base for additional plant in service, such as the Company's Grants Pass
23 reinforcement project. Also included in the overall increase in net rate base, is the addition

1 of the increased plant investment and inventory associated with additional capacity and
2 deliverability of the Jackson Prairie Storage facility. The benefits from the additional storage
3 dedicated to Oregon customers associated with the Jackson Prairie storage facility will flow
4 through to Oregon customers through the annual Purchased Gas Cost Adjustment filing. The
5 revenue increase associated with the net change in rate base is approximately \$0.6 million.

6 In addition, a portion of the increase is due to a reduction in the number of customers
7 and a reduction in therm usage by our customers on a weather-adjusted basis, versus what
8 was approved in the Company's last general rate case (UG-186). The revenue increase
9 associated with the change in customers and therm usage is approximately \$2.3 million.

10 **Q. What revenue requirement issues are included in the Stipulation**
11 **(Exhibit 101)?**

12 A. Table 1, at page 4 of the Stipulation is reproduced below, and provides a
13 summary of the issues:

SUMMARY TABLE OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE			
(\$000s of Dollars)			
		Revenue Requirement	Rate Base
Amount as filed:		\$6,429	\$148,421
Adjustments:			
a	Rate of Return	(1,554)	-
	Adjusts return on equity to 10.1%, long-term debt cost to 5.90%, with a common stock equity component of 50%.		
b	2011 Major Plant Additions	(161)	(702)
	This adjustment removes 2 major plant additions (Roseburg Reinforcement/IMP Pipe Replacement) from rate base that will be deferred for later recovery when placed in service in November of 2011 (See Section 7 of settlement).		
c	Wages & Salaries	36	19
	This adjustment removes the earnings test adjustment for wages and salaries included in the Company's original request.		
d	Pro Forma Wages & Salaries Adjustment	(131)	(65)
	This makes adjustments to pro forma 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.		
e	Forecast Expense Adjustment	(36)	-
	This adjustment reduces forecasted expenses based on a lower inflation factor applied to 2010 and 2011 expenses.		
f	Working Capital	(877)	(7,486)
	This adjustment removes the Company's proposed working capital adjustment.		
g	A & G Adjustment	(525)	-
	This adjustment revises the Company's expected Administrative and General expenses.		
h	SIT/FIT Adjustment	132	-
	This adjustment is a flow through adjustment for the federal and state tax impact of rate base adjustments.		
i	Customer Deposits	(91)	(888)
	This adjustment reduces rate base for customer deposits and includes associated interest expense.		
j	Bonus Depreciation	(245)	(2,100)
	This adjustment increases Accumulated Deferred Federal Income Taxes (ADFIT) for the effect of bonus depreciation.		
k	Miscellaneous Expenses	(2)	-
	This adjustment removes severance and employee relocation expenses.		
Total Adjustments:		(\$3,454)	(\$11,222)
Adjusted Revenue Requirement Change (Base Rates) and Rate Base:		\$2,975	\$137,199
Revenue Increase Implemented March 15, 2011		\$2,004	
Revenue Increase Implemented June 1, 2011		\$971	

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

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

	Ratio	Cost	Weighted Cost
Long-Term Debt	49.24%	6.26%	3.08%
Common Equity	50.76%	10.90%	5.53%
TOTAL	100.0%		8.61%

This adjustment revises the Company requested cost of capital to a capital structure comprised of 50% common stock equity and 50% long-term debt, with a return on equity of 10.10%, and cost of debt of 5.9%. This stipulated cost of capital results in a reduction from the current Commission-authorized 8.19% rate of return. This combination of capital structure and capital costs produces a rate of return of 8.00%, as shown in the table below:

	Ratio	Cost	Weighted Cost
Long-Term Debt	50.00%	5.90%	2.95%
Common Equity	50.00%	10.10%	5.05%
TOTAL	100.00%		8.00%

Q. What is the basis of the Stipulation relating to Issue (b), 2011 Major Plant Additions?

A. In the Company's direct filing, the Company included Oregon capital projects that would become operational and transfer to plant-in-service during the calendar year 2011, and the associated accumulated depreciation and DFIT on an Average-of-Monthly-Averages (AMA) basis for 2011. This adjustment also included depreciation expense and property taxes on the 2011 capital projects to the 2011 test year level.

This adjustment removes two major pro forma capital additions, the Roseburg

1 Reinforcement and IMP Replacement projects (described below). These projects will be
2 completed by November 2011 at which time they will move into service. The revenue
3 requirement associated with the amortization of these projects, and Avista's Oregon
4 jurisdiction approved rate of return applied to the actual balance of this additional plant, will
5 be deferred for future recovery, until recovered in base rates (as discussed in Section 7, of
6 Exhibit 101). This adjustment reduced the Company's requested revenue requirement by
7 \$161,000, and rate base by \$702,000, representing the AMA amounts originally included in
8 this case.

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

11 A. This adjustment reverses the Company's Restated Salaries and Wages
12 adjustment in its direct filing. Due to the adjustment described in (d) Pro Forma Wages and
13 Salaries below, it is necessary to remove this adjustment to prevent double-counting. The
14 result of this adjustment increased the Company's requested revenue requirement by
15 \$36,000, and increases rate base by \$19,000.

16 **Q. Please explain the basis of the Stipulation relating to Issue (d), Pro**
17 **Forma Wages and Salaries Adjustment?**

18 A. In the Company's direct filing, the Company included changes to the
19 historical period labor and benefits for union, non-union and executives to 2011 levels. For
20 non-union employees, the historical period labor and benefits for 2009 were restated,
21 annualizing the actual March 1, 2009 salary increase, and including a 2.1% increase (based
22 on the current Consumer Price Index at the time of filing) for the years 2010 and 2011.

1 Union wages and salaries were adjusted for planned Union contract increases for 2010 and
2 2011.

3 This adjustment changes pro forma wages and salaries to reflect adjustments made
4 by Staff to reduce the CPI used for 2009-2011; and to reduce overtime; the number of full
5 time employee equivalents (FTE); applicable payroll taxes related to these revisions; and,
6 reduce applicable depreciation expense related to the reduction to rate base. The result of
7 this adjustment decreased the Company's requested revenue requirement by \$131,000, and
8 decreases rate base by \$65,000.

9 **Q. Turning to Issue (e), Forecast Expense Adjustment, how was this arrived**
10 **at?**

11 A. In the Company's direct filing, the Company included increases to non-labor
12 O&M and A&G expenses based on forecasts through 2011 for various FERC accounts using
13 a CPI for 2010 and 2011 of 2.1% to make the adjustment. This adjustment in the Stipulation
14 includes O&M expenses (excludes A&G expenses, FERC accounts 920-935, which are
15 adjusted in Issue (g) below) based on a lower inflation factor of 1.6% as applied to 2010 and
16 2011 expenses. The result of this adjustment decreased the Company's requested revenue
17 requirement by \$36,000.

18 **Q. Please describe Issue (f), the Working Capital Adjustment?**

19 A. In the Company's direct filing, the Company included an increase to total rate
20 base for the Company's calculated cash working capital on the basis of a "lead/lag study."
21 Due to the lead-lag study analysis done by Intervenor NWIGU and CUB the Parties agreed,
22 for settlement purposes, to remove the Company's proposed working capital adjustment,

1 decreasing the Company's requested revenue requirement by \$877,000, and decreasing rate
2 base by \$7,486,000.

3 **Q. What formed the basis for the agreement on Issue (g), Administrative**
4 **and General Expenses?**

5 A. This adjustment reduces the Company's expected administrative and general
6 expenses based on the following:

7 a.) Reduces A&G, FERC accounts 920-935, based on a CPI increase in planned
8 expenses of 1.6% per year for 2010 and 2011, rather than the 2.1% per year applied
9 by the Company in its direct filing, reducing expense by \$39,000;

10 b.) Reduces 2011 expected level of pension expense (FAS 87/FAS 106) by
11 \$197,000, based on updated information provided by the Company;

12 c.) Reduces medical expenses by \$59,000, based on Staff's proposed escalation of
13 10.2% above 2010 expenses for 2011, rather than the Company's proposed level of
14 expense for 2011.

15 d.) Reduces amounts related to Director's and Officer's (D&O) expenses by
16 \$41,000, by reducing D&O insurance expense and removing a portion of the
17 Directors' annual retainer paid in Company stock;

18 e.) Reduces A&G expenses by \$62,000 for various other miscellaneous related
19 expenses, such as meals, community relations, advertising, etc.;

20 f.) Reduces property tax expense by \$112,000 for the 3% annual escalation, included
21 by the Company in its direct filing, for 2010 and 2011.

22 The result of this adjustment for all items noted above decreases the Company's
23 requested revenue requirement by \$525,000.

1 **Q. What is the basis of the Stipulation relating to Issue (h), the FIT/SIT**
2 **Adjustment?**

3 A. This adjustment is simply a flow through adjustment for the federal and state
4 tax impact of the cost of debt component of rate of return, and increases the Company's
5 requested revenue requirement by \$132,000.

6 **Q. Please discuss Issue (i), Customer Deposits?**

7 A. This adjustment reduces rate base by the 2010 average-of-monthly-averages
8 balance of customer deposits, and increases expense for the associated interest expense paid
9 by the Company. The result of this adjustment decreases the Company's requested revenue
10 requirement by \$91,000, and decreases rate base by \$888,000.

11 **Q. What is the basis of the Stipulation relating to Issue (j), Bonus**
12 **Depreciation?**

13 A. This adjustment increases Accumulated Deferred Federal Income Taxes
14 (ADFIT) for the effect of bonus depreciation on property additions. The Company had not
15 included the effect of bonus depreciation beyond 2009, because at the time of the
16 Company's filing the Federal Government had not extended the application of Bonus
17 Depreciation for future years. Based on this updated information, this adjustment decreases
18 the Company's requested revenue requirement by \$245,000, and decreases net rate base by
19 \$2,100,000.

20 **Q. How did the Parties arrive at their adjustment for Issue (k),**
21 **Miscellaneous Expenses?**

1 A. This adjustment removes Oregon's share of severance and employee
2 relocation expenses included in the Company's direct filing, reducing the Company's
3 requested revenue requirement by \$2,000.

4
5 **Deferred Recovery of Costs Associated with Capital Projects, To Be Placed**

6 **In-Service in November of 2011.**

7 **Q. Please explain the deferred recovery of costs associated with Capital**
8 **Projects to be placed in service in November of 2011.**

9 A. A rate increase will occur on June 1, 2012 to recover the revenue
10 requirement, and deferred revenue requirement associated with the Roseburg
11 Reinforcement Project and the Medford Integrity Management Pipe Replacement Project,
12 which are described below:

13 (a.) The Roseburg Reinforcement Project, Phase II of a two phase project,
14 improves the delivery pressure and capacity of natural gas supplies into central and
15 east Roseburg by extending a high pressure natural gas supply. This phase of the
16 project will install a new high pressure (HP) distribution source by replacing the
17 existing capacity constrained pipe and installation of a new regulator station.
18 Specifically, Phase II will replace the existing capacity constrained source between
19 the Jackie Street Gate station in Winston, Oregon and the south Roseburg city limits.
20 Phase II is scheduled to be completed by the end of October 2011.

21 (b.) The Medford Integrity Management Pipe Replacement Project is being
22 completed in response to the integrity management regulation as detailed in 49 CFR
23 192, Subpart O – Pipeline Integrity Management. The regulation requires pipeline

1 operators to evaluate covered segments and mitigate risk to the public by assessing
2 the integrity of pipeline segments by direct assessment or lowering the operating
3 stress of the pipeline which will reduce the consequences of an unforeseen event.
4 This capital project addresses the replacement of six pipe sections that were
5 identified as High Consequence Areas and require mitigation within the integrity
6 management program. The project is scheduled to be completed by the end of
7 October 2011.

8 (c.) Compliance Filing and Rate Implementation. To ensure adequate time for
9 review, the Parties have agreed that the Company will submit a compliance tariff
10 filing with an effective date of June 1, 2012, on or before March 1, 2012. The filing
11 will include a “certificate of completion” for the Roseburg Reinforcement and
12 Medford Integrity Management Pipe Replacement projects, attesting to when the
13 projects were placed “in service” and are “used and useful” for providing service.
14 Avista will also provide all workpapers necessary to enable Staff or any other party
15 to conduct a review to determine whether all associated costs were prudently
16 incurred. Base rates will be adjusted on June 1, 2012 for the revenue requirement
17 associated with the prudently incurred costs related to the capital additions
18 associated with the projects. The associated revenue requirement will be deferred
19 for the period November 1, 2011 through May 31, 2012, and a temporary rate
20 adjustment will be put in place to recover the deferred revenue requirement,
21 including carrying costs during the deferral period and the recovery period, also
22 effective on June 1, 2012. The temporary rate adjustment will be in place for the
23 twelve-month period June 1, 2012 through May 31, 2013. Attachment B to the

1 Stipulation (Exhibit 101) shows an example of how the revenue requirement will be
2 calculated for the projects, as well as how the deferred revenue requirement and
3 carrying cost during the deferral period will be determined.

4 **Q. Please explain why deferred accounting treatment of these projects for**
5 **later recovery is appropriate at this time.**

6 A. As noted above, the Roseburg Reinforcement Project is Phase II of a two
7 phase project that is being completed to improve the delivery pressure and capacity of
8 natural gas supplies into central and east Roseburg. The Medford Integrity Management
9 Pipe Replacement Project is being completed in compliance with 49 CFR 192, Subpart O –
10 Pipeline Integrity Management. Both of these projects will be completed in 2011 during the
11 rate period for which rates are currently being set, and the Company will provide the
12 necessary documentation supporting these projects upon completion, which will provide the
13 necessary safeguards to ensure these projects are in the public interest.

14 In addition, during the settlement process the Company made certain concessions
15 related to capital projects, for which deferral of these projects for later recovery was a part
16 of the overall package agreed to by the Parties. Furthermore, it would eliminate the need for
17 the Company to make a general rate case filing simply to recover the costs associated with
18 these projects, which will be completed later this year.

19 **Q. On an overall basis, do the Parties believe that these adjustments**
20 **produce a revenue requirement that is fair, just and reasonable?**

21 A. Yes. When taken as a whole, we believe that the Stipulation is in the public
22 interest and would result in retail rates that are fair, just and reasonable.

23

Resolution of Rate Design and Rate Spread Issues

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

A. The Parties agree that new rates will be spread so that Residential Service Schedule 410 and General Service Schedule 420 will receive an equal percentage of revenue increase. Further, the Parties agree that Transportation Schedule 456 will receive a pro-rata allocation of the Company's natural gas rate spread percentage from its original filing for purposes of spreading the revised revenue requirement. The remaining revenue requirement will be spread to the other service schedules in a manner such that each schedule receives at least a 0.5% increase when looking at the combined March 15, 2011 and June 1, 2011 rate implementation schedule.

The Parties support the spread of the March 15, 2011 overall revenue increase of \$2.004 million, or 2.01%, to the Company's service schedules as follows:

Residential Service Sch. 410	2.16%
General Service Sch. 420	2.16%
Large General Service Sch. 424	0.38%
Interruptible Service Sch. 440	0.38%
Seasonal Service Sch. 444	1.37%
Transportation Service Sch. 456	0.80%

The Parties support the spread of the June 1, 2011 overall revenue increase of \$0.971 million, or 0.98%, to the Company's service schedules as follows:

Residential Service Sch. 410	1.04%
General Service Sch. 420	1.04%

1	Large General Service Sch. 424	0.19%
2	Interruptible Service Sch. 440	0.19%
3	Seasonal Service Sch. 444	0.66%
4	Transportation Service Sch. 456	0.38%

5 Finally, as it relates to the rate spread for the implementation of rates on June 1,
6 2012, the Parties agree to a pro-rata allocation of the Company's natural gas rate spread
7 percentage from the March 15, 2011 rate increase for purposes of spreading the additional
8 revenue requirement. The calculation of the revenue increase by service schedule is shown
9 on Page 1 of Attachment C to the Stipulation (Exhibit 101).

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

12 A. For the rates that will go into effect on March 15, 2011, the Parties support
13 rate design changes as follows: the monthly customer charges under Residential Service
14 Schedule 410 and General Service Schedule 420 will be increased by \$0.50, from \$6.50 to
15 \$7.00 for Schedule 410 and from \$8.50 to \$9.00 for Schedule 420. The monthly customer
16 charge for Large General Service Schedule 424 will be increased by \$2.00, from \$48.00 to
17 \$50.00 per month. The usage (therm) charge within each of the sales service schedules will
18 be increased by the appropriate amount to result in the total revenue increase for each
19 schedule. For Transportation Service Schedule 456, the monthly customer charge will be
20 increased by \$25.00 per month, from \$250.00 to \$275.00. The remaining revenue increase
21 within the Schedule is reflected through a uniform percentage increase applied to the block
22 (usage) rates within the Schedule.

1 For the rates that will go into effect on June 1, 2011 and on June 1, 2012, the usage
2 (therm) charge within each of the sales service schedules will be increased by the
3 appropriate amount to result in the total revenue increase for each schedule. For
4 Transportation Service Schedule 456, the revenue increase will be a uniform percentage
5 increase applied to the block (usage) rates within the Schedule.

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

8 **Other Issues**

9 **Q. What other terms does the Stipulation include?**

10 A. The Parties also agree to the following:

11 (a.) Accounting Procedures – The Company has an on-going project to review its
12 accounting policies and procedures for electric and natural gas service in all
13 jurisdictions, to provide training to its employees, and to conduct an audit of total
14 Company accounting practices. Upon completion of this review of accounting
15 policies and procedures project in 2011, the Company agrees to provide to the Parties
16 with copies of any and all reports associated with this project.

17 (b.) Information for Future Rate Case Filings - In the current filing, the Company
18 used the 2009 Results of Operations (ROO) and made a series of adjustments to
19 derive forecasted 2011 test year data. In future rate case filings, the Company will
20 begin with the most recent ROO report as filed with the Commission, and after
21 making necessary adjustments, will prepare a forecasted Results of Operations report
22 for the test year. In addition, the Company will provide supporting detail and
23 workpapers to support the forecasted Results of Operations report.

1 (c.) Allocation Methodology – The Company will meet with the Parties prior to
2 the Company's next general rate case filing to discuss the Company's allocation
3 processes and methodologies.

4 (d.) Revenue Adjustment – The Revenue Adjustment represents the difference
5 between the Company's actual recorded retail revenues during 2009 and forecasted
6 revenue for 2011. Forecasted revenue for 2011 is based on projected customer usage
7 and number of customers from the Company's most recent forecast applied to the
8 present natural gas rates in effect. The Parties have agreed to the Revenue
9 Adjustment proposed by the Company. The Company agrees that it will use the load
10 forecast from its most recent financial forecast for all ratemaking purposes, including
11 the annual PGA and Integrated Resource Plan (IRP), as it relates to customer counts
12 and projected natural gas usage.

13 (e.) Jackson Prairie (JP) Storage – The Parties agree that Oregon will receive 25%
14 of the total of the allocation of JP capacity and deliverability resulting from all JP
15 expansion volumes and costs since 1999, including the additional JP capacity and
16 deliverability that will revert to Avista Utilities on May 1, 2011 and the capacity and
17 deliverability added since 1999 and approved in Docket UG 181. Further, the Parties
18 agree to the revised accounting treatment as proposed by the Company. (See Direct
19 Testimony of Elizabeth Andrews, Exh. 700, p. 14) In addition, the Company agrees
20 to work with the Parties on the necessary reports and changes to storage accounting
21 processes and documentation to quantify all gas price stability and optimization
22 benefits Oregon customers will receive from the additional JP Storage through the
23 PGA process.

Statements of the Parties

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?

A. Yes. After a thorough review and analysis of the Company's filing, including the review of Avista's responses to Staff's 248 data requests as well as other Parties' data requests, Staff prepared a proposed settlement package as an aid to discussion for the settlement conference. Staff's and other Parties' proposals were thoroughly discussed during the settlement meetings and a reasonable compromise of the issues raised by all Parties was reached. Staff believes that the Stipulation results in fair, just, and reasonable rates.

1 Staff's summary testimony in support of the Stipulation from each of the Staff
2 analysts who reviewed the Company's filing can be found in Appendix A of this document.

3 **Statement of CUB**

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

6 A. Yes. CUB thoroughly reviewed and analyzed the Company's filing. CUB
7 reviewed Avista's responses to Staff's 248 data requests as well as Avista's responses to
8 CUB and NWIGU's data requests. CUB also reviewed Staff's proposed settlement package
9 and submitted a joint CUB/NWIGU settlement package for discussion at the settlement
10 conference. CUB and NWIGU's joint settlement proposal was thoroughly discussed during
11 the settlement meetings, as was Staff's settlement proposal. A reasonable compromise of the
12 issues raised by all Parties was reached. CUB believes that the stipulation will result in fair,
13 just, and reasonable rates.

14 **Statement of NWIGU**

15 **Q. Please explain why NWIGU supports the Stipulation.**

16 A. NWIGU supports the Stipulation and recommends the Commission adopt it
17 because the best interests of Avista's customers are served by the underlying fair
18 compromise on all revenue requirement and rate spread and design issues. While the
19 signing parties may each hold different positions on the individual components of Avista's
20 natural gas revenue requirement adjustments, NWIGU has based its assessment upon the
21 compromises of various revenue requirement issues that brought down the overall gas
22 revenue requirement increase by \$3.454 million to \$2.9 million, its thorough review of the
23 filing and responses to data requests, including the issuance of 89 data requests jointly by

NWIGU and CUB to Avista, as well as the retention and consultation by NWIGU and CUB with Mr. Hugh Larkin of Larkin and Associates whose services were retained and utilized by NWIGU and CUB in analyzing the filing, the preparation of data requests and settlement conference proceedings in this docket. In addition, NWIGU supports the overall reduction as it incorporates proposed reductions recommended by NWIGU and CUB as part of the settlement, in particular adjustments for 2010 tax law changes and the removal of any working capital adjustment. In addition, the settlement revenue requirement reduction is in part resulting from a reduced cost of capital that incorporates 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 is done in a manner that is consistent with the results of the Company's cost of service analysis. Under the Stipulation, it is important from NWIGU's perspective that all schedules move toward their relative cost of service. In recommending Commission approval of this Stipulation, NWIGU is not seeking Commission approval of any new process or ratemaking method as part of the Stipulation and reserves the right to raise all issues compromised in this proceeding in any future natural gas rate case.

Conclusion

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.

Q. Does this conclude your joint testimony?

1 A. Yes.

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Deborah Garcia. I am a Senior Revenue Requirements Analyst in the Electric and Natural Gas Revenue Requirements section of the Public Utility Commission of Oregon. My business address is 550 Capitol Street NE, Suite 215, Salem, Oregon 97301-2551.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Appendix B.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to two-fold. First, I explain Staff's intent in providing summary testimony in support of the Stipulation in UG 201, Avista Utilities' (Avista or Company) most recently filed general rate case. Next, I present each Staff Witness's summary testimony, including my own.

Q. WHY IS STAFF PROVIDING SUMMARY TESTIMONY IN SUPPORT OF THE STIPULATION?

A. Staff and the other Parties In this proceeding were able to reach a stipulated agreement prior to Staff filing testimony. This testimony identifies which areas of Avista's filing each Staff person reviewed and confirms that their findings lead to support of the stipulation.

**Q. HAS STAFF FOLLOWED THIS PROCEDURE IN SUPPORT OF
PREVIOUS STIPULATIONS?**

A. Yes. To provide additional detail in the record, Staff appended its summary testimony in support of the stipulation to the joint testimony filed concurrently with the UE 217 Stipulation.¹

**Q, PLEASE PROVIDE A TABLE THAT LISTS EACH STAFF WITNESS AND
THE PAGE NUMBER ON WHICH EACH SUMMARY TESTIMONY
BEGINS.**

A. All Witness Qualifications are located in Exhibit Staff Joint Summary
Testimony/101:

Witness	Page Number
Deborah Garcia	2
Jorge Ordonez	5
Dustin Ball/Danielle Sander	8
Ken Zimmerman	9
Ming Peng	11
Judy Johnson	12
Paul Rossow	12
Irina Phillips	13
George Compton	15

Q. PLEASE RESTATE YOUR NAME AND OCCUPATION.

A. My name is Deborah Garcia. I am employed as a Senior Revenue
Requirement Analyst in the Electric and Natural Gas Division.

¹ UE 217 is PacifiCorp's most recently filed general rate case.

1 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

2 A. I created a model designed to analyze and verify Avista's proposed revenue
3 requirement associated with its proposed 2011 calendar test year. The test
4 year was calculated by applying a series of positive and negative adjustments
5 to the Company's adjusted 2009 results of operations (base year). Using the
6 same model, I also verified the revenue requirement resulting from the
7 stipulation in this proceeding.

8 I reviewed the following Company-proposed specific positive and negative
9 adjustments to the base year: Miscellaneous Restating Adjustment; Franchise
10 Tax Pass Through Elimination; Remove SB 408 Accrual; State and Federal
11 Income Tax Adjustment (SIT-FIT); Restate Debt Interest; Restated Salaries &
12 Wages; Forecast Working Capital. I reviewed the level of customer service,
13 informational, and sales expenses included in the 2011 test year. I also
14 reviewed the level of advertising expense to ensure compliance with
15 OAR 860-026-0022(3).²

16 To inform my analysis of the above areas, I issued data requests and
17 reviewed the Company's responses, as well as the responses to data requests
18 submitted by other Parties that were related to those areas. I also had multiple
19 telephone conversations with Avista staff for purposes of clarification.

² OAR 860-026-0022, Presumptions of Reasonableness of Advertising Expenses in Utility Rate Cases (3) defines the level of advertising presumed just and reasonable for rate-making purposes.

**Q. AS A RESULT OF YOUR REVIEW, DID YOU PROPOSE ANY CHANGES
TO THE COMPANY'S TEST YEAR?**

A. Yes. I proposed a reduction to the test year operation and maintenance revenue requirement associated with labor-related expense including wages and salaries, number of full time equivalent positions, overtime, and corresponding payroll tax. I also proposed jointly with other Staff, the elimination to rate base of the addition of working capital as proposed in Avista's 2011 test year. I also proposed adjustments to SIT-FIT, and an adjustment of the revenue requirement associated with the cost of debt based on Staff's proposed adjustments to Avista's capital structure and cost of debt. The last two adjustments were calculated on a flow-through basis as a result of proposed changes to other components of the test year revenue requirement.

**Q. DO YOU SUPPORT THE ADJUSTED REVENUE REQUIREMENT
RESULTING FROM THE STIPULATION?**

A. Yes. The stipulated adjustment includes my proposed reduction to labor-related expenses and results in a fair and reasonable level to be included in rates.

**Q DO YOU PROPOSE ADJUSTMENTS TO ANY OTHER AREAS OF THE
COMPANY'S 2011 TEST YEAR RESULTS OF OPERATIONS?**

A. No. All necessary adjustments to the 2011 test year results of operations are captured in the stipulation.

1 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

2 A. My name is Jorge Ordonez. I am employed as a Senior Financial Economist,
3 Economic and Policy Analysis Section, in the Economic Research and
4 Financial Analysis Division of the Utility Program.

5 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

6 A. I reviewed those portions of Avista's filing pertaining to the Company's
7 proposed costs of capital, including the cost of common equity, cost of long-
8 term debt, and proposed capital structure.

9 **Q. DO YOU SUPPORT THE 8.00 PERCENT RATE OF RETURN (ROR) IN**
10 **THIS STIPULATION, WHICH RESULTS IN A \$1.6 MILLION DECREASE**
11 **IN THE REVENUE REQUIREMENT FROM THAT REQUESTED IN**
12 **AVISTA'S FILING?**

13 A. Yes. Staff submitted 165 data requests related to Avista's cost of capital and
14 conducted substantial analysis on the Company's cost of long-term debt, cost
15 of common equity capital, and on the Company's capital structure.
16 As to the cost of equity, I developed information on comparable local gas
17 distribution utilities and estimates of the forward-looking cost of equity for each
18 comparable company under multiple scenarios of future growth rates. With
19 respect to the cost of long-term debt, I developed analyses of the cost of the
20 Company's embedded and *pro forma* long-term debt relative to the 2011 test
21 year. Additionally, the Company's proposed capital structure was reviewed
22 relative to both historical values and the capital structure currently authorized.

Q. IS THE STIPULATED ROR EQUAL TO THAT AUTHORIZED BY ORDER NO. 09-422 IN DOCKET NO. UG 186?

A. No. The stipulated ROR of 8.00 percent is 19 basis points (or 0.19%) lower than the 8.19 percent authorized in Order No. 09-422 of Docket No. UG 186, as shown in the following table:

Docket No. UG 186 authorized			
Component	Percent of Capitalization	Component Cost	Weighted Cost
Long-term debt	50.00%	6.28%	3.14%
Common equity	50.00%	10.10%	5.05%
100.00%			8.19%

Docket No. UG 201 stipulated			
Component	Percent of Capitalization	Component Cost	Weighted Cost
Long-term debt	50.00%	5.90%	2.95%
Common equity	50.00%	10.10%	5.05%
100.00%			8.00%

Q. WHAT ACCOUNTS FOR THE 19 BASIS POINT REDUCTION IN THE COMPANY'S ROR?

A. Avista's cost of long-term debt continues to decline due to issuances in the current debt market environment, in which yields are at historically low levels. The following graph shows the average annual yield of Moody's Baa Utility Bond Index (Baa Utility Bonds) from 1980 through 2010.

The 6.00 percent average yield of Baa Utility Bonds from October 2009³ through December 2010 is considerably lower than the 9.40 percent average yield of Baa Utility Bonds from January 1980 through December 2010.

³ The Commission approved the stipulation in Docket No. UG 186 on October 26, 2009.

The impact of this favorable debt environment on Avista's cost of long-term debt, as the Company issues new debt at historically low interest rates, is reflected in the stipulated 5.90 percent cost of long-term debt, which is lower than the 6.28 percent cost of long-term debt authorized in Docket No. 186.



Q. DO YOU SUPPORT THE STIPULATED ROR OF 8.00 PERCENT?

A. Yes. The stipulated cost of capital values are included in the following table:

Docket No. UG 201's stipulated ROR			
Component	Percent of Capitalization	Component Cost	Weighted Cost
Long-term debt	50.00%	5.90%	2.95%
Common equity	50.00%	10.10%	5.05%
100.00%			8.00%

Q. PLEASE STATE YOUR NAMES AND OCCUPATIONS.

A. My name is Dustin Ball. I am employed as a Senior Financial Analyst, Corporate Analysis and Water Regulation Section, in the Economic Research and Financial Analysis Division of the Utility Program.

My name is Danielle Sander. I am employed as a Financial Analyst, Corporate Analysis and Water Regulation Section, in the Economic Research and Financial Analysis Division of the Utility Program.

Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?

A. Together we reviewed Avista's A&G expenses, insurance costs, pension and benefit expenses, and taxes other than income.

Q. DO YOU SUPPORT THE MISCELLANEOUS A&G REDUCTIONS INCLUDED IN THE STIPULATED ADJUSTMENT WHICH DECREASES REVENUE REQUIREMENT BY APPROXIMATELY \$410,000?

A. Yes. Included in this adjustment were decreases associated with medical benefits, FAS 87 pension expense, FAS 106 post retirement benefits, and directors and officer's insurance, directors' compensation, and various meals, entertainment, and charitable expenses. The stipulated adjustment represents a fair and reasonable level of expenses to be included in rates.

Q. DO YOU SUPPORT THE TAXES OTHER THAN INCOME REDUCTION INCLUDED IN THE STIPULATED ADJUSTMENT WHICH DECREASES REVENUE REQUIREMENT BY APPROXIMATELY \$115,000?

A. Yes. This adjustment revises assumptions in the forecasting of property taxes and results in a fair and reasonable level of expenses to be included in rates.

1 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

2 A. My name is Kenneth R. Zimmerman. I am a Senior Analyst with the Oregon
3 Public Utility Commission, Electric and Gas Rates Division.

4 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

5 A. I reviewed sales and transportation revenues, purchased gas, distribution
6 O&M, underground storage plant and expenses, and utility plant in service
7 and plant additions. I proposed adjustments for underground storage plant
8 and expenses, and utility plant in service and plant additions.

9 **Q. DO YOU SUPPORT THE TERMS OF THE STIPULATION ABOUT UTILITY**
10 **PLANT IN SERVICE AND PLANT ADDITIONS?**

11 A. Yes. My original position removed from rate base Phase II of the Roseburg
12 Reinforcement Project and the Medford IMP pipe replacement project
13 proposed for inclusion by Avista/500/DeFelice Table 2 at page 7 addressing
14 "Oregon Gas Distribution Capital Expenditures." I opposed inclusion for two
15 reasons. First, neither plant would meet the requirements of ORS 757.355
16 to be used and useful by entering service by the time rates for the instant
17 docket go into effect. Second, Avista failed to provide information and data
18 that supports the amounts requested as reasonable and prudent (e.g.,
19 competitive bidding). Also, just before settlement talks began I accepted
20 Avista's plant addition at Grants Pass as reasonable and prudent and thus
21 eligible for inclusion in rate base after Avista provided full details of the
22 competitive bidding process that supports the cost of that project as
23 reasonable and prudent. The stipulation resolves the ORS 757.355, used

1 and useful issue. Also, Avista has agreed to provide to the parties full
2 details of the competitive bidding process for Phase II of the Roseburg
3 Project.

4 **Q. DO YOU SUPPORT THE TERMS OF THE STIPULATION FOR**
5 **UNDERGROUND STORAGE PLANT AND EXPENSES?**

6 A. Yes. Initially I reduced the jurisdictional allocation of both plant into rate base
7 and operational costs of the capacity and deliverability enhancements of
8 Jackson Prairie storage about to be returned to the Company by Shell Energy
9 North America. This reduction in the allocation reflected Avista solely receiving
10 deliverability from those enhancements to meet the requirements of peak day
11 events; for reliability purposes. I concluded that to meet Oregon's reliability
12 needs a much smaller share of the enhancements was necessary and adjusted
13 cost allocation to Oregon accordingly. For the return of capacity and
14 deliverability to Avista by Shell Energy North America at the Jackson Prairie
15 storage facility a paragraph is included in the joint stipulation carefully
16 explaining the conditions for Oregon absorbing 25 percent of the plant and
17 operating costs of this return. This allocation is reasonable so long as Oregon
18 receives the full benefits of both the mitigation of peak day reliability risks and
19 the gas price savings realized from the inclusion of storage gas in Avista's
20 annual PGA portfolio as well as the off-system sale of storage gas not used to
21 meet reliability needs. To carry out the intent of this paragraph Avista will work
22 with Staff and the other parties to develop and put in place appropriate
23 accounting to quantify all of the gas price stability and optimization benefits

1 Oregon customers will receive from the additional JP Storage through the PGA
2 process.

3 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

4 A. My name is Ming Peng. I am employed as a Senior Economist, Economic and
5 Policy Analysis Section, in the Economic Research and Financial Analysis
6 Division of the Utility Program.

7 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

8 A. I reviewed the depreciation expense and depreciation reserve portions of the
9 Company's filing as documented by witness Elizabeth M. Andrews in Exhibit
10 AVISTA/701. I found that the Company's use of depreciation rates in
11 calculating the depreciation expense and the accumulated depreciation
12 complied with Order No. 08-182 issued subsequent to the settlement
13 agreement in Docket No. UM 1351. Therefore, I do not propose adjustments to
14 the values in Avista's filing for depreciation expense or for accumulated
15 depreciation. However, changes to the depreciation expenses and the
16 accumulated depreciation included in base rates were made to correspond to
17 the stipulated adjustments related to capital additions or rate base.

18 **Q. DO YOU SUPPORT THE REVENUE REQUIREMENT IN THE STIPULATION?**

19 A. Yes. The stipulated adjustments represent a fair and reasonable level of
20 expenses to be included in rates.

21 **Q. PLEASE STATE YOUR NAME and OCCUPATION.**

1 A. My name is Judy Johnson. I am employed as the Manager of Revenue
2 Requirement in the Electric and Natural Gas Section of the Utility Program.

3 **Q. WHAT AREA OF AVISTA'S FILING DID YOU REVIEW?**

4 A. I reviewed Avista's accumulated deferred income taxes.

5 **Q. DO YOU SUPPORT THE STIPULATED ADJUSTMENT IN THIS AREA?**

6 A. Yes. The stipulated adjustment represents a fair and reasonable level of
7 expense to be included in rates.

8 **PLEASE STATE YOUR NAME AND OCCUPATION.**

9 A. My name is Paul Rossow. I am employed as a Utility Analyst in the Revenue
10 Requirements Section under the Electric and Natural Gas Division of the Utility
11 Program.

12 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

13 A. I reviewed Avista's Miscellaneous Operating Revenues, Memberships, Dues,
14 Donations, Uncollectible Expense, Materials and Supplies, and Prepaid
15 Expenses (Account 165).

16 **Q. DO YOU SUPPORT THE STIPULATION?**

17 A. Yes.

18 **Q. DURING YOUR REVIEW, DID YOU DISCOVER ANY OTHER ISSUES?**

19 A. Yes. In Staff's settlement packet, cited under Other Issues, I included a
20 recommendation that Avista review how they record expenses associated with
21 memberships, dues and donations that I believe to be inaccurately booked to
22 Federal Energy Regulatory Commission accounts 908 through 930.2, or have

1 no benefit to Oregon rate payers. The stipulation includes a specific
2 agreement regarding an audit of all accounts that is explained in the Joint
3 Testimony/Stipulating Parties/100/Other Issues a. Accounting.

4 **Q. DID YOU RECOMMEND ANY OTHER ADJUSTMENTS IN AVISTA'S**
5 **GENERAL RATE CASE FILING?**

6 A. No.

7 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

8 A. My name is Irina Phillips. I am employed as an Economist, Economic and
9 Policy Analysis Section, in the Economic Research and Financial Analysis
10 Division of the Utility Program.

11 **Q. WHAT AREAS OF AVISTA'S FILING DID YOU REVIEW?**

12 A. I reviewed Avista's weather-normalization methodology and the Company's
13 2011 test year load forecast. I issued 40 data requests regarding these areas
14 and reviewed the Company's responses to multiple data requests in these
15 areas that were submitted by other Parties. I also reviewed the Company's
16 inter-jurisdictional allocation factors and proposed a rate base adjustment for
17 working capital.

18 **Q. AS A RESULT OF YOUR REVIEW, DO YOU PROPOSE ANY CHANGES**
19 **TO THE COMPANY'S WEATHER-NORMALIZATION METHODOLOGY,**
20 **AS USED BY THE COMPANY IN DEVELOPING THE 2011 TEST YEAR**
21 **LOAD FORECAST?**

1 A. No. In the course of my analysis I discovered volumetric differences between
2 the Integrated Resource Plan (IRP) - Purchased Gas Adjustment (PGA) load
3 forecast and the load forecast included in the Company's UG 201 general rate
4 case filing, which forecasts were nearly contemporaneous in submission. The
5 Company explained that the forecasts differ because the SENDOUT model is
6 used to produce the IRP/PGA forecast and the Financial Planning and Analysis
7 (FP&A) group's model is used to produce the rate case load forecast. As a
8 result of settlement discussions, the Parties agreed that for future general rate
9 case, IRP, and PGA filings, Avista will submit a load forecast developed using
10 the FP&A group's model.

11 **Q. DO YOU PROPOSE ANY CHANGES TO THE COMPANY'S INTER-**
12 **JURISDICTIONAL ALLOCATION FACTORS, AS APPLIED TO THE 2011**
13 **TEST YEAR?**

14 A. No. As Avista's Four-Factor allocation methodology was established in the
15 early 1990s, during the settlement conferences I proposed and Parties agreed
16 to meet prior to the Company's next general case filing to discuss the
17 Company's allocation process and methodology.

18 **Q WHAT ADJUSTMENT TO AVISTA'S PROPOSED WORKING CAPITAL**
19 **ADDITION TO RATE BASE DO YOU RECOMMEND?**

20 A. After reviewing Avista's request, auditing the submitted Lead-Lag study, and
21 reviewing the Company's responses to the 19 data requests Staff submitted
22 regarding this proposal, I concluded that no allowance for working capital is
23 necessary; i.e., the entire amount proposed by the Company should be

1 removed. Avista is currently allowed to include fuel inventory and customer
2 prepayments in rate base and the authorized revenue requirement therefore
3 includes a rate of return on these items.

4 **Q. PLEASE STATE YOUR NAME AND OCCUPATION.**

5 A. My name is George R. Compton. I am employed three-quarter time as a
6 Senior Economist, Economic and Policy Analysis Section, in the Economic
7 Research and Financial Analysis Division of the Utility Program. I represent
8 the OPUC staff (Staff) in this docket regarding the subjects of rate spread
9 (i.e., the assignment of respective portions of the overall utility revenue
10 requirement to the various customer schedules) and rate design (i.e., the
11 actual tariff prices).

12 **Q. DO YOU SUPPORT THE RATE SPREAD AND RATE DESIGN ELEMENTS**
13 **OF THE STIPULATION?**

14 A. I do.

15 **Q. PLEASE ELABORATE.**

16 A. While the most prominent rate increases are for the customer charges (e.g.,
17 the residential customer charge is being elevated by 50 cents per month to a
18 total of \$7.00), the final levels are modest compared to the customer charges
19 of other utilities regulated by this Commission,⁴ and are beneath what are
20 commonly regarded within the industry as explicit customer costs. The
21 increases in the volumetric charges are in keeping with the stipulated overall

⁴ PGE's and Pacific Power's monthly residential customer charges are each \$9.00.

1 percentage revenue increases for the individual schedules (which do not
2 exceed 3.2%).

3 I registered some concern to Avista and the other parties regarding the
4 validity of the portion of the Company's marginal cost of service analysis
5 pertaining to core mains. To test the robustness of the Company's approach I
6 excluded main extensions from the core mains' cost allocations. While in
7 some cases the outcomes were starkly different from the Company's findings,
8 the evidence was insufficient to call for major qualitative departures from
9 Avista's originally filed recommendations. Similarly, the evidence was
10 insufficient to justify imposing different percentage increases to the residential
11 and small commercial classes (respectively, Schedules 410 and 420). Hence
12 the equal percentage increase for those two schedules as called for in the
13 Stipulation.

14 **Q. DID YOU CHECK AGAINST THE BILLING DETERMINANTS THE RATES**
15 **CONTAINED ON PAGE 2 OF ATTACHMENT C OF EXHIBIT 101 IN**
16 **ORDER TO VERIFY THAT THE PROJECTED REVENUE INCREASES**
17 **COMPORT WITH THE STIPULATED AMOUNTS?**

18 A. Yes, and they do.

19 **Q. DOES THAT CONCLUDE STAFF'S TESTIMONY IN SUPPORT OF THE**
20 **JOINT STIPULATION?**

21 A. Yes.

WITNESS QUALIFICATION STATEMENT

NAME: Deborah A. Garcia

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Revenue Requirement Analyst

ADDRESS: 550 Capitol St NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Western Utility Rate School, San Diego, California. (2002)
- National Association of Regulatory Commissioners' Annual Regulatory Studies Program. (2000)
- National Association of Regulatory Utility Commissioners' Annual Regulatory Studies Program at Michigan State University. (2000)
- Certificate in Mediation Training (1994)
- College-level coursework in financial accounting, business law, business management, and economics.

EXPERIENCE:

Sr. Revenue Requirement Analyst --Public Utility Commission of Oregon - Lead accounting witness for revenue requirement in various proceedings. (2007 - Present)

Utility Analyst -- Public Utility Commission of Oregon - Focus on utility policies, natural gas purchased gas adjustment issues, utility territory allocation issues, consumer issues, tariff review, promotional concessions, rate case review & witness, and rulemakings. (2002 - 2007)

Research Analyst -- Public Utility Commission of Oregon - Focus on SB 1149 implementation, rulemaking, various utility and electric service supplier policies, including certification of electric service suppliers, tariff review, rate case review & witness. (2000 -2002)

Compliance Specialist -- Public Utility Commission of Oregon - Handled consumer complaints, liaison between the public, regulated utilities and various Commission staff, reviewed proposed tariffs, administrative rules, and policies with an emphasis on potential impact to consumers. Identified trends, services, and policies where no statute, rule or precedent applied and recommended appropriate action. (1992 – 2000)

WITNESS QUALIFICATION STATEMENT

NAME: Jorge Ordonez

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Financial Economist

ADDRESS: 550 Capitol St NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Utility Management Certificate
Willamette University, Oregon, 2008
- Certificate in Management of Hydropower Development
Swedish International Development Cooperation Agency,
Sweden, 2006 & South Africa, 2007
- Fulbright Scholar, MBA, concentration in finance
Willamette University, Oregon, 2005
- Certificate in Project Appraisal and Management
Maastricht School of Management, Netherlands, 2002
- BS, Mechanical Engineering, thermal power efficiency
Electrical & Mechanical Engineering School
San Antonio Abad University, Peru, 1998

EXPERIENCE:

I received a Bachelors of Science degree in Mechanical Engineering from San Antonio Abad University in Cusco, Peru in 1998. Subsequently, as a Fulbright Scholar, I received an MBA with an emphasis in finance from Willamette University in 2005. From 1999 to 2008, I worked for a Peruvian power generation company and was promoted many times, working as an Engineer, Resource Scheduler, Manager of Economic Planning and Vice-President of Generation, Commercial and Trading. Since 2009, I have been employed by the Public Utility Commission of Oregon as a Senior Financial Economist in the Economic Research and Financial Analysis Division, evaluating utilities' cost of capital, issuance of securities, marginal cost studies and mergers and acquisitions.

WITNESS QUALIFICATION STATEMENT

NAME: Dustin Ball

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Financial Analyst

ADDRESS: 550 Capitol Street NE, Suite 215, Salem, Oregon 97308-2148.

EDUCATION:

Bachelor of Science, Business focusing in Accounting, Western Oregon University
(2003)

EXPERIENCE:

Employed with the Oregon Public Utility Commission since August 2007. I am a Senior Financial Analyst for the Economic Research & Financial Analysis Division.

Employed by the Oregon Real Estate Agency as a Financial Investigator in the Regulations Division from January 2006 to August 2007.

Employed by the Oregon Department of Revenue as an Income Tax Auditor, in the Personal Tax and Compliance Section from January 2004 to January 2006.

Licensed Tax Consultant in the State of Oregon.

WITNESS QUALIFICATION STATEMENT

NAME: Danielle Sander

EMPLOYER Public Utility Commission of Oregon

TITLE: Utility Financial Analyst

ADDRESS: 550 Capitol St. NE, Suite 215 Salem, Oregon 97308-2148

EDUCATION:

Bachelor of Science, Business Administration double major in Human Resources Management and Management & Leadership

EXPERIENCE:

Currently employed with the Oregon Public Utility Commission as a Utility Financial Analyst, Corporate Analysis and Water Regulation.

Employed by Portland State University as an Accountant I from 2006 to 2010.

Employed by Consolidated Supply Co. as a Corporate Credit Analyst from 2005-2006.

WITNESS QUALIFICATION STATEMENT

NAME: Ken Zimmerman

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Utility Analyst

ADDRESS: 550 Capitol St NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- MA, Science and Technology Studies
Lancaster University (UK), 1996
- PhD, History; Science and Technology
University of Texas, 1980
- PhD, Sociology and Anthropology; Knowledge, Science, and Technology
University of North Texas, 1979
- MA, Psychology (clinical) and Sociology
St. Mary's University (TX), 1973
- BA, History, American Literature, Philosophy; BS Mathematics
Baylor University, 1970

EXPERIENCE:

Between 1966 and 1980 I was first a part-time and then full-time legislative staff member for the Texas House and Senate. Beginning in 1970 I was also a member of the US House of Representatives staff, for three Texas Representatives. My work in these positions focused on analysis of specifically assigned energy and resources questions; bill writing and research. I also taught at the secondary and college levels between 1980 and 2000 and provided energy and resource consulting services to cities and counties. From 1985 to 2005 I was the "Chief of the Energy Group" for the Public Utility Division of the Oklahoma Corporation Commission. In that position I was the head of an analytical group that included accountants, economists, financial analysts, attorneys, and engineers assigned to prepare and oversee all work relating to regulation of electric, natural gas, water, and cotton gin utilities operating in Oklahoma; advising Commissioners in these areas; preparing testimony; testifying under oath. I accepted my current position with the Oregon Public Utility Commission in 2005.

WITNESS QUALIFICATION STATEMENT

NAME: Ming Peng

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist

ADDRESS: 550 Capitol St. NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Depreciation studies -Society of Depreciation Professionals - 2008
- Certified Rate of Return Analyst (CRRRA)
Society of Utility and Regulatory Financial Analysts - 2002
- NARUC Annual Regulatory Studies Program
Michigan State University, East Lansing - 1999
- Master of Science, Agricultural Economics
University of Idaho, Moscow - 1990
- Bachelor of Science, Statistics
People's University of China, Beijing - 1983

EXPERIENCE:

Senior Economist - Public Utility Commission of Oregon Review utility filings; testify as an expert witness in numerous proceedings on issues related to depreciation, cost of debt capital, financial and risk analysis on merger and acquisition dockets, electricity load and price forecasting, sampling design for revenue issues. Work functions have also included weather normalization, public utility auditing, interest rate reporting, and market competition survey and analysis for telecom industry. (1999 – Present)

Industry Analyst - Weyerhaeuser Company Forecasted product demand, price trends, and price elasticity. Established the process (specific methods and techniques) for market, investment and economic analyses. Activities included using a wide variety of analytical techniques. (1996-1998)

Economist (Natural Resources) - Idaho Department of Water Resources - Conducted economic research. Developed analysis in evaluating policy and planning alternatives; determined the financial and economic feasibility of proposed natural resource projects using economic modeling and investment analysis. (1992-1996)

WITNESS QUALIFICATION STATEMENT

NAME: Judy A. Johnson

EMPLOYER: Public Utility Commission of Oregon

TITLE: Program Manager – Rates and Tariffs

ADDRESS: 550 Capitol St. NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- MBA with an emphasis in Statistics
Eastern Washington University, Cheney, Washington
- BA in Accounting
Eastern Washington University, Cheney, Washington

EXPERIENCE:

I have been employed by the Oregon Public Utility Commission since March of 1995. My current position is Program Manager of Rates & Tariffs. I was previously a Senior Analyst for the Revenue Requirements Section. (3/95 - Present)

I was employed by Avista Corporation, an electric and natural gas utility located in Spokane, Washington. The majority of my employment was spent in the Rates and Regulatory Affairs Department as a Senior Rate Analyst. I have prepared testimony and exhibits in numerous electric and natural gas rate cases, primarily in the area of results of operations and cost of service. (6/77 - 2/95)

WITNESS QUALIFICATION STATEMENT

NAME: Paul Rossow

EMPLOYER: Public Utility Commission of Oregon

TITLE: Utility Analyst

ADDRESS: 550 Capitol Street NE, Suite 215, Salem, Oregon 97308-2148.

EDUCATION:

Professional Accounting and Computer Application Diplomas
Trend College of Business 1987

EXPERIENCE:

I have been employed with the Public Utility Commission of Oregon as a Utility Analyst since October of 2002. Current responsibilities include research issues relating to energy utilities. I have actively participated in regulatory proceedings in Oregon, including UE 147, UE 167, UE 170, UE 179, UE 180, UE 197, UE 210, UE 213, UE 215, UG 152, UG 153, UG 181, and UG 186.

I have attended the Utility Rate School sponsored by the Committee on Water of the National Association of Regulatory Utility Commissioners in May of 2005 and the Institute of Public Utilities sponsored by the National Association of Regulatory Utility Commissioners at Michigan State University in August of 2005.

WITNESS QUALIFICATION STATEMENT

NAME: Matthew Muldoon

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist

ADDRESS: 550 Capitol Street NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Masters of Business Administration with Finance Certificate
Portland State University
- Bachelor of Arts
University of Chicago

EXPERIENCE: I have been employed by the OPUC from April of 2008 to the present. My current responsibilities include financial and rate analysis in the Economic Research and Financial Analysis Division of the OPUC's Utility Program, with a focus on electric transmission and wind integration. I participate in regional and sub-regional planning including the Northern Tier Transmission Group (NTTG) Management, Transportation Use and Cost Allocation Committees, Western Electricity Coordinating Council (WECC) Planning Coordination, Market Interface and Variable Generation Committees and the joint Columbia Grid and NTTG Wind Integration Study Team (WIST).

From 2002 to 2008 I was Executive Director of the Acceleration Transportation Rate Bureau, Inc. (ARB), where I developed new rate structures for surface transportation and created metrics to ensure program success within regulated processes.

I was Vice President of Operations for Willamette Traffic Bureau, Inc. from 1993 to 2002, where I managed tariff rate compilation and analysis. I also developed new information systems and did sensitivity analysis for transportation rate modeling.

I have prepared, presented, and defended formal testimony in contested hearings before the ICC, STB, WUTC and ODOT, and prepared and presented Staff testimony in the BPA WP-10 transmission and generation rate cases. More recently I have analyzed proposed transmission projects in integrated resource plans and rate cases.

WITNESS QUALIFICATION STATEMENT

NAME: Irina Phillips

EMPLOYER: Oregon Public Utility Commission

TITLE: Economist

ADDRESS: 550 Capitol St. NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Master of Science, Economics
Oregon State University, Corvallis, OR
- Bachelor of Science, Economics and Management
St. Petersburg State University of Economics and Finance, St. Petersburg,
Russia

EXPERIENCE:

Provided testimony or comments in a variety of OPUC dockets, including UM 1431, UE 213, and UG 186. Assisted in Staff review of Integrated Resource Plans (LC48 and LC50).

Between 2005 and 2009, worked as an Adjunct Instructor for Linn-Benton Community College, Albany, OR and Western Oregon University, Monmouth, OR

Between 1996 and 1999, worked as a Financial Analyst for Gillette International LLC, Russian Office, St. Petersburg, Russia

Between 1991 and 1994, worked as a Senior and Chief Accountant for Korex, Fiton and Tandem companies, St. Petersburg, Russia

WITNESS QUALIFICATION STATEMENT

NAME: George R. Compton

EMPLOYER: Public Utility Commission of Oregon

TITLE: Senior Economist (3/4)

ADDRESS: 550 Capital Street NE, Suite 215, Salem, Oregon 97308-2148

EDUCATION:

- Doctor of Philosophy, Economics (1976)
University of California, Los Angeles (UCLA) – Westwood, CA
- Master of Science, Statistics (1968)
Brigham Young University (BYU) – Provo, UT
- Bachelor of Science, Mathematics and Psychology (1963)
Brigham Young University – Provo, UT

EXPERIENCE:

I have been employed in utility regulation since receiving my Ph.D. in 1976. My primary employer was the Division of Public Utilities, within Utah's Department of Commerce (formerly Business Regulation). I also consulted for a couple of years, early in that period. I testified frequently during my career on rate design, cost-of-service, cost-of-equity, and various policy matters affecting electric, gas, and telephone utilities. While in Utah I also taught economics part-time for about ten years at BYU. Prior to my utility regulatory career I worked in aerospace for eleven years at McDonnell Douglas (now Boeing) in Southern California. I joined the OPUC staff soon after "retiring" to Oregon at the end of 2006. Principal cases of my involvement here have included the IRP/CO2 Risk Guideline (UM 1302), the AVISTA General Rate Case (UG 181), the 2008 PGE General Rate Case (UE 197), the 2009 PacifiCorp General Rate Case (UE 210), and the 2009 Idaho Power Rate Cases (UE 213 & 214).

**PUBLIC UTILITY COMMISSION
OF
OREGON**

UG 201

STAFF/AVISTA/NWIGU/CUB EXHIBIT 101

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

January 31, 2011

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 UG 201

4 In the Matter of)
5 AVISTA CORPORATION, dba AVISTA)
6 UTILITIES)
7)
8 Request for a General Rate Revision.)

STIPULATION RESOLVING ALL
ISSUES

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

13 **PARTIES**

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

17 **BACKGROUND**

18 1. On September 30, 2010, Avista filed revised tariff schedules to effect a general rate
19 increase for Oregon retail customers of approximately \$5,446,000, or 5.6 percent of its annual
20 revenues. The filing was suspended by the Commission on October 20, 2010.

21 2. Avista filed supplemental direct testimony on December 3, 2010, in order to update
22 the accounting and financial data which the Company asserted would justify a greater increase in
23 revenue requirement of \$6.429 million; the Company, however, did not alter its original request
24 for \$5.446 million of rate relief.

3. On December 22, 2010, 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.

4. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Report of October 26, 2010, settlement conferences were held on January 18-19, 2011.

5. 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.¹

AGREEMENT

6. **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 request from \$5.446 million to \$2.975 million to be implemented in two phases: \$2.004 million of the agreed-upon increase will be implemented on March 15, 2011, and \$971,000 of the overall increase will be implemented on June 1, 2011.

The Parties have also agreed to deferred accounting treatment for two capital additions (Medford IMP Pipe Replacement and the Roseburg Reinforcement) which are expected to be in service on or about November 1, 2011, and subsequent recovery of such costs in rates, after the Company provides a certification of completion and supporting documentation as discussed below. Any additional rate increase will occur on June 1, 2012 for recovery of revenue requirement and deferred revenue requirement costs associated with these projects that are found to have been prudently incurred.

¹ The Parties further agree that Avista need not continue to respond to any data requests that were outstanding as of January 19, 2011.

1 This Stipulation represents the settlement of all revenue requirement issues in the
2 Company's filing. The Parties support reducing Avista's revenue requirement request through
3 the adjustments listed in Table 1 below (See Attachment A for further detail on the adjustments):
4

Table 1:

SUMMARY TABLE OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE			
(\$000s of Dollars)			
		Revenue Requirement	Rate Base
Amount as filed:		\$6,429	\$148,421
Adjustments:			
a	Rate of Return	(1,554)	-
	Adjusts return on equity to 10.1%, long-term debt cost to 5.90%, with a common stock equity component of 50%.		
b	2011 Major Plant Additions	(161)	(702)
	This adjustment removes 2 major plant additions (Roseburg Reinforcement/IMP Pipe Replacement) from rate base that will be deferred for later recovery when placed in service in November of 2011 (See Section 7 of settlement).		
c	Wages & Salaries	36	19
	This adjustment removes the earnings test adjustment for wages and salaries included in the Company's original request.		
d	Pro Forma Wages & Salaries Adjustment	(131)	(65)
	This makes adjustments to pro forma 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.		
e	Forecast Expense Adjustment	(36)	-
	This adjustment reduces forecasted expenses based on a lower inflation factor applied to 2010 and 2011 expenses.		
f	Working Capital	(877)	(7,486)
	This adjustment removes the Company's proposed working capital adjustment.		
g	A & G Adjustment	(525)	-
	This adjustment revises the Company's expected Administrative and General expenses.		
h	SIT/FIT Adjustment	132	-
	This adjustment is a flow through adjustment for the federal and state tax impact of rate base adjustments.		
i	Customer Deposits	(91)	(888)
	This adjustment reduces rate base for customer deposits and includes associated interest expense.		
j	Bonus Depreciation	(245)	(2,100)
	This adjustment increases Accumulated Deferred Federal Income Taxes (ADFIT) for the effect of bonus depreciation.		
k	Miscellaneous Expenses	(2)	-
	This adjustment removes severance and employee relocation expenses.		
	Total Adjustments:	(\$3,454)	(\$11,222)
Adjusted Revenue Requirement Change (Base Rates) and Rate Base:		\$2,975	\$137,199
Revenue Increase Implemented March 15, 2011		\$2,004	
Revenue Increase Implemented June 1, 2011		\$971	

a. Rate of Return – This adjustment reduces Avista’s requested cost of capital to an overall cost of capital equal to 8.00% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 10.10%, and a long-term debt cost of 5.90%. This combination of capital structure and capital costs is shown in the schedule below:

Agreed-upon	Percent of Total Capital	Cost	Component
Cost of Capital			
Long-term Debt	50.0%	5.90%	2.95%
Common Equity	50.0%	10.10%	5.05%
Total	100.0%		8.00%

b. 2011 Major Plant Additions – This adjustment removes the pro forma capital additions for the Roseburg Reinforcement and IMP Replacement projects. These projects will be completed by November 2011, at which time they will move into service. The revenue requirement associated with the amortization of these projects, and Avista’s Oregon jurisdiction approved rate of return applied to the actual balance of the additional plant, will be deferred for future recovery, until recovered in base rates (as discussed in Section 7, below).

c. Wages and Salaries Adjustment – This adjustment removes the earnings test adjustment for wages and salaries included in the Company’s original request.

d. Pro Forma Wages and Salaries Adjustment – This adjustment revises pro forma wages and salaries relating to overtime; full time employee equivalents (FTE); associated payroll taxes; and applicable depreciation expense related to the reduction to rate base.

e. Forecast Expense Adjustment – This adjustment reduces expenses based on a lower inflation factor applied to 2010 and 2011 expenses.

1 f. Working Capital Adjustment – This adjustment removes the Company’s proposed
2 working capital adjustment.

3 g. Administrative and General Expenses - This adjustment revises the Company's
4 expected administrative and general expenses.

5 h. FIT/SIT Adjustment – This adjustment is a flow through adjustment for the federal
6 and state tax impact of the cost of debt component of rate of return.

7 i. Customer Deposits – This adjustment reduces rate base for customer deposits and
8 includes associated interest expense.

9 j. Bonus Depreciation – This adjustment increases Accumulated Deferred Federal
10 Income Taxes (ADFIT) for the effect of bonus depreciation.

11 k. Miscellaneous Expenses – This adjustment removes severance and employee
12 relocation expenses.

13 7. **Deferred Recovery of Costs Associated with Capital Projects, To Be Placed**
14 **In-Service in November of 2011.**

15 A rate increase will occur on June 1, 2012, to recover the revenue requirement, and deferred
16 revenue requirement associated with the Roseburg Reinforcement Project and the Medford
17 Integrity Management Pipe Replacement Project, which are described below:

18 (a.) The Roseburg Reinforcement Project, Phase II of a two phase project, improves
19 the delivery pressure and capacity of natural gas supplies into central and east Roseburg by
20 extending a high pressure natural gas supply. This phase of the project will install a new high
21 pressure (HP) distribution source by replacing the existing capacity constrained pipe and
22 installation of a new regulator station. Specifically, Phase II will replace the existing capacity

1 constrained source between the Jackie Street Gate station in Winston, Oregon and the south
2 Roseburg city limits. Phase II is scheduled to be completed by the end of October 2011.

3 (b.) The Medford Integrity Management Pipe Replacement Project is being completed
4 in response to the integrity management regulation as detailed in 49 CFR 192, Subpart O –
5 Pipeline Integrity Management. The regulation requires pipeline operators to evaluate covered
6 segments and mitigate risk to the public by assessing the integrity of pipeline segments by direct
7 assessment or lowering the operating stress of the pipeline which will reduce the consequences
8 of an unforeseen event. This capital project addresses the replacement of six pipe sections that
9 were identified as High Consequence Areas and require mitigation within the integrity
10 management program. The project is scheduled to be completed by the end of October 2011.

11 (c.) Compliance Filing and Rate Implementation. The Parties have agreed that the
12 Company will submit a compliance filing on or before March 1, 2012, including a “certificate of
13 completion” for these projects, attesting to when the projects were placed “in service” and are
14 “used and useful” for providing service, as well as final and complete RFPs, bid sheets, and bid
15 comparison work papers for the Roseburg Reinforcement Project Phase II. Base rates will be
16 adjusted on June 1, 2012 for the revenue requirement associated with the actual, and to the extent
17 prudent, capital additions associated with the projects. The revenue requirement will be deferred
18 for the period November 1, 2011 through May 31, 2012, and a temporary rate adjustment will be
19 put in place to recover the deferred revenue requirement, including carrying costs during the
20 deferral period and the recovery period, also effective on June 1, 2012. The temporary rate
21 adjustment will be in place for the twelve-month period June 1, 2012 through May 31, 2013.
22 Attachment B shows an example of how the revenue requirement will be calculated for the

1 projects, as well as how the deferred revenue requirement and carrying cost during the deferral
2 period will be determined.

3 8. **Rate Spread:** The Parties agree that new rates would be spread so that
4 Residential Service Schedule 410 and General Service Schedule 420 would receive an equal
5 percentage of revenue increase. Further, the Parties agreed that Transportation Schedule 456
6 would receive a pro-rata allocation of the Company's natural gas rate spread percentage from its
7 original filing for purposes of spreading the revised revenue requirement. The remaining
8 revenue requirement would be spread to the other service schedules in a manner such that each
9 schedule receives at least a 0.5% increase when looking at the combined March 15, 2011 and
10 June 1, 2011 rate implementation schedules.

11 The Parties support the spread of the March 15, 2011 overall revenue increase of \$2.004
12 million, or 2.01%, to the Company's service schedules as follows:

13	Residential Service Sch. 410	2.16%
14	General Service Sch. 420	2.16%
15	Large General Service Sch. 424	0.38%
16	Interruptible Service Sch. 440	0.38%
17	Seasonal Service Sch. 444	1.37%
18	Transportation Service Sch. 456	0.80%

19 The Parties support the spread of the June 1, 2011 overall revenue increase of \$0.971
20 million, or 0.98%, to the Company's service schedules as follows:

21	Residential Service Sch. 410	1.04%
22	General Service Sch. 420	1.04%
23	Large General Service Sch. 424	0.19%

1	Interruptible Service Sch. 440	0.19%
2	Seasonal Service Sch. 444	0.66%
3	Transportation Service Sch. 456	0.38%

4 Finally, as it relates to the rate spread for the implementation of rates on June 1, 2012, the
5 Parties agreed to a pro-rata allocation of the Company's natural gas rate spread percentage from
6 the March 15, 2011 rate increase for purposes of spreading the additional revenue requirement.
7 The calculation of the revenue increase by service schedule is shown on Page 1 of Attachment C.

8 9. **Rate Design:** For the rates that will go into effect on March 15, 2011, the Parties
9 support rate design changes as follows: the monthly customer charges under Residential Service
10 Schedule 410 and General Service Schedule 420 will be increased by \$0.50, from \$6.50 to \$7.00
11 for Schedule 410, and from \$8.50 to \$9.00 for Schedule 420. The monthly customer charge for
12 Large General Service Schedule 424 will be increased by \$2.00, from \$48.00 to \$50.00 per
13 month. The usage (therm) charge within each of the sales service schedules will be increased by
14 the appropriate amount to result in the total revenue increase for each schedule. For
15 Transportation Service Schedule 456, the monthly customer charge will be increased by \$25.00
16 per month, from \$250.00 to \$275.00. The remaining revenue increase within the Schedule is
17 reflected through a uniform percentage increase applied to the block (usage) rates within the
18 Schedule.

19 For the rates that will go into effect on June 1, 2011 and on June 1, 2012, the usage
20 (therm) charge within each of the sales service schedules will be increased by the appropriate
21 amount to result in the total revenue increase for each schedule. For Transportation Service
22 Schedule 456, the revenue increase will be a uniform percentage increase applied to the block
23 (usage) rates within the Schedule.

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

3
4 10. **Other Issues**

5
6 (a.) Accounting Procedures – The Company has an on-going project to review its
7 accounting policies and procedures for electric and natural gas service in all jurisdictions, to
8 provide training to its employees, and to conduct an audit of total Company accounting practices.
9 Upon completion of this project to review accounting policies and procedures in 2011, the
10 Company agrees to provide to the Parties a copy of any and all reports associated with this
11 project.

12 (b.) Information for Future Rate Case Filings - In the current filing, the Company used
13 the 2009 Results of Operations and made a series of adjustments to derive forecasted 2011 test
14 year data. In future rate case filings, the Company will prepare a forecasted Results of
15 Operations (ROO) report that will be used as the test year. The Company will begin with the
16 most recent Results of Operations (ROO) report as filed with the Commission, and after making
17 necessary adjustments to the ROO report, will prepare a forecasted Results of Operations report
18 for the test year. In addition, the Company will provide supporting detail and workpapers to
19 support the forecasted Results of Operations report.

20 (c.) Allocation Methodology – The Company will meet with the Parties prior to the
21 Company's next general rate case filing to discuss the Company's allocation processes and
22 methodologies.

23 (d.) Revenue Adjustment – The Parties have agreed to the Revenue Adjustment
24 proposed by the Company. The Company agrees that it will use the most recent forecast of
25 customer counts and natural gas usage that is used for financial reporting purposes in its future

1 general rate cases, Integrated Resource Plan (IRP), and Purchased Gas Adjustment (PGA)
2 proceedings.

3 (e.) Jackson Prairie (JP) Storage – The Parties agree that Oregon will receive 25% of
4 the total of the allocation of JP capacity and deliverability resulting from all JP expansion
5 volumes and costs since 1999, including the additional JP capacity and deliverability that will
6 revert to Avista Utilities on May 1, 2011, and the capacity and deliverability added since 1999
7 and approved in Docket UG 181. Further, the Parties agree to the revised accounting treatment
8 as proposed by the Company. (See Direct Testimony of Elizabeth Andrews, Exh. 700, p. 14) In
9 addition, the Company agrees to work with the Parties on the necessary reports and changes to
10 storage accounting processes and documentation to quantify all gas price stability and
11 optimization benefits Oregon customers will receive from the additional JP Storage through the
12 PGA process.

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

15 12. The Parties agree that this Stipulation represents a compromise in the positions of
16 the Parties. Without the written consent of all parties, evidence of conduct or statements,
17 including but not limited to term sheets or other documents created solely for use in settlement
18 conferences in this docket, are confidential and are not admissible in the instant or any
19 subsequent proceeding unless independently discoverable or offered for other purposes allowed
20 under ORS 40.190. Nothing in this paragraph precludes a party from stating as a factual matter
21 what the parties agreed to in this Stipulation.

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

4 14. This Stipulation will be offered into the record in this proceeding as evidence
5 pursuant to OAR 860-001-0350(7). The Parties agree to use best efforts to prepare and submit
6 the Stipulation and supporting materials to the Commission in time to permit the Commission to
7 put rates into effect by March 15, 2011. The Parties agree to support this Stipulation throughout
8 this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the
9 Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the
10 hearing authorized to respond to the Commission's questions on the Party's position as may be
11 appropriate.

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

18 16. The Parties have negotiated this Stipulation as an integrated document. If the
19 Commission rejects all or any material portion of this Stipulation, or imposes additional material
20 conditions in approving this Stipulation, any Party disadvantaged by such action shall have the
21 rights provided in OAR 860-001-0350(9) and shall be entitled to seek reconsideration or appeal
22 of the Commission's Order.

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

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

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

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

12
13 DATED this _____ day of January 2011.

14
15 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

16
17
18
19
20 By: _____

By: _____

21
22 Date: _____

Date: _____

23
24
25
26 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

27
28
29
30 By: _____

By: _____

31
32 Date: _____

Date: _____

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-201

In the Matter of)

AVISTA CORPORATION, dba AVISTA)
UTILITIES)

Request for a General Rate Revision)
_____)

AFFIDAVIT OF DEBORAH GARCIA

STATE OF OREGON)


) as

County of Multnomah)

I, Deborah Garcia, being first duly sworn on oath, depose and say:

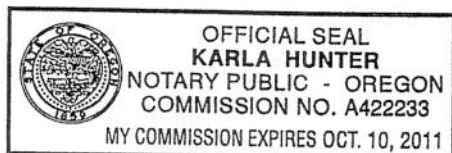
1. I am the Senior Revenue Requirement Analyst Analyst of the Public Utility Commission of Oregon ("PUC").
2. On behalf of PUC, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Garcia, et.al. (Exhibit 100).
3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

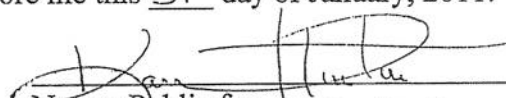
SIGNED this ____ day of January, 2011.



Deborah Garcia

SUBSCRIBED AND SWORN to before me this 31st day of January, 2011.





Notary Public for marion
My Commission Expires: Oct 10, 2011

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-201

In the Matter of)
)
AVISTA CORPORATION, dba AVISTA)
UTILITIES) AFFIDAVIT OF KELLY O. NORWOOD
)
Request for a General Rate Revision)
_____)

STATE OF WASHINGTON)
) as
County of Spokane)

I, Kelly O. Norwood, being first duly sworn on oath, depose and say:

1. I am the Vice President for State and Federal Regulation of the Avista Utilities ("AVISTA").
2. On behalf of AVISTA, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Garcia, 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 31st day of January, 2011.

Kelly O. Norwood
Kelly O. Norwood

SUBSCRIBED AND SWORN to before me this 31st day of January, 2011.

Patty L. Hanson
Notary Public for Washington
My Commission Expires: November 23, 2013



BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-201

In the Matter of)
)
AVISTA CORPORATION, dba AVISTA)
UTILITIES)
)
Request for a General Rate Revision)
_____)

AFFIDAVIT OF PAULA E. PYRON

STATE OF OREGON)
) as
County of Multnomah)

I, Paula E. Pyron, 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/Garcia, 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 31st day of January, 2011.

Paula E. Pyron
Paula E. Pyron

SUBSCRIBED AND SWORN to before me this 31st day of January, 2011.

Shannon Marie Kimmel
Notary Public for OREGON
My Commission Expires: 6/25/13



BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-201

In the Matter of)

AVISTA CORPORATION, dba AVISTA
UTILITIES)

Request for a General Rate Revision)

AFFIDAVIT OF BOB JENKS

STATE OF OREGON)


) as

County of Multnomah)

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

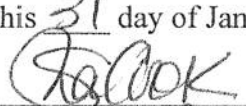
1. I am the Executive Director of the Citizens' Utility Board ("CUB").
2. On behalf of CUB, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Garcia, et.al. (Exhibit 100).
3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

SIGNED this 31 day of January, 2011.



Bob Jenks

SUBSCRIBED AND SWORN to before me this 31 day of January, 2011.



Notary Public for Multnomah County, Oregon
My Commission Expires: Aug. 10th 2014

