PUBLIC UTILITY COMMISSION
OF
OREGON

UG 325

STAFF/AVISTA/NWIGU/CUB EXHIBIT 100

Joint Testimony in Support of Settlement Stipulation

June 29, 2017

Q. Please state your names and positions.

A. My name is Marianne Gardner. I am employed by the Public Utility Commission of Oregon ("PUC") as a Senior Revenue Requirement Analyst in the Rates, Finance and Audit Division of the Utility Program. I am a graduate of Oregon State University with a Masters of Business Administration and a graduate of Montana State University with a Bachelor of Science in Accounting. I have approximately 20 years of professional accounting experience, including cost accounting, public accounting, and non-profit accounting. My current responsibilities include research, analysis, and recommendations on a range of cost, revenue and policy issues for electric and natural gas utilities. In this docket, I am the Summary Witness for Staff. My witness qualifications have been presented previously in Staff Exhibit 101.

My name is Jennifer S. Smith. I am employed by Avista Utilities ("Company") as a Senior Regulatory Analyst in the State & Federal Regulation Department. I am a 2002 graduate of Washington State University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting and Accounting Information Systems. After spending eight years in the public accounting sector, I was hired into the State and Federal Regulation Department as a Regulatory Analyst in January of 2010. In my current role as a Senior Regulatory Analyst, I assist in the preparation of normalized revenue requirement and pro forma studies for all jurisdictions in which the Company provides utility services. I am also responsible for, among other things, annual filings and various applications related to affiliated interest issues and subsidiary operations.

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

My name is Jamie McGovern. I am a Senior Utility Analyst with the Citizens' Utility Board ("CUB") located at 610 SW Broadway, Suite 400, Portland OR 97205. I am a graduate of the W.P. Carey School of Business at Arizona State University with a Ph.D in Economics. I have a Masters and a Bachelors degree in Economics from Arizona State University. I have provided testimony as an expert witness on a variety of dockets before the Public Utility Commission of Oregon. I worked as a Utility Analyst at the Public Utility Commission of Oregon from 2006-2008, providing advice on rate cases, analysis in meetings with the Bonneville Power Administration and performing benchmarking studies regarding telecommunications and electric competition in the state of Oregon.

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

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

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

Q. What is the purpose of your Joint Testimony?

A. The purpose of our Joint Testimony is to describe and support the Settlement Stipulation, filed on May 16, 2017 between Staff, CUB, NWIGU, and the Company in Docket No. UG-325 (the “Stipulation”), which resolved all issues among the Parties for the general rate increase filed on November 30, 2016.

The Stipulation is the product of settlement discussions, open to all parties to the UG-325 Docket. The Stipulation between the Parties, resolves all issues, including revenue requirement and cost of capital issues, as well as rate spread and rate design.

Q. Have you prepared any Exhibits?

A. Yes. The Parties’ Exhibit No. Joint Testimony/101 is the Settlement Stipulation (“Stipulation”) filed with the Commission on May 16, 2017.

Background

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

A. On November 30, 2016, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $8,539,000, or 9.0 percent of its annual revenues. The filing was suspended by the Commission on December 20, 2016, per its Order No. 16-495.

Pursuant to Administrative Law Judge Allan Arlow’s Prehearing Conference Memorandum of December 29, 2016, Staff, CUB, and NWIGU filed Opening Testimony in response to the Company’s original filing on March 1, 2017. On April 6, 2017, Avista filed its Reply Testimony. On April 24, 2017, a settlement conference was held, attended by all Parties.

As a result of the settlement discussions held on April 24, 2017, the Parties have agreed to settle all issues in this Docket, including adjustments to the revenue requirement, rate spread and rate design issues, and additional reporting for certain capital projects, on the following terms, subject to the approval of the Commission.

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

A. The Company explained in its original filing that its need for additional rate relief was due primarily to increased capital investment in plant used to serve Oregon customers after October 1, 2017, as well as increased operating costs for the 2017-2018 rate year. Over 84% (or approximately $7.2 million) of the Company's need for additional rate relief relates to increases in total rate base, including changes in net plant investment (including return on investment, depreciation and taxes, offset by the tax benefit of interest), representing an increase of approximately $30 million in additional net rate base for the Oregon jurisdiction over the current authorized amount.[1]

The remaining 16% (or approximately $1.3 million) of the Company's requested revenue requirement relates to an increase in O&M and administrative and general ("A&G") expenditures. These rate base and expense-related revenue requirement increases are net of the change in retail revenues since our last rate case filed in 2015.

[1] The authorized amounts for this analysis includes rate base authorized for rates that were effective March 1, 2016.

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

A. Avista responded to 602 data requests, with over 1,085 subparts, including 122 that were provided with the Company's filed case. The data requests covered a broad range of areas including, but not limited to, cost of capital, capital additions, employee wages and benefits, working capital, operating and maintenance costs, property tax, regulatory expense and various administrative and general related expenses, as well as issues related to load forecasting and Avista's long run incremental cost study.

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

A. Yes, each of these parties filed opening testimony on March 1, 2017, in which they proposed adjustments to the Company's direct filing.

Terms of the Settlement Stipulation

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

A. Table No. 1, at page 3 of the Stipulation, is reproduced below, and provides a summary of the adjustments to Avista's originally-filed case:

Table No. 1:

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE
($000s of Dollars)

		Revenue Requirement	Rate Base
Amount as filed:		**$8,539**	**$243,424**
Adjustments:			
a	Rate of Return	(1,854)	-
b	Revenue Sensitive - Uncollectible rate	(41)	-
c	Uncollectibles	(191)	-
d	Revenue Sensitive - Commission & Franchise Fee rate	(34)	-
e	Working Cash	(343)	(3,356)
f	Interest Synchronization	311	-
g	Wages, Salaries, Medical Benefits, and D&O Insurance	(593)	(27)
h	Property Tax	(78)	-
i	Amortization & Depreciation	(36)	39
j	Regulatory Expense	(92)	
k	Pensions	(264)	(170)
l	Underground Storage	(21)	-
m	Other Gas Supply Expense	(18)	-
n	Load Forecasting	(394)	-
o	Sales & Transportation	39	-
p	Information Technology	(445)	(3,009)
q	Cost Allocation	(187)	(1,449)
r	Utility Plant in Service	(550)	(5,392)
s	Other Revenues	(26)	-
t	Atmospheric Testing	(66)	-
u	Advertising and Promotional Expense	(5)	-
v	Memberships and Dues	(6)	-
w	Various A&G Expenses	(132)	-
x	Materials & Supplies - Non-Fuel	(13)	(128)
	Total Adjustments:	**($5,039)**	**($13,492)**
Adjusted Base Revenue Requirement & Rate Base - Effective October 1, 2017:		**$3,500**	**$229,932**

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

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

Q. Please provide a brief description of the basis for each adjustment included in the Stipulation and Table No. 1 above, beginning with Issue (a), Rate of Return Adjustment?

A. The Company's originally filed requested cost of debt was 5.53%. Table No. 2 below shows the Company's and Staff's proposed Cost of Capital. NWIGU proposed a rate of return on common equity of 9.4%.[2]

Table No. 2:

AVISTA CORPORATION
Proposed Cost of Capital

	Proposed Structure	Cost	Weighted Cost
Debt	50.0%	5.750%	2.88%
Common Equity	50.0%	9.9%	4.95%
TOTAL	100.0%	Rate of Return	**7.83%**

STAFF
Proposed Cost of Capital (1)

	Proposed Structure	Cost	Weighted Cost
Debt	51.1%	5.095%	2.60%
Common Equity	48.9%	9.1%	4.43%
TOTAL	100.0%	Rate of Return	**7.03%**

(1) Staff/200, Muldoon/2, lines 8-9.

[2] NWIGU/100/Gorman/4, lines 3-10.

For settlement purposes, the Parties agree to an overall weighted cost of capital equal to 7.35% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 9.4%, and a long-term debt cost of 5.30%, thereby reducing the proposed revenue requirement by $1,854,000. This combination of capital structure and capital costs is shown in Table No. 3 below:

Table No. 3[3]:

AVISTA CORPORATION Agreed-Upon Cost of Capital			
	Percent of Total Capital	**Cost**	**Weighted Cost**
Long-Term Debt	50.00%	5.300%	2.650%
Common Equity	50.00%	9.400%	4.700%
Total	**100.00%**	**Rate of Return**	**7.350%**

Q. Please explain why the stipulated terms for Cost of Capital are reasonable at this time.

A. The stipulated capital structure represents a reasonable compromise, based on available information. The stipulated return on equity is consistent with NWIGU's opening testimony and between the range of reasonable return on equity in the Company's and Staff's testimony.[4]

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

[3] The previously authorized a capital structure in Docket UG 288, Order No. 16-109 consists of 50% common stock equity and 50% long-term debt, return on equity of 9.4%, and a long-term debt cost of 5.15% for a rate of return of 7.40%.
[4] See Avista/200, McKenzie/5; Staff/200, Muldoon/12, 13; NWIGU/100, Gorman/4.

A. In the Company's direct filing, the uncollectible rate used in the conversion factor was calculated using a three-year average on a twelve-months ended June 30, 2016 basis, for a rate of 1.09760 percent. Staff proposed in its opening testimony to apply a rate of 0.5496 percent, the rate set in Docket UG 288, noting a need for clarification of the available data. In its reply testimony, the Company proposed using the net write-off and direct revenue balances for the twelve months ended December 31, 2016, for a rate of 0.6242 percent. Neither CUB or NWIGU made any proposals regarding the Uncollectible Rate in their opening testimony. For settlement purposes, the Parties agree to adjust the uncollectible rate to 0.6335 percent, based on a three year average using the calendar years 2014, 2015, and 2016 for the revenue sensitive rate and conversion factor.

Q. Please explain why the stipulated terms for the Uncollectible Rate are reasonable at this time.

A. The Stipulated rate is based on a three-year average, which is consistent with the Commission's practice.

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

A. In the Company's direct filing, uncollectible expense was adjusted to a three-year average on a twelve-months ended June 30, 2016 basis. Neither CUB nor NWIGU made any proposals regarding the Uncollectible Expense in their opening testimony.

For settlement purposes, the Parties accept Staff's proposal to adjust uncollectible expense utilizing the uncollectible rate of 0.6335 percent, as proposed in their opening testimony, thereby reducing the proposed revenue requirement by $191,000.

Q. Please explain the basis of the Stipulation relating to Issue (d), Commission & Franchise Fee rate Adjustment.

A. In the Company's direct filing, the Company used a Commission & Franchise Fee rate of 0.00275. On February 22, 2017, after the Company's direct filing in Order 17-065, the Commission approved an increase to the annual Commission fee rate to .3%. In Staff's opening testimony, Staff proposed an adjustment to both the Franchise and Commission fee rate. On Reply, the Company agreed that there should be an adjustment to both the Franchise Fee rate and the Commission fee rate. Neither CUB nor NWIGU made any proposals regarding the Commission & Franchise Fee rate Adjustment in their opening testimony.

The Stipulating Parties accept Staff's proposed OPUC & Franchise Fee rate of 0.0030 and 0.00275, respectively, thereby reducing the proposed revenue requirement by $34,000.

Q. Please explain why the stipulated terms for the OPUC & Franchise Fee rate are reasonable at this time.

A. The stipulated terms are consistent with Commission Order No. 17-065 and otherwise represent a reasonable compromise, based on available information.

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

A. In the Company's direct filing, the Company proposed a working capital rate base adjustment, excluding materials and supplies, using the Investor Supplied Working Capital methodology. In Staff's opening testimony Ms. Gardner, Staff Witness, states that "Staff's position has been that the natural gas and electric industries are sufficiently different, which compromises the accuracy of the Working Capital allocation to Oregon."[5] Neither

[5] Staff/100/Gardner/12, lines 7-9.

CUB nor NWIGU made any proposals regarding the Working Capital adjustment in their opening testimony.

As a compromise, for settlement purposes, the Parties agree to remove the working capital rate base adjustment, thereby reducing the proposed revenue requirement by $343,000. This adjustment reduces rate base by $3,536,000.

Q. Please explain why the stipulated terms for the Working Capital Adjustment are reasonable at this time.

A. For settlement purposes, the Parties accept Staff's proposal to remove the working capital rate base adjustment. The Parties' agreement on this issue reflects a reasonable compromise and contributes to the overall fair resolution of revenue requirement in this case.

Q. Please explain the basis of the Stipulation relating to Issue (f), Interest Synchronization.

A. This adjustment includes the flow through of the federal and state tax impact on rate base adjustments due to the agreed-upon cost of debt, thereby increasing the proposed revenue requirement by $311,000.

The Stipulating Parties agree to the interest synchronization adjustment, which captures the effect of the changes to the cost of capital discussed in Issue (a) above.

Q. Issue (g), Wages and Salaries, Medical Benefits, and D&O Insurance in the Stipulation includes three different expense categories, what is the total adjustment included in the Stipulation for these expenses?

A. The total effect of this adjustment reduces the Company's proposed revenue requirement by $593,000 and also reduces rate base by $27,000.

Q. Please discuss each of the three elements included in Issue (g) beginning with the adjustments proposed by Staff and NWIGU in response to the Company's direct filed Wages and Salaries.

A. First, we will discuss the three elements, and then we will discuss the compromise. In the Company's direct filing, Wages and Salaries included an increase to Oregon's share of total compensation for both union and non-union employees. In Staff's opening testimony, they proposed an adjustment to the Company's Wages and Salaries expense for reductions associated with the Company's overall wages and salaries increases related to overtime, full-time employee equivalents (FTE), associated payroll taxes, Officer and Non-Officer Incentive Pay, and Restricted Stock Units. Table No. 04 below provides a breakdown of the five components of the adjustment which equates to a total reduction to revenue requirement of $970,000.

Table No. 04:

Adjustment Reference No.	O&M Expense	Capital
S-04.1 Wages & Salaries	$ (152,000)	$ (27,000)
S-04.2 Overtime	(186,000)	(52,000)
S-04.3 Bonus & Incentive	(387,000)	
S-04.4 Restricted Stock Units	(109,000)	
S-04.5 Payroll Tax	(96,000)	(2,000)
Total S-04 Adjustment	**$ (930,000)**	**$ (81,000)**

NWIGU also proposed to eliminate RSU units arguing, "Because shareholders are the primary beneficiary of the RSU incentive compensation, they should pay the RSU costs".[6]

CUB did not propose any adjustments to the Company's Wages and Salaries expenses.

[6] NWIGU/100 Gorman/7.

Q. The remaining two expense categories included in the adjustment for Issue (g) are Medical Benefits and Directors' and Officers' (D&O) Insurance expense. Please summarize the adjustments proposed by Staff in response to the Company's direct filing.

A. The Company's direct filing included medical expense expected for the twelve-months ended September 30, 2018 test year. In Staff's opening testimony, Staff proposes an adjustment to reduce medical expense by $216,000, based on information contained within the Kaiser Family Report "2016 Health Benefits", to reflect an employee premium sharing amount of 18% for non-union employees and a three-year average of historical medical expense.[7]

The last expense category included in Issue (g) is D&O insurance. The Company's direct filing included 100 percent of the D&O insurance costs. In Staff's opening testimony, Staff witness Ms. Johnson proposes an adjustment to remove 50 percent of the Company's D&O insurance, to reflect an equal sharing of D&O insurance costs between ratepayers and shareholders.

Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Medical Benefits or D&O Insurance expense.

Q. Please explain the basis of the Stipulation relating to Issue (g), Wages and Salaries, Medical Benefits, and D&O Insurance.

A. While the Stipulating Parties did not reach agreement on each of the expenses in Issue (g), as a compromise for settlement purposes the Parties agree to an overall reduction to the level of expense for Wages and Salaries, Medical Benefits, and D&O Insurance, thereby

[7] O&M Only, See UG 325 Exhibit 1105 Gibbens CONF.

reducing the proposed revenue requirement by $593,000. The adjustment also reduces rate base by $27,000.

Q. Please explain why the stipulated terms for these issues are reasonable at this time.

A. The Parties, for settlement purposes, have agree to remove the RSU incentive and to remove 50 percent of D&O insurance premiums. The remaining terms reflect a general compromise on compensation, including medical benefits. In Order No. 16-109, issued in Docket UG 288, the Commission noted the difficulty of isolating the reasonableness of individual elements of a compensation package. The Parties support this Stipulation as a reasonable compromise that contributes to the overall fair resolution of revenue requirement in this case.

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

A. After Avista filed its initial case, it discovered a miscalculation underlying the expected property tax expenses, and revised its estimate of assessed value upward. Staff was not able to propose an adjustment at the time of its opening testimony, but continued to review the issue.[8] During settlement discussions on April 24, 2017, Staff proposed an adjustment to property tax expense to reflect the use of a three-year average of the property tax levy rate, which was applied to the agreed-upon level of rate base. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Property tax expense.

As a compromise, for settlement purposes, the Parties agree upon the lower level of property tax expense, thereby reducing the proposed revenue requirement by $78,000.

[8] Staff/100, Gardner/16-17.

Q. Please explain why the stipulated terms for Property Tax Adjustment are reasonable at this time.

A. Staff's adjustment applies a three-year average to estimate property tax expense. While the Parties do not agree on methodology, the stipulated adjustment reflects a reasonable correction to the initial filing.

Q. How did the Parties arrive at the Stipulation relating to Issue (i), Amortization & Depreciation Adjustment?

A. During settlement discussions on April 24, 2017, Staff proposed an adjustment to amortization and depreciation expense associated with the Information Technology, Cost Allocation and Utility Plant in Service adjustments discussed in items q. – s. below. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Amortization & Depreciation expense.

For settlement purposes, the Parties agreed to Staff's proposal. This adjustment reduces rate base by $39,000 and revenue requirement by $36,000.

Q. Please explain why the stipulated terms for Amortization and Depreciation Adjustment are reasonable at this time.

A. The Parties' agreement on this issue reflects a reasonable compromise and contributes to the overall fair resolution of revenue requirement in this case.

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

A. Avista proposed to recover the level of regulatory expense that occurred in the twelve-months ended June 30, 2016. On reply, Staff proposed an adjustment to regulatory expense to reflect a three-year average level of expense. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Regulatory expense.

As a compromise, for settlement purposes, the Parties agree to Staff's proposal to reduce the level of Regulatory Expense by $92,000, thereby reducing the proposed revenue requirement by $92,000.

Q. Please explain why the stipulated terms for Regulatory Expense are reasonable at this time.

A. While the Parties do not necessarily agree on methodology, the Parties' agreement on this issue reflects a reasonable compromise and contributes to the overall fair resolution of revenue requirement in this case.

Q. Please explain the basis of the Stipulation relating to Issue (k), Pension and Post-Retirement Medical Benefits Expense Adjustment?

A. The Company's direct filing included post-retirement medical and pension expense which Avista believes reflects the level of expense which will be in place for the twelve-months ended September 30, 2018 test year. Staff proposed, in opening testimony, an adjustment to reflect an Expected Return on Assets (EROA) on pensions and post-retirement medical benefits of 6.6 percent, as recommended by Commission Staff and as approved by the Commission in Docket UG 288, OPUC Order No. 16-109. In its reply testimony, in an effort to limit the number of issues in this case, the Company accepted Staff's proposal. This adjustment reduces rate base $170,000, and reduces the proposed revenue requirement by $264,000. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Pension and Post-Retirement Medical Benefits Expense.

For settlement purposes, the Parties agree to Staff's proposal to reduce the level of Pension and Post-Retirement Medical Benefits Expense by $170,000, thereby reducing the proposed revenue requirement by $264,000.

Q. Please explain why the stipulated terms for Pension and Post-Retirement Medical Benefits Expense are reasonable at this time.

A. While the Parties do not agree on the methodology for determining the EROA, the Stipulating Parties agree to accept Staff's adjustment as part of an overall compromise on revenue requirement issues, which results in a fair financial settlement.

Q. How did the Parties arrive at the Stipulation relating to Issue (l), Underground Storage Adjustment.

A. The Company's direct filing included the actual level of expense included in the base year. Staff proposed an adjustment to underground storage expense to reflect a three-year average level of expense. In its reply testimony, the Company accepted Staff's proposal to adjust the Underground Storage to reflect a three-year average level of expense, thereby reducing the proposed revenue requirement by $21,000. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Underground Storage Expense.

For settlement purposes, the Stipulating Parties agreed to Staff's proposal to adjust the Underground Storage to reflect a three-year average, as a reasonable representation for Underground Storage Expense for the test year.

Q. Please explain why the stipulated terms for Underground Storage Expense are reasonable at this time.

A. Staff and Avista agree that the stipulated terms result in a reasonable representation of underground storage expense for this test year.

Q. Please explain the basis of the Stipulation relating to Issue (m), Other Gas Supply Adjustment.

A. Staff proposed an adjustment to other gas supply expense of $118,000 to reflect a three-year average level of expense. In its reply testimony, the Company accepted Staff's proposal to adjust certain Other Gas Supply Expenses (Gas Technology Institute, administrative, and general expenses) to reflect a three-year average level of expense, but did not agree with the portion of Staff's adjustment related to labor and labor loadings, thereby reducing the proposed revenue requirement by $18,000. Avista stated in its reply testimony that Staff's adjustment effectively double-counted labor and benefit adjustments proposed by other Staff witnesses. Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Other Gas Supply Expense.

For settlement purposes, the Stipulating Parties agreed to Staff's proposal to adjust the Other Gas Supply Expense by $18,000 to reflect a three-year average, as a reasonable representation for Other Gas Supply Expense for the test year.

Q. Please explain why the stipulated terms for Other Gas Supply Expense are reasonable at this time.

A. Staff agrees that applying its adjustment to labor and labor loadings may not have been appropriate in this case. The Parties agree that the agreed-upon adjustment reflects a reasonable representation of Other Gas Supply expense for purposes of settlement.

Q. Please explain the basis of the Stipulation relating to Issue (n), Load Forecasting Adjustment.

A. In Staff's opening testimony, Staff made three recommendations to modify the forecast models' accuracy: (1) Limit intervention variables to those with sufficient theoretical justification, (2) Select ARIMA model structures to minimize the information loss, and (3) Include economic forecast drivers related to the number of large commercial customers. In its reply testimony, the Company accepted Staff's adjustments to the Company's load forecasting calculation, thereby reducing the proposed revenue requirement by $394,000. The Company agrees to the following refinements, which it will include in its next load forecast, currently planned to be completed in June of 2017:

a. The Company will add employment as an economic driver to the forecast of Schedule 424 commercial customers for the Medford, Roseburg, and Klamath regions.

b. When selecting forecasting models, the Company will use the Akaike Information Criteria (AIC) rather than the root-mean-square error (RMSE) method. However, the Company will continue to select models "by hand" rather than using an automatic selection routine. The Company's reply testimony states that this reflects the need to carefully consider each model in light of the empirical difficulties (outliers, missing data, etc.) that often arise when modeling with billed data.

Neither CUB nor NWIGU made any proposals to adjust the Company's direct filed Load Forecasting methodology.

Q. Please explain why the stipulated terms for the Load Forecasting Adjustment are reasonable at this time.

A. For Settlement purposes, the Stipulating Parties agreed to Staff's adjustments to the Company's load forecast as reasonable adjustments to arrive at a reasonable load study. The agreed-upon reduction to revenue requirement by $394,000 results from applying Staff's load forecast adjustments, which the Parties agree is part of an overall compromise on revenue requirement issues that results in a fair financial settlement.

Q. Please explain the basis of the Stipulation relating to Issue (o), Sales & Transportation Adjustment.

A. As a result of the changes made to the load forecasting adjustment in Issue (n) above, Staff proposed an adjustment to the Company's Sales & Transportation revenue. In its reply testimony, the Company accepted Staff's proposal to Sales & Transportation revenue as a result of the changes in the load forecasting calculation, thereby increasing the proposed revenue requirement by $39,000. Neither CUB nor NWIGU made any proposals to adjust the Company's Sales & Transportation revenue.

The Stipulating Parties agree to Staff's proposed adjustment to the Company's Sales & Transportation revenue, as this is the effect of the changes to the load forecasting calculation discussed in Issue (n) above.

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

A. Avista initially proposed to add $11.6 million to rate base reflecting the capital additions to be completed prior to the rate effective period. In Staff's opening testimony, Staff proposed a reduction of $5.6 million to information technology and associated general plant rate base additions and expenses following its review of the Company's response to data requests and an on-site audit.[9] Staff's adjustment outlined concerns with a number of projects, including a reduction of $1.1 million in Oregon rate base associated with the Technology Expansion Program based on Staff's concerns about the lack of operational savings and risk-

[9] Staff/700, Kaufman/2.

reduction benefits for Oregon.[10] Staff's adjustment also included a reduction of $2.74 million in Oregon rate base associated with the Meter Data Management project, which appeared driven by the transition to advanced metering infrastructure (AMI).[11] Regarding the Next Generation Radio System project, Staff proposed a disallowance of $254,000 Oregon allocated from rate base, based on concerns about the need in Oregon and rising project costs.[12] Staff's adjustment further proposed reducing Oregon plant by $871,000 associated with the Long-Term Campus Restructuring Project, based on the allocation of these costs to Oregon.[13] CUB's testimony also proposed reductions to information technology and associated general plant rate base additions in the amount of $6.2 million.[14]

Avista provided additional information in response to data requests, and in Avista's reply testimony, it provided additional information on the projects. In Avista's reply, the Company accepted or partially accepted Staff and CUB adjustments for four projects (Meter Data Management, Technology Expansion Program, Microwave Replacement with Fiber, and Compressed Natural Gas Fleet Conversion), a rate base reduction of approximately $519,000.[15]

For settlement purposes, the Parties agree to a total rate base reduction of $3,009,000 in this case associated with information technology and general plant rate base additions (e.g., Technology Expansion, Meter Data Management, Next Generation Radio System, and Long-Term Campus Restructuring, among others) and a reduction to expense associated with capital

[10] Staff/700, Kaufman/21-22.
[11] Staff/700, Kaufman/28-29.
[12] Staff/700, Kaufman/24-25.
[13] Staff/700, Kaufman/32-33.
[14] CUB/100/McGovern/56.
[15] Avista/1400, Machado/3.

investment. This adjustment reduces the revenue requirement associated with information technology and general plant rate base additions by $445,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (p), Information Technology Adjustment.

A. While the Stipulating Parties may not agree on all aspects of Avista's capital additions in information technology and general plant rate base additions, the Stipulating Parties' agreement regarding the reduction to rate base in this case and test year revenue requirement associated with these additions is part of an overall compromise on revenue requirement issues that results in a fair financial settlement.

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

A. Staff's opening testimony proposed a reduction of $3.5 million to common plant rate base as well as a reduction of $0.6 million to expense, based on its review of the Company's allocations of these items by jurisdiction and service.[16] Staff identified a number of assets that should not be assigned to Oregon as they do not support Oregon operations, including the Main Campus Service Building, the Pullman Office, electric generation facilities in Kettle Falls, Washington and Noxon, Montana, and other miscellaneous assets.[17] In addition, Staff identified air travel and other non-labor expenses allocated to Oregon that should be directly assigned elsewhere or were poorly documented.[18]

[16] Staff/700, Kaufman/2.
[17] Staff/700, Kaufman/12-14.
[18] Staff/700, Kaufman/15-18.

Avista provided additional information on certain items in its reply testimony and partially accepted Staff's adjustment, for a reduction of $270,000 to rate base.[19]

For settlement purposes, the Parties agree to a total reduction to common plant rate base (e.g., common warehouse space and main campus expansion, among other items) of $1,449,000 in this case and a reduction to expense of $38,000. This adjustment reduces the revenue requirement associated with common plant rate base and common expense by $187,000. Avista further agrees to provide business descriptions in the description field of account transactions sufficient to allow internal and external auditing of jurisdictional assignment and allocation.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (q), Cost Allocations Adjustment.

A. While the Stipulating Parties may not agree on all aspects of Avista's allocation of rate base and expense, the Stipulating Parties' agreement regarding the reduction to rate base in this case and expense and the associated reduction in test year revenue requirement is part of an overall compromise on revenue requirement issues that results in a fair financial settlement. In addition, the Company's agreement to provide business descriptions in the description field of account transactions sufficient to allow internal and external auditing of jurisdictional assignment and allocation will aid the Parties in any future review of such transactions.

Q. Please explain the basis of the Stipulation relating to Issue (r), Utility Plant in Service Adjustment.

[19] Avista/1400, Machado/3.

A. Avista initially proposed to add $43.8 million to rate base reflecting the capital additions to be completed prior to the rate effective period. In Staff's opening testimony, Staff proposed a reduction to rate base of $10.5 million for natural gas utility plant in service.[20] Staff's proposed adjustment reduced new growth to a level consistent with the Company's break-even expenses, and eliminated or reduced costs for three new growth projects (Old Midland Road, 3399 Granite Hill Road, and Bonanza, Oregon Development) as not economically beneficial to ratepayers.[21] Staff's adjustment proposed removing the costs associated with purchasing land adjacent to Jackson Prairie Storage, based on concern it was not used and useful.[22] Finally, Staff included in its adjustment a management adjustment for all distribution projects, excluding specific new growth projects, for a lack of support for the timing of the investment, imprudence for some projects, and general concerns about the Company's capital-investment process.[23]

CUB's testimony also proposed a reduction of $18.9 million to rate base for natural gas utility plant additions. Avista fully or partially accepted some of Staff's and CUB's adjustments in its reply testimony (Bonanza Development, Granite Hill Road, Old Midland Development and 2017 New Growth, Residential), and provided additional information regarding plant additions.[24]

For settlement purposes, the Parties agree to a reduction to rate base of $5,392,000 in this case for natural gas utility plant (e.g., the Bonanza and Old Midland Road service extensions, the Natural Gas Revenue Growth program, and the Natural Gas Pipe Replacement

[20] Staff/800, Moore/1.
[21] Staff/800, Moore/14-15.
[22] Staff/800, Moore/16-17.
[23] Staff/800, Moore/4-12.
[24] Avista/1400, Machado/3.

for Street and Highway Moves program, among others). This adjustment reduces the revenue requirement associated with natural gas utility plant in service rate base by $550,000. The Parties agreed to additional terms requiring attestations before specific capital projects – Pierce Road La Grande High Pressure Reinforcement, Klamath Falls Gas High Pressure Pipeline Remediation, and Meter Data Management – are included in test year rate base, which are discussed below.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (r), Utility Plant in Service Adjustment.

A. While the Stipulating Parties may not agree on all aspects of Avista's capital additions for natural gas utility plant, the Stipulating Parties' agreement regarding the reduction to rate base in this case and the associated reduction in revenue requirement is part of an overall compromise on revenue requirement issues that results in a fair financial settlement. With the additional terms requiring attestations for the inclusion in rate base for certain projects scheduled for completion near the rate effective date, the Parties agree that the agreed-upon rate base and revenue requirement reductions reflect the plant that will be in service and used and useful, consistent with ORS 757.355.

Q. How did the Parties arrive at the Stipulation relating to Issue (s), Other Revenues – Miscellaneous Revenue Adjustment?

A. Staff, in its opening testimony, proposed an adjustment to other revenues to reflect increased miscellaneous service revenues from Rule 20 reconnect fees.[25] Neither CUB nor NWIGU made any proposals to adjust the Company's Other Revenues.

[25] Staff/900, Anderson/13-14.

As a compromise, for settlement purposes, the Parties accept Staff's proposal and agree to adjust Other Revenues to reflect an increased level of collection of reconnect fees, thereby resulting in a decrease to revenue requirement by $26,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (s), Other Revenues.

A. The Parties agree that the agreed-upon adjustment reflects a reasonable compromise on other revenue expense for purposes of settlement.

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

A. After the Company filed its general rate case, Avista discovered that the level of Atmospheric Testing expense included in its initial filing was too high due to a calculation error. In Staff's opening testimony, it proposed to include the Company's correction for a reduction to expense of approximately $62,000 as well as an additional adjustment to the Company's calculated inspection point growth rate. In its reply testimony, the Company accepted Staff's proposal, resulting in a reduction of $66,000 in revenue requirement. Neither CUB nor NWIGU made any proposals to adjust the Company's Atmospheric Testing expense.

The Stipulating Parties agree to Staff's adjustment.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (t), Atmospheric Testing.

A. The Parties agree that the adjustment reflects the appropriate level of Atmospheric Testing expense to be included in the rate year.

Q. What formed the basis for the agreement on Issue (u), Advertising and Promotional Expense Adjustment?

A. Staff proposed to remove certain expenses Staff identified as promotional expenses. Neither CUB nor NWIGU made any proposals to adjust the Company's Advertising and Promotional expense.

As a compromise, for settlement purposes, the Parties agree to Staff's proposal to remove these expenses, thereby reducing revenue requirement by $5,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (u), Advertising and Promotional Expense.

A. The Parties agree that the agreed-upon adjustment reflects a reasonable compromise on this expense for purposes of settlement.

Q. How did the Parties arrive at the Stipulation relating to Issue (v), Membership and Dues Adjustment?

A. Staff proposed to remove all subscription expenses and 25 percent of dues associated with membership in a trade organization (Northwest Gas Association). Neither CUB nor NWIGU made any proposals to adjust the Company's Membership and Dues expense.

On settlement, the Parties agree that 25 percent of the dues associated with the trade organization should be removed, thereby resulting in a decrease to revenue requirement by $6,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (v), Membership and Dues Expense.

A. The Parties agree that the agreed-upon adjustment reflects a reasonable compromise on this expense for purposes of settlement.

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

A. Staff proposed to remove 50 percent of miscellaneous A&G expenses, including those for employee business meals, airfare, lodging, vehicle and transportation, office supplies, and other miscellaneous expenses. In its reply testimony, the Company accepted Staff's proposal to remove 50 percent of expenses associated with employee business meals, but did not agree to the remainder of Staff's adjustment. Neither CUB nor NWIGU made any proposals to adjust the Company's Administrative and General expense.

For settlement purposes, the Parties agree to remove 50 percent of the employee business meals based on Commission precedent[26], and as a compromise, removed 25 percent of the remaining miscellaneous A&G expenses identified above, thereby resulting in a decrease to revenue requirement by $132,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (w) Various Administrative and General Expenses Adjustment.

A. The stipulated terms are consistent with Commission precedent regarding meals, and the Parties agree that the terms for the remaining expenses reflects a reasonable compromise for purposes of settlement.

Q. Please explain the basis of the Stipulation relating to Issue (x), Materials & Supplies Adjustment.

---

[26] Staff/600, Zarate/3; *In the Matter of Portland General Electric Company, Request for a General Rate Revision*, Docket No. UE 197, Order No. 09-020 at 21 (Jan. 22, 2009).

A. Staff, in its opening testimony, proposed a reduction to non-fuel material and supplies to reflect a three-year average level of expense. Neither CUB nor NWIGU made any proposals to adjust the Company's Materials & Supplies expense.

For settlement purposes, the Parties agree to Staff's use of a three-year average level of expense. This adjustment reduces rate base by $128,000 and revenue requirement by $13,000.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding issue (X) Materials and Supplies Adjustment.

A. The Parties agree that the terms for the remaining expenses reflect a reasonable compromise for purposes of settlement.

<u>Resolution of Rate Spread</u>

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

A. The Parties support the spread of the October 1, 2017 overall billed revenue increase of $3.5 million, or 3.7 percent, to the Company's service schedules as follows (and as shown in Attachment B to the Settlement Stipulation)

Table No. 4: Agreed-Upon Rate Spread[27]

Schedule Description	Rate Schedule	Revenue Increase ($000s)	% Increase in Base Revenue	% Increase in Billed Revenue*
Residential	410	$1,693	4.3%	2.8%
General Service	420	$1,807	11.8%	6.8%
Large General Service	424	$0	0.0%	0.0%
Interruptible Service	440	$0	0.0%	0.0%
Seasonal Service	444	$0	0.0%	0.0%
Transportation Service	456	$0	0.0%	0.0%
Total		**$3,500**	**5.9%**	**3.7%**

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

Q. Why did the Parties agree to spread the revenue requirement to only Schedules 410 and 420?

A. While the Parties did not agree on the Long Run Incremental Costs Studies, the studies prepared by Avista and Staff and the technical analysis of NWIGU showed that Schedules 410 and 420 were at or below their cost of service. The other four Schedules, Schedules 424, 440, 444 and 456, all are providing revenues well in excess of their cost of service. By spreading the increase to Schedules 410 and 420, and leaving the other Schedules unchanged, all Schedules will move closer to their cost of service.

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

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

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

reasonable. Moreover, the Stipulation does not reduce rates for some customers, while increasing rates for others, consistent with the findings in Order No. 16-109.

Resolution of Rate Design

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

A. The Parties support the following rate design: For Residential Service Schedule 410, the monthly customer basic charge will be increased by $1 per month, from $9.00 to $10.00 per month. The monthly customer charge for General Service Schedule 420 will remain at $17.00 per month.[28] Attachment C to the Settlement Stipulation provides the agreed-upon base rates.

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

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

Residential Bill Change

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

A. Based on an average usage level of 47 therms per month, the average bill for a Schedule 410 residential customer, which includes both base and adder schedules[29], would increase $1.57 per month, or 2.8 percent, from $56.18 to $57.75.[30]

---

[28] The agreed-upon billing determinants reflect Staff's load adjustments as discussed in Section 4 item o above.
[29] "Adder" schedules recover costs associated with natural gas supply (Schedules 461 and 462), energy efficiency (Schedules 469 and 478), intervenor funding (Schedule 476), and other items.
[30] In terms of the increase in base revenue (excluding all adder schedules) the increase is 4.3%.

Decoupling Base

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

A. Attachment D to the Settlement Stipulation reflects the new decoupling base effective October 1, 2017 that is supported by the Parties. The new decoupling base provides the "Monthly Allowed Customers" and "Monthly Decoupled Revenue per Customer" which incorporate the effects of the settlement revenue requirement and billing determinants. Avista will make any necessary changes to reflect in Schedule 475 how new customers are treated as compared to existing customers in the decoupling mechanism.

Capital Projects & Officer Attestations

Q. What is the agreement of the Parties relating to Capital Projects & Officer Attestations?

A. The Parties agree that Avista will file, prior to October 1, 2017, an officer attestation that the following projects, individually, are complete and have been placed into service:

- Project # 3209 – Pierce Road La Grande High Pressure (HP) Reinforcement (associated revenue requirement of $364,000).
- Project #3057 – Klamath Falls Gas HP Pipeline Remediation (associated revenue requirement of $156,000).
- Project #2586 – Meter Data Management (associated revenue requirement of $387,000).

Q. If a capital project listed above is not completed and in service by October 1, 2017 but is completed prior to November 1, 2017, please describe the terms agreed upon by the Parties.

A. The Parties agree that if one or more of the three projects listed above is not complete and in-service by the October 1, 2017 effective date for new base rates, the revenue requirement associated with the project shall be removed from test year rate base and therefore from the October 1, 2017 base rate change.

The Parties further agree that if one or more of the projects is not complete by October 1, 2017, but is otherwise completed and placed in service prior to November 1, 2017 (the rate effective date for the Company's annual Purchased Gas Cost Adjustment and other associated filings), the Company will file an officer attestation that the project is complete and in service. Project costs, up to the agreed-upon project revenue requirement provided above, associated with any delayed project that is attested to as being in service by November 1, 2017 will be recovered through a separate tariff beginning November 1, 2017 (Schedule 495).[31] The associated revenue requirement will be spread to the schedules in the same manner as the revenue requirement in this case as shown in Table No. 4 above.

If one or more of the projects is not complete and placed in service prior to November 1, 2017, Avista will need to support any recovery of capital costs associated with that project in a subsequent general rate filing.

[31] This method of attestation and cost recovery has been utilized in prior general rate cases, such as in Docket Nos. UE 294 and UG 181.

Load Forecast Refinements

Q. Would you please provide the load forecast refinements that were agreed to by the Parties?

A. Yes. The Parties have agreed on the Load Forecasting adjustment issue in this general rate case as discussed in Section 4 above. Further, in Staff's opening testimony, Staff made three recommendations to improve the forecast models' accuracy: (1) Limit intervention variables to those with sufficient theoretical justification, (2) Select ARIMA model structures to minimize the information loss, and (3) Include economic forecast drivers related to the number of large commercial customers. The Company agrees to the following refinements, which it will include in its next load forecast, currently planned to be completed in June of 2017:

a. The Company will add employment as an economic driver to the forecast of Schedule 424 commercial customers for the Medford, Roseburg, and Klamath regions.

b. When selecting forecasting models, the Company will use the Akaike Information Criteria (AIC) rather than the root-mean-square error (RMSE) method. However, the Company will continue to select models "by hand" rather than using an automatic selection routine. The Company's reply testimony states that this reflects the need to carefully consider each model in light of the empirical difficulties (outliers, missing data, etc.) that often arise when modeling with billed data.

Statements of the Parties[32]

Statement of Avista

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

A. Yes. The Settlement strikes a reasonable balance between the interests of Avista's customers and the Company on certain revenue requirement items, rate spread and rate design issues, and additional reporting for certain capital projects. 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 the filing of testimony from Staff, CUB and NWIGU, 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. Ms. Gardner, please explain why Staff believes the Settlement Stipulation is in the public interest.

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

A. Staff supports the Stipulation as a reasonable compromise of the issues in this rate case. Staff is confident none of the terms of the Stipulation are contrary to Commission precedent. Staff agreed to terms for which there is no Commission precedent based on Staff's evaluation and analysis of the issues, further informed by Staff practice in other rate cases. Staff's position on these adjustments is supported by its opening testimony, a further evaluation of the available information and the conclusion that the agreed-to adjustments fall within a reasonable range of outcomes at this time.

Statement of CUB

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

A. CUB believes the Settlement Stipulation is in the public interest as a reasonable compromise of the issues addressed by parties in this docket, and recommends that the Commission approve the settlement. CUB believes that the settlement is a fair compromise that protects Avista's Oregon residential ratepayers from an unjust and unreasonable increase to rates. CUB evaluated capital spending on a project-by-project basis. The Stipulation appropriately reduces capital spending levels. In addition, an adjustment was made to meter data management investment. CUB felt this was necessary to reflect that the meter data management system is associated with the smart meters of its non-Oregon electric operations. Due to these adjustments, CUB felt that the balance of issues in the Stipulation is reasonable and in the public interest.

Statement of NWIGU

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

A. NWIGU believes the Settlement Stipulation is in the public interest and recommends the Commission approve the settlement because the best interests of Avista's natural gas customers are served by the underlying fair compromise on revenue requirement, cost of capital and rate spread and rate design issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement, cost of capital, and rate spread and rate design issues addressed in the Settlement Stipulation, NWIGU supports the Settlement Stipulation as it has brought down the overall gas revenue requirement increase from $8,539,000 to $3,500,000, consistent with the testimony and litigation positions of Staff, NWIGU and CUB. The parties also agreed upon a 9.4 percent ROE with a capital structure comprised of 50 percent equity and 50 percent debt. NWIGU's witness Gorman recommended a 9.4 ROE, so the cost of capital issues were resolved consistent with NWIGU's expert testimony.

Further, the rate increase is spread consistent with the cost of service study performed by Avista and the technical analysis and recommendations of NWIGU and Staff. Although the cost of service study of Avista and technical analysis and recommendations of NWIGU and Staff warrant further reductions to large volume transportation customers, NWIGU believes the settlement represents a fair compromise of the rate spread issues. NWIGU advocates for moving class revenue allocations to their respective indicated cost of service. This would result in class distribution rates that better reflect cost causation for all classes, which would send proper price signals to all customers and help to eliminate revenue subsidies between rate classes. That being said, NWIGU recognizes the benefit to other customers by moving gradually towards cost based rates. Although the margin revenue allocation in the Settlement Stipulation does not completely move all rates to cost of service, NWIGU supports the proposed margin revenue allocation because it makes a gradual movement to cost based rates. The overall result is a fair compromise between Avista and its customers.

Conclusion

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

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

Q. What do the Parties recommend regarding the Stipulation?

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

Q. Does this conclude your Joint Testimony?

A. Yes.

PUBLIC UTILITY COMMISSION
OF
OREGON

UG 325

STAFF/AVISTA/NWIGU/CUB EXHIBIT 101

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

June 29, 2017

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 325

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

This Settlement Stipulation ("Stipulation") is entered into for the purpose of resolving all issues in this Docket.

PARTIES

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

BACKGROUND

1. On November 30, 2016, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $8,539,000, or 9.0 percent of its annual revenues. The filing was suspended by the Commission on December 20, 2016, per its Order No. 16-495.

2. Pursuant to Administrative Law Judge Allan Arlow's Prehearing Conference Memorandum of December 29, 2016, Staff, CUB, and NWIGU filed Opening Testimony in response to the Company's original filing on March 1, 2017. On April 6, 2017, Avista filed its Reply Testimony. On April 24, 2017, a settlement conference was held, attended by all Parties.

3. As a result of the settlement discussions held on April 24, 2017, the Parties have agreed to settle all issues in this Docket, including adjustments to the revenue requirement, rate spread and rate design issues, and additional reporting for certain capital projects, on the following terms, subject to the approval of the Commission.

TERMS OF SETTLEMENT STIPULATION

4. **Adjustments to Revenue Requirement:**

The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a total reduction in Avista's revenue requirement increase request from $8.539 million to a base revenue increase of $3.500 million. The Parties support the adjustments to Avista's revenue requirement request as shown in Table No. 1 below:

Table No. 1:

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)			
		Revenue Requirement	**Rate Base**
Amount as filed:		**$8,539**	**$243,424**
Adjustments:			
a	Rate of Return	(1,854)	-
b	Revenue Sensitive - Uncollectible rate	(41)	-
c	Uncollectibles	(191)	-
d	Revenue Sensitive - Commission & Franchise Fee rate	(34)	-
e	Working Cash	(343)	(3,356)
f	Interest Synchronization	311	-
g	Wages, Salaries, Medical Benefits, and D&O Insurance	(593)	(27)
h	Property Tax	(78)	-
i	Amortization & Depreciation	(36)	39
j	Regulatory Expense	(92)	
k	Pensions	(264)	(170)
l	Underground Storage	(21)	-
m	Other Gas Supply Expense	(18)	-
n	Load Forecasting	(394)	-
o	Sales & Transportation	39	-
p	Information Technology	(445)	(3,009)
q	Cost Allocation	(187)	(1,449)
r	Utility Plant in Service	(550)	(5,392)
s	Other Revenues	(26)	-
t	Atmospheric Testing	(66)	-
u	Advertising and Promotional Expense	(5)	-
v	Memberships and Dues	(6)	-
w	Various A&G Expenses	(132)	-
x	Materials & Supplies - Non-Fuel	(13)	(128)
	Total Adjustments:	**($5,039)**	**($13,492)**
Adjusted Base Revenue Requirement & Rate Base - <u>Effective October 1, 2017:</u>		**$3,500**	**$229,932**

The following information provides an explanation for each of the adjustments in Table No. 1. Attachment A summarizes the Company's filed rate case and the stipulated adjustments. The numbers in parenthesis below represent the agreed-upon increase or decrease in revenue requirement associated with the item.

a. Rate of Return (-$1,854,000): Table No. 2 below shows the Company's and Staff's proposed Cost of Capital. NWIGU proposed a rate of return on common equity of 9.4%.[1]

Table No. 2:

AVISTA CORPORATION Proposed Cost of Capital			
	Proposed Structure	Cost	Weighted Cost
Debt	50.0%	5.750%	2.88%
Common Equity	50.0%	9.9%	4.95%
TOTAL	100.0%	Rate of Return	**7.83%**

STAFF Proposed Cost of Capital (1)			
	Proposed Structure	Cost	Weighted Cost
Debt	51.1%	5.095%	2.60%
Common Equity	48.9%	9.1%	4.43%
TOTAL	100.0%	Rate of Return	**7.03%**

(1) Staff/200, Muldoon/2, lines 8-9.

For settlement purposes, the Parties agree to an overall weighted cost of capital equal to 7.35% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 9.4%, and a long-term debt cost of 5.30%, thereby

[1] NWIGU/100/Gorman/4, lines 3-10.

reducing the proposed revenue requirement by $1,854,000. This combination of capital structure and capital costs is shown in Table No. 3 below:

Table No. 3:

AVISTA CORPORATION Agreed-Upon Cost of Capital			
	Percent of Total Capital	**Cost**	**Weighted Cost**
Long-Term Debt	50.00%	5.300%	2.650%
Common Equity	50.00%	9.400%	4.700%
Total	**100.00%**	**Rate of Return**	**7.350%**

b. Revenue Sensitive – Uncollectible Rate (-$41,000): In the Company's direct filing, the uncollectible rate used in the conversion factor was calculated using a three-year average on a twelve-months ended June 30, 2016 basis, for a rate of 1.09760 percent. Staff proposed in its opening testimony to apply a rate of 0.5496 percent, the rate set in Docket UG 288, noting a need for clarification of the available data. In its reply testimony, the Company proposed using the net write-off and direct revenue balances for the twelve months ended December 31, 2016, for a rate of 0.6242 percent. For settlement purposes, the Parties agree to adjust the uncollectible rate to 0.6335 percent, based on a three year average using the calendar years 2014, 2015, and 2016 for the revenue sensitive rate and conversion factor.

c. Uncollectibles (-$191,000): In the Company's direct filing, uncollectible expense was adjusted to a three-year average on a twelve-months ended June 30, 2016 basis. For settlement purposes, the Parties accept Staff's proposal to adjust uncollectible expense utilizing the uncollectible rate of 0.6335 percent, thereby reducing the proposed revenue requirement by $191,000.

d. OPUC & Franchise Fee Rate ($-34,000): In the Company's direct filing, the Company used an OPUC & Franchise Fee rate of 0.00275. For settlement purposes, the Parties accept Staff's proposed OPUC & Franchise Fee rate of 0.0030, thereby reducing the proposed revenue requirement by $34,000.

e. Working Capital (-$343,000): In the Company's direct filing, the Company proposed a working capital rate base adjustment, excluding materials and supplies, using the Investor Supplied Working Capital methodology. For settlement purposes, the Parties accept Staff's proposal to remove the working capital rate base adjustment, thereby reducing the proposed revenue requirement by $343,000. This adjustment reduces rate base by $3,536,000.

f. Interest Synchronization (+$311,000): This adjustment includes the flow through of the federal and state tax impact on rate base adjustments due to the agreed-upon cost of debt, thereby increasing the proposed revenue requirement by $311,000.

g. Wages, Salaries, Medical Benefits, and D&O Insurance (-$593,000): Staff proposed an adjustment to the Company's Wages and Salaries expense for reductions associated with the Company's overall wages and salaries increases related to overtime, full-time employee equivalents (FTE), associated payroll taxes, Officer and Non-Officer Incentive Pay, and Restricted Stock Units. NWIGU also proposed an adjustment to the Company's Wages and Salaries expense for Restricted Stock Units.[2] In addition, Staff proposed adjustments to the Company's medical benefits expense, as well as proposing a 50 percent sharing of all layers of Directors' and Officers' (D&O) Insurance expense. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $593,000. The adjustment also reduces rate base by $27,000.

[2] NWIGU/100/Gorman/6-7.

h. Property Taxes (-$78,000): Staff proposed an adjustment to property tax expense to reflect the use of a three-year average of the property tax levy rate, which was applied to the agreed-upon level of rate base. For settlement purposes, the Parties agree upon a lower level of property tax expense, thereby reducing the proposed revenue requirement by $78,000.

i. Amortization & Depreciation (-$36,000): For settlement purposes, the Parties agree to an adjustment to amortization and depreciation expense associated with the Information Technology, Cost Allocation and Utility Plant in Service adjustments discussed in items q. – s. below. This adjustment reduces rate base by $39,000 and revenue requirement by $36,000.

j. Regulatory Expense (-$92,000): Avista proposed to recover the level of regulatory expense that occurred in the twelve-months ended June 30, 2016. Staff proposed an adjustment to regulatory expense to reflect a three-year average level of expense. For settlement purposes, the Parties agree to Staff's proposal to reduce the level of Regulatory Expense by $92,000, thereby reducing the proposed revenue requirement by $92,000.

k. Pension (-$264,000): Staff proposed an adjustment to reflect an Expected Return on Assets (EROA) on pensions and post-retirement medical benefits of 6.6 percent, as recommended by Commission Staff and as approved by the Commission in Docket UG-288, OPUC Order No. 16-109. In its reply testimony, the Company accepted Staff's proposal. This adjustment reduces rate base $170,000, and reduces the proposed revenue requirement by $264,000.

l. Underground Storage (-$21,000): Staff proposed an adjustment to underground storage expense to reflect a three-year average level of expense. In its reply testimony, the Company accepted Staff's proposal to adjust the Underground Storage to reflect a three-year average level of expense, thereby reducing the proposed revenue requirement by $21,000.

m. Other Gas Supply (-$18,000): Staff proposed an adjustment to other gas supply expense to reflect a three-year average level of expense. In its reply testimony, the Company accepted Staff's proposal to adjust the Other Gas Supply to reflect a three-year average level of expense, thereby reducing the proposed revenue requirement by $18,000.

n. Load Forecasting (-$394,000): After reviewing the Company's filed load forecast, Staff proposed certain recommendations which would increase the level of customer usage in the rate effective period. In its reply testimony, the Company accepted Staff's adjustments to the Company's load forecasting calculation, thereby reducing the proposed revenue requirement by $394,000.

o. Sales & Transportation (+$39,000): As a result of the changes made to the load forecasting adjustment in item n above, Staff proposed an adjustment to the Company's Sales & Transportation revenue. In its reply testimony, the Company accepted Staff's proposal to Sales & Transportation revenue as a result of the changes in the load forecasting calculation, thereby increasing the proposed revenue requirement by $39,000.

p. Information Technology Adjustment (-$445,000): Staff's testimony proposed reductions to information technology and associated general plant rate base additions and expenses. CUB's testimony also proposed reductions to information technology and associated general plant rate base additions.[3] For settlement purposes, the Parties agree to a rate base reduction of $3,009,000 associated with information technology and general plant rate base additions (e.g., Technology Expansion, Meter Data Management, Next Generation Radio System, and Long-Term Campus Restructuring, among others) and a reduction to expense associated with

[3] CUB/100/McGovern/56.

capital investment. This adjustment reduces the revenue requirement associated with information technology and general plant rate base additions by $445,000.

q. Cost Allocation Adjustment (-$187,000): Staff's testimony proposed reductions to common plant rate base as well as reductions to expense, based on its review of the Company's allocations of these items by jurisdiction and service. For settlement purposes, the Parties agree to a reduction to common plant rate base (e.g., common warehouse space and main campus expansion, among other items) of $1,449,000 and a reduction to expense of $38,000. This adjustment reduces the revenue requirement associated with common plant rate base and common expense by $187,000. Avista agrees to provide business descriptions in the description field of account transactions sufficient to allow internal and external auditing of jurisdictional assignment and allocation.

r. Utility Plant in Service Adjustment (-$550,000): Staff's testimony proposed reductions to rate base for natural gas utility plant in service. CUB's testimony also proposed reductions to rate base for natural gas utility plant additions. For settlement purposes, the Parties agree to a reduction to rate base of $5,392,000 for natural gas utility plant (e.g., the Bonanza and Old Midland Road service extensions, the Natural Gas Revenue Growth program, and the Natural Gas Pipe Replacement for Street and Highway Moves program, among others). This adjustment reduces the revenue requirement associated with natural gas utility plant in service rate base by $550,000.

s. Other Revenues – Miscellaneous Revenue (-$26,000): Staff proposed an adjustment to other revenues to reflect increased revenues from reconnect fees. For settlement purposes, the Parties agree to adjust Other Revenues to reflect an increased level of collection fees, thereby resulting in a decrease to revenue requirement by $26,000.

t. Atmospheric Testing (-$66,000): After the Company filed its general rate case, Avista discovered that the level of Atmospheric Testing expense included in its initial filing was too high due to a calculation error. In Staff's direct testimony, it proposed to include the Company's correction for a reduction to expense of approximately $62,000 as well as an additional adjustment to the Company's calculated inspection point growth rate. In its reply testimony, the Company accepted Staff's proposal, resulting in a reduction of $66,000 in revenue requirement.

u. Advertising and Promotional Expense (-$5,000): Staff proposed to remove certain expenses Staff identified as promotional expenses. For settlement purposes, the Parties agree to remove these expenses, thereby reducing revenue requirement by $5,000.

v. Membership and Dues (-$6,000): Staff proposed to remove all subscription expenses and 25 percent of dues associated with membership in a trade organization (Northwest Gas Association). On settlement, the Parties agree that 25 percent of the dues associated with the trade organization should be removed.

w. Various Administrative & General (A&G) Expenses (-$132,000): Staff proposed to remove 50 percent of miscellaneous A&G expenses, including those for employee business meals, airfare, lodging, vehicle and transportation, office supplies, and other miscellaneous expenses. In its reply testimony, the Company accepted Staff's proposal to remove 50 percent of expenses associated with employee business meals. For settlement purposes, the Parties agree to remove 50 percent of the employee business meals, as well as 25 percent of the remaining miscellaneous A&G expenses identified above, thereby resulting in a decrease to revenue requirement by $132,000.

x. Materials & Supplies (-$13,000): Staff proposed a reduction to non-fuel material and supplies to reflect a three-year average level of expense. For settlement purposes, the Parties agree to Staff's use of a three-year average level of expense. This adjustment reduces rate base $128,000 and revenue requirement by $13,000.

5. **Proposed Effective Date:** The proposed rate effective date is October 1, 2017. Upon approval of this Stipulation, Avista will file revised rate schedules reflecting rates as agreed upon in this Stipulation as a compliance filing, effective October 1, 2017.

6. **Rate Spread:**

The Parties support the spread of the October 1, 2017 overall billed revenue increase of $3.5 million, or 3.7 percent, to the Company's service schedules as follows (and as shown in Attachment B to the Settlement Stipulation):

Table No. 4: Agreed-Upon Rate Spread

Schedule Description	Rate Schedule	Revenue Increase ($000s)	% Increase in Base Revenue	% Increase in Billed Revenue*
Residential	410	$1,693	4.3%	2.8%
General Service	420	$1,807	11.8%	6.8%
Large General Service	424	$0	0.0%	0.0%
Interruptible Service	440	$0	0.0%	0.0%
Seasonal Service	444	$0	0.0%	0.0%
Transportation Service	456	$0	0.0%	0.0%
Total		**$3,500**	**5.9%**	**3.7%**

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

7. **Rate Design:**

The Parties support the following rate design: For Residential Service Schedule 410, the monthly customer basic charge will be increased by $1 per month, from $9.00 to $10.00 per month.

The monthly customer charge for General Service Schedule 420 will remain at $17.00 per month.[4] Attachment C to the Settlement Stipulation provides the agreed-upon base rates.

8. **Residential Bill Change:**

Based on an average usage level of 47 therms per month, the average bill for a Schedule 410 residential customer, which includes both base and adder schedules[5], would increase $1.57 per month, or 2.8 percent, from $56.18 to $57.75.[6]

9. **Decoupling:**

Attachment D to the Settlement Stipulation reflects the new decoupling base effective October 1, 2017 that is supported by the Parties. The new decoupling base provides the "Monthly Allowed Customers" and "Monthly Decoupled Revenue per Customer" which incorporate the effects of the settlement revenue requirement and billing determinants. Avista will make any necessary changes to reflect in Schedule 475 how new customers are treated as compared to existing customers in the decoupling mechanism.

10. **Capital Projects & Officer Attestations:**

The Parties agree that Avista will file, prior to October 1, 2017, an officer attestation that the following projects, individually, are complete and have been placed into service:

- Project # 3209 – Pierce Road La Grande HP Reinforcement (associated revenue requirement of $364,000).
- Project #3057 – Klamath Falls Gas High Pressure (HP) Pipeline Remediation (associated revenue requirement of $156,000).

[4] The agreed-upon billing determinants reflect Staff's load adjustments as discussed in Section 4 item o above.
[5] "Adder" schedules recover costs associated with natural gas supply (Schedules 461 and 462), energy efficiency (Schedules 469 and 478), intervenor funding (Schedule 476), and other items.
[6] In terms of the increase in base revenue (excluding all adder schedules) the increase is 4.3%.

- Project #2586 – Meter Data Management (associated revenue requirement of $387,000).

The Parties agree that if one or more of the three projects listed above is not complete and in-service by the October 1, 2017 effective date for new base rates, the revenue requirement associated with the project shall be removed from test year rate base and therefore from the October 1, 2017 base rate change.

The Parties further agree that if one or more of the projects is not complete by October 1, 2017, but is otherwise completed and placed in service prior to November 1, 2017 (the rate effective date for the Company's annual Purchased Gas Cost Adjustment and other associated filings), the Company will file an officer attestation that the project is complete and in service. Project costs, up to the agreed-upon project revenue requirement provided above, associated with any delayed project that is attested to as being in service by November 1, 2017 will be recovered through a separate tariff beginning November 1, 2017 (Schedule 495).[7] The associated revenue requirement will be spread to the schedules in the same manner as the revenue requirement in this case as shown in Table No. 4 above.

If one or more of the projects is not complete and placed in service prior to November 1, 2017, Avista will need to support any recovery of capital costs associated with that project in a subsequent general rate filing.

11. **<u>Load Forecast Refinements:</u>**

The Parties have agreed on the Load Forecasting adjustment issue in this general rate case as discussed in Section 4 above. Further, in Staff's opening testimony, Staff made three recommendations to improve the forecast models' accuracy: (1) Limit intervention variables to

[7] This method of attestation and cost recovery has been utilized in prior general rate cases, such as in Docket Nos. UE 294 and UG 181.

those with sufficient theoretical justification, (2) Select ARIMA model structures to minimize the information loss, and (3) Include economic forecast drivers related to the number of large commercial customers. The Company agrees to the following refinements, which it will include in its next load forecast, currently planned to be completed in June of 2017:

a. The Company will add employment as an economic driver to the forecast of Schedule 424 commercial customers for the Medford, Roseburg, and Klamath regions.

b. When selecting forecasting models, the Company will use the Akaike Information Criteria (AIC) rather than the root-mean-square error (RMSE) method. However, the Company will continue to select models "by hand" rather than using an automatic selection routine. The Company's reply testimony states that this reflects the need to carefully consider each model in light of the empirical difficulties (outliers, missing data, etc.) that often arise when modeling with billed data.

General Terms and Conditions

12. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just and reasonable outcome, consistent with ORS 756.040. The Parties recommend that the Commission issue an order adopting the Stipulation.

13. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. Without the written consent of all Parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this Docket, are not admissible in the instant or any subsequent proceeding unless independently discoverable or offered for other purposes allowed under ORS 40.190. Nothing in this paragraph precludes a party from stating as a factual matter what the Parties agreed to in this Stipulation or in the Parties' testimony supporting the stipulation.

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

15. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to support this Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the Stipulation at any hearing held, and, in a Party's discretion, to provide a representative at the hearing authorized to respond to the Commission's questions on the Party's position as may be appropriate.

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

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

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

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

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

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

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

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________ David J. Meyer	By: ______________________ Johanna Riemenschneider
Date: May 16, 2017	Date: ______________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________ Chad M. Stokes	By: ______________________ Michael Goetz
Date: ______________________	Date: ______________________

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

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

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

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

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: John Riemenschneider
Johanna Riemenschneider

Date: 5/15/17

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
Michael Goetz

Date: ____________________________

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

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

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

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

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Johanna Riemenschneider

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: 5/15/17

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
Michael Goetz

Date: ____________________________

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

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

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

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

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Johanna Riemenschneider

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: Michael P. Goetz
Michael Goetz

Date: May 18, 2017

Avista Utilities
UG 325
Twelve Months Ended 9.30.2018
($000)

		Company Filed 9.30.2018 Results at Proposed Return (1)	Stipulated Adjustments (2)	9.30.2018 Adjusted (3)	Stipulated Revenue Increase (4)	Results at Stipulated Return (5)
1	**Operating Revenues**					
2	General Business	$ 63,760	$ 355	$ 55,576	$ 3,500	$ 59,076
3	Transportation	$ 3,503	$ -	$ 3,503	$ -	$ 3,503
4	Other Revenues	$ 98	$ 26	$ 124	$ -	$ 124
5	**Total Operating Revenues**	$ 67,361	$ 381	$ 59,203	$ 3,500	$ 62,703
6	**Operating Expenses**					$ -
7	Gas Purchased	$ -	$ -	$ -	$ -	$ -
8	OPUC Fees	$ 263	$ (62)	$ 178	$ 11	$ 188
9	Franchise Fees	$ 1,480	$ 38	$ 1,326	$ 78	$ 1,405
10	Uncollectibles	$ 652	$ (183)	$ 375	$ 22	$ 397
11	General Operations & Maintenance	$ 13,789	$ (323)	$ 13,466	$ -	$ 13,466
12	Admin & General Expenses	$ 9,204	$ (988)	$ 8,215	$ -	$ 8,215
13	**Total Operation & Maintenance**	$ 25,387	$ (1,517)	$ 23,561	$ 111	$ 23,672
14	Depreciation	$ 10,931	$ -	$ 10,931	$ -	$ 10,931
15	Amortization	$ 1,830	$ (39)	$ 1,791	$ -	$ 1,791
16	Taxes Other than Income	$ 3,220	$ (75)	$ 3,145	$ -	$ 3,145
17	Income Taxes	$ 6,933	$ 1,026	$ 5,078	$ 1,186	$ 6,264
18	**Total Operating Expenses**	$ 48,301	$ (606)	$ 44,506	$ 1,297	$ 45,803
19	**Net Operating Revenues**	$ 19,060	$ 987	$ 14,697	$ 2,203	$ 16,900
20	**Average Rate Base**					
21	Utility Plant in Service	$ 428,785	$ (10,047)	$ 418,738	$ -	$ 418,738
22	Less:					
23	Accumulated Depreciation & Amortization	$ (123,966)	$ 39	$ (123,927)	$ -	$ (123,927)
24	Accumulated Deferred Income Taxes	$ (69,805)	$ -	$ (69,805)	$ -	$ (69,805)
25	Accumulated Deferred Inv. Tax Credit	$ -	$ -	$ -	$ -	$ -
26	**Net Utility Plant**	$ 235,014	$ (10,008)	$ 225,006	$ -	$ 225,006
27	Plant Held for Future Use	$ -	$ -	$ -	$ -	$ -
28	Acquisition Adjustments	$ -	$ -	$ -	$ -	$ -
29	Working Capital	$ 3,360	$ (3,356)	$ 4	$ -	$ 4
30	Fuel Stock	$ 2,450	$ -	$ 2,450	$ -	$ 2,450
31	Materials & Supplies	$ 2,600	$ (128)	$ 2,472	$ -	$ 2,472
32	Customer Advances for Construction	$ -	$ -	$ -	$ -	$ -
33	Weatherization Loans	$ -	$ -	$ -	$ -	$ -
34	Prepayments	$ -	$ -	$ -	$ -	$ -
35	Misc. Deferred Debits & Credits	$ -	$ -	$ -	$ -	$ -
36	Misc. Rate Base Additions/(Deductions)	$ -	$ -	$ -	$ -	$ -
37	**Total Average Rate Base**	$ 243,424	$ (13,492)	$ 229,932	$ -	$ 229,932
38	**Rate of Return**	7.8300%		6.3920%		**7.35000%**
39	**Implied Return on Equity**	9.9000%		7.484%		9.40000%

Attachment B

Avista Utilities
Proposed Revenue Increase by Schedule
Oregon - Natural Gas
Pro Forma 12 Months Ended September 30, 2018
(000s of Dollars)

Line No.	Type of Service	Schedule Number	Distribution Revenue Under Present Rates	Settlement GRC Increase	Distribution Revenue Under Proposed Rates	Therms (000s)	**Distribution Revenue Percentage Increase**	Billed Revenue Under Present Rates	Settlement GRC Increase	Billed Revenue Under Proposed Rates	**Billed Revenue Percentage Increase**
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Residential	410	$39,110	$1,693	$40,803	50,644	**4.3%**	$60,543	$1,693	$62,236	**2.8%**
2	General Service	420	$15,314	$1,807	$17,121	26,929	**11.8%**	$26,412	$1,807	$28,219	**6.8%**
3	Large General Service	424	$643	$0	$643	4,260	**0.0%**	$2,359	$0	$2,359	**0.0%**
4	Interruptible Service	440	$502	$0	$502	4,308	**0.0%**	$1,208	$0	$1,208	**0.0%**
5	Seasonal Service	444	$45	$0	$45	265	**0.0%**	$152	$0	$152	**0.0%**
6	Transportation Service	456	$3,252	$0	$3,252	40,757	**0.0%**	$3,302	$0	$3,302	**0.0%**
7	Special Contract	447	$213	$0	$213	5,773	**0.0%**	$213	$0	$213	**0.0%**
8	Total		$59,079	$3,500	$62,579	132,935	**5.9%**	$94,189	$3,500	$97,689	**3.7%**

Attachment C

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

Present Base Rates	Change	Proposed Base Rates
Residential Service Schedule 410		
$9.00 Customer Charge	$1.00/month	$10.00 Customer Charge
All Therms - $0.58062/Therm	$0.01214/therm	All Therms - $0.59276/Therm
General Service Schedule 420		
$17.00 Customer Charge	$0.00/month	$17.00 Customer Charge
All Therms - $0.48015/Therm	$0.06709/therm	All Therms - $0.54724/Therm
Large General Service Schedule 424		
$50.00 Customer Charge	$0.00/month	$50.00 Customer Charge
All Therms - $0.13887/Therm	$0.00000/therm	All Therms - $0.13887/Therm
Interruptible Service Schedule 440		
All Therms - $0.11652/Therm	$0.00000/therm	All Therms - $0.11652/Therm
Seasonal Service Schedule 444		
All Therms - $0.17155/Therm	$0.00000/therm	All Therms - $0.17155/Therm
Transportation Service Schedule 456		
$275.00 Customer Charge	$0.00/month	$275.00 Customer Charge
1st 10,000 Therms - $0.14978/Therm	$0.00000/therm	1st 10,000 Therms - $0.14978/Therm
Next 20,000 Therms - $0.09014/Therm	$0.00000/therm	Next 20,000 Therms - $0.09014/Therm
Next 20,000 Therms - $0.07409/Therm	$0.00000/therm	Next 20,000 Therms - $0.07409/Therm
Next 200,000 Therms - $0.05799/Therm	$0.00000/therm	Next 200,000 Therms - $0.05799/Therm
Over 250,000 Therms - $0.02942/Therm	$0.00000/therm	Over 250,000 Therms - $0.02942/Therm
		Schedule 456 Monthly Minimum Charge
		18,750 @ $0.09014 = $1,690.13

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Decoupled Revenue by Rate Schedule - Natural Gas
Docket No. UG-325 Rates Effective October 1, 2017

		TOTAL	RESIDENTIAL SCHEDULE 410	SM COMMERCIAL & INDUSTRIAL SCH. 420	LG COMMERCIAL & INDUSTRIAL SCH. 424	INTERRUPTIBLE SCH 440	INTERRUPTIBLE SCH 444	TRANSPORTATION SCH 456/447
1	Total Normalized 09.2018 Margin Revenue	$ 59,079,000	$ 39,110,000	$ 15,314,000	$ 643,000	$ 502,000	$ 45,000	$ 3,465,000
2	Settlement Margin Revenue Increase	$ 3,500,000	$ 1,693,000	$ 1,807,000	$ -	$ -	$ -	$ -
3	Total Delivery Revenue (09.2018 Test Year) (Ln 1 + Ln 2)	$ 62,579,000	$ 40,803,000	$ 17,121,000	$ 643,000	$ 502,000	$ 45,000	$ 3,465,000
4	Customer Bills (09.2018 Test Year)	1,220,646	1,078,451	140,240	1,018	434	47	456
5	Proposed Basic Charges		$10.00	$17.00	$50.00	$0.00	$0.00	$275.00
6	Basic Charge Revenue (Ln 4 * Ln 5)	$ 13,344,903	$ 10,784,510	$ 2,384,080	$ 50,913	$ -	$ -	$ 125,400
7	Decoupled Revenue (Ln 6 - Ln 3)	$ 49,234,097	$ 30,018,490	$ 14,736,920	$ 592,087	$ 502,000	$ 45,000	$ 3,339,600
8	Normalized Therms (09.2018 Test Year)	133,601,929	50,643,606	26,929,384	4,260,059	4,307,537	264,821	47,196,523
			Residential	Non-Residential Group				Exempt from
9	Average Number of Customers (Line 8 / 12 mos.)		89,871	11,812				Decoupling
10	Annual Therms		50,643,606	35,761,801				Mechanism
11	Basic Charge Revenues		$ 10,784,510	$ 2,434,993				
12	Customer Bills		1,078,451	141,739				
13	Average Basic Charge		$10.00	$17.18				

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Decoupled Revenue Per Customer - Natural Gas
Docket No. UG-325 Rates Effective October 1, 2017

Line No.		Source	Residential	Non-Residential Schedules*
	(a)	(b)	(c)	(d)
1	Decoupled Revenue	Page 1	$ 30,018,490	$ 15,876,007
2	Test Year Number of Customers 2017/2018	Revenue Data	89,871	11,812
3	Decoupled Revenue Per Customer	(1) / (2)	$ 334.02	$ 1,344.10

*Schedules 420, 424, 440, and 444

Avista Utilities
Natural Gas Decoupling Mechanism (Oregon)
Development of Monthly Decoupled Revenue Per Customer - Natural Gas
Docket No. UG-325 Rates Effective October 1, 2017

Line No.		Source	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
1															
2	**Natural Gas Delivery Volume**														
3	*Residential*														
4	- Weather-Normalized Therm Delivery Volume	Monthly Rate Year	8,643,384	6,420,703	5,837,624	4,076,155	2,643,593	1,697,007	1,405,907	1,319,175	1,325,382	2,834,629	5,881,954	8,558,093	50,643,606
5	- % of Annual Total	% of Total	17.07%	12.68%	11.53%	8.05%	5.22%	3.35%	2.78%	2.60%	2.62%	5.60%	11.61%	16.90%	100.00%
6															
7	*Non-Residential Sales**														
8	- Weather-Normalized Therm Delivery Volume	Monthly Rate Year	5,279,786	4,014,782	3,736,008	2,588,941	1,832,694	1,364,378	1,426,942	1,499,323	1,809,975	2,740,397	4,124,341	5,344,234	35,761,801
9	- % of Annual Total	% of Total	14.76%	11.23%	10.45%	7.24%	5.12%	3.82%	3.99%	4.19%	5.06%	7.66%	11.53%	14.94%	100.00%
10															
11	**Monthly Decoupled Revenue Per Customer ("RPC")**														
12	*Residential*														
13	- Decoupled Revenue per Customer	Page 2 - Decoupled RPC													$ 334.02
14	- Monthly Decoupled Revenue per Customer	(5) x (13)	$ 57.01	$ 42.35	$ 38.50	$ 26.88	$ 17.44	$ 11.19	$ 9.27	$ 8.70	$ 8.74	$ 18.70	$ 38.79	$ 56.44	$ 334.02
15	- Monthly Allowed Customers		90,463	90,463	90,455	90,379	90,208	89,906	89,583	89,345	89,344	88,757	89,449	90,099	
16	*Non-Residential Sales**														
17	- Decoupled Revenue per Customer	Page 2 - Decoupled RPC													$ 1,344.10
18	- Monthly Decoupled Revenue per Customer	(9) x (17)	$ 198.44	$ 150.89	$ 140.42	$ 97.30	$ 68.88	$ 51.28	$ 53.63	$ 56.35	$ 68.03	$ 103.00	$ 155.01	$ 200.86	$ 1,344.10
19	- Monthly Allowed Customers		11,860	11,900	11,904	11,870	11,854	11,828	11,790	11,769	11,761	11,663	11,736	11,804	
20	*Schedules 420, 424, 440, and 444.														