PUBLIC UTILITY COMMISSION
OF
OREGON

UG 366

STAFF/AVISTA/AWEC/CUB EXHIBIT 200

Joint Testimony in Support of Second Partial Settlement Stipulation

August 14, 2019

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 the Program Manager, Rates and Accounting in the Rates, Finance and Audit Division of the Utility Program. I am a graduate of Oregon State University with a Masters of Business Administration and a graduate of Montana State University with a Bachelor of Science in Accounting. I have approximately 22 years of professional accounting experience, including cost accounting, public accounting, and non-profit accounting. My responsibilities include research, analysis, and recommendations on a range of cost, revenue and policy issues for electric and natural gas utilities. In this docket, I am the Revenue Requirements Summary Witness for Staff.

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

My name is William Gehrke. I an Economist with the Oregon Citizens' Utility Board ("CUB") located at 610 SW Broadway, Suite 400, Portland OR 97205. I am a graduate of Florida State University with a Master's Degree in Economics. I have provided testimony and comments in a multiplicity of PUC dockets since 2017. As one of CUB's economists, my responsibilities include the review of utility 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 Bradley G. Mullins, and I am an Independent Energy and Utilities Consultant representing large energy consumers before state regulatory commissions. I am appearing in this matter on behalf of the Alliance of Western Energy Consumers ("AWEC"), a non-profit trade association of more than 50 commercial and industrial electric and gas users in the states of Oregon, Idaho and Washington.

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

Q. What is the purpose of your joint testimony?

A. The purpose of our joint testimony is to describe and support the Second Stipulation, filed on August 14, 2019, between Commission Staff, CUB, AWEC, and the Company in Docket No. UG-366 (the "Second Stipulation"), which resolves all remaining issues among the Parties for the general rate increase filed on March 15, 2019 after filing the first Partial Settlement Stipulation on July 3, 2019. The Second Stipulation is the product of settlement discussions, open to all parties to the UG-366 Docket.

Q. Have you prepared any Exhibits?

A. Yes. The Parties' Exhibit No. Joint Testimony/201 is the Second Stipulation filed with the Commission on August 14, 2019.

Background

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

A. On March 15, 2019, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $6,677,000, or 7.8% of its annual revenues. The filing was suspended by the Commission on March 15, 2019, per its Order No. 19-092.

Pursuant to Administrative Law Judge Traci Kirkpatrick's Prehearing Conference Memorandum of May 2, 2019, a settlement conference was held on June 11, 2019, and on June 18, 2019, an additional settlement conference was held telephonically.

As a result of the settlement discussions held on June 11 and 18, 2019, the Parties arrived at a Partial Settlement Stipulation that was filed with the Commission on July 3, 2019. That Partial Settlement Stipulation resolved some issues in this Docket, including adjustments to the proposed cost-of-capital, an agreement on a Third-party review of interest rate hedging, and miscellaneous revenue requirement adjustments described therein.

Staff, CUB, and AWEC filed Opening Testimony on July 16, 2019, in response to the Company’s original filing on March 15, 2019. On July 23, 2019, a settlement conference was held, and attended by all Parties.

As a result of the settlement discussions held on July 23, 2019, the Parties have agreed to settle all remaining issues in this Docket, including adjustments to the revenue requirement, decoupling mechanism, and rate spread and rate design issues, on the following terms, subject to the approval of the Commission.

Terms of the Second Settlement Stipulation

Q. What revenue requirement adjustments to Avista’s originally-filed case are included in the Second Stipulation (Exhibit No. Joint Testimony/201)?

A. Although the Parties discussed different adjustments and took different positions on how to justify the revenue requirement increase, the adjustments reached in the Second Stipulation, which resolve all remaining issues, amount to a further reduction in Avista’s revenue requirement increase request from $5.361 million to a base revenue increase request of $3.611 million. Table No. 2, at page 2 of the Second Stipulation, is reproduced below, and provides a summary of the adjustments to Avista’s originally-filed case:

Table No. 2 – Summary of Adjustments to Revenue Requirement and Rate Base (Second Stipulation)

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)		Revenue Requirement	Rate Base
	Results of Partial Settlement Stipulation:	$5,361	$287,338
Second Settlement Stipulation Adjustments:			
a	**Working Capital** Removes the additional working capital rate base adjustment to include only materials and supplies.	(261)	(2,842)
b	**Property Tax** Adjusts property tax expense to an agreed-upon level.	(200)	-
c	**Wages & Salaries** This adjustment reduces wages and salaries expense to an agreed-upon level for an updated CPI and restricted stock units.	(198)	(30)
d	**Miscellaneous O&M** This adjustment reflects a reduction to O&M expense to an agreed-upon level.	(100)	-
e	**D&O Insurance** This adjustment reduces the Company's D&O insurance to exclude 50% of various D&O insurance layers.	(40)	-
f	**Aircraft Lease Expense** This adjustment reduces O&M expense for prepaid lease expense for the Company aircraft.	(22)	-
g	**IT Efficiency Savings** This adjustment reduces the level of O&M expense to reflect IT Efficiency Savings.	(100)	-
h	**Plant Investment - Microwave Refresh** This adjustment reduces capital additions to exclude the Microwave Refresh project from capital additions in this case.	(51)	(559)
i	**Plant Investment - AMA Calculation** This adjustment reflects a correction to the AMA calculation used in calculating capital additions in this case.	109	1,192
j	**Plant Investment - Dollar Road** This adjustment reflects a correction to remove Dollar Road project from capital additions in this case.	(168)	(1,830)
k	**Plant Investment - Meters, Regulators, and ERTs** This adjustment reduces forecasted capital additions in this case to exclude an agreed-upon level.	(161)	(1,748)
l	**Plant Investment - Jackson Prairie Allocation Factor** This adjustment reflects a correction to the allocation factor calculation used in calculating Jackson Prairie capital additions in this case.	(41)	(443)
m	**Plant Investment - Retirements** This adjustment reflects an adjustment to estimated capital asset retirements in this case.	(1)	(11)
n	**Plant Investment - Physical Security Model Office** This adjustment reflects a correction to remove a Physical Security Model Office project from capital additions in this case.	(3)	(29)

Table No. 2 – Summary of Adjustments to Revenue Requirement and Rate Base (Second Stipulation) (continued)

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)		Revenue Requirement	Rate Base
Second Settlement Stipulation Adjustments:			
o	**Plant Investment - Miscellaneous** This adjustment reduces the level of capital additions included in this case, related to enterprise technology projects.	**(25)**	**(267)**
p	**Plant Investment - Gas Distribution** This adjustment reduces capital additions to exclude the a single natural gas distribution project from capital additions in this case.	**(1)**	**(8)**
q	**Income Tax Amortization** This adjustment reflects an appropriate level of rate base and expense as a result of federal tax reform.	**(94)**	**157**
r	**Non-Labor A&G** This adjustment removes miscellaneous non-labor A&G expenses to an agreed-upon level.	**(74)**	**-**
s	**AFUDC** This adjustment removes deferrals associated with AFUDC.	**(165)**	**3**
t	**Various A&G Expenses** Revises the Company's expected administrative and general expenses related to meals and other expenses.	**(50)**	**-**
u	**Accumulated Depreciation & Depreciation Expense** This adjusts accumulated depreciation and depreciation expense to account for various corrections and adjustments to capital additions identified above.	**(91)**	**4,827**
v	**Allocation Factor** This adjustment reflection a correction to the filed Allocation Factor adjustment.	**114**	**-**
w	**Labor Reclassification** This adjustment reclassifies executive labor from utility to non-utility.	**(125)**	**-**
x	**Pension** This adjustment reduces the level of pension expense.	**(354)**	**(2,610)**
y	**Revenue Load Forecast** This adjustment accounts for an updated load forecast.	**444**	**-**
z	**Corporate Aircraft and Hangar** This adjustment removes costs associated with the corporate aircraft and hangar to an agreed-upon level in this case.	**(25)**	**-**
aa	**Revenue Sensitive - Oregon Excise Tax Apportionment Rate** Revises the Oregon Excise Tax Rate to factor in an agreed-upon rate. This change impacts the Conversion Factor.	**(67)**	**-**
	Total Adjustments:	**($1,750)**	**($4,198)**
	Adjusted Base Revenue Requirement & Rate Base after Second Settlement Stipulation:	**$3,611**	**$283,140**

The following information provides an explanation for each of the adjustments in Table No. 2 above.

Q. What is the basis of the Second Stipulation relating to Issue (a), 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. For settlement purposes, the Parties accept Staff's proposal to remove the working capital rate base adjustment in this case, thereby reducing the proposed revenue requirement by $261,000. This adjustment reduces rate base by $2,842,000.

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

A. 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 agreed-upon a lower level of property tax expense, thereby reducing the proposed revenue requirement by $200,000.

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

A. 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, and Restricted Stock Units. CUB also proposed an adjustment to the Company's Wages and Salaries expense for Restricted Stock Units. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $198,000. The adjustment also reduces rate base by $30,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (d), Miscellaneous Operation & Maintenance Adjustment?

A. Staff proposed an adjustment based on a three year trend analysis scaled up by Urban CPI. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $100,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (e), Directors & Officer (D&O) Insurance Adjustment?

A. 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 $40,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (f), Aircraft Lease Expense Adjustment?

A. Staff proposed an adjustment to remove three months of lease expense for the Company aircraft. This adjustment reduces the revenue requirement associated with O&M lease expense by $22,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (g), IT Efficiency Savings Adjustment?

A. Staff proposed to remove O&M and A&G expenses associated with operational savings as a result of Information Technology Investment. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $100,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (h), Plant Investment – Microwave Refresh Adjustment?

A. Staff proposed an adjustment to remove the Microwave Refresh project from rate base in this case as this project was incorrectly allocated to Oregon. For settlement purposes, the Parties agree to a reduction in rate base of $559,000, which decreases the revenue requirement by $51,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (i), Plant Investment – AMA Calculation Adjustment?

A. The Company identified a formula error in the application of the average of monthly averages (AMA) calculation. This adjustment increases rate base by $1,192,000 and increases the revenue requirement by $110,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (j), Plant Investment – Dollar Road Adjustment?

A. The Company incorrectly included this project in the 2019 forecasted transfers-to-plant. This adjustment decreases forecasted rate base by $1,830,000 and reduces the revenue requirement by $168,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (k), Plant Investment – Meters, Regulators, and ERTs Adjustment?

A. Staff's testimony proposed reductions to rate base for forecasted natural gas utility plant in service. For settlement purposes, the Parties agree to a reduction to rate base of $1,748,000 for natural gas utility plant in this case (e.g., Meters, Regulators, and ERTs). This adjustment reduces the revenue requirement associated with natural gas rate base by $161,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (l), Plant Investment – Jackson Prairie Allocation Factor Adjustment?

A. Staff proposed an adjustment to correct the allocation factor used to calculate the transfers-to-plant for a Jackson Prairie rate base project. The Company agrees that the incorrect allocation factor was used in the calculation for the forecasted transfers-to-plant. This adjustment decreases forecasted rate base by $443,000 and reduces the revenue requirement by $41,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (m), Plant Investment – Retirements Adjustment?

A. The Company inadvertently omitted retirements gross plant retirements from its 2020 calculation. This adjustment decreases forecasted rate base by $11,000 in this case and reduces the revenue requirement by $1,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (n), Plant Investment – Physical Security Model Office?

A. Staff proposed an adjustment a to remove "Physical Security Model Office" project from rate base, on the basis that it is not presently used to provide utility service to Oregon customers. For settlement purposes, the Parties agree to a reduction in rate base of $29,000 in this case, which decreases the revenue requirement by $3,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (o), Plant Investment – Miscellaneous Adjustment?

A. Staff proposed an adjustment to remove various enterprise technology projects from rate base, on the basis that they do not provide a benefit to Oregon customers. For settlement purposes, the Parties agree to a reduction in rate base of $267,000 in this case, which decreases the revenue requirement by $25,000

Q. Please explain the basis of the Second Stipulation relating to Issue (p), Plant Investment – Gas Distribution Adjustment?

A. The Company incorrectly included this project in the 2019 forecasted transfers-to-plant. This adjustment decreases rate base by $8,000 in this case and reduces the revenue requirement by $1,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (q), Income Tax Amortization Expense Adjustment?

A. Staff's testimony proposed an adjustment to reflect the average projected Excess Deferred Income Tax ("EDIT") using the average Rate Assumption Method ("ARAM") as a result of federal tax reform. This adjustment reduces the associated revenue requirement by $94,000. This is reflected by a decrease in O&M expense of $105,000 related to amortization and an increase in rate base in this case by $157,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (r), Non-Labor Administrative & General Expense Adjustment?

A. Staff proposed to remove miscellaneous non-labor A&G expenses that solely proved benefits to the Company and shareholders. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $74,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (s), Allowance for Funds Used During Construction ("AFUDC") Adjustment?

A. Staff proposed an adjustment to remove various deferrals associated with Allowance for Funds Used During Construction ("AFUDC"). The accounting method by with the Company records these deferrals will be resolved in Docket No. UM 1993, Avista's deferral application, which has not yet been resolved. For settlement purposes, the Parties agree to remove the deferrals associated with AFUDC, hereby resulting in a decrease to rate base of $3,000 and a decrease to revenue requirement of $165,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (t), Various Administrative & General Expense 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. For settlement purposes, the Parties agree to remove 50 percent of the miscellaneous A&G expenses identified above, thereby resulting in a decrease to revenue requirement by $50,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (u), Accumulated Depreciation & Depreciation Expense Adjustment?

A. For settlement purposes, the Parties agree to an adjustment to accumulated depreciation and depreciation expense associated with the adjustments to Utility Plant Investment in Service adjustments discussed in items h. – p. above. This adjustment increases rate base by $4,827,000 and decreases revenue requirement by $91,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (v), Allocation Factor Adjustment?

A. Staff noted an error in the Company's initially filed allocation factor adjustment. This adjustment reflects the correction to the Company's filed allocation factor adjustment and the proposed revenue requirement for a corrected level of expense, which increases the revenue requirement by $114,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (w), Labor Reclassification Adjustment?

A. Staff's proposed an adjustment to reclassify Executive Labor from utility to non-utility for the purpose of excluding pro formed labor costs related to the failed Avista-Hydro One merger. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $125,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (x), Pension Adjustment?

A. 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. This adjustment also includes a correction to remove specific pension and medical assets and liabilities that were inadvertently included in the Company's working capital calculation. For settlement purposes, the Parties agreed to this adjustment which reduces rate base $2,610,000, and reduces the proposed revenue requirement by $354,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (y), Revenue Load Forecast Adjustment?

A. The Company presented an updated load forecast, for the test year. For settlement purposes, the Parties agreed to use the revised forecast which increases the filed revenue requirement by $444,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (z), Corporate Aircraft and Hangar Adjustment?

A. AWEC proposed an adjustment to remove costs associated with the corporate aircraft and hangar. For settlement purposes the Parties agree to reductions to an agreed-upon level of expense, thereby reducing the proposed revenue requirement by $25,000.

Q. Please explain the basis of the Second Stipulation relating to Issue (aa), Revenue Sensitive – Oregon Excise Tax Rate Adjustment?

A. CUB proposed an adjustment to the Oregon excise tax apportionment rate used in the conversion factor. CUB proposed to calculate the tax apportionment factor using the weighted average of the property, payroll, and sales tax factors. For settlement purposes, the Parties agree to CUB's calculation of the Oregon excise tax rate, which changed the overall Conversion Factor. This adjustment reduces revenue requirement by $67,000.

Resolution of Rate Spread

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

A. The Parties support the spread of the January 15, 2020 overall billed revenue increase of $3.611 million, or 4.2 percent, to the Company's service schedules as follows (and as shown in Attachment B to the Second Settlement Stipulation):

Table No. 3: Agreed-Upon Rate Spread[1]

Schedule Description	Rate Schedule	Revenue Increase ($000s)	% Increase in Base Revenue	% Increase in Billed Revenue*
Residential	410	$2,408	5.8%	4.5%
General Service	420	$1,033	5.8%	4.1%
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	$170	5.8%	6.1%
Total		**$3,611**	**5.6%**	**4.2%**

* 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, 420, and 456?

A. While the Parties did not agree on the Long Run Incremental Costs Studies, the studies prepared by Avista and Staff showed that Schedules 410, 420 and 456 were at or below their cost of service. The other three Schedules, Schedules 424, 440 and 444, all are providing revenues well in excess of their cost of service. By spreading the increase to Schedules 410, 420 and 456, 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 shown in Table No. 3 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

[1] Reproduced from Table No. 4, on page 11 of the Second 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: The revenue increase to the individual rate schedules will be applied solely to the volumetric charges. The monthly customer basic charge for all rate schedules will remain at current levels.[2] Attachment C to the Second Stipulation provides the agreed-upon base rates.[3]

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

A. The Stipulating Parties agree that maintaining existing basic charge levels 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[4], would increase $2.19 per month, or 4.5 percent, from $48.94 to $51.13.[5]

[2] The agreed-upon billing determinants reflect Avista's updated load adjustment as discussed in Section 7 item y. above.
[3] As described in the testimony of Company witness Mr. Miller, the capital costs associated with Schedule 495 (Capital Project Costs) will be included in base rates and Schedule 495 will be canceled when new base rates take effect on January 15, 2020.
[4] "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.
[5] In terms of the increase in base revenue (excluding all adder schedules) the increase is 5.6%.

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 January 15, 2020 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. In this proceeding, CUB proposed to change the Company's decoupling mechanism from a deferred account that accrues interest at the Company's Authorized Rate of Return, to a mechanism that accrues interest at the Modified Blended Treasury Rate (MBTR). Through settlement, Avista accepted CUB's position on the MBTR as presented in CUB's testimony. As a part of the Compliance Filing required after the Commission's decision in this case, Avista agrees to include modifications to Schedule 475 effectuating the agreed-upon modification, and will consult with the Parties as to the final form of the tariff modification(s) before filing.

Depreciation Reserve Imbalances

Q. Please describe any proposals regarding the depreciation reserve imbalances and outcomes a result of the agreement by the Parties.

A. AWEC proposed an adjustment to reflect Avista's depreciation reserve imbalances. As part of the settlement, AWEC agreed to raise this issue in Avista's next depreciation study rather than in this proceeding.

<u>Statements of the Parties</u>[6]

<u>Statement of Avista</u>

Q. Does Avista support the Second Stipulation which resolves all remaining revenue requirement items rate spread and rate design issues?

A. Yes. The Second Stipulation 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 Second Settlement Stipulation was a compromise among differing interests and represents give-and-take. The Settlement Stipulation was entered into following the filing of testimony from Staff, CUB and AWEC, extensive discovery, audit and review of the Company's filing, its books and its records.

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

<u>Statement of CUB</u>

Q. Does CUB support the Second Stipulation which resolves all remaining revenue requirement items, rate spread and rate design issues?

A. Yes. CUB recommends that the Commission approve this settlement because the best interests of Avista's customers are served by this stipulation, which represents a comprise on revenue requirement and rate spread and design issues. CUB supports the proposed rate spread, which is supported by Staff's testimony in this docket. CUB supports

[6] 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.

the Second Stipulation because it accepts all of CUB's issues. In accordance with past stipulations, CUB has conducted an extensive review of the Company's decoupling mechanism. This stipulation changes the interest rate for Avista's decoupling mechanism, which will reduce the year to year volatility of the decoupling for the Company and Avista's customers. CUB believes that the First and Second Stipulations, considered together, will result in overall rates that fair, just and reasonable.

<u>Statement of AWEC</u>

Q. Please explain why the Second Stipulation satisfies the interests and concerns of AWEC.

A. Based on its review of Avista's filing and through the discovery process, AWEC was most concerned with the requested ROE, several revenue requirements adjustments, the deprecation reserve imbalances, various plant investments and rate spread and rate design. Although the Second Stipulation does not incorporate all of the issues AWEC addressed in testimony, it does incorporate many of AWEC positions, and the parties agreed that AWEC can raise the issue of the reserve imbalances in Avista's next depreciation study. Accordingly, the overall result is fair and provides a significant benefit to customers.

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

A. AWEC believes the Second Stipulation is in the public interest and recommends the Commission approve the Second Stipulation because the best interests of Avista's natural gas customers are served by the underlying fair compromise on certain revenue requirement and rate spread and design issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement addressed in the Agreement, AWEC supports the Second Stipulation because it has decreased the revenue requirement increase by $1,750,000—which results in a revenue requirement increase of $3,611,000 million as compared to Avista's original request of $6,667,000. AWEC supports the Second Stipulation as an overall result that is a fair compromise between Avista and its customers.

AWEC also finds the Agreement to be in the public interest as the spread of the natural gas rate increase is done in a manner to better align rates based on Avista's cost of service study.

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

Statement of Staff

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

A. Staff supports the Stipulation as a reasonable compromise of the issues in this rate case. From Staff's perspective, none of the terms of the Stipulation are contrary to Commission precedent. On issues for which there is no clear Commission precedent, Staff agreed to terms based on 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-upon adjustments fall within a reasonable range of outcomes at this time.

Conclusion

Q. Do the Parties agree that the Second Stipulation provided as Exhibit No. Joint Testimony/201 is in the public interest and results in an overall fair, just and reasonable outcome?

A. Yes, the Parties do. The Stipulating Parties have reviewed Avista's opening testimony, Staff and the Intervenors' opening testimony, the Parties' responses to data requests, and carefully analyzed the issues. The Stipulating Parties find that the adjustments and agreements in this Second 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 Second Stipulation?

A. We recommend that the Commission adopt the Second Stipulation in its entirety, as well as the earlier Partial Settlement Stipulation, which, taken together would resolve all issues in this proceeding.

Q. Does this conclude your joint testimony?

A. Yes.