

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1351

In the Matter of)	
)	
)	
AVISTA CORPORATION, dba)	ORDER
AVISTA UTILITIES)	
)	
Petition Requesting Authority to Revise Its)	
Book Depreciation Rates.)	

DISPOSITION: STIPULATION ADOPTED

I. INTRODUCTION

On October 12, 2007, Avista Corporation, dba Avista Utilities (Avista or the Company) filed a petition, with the Public Utility Commission of Oregon (Commission), requesting the authority to revise the Company’s book depreciation rates. The Company had undertaken a depreciation study of its depreciable electric, gas and common plant in service as of December 31, 2004.¹ Avista requests that the Commission adopt the study’s recommended depreciation rates. The depreciation study indicates that the annual depreciation expense on Avista’s books should be reduced by approximately \$3.1 million, based on the average service life rates of gas plant in service, as of December 31, 2006.

On November 29, 2007, a prehearing conference was held. The Citizens’ Utility Board of Oregon (CUB) noticed its intervention in this proceeding, and the petition to intervene of the Northwest Industrial Gas Users (NWIGU) was granted. A schedule was adopted at the prehearing conference that allows sufficient time for Staff, parties and interested persons to fully review the Company’s depreciation study and petition. Avista desires to implement new depreciation rates on an earlier basis, however, in order to coordinate with the implementation of new depreciation rates for the Company in Washington² and Idaho³, its other jurisdictions. Avista indicates that it has common plant that is allocated to all three jurisdictions, and that implementing depreciation rate changes for all three states on the same day, January 1, 2008, would simplify future accounting and audits of depreciation expense.

¹ Avista hired Gannett Fleming, Inc., to undertake the depreciation study.

² On December 19, 2007, in Docket No. UG-070805, the Washington Utilities and Transportation Commission approved the Company’s proposed depreciation rates.

³ On November 15, 2007, the Idaho Public Utilities Commission Staff issued a Decision Memorandum in Avista Case No. AVU-G-07-03 that recommends that new depreciation rates for Avista be effective on January 1, 2008.

II. STIPULATION

Pursuant to the procedural schedule adopted for this docket, settlement discussions were held. As a result, Avista, Staff, CUB and NWIGU (collectively the Stipulating Parties) executed a Stipulation regarding a January 1, 2008 effective date for Avista's proposed depreciation rates, subject to adjustment upon final adopted depreciation rates. The Stipulation was filed together with Joint Testimony by the Stipulating Parties.⁴

The Stipulation would implement a \$3.1 million decrease in annual book depreciation expense during Avista's January 2008 month-end close of its financial records, in early February 2008, thereby making the decrease effective as of January 1, 2008. It also agrees to adjust, as described below, for any differences should the Commission adopt different depreciation rates at the end of a full review of Avista's depreciation study.

If final approved depreciation rates differ from the rates implemented pursuant to the Stipulation, Avista agrees to:

- 1) Revise book depreciation rates to reflect the Final Approved Depreciation Rates, effective on a prospective basis beginning with the calendar month following the date of approval by the Commission;
- 2) Implement a one-way rate adjustment to hold customers harmless in the event that the final approved depreciation rates are different than the Stipulated rates.

If the final approved depreciation rates result in a greater reduction to depreciation expense than \$3.1 million, the Company will refund, through its annual Purchased Gas Adjustment (PGA), the accumulated difference in depreciation expense from the time new retail rates go into effect in Docket No. UG 181 until the final approved depreciation rates are reflected in base retail rates.

If the final approved depreciation rates result in a smaller reduction to depreciation expense than \$3.1 million, the Company will absorb the difference in depreciation expense until the final approved depreciation rates are reflected in base retail rates.

- 3) Make a filing to include the final approved depreciation rates in base retail rates, with the resulting retail rate adjustment to become effective coincident with Avista's next PGA rate adjustment, if the final approved rates are not included in base retail rates at an earlier date.

⁴ Joint Testimony of Bryan Conway, Kelly O. Norwood, Bob Jenks and Paula E. Pyron, "In Support of Stipulation for Implementation of Depreciation Rates Subject to Adjustment," (January 2008).

- 4) Any accumulated differences to be refunded to customers will be recorded in FERC Account 254 – Other Regulatory Liabilities.

The Stipulating Parties agree that the Stipulation is in the public interest due to accounting and audit advantages, and request that the Commission adopt it. The Joint Testimony states that retail rates will not change on January 1, 2008, as a result of the Stipulation, and reiterates that customers are protected if different depreciation rates are ultimately adopted by the Commission.

The Joint Testimony also explains that the Stipulating Parties request that the Commission act on this Stipulation prior to the end of January 2008. In order for Avista to implement the stipulated-to depreciation rates during the January 2008 month-end close of the Company's financial records, the Stipulation must be approved before the end of January 2008, indicates the Joint Testimony.

III. DISCUSSION

The Commission encourages parties to a proceeding to voluntarily resolve any issue in a proceeding when settlement is in the public interest. All parties in this docket entered into a Stipulation to implement new book depreciation rates for Avista as of January 1, 2008, subject to adjustment upon our adoption of final depreciation rates. The parties did so, they stipulate, to simplify accounting and audits of the Company's depreciation expense. The Stipulation also sets forth a methodology to reconcile the Stipulation depreciation rates with different depreciation rates that we may eventually adopt in this docket.

We have examined the Stipulation, together with the Joint Testimony. We conclude that the Stipulation is in the public interest. The Stipulation accomplishes the goal of simplifying accounting and audits of Avista's depreciation expense, but does not presently change retail rates. We also find that the Stipulation's reconciliation methodology is appropriate. Consequently, we adopt the Stipulation in its entirety without modification.

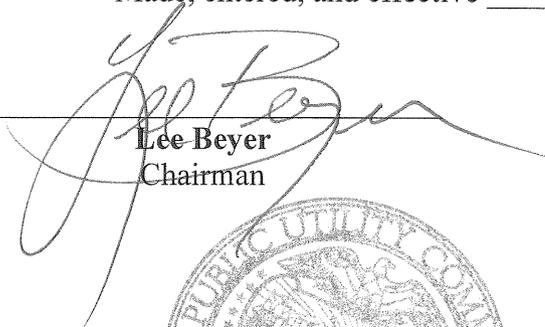
ORDER

IT IS ORDERED that:

1. The Stipulation dated January 14, 2008, and executed by Avista Utilities, Commission Staff, the Citizens' Utility Board and the Northwest Industrial Gas Users is adopted.
2. Consistent with the Stipulation, Avista Utilities shall perform the appropriate accounting functions to reduce the Company's annual depreciation expense by \$3.1 million, subject to adjustment upon our final adoption of depreciation rates for Avista.

3. In the event that we adopt different final depreciation rates, Avista Utilities shall revise the depreciation rates adopted herein consistent with the Stipulation, or as we otherwise direct Avista to do so at a later time.

Made, entered, and effective JAN 28 2008 .



Lee Beyer
Chairman



John Savage
Commissioner



Ray Baum
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1351

In the Matter of)	
)	
AVISTA CORPORATION, dba)	STIPULATION FOR
AVISTA UTILITIES,)	IMPLEMENTATION OF
)	DEPRECIATION RATES
Petition Requesting)	SUBJECT TO ADJUSTMENT
Authority to Revise Its)	
<u>Book Depreciation Rates</u>)	

This Stipulation is entered into for the purpose of implementing Avista Corporation's (Avista) book depreciation rates effective January 1, 2008, subject to later adjustment, if necessary, based on the outcome of Docket UM 1351. Retail rates paid by customers will not change on January 1, 2008 as a result of this Stipulation.

PARTIES

The Parties to this Stipulation are Avista, the Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board (CUB), and the Northwest Industrial Gas Users (NWIGU) (collectively, "Parties").

BACKGROUND

1. On October 12, 2007, Avista filed a petition requesting authority to revise its book depreciation rates. The Company requested authorization to revise its book depreciation rates consistent with the results of a study recently undertaken by the Company.¹ That study

¹ Avista hired Gannett Fleming, Inc. to undertake a depreciation study of its depreciable electric, gas and common plant in service as of December 31, 2004. The objective of this assignment was to recommend depreciation rates to be utilized by Avista for accounting and ratemaking purposes.

shows that the annual depreciation expense on the Company's books should be reduced by approximately \$3.1 million based on the average service life rates of gas plant in service as of December 31, 2006. Accordingly, the Company requested authorization to revise its depreciation rates to reflect this \$3.1 million decrease in book depreciation expense. On October 29, 2007, a prehearing conference was held that established the procedural schedule for this Docket.

2. Avista is a utility that also provides service to electric and natural gas customers in eastern Washington and northern Idaho, in addition to its natural gas customers in Oregon. On December 19, 2007, in Docket No. UG-070805, the Washington Utilities and Transportation Commission approved the Company's proposed depreciation rates on its natural gas and common plant with a January 1, 2008 effective date. After review, the parties to the Washington Docket recommended no adjustments be made to the Company's proposed natural gas depreciation rates in the State of Washington. On November 15, 2007, the Idaho Public Utilities Commission Staff issued its Decision Memorandum in Avista Case No. AVU-G-07-03, which included the recommendation that new depreciation rates be effective January 1, 2008, to coordinate with Washington's effective date.

3. The Parties in this Docket recognize the need for sufficient time for Staff and interested Parties to complete their review of the Company's depreciation study. This Stipulation provides for implementation of new depreciation rates effective January 1, 2008, together with agreement to adjust for any differences between the depreciation rates ultimately approved in this Docket, and the depreciation rates implemented January 1, 2008. At present, the schedule in this Docket calls for Staff and intervenors to prefile their testimony on April 10, 2008, with hearings set for May 12, 2008. Indeed, were the Commission to accept this

Stipulation, the Company would be amenable to a reasonable further extension of this schedule, if need be, to accommodate Staff's and intervenors' further review.

4. This Stipulation will provide the opportunity to coordinate the implementation date of new depreciation rates in all three jurisdictions in which Avista serves: Oregon, Washington and Idaho. Avista will adjust depreciation rates for Washington and Idaho property effective January 1, 2008. Avista has common plant that is allocated to all three jurisdictions. Allowing Oregon depreciation rate changes to be effective at the same time as the other two jurisdictions will synchronize the three states' depreciation rates. Implementing depreciation rates in all three states on January 1, 2008 will simplify future accounting and audits of depreciation expense, since the same rates and methodology will be in effect for the entire year.

5. Under this Stipulation, customers will be protected if the new depreciation rates ultimately approved in this Docket are different than the depreciation rates to be implemented January 1, 2008.

AGREEMENT

6. Avista will implement a \$3.1 million decrease in annual book depreciation expense during the January 2008 month-end close of its financial records (in early February), to become effective January 1, 2008. Once the Parties complete their review of the depreciation study and new depreciation rates are established (Final Approved Depreciation Rates), if those rates differ from the previously implemented rates (January 1, 2008 Depreciation Rates), Avista agrees to:

- (a.) Revise book depreciation rates to reflect the Final Approved Depreciation Rates, effective on a prospective basis beginning with the calendar month following the date of approval by the Commission.

- (b.) The Company agrees to a one-way adjustment to hold customers harmless in the event that the Final Approved Depreciation Rates are different than the January 1, 2008 Depreciation Rates. If Final Approved Depreciation Rates result in a greater reduction to depreciation expense than \$3.1 million, the Company will refund, through its annual Purchased Gas Adjustment (PGA), the accumulated difference in depreciation expense from the time new retail rates go into effect in Docket No. UG-181 until the Final Approved Depreciation Rates are reflected in base retail rates. Conversely, if the Final Approved Depreciation Rates result in a smaller reduction to depreciation expense than \$3.1 million, the Company will absorb the difference in depreciation expense until the Final Approved Depreciation Rates are reflected in base retail rates.
- (c.) The Company agrees to make a filing to include the Final Approved Depreciation Rates in base retail rates, with the resulting retail rate adjustment to become effective coincident with the timing of Avista's next PGA rate adjustment. The Company would make such a filing if the Final Approved Depreciation Rates are not included in base retail rates at an earlier date.
- (d.) Any accumulated differences to be refunded to customers will be recorded in FERC Account 254 – Other Regulatory Liabilities. As mentioned above, this amount will be credited to customers through the Company's annual PGA filing.
7. The Parties agree that this Stipulation is in the public interest and results in an overall fair, just and reasonable outcome.
8. The Parties agree this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this

Stipulation shall not be admissible as evidence in this or any other proceeding. 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.

9. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor this Stipulation at the hearing, or, in a party's discretion, to provide a representative at the hearing authorized to respond to the Commission's questions on the party's position as may be appropriate.

10. 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.

11. Should the Commission fail to adopt the Stipulation, or should the Commission materially modify the Stipulation, any Party hereto shall have the right to withdraw from the Stipulation and proceed with a resolution of all issues in this proceeding.

12. 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.

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

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

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

DATED this _____ day of January 2008

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

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DATED this 14th day of January 2008

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: [Signature]

By: _____

Date: Jan. 14, 2008

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

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DATED this 14th day of January 2008

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: _____

By: SLY SC

Date: _____

Date: Jan 14, 2008

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

STIPULATION

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ORDER NO. 08-100

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DATED this _____ day of January 2008

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: Paula E. Pyron
Date: January 14, 2008

By: _____

Date: _____

ORDER NO. 08-100

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DATED this ____ day of January 2008

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: B. L. Quinn

Date: _____

Date: 1-14-08

STIPULATION

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