

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 181

In the Matter of)	
)	
AVISTA CORPORATION, dba AVISTA)	ORDER
UTILITIES (AVISTA))	
)	
Request for General Rate Revision.)	

DISPOSITION: STIPULATIONS ADOPTED

BACKGROUND

On October 12, 2007, Avista Corporation, dba Avista Utilities (Avista), filed revised tariff schedules (Advice No. 07-09-G) with the Public Utility Commission of Oregon (Commission). The revised tariff schedules, if approved, would increase Avista’s Oregon revenue requirement by approximately \$2,975,000, resulting in a 2.3 percent rate increase for Avista’s Oregon retail natural gas customers. Avista proposed a November 21, 2007 effective date for the new rates.

On November 20, 2007, the Commission found good and sufficient cause to investigate the propriety and reasonableness of the revised tariff schedules pursuant to ORS 757.210 and 757.215, and suspended the tariff schedules for a period not to exceed nine months from November 21, 2007. *See* Order No. 07-511.

A prehearing conference was held on November 29, 2007, to establish a procedural schedule. In addition to the Commission Staff (Staff) and Avista, the Citizens’ Utility Board of Oregon (CUB) and the Northwest Industrial Gas Users (NWIUGU) participated as parties in this docket.

The general public was provided the opportunity to attend two public comment open houses to learn about and comment on Avista’s proposed rate increase. These open houses were held in La Grande on March 10, 2008, and Medford on March 13, 2008.

The parties held settlement conferences on December 11, 2007, January 10, 2008, and February 12, 2008. During the course of these settlement discussions, the parties were able to resolve all of the issues raised by Avista’s proposed rate increase. The parties filed two stipulations setting forth the terms of their settlement agreement: (1) on December 20, 2007, the parties filed the Partial Stipulation regarding Cost of Capital (the First Stipulation), attached as Appendix A; and (2) on February 22, 2008, the parties filed the Stipulation Resolving All Remaining Revenue Requirement

and Rate Spread/Rate Design Issues (the Second Stipulation), attached as Appendix B. The parties filed joint testimony supporting the stipulations on February 27, 2008.

STIPULATIONS

Overview

The parties state that the two stipulations represent a comprehensive settlement of all of the issues in this docket and result in a fair, just, and reasonable outcome. The stipulations result in an overall increase in Avista's Oregon revenue requirement of approximately \$2,283,000 and an overall increase in the rates for Avista's retail natural gas customers of approximately 1.82 percent.

The rate increase becomes effective in two stages. The first stage results in an overall increase of approximately 0.7 percent, effective April 1, 2008. The second stage results in an additional increase of approximately 1.1 percent, effective November 1, 2008. The details of the rate increase, including stipulated adjustments to revenue requirement and rate spread, are set forth in detail in the two stipulations and described briefly below.

Cost of Capital

The parties agree to the following capital structure:

	RATIO	COST	WEIGHTED COST
Long-term Debt	45.00%	6.40%	2.88%
Trust Preferred Securities	5.00%	6.57%	0.33%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	50.00%	10.00%	5.00%
TOTAL			8.21%

Revenue Requirement

In the initial filing, Avista's proposed revenue requirement included costs for a capital project that does not meet the standard in ORS 757.355 because it is not currently "used and useful." The capital project is the East Medford Reinforcement Project. The project is expected to be completed after April 2008, but before November 1, 2008. The parties therefore agree that the capital cost for this project should not be included in Avista's revenue requirement until November 1, 2008.

To accomplish this result, the parties agree that Avista will implement its rate increase in two stages. In the first stage, effective April 1, 2008, Avista's revenue requirement will increase by \$866,000. This amount reflects the following stipulated adjustments to Avista's proposed revenue requirement:

- Deduction of revenue requirement for the East Medford Reinforcement Project;
- Removal of administrative and general costs that the parties agree were either incorrectly allocated to Oregon or were inconsistent with the Commission's ratemaking policies;
- Removal of expenses related to promotional advertising or customer retention;
- Adjustment of expenses related to bonuses and incentives, out-of-period labor adjustments, and wage and salary expenses;
- Adjustments to reflect Staff's changes to Avista's weather normalization model;
- Adjustment of property taxes from a test year estimate to actual expenses; and
- Reduction of the income tax benefit of interest expense using the stipulated cost of debt.

In the second stage, effective on or after November 1, 2008, Avista may increase its revenue requirement to include the capital costs of the East Medford Reinforcement Project, as well as the Jackson Prairie Storage Project, which is also expected to be placed in service by November 1, 2008. The parties agree that Avista must submit a compliance filing on or before November 1 that (1) includes a certificate of completion attesting that the projects are in service and used and useful, and (2) adjusts base rates coincident with Avista's purchased gas adjustment to reflect the lower of the actual costs of the capital improvements or the cost estimates used in the Second Stipulation.

Rate Spread and Rate Design

The parties agree that the April 1 increase in revenue requirement and the portion of the November 1 increase in revenue requirement attributable to the East Medford Reinforcement Project will be spread among Avista's various service schedules based on cost of service considerations. The parties agree to several adjustments to Avista's schedules to reflect the results of cost of service studies prepared in this docket. These adjustments are set forth in detail in the Second Stipulation.

The parties further agree that the portion of the November 1 revenue requirement increase attributable to the Jackson Prairie Storage Project will be spread among Avista's service schedules based on the methodology adopted by the Commission for Northwest Natural Gas Company's allocation of its underground storage costs for the Mist facility. This methodology reflects an estimate of the use of underground storage for the mitigation of gas commodity costs, as well as pipeline balancing. This results in

an allocation of 86 percent of the increase to all sales service schedules and 14 percent of the increase to all service schedules, including Schedule 456 (transportation).

CONCLUSION

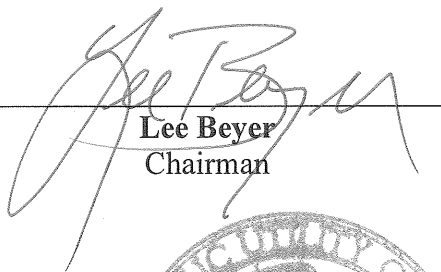
After reviewing the terms of the stipulations and the supporting testimony, we conclude that the settlement agreement reached by Avista, Staff, CUB, and NWIGU produces a fair, just, and reasonable result. We therefore conclude that the stipulations should be adopted in their entirety.

ORDER

IT IS ORDERED that:

1. Advice No. 07-09-G is permanently suspended.
2. The Partial Stipulation regarding Cost of Capital, attached as Appendix A, and the Stipulation Resolving All Remaining Revenue Requirement and Rate Spread/Rate Design Issues, attached as Appendix B, are adopted in their entirety.
3. Avista Corporation, dba Avista Utilities, must file revised rate schedules consistent with this order to be effective no earlier than April 1, 2008.

Made, entered, and effective MAR 31 2008.



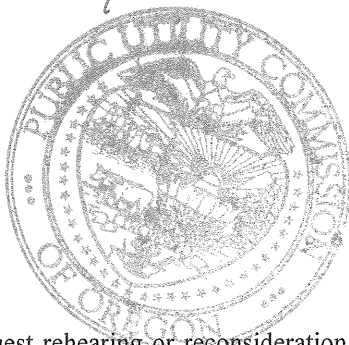
Lee Beyer
Chairman



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**

UG 181

In the Matter of)	
)	
AVISTA CORPORATION, dba AVISTA)	PARTIAL STIPULATION
UTILITIES)	REGARDING COST
)	OF CAPITAL
Request for General Rate Revision.)	
)	
)	
)	

This Stipulation is entered into for the purpose of resolving the cost of capital component of Avista Corporation’s (Avista) requested revenue requirement in this Docket. This Stipulation does not concern other revenue requirement issues nor does it address rate spread or rate design issues.

PARTIES

The Parties to this Stipulation are Avista, the Staff of the Public Utility Commission of Oregon (Staff), the Citizen’s Utility Board (CUB), and the Northwest Industrial Gas Users (NWIGU) (collectively, “Parties”).

BACKGROUND

1. On or about October 12, 2007, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately \$2,975,000 or 2.3 percent of its annual revenues. The filing was suspended by the Commission at its November 20, 2007 public meeting.

2. On December 11, 2007, the Parties held a settlement conference on the cost of capital issue only. The settlement conference was open to all Parties in this docket.

3. As a result of the settlement conference, the Parties have agreed to settle the cost of capital issue on the following terms.

AGREEMENT

4. The Parties agree that Avista's cost of capital component will be settled on the terms shown in the following table:

Capital Component	Cost	Ratio	Weighted Cost
Long-Term Debt	6.40%	45.00%	2.88%
Trust Preferred Securities	6.57%	5.00%	0.33%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	10.00%	50.00%	5.00%
Total		100.00%	8.21%

5. The Parties agree that the Cost of Equity includes the recovery of all costs associated with the issuance of common stock (e.g. flotation costs).

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

7. 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.

8. 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.

9. 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 this 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.

10. 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.

11. 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.

12. 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.

13. 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 20th day of December, 2007

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: [Signature]
Date: 12/20/07

By: _____
Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____
Date: _____

By: _____
Date: _____

13. 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 20th day of December, 2007

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By:  _____

Date: _____

Date: 12/20/07 _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: _____

Date: _____

Date: _____

13. 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 20th day of December, 2007

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: Paula E. Pymor

By: _____

Date: 12/20/07

Date: _____

13. 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 December, 2007

AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: _____

By: _____

Date: _____

Date: _____

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

By: _____

By: Pat Gules

Date: _____

Date: 12-20-07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 181

4 In the Matter of)	STIPULATION RESOLVING ALL
5 AVISTA CORPORATION)	REMAINING REVENUE
6 Application for a General Rate Increase)	REQUIREMENT AND RATE SPREAD/
7 _____)	RATE DESIGN ISSUES

8 This Stipulation is entered into for the purpose of resolving all issues related to Avista
 9 Corporation’s (“Avista” or “Company”) requested revenue requirement in this Docket. This
 10 Stipulation also resolves rate spread and rate design issues. Cost of capital issues, including
 11 costs associated with debt, preferred stock and common equity, as well as capital structure, were
 12 resolved in a separate Stipulation dated December 20, 2007 and will be referenced in this
 13 Stipulation for informational purposes only.

PARTIES

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

BACKGROUND

18
 19 1. On October 12, 2007, Avista filed revised tariff schedules to effect a general rate
 20 increase for Oregon retail customers of approximately \$2,975,000, or 2.3 percent of its annual
 21 revenues. The filing was suspended by the Commission at its November 20, 2007 public
 22 meeting.

23 2. On December 20, 2007, the Parties entered into an all-party settlement to resolve all
 24 issues related to the cost of capital and capital structure, including the costs associated with debt,
 25 preferred stock and common equity. The change in the Company’s proposed revenue

1 requirement associated with that stipulation is reflected in the overall revenue requirement
2 agreed to by the Parties in this Stipulation.

3 3. On January 29, 2008, Staff served on all of the Parties its report of issues and
4 proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for
5 settlement purposes only.

6 4. Pursuant to Administrative Law Judge Sarah K. Wallace's Prehearing Conference
7 Report of December 4, 2007, settlement conferences were scheduled for December 11, 2007,
8 January 10, 2008 and February 12, 2008. The settlement conferences were open to all parties in
9 this Docket.

10 5. As a result of the settlement discussions, the Parties have agreed to settle the
11 revenue requirement and rate spread/design issues on the following terms, subject to the approval
12 of the Commission.

13 AGREEMENT

14 6. **Revenue Requirement:** The Parties agree that Avista's revenue requirement
15 request will be reduced to reflect the adjustments listed on Attachment A to this Stipulation.
16 Moreover, the Parties agree that these adjustments to revenue, expense, and rate base items
17 should be incorporated into the Commission's determination of the Company's revenue
18 requirement in this Docket. The adjustments listed on Attachment A, including revisions to cost
19 of capital issues, amount to a reduction in Avista's revenue requirement request from \$2,975,000
20 to \$866,000 to be reflected in new Base Rates effective April 1, 2008. Additional items resulting
21 in a further change to Base Rates on November 1, 2008, are set forth in Section 8, below. This
22 Stipulation represents the settlement of all revenue requirement issues in the Company's filing

1 and incorporates the impact of the earlier signed Cost of Capital Stipulation dated December 20,
2 2007.

3 **7. Rate Changes Proposed To Be Effective April 1, 2008:** The increased revenue
4 requirement of \$866,000, as set forth in paragraph 6, will become effective April 1, 2008, with
5 compliance tariffs filed reflecting the impact on each customer schedule, as set forth in
6 Attachment D.

7 **8. Rate Changes Proposed To Be Effective November 1, 2008:**

8 **A. East Medford Reinforcement Project.** This Project is meant to provide
9 reinforcement of the Company's distribution system, thereby allowing for additional gas
10 deliveries in anticipation of future load growth in the Company's Medford service area. The first
11 phases of this Project are planned for completion prior to November 1, 2008. The Parties have
12 agreed to further adjust Base Rates on November 1, 2008, coincident with the Company's PGA
13 rate adjustment, to reflect the net rate-based capital additions associated with this Project,
14 presently estimated at \$4,808,598. (See Attachment B) The additional revenue requirement
15 associated with this Project, based on current cost estimates, is \$693,279.

16 The Parties have agreed that the Company will submit a compliance filing on or before
17 November 1, 2008, that will (i) provide a "certificate of completion" for these phases of the
18 Project, attesting to the status of the rate base additions as "in-service" and "used-and-useful" for
19 providing service; and (ii) adjust Base Rates on November 1, 2008, coincident with the
20 Company's PGA adjustment, to reflect the lower of the actual costs of the capital additions or
21 current cost estimates (as discussed above).

22 **B. Dedication of Jackson Prairie Storage to Oregon.** The Company is a one-third
23 (1/3) owner of an underground gas storage facility located near Chehalis, Washington.

1 Previously, all of the Company's retained share of the capacity and deliverability of the Storage
2 Project was dedicated to serving customers in the States of Washington and Idaho. The
3 Company is participating in expansions of the Storage Project, and has proposed to dedicate
4 approximately 25% of the expansions currently underway to serve Oregon customers. (See
5 Direct Testimony of Kevin Christie, Exh. 400, pp. 5-10; and Exh. 401, pp. 2-3) Oregon's share
6 of the net rate base associated with the Storage Project expansion is currently estimated at
7 \$4,857,861 and the related revenue requirement is \$724,376. (See Attachment C)

8 The Parties have agreed that the Company will submit a compliance filing on or before
9 November 1, 2008, that will (i) provide a "certificate of completion" for these phases of the
10 Storage Project, attesting to the status of the rate base additions as "in-service" and "used-and-
11 useful" for providing service; and (ii) adjust Base Rates on November 1, 2008, coincident with
12 the Company's PGA adjustment, to reflect the lower of the actual costs of the capital additions or
13 current cost estimates (as discussed above).

14 **9. Rate Design/Rate Spread:** The Parties agree that the stipulated revenue
15 requirement increase on April 1 and November 1, 2008, will be spread to customer classes as
16 outlined in Attachment D to this Stipulation. The rate design changes, as agreed upon, are also
17 shown in Attachment D.

18 **A. Allocation of Increase in Revenue Requirement on April 1 and November 1,**
19 **2008.** The revenue increase of \$866,000 to be effective April 1, as well as the estimated
20 revenue increase of \$693,000 related to the East Medford Lateral effective November 1, will be
21 spread to the Company's various service schedules based on cost of service considerations. The
22 results of the cost of service studies prepared by the Company and the Commission Staff in this
23 Docket show that the present rates for Residential Schedule 410, General Service Schedule 420

1 and Transportation Service Schedule 456 are below the cost of service, while the studies show
2 that the rates for Large General Service 424, Interruptible Service Schedule 440 and Seasonal
3 Service Schedule 444 exceed the cost of service. As such, the Parties agree that the rates for
4 Schedules 424 and 444 should be reduced by 2.0% on both April 1 and November 1 and that the
5 rates for Schedule 440 should be reduced by 1.75% on both April 1 and November 1. A uniform
6 percentage increase of 0.87% would be applied to Schedules 410, 420 and 456 effective April 1
7 and a uniform percentage increase of 0.73% would be applied to those Schedules effective
8 November 1.

9 **B. Adjustments to Customer Charges.** Also based on the results of the cost of
10 service studies, the monthly customer charges under Residential Schedule 410 and General
11 Service Schedule 420 will be increased by \$0.50 and \$1.00 per month, respectively, on April 1
12 and November 1. The customer charge under Large General Service Schedule 424 will be
13 decreased by \$9.50 per month on April 1 and November 1. The Parties also agree that the annual
14 minimum charge under Interruptible Service Schedule 440 be revised to reflect an annual
15 minimum usage requirement of 50,000 therms, as proposed in the Company's direct testimony.
16 After giving effect to these customer charge changes, the revenue increase/decrease for each of
17 the schedules is achieved through the appropriate increase/decrease in the usage charge(s).

18 **C. Allocation of Increase in Revenue Requirement associated with Jackson**
19 **Prairie Storage.** The estimated revenue increase of \$724,000 associated with the Jackson
20 Prairie Underground Storage Project on November 1, 2008, will be allocated to the Company's
21 service schedules based on the methodology approved by the Commission for Northwest
22 Natural's allocation of underground storage costs related to their MIST facility. This
23 methodology reflects an estimate of the utilization of underground storage for the mitigation of

1 gas commodity costs as well pipeline balancing. Accordingly, the revenue increase will be
2 allocated in the following manner: 1) 86% to all sales service schedules, and 2) 14% to all
3 service schedules including Transportation Schedule 456. The revenue increase associated with
4 each of these two components is spread to the applicable service schedules based on sales
5 volumes/throughput and recovered through an increase in the usage charge(s) under each
6 Schedule.

7 10. The Parties agree that this Stipulation is in the public interest and results in an
8 overall fair, just and reasonable outcome.

9 11. The Parties agree that this Stipulation represents a compromise in the positions of
10 the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this
11 Stipulation shall not be admissible as evidence in this or any other proceeding. Further, this
12 Stipulation sets forth the entire agreement between the Parties and supercedes any and all prior
13 communications, understandings, or agreements, oral or written, between the Parties pertaining
14 to the subject matter of this Stipulation.

15 12. This Stipulation will be offered into the record in this proceeding as evidence
16 pursuant to OAR 860-014-0085. The Parties agree to use best efforts to prepare and submit the
17 Stipulation and supporting materials to the Commission in time to permit the Commission to put
18 rates into effect by April 1, 2008. The Parties agree to support this Stipulation throughout this
19 proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the
20 Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the
21 hearing authorized to respond to the Commission's questions on the Party's position as may be
22 appropriate.

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

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

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

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

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

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

3
4 DATED this 22nd day of February, 2008.

5
6 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

7
8
9
10
11 By: [Signature]
12
13 Date: 2/22/08

By: _____
Date: _____

14
15
16 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

17
18
19
20
21 By: _____
22
23 Date: _____

By: _____
Date: _____

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

3

4 DATED this _____ day of February, 2008.

5

6 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

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8

9

10

11 By: _____

By: David B. Hatton

12

13 Date: _____

Date: February 21, 2008

14

15

16

17 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

18

19

20

21 By: _____

By: _____

22

23 Date: _____

Date: _____

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

3

4 DATED this _____ day of February, 2008.

5

6 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

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11 By: _____

By: _____

12

13 Date: _____

Date: _____

14

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17 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

18

19

20

21 By:  Chad Stokes

By: _____

22

23 Date: 2/22/08

Date: _____

24

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

3
4 DATED this 22 day of February, 2008.

6 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

11 By: _____

By: _____

13 Date: _____

Date: _____

17 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD

21 By: _____

By: Bl Auler

23 Date: _____

Date: Feb. 22, 2008

Avista Utilities UG 181
Results of Operations
Twelve months ending December 31, 2006
(\$000)

	2006 Company Adjusted Results (a)	Staff Rate Case And Audit Adjustments (b)	Staff Adjusted Results (c)	Required Change for Reasonable Return of Equity (d)	Results at Reasonable Return (e)
1	Operating Revenues				
2	Total General Business	146	124,680	0.7%	125,546
3	Total Transportation	0	2,880	\$866	2,880
4	Other Revenues	0	113	0	113
5	Total Operating Revenues	<u>\$146</u>	<u>\$127,673</u>	<u>\$866</u>	<u>\$128,539</u>
6	Operating Expenses				
7	Gas Purchased	0	95,331	0	95,331
8	Operation & Maintenance	-218	8,656	5	8,661
9	Administration and General	-292	5,616	3	5,619
10	Taxes Other than Income	25	4,076	17	4,093
11	Depreciation & Amortization	-45	3,888	0	3,888
12	Total Operating Expenses	<u>-\$530</u>	<u>\$117,567</u>	<u>\$24</u>	<u>\$117,591</u>
13	Operating Income Before FIT	<u>\$676</u>	<u>\$10,106</u>	<u>\$842</u>	<u>\$10,948</u>
14	Income Taxes				
15	Current Federal Income Taxes	\$315	3,479	293	3,772
16	Deferred Federal Income Taxes	\$0	-690	0	-690
17	State Income Taxes	\$5	518	4	522
18	Total Income Taxes	<u>\$320</u>	<u>\$3,307</u>	<u>\$297</u>	<u>\$3,604</u>
19	Net Operating Income	<u>\$356</u>	<u>\$6,799</u>	<u>\$545</u>	<u>\$7,344</u>
20	Average Rate Base				
21	Utility Plant in Service	-3,153	180,782	0	180,782
22	Less: Accum Depr & Amort	10	-76,188	0	-76,188
23	Net Utility Plant	<u>-\$3,143</u>	<u>\$104,594</u>	<u>\$0</u>	<u>\$104,594</u>
24	Accumulated Deferred FIT	24	-16,112	0	-16,112
25	Inventory & Other	0	971	0	971
26	Total Average Rate Base	<u>-\$3,119</u>	<u>\$89,453</u>	<u>\$0</u>	<u>\$89,453</u>
27	Rate of Return	<u>6.96%</u>	<u>7.60%</u>		<u>8.21%</u>
28	Implied Return on Equity	<u>7.06%</u>	<u>8.31%</u>		<u>10.00%</u>

Avista Utilities UG 181
Adjustments to Results of Operations
Twelve Months ending December 31, 2006
(\$000)

	Rate Base Accum DFTT, Depr & Expense (S-1)	Administrative and General (S-2)	Advertising and Sales Expense (S-3)	Bonuses and Incentives (S-4)	Out of period Labor Adjustment (S-5)	Wages and Salaries (S-6)	Gen. Business Revenues Schedule 410 (S-7)	Property Tax Adjustment (S-8)	Interest Synchronization Adjustment (S-9)	Total Adjustments
1 Operating Revenues										
2 Total General Business	0	0	0	0	0	0	146	0	0	146
3 Total Transportation	0	0	0	0	0	0	0	0	0	0
4 Other Revenues	0	0	0	0	0	0	0	0	0	0
5 Total Operating Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$146	\$0	\$0	146
6 Operating Expenses										
7 Gas Purchases	0	0	0	0	0	0	0	0	0	0
8 Operation and Maintenance	0	0	0	0	-142	-6	0	0	0	-218
9 Administration & General	0	-91	-15	-137	-49	0	0	0	0	-292
10 Taxes Other than Income	-48	0	0	0	0	0	0	73	0	25
11 Depreciation & Amortization	-45	0	0	0	0	0	0	0	0	-45
12 Current Federal Income Taxes	67	32	30	48	66	2	51	-26	45	315
13 Deferred Federal Income Taxes	0	0	0	0	0	0	0	0	0	0
14 State Income Taxes	1	0	0	0	1	0	1	0	0	5
15 Total Operating Expenses	-\$25	-\$59	-\$55	-\$88	-\$124	-\$4	\$52	\$47	\$46	-\$210
16 Net Operating Income	\$25	\$59	\$55	\$88	\$124	\$4	\$94	-\$47	-\$46	\$356
17 Rate Base										
18 Utility Plant in Service	-3,150	0	0	0	0	-3	0	0	0	-3,153
19 Accumulated Depreciation	10	0	0	0	0	0	0	0	0	10
20 Net Utility Plant	-\$3,140	\$0	\$0	\$0	\$0	-\$3	\$0	\$0	\$0	-\$3,143
23 Accumulated Deferred Income Taxes	24	0	0	0	0	0	0	0	0	24
24 Inventory & Other	0	0	0	0	0	0	0	0	0	0
25 Total Average Rate Base	-\$3,116	\$0	\$0	\$0	\$0	-\$3	\$0	\$0	\$0	-\$3,119
26 Revenue Requirement Effect	-\$447	-\$94	-\$87	-\$140	-\$196	-\$6	-\$150	\$75	\$73	-\$972

Avista Utilities UG 181
Adjustments to Results of Operations
Year Ending December 31, 2006
(\$000)

	Rate Base Accum DFT, Depr & Expense (S-1)	Administrative and General (S-2)	Advertising and Sales Expense (S-3)	Bonuses and Incentives (S-4)	Out of period Labor Adjustment (S-5)	Wages and Salaries (S-6)	Gen. Business Revenues Schedule 410 (S-7)	Property Tax Adjustment (S-8)	Interest Synchronization Adjustment (S-9)	Total Adjustments
Income Tax Calculations										
1	0	0	0	0	0	0	146	0	0	146
2	-48	-91	-85	-137	-191	-6	0	73	0	-485
3	-45	0	0	0	0	0	0	0	0	-45
4	-100	0	0	0	0	0	0	0	-130	-230
5	0	0	0	0	0	0	0	0	0	0
6	\$193	\$91	\$85	\$137	\$191	\$6	\$146	-\$73	\$130	\$906
7	\$1	\$0	\$0	\$1	\$1	\$0	\$1	\$0	\$1	\$5
8	0	0	0	0	0	0	0	0	0	\$0
9	\$1	\$0	\$0	\$1	\$1	\$0	\$1	\$0	\$1	\$5
10	0	0	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0	0	0
12	\$192	\$91	\$85	\$136	\$190	\$6	\$145	-\$73	\$129	\$901
13	\$67	\$32	\$30	\$48	\$66	\$2	\$51	-\$26	\$45	\$315
14	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15	\$68	\$32	\$30	\$49	\$67	\$2	\$52	-\$26	\$46	\$320

Avista Utilities UG 181
Results of Operations
Twelve Months ending December 31, 2006
(\$000)

	Income Tax Calculations	Taxes Per Company Filing (1)	Adjustments (2)	Adjusted (3)	Required Change for Reasonable Return on Equity (4)	Results at Reasonable Return (5)
1	Book Revenues	\$127,527	\$146	\$127,673	\$866	\$128,539
2	Book Expenses Other than Depreciation	114,164	-485	113,679	24	113,703
3	State Tax Depreciation	3,933	-45	3,888	0	3,888
4	Interest	2,788	-230	2,558	0	2,558
5	Book-Tax (Schedule M) Differences	0	0	0	0	0
6	State Taxable Income	<u>\$6,642</u>	<u>\$906</u>	<u>\$7,548</u>	<u>\$842</u>	<u>\$8,390</u>
7	State Income Tax @ .4977%	\$513	\$5	\$518	\$4	\$522
8	State Tax Credits	0	0	0	0	0
9	Net State Income Tax	<u>\$513</u>	<u>\$5</u>	<u>\$518</u>	<u>\$4</u>	<u>\$522</u>
10	Additional Tax Depreciation	0	0	0	0	0
11	Other Schedule M Differences	0	0	0	0	0
12	Federal Taxable Income	<u>\$6,129</u>	<u>\$901</u>	<u>\$7,030</u>	<u>\$838</u>	<u>\$7,868</u>
13	Current Federal Tax @ 35%	<u>\$3,164</u>	<u>\$315</u>	<u>\$3,479</u>	<u>\$293</u>	<u>\$3,772</u>
14	Provision for Deferred Taxes	-\$690	\$0	-\$690	\$0	-\$690
15	Total Income Tax	<u>\$2,987</u>	<u>\$320</u>	<u>\$3,307</u>	<u>\$297</u>	<u>\$3,604</u>

Avista Utilities UG 181
Revenue Sensitive Costs and Cost of Capital
Results of Operations
Twelve Months ending December 31, 2006
(\$000)

REVENUE SENSITIVE COSTS	
Revenues	1.000000
Expense	
Uncollectible Accounts	0.005231
Energy Resource Supplier Assess.	0.000479
Taxes Other - Franchise	0.019846
- Gross Revenue fee	0.002500
State Taxable Income	0.971944
State Income Tax @ 0.4977%	0.004837
	0.967107
Federal Income Tax @ 35%	0.338487
Total Excise Taxes	0.343325
Total Revenue Sensitive Costs	0.371381
Utility Operating Income	0.628620
Net-to-Gross Factor	1.590790

COST OF CAPITAL (Settlement)	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	45.00%	6.40%	2.88%
Trust Preferred Securities	5.00%	6.57%	0.33%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	50.00%	10.00%	5.00%
Total	100.00%		8.21%

COST OF CAPITAL (Filed)	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	44.09%	6.83%	3.01%
Trust Preferred Securities	4.76%	7.04%	0.34%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	51.15%	11.00%	5.63%
Total	100.00%		8.98%

Avista Utilities UG 181
Narrative Summary
Twelve Months ending December 31, 2006
(\$000)

Company-Filed Test Period Results			\$2,975
Item	Staff	Proposed Staff Adjustments	Proposed Revenue Requirement Change
S-0	BC	Rate of Return For the test period, Parties propose an overall rate of return of 8.21 percent. This is based on a cost of long term debt of 2.88 percent, a cost of .33 for trust preferred securities, and a return on common equity of 10 percent.	-\$1,137
S-1	JJ	Rate Base This adjustment removes rate base due to be in-service in 2008, because it is not yet used and useful.	-\$447
S-2	MD/DB	Administrative & General A series of adjustments in FERC accounts 901 - 935.	-\$94
S-3	DG	Advertising & Sales Expense Removes expense related to promotional advertising or the retention of customers.	-\$87
S-4	DG	Bonuses & Incentives Adjusts expense by excluding officer compensation and proposing a 50/50 sharing between customers and stockholders in accordance with historic treatment of such expense.	-\$140
S-5	DG	Out of period Labor Adjustment Removes addition of expense for the period beyond the 2006 test year.	-\$196
S-6	DG	Wages & Salaries Adjusts test year expense to conform to the results of the PUC 3-year wage and salary model.	-\$6
S-7	JM	General Business Revenues Adjusts 2006 test year revenues due to Staff-proposed change to Avista's weather normalization model.	-\$150
S-8	DG	Property Taxes Stipulated adjustment to 2006 test year expense to correct error in Avista's filing.	\$75
S-9	JJ	Interest Synchronization Adjustment due to the change in weighted cost of debt and the change in rate base.	\$73

Total Staff-Proposed Adjustments	-\$2,109
Proposed Staff Case	\$866

JJ Judy Johnson 503/378-6636
MD Mike Dougherty 503/3783623
DB Dustin Ball 503/373-7946
DG Deborah Garcia 503/378-6688
JM Jaimie McGovern 503/378-5942

Avista Utilities
Major Plant Additions-East Medford Reinforcement Project
Completed October 2008
Revenue Requirement

Depreciation Expense	\$	71,228
Property Tax @ 1.5% of Gross Plant		75,000
Total Expenses		<u>146,228</u>
Net Operating Income Before FIT		(146,228)
FIT Benefit of Depreciation and Property Tax		51,180
FIT Benefit of Interest Expense		54,025
Net Operating Income Requirement	\$	<u>(41,023)</u>
Net Plant	\$	5,000,000
Accumulated Depreciation (average of 10/31/08 and 10/31/09)		45,704
Accumulated DFIT (average of 10/31/08 and 10/31/09)		<u>(145,698)</u>
Net Rate Base		4,808,598
Proposed Rate of Return		8.21%
Return on Rate Base	\$	<u>394,786</u>
Net Operating Income Requirement including Return	\$	435,809
Conversion Factor		0.62862
Revenue Requirement for 11/1/08-10/31/09	\$	<u>693,279</u>

Avista Utilities
Jackson Prairie Expansion Projects
Revenue Requirement

Depreciation Expense	\$	95,267
Property Tax @ 1.5% of Gross Plant		75,664
Total Expenses		<u>170,931</u>
Net Operating Income Before FIT		(170,931)
FIT Benefit of Depreciation and Property Tax		59,826
FIT Benefit of Interest Expense		54,578
Net Operating Income Requirement	\$	<u>(56,527)</u>
Net Plant	\$	5,044,288
Accumulated Depreciation (average of 10/31/08 and 10/31/09)		47,633
Accumulated DFIT (average of 10/31/08 and 10/31/09)		<u>(138,794)</u>
Net Rate Base		4,857,861
Proposed Rate of Return		8.21%
Return on Rate Base	\$	<u>398,830</u>
Net Operating Income Requirement including Return	\$	455,357
Conversion Factor		0.62862
Revenue Requirement for 11/1/08 - 10/31/09	\$	<u>724,376</u>

AVISTA UTILITIES – OREGON JURISDICTION
DOCKET No. UG-181

OPUC STAFF MODEL

PROPOSED RATES SPREAD AND RATE DESIGN PER SETTLEMENT AGREEMENT (1, 2, 3, 4)

Line #	OREGON TOTAL	Residential Service SCH 410	General Service SCH 420	Large General SCH 424	Interruptible Service SCH 440	Seasonal Service SCH 444	Special Contracts SCH 447	Transportation Service SCH 456
1	125,959,650	49,373,825	28,349,061	3,709,830	3,355,306	186,221	5,673,162	35,312,245
2		\$ 1,42914	\$ 1,34538	\$ 1,225402	\$ 0,94898	\$ 1,25376	NA	Various
3	Schedule 456 Block Definitions (in thousand Therms)							
4	Schedule 456 Block Volumes (Therms)	4,104,435	7,199,917	5,166,154	17,490,196	1,351,543		35,312,245
5	Schedule 456 Beginning Rates (\$/therm)	\$ 0,12900	\$ 0,07757	\$ 0,06673	\$ 0,04984	\$ 0,02520		
6	Beginning Volumetric Revenues	\$ 119,571,215	\$ 38,140,260	\$ 4,652,201	\$ 3,184,118	\$ 233,476	\$ 476,072	\$ 2,322,979
7	TEST PERIOD AVERAGE CUSTOMERS	92,418	10,808	98	40	8	4	36
8	Beginning Customer Charge (\$/month)	\$ 5	\$ 6	\$ 65	\$ 0	\$ 0	\$ 0	\$ 187,50
9	Beginning Customer Charge Revenues	\$ 5,821,056	\$ 4,885,440	\$ 778,176	\$ 76,440	\$ 0	\$ 0	\$ 81,000
10	BEGINNING TOTAL REVENUES	\$ 125,392,271	\$ 75,447,548	\$ 38,918,436	\$ 4,728,641	\$ 233,476	\$ 476,072	\$ 2,403,979
11								
12	Revenue Requirement Increase – April 1, 2008	\$ 866,000						
13	Proposed rev. req. adjustment (% over beginning total rev's)	0.69%	0.87%	-2.00%	-1.75%	-2.00%	0.00%	0.87%
14	Proposed rev. req. adjustment (\$)	\$ 866,000	\$ 659,667	\$ 340,279	-\$ 94,573	-\$ 4,670	\$ 0	\$ 21,019
15	Proposed monthly customer charge (\$)	\$ 607,068	\$ 5,50	\$ 7,00	\$ 55,50	\$ 0	\$ 0	\$ 187,50
16	Revenue Requirement Increase from Customer Charge	\$ 607,068	\$ 488,544	\$ 129,696	-\$ 11,172	\$ 0	\$ 0	\$ 0
17	Revenue Requirement Increase from Volumetric Charges	\$ 258,932	\$ 171,123	\$ 210,583	-\$ 83,401	-\$ 4,670	\$ 0	\$ 21,019
18	Percentage Revenue Requirement Increase Applied to Volumetric Charges		0.2425%	-1.7927%	-1.7500%	-2.0000%	NA	0.9048%
19	Proposed Volumetric Rates, Tariff Sales Schedules		\$ 1,43281	\$ 1,23154	\$ 0,93237	\$ 1,22868	NA	NA
20	Proposed Schedule 456 Block Rates		\$ 0,13017	\$ 0,07827	\$ 0,05029	\$ 0,02543	NA	NA
21								
22	Revenue Requirement Increase Due to JP Storage Addition -- 11/01/08	\$ 724,000						
23	Share (Excluding Special Contracts) of Annual Therms Throughput	100.00%	41.05%	23.57%	3.08%	2.79%	0.15%	29.36%
24	Share (Excluding Special Contracts) of Annual Sales Therms	100.00%	58.10%	33.36%	4.37%	3.95%	0.22%	0.00%
25	Weighted Shares: 14% Throughput, 86% Sales		55.72%	31.99%	4.19%	3.79%	0.00%	4.11%
26	Allocation of JP Revenue Requirement Increase		\$ 403,387	\$ 231,613	\$ 30,310	\$ 27,413	\$ 1,521	\$ 29,756
27								
28	Other Revenue Requirement Increase – November 1, 2008	\$ 693,000						
29	Proposed rev. req. adjustment (% over beginning total rev's)	0.55%	0.73%	-1.73%	-1.75%	-2.00%	0.00%	0.73%
30	Proposed rev. req. adjustment (\$)	\$ 693,000	\$ 547,888	\$ 282,619	-\$ 94,573	-\$ 4,670	\$ 0	\$ 17,457
31	Proposed monthly customer charge (\$)	\$ 607,068	\$ 6,00	\$ 8,00	\$ 46,00	\$ 0	\$ 0	\$ 187,50
32	Revenue Requirement Increase from Customer Charge	\$ 607,068	\$ 488,544	\$ 129,696	-\$ 11,172	\$ 0	\$ 0	\$ 0
33	Other Revenue Requirement Increase from Volumetric Charges	\$ 85,932	\$ 59,344	\$ 152,923	-\$ 83,401	-\$ 4,670	\$ 0	\$ 17,457
34	Allocation of JP Revenue Requirement Increase	\$ 724,000	\$ 403,387	\$ 231,613	\$ 30,310	\$ 27,413	\$ 1,521	\$ 29,756
35	Combined Other and JP Revenue Requirement Increase	\$ 809,932	\$ 462,730	\$ 384,537	-\$ 53,091	-\$ 28,309	-\$ 3,148	\$ 47,213
36	Percentage Rev. Req. Increase Applied to Beginning Volumetric Charges		0.6558%	1.0082%	-1.1412%	-0.8891%	NA	2.0324%
37	Combined April 1, Nov. 1 and JP Volumetric Rates Increase (%)		0.8983%	1.5603%	-2.9339%	-3.3484%	NA	2.9373%
38								
39	Proposed Nov. 1 Volumetric Rates, Tariff Sales Schedules	\$ 1,44198	\$ 1,36637	\$ 1,21723	\$ 0,92394	\$ 1,21178	NA	NA
40	Proposed Nov. 1 Schedule 456 Block Rates		\$ 0,13279	\$ 0,07985	\$ 0,05130	\$ 0,02594	NA	NA
41								
42	Revenues from Nov. 1 Volumetric Rates, Tariff Sales Schedules	\$ 118,248,867	\$ 71,195,961.51	\$ 38,735,379	\$ 4,515,709	\$ 3,100,087	\$ 476,072	NA
43	Revenues from Nov. 1 Schedule 456 Block Rates	\$ 2,391,211	\$ 545,024.16	\$ 574,902.16	\$ 338,909.64	\$ 697,315.92	\$ 35,059.29	\$ 2,391,211
44	Revenues from Nov. 1 Customer Charges	\$ 7,055,192	\$ 5,862,528	\$ 1,037,568	\$ 54,096	\$ 0	NA	\$ 61,000
45	TOTAL REVENUES FROM PROPOSED NOV. 1 RATES	\$ 127,675,271	\$ 77,058,490	\$ 39,772,947	\$ 4,569,805	\$ 3,100,087	\$ 476,072	\$ 2,472,211
46	TOTAL INCREASE OVER THE CURRENT TARIFF (\$)	\$ 2,283,000	\$ 1,610,941	\$ 854,511	-\$ 158,836	-\$ 84,031	\$ 0	\$ 68,232
47	TOTAL INCREASE OVER THE CURRENT TARIFF (%)	1.82%	2.14%	2.20%	-3.36%	-2.64%	0.00%	2.84%

(1) Schedules 424 and 444 are to receive a 4% revenue requirement reduction and Schedule 440 is to receive a 3.5% reduction. The resulting net revenue requirement increase is to be achieved through a uniform percentage increase applied to the current pro forma revenues/revenue requirement of Schedules 410, 420, and 456.

(2) The Customer Charge for Schedule 410 is to be increased from \$5 per month to \$6. The Customer Charge for Schedule 420 is to be increased from \$6 per month to \$8. The Customer Charge for Schedule 424 is to be reduced by \$19 per month.

(3) Half the changes called for in (1) and (2) are to take place on April 1, 2008, with the balance of those changes to take place on Nov. 1, 2008.

(4) The Jackson Prairie Storage (JP) revenue requirement is to be allocated in proportion to the Schedules' relative shares of Annual Therms (Special Contracts Sched. 447 excluded), with 14% of the rev. req. allocated in proportion to the share of total annual throughput (i.e., Transportation Service Sched. 456 included) and 86% allocated in proportion to the shares of retail sales.

AVISTA_spread.design.GRC.208 (2/20/08)

APPENDIX B
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