ORDER NO. 11 080

ENTERED MAR 10 2011

# BEFORE THE PUBLIC UTILITY COMMISSION

# OF OREGON

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| In the Matter of<br><br>AVISTA CORPORATION, dba<br>AVISTA UTILITIES<br><br>Request for a General Rate Revision. | ORDER |

DISPOSITION: STIPULATION ADOPTED

## I. INTRODUCTION

On September 30, 2010, Avista Corporation, dba Avista Utilities (Avista or Company) filed an application for a general rate revision for its Oregon retail customers for an increase of $5.446 million (5.6 percent of its annual revenues). Avista's filing was suspended by the Commission at its October 20, 2010, public meeting.

A prehearing conference was held on October 25, 2010. Parties appearing at the prehearing conference were Avista, the Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board of Oregon (CUB) and the Northwest Industrial Gas Users (NWIGU).

On December 3, 2010, Avista filed supplemental testimony to correct for an error in the federal income amount included in the original filing and to update for the forecasted number of customers and usage levels expected for 2011. Although the net effect of the Company's changes was to increase the amount of the "justified" rate increase by $983,000 to $6.43 million, Avista did not change the amount of its requested rate relief.

On January 31, 2011, parties filed a stipulation "resolving all issues in this Docket." Parties to the stipulation are Avista, Staff, CUB, and NWIGU. In their Stipulation the parties agreed to a rate increase of $2.975 million, to be implemented in two phases: $2.004 million of the increase to be implemented on March 15, 2011, and $971,000 to be implemented on June 1, 2011.

The parties also have agreed to deferred accounting treatment for two capital additions that are expected to be in service on or about November 1, 2011, and subsequent recovery of such costs in rates, after Avista provides a certification of completion and supporting documentation. Any additional rate increase will occur on June 1, 2012, for recovery of revenue requirement and deferred revenue requirement costs associated with these projects that are found to have been prudently incurred.

The parties filed their Stipulation before Staff and Intervenors had filed their testimony. However, it appears from the face of their Stipulation that on December 22, 2010, Staff served on all parties its report of issues and proposed adjustments to Avista's revenue requirement. Staff's report was intended for settlement purposes and is not in the record in this proceeding.

## II. AVISTA'S APPLICATION

### A. In General

Avista filed its application using a twelve month test period, ending December 31, 2011, presented on a forecasted basis. The Company's *pro forma* results of operations for the test period indicate that, at current rates, Avista would earn a return on equity (ROE) of 6.47 percent.

According to Avista, in the 18 years that it has operated its properties in Oregon, its base rates have previously increased only five times. A combination of capital additions, declining margins, and increases in general business expense now require that the Company request an increase in overall base rates.

Together with its application, Avista filed the testimony and exhibits of nine witnesses. Their testimony addresses: (a) policy and operations, (b) financial overview, capital structure and overall rate of return, (c) ROE, (d) gas supply and storage, (e) capital projects, (f) working capital, (g) revenue requirement and allocations, (h) long-run incremental cost of service, and (i) rate design and rate spread.

### B. Policy and Operations

Avista states that a combination of declining loads, increasing rate base, and increases in general business expenses are the primary factors that cause it to request the rate increase. The request is based on a proposed rate of return of 8.61 percent, with a 10.9 percent ROE.

Avista states that it serves 95,602 customers in Oregon, in the areas of Medford, Klamath Falls, Roseburg, and LaGrande. In 2009, Avista delivered about 111 million therms to its Oregon customers. Residential customers account for about 62.7 percent of its revenues, and about 43.5 percent of the delivered gas volume. General

Service customers account for about 28.7 percent of revenues and about 23.2 percent of the delivered gas volume. Transportation customers account for 2.3 percent of revenues and 23.2 percent of the delivered gas volume. [1]

Avista states that it has worked hard to gain upgrades to its corporate credit rating. According to the Company, although it has made progress in improving its financial condition, it is still not as strong financially as it needs to be. Timely rate relief is an important element in continuing to gain financial strength and improve its credit rating.

Avista describes actions taken to mitigate increased costs in "these difficult economic circumstances." Among the measures cited are a hiring restriction, limitations on capital spending, deferral of long-term debt, cancelled office building addition, and the outsourcing of billing services and disaster recovery services.

Avista also describes a number of customer support programs that it provides for its Oregon customers. These include the Low Income Rate Assistance Program, Project Share (for emergency assistance), the Customer Assistance Referral and Evaluation Service (CARES program), level pay plans, and payment arrangements. The Company also offers energy efficiency services to residential, commercial, and industrial customers.

## C. Financial Overview, Capital Structure, and Overall Rate of Return

Avista reports "good progress" in improving its financial health. The Company has reduced investments in unregulated subsidiaries and redeployed most of the proceeds from sales of unregulated subsidiaries to the utility. Avista has been able to improve its debt and equity ratios by paying down debt, issuing common stock, and through additional retained earnings. The Company's goal is to operative at a level above the "bottom notch" of the investment grade rating scale, reducing costs to customers.

Avista considers that a favorable credit rating to be "essential" to its ability to attract capital from equity investors. "Because of the large capital requirements at Avista in the near-term, it is imperative that Avista have ready-access to both the debt and equity markets at reasonable costs."

To attract capital investment, Avista reports that it carries a capital structure that provides the opportunity to offer an attractive risk/reward proposition for equity holders. The Company has increased its dividend to common shareholders and has worked toward a dividend payout ratio comparable to other utilities.

[1] Large General Service, Interruptible, Seasonal, and Special Contract customers account for about 10 percent of the delivered gas volume.

Avista reports in detail its financial circumstances in terms of its credit ratings by independent agencies, stressing the need to maintain a favorable investment grade rating.

Avista describes risk factors that can impact its credit rating. Among those risk factors is the regulatory environment in which a company operates.[2]

Avista explains its sources of funds for capital improvements. These include cash flow from operations, long-term debt, and common stock issuances.

Avista states that the amount of capital expenditures planned for 2010/2011 is about $460 million. Rate base on December 31, 2009, was at $2.1 billion, meaning that these planned additions represent "substantial" new investments, given the size of the Company.

Avista plans to issue up to $45 million of common stock to finance a portion of its capital expenditures and maturing long-term debt and to support is common equity ratio.

## D. Return on Equity

Avista first describes the broad range of information sources that were considered in formulating the proposed ROE. Against the backdrop of "sound regulatory economics" and applicable legal standards, the Company's witness conducted various quantitative analyses to estimate the current cost of equity. Based on those analyses, Avista derived a range of returns from 10.65 percent to 12.15 percent. As noted above, the Company proposes that a 10.9 percent return be adopted in this case.

## E. Natural Gas Supply and Storage

Avista is one of the three original developers of the underground natural gas storage facility at Jackson Prairie, near Chehalis, Washington.[3] Avista describes the history of the facility including expansions and transactions assigning capacity and deliverability to third parties.

On May 21, 2011, the temporary assignment of the capacity and deliverability will expire and the capacity and deliverability will revert to Avista. The Company proposes to allocate the costs among its customers in proportion to the retail load for each jurisdiction.

According to Avista, access to regionally located storage provides several benefits to customers. The storage enables the Company to capture seasonal price

[2] We note that Oregon is just one of the regulatory jurisdictions in which Avista provides service.
[3] Avista, Puget Sound Energy, and Northwest Pipeline GP each hold a one-third share of the facility.

spreads, improves reliability of supply, increases operational flexibility, mitigates peak demand price spikes, and provides numerous other benefits.

## F. Capital Projects

Avista proposes to include in its retail rates the costs associated with utility plant that will be used to provide service to its customers during the 2011 forecast test period. According to the Company, including the costs associated with that investment provides a proper matching of revenues from customers with the cost of providing service.

In prior rate cases Avista has used a rate base amount from a historical period as the starting point for the test year. In this docket, the Company's adjustment for new investment in plant includes all forecasted capital additions in 2010 and 2011 to restate rate base from the historical period to the forecasted test year. To effectuate its proposal Avista proposes to average capital expenditures for the 12 months ending December 31, 2011.

Avista states that all of the 2011 projects included in its capital costs consist of work on existing operating plant. The 2011 capital additions are either expansions or upgrades to existing plant. Avista cites ORS 757.355 which prohibits a public utility from recovering in rates the costs of construction work in progress. According to the Company, that provision does not apply to routine construction work in progress attached to an operating plant.

Avista itemizes its forecasted system-wide general plant improvements and its Oregon gas distribution expenditures for 2010 and 2011. The Company states that it is adding significant new distribution facilities in Oregon, due to customer growth, reliability requirements, and capacity upgrades. Other issues driving the need for capital investment include an aging infrastructure, physical degradation, and municipal compliance issues.

## G. Working Capital

Cash working capital represents the funds required to enable Avista to operate its business on a daily basis. The need for such funds results from the lag in time between the collection of revenues for services rendered and the necessary outlay of cash to pay the expense of providing those services.

According to Avista, there are three primary methods used in regulatory proceedings to determine cash working capital: the FERC Formula Method, the Balance Sheet Method, and the Lead/Lag Study. The Company proposes to use the Lead/Lag method in this case.

## H. Revenue Requirement and Allocations

According to Avista, the Company's need for rate relief is due in part to an increase in overall net rate base, including an adjustment for working capital and additional plant in service. In addition, the Company forecasts a drop in revenues due to a reduction in the number of customers and declining usage by customers on a weather-adjusted basis, compared to the Company's last general rate case. Avista also is requesting rate relief for a slight increase in operation and maintenance (O&M) costs and administrative and general (A&G) expenses, as well as costs associated with the increased storage capacity and deliverability associated with the transfer of a portion of the Jackson Prairie gas storage facility to the Company.

## I. Long Run Incremental Cost

Avista performs a long run incremental cost study to estimate the incremental cost of providing natural gas service to customers segregated into groups according to their usage characteristics. The elements of the cost study include incremental plant investment, incremental O&M expenses, and the cost of gas. The purpose of the study is to determine the adequacy of current rates, compared to incremental costs.

With the additional storage at Jackson Prairie that Avista anticipates it will have available, the Company believed that it was necessary to reassess the proper relationship between sales commodity and throughput (balancing). Avista found that about 20 percent of the Jackson Prairie capacity is used for balancing, and the remaining 80 percent is used for the benefit of sales customers. The Company states that the additional capacity coming back to the utility will have no further benefits for balancing the system.

Avista reports that the present relative margin-to-cost ratios indicate that general service (primarily commercial customers) and seasonal service customers are paying somewhat less than their relative cost of service, while large general service, interruptible, and transportation service customers are paying more than their relative cost of service. Residential customers are not far from parity, but are slightly under their relative cost of service.

## J. Revenue Adjustment, Rate Spread, and Rate Design

The Revenue Adjustment represents the difference between Avista's actual recorded retail revenues during 2009 and forecasted revenue for 2011. Forecasted revenue for 2011 is based on projected customer usage and number of customers from Avista's most recent forecast applied to the present natural gas rates in effect. The Revenue Adjustment also includes an adjustment for purchased gas costs.

Total throughput is projected to decrease by about 1.1 percent. Nearly all of the decrease in throughput is attributed to sales (not transportation) customers.

Avista states that in its last general rate case (docket UG 186) the parties agreed to billing determinants (number of customers and average use per customer) that were higher than what the Company observed in 2010 and forecasts for 2011. The result of having both a lower number of customers and lower average use per customer is that there are fewer therms upon which to spread Avista's fixed costs. According to Avista, the total estimated lost margin from reduced loads is about $2.3 million.

Avista compares its margin to cost at current rates for each rate schedule, based on its long run incremental cost study. The proposed rate adjustments by customer class are as follows:

| Schedule | Percent of Increase |
|---|---|
| Residential (Sch. 410) | 6.2% |
| General (Sch. 420) | 5.7% |
| Large General (Sch. 424) | 0.2% |
| Interruptible (Sch. 440) | 0.5% |
| Seasonal (Sch. 444) | 3.5% |
| Transportation (Sch. 456) | 2.2% |

The Company proposes a number of specific adjustments to fixed and variable charges.

Avista proposes that the incremental monthly rate detailed in its tariff Schedule 493, "Residential Low Income Rate Assistance Program (LIRAP) – Oregon," be removed from base rates and be administered as a stand-alone tariff. Avista believes that base tariff schedules should reflect distribution margin only, with all other costs tracked in separate stand-alone schedules.

## III. THE STIPULATION

### A. In General

The parties to the Stipulation are Avista, Staff, CUB, and NWIGU. These parties have settled all issues in this docket.

### B. Revenue Requirement

The parties agreed to an overall rate increase of $2.975 million, a reduction of $2.471 million from the $5.446 million requested by Avista.[4] The overall

[4] As shown on Table 1 of the Stipulation (p. 4), the amount of the rate increase was calculated by the parties as a reduction of $3.454 million from Avista's "corrected" rate increase calculation of $6.429 million, as shown in its filing of December.

rate increase is to be implemented in two phases: $2.004 million to be implemented on March 15, 2011, and $971,000 to be implemented on June 1, 2011. The stipulating parties agreed to use their best efforts to have the rates become effective by March 15, 2011.

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

The stipulated adjustments to Avista's proposed revenue requirement appear in the table on page 4 of the Stipulation. The greatest reduction shown is attributed to rate of return, with other material reductions attributable to working capital and A&G expenses.

The stipulating parties agreed to an overall rate of return of 8 percent. That figure is derived using a capital structure consisting of 50 percent common equity and 50 percent long term debt and a ROE of 10.1 percent.

## C. Rate Spread

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

Their resulting proposed rate spread is as follows:

**March 15, 2011**

| Schedule | Proposed Increase |
|---|---|
| Residential (Sch. 410) | 2.16% |
| General (Sch. 420) | 2.16% |
| Large General (Sch. 424) | 0.38% |
| Interruptible (Sch. 440) | 0.38% |

| | |
|---|---|
| Seasonal (Sch. 444) | 1.37% |
| Transportation (Sch. 456) | 0.80% |

**June 1, 2011**

| Schedule | Proposed Increase |
|---|---|
| Residential (Sch. 410) | 1.04% |
| General (Sch. 420) | 1.04% |
| Large General (Sch. 424) | 0.19% |
| Interruptible (Sch. 440) | 0.19% |
| Seasonal (Sch. 444) | 0.66% |
| Transportation (Sch. 456) | 0.38% |

## D. Rate Design

For the rates that go into effect on March 15, 2011, the parties support rate design changes as follows: the monthly customer charges for residential and general service will be increased by $0.50, and the monthly customer charge for large general service will be increased by $2. The usage charge within each of the sales service schedules will be increased by the appropriate amount to result in the total revenue increase for each schedule. For transportation service the monthly customer charge will be increased by $25 per month. The remaining revenue increase within the schedule is reflected through a uniform percentage increase applied to block rates with the schedule.

## E. Other Issues

Avista has an on-going project to review its accounting policies and procedures, to provide training to its employees, and to conduct an audit of total Company accounting practices. The Company agrees to provide the parties with copies of all reports associated with this project.

In future rate case filings, Avista will prepare a forecasted results of operations report that will be used as the test year.

Avista agrees to meet with the stipulating parties prior to the Company's next general rate case filing to discuss the Company's allocation processes and methods.

Avista agrees to use its most recent forecast of customer counts and natural gas usage that is used for financial reporting purposes in its future general rate cases, Integrated Resource Plan and Purchased Gas Adjustment proceedings.

The stipulating parties agree that Oregon will receive 25 percent of the total of the allocation of Jackson Prairie facility capacity and deliverability resulting from all Jackson Prairie expansion volumes and costs since 1999. Further, the stipulating parties agree to the revised accounting treatment proposed by the Company. Avista agrees to work with the parties on the necessary reports and changes to storage accounting processes and documentation to quantify all gas price stability and optimization benefits Oregon customers will receive from the additional Jackson Prairie facility storage.

## IV. TESTIMONY IN SUPPORT

### A. In General

The parties filed joint testimony in support of the Stipulation in which their witnesses describe the background to the proceeding and summarize the terms of their agreement.[5] They note that Avista's need for additional rate relief is due in part to an increase in overall net rate base for additional plant in service, including the Grant's Pass reinforcement project and the additional storage associated with the Jackson Prairie facility. In addition, they note that a portion of the increase is due to a reduction in the number of customers and a reduction in usage by customers on a weather-adjusted basis.

The parties briefly describe each of the revenue requirement adjustments, the deferred recovery of capital costs, and their proposed rate design and rate spread. They also summarize their disposition of other issues that will have no immediate rate effects.

Included in their testimony is a statement by each party in support of their settlement. In addition, Staff filed "summary testimony" in support of the Stipulation from each of the Staff analysts who reviewed Avista's filing.

### B. Avista

Avista states that the settlement strikes a "reasonable balance" between the interests of its customers and the Company on all revenue requirement and rate spread and rate design issues. The Stipulation will provide a measure of certainty around future cost recovery. Avista notes that the Stipulation was entered into following extensive discovery, audit and review of the Company's filing and its books and records.

### C. Staff

Staff states it performed a thorough review and analysis of Avista's filing, including Avista's response to Staff's 248 data requests (as well as responses to other parties' data requests). Staff prepared a proposed settlement package as an aid to discussion for the settlement conference. Staff's and other parties' proposals were thoroughly discussed and a reasonable compromise was reached.

[5] Together with their testimony the parties filed a joint motion to admit the stipulation and pre-filed testimony and exhibits as evidence in this proceeding. Their motion is granted.

## D. CUB

CUB states that it thoroughly reviewed and analyzed Avista's filing and responses to data requests. CUB also reviewed Staff's proposed settlement package and submitted a joint CUB/NWIGU settlement package for discussion. Each of the proposed settlement packages was thoroughly discussed until a reasonable compromise was reached.

## E. NWIGU

NWIGU states that the best interests of Avista's customers are served by the underlying fair compromise on all revenue requirement and rate spread and design issues. NWIGU's assessment is based on "the compromises of various revenue requirement issues that brought down the overall gas revenue requirement increase by \$3.454 million to \$2.9 million,"[6] its thorough review of Avista's filing and data request responses, and the services of a consultant retained by NWIGU and CUB. NWIGU also finds that the Stipulation is in the public interest as the spread of the gas rate increase is done in a manner that is consistent with Avista's cost-of-service analysis.

## F. Staff's Summary Testimony

In addition to its statement for support of the Stipulation included in the joint testimony, Staff submitted separate testimony sponsored by Staff's witnesses summarizing their findings with respect to their individual areas of responsibility.

Staff witness Garcia created a model designed to analyze and verify Avista's proposed revenue requirement. Ms. Garcia reviewed specific Company proposed positive and negative adjustments to the base year results, customer service, and advertising expense. Ms. Garcia issued data requests and reviewed responses to inform her analysis.

As a result of her review Ms. Garcia proposed adjustments to labor related expenses and worked with other Staff on other issues.

Staff witness Ordonez reviewed Avista's proposed costs of capital, including the cost of common equity, cost of long-term debt, and proposed capital structure. As to cost of equity, he developed information on comparable local gas distribution utilities. With respect to cost of long-term debt, he analyzed the cost of the Company's embedded and *pro forma* long-term debt relative to the 2011 test year. Additionally, Mr. Ordonez reviewed Avista's capital structure relative to historical values and the capital structure currently authorized. He notes that the stipulated rate of return

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[6] NWIGU's calculation is based on Avista's "corrected" revenue requirement increase of \$6.429 million, not the Company's requested increase of \$5,446 million.

of 8 percent is 19 basis points lower than the return authorized in Avista's previous general rate case, due to its lower cost of long-term debt.

Staff witnesses Ball and Sander reviewed Avista's A&G expenses, insurance costs, pension and benefit expense, and taxes other than income. They support the reductions in miscellaneous A&G costs and taxes other than income adopted in the parties Stipulation.

Staff witness Zimmerman reviewed sales and transportation revenues, purchased gas, distribution O&M, underground storage plant and expense, and utility plant in service and plant additions. He proposed adjustments for underground storage plant and expense and utility plant in service and plant additions.

According to witness Zimmerman, he opposed inclusion in rate base of the Roseburg Reinforcement Project and the Medford Replacement Project, first on legal grounds, but also citing lack of information. Mr. Zimmerman accepted Avista's plant addition at Grants Pass as reasonable and prudent and thus eligible for inclusion in rate base.

Mr. Zimmerman reviewed Avista's proposed ratemaking treatment of its Jackson Prairie storage facility, proposing to reduce the jurisdiction allocation of both plant in rate base and operational costs. He supports the provisions in the Stipulation relating to the conditions for Oregon absorbing 25 percent of the plant and operating costs associated with capacity and deliverability returned to Avista.

Staff witness Ping reviewed the depreciation expense and depreciation reserve portions of Avista's filing. She found that the Company's use of depreciation rates complied with earlier Commission orders and did not propose adjustments to the values in Avista's filing for depreciation expense or for accumulated depreciation. However, changes to the depreciation expenses and the accumulated depreciation included in base rates were made to correspond to the stipulated adjustments related to capital additions or rate base.

Staff witness Johnson reviewed Avista's accumulated deferred income taxes. She concludes that the Stipulation represents a fair and reasonable level of expense to be included in rates.

Staff witness Rossow reviewed Avista's Miscellaneous Operating Revenues, Memberships, Dues, Donations, Uncollectible Expense, Materials and Supplies, and Prepaid Expenses. He proposed that Avista review how it records expenses associated with memberships and dues and donations that he believes are not accurately booked to FERC accounts or have no benefit to Oregon ratepayers. Mr. Rossow's concerns are reflected in the provision in the Stipulation regarding the results of an audit of all accounts to be made available to the parties.

Staff witness Phillips reviewed Avista's weather-normalization methodology and the Company's 2011 test year load forecast. She discovered differences in Avista's Integrated Resource Plan/Purchased Gas Adjustment load forecast and the load forecast included in this application, which forecasts were nearly contemporaneous in submission. The Company explained that the forecasts differ because two different models were used. The Stipulation provides that for future filings Avista will submit a single forecast.

Ms. Phillips also reviewed Avista's interjurisdictional allocation factor and proposed the parties meet prior to the Company's next general rate case to discussion the allocation process, as adopted in the Stipulation.

Ms. Phillips reviewed Avista's proposed working capital addition to rate base and concluded that no allowance for working capital is necessary. Witness Phillips' view is adopted in the parties' Stipulation.

Staff witness Compton reviewed Avista's proposed rate spread and rate design. He states that the increased customer charges are "modest" compared to customer charges of other utilities regulated by this Commission and are beneath what are commonly regarded as explicit customer costs.

Witness Compton expressed some concern to Avista and other parties regarding the validity of some elements of Avista's marginal cost of service study. However, he did not find sufficient evidence to call for major qualitative departures from the Company's recommendations.

## V. DISCUSSION

As was the case with Avista's prior general rate case application (docket UG 186), the parties reached their settlement prior to the filing of responsive testimony. As noted in Order No. 09-422 in that docket, "in such circumstances the Commission looks first to see whether all parties support the settlement. The support of all parties allows the Commission to approach the settlement with a high degree of confidence."[7] All parties support the proposed settlement in this proceeding.

The testimony offered in support of the Stipulation includes a statement by each of the settling parties affirming its participation and stating the grounds for its support. That testimony confirms that the settlement is not based on an arbitrary process, but is the result of a nuanced review of specific issues and professional judgments. Further in that regard, Staff's witness summaries show that Staff performed a full analysis of Avista's filings and discovery responses and developed highly informed opinions on the merits of many issues. Those opinions are reflected in the terms of the Stipulation.

[7] Order No. 09-422 at 8.

As was the case in UG 186, the settlement provides for the rates to go into effect much sooner than would have been the case, had the matter been fully litigated. In such circumstances, we recognize that Avista has a financial inducement to settle on terms that would not be quite so favorable, if the matter had run its course. All settlements are understood to be limited to their specific circumstances.

The Stipulation should be adopted.

## VI. ORDER

IT IS ORDERED that

1. The Stipulation by and among Avista Corporation, dba Avista Utilities, the Staff of the Public Utility Commission of Oregon, the Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users is adopted. The Stipulation is attached as Appendix A.

2. The tariffs in Advice No. 10-06-G are permanently suspended.

3. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this Order no later than March 14, 2011, to be effective no earlier than March 15, 2011.

Made, entered, and effective MAR 10 2011.

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| **John Savage**<br>Commissioner | **Susan K. Ackerman**<br>Commissioner |

A party may request rehearing or reconsideration of this order under 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 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UG 201

| | | |
|---|---|---|
| In the Matter of<br>AVISTA CORPORATION, dba AVISTA UTILITIES<br><br>Request for a General Rate Revision. | )<br>)<br>)<br>)<br>) | STIPULATION RESOLVING ALL ISSUES |

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

## PARTIES

The Parties to this Stipulation are Avista Corporation (or the "Company"), 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 September 30, 2010, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $5,446,000, or 5.6 percent of its annual revenues. The filing was suspended by the Commission on October 20, 2010.

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

3. On December 22, 2010, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only.

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

5. As a result of the settlement discussions, the Parties have agreed to settle all issues in this docket, including the revenue requirement and rate spread/design issues on the following terms, subject to the approval of the Commission.[1]

## AGREEMENT

6. **Revenue Requirement:** The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a reduction in Avista's revenue requirement request from $5.446 million to $2.975 million to be implemented in two phases: $2.004 million of the agreed-upon increase will be implemented on March 15, 2011, and $971,000 of the overall increase will be implemented on June 1, 2011.

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

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

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

Table 1:

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

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

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

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

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

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

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

f. Working Capital Adjustment – This adjustment removes the Company's proposed working capital adjustment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

| | |
|---|---|
| Residential Service Sch. 410 | 1.04% |
| General Service Sch. 420 | 1.04% |
| Large General Service Sch. 424 | 0.19% |

| | |
|---|---|
| Interruptible Service Sch. 440 | 0.19% |
| Seasonal Service Sch. 444 | 0.66% |
| Transportation Service Sch. 456 | 0.38% |

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

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

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

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

10. **Other Issues**

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

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

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

(d.) Revenue Adjustment – The Parties have agreed to the Revenue Adjustment proposed by the Company. The Company agrees that it will use the most recent forecast of customer counts and natural gas usage that is used for financial reporting purposes in its future general rate cases, Integrated Resource Plan (IRP), and Purchased Gas Adjustment (PGA) proceedings.

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

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

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

13. 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.

14. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to use best efforts to prepare and submit the Stipulation and supporting materials to the Commission in time to permit the Commission to put rates into effect by March 15, 2011. The Parties agree to support this Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the Stipulation at any hearing held, 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.

15. 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.

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

17. 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.

18. 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.

19. 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 31st day of January 2011.

| AVISTA CORPORATION | STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON |
|---|---|
| By: David Meyer by Willy Norwood | By: |
| Date: 1-31-11 | Date: |

| NORTHWEST INDUSTRIAL GAS USERS | CITIZENS' UTILITY BOARD |
|---|---|
| By: | By: |
| Date: | Date: |

17. 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.

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

DATED this 31st day of January 2011.

| | |
|---|---|
| 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 | By: ______________ |
| Date: 1/31/2011 | Date: ______________ |

17. 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.

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

DATED this 31 day of January 2011.

AVISTA CORPORATION

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: 1/31/11

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

17. 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.

18. 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.

19. 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 31st day of January 2011.

AVISTA CORPORATION

By: ______________________

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________

Date: ______________________

CITIZENS' UTILITY BOARD

By: [signature]

Date: 1-31-11

# Avista Utilities UG 201

## Oregon Allocated Results of Operations

Test Year Ending December 31, 2011
(000s of Dollars)

| | | SUMMARY SHEET | 2011 Results Per Company Filing (1) | Adjustments (2) | 2011 Adjusted (3) | Required Change for Reasonable Return (4) | Results at Reasonable Return (5) |
|---|---|---|---|---|---|---|---|
| 1 | | **Operating Revenues** | | | | | |
| 2 | | General Business | $96,908 | $0 | $96,908 | $2,975 | $99,883 |
| 3 | | Transportation | $2,523 | $0 | 2,523 | 0 | $2,523 |
| 4 | | Other Revenues | $152 | $0 | 152 | 0 | $152 |
| 5 | | **Total Operating Revenues** | **$99,583** | **$0** | **$99,583** | **$2,975** | **$102,558** |
| 6 | | **Operating Expenses** | | | | | |
| 7 | | Gas Purchased | $58,157 | $0 | $58,157 | $0 | $58,157 |
| 8 | | General Operations & Maintenance | $12,445 | ($103) | 12,342 | 16 | $12,358 |
| 9 | | Administrative and General | $7,172 | ($405) | 6,767 | 10 | $6,777 |
| 10 | | **Total Operation & Maintenance** | **$77,774** | **($508)** | **$77,266** | **$26** | **$77,292** |
| 11 | | Depreciation & Amortization | $5,459 | ($57) | 5,402 | 0 | $5,402 |
| 12 | | Taxes Other than Income | $4,421 | ($133) | 4,288 | 62 | $4,350 |
| 13 | | Income Taxes | $2,897 | $488 | 3,385 | 1,153 | $4,538 |
| 14 | | Miscellaneous Revenue and Expense | | $0 | 0 | 0 | $0 |
| 15 | | **Total Operating Expenses** | $90,551 | ($210) | $90,341 | $1,241 | $91,582 |
| 16 | | **Net Operating Revenues** | **$9,032** | **$210** | **$9,242** | **$1,734** | **$10,976** |
| 17 | | **Average Rate Base** | | | | | |
| 18 | | Utility Plant in Service | $263,791 | ($1,642) | $262,149 | $0 | $262,149 |
| 19 | Less: | Accumulated Depreciation & Amortization | ($96,875) | $1 | (96,874) | 0 | (96,874) |
| 20 | | Accumulated Deferred Income Taxes | ($29,205) | ($2,095) | (31,300) | 0 | (31,300) |
| 21 | | Accumulated Deferred Inv. Tax Credit | $0 | $0 | 0 | 0 | 0 |
| 22 | | **Net Utility Plant** | **$137,711** | **($3,736)** | **$133,975** | **$0** | **$133,975** |
| 23 | | Plant Held for Future Use | $0 | $0 | $0 | $0 | $0 |
| 24 | | Acquisition Adjustments | $0 | $0 | 0 | 0 | 0 |
| 25 | | Working Capital | $7,486 | ($7,486) | 0 | 0 | 0 |
| 26 | | Fuel Stock | $0 | $0 | 0 | 0 | 0 |
| 27 | | Materials & Supplies | $3,224 | $0 | 3,224 | 0 | 3,224 |
| 28 | | Customer Advances for Construction | $0 | $0 | 0 | 0 | 0 |
| 29 | | Weatherization Loans | $0 | $0 | 0 | 0 | 0 |
| 30 | | Prepayments | $0 | $0 | 0 | 0 | 0 |
| 31 | | Misc. Deferred Debits | $0 | $0 | 0 | 0 | 0 |
| 32 | | Misc. Rate Base Additions/(Deductions) | $0 | $0 | 0 | 0 | 0 |
| 33 | | **Total Average Rate Base** | **$148,421** | **($11,222)** | **$137,199** | **$0** | **$137,199** |
| 34 | | **Rate of Return** | 6.09% | | 6.74% | | **8.000%** |
| 35 | | **Implied Return on Equity** | 5.89% | | 7.57% | | 10.10% |

ORDER NO. 14 080

APPENDIX A
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# Avista Utilities UG 201

## Oregon Allocated Results of Operations - Income Tax Calculation

**Test Year Ending December 31, 2011**

**(000s of Dollars)**

| | Income Tax Calculations | 2011 Per Company Filing (1) | Adjustments (2) | 2011 Adjusted (3) | Required Change for Reasonable Return (4) | Results at Reasonable Return (5) |
|---|---|---|---|---|---|---|
| 1 | Book Revenues | $99,583 | - | 99,583 | 2,975 | 102,558 |
| 2 | Book Expenses Other than Depreciation | 82,195 | (641) | 81,554 | 88 | 81,642 |
| 3 | State Tax Depreciation | 5,459 | (57) | 5,402 | - | 5,402 |
| 4 | Interest | 4,571 | (524) | 4,047 | - | 4,047 |
| 5 Less: | Schedule M Differences | 211 | - | 211 | - | 211 |
| 6 | State Taxable Income | 7,147 | 1,222 | 8,369 | 2,887 | 11,256 |
| 7 | Add OR Depletion Adjustment | - | - | - | - | - |
| 8 | Total State Taxable Income | $ 7,147 | | | $ 2,887 | |
| 9 | State Income Tax @ 7.6% | 543 | 93 | 636 | 219 | 855 |
| 10 | State Tax Credits | (177) | - | (177) | - | (177) |
| 11 | Net State Income Tax | $ 366 | $ 93 | $ 459 | $ 219 | $ 678 |
| 12 | Additional Tax Depreciation | - | - | - | - | - |
| 13 Plus: | Other Schedule M Differences | 7,237 | - | 7,237 | - | 7,237 |
| 14 | Federal Taxable Income | $ (456) | $ 1,129 | $ 673 | $ 2,668 | $ 3,341 |
| 15 | Federal Tax @ 35% | (160) | 395 | 235 | 934 | 1,169 |
| 16 | Federal Tax Credits | - | - | - | - | - |
| 17 | Current Federal Tax | $ (160) | $ 395 | $ 235 | $ 934 | $ 1,169 |
| 18 | ITC Adjustment | | | | | |
| 19 | Deferral | - | - | - | - | - |
| 20 Less: | Amortization | - | - | - | - | - |
| 21 | Total ITC Adjustment | $ - | $ - | $ - | $ - | $ - |
| 22 | Provision for Deferred Taxes | $ 2,691 | $ - | $ 2,691 | $ - | $ 2,691 |
| 23 | Total Income Tax | $ 2,897 | $ 488 | $ 3,385 | $ 1,153 | $ 4,538 |

ORDER NO. 11 080

APPENDIX A
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# Avista Utilities UG 201
## Oregon Allocated Results of Operations
## Settlement Adjustments Detail
### Test Year Ending December 31, 2011

| | Staff Adjustments | Rate of Return Adj. a | 2011 Major Plant Additions b | Wages & Salaries c | PF Wages & Salaries Adj. d | Forecast Expense Adj. e | Working Capital Adj. f | Admin & General Adj. g | FIT & SIT Adj. h | Customer Deposits Adj. i | Bonus Deprec. Adj. j | Misc. Expenses Adj. k | Total Adjustments (Base Rates) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | **Operating Revenues** | | | | | | | | | | | | |
| 2 | General Business | - | - | - | - | - | - | - | - | - | - | - | - |
| 3 | Transportation | - | - | - | - | - | - | - | - | - | - | - | - |
| 4 | Other Revenues | - | - | - | - | - | - | - | - | - | - | - | - |
| 5 | **Total Operating Revenues** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| 6 | **Operating Expenses** | | | | | | | | | | | | |
| 7 | Gas Purchased | - | - | - | - | - | - | - | - | - | - | - | - |
| 8 | General Operations & Maintenance | - | - | $33 | ($111) | ($36) | - | - | - | $13 | - | ($2) | (103) |
| 9 | Administrative and General | - | - | $0 | ($7) | - | - | (398) | - | - | - | - | (405) |
| 10 | **Total Operation & Maintenance** | $ - | $ - | $ 33 | $ (118) | $ (36) | $ - | $ (398) | $ - | $ 13 | $ - | $ (2) | $ (508) |
| 11 | Depreciation | - | ($56) | - | ($1) | - | - | - | - | - | - | - | (57) |
| 12 | Amortization | - | - | - | - | - | - | - | - | - | - | - | - |
| 13 | Taxes Other than Income | - | ($21) | - | - | - | - | (112) | - | - | - | - | (133) |
| 14 | Income Taxes | - | 39 | (14) | 48 | 15 | 88 | 204 | 77 | 5 | 25 | 1 | 488 |
| 15 | Miscellaneous Revenue and Expense | - | - | - | - | - | - | - | - | - | - | - | - |
| 16 | **Total Operating Expenses** | $ - | $ (38) | $ 19 | $ (71) | $ (21) | $ 88 | $ (306) | $ 77 | $ 18 | $ 25 | $ (1) | $ (210) |
| 17 | **Net Operating Revenues** | $ - | $ 38 | $ (19) | $ 71 | $ 21 | $ (88) | $ 306 | $ (77) | $ (18) | $ (25) | $ 1 | $ 210 |
| 18 | **Average Rate Base** | | | | | | | | | | | | |
| 19 | Utility Plant in Service | - | ($708) | $19 | ($65) | - | - | - | - | ($888) | - | - | (1,642) |
| 20 | Accumulated Depreciation & Amortization | - | $1 | - | - | - | - | - | - | - | - | - | 1 |
| 21 | Accumulated Deferred Income Taxes | - | $5 | - | - | - | - | - | - | - | ($2,100) | - | (2,095) |
| 22 | Accumulated Deferred Inc. Tax Credit | - | - | - | - | - | - | - | - | - | - | - | - |
| 23 | **Net Utility Plant** | $ - | $ (702) | $ 19 | $ (65) | $ - | $ - | $ - | $ - | $ (888) | $ (2,100) | $ - | $ (3,736) |
| 24 | Plant Held for Future Use | - | - | - | - | - | - | - | - | - | - | - | - |
| 25 | Acquisition Adjustments | - | - | - | - | - | - | - | - | - | - | - | - |
| 26 | Working Capital | - | - | - | - | - | ($7,486) | - | - | - | - | - | (7,486) |
| 27 | Fuel Stock | - | - | - | - | - | - | - | - | - | - | - | - |
| 28 | Materials & Supplies | - | - | - | - | - | - | - | - | - | - | - | - |
| 29 | Customer Advances for Construction | - | - | - | - | - | - | - | - | - | - | - | - |
| 30 | Weatherization Loans | - | - | - | - | - | - | - | - | - | - | - | - |
| 31 | Prepayments | - | - | - | - | - | - | - | - | - | - | - | - |
| 32 | Misc. Deferred Debits | - | - | - | - | - | - | - | - | - | - | - | - |
| 33 | Misc. Rate Base Additions/(Deductions) | - | - | - | - | - | - | - | - | - | - | - | - |
| 34 | **Total Average Rate Base** | $ - | $ (702) | $ 19 | $ (65) | $ - | $ (7,486) | $ - | $ - | $ (888) | $ (2,100) | $ - | $ (11,222) |
| 35 | **Revenue Requirement Effect** | $ (1,554) | $ (161) | $ 36 | $ (131) | $ (36) | $ (877) | $ (525) | $ 132 | $ (91) | $ (245) | $ (2) | $ (3,454) |

ORDER NO.

APPENDIX A
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# Avista Utilities UG 201

### Oregon Allocated Results of Operations
### Income Tax Calculations Related To Settlement Adjustments
### Test Year Ending December 31, 2011
**(000s of Dollars)**

| | Income Tax Calculations | Rate of Return Adj. a | 2011 Major Plant Additions b | Wages & Salaries c | PF Wages & Salaries Adj. d | Forecast Expense Adj. e | Working Capital Adj. f | Admin & General Adj. g | FIT & SIT Adj. h | Customer Deposits Adj. i | Bonus Deprec. Adj. j | Misc. Expenses Adj. k | Total Adjustments (Base Rates) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Book Revenues | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 2 | Book Expenses Other than Depreciation | - | (21) | 33 | (118) | (36) | - | (510) | - | 13 | - | (2) | $ (641) |
| 3 | State Tax Depreciation | - | (56) | - | (1) | - | - | - | - | - | - | - | $ (57) |
| 4 | Interest | - | (21) | 1 | (2) | - | (221) | - | (193) | (26) | (62) | - | $ (524) |
| 5 | Schedule M Differences | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 6 | State Taxable Income | - | 98 | (34) | 121 | 36 | 221 | 510 | 193 | 13 | 62 | 2 | $ 1,222 |
| 7 | Add OR Depletion Adjustment-Net | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 8 | Total State Taxable Income | $ - | $ 98 | $ (34) | $ 121 | $ 36 | $ 221 | $ 510 | $ 193 | 13 | 62 | 2 | $ 1,222 |
| 9 | State Income Tax | - | 7 | (3) | 9 | 3 | 17 | 39 | 15 | 1 | 5 | - | $ 93 |
| 10 | State Tax Credits | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 11 | Net State Income Tax | $ - | $ 7 | $ (3) | $ 9 | $ 3 | $ 17 | $ 39 | $ 15 | 1 | 5 | - | $ 93 |
| 12 | Additional Tax Depreciation | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 13 | Other Schedule M Differences | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 14 | Federal Taxable Income | $ - | $ 91 | $ (31) | $ 112 | $ 33 | $ 204 | $ 471 | $ 178 | 12 | 57 | 2 | $ 1,129 |
| 15 | Federal Tax @ 35% | - | 32 | (11) | 39 | 12 | 71 | 165 | 62 | 4 | 20 | 1 | $ 395 |
| 16 | Federal Tax Credits | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 17 | Current Federal Tax | $ - | $ 32 | $ (11) | $ 39 | $ 12 | $ 71 | $ 165 | $ 62 | 4 | 20 | 1 | $ 395 |
| 18 | **ITC Adjustment** | | | | | | | | | | | | $ - |
| 19 | Deferral | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 20 | Restoration | - | - | - | - | - | - | - | - | - | - | - | $ - |
| 21 | Total ITC Adjustment | - | - | - | - | - | - | - | - | - | - | - | $ - |
| | | | | | | | | | | | | | $ - |
| 22 | Provision for Deferred Taxes | - | - | - | - | - | - | - | - | - | - | - | $ - |
| | | | | | | | | | | | | | $ - |
| 23 | Total Income Tax | $ - | $ 39 | $ (14) | $ 48 | $ 15 | $ 88 | $ 204 | $ 77 | $ 5 | $ 25 | $ 1 | $ 488 |

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# Avista Utilities UG 201
## Oregon Allocated Results of Operations
## Revenue Sensitive Costs and Cost of Capital
### Test Year Ending December 31, 2011

| REVENUE SENSITIVE COSTS | |
|---|---|
| Revenues | 1.00000 |
| | |
| Operating Revenue Deductions | |
| O&M -Uncollectible Accounts | 0.00542 |
| Taxes Other - Franchise | 0.02086 |
| A&G - Commission fees | 0.00250 |
| A&G - Resource supplier | 0.00078 |
| State Taxable Income | 0.970445 |
| | |
| State Income Tax | 0.073754 |
| | |
| Federal Taxable Income | 0.896691 |
| | |
| Federal Income Tax @ 35% | 0.313842 |
| ITC | |
| Current FIT | 0.313842 |
| | |
| Other | |
| | |
| Total Excise Taxes | 0.387596 |
| | |
| Total Revenue Sensitive Costs | 0.417151 |
| | |
| Utility Operating Income | 0.582849 |
| | |
| Net-to-Gross Factor | **1.71571** |

| COST OF CAPITAL - SETTLED | | | |
|---|---|---|---|
| Component | % of total | Cost | Weighted Average |
| Long Term Debt | 50.00% | 5.90% | 2.950% |
| Common Stock Equity | 50.00% | 10.10% | 5.050% |
| | 100.00% | | 8.000% |

| COST OF CAPITAL - AS FILED | | | |
|---|---|---|---|
| Component | % of total | Cost | Weighted Average |
| Long Term Debt | 49.24% | 6.26% | 3.08% |
| Common Stock Equity | 50.76% | 10.90% | 5.53% |
| | 100.00% | | 8.61% |

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**Avista Utilities**
**2011 Roseburg Reinforcement and IMP Pipe Replacement Projects**
**Revenue Requirement Deferral Example**
**(Amounts to be Updated to Reflect Actual Additions)**

| Line No. | | Revenue Requirement |
|---|---|---|
| 1 | Depreciation Expense | $ 56,432 |
| 2 | Property Tax @ 1.5% of Gross Plant | 64,500 |
| 3 | Total Expenses | 120,932 |
| 4 | Net Operating Income Before FIT | (120,932) |
| 5 | FIT Benefit of Depreciation and Property Tax | 42,326 |
| 6 | FIT Benefit of Interest Expense | 42,795 |
| 7 | Net Operating Income Requirement | $ (35,811) |
| | | |
| 8 | Net Plant | $ 4,300,000 |
| 9 | Accumulated Depreciation (average of 11/01/11 and 10/31/12) | 28,216 |
| 10 | Accumulated DFIT (average of 11/01/11 and 10/31/12) | (126,987) |
| 11 | Net Rate Base | 4,144,797 |
| 12 | Settlement Rate of Return | 8.000% |
| 13 | Return on Rate Base | $ 331,584 |
| | | |
| 14 | Net Operating Income Requirement including Return | $ 367,395 |
| 15 | Net-to-Gross Factor | 1.71571 |
| 16 | Revenue Requirement for 11/01/11 - 10/31/12 | $ 630,343 |

| | Month | Therms 11/01/11 - 10/31/12 | Monthly Percent | Revenue Requirement By Month | Deferred Revenue Requirement | Carrying Cost @ 8.000% | Deferral Balance |
|---|---|---|---|---|---|---|---|
| 17 | Nov-11 | 11,842,872 | 10.871% | $68,525 | $68,525 | $228 | $68,753 |
| 18 | Dec-11 | 15,677,751 | 14.391% | 90,713 | 90,713 | 761 | $160,227 |
| 19 | Jan-12 | 15,451,885 | 14.184% | 89,408 | 89,408 | 1,366 | $251,001 |
| 20 | Feb-12 | 12,423,849 | 11.404% | 71,884 | 71,884 | 1,913 | $324,798 |
| 21 | Mar-12 | 11,286,408 | 10.360% | 65,304 | 65,304 | 2,383 | $392,485 |
| 22 | Apr-12 | 8,814,618 | 8.091% | 51,001 | 51,001 | 2,787 | $446,273 |
| 23 | May-12 | 6,503,392 | 5.970% | 37,631 | 37,631 | 3,101 | $487,005 |
| 24 | Jun-12 | 4,983,382 | 4.574% | 28,832 | | | |
| 25 | Jul-12 | 4,497,807 | 4.129% | 26,027 | | | |
| 26 | Aug-12 | 4,491,707 | 4.123% | 25,989 | | | |
| 27 | Sep-12 | 5,017,917 | 4.606% | 29,034 | | | |
| 28 | Oct-12 | 7,950,908 | 7.297% | 45,995 | | | |
| 29 | Total | 108,942,496 | 100.000% | $630,343 | $474,466 | $12,539 | $487,005 |

**Avista Utilities**
**Docket No. UG 201**
**Oregon - Natural Gas**
**Settlement Rate Spread**

| Line No. | Rate Change | OREGON TOTAL | Residential Rate Change SCH 410 | General Service SCH 420 | Large General Service SCH 424 | Interruptible Service SCH 440 | Seasonal Service SCH 444 | Special Contract Service SCH 447 | Transportation Service SCH 456 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | CURRENT REVENUE | $ 99,430,000 | $ 62,736,000 | 28,233,000 | 3,186,000 | 2,623,000 | 129,000 | 257,000 | 2,266,000 |
| 2 | COST OF GAS | $ 61,718,000 | $ 37,319,000 | 19,437,000 | 2,672,000 | 2,175,000 | 110,000 | - | 5,000 |
| 3 | CURRENT MARGIN | $ 37,712,000 | $ 25,417,000 | $ 8,796,000 | $ 514,000 | $ 448,000 | $ 19,000 | $ 257,000 | $ 2,261,000 |
| 4 | % of Current Margin excl Sch 447 | 100.00% | 67.86% | 23.48% | 1.37% | 1.20% | 0.05% | | 6.04% |
| 5 | Total Revenue Requirement | $ 2,975,000 | | | | | | | |
| 6 | Revenue Requirement as a Percent of Margin Revenue | 7.89% | | | | | | | |
| 7 | Percentage Applied to Overall Margin Increase | | 100.19% | 130.23% | 45.00% | 42.00% | 175.00% | | 15.00% |
| 8 | Increase as a Percent of Total Current Margin | | 7.90% | 10.27% | 3.55% | 3.31% | 13.81% | | 1.18% |
| 9 | **TOTAL MARGIN REVENUE INCREASE** | **$ 2,975,000** | **$ 2,008,895** | **$ 903,637** | **$ 18,247** | **$ 14,843** | **$ 2,623** | | **$ 26,755** |
| 10 | **Percentage Revenue Increase** | **2.99%** | **3.20%** | **3.20%** | **0.57%** | **0.57%** | **2.03%** | | **1.18%** |
| 11 | Margin Revenue Increase (Effective March 15, 2011) | $ 2,004,000 | $ 1,353,219 | $ 608,702 | $ 12,291 | $ 9,999 | $ 1,767 | | $ 18,022 |
| 12 | Percentage Revenue Increase | **2.01%** | **2.16%** | **2.16%** | **0.38%** | **0.38%** | **1.37%** | | **0.80%** |
| 13 | Margin Revenue Increase (Effective June 1, 2011) | $ 971,000 | $ 655,676 | $ 294,935 | $ 5,955 | $ 4,845 | $ 856 | | $ 8,732 |
| 14 | Percentage Revenue Increase | **0.98%** | **1.04%** | **1.04%** | **0.19%** | **0.19%** | **0.66%** | | **0.38%** |

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**Avista Utilities**
**Docket No. UG 201**
**Oregon - Natural Gas**
**Settlement Rates by Schedule**

| Present Base Rates | Rate Change (March 15, 2011) | Base Rates - March 15, 2011 | Rate Change (June 1, 2011) | Base Rates - June 1, 2011 | Total Rate Change |
|---|---|---|---|---|---|
| **Residential Service Schedule 410** | | | | | |
| $6.50 Customer Charge | $0.50/month | $7.00 Customer Charge | | $7.00 Customer Charge | $0.50/month |
| All Therms - $1.16804/Therm | $0.01757/therm | All Therms - $1.18561/Therm | $0.01364/therm | All Therms - $1.19925/Therm | $0.03121/therm |
| **General Service Schedule 420** | | | | | |
| $8.50 Customer Charge | $0.50/month | $9.00 Customer Charge | | $9.00 Customer Charge | $0.50/month |
| All Therms - $1.07584/Therm | $0.02152/therm | All Therms - $1.09736/Therm | $0.01170/therm | All Therms - $1.10906/Therm | $0.03322/therm |
| **Large General Service Schedule 424** | | | | | |
| $48.00 Customer Charge | $2.00/month | $50.00 Customer Charge | | $50.00 Customer Charge | $2.00/month |
| All Therms - $0.90868/Therm | $0.00308/therm | All Therms - $0.91176/Therm | $0.00172/therm | All Therms - $0.91348/Therm | $0.00480/therm |
| **Interruptible Service Schedule 440** | | | | | |
| All Therms - $0.59070/Therm | $0.00225/therm | All Therms - $0.59295/Therm | $0.00108/therm | All Therms - $0.59403/Therm | $0.00333/therm |
| **Seasonal Service Schedule 444** | | | | | |
| All Therms - $0.90877/Therm | $0.01244/therm | All Therms - $0.92121/Therm | $0.00603/therm | All Therms - 0.92724/Therm | 0.01847/therm |
| **Transportation Service Schedule 456** | | | | | |
| $250.00 Customer Charge | $25.00/month | $275.00 Customer Charge | | $275.00 Customer Charge | $25.00/month |
| 1st 10,000 Therms - $0.15487/Therm | $0.00053/therm | 1st 10,000 Therms - $0.15540/Therm | $0.00064/therm | 1st 10,000 Therms - $0.15604/Therm | $0.00117/therm |
| Next 20,000 Therms - $0.09321/Therm | $0.00031/therm | Next 20,000 Therms - $0.09352/Therm | $0.00039/therm | Next 20,000 Therms - $0.09391/Therm | $0.00070/therm |
| Next 20,000 Therms - $0.07662/Therm | $0.00026/therm | Next 20,000 Therms - $0.07688/Therm | $0.00032/therm | Next 20,000 Therms - $0.07720/Therm | $0.00058/therm |
| Next 200,000 Therms - $0.05997/Therm | $0.00020/therm | Next 200,000 Therms - $0.06017/Therm | $0.00025/therm | Next 200,000 Therms - $0.06042/Therm | $0.00045/therm |
| Over 250,000 Therms - $0.03042/Therm | $0.00010/therm | Over 250,000 Therms - $0.03052/Therm | $0.00013/therm | Over 250,000 Therms - $0.03065/Therm | $0.00023/therm |

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