ORDER NO. 14 015

ENTERED JAN 21 2014

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 246

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

DISPOSITION: STIPULATION ADOPTED

I. INTRODUCTION

On August 15, 2013, Avista Corporation, dba Avista Utilities (Avista) filed Advice No. 13-03-G to effect a general rate increase for Oregon retail customers of $9,481,000 (9.5 percent of its annual revenues). We suspended Avista's filing on August 22, 2013.

A prehearing conference was held on September 18, 2013. Parties appearing at the prehearing conference were Avista, the Staff of the Oregon Public Utility Commission (Staff), the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU). CUB and NWIGU both intervened and became parties to the docket.

On December 17, 2013, the parties filed a stipulation "resolving all issues in this Docket." Parties to the stipulation are Avista, Staff, CUB, and NWIGU. The stipulation is attached as Appendix A.

In their stipulation the parties support reducing Avista's requested revenue requirement to reflect various adjustments. According to the parties, the adjustments amount to a reduction in Avista's increase from $9.481 million to $5.645 million, to be implemented in two phases: $4.295 million of the increase to be implemented on February 1, 2014[1], and $1.350 million to be implemented on November 1, 2014.[2]

[1] The net increase on February 1, 2014, is $3.832 million, as explained below.

[2] The final revenue requirement related to the November 1, 2014 rate change is dependent on the actual costs related to Avista's Project Compass customer information system through September 30, 2014 and the Aldyl A Pipe Replacement Program through June 30, 2014 so the amount of the actual rate change may vary from the specified amount.

The parties filed their stipulation before Staff and Intervenors had filed opening testimony. However, it appears from the face of their stipulation that on November 13, 2013, Staff served on all parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was intended for settlement purposes and is not in the record in this proceeding.

II. AVISTA'S APPLICATION

As stated in the testimony of Scott L. Morris, Avista's President and Chief Executive Officer, over 92 percent of the company's rate increase request (or about $8.75 million) is related to increases in total rate base, including changes in net plant investment (including return on investment, depreciation and taxes, offset by the tax benefit of interest), reflecting an increase of about $36.9 million in net rate base for Avista's Oregon jurisdiction. The remaining 8 percent (or about $730,000) of the company's rate increase request is related to a three-year net increase in Operating and Maintenance (O&M) and Administrative and General (A&G) expenditures since Avista's last rate case[3]

Avista's request is based on a proposed rate of return of 7.83 percent, with a capital structure common equity component of 50 percent, and a 10.1 percent return on equity. For its initial filing, the company used a forecasted test period of the calendar year 2014 and used a log-run incremental cost study as a "starting point" for its proposed rate spread.[4]

As proposed by Avista, based on an average usage of 48 therms per month, the average residential bill would increase $6.17 per month, or about 10.6 percent, from $58.00 to $64.17.[5]

III. THE STIPULATION

On December 17, 2013, the parties filed a motion to have their stipulation received as evidence. Their motion is granted.

A. Revenue Requirement

The stipulating parties agree to adjustments to Avista's requested revenue requirement that reduce the company's requested increase from $9.481 million to $5.645 million. The amount of each adjustment is shown in the following Table 1 Summary of Adjustments to Revenue Requirement and Rate Base .[6]

TABLE 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)		
	Revenue Requirement	Rate Base
Amount as filed:	**$9,481**	**$176,201**
Adjustments:		

[3] Avista/100, Morris at 8.
[4] *Id.* at 3.
[5] *Id.* at 3
[6] Stipulation at 3.

a	**Rate of Return**	($1,088)	-
	Adjusts return on equity to 9.65%, long-term debt cost to 5.457%, with a common stock equity component of 48%, and overall Cost of Capital of 7.47%.		
b	**Revenue Sensitive - uncollectible rate and state tax rate**	($605)	-
	Revises State Income Tax (SIT) to the apportionment tax method rather than Oregon SIT on a stand-alone basis. These changes impact the Conversion Factor and adjustment "i" below.		
c	**Uncollectibles**	($96)	-
	Revises uncollectible expense to a 3-year historical average.		
d	**Wage & Salary**	($111)	(70)
	Revises 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.		
e	**Memberships**	$15	-
	Revises membership expense for correction of an error included in Company's filing as provided by Avista response to Staff Data Request 236.		
f	**Incentive Compensation**	($169)	-
	Includes reduction to incentive to correct for an error as provided in Avista's response to Staff Data Request 148 and adjusts incentives to agreed-upon level.		
g	**VSIP Amortization & Deferred Pension Asset**	($571)	(3,714)
	Removes rate base treatment of Utility Prepaid Pension Asset from this Docket and removes the proposed Voluntary Severance Incentive Program (VSIP) cost amortization.		
h	**Plant Additions**	($1,751)	(8,383)
	Removes pro forma 2014 capital additions. The Parties agree to include Project Compass costs (actual spend through September 30, 2014), and Aldyl A Pipe Replacement Program costs (actual spend through June 30, 2014) in Second Step increase effective November 1, 2014. (See further explanation below.)		
i	**Tax calculation - Interest expense, State tax rate & Federal tax rate**	$85	-
	Revises for various SIT and debt interest corrections, relates to adjustment "b" above.		
j	**Working Capital**	($481)	(4,679)
	Removes the working capital rate base adjustment as proposed by Avista, and includes in rate base materials and supplies.		
k	**Expense Escalation**	($119)	-
	Reduces forecasted expenses based on a lower inflation factor for 2013 and 2014 expenses.		
l	**Various A&G Expenses**	($333)	-
	Revises the Company's expected administrative and general expenses related to D&O insurance, meals and includes Avista's reduction to pension and medical costs as provided in response to Staff Data Request 263.		
m	**Property Taxes**	($66)	-
	Removes the proposed property tax escalation.		
n	**Other Gas Supply Expense**	($5)	-
	Includes correction to natural gas supply expense.		
o	**Nonutility Expenses**	($100)	-
	Includes reduction for nonutility related expenses.		
p	**Other Revenues**	($2)	-
	Includes correction to other revenues.		
q	**Interest Synchronization**	$211	-
	Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.		
	Total Adjustments:	**($5,186)**	**(16,846)**
Adjusted Revenue Requirement Base Rates & Rate Base - Effective Feb. 1, 2014:		**$4,295**	**$159,355**
	Second Step Increase (November 1, 2014):		
	Project Compass (Customer Information System)	**$1,100**	**$6,520**
	Aldyl A Pipe Replacement Program	**$250**	**$2,040**
	Subtotal	**$1,350**	
Combined Effect of Change in Base Rates on Feb. 1, 2014 and Nov. 1, 2014:		**$5,645**	**$167,915**

1. *Rate of Return*

The amount of the downward adjustment is about $1.1 million. The adjustment reflects an overall cost of capital of 7.47 percent, based on a capital structure of 48 percent common stock equity and 52 percent long-term debt, with a return on equity of 9.65 percent and a long-term debt cost of 5.457 percent.

2. *Revenue Sensitive – Uncollectible Rate and State Tax Rate*

The stipulating parties agree to a downward adjustment of $605,000 for revenue sensitivity. This adjustment revises State Income Tax (SIT) to the apportionment tax method rather than Oregon SIT on a stand-alone basis. The adjustment also revises the uncollectible rate to 0.4895 percent, calculated on a 3-year historical average.[7]

3. *Uncollectibles*

The amount of this downward adjustment is about $100,000. The adjustment revises uncollectible expense, based on a 3-year historical average.

4. *Wage and Salary*

The amount of this downward adjustment is about $110,000. This adjustment revises wages and salaries related to the reduction to rate base.

5. *Membership*

The amount of this upward adjustment is $15,000. This adjustment revises membership expense for correction of an error included in the company's initial filing.

6. *Incentive Compensation*

The amount of this downward adjustment is about $170,000. This adjustment includes a reduction to incentives to correct for an error and adjusts incentives to an agreed-upon level.

7. *VSIP Amortization & Deferred Pension Asset*

The amount of this downward adjustment is about $570,000. This adjustment removes the rate base treatment of the company's prepaid pension asset from this docket and removes the proposed Voluntary Severance Incentive Program (VSIP) cost amortization.

8. *Plant Additions*

The amount of this downward adjustment is about $1.75 million. As discussed below, however, the parties agree to include specific Project Compass costs and Aldyl A Pipe

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[7] These changes impact the Conversion Factor used in the Tax Calculation adjustment described below.

Replacement Program costs in the second step increase effective November 1, 2014, subject to specified conditions.

9. Tax Calculation – Interest Expense, State & Federal Tax Rates

The amount of this upward adjustment is $85,000. This adjustment includes various SIT and debt interest corrections, and also relates to the "Revenue Sensitive – uncollectible rate and state tax rate" adjustment above.

10. Working Capital

The amount of this downward adjustment is about $480,000. This adjustment removes the company's proposed working capital adjustment and includes in rate base its inventory of material and supplies.

11. Expense Escalation

The amount of this downward adjustment is about $120,000. This adjustment reduces non-labor expenses based on a lower forecasted inflation factor for calendar years 2013 and 2014.

12. Various A&G Expenses

The amount of this downward adjustment is about $330,000. This adjustment reduces the company's A&G expenses related to pensions, excess layers of Director's and Officer's expenses, and meal costs.

13. Property Taxes

The amount of this downward adjustment is about $70,000. This adjustment removes the company's proposed property tax escalation.

14. Other Gas Supply Expense

The amount of this downward adjustment is $5,000. This adjustment reflects a correction to natural gas supply expense.

15. Non-Utility Expenses

This amount of this downward adjustment is $100,000. This adjust reflects a reduction of non-utility related expenses related to issues with cost allocations.

16. Other Revenues

The amount of this downward adjustment is $2,000. This adjustment includes a correction to other revenues.

17. Interest Synchronization

The amount of this upward adjustment is about $210,000. This adjustment includes the flow through of the federal and state tax impacts on rate base adjustments due to the change in the stipulated cost of debt.

B. Rate Changes Proposed to be Effective November 1, 2014

In addition to proposing that new rates become effective on February 1, 2014, the stipulating parties further propose new rates to become effective November 1, 2014, to account for the inclusion in rate base of capital additions associated with Project Compass and Aldyl Pipe Replacement Program.

Project Compass replaces Avista's Legacy Customer Information System. The project is planned to go into service in the third quarter of 2014. The parties have agreed to adjust base rates on November 1, 2014, to reflect the Oregon rate-based capital additions associated with this project through September 30, 2014, presently estimated at $6,250,000. The additional revenue requirement associated with this project is $1,100,000.

Avista is systematically replacing select portions of DuPont Aldyl A medium density polyethylene pipe in its natural gas distribution system in Oregon, Idaho, and Washington over a 20-year period. The parties agree that the project is prudent and to include in rate base the actual capital additions through June 30, 2014, subject to prudency review of any costs that exceed the current estimate of $2,040,000. The related revenue requirement is $250,000.

The increase in base rates associated with these projects will coincide with the company's November 1, 2014 PGA adjustment filing.

C. Rate Spread

The parties agree that the rate increase would be spread so that residential customers would receive an overall increase no greater than 0.75 percent above the overall billed increase and that General Service Schedule 420 would receive an overall increase no greater than 1.00 percent above the overall increase. Further, the parties agreed that Large General Service Schedule 424 and Transportation Schedule 456 would receive a 3 and 5 percent decrease in margin, respectively, while Interruptible Schedule 440 would receive an overall rate increase of one-half of the overall billed increase. The parties also agreed that Seasonal Schedule 444 would receive an increase of one-quarter of the overall billed increase.

For the February 1, 2014, increase of $4.295 million (or 4.4 percent) the parties propose the following rate spread:

Residential Service Sch. 410	4.88%
General Service Sch. 420	5.03%
Large General Service Sch. 424	-1.33%
Interruptible Service Sch. 440	2.26%
Seasonal Service Sch. 444	1.11%
Transportation Service Sch. 456	-3.79%

For the November 1, 2014, anticipated increase of $1.35 million (or 1.55 percent) the parties propose the following rate spread:

Residential Service Sch. 410	1.70%
General Service Sch. 420	1.78%
Large General Service Sch. 424	-0.16%
Interruptible Service Sch. 440	0.71%
Seasonal Service Sch. 444	0.53%
Transportation Service Sch. 456	-1.19%

D. Rate Design

For the February 1, 2014, rate increase, the parties propose the following rate design changes:

- Increase the monthly customer charge for Residential Schedule 410 from $7.00 to $8.00.
- Increase the monthly customer charge for General Service Schedule 420 from $9.00 to $12.00.
- Make no changes to the monthly customer charge for Large General Service Schedule 424.
- The volumetric rate for Schedule 424 is reduced in the appropriate amount.
- The volumetric rate for Interruptible Service Schedule 440 and Seasonal Service Schedule 444 the volumetric rate is increased by the appropriate amount.
- The volumetric rate for Transportation Service Schedule 456 is reduced in an appropriate amount.

For the November 1, 2014, rate change the parties agree that the revenue changes for each rate schedule will be reflected only in changes to the volumetric rates.

E. Other Issues

1. Allocation Methodology

Under the terms of the stipulation, Avista will, prior to September 30, 2014, conduct one or more workshops to review its methodology for allocating common costs and common plant among its regulated and unregulated operations, electric and gas services, and state jurisdictions. Parties agree not to recommend we adopt any changes to the allocation methodology prior to July 1, 2014. Staff also agrees to meet with the representatives of the Washington and Idaho Commissions to try to achieve a consensus on the appropriate common cost allocation methodology.

2. Depreciation Rates Effective Dates

As directed by our Order No. 13-168, issued in docket UM 1626, Avista implemented new book depreciation rates on common plant effective January 1, 2013. Under the terms of that order, the new depreciation rates on plant directly assigned to Oregon would be implemented at the conclusion of the company's next general rate case – this case. As part of this stipulation the parties agree that the change in depreciation rates on directly assigned plant will be effective July 1, 2014.

3. Klamath Falls Lateral

Avista has been recovering $463,000 annually attributable to its purchase of the Klamath Falls Lateral, effective January 1, 2013. The parties agree that the revenue requirement associated with this purchase is prudent and these revenues will be included in base rates within the February 1, 2014 rate increase. Accordingly, Avista will file Schedule 498, as part of its compliance filing for the February 1, 2014 rate increase, adjusting the current rate of $0.00585 per therm to $0.

4. Schedule 493 – Residential Low Income Rate Assistance Program

In Avista's last general rate case the funding associated with the residential low income rate assistance program (LIRAP) was removed from base rates and is now administered as a stand-alone tariff. In its compliance filing to that prior rate case, however, the company inadvertently failed to remove the Revenue Adjustment Factor for LIRAP from the base rate schedule. The parties agree that the company will file a conforming tariff as part of its compliance filing to properly effectuate the rate change.

5. Long-Run Incremental Cost

The parties agree that in future rate cases Avista will make the following changes to its long-run incremental cost study:

- Allocate Gas Scheduling on a volumetric basis, rather than a customer-count basis

- Use an engineering estimate/cost-study basis for estimating main extension costs for Special Contracts, Schedule 447, rather than use an amount based on an estimated bypass cost.

6. Demand Side Management Verification

Avista agrees to meet and confer with Staff and interested parties to review the company's true-up process associated with energy efficiency savings prior to its next filing to amortize deferred accounts associated with Schedule 478. At the meeting the parties will address Staff's concerns with several indicated issues.

7. Demand Side Management Tariffs

The parties agree that the company should modify tariff Schedules 466 and 478 so that the tariffs cross-reference each other, and to include those modified tariffs as part of its compliance filing for the February 1, 2014 rate increase.

8. Forecasting Methodology

Avista agrees to meet with Staff and interested parties no later than July 1, 2014, to discuss forecasting model specification and methodology.

9. Weather Normalization

Avista agrees to use consistent weather response parameters in its various Oregon regulatory filings unless the company can document and discuss why such use is not appropriate.

10. Advertising and Marketing

Avista agrees to meet with Staff and interested parties no later than July 1, 2014, to resolve the allocation of costs pursuant to OAR 860-026-0022 (Presumptions of Reasonableness of Advertising Expenses in Utility Rate Cases).

IV. TESTIMONY IN SUPPORT OF THE STIPULATION

On December 23, 2013, the parties filed joint testimony in support of the stipulation. Also on December 23, 2013, Staff and CUB each filed separate testimony in support of the stipulation. The testimony is received into evidence.

A. Joint Testimony

The joint testimony is sponsored by a single witness from each party. In their joint testimony the parties summarize the terms of the stipulation and explain the basis for each adjustment. In their view, "when taken as a whole * * * the Stipulation is in the public interest and would result in retail rates that are fair, just and reasonable."[8]

With respect to the rate increase proposed for February 1, 2014, the parties note that they have agreed to a rate increase of $4.295 million. However, because that amount includes the $463,000 in annual revenue associated with the Klamath Falls Lateral, the net increase in overall revenues is $3.832 million.

Regarding rate of return, the parties note that the proposed cost of debt reflects the most recent financings of the company. The proposed return on equity "is a negotiated rate that the Parties support as reasonable, and reflects the give and take on other issues in the case."[9] The combination of capital structure and capital costs produces a return of 7.47 percent, a reduction from the current authorized 8 percent rate of return.

Regarding plant additions, the parties note that in its filing Avista included Oregon capital projects that would become operational and transfer to plant-in-service through June 30, 2014, the associated accumulated depreciation on an end-of-period basis, and the annual level of associated depreciation expense and property taxes. The proposed adjustment removes Avista's pro forma 2014 capital additions. However, the parties agree to include specific Project Compass costs and specific Aldyl A Pipe Replacement Program costs in the proposed November 1, 2014 rate increase.

Included in the joint testimony is a statement on behalf of each party affirming its support of the stipulation. Avista's witness states that "the Settlement Stipulation was a compromise among differing interests and represents give-and-take."[10] The Staff and CUB witnesses each cite their own separate testimony. The NWIGU witness states that NWIGU "supports the Stipulation because it reduces the Company's overall gas revenue requirement and is done in a manner consistent with the results of Avista's and NWIGU's cost of service analysis."[11]

B. Staff Testimony

In addition to its statement of support for the stipulation included in the joint testimony, Staff submitted separate testimony summarizing its findings with respect to their individual areas of responsibility.

Regarding rate of return, Staff witness Matt Muldoon describes his analysis and compares the result with the rate of return previously authorized for Avista and with the return requested by the company in this case. He also compares Staff's analysis in this case to Staff's analysis in docket UG 221, where Northwest Natural Gas Company's cost of capital was litigated and explains the reasons why a "slightly higher" return on equity is reasonable for Avista.[12]

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[8] Stipulating Parties/100 at 16.
[9] *Id.* at 7.
[10] *Id.* at 23.
[11] *Id.* at 22-23.
[12] Staff/102, Gardner and Muldoon at 8.

Staff witness Marianne Gardner summarizes her work and the work of other Commission Staff that resulted in the various other adjustments to revenue requirement, the proposed rate spread and rate design, and identification of the other issues as addressed in the stipulation. She describes the extensive discovery and analysis of each issue and the basis for Staff's support of each provision in the stipulation.

C. CUB Testimony

In addition to its statement of support for the stipulation included in the joint testimony, CUB submitted separate testimony regarding three issues "to which CUB devoted most of its time."[13] These issues are pensions, capital additions, and allocations.
With respect to pensions, CUB notes that the Commission is addressing the ratemaking treatment of pensions in docket UM 1633. CUB appreciates Avista's willingness to remove the pension issues from this case by agreeing that pension matters should be addressed in the generic docket.

Regarding plant additions, CUB notes that several of the additions Avista included in its application are large projects with end dates and costs incurred beyond the start of the test year. In CUB's view, utilities are only allowed to include in rate base assets that are "presently used" to serve customers when rates go into effect. CUB believes the parties addressed this problem in the stipulation by providing for the second rate increase to go into effect after the new plant will be in service.

Regarding cost allocation, CUB is concerned that Avista does not allocate enough of its common costs to its unregulated activities, causing a burden on utility customers. CUB is satisfied with the allocation adjustment in the stipulation and the plan to hold workshops to review Avista's cost allocation methodology.

V. DISCUSSION

In his September 23, 2013, prehearing conference memorandum the administrative law judge indicated that a "serious concern for the Commission is when a settlement might be filed, relative to the filing of testimony. The Commission prefers to have the benefit of responsive testimony when reviewing a settlement." The adopted schedule was designed to facilitate such an outcome.

However, as has been the case with Avista's other recent general rate case applications (dockets UG 186 and UG 201), the parties reached their settlement prior to the filing of responsive testimony. In such circumstances our first consideration is whether all parties support the settlement. All parties support the proposed settlement in this proceeding.

As stated in the stipulation and supporting testimony, the parties had the benefit during their settlement discussion of Staff's report of issues and proposed adjustments to Avista's revenue requirement. Although Staff's report was intended for settlement

[13] CUB/100, Jenks at 2.

purposes and is not part of the record in this proceeding, Staff's separate testimony in support of the stipulation displays Staff's detailed analysis and review of the application and provides a strong foundation for the resulting settlement.

VI. CONCLUSION

After our review of the parties' stipulation and supporting testimony, we conclude that the stipulation is in the public interest and will result in rates that are just and reasonable. The stipulation should be adopted in its entirety.

VII. ORDER

IT IS ORDERED that

1. The stipulation by and between 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.

2. Advice No. 13-03-G is permanently suspended.

3. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this order no later than January 31, 2014, to be effective no earlier than February 1, 2014.

4. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this order no later than October 31, 2014, to be effective no earlier than November 1, 2014.

Made, entered, and effective JAN 21 2014.

Susan K. Ackerman
Chair

John Savage
Commissioner

Stephen M. Bloom
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 246

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision.	)))))	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 ("Avista" or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties"). These Parties represent all who intervened and appeared in this proceeding.

BACKGROUND

1. On August 15, 2013, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $9,481,000, or 9.5 percent of its annual revenues. The filing was suspended by the Commission on August 22, 2013, in Order No. 13-299.

2. On November 13, 2013, 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.

3. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of September 23, 2013, settlement conferences were held on November 21 and 26, 2013. A final telephonic settlement conference was held on December 4, 2013.

4. 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.

AGREEMENT

5. **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 increase request from $9.481 million to $5.645 million to be implemented in two phases: $4.295 million of the agreed-upon increase will be implemented on February 1, 2014, and $1.350 million of the overall increase will be implemented on November 1, 2014[1], coincident with any purchased gas cost adjustment (PGA).

This Stipulation represents the settlement of all revenue requirement issues in the Company's filing. The Parties support the adjustments to Avista's revenue requirement request shown in Table 1 below:

[1] As discussed in Section 6 below, the final revenue requirement related to the November 1, 2014 rate change is dependent upon the actual costs related to the Company's Project Compass customer information system through September 30, 2014 and the Aldyl A Pipe Replacement Program through June 30, 2014, and therefore the estimated $1.35 million rate change effective November 1, 2014 may vary somewhat. This stipulation's finding of prudence only covers the costs presented in the Company's filed General Rate Case and reviewed by the Parties. This includes the estimated rate base addition of $6.520 million for Project Compass and $2.040 million for Aldyl A Pipe Replacement. If the Project Compass and Aldyl A Pipe Replacement actual costs are higher than the estimate provided by the Company in its filed rate case, then the Company's compliance filing for the November 1, 2014, rate change must demonstrate the prudence of any costs that exceed the filed rate case estimates before the costs can be recovered in rates. All Parties will be furnished monthly reports showing actual costs prior to the November 1, 2014 base rate change.

TABLE 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE
($000s of Dollars)

		Revenue Requirement	Rate Base
Amount as filed:		$9,481	$176,201
Adjustments:			
a	**Rate of Return** Adjusts return on equity to 9.65%, long-term debt cost to 5.457%, with a common stock equity component of 48%, and overall Cost of Capital of 7.47%.	($1,088)	-
b	**Revenue Sensitive - uncollectible rate and state tax rate** Revises State Income Tax (SIT) to the apportionment tax method rather than Oregon SIT on a stand-alone basis. These changes impact the Conversion Factor and adjustment "i" below.	($605)	-
c	**Uncollectibles** Revises uncollectible expense to a 3-year historical average.	($96)	-
d	**Wage & Salary** Revises 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.	($111)	(70)
e	**Memberships** Revises membership expense for correction of an error included in Company's filing as provided by Avista response to Staff Data Request 236.	$15	-
f	**Incentive Compensation** Includes reduction to incentive to correct for an error as provided in Avista's response to Staff Data Request 148 and adjusts incentives to agreed-upon level.	($169)	-
g	**VSIP Amortization & Deferred Pension Asset** Removes rate base treatment of Utility Prepaid Pension Asset from this Docket and removes the proposed Voluntary Severance Incentive Program (VSIP) cost amortization.	($571)	(3,714)
h	**Plant Additions** Removes pro forma 2014 capital additions. The Parties agree to include Project Compass costs (actual spend through September 30, 2014), and Aldyl A Pipe Replacement Program costs (actual spend through June 30, 2014) in Second Step increase effective November 1, 2014. (See further explanation below.)	($1,751)	(8,383)
i	**Tax calculation - Interest expense, State tax rate & Federal tax rate** Revises for various SIT and debt interest corrections, relates to adjustment "b" above.	$85	-
j	**Working Capital** Removes the working capital rate base adjustment as proposed by Avista, and includes in rate base materials and supplies.	($481)	(4,679)
k	**Expense Escalation** Reduces forecasted expenses based on a lower inflation factor for 2013 and 2014 expenses.	($119)	-
l	**Various A&G Expenses** Revises the Company's expected administrative and general expenses related to D&O insurance, meals and includes Avista's reduction to pension and medical costs as provided in response to Staff Data Request 263.	($333)	-
m	**Property Taxes** Removes the proposed property tax escalation.	($66)	-
n	**Other Gas Supply Expense** Includes correction to natural gas supply expense.	($5)	-
o	**Nonutility Expenses** Includes reduction for nonutility related expenses.	($100)	-
p	**Other Revenues** Includes correction to other revenues.	($2)	-
q	**Interest Synchronization** Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	$211	-
	Total Adjustments:	($5,186)	(16,846)
Adjusted Revenue Requirement Base Rates & Rate Base - Effective Feb. 1, 2014:		$4,295	$159,355
Second Step Increase (November 1, 2014):			
	Project Compass (Customer Information System)	$1,100	$6,520
	Aldyl A Pipe Replacement Program	$250	$2,040
	Subtotal	$1,350	
Combined Effect of Change in Base Rates on Feb. 1, 2014 and Nov. 1, 2014:		$5,645	$167,915

The following information provides an explanation for each of the adjustments in Table 1 above. Attachment A summarizes the Company's filed rate case and the stipulated adjustments. The numbers in parenthesis represent the agreed-upon increase or decrease in revenue requirement associated with the item.

a. Rate of Return – (-$1,088,000) This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.47% based on the following components: a capital structure consisting of 48% common stock equity and 52% long-term debt, return on equity of 9.65%, and a long-term debt cost of 5.457%. 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	52.0%	5.457%	2.84%
Common Equity	48.0%	9.65%	4.63%
Total	**100.0%**		**7.47%**

b. Revenue Sensitive – uncollectible rate and state tax rate – (-$605,000) This adjustment revises State Income Tax (SIT) to the apportionment tax method rather than Oregon SIT on a stand-alone basis. The adjustment also revises the uncollectible rate to .4895 percent calculated on a 3-year historical average. These changes impact the Conversion Factor and adjustment "i" below.

c. Uncollectibles – (-$96,000) This adjustment revises uncollectible expense to a 3-year historical average.

d. Wage and Salary – (-$111,000) This adjustment revises 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. Memberships – (+$15,000) This adjustment revises membership expense for correction of an error included in the Company's direct filing, as provided by Avista in response to Staff Data Request 236.

f. Incentive Compensation – (-$169,000) This adjustment includes a reduction to incentives to correct for an error as provided in Avista's response to Staff Data Request 148 and adjusts incentives to an agreed-upon level.

g. VSIP Amortization & Deferred Pension Asset – (-$571,000) This adjustment removes the rate base treatment of the Company's prepaid pension asset from this Docket and removes the proposed Voluntary Severance Incentive Program (VSIP) cost amortization.

h. Plant Additions – (-$1,751,000) This adjustment removes the Company's pro forma 2014 capital additions. The Parties, however, agree to include specific Project Compass costs (upon review of actual costs through September 30, 2014), and specific Aldyl A Pipe Replacement Program costs (upon review of actual costs through June 30, 2014) in a Second Step increase effective November 1, 2014 provided that the actual costs do not exceed the filed general rate case amount. If the actual costs exceed the filed requested amount then the Company's compliance filing for the November 1, 2014, rate change must demonstrate the prudence of any costs that exceed the filed rate case estimates before the costs can be recovered in rates.

The final revenue requirement related to the November 1, 2014 rate change is dependent upon the actual costs related to the Company's Project Compass customer information system through September 30, 2014 and the Aldyl A Pipe Replacement Program through June 30, 2014, and therefore the estimated $1.35 million rate change effective November 1, 2014 may vary somewhat. This stipulation's finding of prudence only covers the costs that were provided by the Company in its filed General Rate Case reviewed by the Parties. This includes the estimated rate base addition of $6.520 million for Project Compass and $2.040 million for Aldyl A Pipe Replacement. If the Project Compass and Aldyl A Pipe Replacement actual costs are higher than the estimate provided by the Company in its filed rate case, then the Company's compliance filing for the November 1, 2014, rate change must demonstrate the prudence of any costs that exceed the filed rate case estimates before the costs can be recovered in rates. All Parties will be furnished monthly reports showing actual costs prior to the November 1, 2014 base rate change.

i. <u>Tax calculation - Interest expense, State tax rate & Federal tax rate</u> – (+$85,000) This adjustment includes various SIT and debt interest corrections, and also relates to adjustment "b" above.

j. <u>Working Capital</u> – (-$481,000) This adjustment removes the Company's proposed working capital adjustment, and includes in rate base materials and supplies.

k. <u>Expense Escalation</u> – (-$119,000) This adjustment reduces non-labor expenses based on a lower forecasted inflation factor for calendar years 2013 and 2014.

l. <u>Various Administrative and General (A&G) Expenses</u> – (-$333,000) This adjustment revises the Company's expected A&G expenses related to the layers of Director & Officer (D&O) insurance, meals and includes Avista's updated information which reduces pension and medical costs as provided in response to Staff Data Request 263.

m. <u>Property Taxes</u> – (-$66,000) This adjustment removes the Company's proposed property tax escalation.

n. Other Gas Supply Expense – (-$5,000) This adjustment includes a correction to natural gas supply expense.

o. Nonutility Expenses – (-$100,000) This adjustment includes a reduction for nonutility related expenses related to issues with cost allocations. (See Section 9 below.)

p. Other Revenues – (-$2,000) This adjustment includes a correction to other revenues.

q. Interest Synchronization – (+$211,000) This adjustment includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.

6. **Rate Changes Proposed To Be Effective November 1, 2014:**

A. **Customer Information System Replacement.** This Project, referred to as Project Compass, will replace the Company's legacy Customer Information System. This Project is planned to go into service in the third quarter of 2014. The Parties have agreed to adjust Base Rates on November 1, 2014, coincident with the Company's PGA rate adjustment, to reflect the Oregon rate-based capital additions associated with this Project through September 30, 2014, presently estimated at $6,520,000. The additional revenue requirement associated with this Project, based on current cost estimates, is $1,100,000. The Parties have agreed that the estimated rate-based capital addition of $6,520,000 has been prudently incurred, and that any additional capital expenditures in excess of this amount prior to September 30, 2014, will require the Company to demonstrate, in its compliance filing for the November 1, 2014 rate change that any costs that exceed these estimates were prudently incurred.

The Parties have agreed that the Company will submit monthly expenditure reports to the Parties starting in February 2014. Further, the Company will make a compliance filing on or before October 8, 2014, that will: (i) provide a "certificate of completion" for the Project, attesting to the status of the rate base additions as "in-service" and "used-and-useful" for providing service; and, (ii) include tariffs that reflect an increase to Base Rates on November 1, 2014, coincident with the Company's PGA adjustment, for these rate base additions through September 30, 2014.

B. **Aldyl A Pipe Replacement Program.** The Company has a program in place to systematically replace select portions of the DuPont Aldyl A medium density polyethylene pipe in its natural gas distribution system in the States of Oregon, Idaho and Washington over a 20-year period. The Parties agree that the decision to pursue this project is prudent and to include in rate base the actual capital additions associated with this Project through June 30, 2014 subject to a review of the prudency of any actual costs that exceed the current estimate of $2,040,000 in the filed General Rate Case. This prudence review will be made following the Company's compliance filing to implement the November 1, 2014 rate change. As noted above, Oregon's share of the net rate base associated with the Aldyl A Project is currently estimated at $2,040,000 and the related revenue requirement is $250,000.

The Parties have agreed that the Company will submit monthly expenditure reports to the Parties starting in February 2014. Furthermore, the Company will submit a compliance filing on or before October 8, 2014, that will: (i) provide a "certificate of completion" for this phase of the Aldyl A Pipe Replacement Project, attesting to the status of the rate base additions as "in-service" and "used-and-useful" for providing service; and, (ii) include tariffs that reflect an increase to Base Rates on November 1, 2014, coincident with the Company's PGA adjustment, for these rate base additions through June 30, 2014.

7. **Rate Spread:** The Parties agree that new rates would be spread, using the combined February 1, 2014 and November 1, 2014 revenue requirement, so that Residential

Service Schedule 410 would receive an overall increase no greater than 0.75% above the overall billed increase and that General Service Schedule 420 would receive an overall increase no greater than 1.00% above the overall billed increase. Further, the Parties have agreed that Large General Service Schedule 424 and Transportation Schedule 456 would receive a 3% and 5% decrease in margin, respectively. Interruptible Schedule 440 would receive an overall rate increase of one-half of the overall billed increase. Finally, the Parties agreed that Seasonal Schedule 444 would receive an increase of one-quarter of the overall billed increase.

The Parties support the spread of the February 1, 2014 overall billed revenue increase of $4.295 million, or 4.4%, to the Company's service schedules as follows:

Residential Service Sch. 410	4.88%
General Service Sch. 420	5.03%
Large General Service Sch. 424	-1.33%
Interruptible Service Sch. 440	2.26%
Seasonal Service Sch. 444	1.11%
Transportation Service Sch. 456	-3.79%

The Parties support the spread of the November 1, 2014 overall expected billed revenue increase of $1.35 million, or 1.55%, to the Company's service schedules as follows:

Residential Service Sch. 410	1.70%
General Service Sch. 420	1.78%
Large General Service Sch. 424	-0.16%
Interruptible Service Sch. 440	0.71%
Seasonal Service Sch. 444	0.53%
Transportation Service Sch. 456	-1.19%

The calculation of the revenue increase by service schedule is shown on Page 1 of Attachment B.[2]

8. **Rate Design:** For the rates that will go into effect on February 1, 2014, the Parties support rate design changes as follows: the monthly customer charge for Residential Service Schedule 410 will increase by $1.00 per month, from $7.00 to $8.00. The monthly customer charge for General Service Schedule 420 will be increased by $3.00 per month, from $9.00 to $12.00. For Large General Service Schedule 424 the monthly customer charge will remain unchanged at $50.00 per month, and the volumetric (per therm) rate will be decreased by the appropriate amount to equal the total revenue decrease for that schedule. For Interruptible Service Schedule 440 and Seasonal Service Schedule 444, the volumetric rate will be increased by the appropriate amount to equal the total revenue increase for those schedules. Finally, for Transportation Service Schedule 456, the monthly customer charge will remain at $275.00 per month. The revenue decrease for the Schedule is reflected through a uniform percentage decrease applied to the volumetric rates within the Schedule.

For the rates that will go into effect on November 1, 2014, the Parties agree that the revenue changes for each schedule will be applied only to the volumetric (per therm) rates, and that there will be no further adjustments to the basic or fixed customer charges. For Transportation Service Schedule 456, the revenue decrease will be a uniform percentage decrease applied to the volumetric rates within the Schedule.

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

[2] If the revenue requirement is slightly higher or lower than $1.35 million, then the rate spread will change proportionately. The indicated percentages are with respect to revenue billings in effect prior to the February 1 increase. The February 1 and November 1 percentages add together to achieve the agreed-upon changes.

9. **Other Issues:**

(a.) Allocation Methodology – Prior to September 30, 2014, Avista will conduct one or more workshops to review the methodology used by Avista to allocate common costs and common plant to its regulated and unregulated operations, electric and gas services, and state jurisdictions. The workshops will include Avista's review of its accounting practices to record its directly-assigned and common costs and identify whether additional cost areas could be more appropriately directly assigned. In addition, the allocation methodology will be reviewed to determine whether the allocation of costs is reasonable from a cost driver standpoint. Parties will not recommend the Oregon Public Utility Commission (OPUC) implement any changes to allocation methodology prior to July 1, 2015.OPUC Staff intends to request a joint meeting with the Staffs of the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission prior to March 31, 2015. Intervenors in each state will be invited to attend those meetings. At those meetings an attempt will be made to achieve consensus among all affected jurisdictions on the appropriate common cost allocation methodology so as to prevent any stranded costs or investment. However, all Parties recognize that Staff, Intervenors and the OPUC are not bound by the decisions of other state commissions.

(b.) Depreciation Rates Effective Date – Pursuant to Docket No. UM 1626, Order No 13-168, the Company implemented new book depreciation rates on common plant effective January 1, 2013. As a part of UM 1626, the Parties agreed that the implementation of the new depreciation rates on plant directly assigned to Oregon would not occur until the conclusion of the Company's next Oregon general rate case. As part of this stipulation, the Parties agree that the depreciation rates on directly assigned plant will be effective July 1, 2014.

(c.) Klamath Falls Lateral – Pursuant to a Commission-approved Stipulation in Docket No. UG 228 (see Order No. 12-429), the Company has been recovering $463,000 in annual revenue requirement associated with its purchase of the Klamath Falls Lateral, effective January 1, 2013. This has been administered through rate Schedule 498. The benefits associated with Klamath Falls Lateral have been flowing through the PGA. The Parties agree that the revenue requirement associated with this purchase is prudent, and these revenues are now to be included in base rates through the February 1, 2014 revenue requirement increase. Therefore, the Parties agree that the Company will file tariff Schedule 498, as a part of its Compliance Filing for the February 1, 2014 rate increase, adjusting the current rate of $0.00585 per therm to $0.00000 per therm.

(d.) Schedule 493 – Residential Low Income Rate Assistance Program. In the Company's last general rate case (Docket No. UG 201), the funding associated with the residential low income rate assistance program (LIRAP) was removed from base rates (Schedule 410) and is now administered as a stand-alone tariff (Schedule 493). However, the Company inadvertently failed to remove the Revenue Adjustment Factor for LIRAP from Schedule 410. The rate under Schedule 493 is currently set at $0.00438 per therm, but should have been set at $0.00451 per therm, instead, including the Revenue Adjustment Factor[3]. The Parties agree that $0.00013 per therm should be removed from Schedule 410 and moved to Schedule 493 as shown on Page 2 of Attachment B and agree that the Company will file a conforming tariff as a part of its Compliance Filing for the February 1, 2014 rate increase, effectuating this rate change.

(e.) Long-Run Incremental Cost – The Parties agree that in future rate cases filed by the Company, it will make the following adjustments to its Long Run Incremental Cost study:

[3] The total annual amount of this adjustment is approximately $760.

i. Gas Scheduling will be allocated on a volumetric basis rather than on a customer-count basis.

ii. For "Special Contracts" Schedule 447, Avista will use an engineering estimate/cost-study, as is used for the other customer rate schedules, for purposes of estimating main extension costs for Schedule 447, rather than using an amount based upon an estimated bypass cost.

(f.) <u>Demand Side Management Verification</u> – Avista agrees to meet and confer with Staff and interested parties prior to its next filing to amortize deferred accounts associated with Schedule 478. The meeting will review the Company's true-up process associated with energy efficiency savings, as required in Schedule 466. Avista agrees to use the industry's best practices in its true-up process, and will provide a comparison of the Company's energy savings true-up process with Energy Trust of Oregon's true-up process. The meeting will address Staff's concerns regarding the inclusion of "free riders" in the calculation of energy efficiency savings, potential double counting of incremental energy savings through the load forecast and the lost margin calculation, and the calculation of energy efficiency savings.

(g.) <u>Demand Side Management Tariffs</u> – The Parties agree that the Company will modify tariff Schedules 466 and 478 so that the tariffs cross-reference each other, and to include those tariffs as a part of its Compliance Filing for the February 1, 2014 rate increase.

(h.) <u>Forecasting Methodology</u> – The Company agrees to meet with Staff and interested parties, no later than July 1, 2014, to collaboratively discuss forecasting model specification and methodology.

(i.) Weather Normalization – The Company agrees to use consistent weather response parameters in its various Oregon regulatory filings unless the Company can document and discuss why such use is not appropriate.

(j.) Advertising and Marketing – The Company agrees to meet with Staff and interested parties no later than July 1, 2014 to collaboratively resolve the allocation of costs pursuant to OAR 860-026-0022.

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

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

12. 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.

13. 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 take action that will allow rates to go into effect by February 1, 2014. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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 17th day of December 2013.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: [signature]	By: ______________________
David J. Meyer	Johanna M. Riemenschneider
Date: Dec 17, 2013	Date: ______________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________	By: ______________________
Chad M. Stokes and Tommy A. Brooks	G. Catriona McCracken
Date: ______________________	Date: ______________________

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

DATED this _____ day of December 2013.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ____________________	By: Johanna Riemenschneider
David J. Meyer	Johanna M. Riemenschneider
Date: ____________________	Date: 12-17-13
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ____________________	By: ____________________
Chad M. Stokes and Tommy A. Brooks	G. Catriona McCracken
Date: ____________________	Date: ____________________

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

DATED this _____ day of December 2013.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ____________	By: ____________
David J. Meyer	Johanna M. Riemenschneider
Date: ____________	Date: ____________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ____________	By: ____________
Chad M. Stokes and Tommy A. Brooks	G. Catriona McCracken
Date: 12-17-2013	Date: ____________

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

DATED this _____ day of December 2013.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: ______________________
David J. Meyer	Johanna M. Riemenschneider
Date: ______________________	Date: ______________________

NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________	By: ______________________
Chad M. Stokes and Tommy A. Brooks	G. Catriona McCracken
Date: ______________________	Date: 12-17-13

Avista Utilities
UG 246
Twelve Months Ended December 31, 2014
(000)

			Company Filed 2014 Results at Reasonable Return (1)	Stipulated Adjustments (2)	2014 Adjusted (3)	Stipulated Price Increase (4)	Results at Reasonable Return (5)
1		**Operating Revenues**					
2		General Business	$105,916	$0	$96,435	$4,295	$100,730
3		Transportation	2,923	0	2,923	0	2,923
4		Other Revenues	144	2	146	0	146
5		**Total Operating Revenues**	$108,983	$2	$99,504	$4,295	$103,799
6		**Operating Expenses**					
7		Gas Purchased	$55,459	$0	$55,459	$0	$55,459
8		General Operations & Maintenance	11,878	(217)	11,610	21	11,631
9		Administrative and General	7,803	(869)	6,934	0	6,934
10		**Total Operation & Maintenance**	$75,140	($1,087)	$74,002	$21	$74,023
11		Depreciation & Amortization	9,049	(839)	8,210		8,210
12		Taxes Other than Income	5,131	(68)	4,835	103	4,939
13		Income Taxes	5,867	1,059	3,251	1,472	4,723
14		Miscellaneous Revenue and Expense	0	0	0	0	0
15		**Total Operating Expenses**	$95,187	($934)	$90,298	$1,597	$91,895
16		**Net Operating Revenues**	$13,797	$936	$9,206	$2,698	$11,904
17		**Average Rate Base**					
18		Utility Plant In Service	$312,154	($13,816)	$298,338	$0	$298,338
19	Less:	Accumulated Depreciation & Amortization	(106,542)	5,363	(101,179)	0	(101,179)
20		Accumulated Deferred Income Taxes	(44,560)	0	(44,560)	0	(44,560)
21		Accumulated Deferred Inv. Tax Credit	0	0	0	0	0
22		**Net Utility Plant**	$161,052	($8,453)	$152,599	$0	$152,599
23		Plant Held for Future Use	$0	$0	$0	$0	$0
24		Acquisition Adjustments	0	0	0	0	0
25		Working Capital	6,355	(6,355)	0	0	0
26		Fuel Stock	0	0	0	0	0
27		Materials & Supplies	3,084	1,677	4,761	0	4,761
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	5,710	(3,714)	1,996	0	1,996
32		Misc. Rate Base Additions/(Deductions)	0	0	0	0	0
33		**Total Average Rate Base**	$176,201	($16,846)	$159,355	$0	$159,355
34		**Rate of Return**	7.83%		5.78%		7.47%
35		**Implied Return on Equity**	10.10%		6.12%		9.65%

Avista Utilities
Docket No. UG 246
Oregon - Natural Gas
Settlement Rate Spread

Line No.		OREGON TOTAL	Residential Service 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 BASE MARGIN (from Avista/903 Ehrbar/page 2 of 4)	$ 42,218,000	$ 28,200,000	$ 10,161,000	$ 631,000	$ 264,000	$ 38,000	$ 279,000	$ 2,645,000
2	% of Current Margin excl Sch 447	100.00%	67.24%	24.23%	1.50%	0.63%	0.09%		6.31%
3	**Present Billed Revenue** (from Avista's Settlement Rate Spread [SRS], 11-27)	**$ 87,211,000**	**$ 55,434,000**	**$ 24,521,000**	**$ 2,891,000**	**$ 1,259,000**	**$ 169,000**	**$ 279,000**	**$ 2,658,000**
4	Schedule 498 Revenues (Klamath Falls Lateral) (Avista SRS 11-27)	$ 463,000	$ 286,000	$ 152,000	$ 24,000	$ -	$ 1,000	$ -	$ -
5	Gas Costs and Adder Schedules (Line 3 minus Lines 1 and 4)	$ 44,530,000	$ 26,948,000	$ 14,208,000	$ 2,236,000	$ 995,000	$ 130,000	$ -	$ 13,000
6	**Base Margin Increase** (Total is per Settlement Stipulation)	**$ 5,645,000**	**$ 3,932,648**	**$ 1,822,349**	**$ (18,930)**	**$ 37,404**	**$ 3,779**		**$ (132,250)**
7	Schedule 498 Elimination (Klamath Falls Lateral) (Minus Line 4)	$ (463,000)	$ (286,000)	$ (152,000)	$ (24,000)	$ -	$ (1,000)	$ -	$ -
8	Net Increase (Line 6 plus Line 7)	$ 5,182,000	$ 3,646,648	$ 1,670,349	$ (42,930)	$ 37,404	$ 2,779	$ -	$ (132,250)
9	Total Net GRC Increase as % of Present Billed Revenue (Line 3)	**5.94%**	**6.58%**	**6.81%**	-1.48%	**2.97%**	**1.64%**	0.00%	-4.98%
10	Base Margin Revenue Increase Percentage (versus Line 1)	**13.4%**	**13.9%**	**17.9%**	**-3.0%**	**14.2%**	**9.9%**	**0.0%**	**-5.0%**
11	Margin Revenue Increase (Effective February 1, 2014)	$ 4,295,000	$ 2,992,156	$ 1,386,535	$ (14,403)	$ 28,459	$ 2,876	$ -	$ (100,622)
12	Schedule 498 Elimination (Klamath Falls Lateral)	$ (463,000)	$ (286,000)	$ (152,000)	$ (24,000)	$ -	$ (1,000)	$ -	$ -
13	Total Increase	$ 3,832,000	$ 2,706,156	$ 1,234,535	$ (38,403)	$ 28,459	$ 1,876	$ -	$ (100,622)
14	Percentage Revenue Increase (versus lne 3)	**4.39%**	**4.88%**	**5.03%**	**-1.33%**	**2.26%**	**1.11%**	**0.00%**	**-3.79%**
15	Margin Revenue Increase (Effective November 1, 2014)	$ 1,350,000	$ 940,491	$ 435,814	$ (4,527)	$ 8,945	$ 904	$ -	$ (31,628)
16	Percentage Revenue Increase (versus Line 3)	**1.65%**	**1.70%**	**1.78%**	**-0.16%**	**0.71%**	**0.53%**	**0.00%**	**-1.19%**

ORDER NO.

Attachment B
Page 1 of 2

Avista Utilities
Docket No. UG 246
Settlement Rates by Schedule
Oregon - Gas

Present Base Rates	Schedule 493 Adjustment	Base Rate Change	Base Rates - February 1, 2014
	Residential Service Schedule 410		
$7.00 Customer Charge		$1.00/month	$8.00 Customer Charge
All Therms - $0.42993/Therm	-$0.00013/Therm	$0.04018/therm	All Therms - $0.46998/Therm
	General Service Schedule 420		
$9.00 Customer Charge		$3.00/month	$12.00 Customer Charge
All Therms - $0.34376/Therm		$0.03771/therm	All Therms - $0.38147/Therm
	Large General Service Schedule 424		
$50.00 Customer Charge		$0.00/month	$50.00 Customer Charge
All Therms - $0.14259/Therm		-$0.00351/therm	All Therms - $0.13908/Therm
	Interruptible Service Schedule 440		
All Therms - $0.10462/Therm		$0.01122/therm	All Therms - $0.11584/Therm
	Seasonal Service Schedule 444		
All Therms - $0.15877/Therm		$0.01205/therm	All Therms - $0.17082/Therm
	Transportation Service Schedule 456		
$275.00 Customer Charge		$0.00/month	$275.00 Customer Charge
1st 10,000 Therms - $0.15639/Therm		-$0.00623/therm	1st 10,000 Therms - $0.15016/Therm
Next 20,000 Therms - $0.09412/Therm		-$0.00375/therm	Next 20,000 Therms - $0.09037/Therm
Next 20,000 Therms - $0.07737/Therm		-$0.00309/therm	Next 20,000 Therms - $0.07428/Therm
Next 200,000 Therms - $0.06056/Therm		-$0.00242/therm	Next 200,000 Therms - $0.05814/Therm
Over 250,000 Therms - $0.03072/Therm		-$0.00123/therm	Over 250,000 Therms - $0.02949/Therm