

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UG 284

In the Matter of

AVISTA CORPORATION, dba  
AVISTA UTILITIES,

ORDER

Request for a General Rate Revision.

DISPOSITION: AMENDED STIPULATION ADOPTED

**I. INTRODUCTION**

On September 2, 2014, Avista Corporation, dba Avista Utilities (Avista) filed Advice No. 14-07-G to effect a general rate increase for Oregon retail customers of \$9,140,000 (9.8 percent of its annual revenues).<sup>1</sup> We suspended Avista's filing until July 3, 2015 for investigation.

On January 21, 2015, Avista, the Commission Staff, the Citizens' Utility Board of Oregon (CUB) and the Northwest Industrial Gas Users (NWIGU) filed a stipulation (original stipulation) resolving all issues. In Order No. 15-054, we rejected the original stipulation and ordered further proceedings. We expressed concerns related to the parties' proposed early rate implementation credit, rate spread, and the customer count tracking mechanism.

On March 6, 2015, the parties filed an amended stipulation and joint supporting testimony, again intended to resolve all issues in this proceeding. The amended stipulation is attached as Appendix A. On March 18, 2015, Staff filed its own testimony in support of the stipulation. We find that the parties have addressed our earlier concerns and approve the amended stipulation. The amended stipulation and supporting testimony are received in evidence.

**II. AVISTA'S APPLICATION**

Avista seeks a rate increase request to address a combination of increasing rate base and increases in general business expenses.<sup>2</sup> Over 74 percent of the increase (about \$6.7 million) relates to the increase in rate base, including replacement and maintenance of Avista's aging system and technology to sustain reliability and safety. The remaining 26 percent (about \$2.4 million) relates to increases in operating and maintenance (O&M)

<sup>1</sup> The 9.8 percent increase is taken from the direct testimony of Scott L. Morris, Avista's President and CEO. In their testimony in support of the stipulation, the parties show 9.1 percent.

<sup>2</sup> Avista/100, Morris, at 6.

costs and administrative and general (A&G) expenses and a net change in retail revenues since the company's last rate case.<sup>3</sup>

The request is based on a proposed rate of return of 7.77 percent, with a capital structure common equity component of 51 percent and a 9.9 percent return on equity. The filing is based on a calendar 2015 test year. The company used a long-run incremental cost study as a starting point for its proposed rate spread.<sup>4</sup>

Assuming an average usage of 47 therms per month, the average residential bill would increase under Avista's request by \$5.78 per month, or about 10.3 percent, from \$55.97 to \$61.75.<sup>5</sup> That calculation includes the cost of gas. Expressed in terms of the customer charge and base rate, Avista's proposed residential rate increase was 19.2 percent.

### III. THE AMENDED STIPULATION

#### A. Revenue Requirement

The parties agree to adjustments to Avista's requested revenue requirement that reduce the requested increase from \$9.140 million to \$5.262 million. The proposed increase is \$850,000 less than the amount of the increase proposed in their original stipulation.

According to Staff, in the original stipulation, the parties agreed to update actual capital additions from Avista's initial filing, resulting in an increase of \$286,000. The net change in the allowance for capital additions proposed in the amended stipulation is a reduction of \$290,000, based on plant that will used and useful as of the effective date of the rate increase.

The property tax expense allowance was reduced to reflect the reduction in capital additions. In their original stipulation, the parties had agreed to an increase in the revenue requirement of \$134,000, reflecting the increase in capital additions. Based on the lower capital additions, the net change in the property tax allowance is a reduction of \$560,000.

Included in the \$5.262 million base revenue increase is the revenue requirement of \$0.262 million related to the Aldyl A Pipe Replacement, currently being recovered via a surcharge through tariff Schedule 497. Including those costs in base rates obviates the need for the surcharge and the Schedule 497 rate will be set to \$0.00 per therm on the effective date of the tariffs filed in compliance with this order. The net increase in the revenue requirement is \$5 million.

The parties propose that the rates go into effect April 16, 2015, or about 10 weeks before the expiration of the statutory suspension period. The value to Avista of the early rate increase implementation is about \$730,000.<sup>6</sup>

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<sup>3</sup> *Id.* at 7.

<sup>4</sup> *Id.* at 6.

<sup>5</sup> *Id.* at 7.

<sup>6</sup> Stipulation at 3, fn 1.

The amount of all stipulated adjustments to Avista's cost-of-service is shown in the following table of Summary of Adjustments to Revenue Requirement and Rate Base.<sup>7</sup>

<b>TABLE No. 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE</b>		
<b>(\$000s of Dollars)</b>		
	<b>Revenue Requirement</b>	<b>Rate Base</b>
<b>Amount as filed:</b>	<b>\$9,140</b>	<b>\$198,448</b>
<b>Adjustments:</b>		
<b>a Rate of Return</b>		
Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	(853)	-
<b>b Revenue Sensitive - uncollectible rate and state tax rate</b>		
Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "F" below.	(147)	-
<b>c Uncollectibles</b>		
Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	(39)	-
<b>d Working Cash</b>		
Removes the additional working capital rate base adjustment to include only materials and supplies.	(501)	(4,641)
<b>e Interest Synchronization</b>		
Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	61	-
<b>f State Taxes</b>		
Revises level of SIT to an agreed-upon level.	(317)	-
<b>g Escalation</b>		
Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	(97)	-
<b>h Advertising and Marketing</b>		
This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	(40)	-
<b>i D&amp;O Insurance</b>		
This reduces the Company's D&O Insurance to exclude 50% of various D&O layers.	(31)	-
<b>j Various A&amp;G Expenses</b>		
Revises the Company's expected administrative and general expenses related to meals and other expenses.	(44)	-
<b>k Capital Additions</b>		
Adjusts capital additions to remove a vehicle included in Oregon plant additions in error.	(4)	(37)
<b>l Distribution O&amp;M</b>		
Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	(602)	-
<b>m Other Gas Supply Expense</b>		
Reduces the Company's natural gas supply expense to an agreed-upon level.	(60)	-
<b>n Memberships and Dues</b>		
Reduces the Company's membership and dues expense to an agreed-upon level.	(3)	-
<b>o Regulatory Commission Expense</b>		
Reduces the Company's regulatory commission expense to an agreed-upon level.	(76)	-
<b>p Allocation Factors</b>		
Includes a reduction in allocated expense to an agreed-upon level.	(100)	-
<b>q Incentives</b>		
Includes reduction to incentives to agreed-upon level.	(11)	(76)
<b>r Wages &amp; Salaries</b>		
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 and an update to CPI.	(108)	-
<b>s Medical Benefits</b>		
Includes a reduction to medical expenses to an agreed-upon level.	(170)	-
<b>t Pensions</b>		
Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	(282)	(4,318)
<b>u Property Tax</b>		
Adjusts property tax expense to an agreed-upon level.	(426)	-
<b>v Insurance</b>		
Includes updates to the Company's insurance expense.	(28)	-
<b>Total Adjustments:</b>	<b>(\$3,878)</b>	<b>(\$9,072)</b>
<b>Adjusted Base Revenue Requirement &amp; Rate Base - Effective April 16, 2015:</b>	<b>\$5,262</b>	<b>\$189,376</b>
<b>Expiration of Schedule 497</b>	<b>(\$262)</b>	
<b>Net Revenue Increase Effective April 16, 2015</b>	<b>\$5,000</b>	<b>\$189,376</b>

<sup>7</sup> Stipulation at 5.

**B. Long Run Incremental Cost Study**

The parties agree that Avista will make the following adjustments to its Long Run Incremental Cost (LRIC) study which is used for rate spread:

- a. Natural gas planning will be allocated on a volumetric basis rather than on a customer-count basis.
- b. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main costs minus main extension costs.
- c. Storage investment will be allocated on the basis of January sales rather than annual sales.

**C. Rate Spread**

Without agreeing to any particular general proposition in regard to rate spread, the parties agree to the following rate spread for the overall revenue increase:

<u>Customer Class</u>	<u>Percent Increase on Billed Revenue</u>
Residential Service Sch. 410	5.2%
General Service Sch. 420	6.0%
Large General Service Sch. 424	0.0%
Interruptible Service Sch. 440	0.0%
Seasonal Service Sch. 444	0.0%
Special Contract Sch. 447	0.0%
Transportation Service Sch. 456	0.0%

The parties note that their proposed residential and general rate increases are less than the increases proposed by Avista in its application.

**D. Rate Design**

The parties propose the following rate design: For Residential Service Schedule 410, the monthly customer charge will remain at \$8.00. For General Service Schedule 420, the monthly customer charge will be increased by \$2.00 per month, from \$12.00 to \$14.00. For other schedules, the rates are unchanged.

**E. Early Implementation Credit**

In the original stipulation, the parties proposed that the rate increase would go into effect on March 1, 2015, four months prior to the expiration of the statutory suspension period. The value of the early implementation to Avista would have been \$1,550,000. Apparently in recognition of the value of the early implementation to Avista, the parties agreed to an "early implementation credit" of \$850,000 (annualized)<sup>8</sup>, reducing the net rate increase to \$5 million. The parties proposed that the credit would be allocated to all

<sup>8</sup> The credit would have continued until the effective date of Avista's next general rate case, so the total amount of the credit was uncertain.

customers, including customers whose rates were to be reduced as part of the overall settlement.

We questioned the early implementation credit in our order rejecting the original stipulation. In Order No. 15-054, we found that there was no evidence in the record explaining the derivation of the credit, or why implementation could not have been deferred and the credit avoided. We also noted that the parties failed to explain why the credit would be allocated to all customers, including the customers whose would receive the benefit of an earlier rate reduction.

In the amended stipulation, the parties have eliminated the early implementation credit. They recognize that there is value to Avista from implementing the new rates earlier than the end of the suspension period, and that early implementation was an important factor in the settlement process that allows for negotiated trade-offs on a variety of issues.

#### **F. Customer Count Tracking Mechanism**

In the original stipulation, Avista and Staff proposed to settle their dispute over the test year customer count by implementing a customer count tracking mechanism comparing the actual number of customers monthly with the base number of customers, as set in the stipulation.

In response to our concerns raised in Order No. 15-054 that the proposed mechanism was contrary to standard ratemaking practice, the parties have removed the mechanism in their amended stipulation. The parties agree to adopt Avista's customer count. According to Staff's testimony, the value of that lower customer count to Avista is \$530,000 (assuming that Staff's customer count calculation is correct).

#### **G. Rate Spread**

In our order rejecting the original stipulation we also questioned the parties proposal to increase the residential and general service rates while also reducing rates for the larger customers. We acknowledged that rates may be misaligned relative to cost-of-service and that rate cases provide opportunities to make adjustments that more closely align rates with costs. However, without compelling evidence that those adjustments warrant more immediate action, we stated that we are not inclined to raise some rates while reducing others.

In their amended stipulation, the parties propose to spread the entire increase to residential and general service customers, with no rate reduction for the larger customers. They note that this outcome is more consistent with Avista's rate spread proposal set forth in its original filing.

### **IV. DISCUSSION**

In their amended stipulation, the parties have addressed and resolved each of the issues we raised in Order No. 15-054. We accept the stipulation at face value, recognizing that its provisions are the outcome of negotiations and may reflect concessions on some points by one party in return for concessions on some points by other parties.

When we evaluate the reasonableness of a settlement, we search the record for evidence that supports the stipulation. When the settlement is filed before responsive testimony is filed that record tends to be underdeveloped and offers little assistance to our deliberations. This problem arises in the more complicated cases, such as general rate cases.

We recognize that parties to a settlement may not be able to provide a consensus view as to their resolution of any single issue – because of their mutual concessions as noted earlier. Without the benefit of responsive testimony, it is often difficult to adopt a settlement because it lacks the support of a sufficiently developed record.

In this case, we find the record is sufficient to support the adoption of the stipulation in its entirety. Accordingly, it should be adopted.

To ensure an adequate record for review in future general rate proceedings—for Avista and other utilities—we encourage the parties to either provide a detailed explanation in joint or individual party testimony that explains why the stipulation is just and reasonable, or delay the filing of any stipulation until after Staff and intervenors have had the opportunity to file testimony responding to the utility’s initially filed testimony.

**V. ORDER**

IT IS ORDERED that

1. The amended stipulation 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, attached as Appendix A is adopted.
2. Advice No. 14-07-G is permanently suspended.
3. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this order no later than April 13, 2015, to be effective no earlier than April 16, 2015.

Made, entered, and effective APR 09 2015

*Susan Ackerman*  
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**Susan K. Ackerman**  
 Chair

*John Savage*  
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**John Savage**  
 Commissioner

*Stephen M. Bloom*  
 \_\_\_\_\_  
**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.

1 **BEFORE THE PUBLIC UTILITY COMMISSION**

2 **OF OREGON**

3 UG 284

4	In the Matter of	)	
5	AVISTA CORPORATION, dba AVISTA	)	AMENDED STIPULATION RESOLVING
6	ALL UTILITIES	)	ISSUES
7		)	
8	Request for a General Rate Revision.	)	

9

10 This Amended Stipulation is entered into for the purpose of resolving all issues in this

11 Docket. As such, this Amended Stipulation resolves all revenue requirement issues, including

12 cost of capital issues, as well as rate spread and rate design.

13

14 **PARTIES**

15 The Parties to this Amended Stipulation are Avista Corporation ("Avista" or the

16 "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens'

17 Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU")

18 (collectively, "Parties"). These Parties represent all who intervened and appeared in this

19 proceeding.

20

21 **BACKGROUND**

22 1. On September 2, 2014, Avista filed revised tariff schedules to effect a general rate

23 increase for Oregon retail customers of \$9,140,000, or 9.1 percent of its annual revenues. The

24 filing was suspended by the Commission on September 8, 2014, in Order No. 14-311.



1           2.    On January 5, 2015, Staff served on all of the Parties its report of issues and  
2 proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for  
3 settlement purposes only.

4           3.    Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference  
5 Memorandum of September 24, 2014, settlement conferences were held on December 15, 2014,  
6 and January 13, 2015.

7           4.    On January 21, 2015, the Parties filed a Stipulation resolving all issues among  
8 themselves in this Docket. Joint Testimony was subsequently filed on January 28, 2015, in  
9 support of the Stipulation. In addition, separate testimony was filed by Staff on January 29,  
10 2015.

11          5.    On February 23, 2015, the Commission issued an Order rejecting the Stipulation  
12 and ordering further proceedings. In doing so, the Commission expressed concerns over the  
13 early rate implementation credit, rate spread, and the customer count tracking mechanism. See  
14 Order No. 15-054 at page 1.

15          6.    The Parties have again conferred and, by means of this Amended Stipulation, have  
16 agreed to settle all issues in this Docket, addressing concerns raised by the Commission in its  
17 Order rejecting the original settlement Stipulation by eliminating both the "early rate  
18 implementation credit," and the "customer count tracking mechanism." The Parties have also  
19 proposed a rate spread which eliminates any revenue reductions contained in the original  
20 Stipulation to any rate schedules, while otherwise increasing rates to others. Additional support  
21 has been provided in the accompanying Joint Testimony for the revised spread of the settlement  
22 rates in the Amended Stipulation. Finally, the proposed effective date has been moved from  
23 March 1, 2015 to April 16, 2015.

1  
2 **AGREEMENT**

3 7. **Revenue Requirement:** The Parties support reducing Avista's requested revenue  
4 requirement to reflect the adjustments discussed below. The adjustments amount to a reduction  
5 in Avista's revenue requirement increase originally requested from \$9.140 million to a base  
6 revenue increase of \$5.262 million, with the new rates effective on April 16, 2015.<sup>1</sup> The  
7 implementation date remains an integral part of this Amended Stipulation. To establish the  
8 \$5.262 million base rate increase, rate base and property taxes were the two categories of costs  
9 that were revised downward from the prior stipulation.

10 Included in the \$5.262 million base revenue increase is the revenue requirement of  
11 \$0.262 million related to Aldyl A Pipe Replacement. This revenue requirement was approved  
12 for recovery in Phase 2 of Avista's last general rate case, UG-246. Currently, the revenue  
13 requirement for Phase 2 Aldyl A Pipe Replacement Costs is being recovered through tariff  
14 Schedule 497. Consistent with the provisions of Schedule 497, the energy rates charged in that  
15 schedule will end at such time as the costs associated with the Phase 2 Aldyl A Pipe  
16 Replacement are included in base rates in this general rate case. Accordingly, the rates under  
17 Schedule 497 will be set at \$0.00/therm on the effective date of the tariffs filed in compliance  
with the Commission order in this docket.

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<sup>1</sup> Per the directive of Administrative Law Judge Patrick Power on page 2 of the Prehearing Conference Memorandum dated September 24, 2014, in this Docket, with new rates effective earlier than the end of the statutory suspension period, the calculation of additional net revenue, or value, to the Company from implementing a base revenue increase of \$5.262 million on April 16, 2015 instead of July 3, 2015, is approximately \$730,000. (The previously agreed-upon March 1, 2015 implementation date would have provided additional net revenue of approximately \$1.5 million.) The April 16, 2015 effective date is prior to the expiration of the statutory suspension period (July 3, 2015), but after most of the heating season (which reduces the value of early implementation). Each party, in developing their respective positions, has already taken the impact of an early implementation into consideration when agreeing to the base revenue increase of \$5.262 million. In addition, it should be noted that the permanent rate decrease has been reduced, from the prior stipulated amount of \$6.112 million, to \$5.262 million.

ORDER NO.

13 109

1           This Amended Stipulation represents the settlement of all revenue requirement issues in  
2 the Company's filing. The Parties support the adjustments to Avista's revenue requirement  
3 request shown in Table No. 1 below:

<b>TABLE No. 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE</b>		
<b>(\$000s of Dollars)</b>		
	<b>Revenue Requirement</b>	<b>Rate Base</b>
<b>Amount as filed:</b>	<b>\$9,140</b>	<b>\$198,448</b>
<b>Adjustments:</b>		
<b>a Rate of Return</b> Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	(853)	-
<b>b Revenue Sensitive - uncollectible rate and state tax rate</b> Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "T" below.	(147)	-
<b>c Uncollectibles</b> Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	(39)	-
<b>d Working Cash</b> Removes the additional working capital rate base adjustment to include only materials and supplies.	(501)	(4,641)
<b>e Interest Synchronization</b> Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	61	-
<b>f State Taxes</b> Revises level of SIT to an agreed-upon level.	(317)	-
<b>g Escalation</b> Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	(97)	-
<b>h Advertising and Marketing</b> This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	(40)	-
<b>i D&amp;O Insurance</b> This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	(31)	-
<b>j Various A&amp;G Expenses</b> Revises the Company's expected administrative and general expenses related to meals and other expenses.	(44)	-
<b>k Capital Additions</b> Adjusts capital additions to remove a vehicle included in Oregon plant additions in error.	(4)	(37)
<b>l Distribution O&amp;M</b> Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	(602)	-
<b>m Other Gas Supply Expense</b> Reduces the Company's natural gas supply expense to an agreed-upon level.	(60)	-
<b>n Memberships and Dues</b> Reduces the Company's membership and dues expense to an agreed-upon level.	(3)	-
<b>o Regulatory Commission Expense</b> Reduces the Company's regulatory commission expense to an agreed-upon level.	(76)	-
<b>p Allocation Factors</b> Includes a reduction in allocated expense to an agreed-upon level.	(100)	-
<b>q Incentives</b> Includes reduction in incentives to agreed-upon level.	(11)	(76)
<b>r Wages &amp; Salaries</b> 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 and an update to CPI.	(108)	-
<b>s Medical Benefits</b> Includes a reduction to medical expenses to an agreed-upon level.	(170)	-
<b>t Pensions</b> Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	(282)	(4,318)
<b>u Property Tax</b> Adjusts property tax expense to an agreed-upon level.	(426)	-
<b>v Insurance</b> Includes updates to the Company's insurance expense.	(28)	-
<b>Total Adjustments:</b>	<b>(\$3,878)</b>	<b>(\$9,072)</b>
<b>Adjusted Base Revenue Requirement &amp; Rate Base - Effective April 16, 2015:</b>	<b>\$5,262</b>	<b>\$189,376</b>
<b>Expiration of Schedule 497</b>	<b>(\$262)</b>	
<b>Net Revenue Increase Effective April 16, 2015</b>	<b>\$5,000</b>	<b>\$189,376</b>

1 The following information provides an explanation for each of the adjustments in Table  
 2 No. 1 above. Attachment A summarizes the Company's filed rate case and the stipulated  
 3 adjustments. The numbers in parenthesis represent the agreed-upon increase or decrease in  
 4 revenue requirement associated with the item.

5 a. Rate of Return – (-\$853,000) This adjustment reduces Avista's requested cost of  
 6 capital to an overall cost of capital equal to 7.516% based on the following components: a capital  
 7 structure consisting of 51% common stock equity and 49% long-term debt, return on equity of  
 8 9.50%, and a long-term debt cost of 5.452%. This combination of capital structure and capital  
 9 costs is shown in the schedule below:

<b>Agreed-upon Cost of Capital</b>			
	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Component</u>
Long-term Debt	49.0%	5.452%	2.671%
Common Equity	51.0%	9.500%	4.845%
<b>Total</b>	<b>100.0%</b>		<b>7.516%</b>

15 b. Revenue Sensitive – uncollectible rate and state tax rate – (-\$147,000) Revises the  
 16 State Income Tax (SIT) rate to factor in future use of SIT credits. The adjustment also revises the  
 17 uncollectible rate to 0.5313 percent calculated on a three-year historical average. These changes  
 18 impact the Conversion Factor and adjustment "f" below.

19 c. Uncollectibles – (-\$39,000) Reduces the Company's uncollectible expense by  
 20 adjusting the three -year historical average.

21 d. Working Capital – (-\$501,000) Removes the additional working capital rate base  
 22 adjustment to include only materials and supplies. This adjustment reduces rate base \$4,641,000.

- 1 e. Interest Synchronization – (+\$61,000) This adjustment includes the flow through of  
2 the federal and state tax impact on rate base adjustments due to the change in the cost of debt.
- 3 f. State Taxes – (-\$317,000) – This adjustment reduces the level of SIT to an agreed-  
4 upon level.
- 5 g. Expense Escalation – (-\$97,000) This adjustment reduces non-labor expenses based  
6 on a lower forecasted inflation factor (Consumer Price Index or CPI) for calendar years 2014 and  
7 2015.
- 8 h. Advertising and Marketing – (-\$40,000) This reduces advertising and marketing  
9 expenses based on lower inflation factors for 2014 and 2015 expenses.
- 10 i. Directors & Officers (D&O) Insurance – (-\$31,000) This reduces the Company's  
11 D&O insurance to exclude 50% of various D&O insurance layers.
- 12 j. Various Administrative & General (A&G) Expenses – (-\$44,000) This adjustment  
13 revises the Company's expected administrative and general expenses related to meals and other  
14 expenses.
- 15 k. Capital Additions – (-\$4,000) This adjustment revises capital additions to remove a  
16 vehicle included in Oregon plant additions in error. This adjustment decreases rate base \$37,000.
- 17 l. Distribution Operating & Maintenance (O&M) Expenses – (-\$602,000) This  
18 adjustment reduces the Company's Atmospheric Testing expense to reflect expected rate period  
19 levels and adjusts for revised CPI.
- 20 m. Other Gas Supply Expense – (-\$60,000) Reduces the Company's natural gas supply  
21 expense to an agreed-upon level.
- 22 n. Memberships & Dues – (-\$3,000) This adjustment reduces the Company's  
23 membership and dues expense to an agreed-upon level.

1 o. Regulatory Commission Expense – (-\$76,000) Reduces the Company's regulatory  
2 commission expense to an agreed-upon level.

3 p. Allocation Factors – (-\$100,000) This adjustment includes a reduction in allocated  
4 expenses to an agreed-upon level.

5 q. Incentive Compensation – (-\$11,000) This adjustment includes a reduction to  
6 incentives to an agreed-upon level. This adjustment reduces rate base \$76,000.

7 r. Wages and Salaries – (-\$108,000) This adjustment revises wages and salaries  
8 related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and  
9 applicable depreciation expense related to the reduction to rate base and an update to CPI.

10 s. Medical Benefits – (-\$170,000) Includes an adjustment to reduce medical expenses  
11 to an agreed-upon level.

12 t. Pension Expense & Prepaid Pension Asset – (-\$282,000) This adjustment removes  
13 the rate base treatment of the Company's prepaid pension asset from this Docket, reducing rate  
14 base by \$4,318,000, and revises the Company's pension expense to an agreed-upon level.

15 u. Property Taxes – (-\$426,000) This adjustment reduces property tax expense to an  
16 agreed-upon level.

17 v. Insurance – (-\$28,000) This adjustment includes updates to the Company's  
18 insurance expense.

19 8. Long-Run Incremental Cost Study: The Parties agree that in future rate cases  
20 filed by the Company, it will make the following adjustments to its Long Run Incremental Cost  
21 (LRIC) study:

22 a. Natural Gas Planning will be allocated on a volumetric basis rather than on a  
23 customer-count basis.

1 b. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main  
2 costs minus main extension costs.

3 c. Storage investment will be allocated on the basis of January sales rather than annual  
4 sales.

5 While all Parties to the Amended Stipulation do not agree to the specifics of the LRIC  
6 study prepared by the Company (and concurred with by Staff), and do not believe it should be  
7 precedential, all Parties do agree, for purposes of this settlement only, that it forms a sufficient  
8 basis for the rate spread below, as agreed upon as part of this settlement. The development of the  
9 LRIC study and its use in arriving at the agreed-upon spread of rates are described in the Joint  
10 Testimony accompanying this Amended Stipulation.

11 9. **Rate Spread:** The Parties agree there is no precedent being established by the  
12 agreed-upon, one-time rate spread, and all support the spread of the April 16, 2015 overall base  
13 revenue increase of \$5.262 million to the Company's service schedules as shown in Table No. 2:

14 **Table No. 2:**

15 <u>Customer Class</u>	Proposed Base Revenue <u>Adjustment</u>	Less Currently Approved Schedule 497 *	Net Revenue <u>Increase</u>	Percent Increase on Billed <u>Revenue</u>
16 Residential Service Schedule 410	\$ 3,474,029	\$ 183,000	\$ 3,291,029	5.2%
16 General Service Schedule 420	\$ 1,793,971	\$ 85,000	\$ 1,708,971	6.0%
16 Large General Service Schedule 424	\$ (1,000)	\$ (1,000)	\$ -	0.0%
17 Interruptible Sales Service Schedule 440	\$ 3,000	\$ 3,000	\$ -	0.0%
17 Seasonal Sales Service Schedule 444	\$ -	\$ -	\$ -	0.0%
17 Special Contracts Schedule 447	\$ -	\$ -	\$ -	0.0%
18 Transportation Service Schedule 456	\$ (8,000)	\$ (8,000)	\$ -	0.0%
18 Total Oregon Natural Gas	\$ 5,262,000	\$ 262,000	\$ 5,000,000	4.9%

19 \* See paragraph 7 of this Amended Stipulation discussing elimination of Schedule 497.

20  
21 It is important to note that the Parties have not agreed to increase the residential and  
22 general service rates beyond what the Company had originally filed.<sup>2</sup> In the Company's original  
23 filing, Avista proposed to increase rates, on a margin basis, by 19.2% for residential service

<sup>2</sup> See Order 15-054 at page 5.



1 (Schedule 410) and 26.6% for general service (Schedule 420). Under the terms of the Amended  
 2 Stipulation, the proposed rate increase on a margin basis for Schedule 410 is 10.5% and for  
 3 Schedule 420 is 14.6%, both of which are below the increases originally proposed by the  
 4 Company. This is shown in Table No. 3 below:

<u>Table No. 3:</u>	<b>Avista Proposed Revenue Increase as a Percentage of Margin</b>	<b>Amended Stipulation Net Revenue Increase as a Percentage of Margin</b>
<u>Customer Class</u>		
Residential Service Schedule 410	19.2%	10.5%
General Service Schedule 420	26.6%	14.6%
Large General Service Schedule 424	0.0%	0.0%
Interruptible Sales Service Schedule 440	0.0%	0.0%
Seasonal Sales Service Schedule 444	0.0%	0.0%
Special Contracts Schedule 447	0.0%	0.0%
Transportation Service Schedule 456	0.0%	0.0%
Total Oregon Natural Gas	19.2%	10.5%

13 The calculation of the revenue increase by service schedule is shown on Page 1 of  
 14 Attachment B.

15 10. **Rate Design:** The Parties support the following rate design: For Residential  
 16 Service Schedule 410, the monthly customer charge will remain at the current \$8.00. The  
 17 monthly customer charge for General Service Schedule 420 will be increased by \$2.00 per  
 18 month, from \$12.00 to \$14.00.

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

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

1           12. The Parties agree that this Amended Stipulation represents a compromise in the  
2 positions of the Parties. Without the written consent of all Parties, evidence of conduct or  
3 statements, including but not limited to term sheets or other documents created solely for use in  
4 settlement conferences in this Docket, are not admissible in the instant or any subsequent  
5 proceeding unless independently discoverable or offered for other purposes allowed under ORS  
6 40.190. Nothing in this paragraph precludes a party from stating as a factual matter what the  
7 Parties agreed to in this Amended Stipulation or in the Parties' testimony supporting the  
8 Amended Stipulation.

9           13. Further, this Amended Stipulation sets forth the entire agreement between the  
10 Parties and supersedes any and all prior communications, understandings, or agreements, oral or  
11 written, between the Parties pertaining to the subject matter of this Amended Stipulation.

12           14. This Amended Stipulation will be offered into the record in this proceeding as  
13 evidence pursuant to OAR 860-001-0350(7). The Parties agree to use best efforts to prepare and  
14 submit the Amended Stipulation and supporting materials to the Commission in time to permit  
15 the Commission to take action that will allow rates to go into effect by April 16, 2015. The  
16 Parties agree to support this Amended Stipulation throughout this proceeding and any appeal.  
17 The Parties further agree to provide witnesses to sponsor the Amended Stipulation at any hearing  
18 held, or, in a Party's discretion, to provide a representative at the hearing authorized to respond  
19 to the Commission's questions on the Party's position as may be appropriate.

20           15. If this Amended Stipulation is challenged by any other party to this proceeding, the  
21 Parties to this Amended Stipulation reserve the right to cross-examine witnesses and put on such  
22 case as they deem appropriate to respond fully to the issues presented, including the right to raise  
23 issues that are incorporated in the settlement embodied in this Amended Stipulation.

1 Notwithstanding this reservation of rights, the Parties agree that they will continue to support the  
2 Commission's adoption of the terms of this Amended Stipulation.

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

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

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

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

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

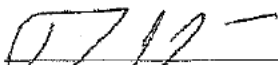
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1 DATED this 6<sup>th</sup> day of March 2015.

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AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By:   
David J. Meyer

By: \_\_\_\_\_  
Michael Weirich

Date: March 6, 2015

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD OF  
OREGON

By: \_\_\_\_\_  
Chad M. Stokes

By: \_\_\_\_\_  
G. Catriona McCracken

Date: \_\_\_\_\_

Date: \_\_\_\_\_

1 DATED this \_\_\_\_ day of March 2015.

2  
3 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

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6  
7 By: \_\_\_\_\_  
8 David J. Meyer

By:  \_\_\_\_\_  
Michael Weirich

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10 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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14 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD OF  
OREGON

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18 By: \_\_\_\_\_  
19 Chad M. Stokes

By: \_\_\_\_\_  
G. Catriona McCracken

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21 Date: \_\_\_\_\_

Date: \_\_\_\_\_

1 DATED this \_\_\_\_ day of March 2015.

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AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

By: \_\_\_\_\_  
David J. Meyer

By: \_\_\_\_\_  
Michael Weirich

Date: \_\_\_\_\_

Date: \_\_\_\_\_

NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD OF  
OREGON

By:  \_\_\_\_\_  
Chad M. Stokes

By: \_\_\_\_\_  
G. Catriona McCracken

Date: 3-6-15

Date: \_\_\_\_\_

1 DATED this 6th day of March 2015.

2  
3 AVISTA CORPORATION

STAFF OF THE PUBLIC UTILITY  
COMMISSION OF OREGON

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6  
7 By: \_\_\_\_\_  
8 David J. Meyer

By: \_\_\_\_\_  
Michael Weirich

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10 Date: \_\_\_\_\_

Date: \_\_\_\_\_

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14 NORTHWEST INDUSTRIAL GAS USERS

CITIZENS' UTILITY BOARD OF  
OREGON

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18 By: \_\_\_\_\_  
19 Chad M. Stokes

By:  \_\_\_\_\_  
Bob Jenks

20  
21 Date: \_\_\_\_\_

Date: 3/6/15

AUSTIN UTILITIES  
UG-184  
Twelve Months Ending December 31, 2015  
(000)

	Company Filed 2015 Results at Reasonable Return	Stipulated Adjustments	2015 Adjusted	Stipulated Price Increase	Results at Stipulated Return
	(1)	(2)	(3)	(4)	(5)
1 <b>Operating Revenues</b>					
2 General Business	\$104,037	\$0	\$94,897	\$5,262	\$100,159
3 Transportation	\$3,320	\$0	\$3,320	\$0	\$3,320
4 Other Revenues	\$153	\$0	\$153	\$0	\$153
5 <b>Total Operating Revenues</b>	\$107,510	\$0	\$98,370	\$5,262	\$103,632
6 <b>Operating Expenses</b>					\$0
7 Gas Purchased	\$49,086	\$0	\$49,086	\$0	\$49,086
8 OPUC Fees	\$366	\$0	\$326	\$17	\$343
9 Franchise Fees	\$2,161	\$0	\$1,996	\$107	\$2,103
10 Uncollectibles	\$610	(\$38)	\$523	\$28	\$551
11 General Operations & Maintenance	\$12,813	(\$737)	\$11,876	\$0	\$11,876
12 Admin & General Expenses	\$7,777	(\$821)	\$6,956	\$0	\$6,956
13 <b>Total Operation &amp; Maintenance</b>	\$77,653	(\$1,596)	\$72,767	\$145	\$70,916
14 Depreciation	\$7,828	\$0	\$7,828	\$0	\$7,828
15 Amortization	\$2,126	\$0	\$2,126	\$0	\$2,126
16 Taxes Other than Income	\$2,313	\$0	\$2,313	\$0	\$2,313
17 Income Taxes	\$7,201	\$645	\$4,270	\$1,944	\$6,214
18 <b>Total Operating Expenses</b>	\$92,091	(\$1,050)	\$87,390	\$2,096	\$89,396
19 <b>Net Operating Revenues</b>	\$15,419	\$1,050	\$10,980	\$3,166	\$14,236
20 <b>Average Rate Base</b>					
21 Utility Plant in Service	\$339,602	(\$113)	\$339,489	\$0	\$339,489
22 Accumulated Depreciation & Amortization	(\$110,159)	\$0	(\$110,159)	\$0	(\$110,159)
23 Accumulated Deferred Income Taxes	(\$44,585)	\$0	(\$44,585)	\$0	(\$44,585)
24 Accumulated Deferred Inv. Tax Credit	\$0	\$0	\$0	\$0	\$0
25 <b>Net Utility Plant</b>	\$184,858	(\$113)	\$184,225	\$0	\$184,330
26 Plant Held for Future Use	\$0	\$0	\$0	\$0	\$0
27 Acquisition Adjustments	\$0	\$0	\$0	\$0	\$0
28 Working Capital	\$6,728	(\$4,641)	\$2,087	\$0	\$2,087
29 Fuel Stock	\$2,544	\$0	\$2,544	\$0	\$2,544
30 Materials & Supplies	\$0	\$0	\$0	\$0	\$0
31 Customer Advances for Construction	\$0	\$0	\$0	\$0	\$0
32 Weatherization Loans	\$0	\$0	\$0	\$0	\$0
33 Prepayments	\$4,318	(\$4,318)	\$0	\$0	\$0
34 Misc. Deferred Debits & Credits	\$0	\$0	\$0	\$0	\$0
35 Misc. Rate Base Additions/(Deductions)	\$0	\$0	\$0	\$0	\$0
36 <b>Total Average Rate Base</b>	\$198,146	(\$5,072)	\$190,772	\$0	\$185,700
37 <b>Rate of Return</b>	7.77%		5.85%		7.516%
38 <b>Implied Return on Equity</b>	9.90%		6.22%		9.50%



**Docket No. UG 284  
Amended Stipulation 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 <b>BASE</b> MARGIN (from Avista/903 Ehrbar/page 2 of 4)	\$ 47,670,000	\$ 31,376,000	\$ 11,731,000	\$ 667,000	\$ 43,000	\$ 320,000	\$ 3,075,000
2	% of Current Margin excl Sch 447	100.00%	66.26%	24.78%	1.41%	0.97%	0.09%	6.49%
3	Present Base Revenue (from Avista/903 Ehrbar/page 2 of 4)	\$ 98,217,000	\$ 61,343,000	\$ 27,875,000	\$ 3,376,000	\$ 2,030,000	\$ 198,000	\$ 3,075,000
4	<b>Total Margin Revenue Increase (Line 3 times Line 4)</b>	\$ 5,000,000	\$ 3,291,029	\$ 1,708,971	\$ -	\$ -	\$ -	\$ -
5	Incremental <b>Margin</b> Increase as % of Present Margin Revenue (Line 4 divided by Line 1)	10.5%	10.5%	14.6%	0.0%	0.0%	0.0%	0.0%
6	<b>Base Revenue Summary:</b>							
7	Net Base Revenue Increase	\$ 5,000,000	\$ 3,291,029	\$ 1,708,971	\$ -	\$ -	\$ -	\$ -
8	Currently Approved Schedule 497 Moved into Base Revenue (UG-246 Step 2 Increase)	\$ 262,000	\$ 183,000	\$ 85,000	\$ (1,000)	\$ 3,000	\$ -	\$ (8,000)
9	<b>Total Base Revenue Increase</b>	\$ 5,262,000	\$ 3,474,029	\$ 1,793,971	\$ (1,000)	\$ 3,000	\$ -	\$ (8,000)
10	<b>Billed Revenue Summary:</b>							
11	Base Revenue Increase	\$ 5,262,000	\$ 3,474,029	\$ 1,793,971	\$ (1,000)	\$ 3,000	\$ -	\$ (8,000)
12	Cancellation of Schedule 497 (UG-246 Step 2 Increase)	\$ (262,000)	\$ (183,000)	\$ (85,000)	\$ 1,000	\$ (3,000)	\$ -	\$ 8,000
13	<b>Total Billed Revenue Increase</b>	\$ 5,000,000	\$ 3,291,029	\$ 1,708,971	\$ -	\$ -	\$ -	\$ -
14	<b>Present Billed Revenue</b>	\$ 101,217,000	\$ 63,128,000	\$ 28,664,000	\$ 3,484,000	\$ 2,280,000	\$ 205,000	\$ 3,116,000
15	Total Billed Revenue Impact (Line 13 divided by Line 14)	4.9%	5.2%	6.0%	0.0%	0.0%	0.0%	0.0%

- 16 Basic Charge:
- 17 Schedule 410 -- \$8.00 (no increase)
- 18 Schedule 420 -- \$14.00 (\$2.00 increase)

ORDER NO. 15 109

ORDER NO.

15 109

Avista Utilities  
Docket No. UG 284  
Oregon - Natural Gas  
Amended Stipulation Rates by Schedule  
\$5.262 Million Base Revenue Increase

<u>Present Base Rates</u>	<u>Net \$5 Million Base Rate Change</u>	<u>Current Approved Schedule 497 Moved to Base Rates</u>	<u>Proposed Base Rates</u>
<b>Residential Service Schedule 410</b>			
\$8.00 Customer Charge	\$0.00/month		\$8.00 Customer Charge
All Therms - \$0.46998/Therm	\$0.06703/therm	\$0.00372/therm	All Therms - \$0.54073/Therm
<b>General Service Schedule 420</b>			
\$12.00 Customer Charge	\$2.00/month		\$14.00 Customer Charge
All Therms - \$0.38147/Therm	\$0.05431/therm	\$0.00323/therm	All Therms - \$0.43901/Therm
<b>Large General Service Schedule 424</b>			
\$50.00 Customer Charge	\$0.00/month		\$50.00 Customer Charge
All Therms - \$0.13908/Therm	\$0.00000/therm	-\$0.00021/therm	All Therms - \$0.13887/Therm
<b>Interruptible Service Schedule 440</b>			
All Therms - \$0.11584/Therm	\$0.00000/therm	\$0.00068/therm	All Therms - \$0.11652/Therm
<b>Seasonal Service Schedule 444</b>			
All Therms - \$0.17082/Therm	\$0.00000/therm	\$0.00073/therm	All Therms - \$0.17155/Therm
<b>Transportation Service Schedule 456</b>			
\$275.00 Customer Charge	\$0.00/month		\$275.00 Customer Charge
1st 10,000 Therms - \$0.15016/Therm	\$0.00000/therm	-\$0.00038/therm	1st 10,000 Therms - \$0.14978/Therm
Next 20,000 Therms - \$0.09037/Therm	\$0.00000/therm	-\$0.00023/therm	Next 20,000 Therms - \$0.09014/Therm
Next 20,000 Therms - \$0.07428/Therm	\$0.00000/therm	-\$0.00019/therm	Next 20,000 Therms - \$0.07409/Therm
Next 200,000 Therms - \$0.05814/Therm	\$0.00000/therm	-\$0.00015/therm	Next 200,000 Therms - \$0.05799/Therm
Over 250,000 Therms - \$0.02949/Therm	\$0.00000/therm	-\$0.00007/therm	Over 250,000 Therms - \$0.02942/Therm

**Avista Utilities  
Docket No. UG 284  
Oregon - Natural Gas  
Cancellation of Schedule 497**

**Capital Cost Recovery (Adlyl A Pipe Replacement from UG-246)**

Line No.	Type of Service	Schedule Number	Total Proforma Therms	Schedule 497 Rate Per Therm	Schedule 497 Total Revenue
	(a)	(b)	(c)	(d)	(e)
1	Residential	410	49,097,140	\$ (0.00372)	\$ (182,641)
2	General Service	420	26,450,079	\$ (0.00323)	\$ (85,434)
3	Large General Service	424	4,438,427	\$ 0.00021	\$ 932
4	Interruptible Service	440	3,945,585	\$ (0.00068)	\$ (2,683)
5	Seasonal Service	444	253,423	\$ (0.00073)	\$ (185)
6	Transportation Service	456			
7	Block 1		4,973,548	\$ 0.00038	\$ 1,890
8	Block 2		8,894,640	\$ 0.00023	\$ 2,046
9	Block 3		6,464,231	\$ 0.00019	\$ 1,228
10	Block 4		15,641,729	\$ 0.00015	\$ 2,346
11	Block 5		653,094	\$ 0.00007	\$ 46
12	Total		36,627,242		\$ 7,556
13	Special Contract	447	7,979,130	\$ -	\$ -
14	Total		128,791,026		\$ (262,455)