ORDER NO. 16 076

ENTERED FEB 29 2016

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 288, UM 1753

In the Matters of AVISTA CORPORATION, dba AVISTA UTILITIES, Request for a General Rate Revision (UG 288) and Application for Authorization to Defer Expenses or Revenues Related to the Natural Gas Decoupling Mechanism (UM 1753)	PRELIMINARY ORDER

DISPOSITION: PARTIAL STIPULATIONS ADOPTED; REMAINING ISSUES DECIDED; FINAL ORDER TO FOLLOW

I. INTRODUCTION

In this order we address the request of Avista Corporation, dba Avista Utilities (Avista) for a general rate revision. We adopt the two partial stipulations filed by the parties, set forth our decision on the remaining disputed issues, and approve Avista's application for deferred accounting (docketed as UM 1753) related to a decoupling mechanism included as part of the first partial stipulation.

In this order we permanently suspend the tariffs in Advice No. 15-03-G. Avista is directed to file new tariffs consistent with this order to be effective March 1, 2016.

Because of the complex nature of a number of the disputed issues and the need for Avista to have sufficient time to make its compliance filing, in this order we provide only a brief discussion of the contested issues and state our resolution. We will soon enter a second order in which we more fully describe the positions of the parties and the reasons for our decisions.

II. BACKGROUND

On May 1, 2015, Avista filed Advice No. 15-03-G to effect a general rate increase for its Oregon retail customers of $8,557,000 (8.0 percent of its annual revenues). In Order No. 15-143, we suspended Avista's filing until March 3, 2016 for investigation of the propriety and reasonableness of the proposed tariffs.

Following settlement discussions, on November 6, 2015, Avista, the Commission Staff, the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU) filed a partial settlement stipulation (First Partial Stipulation) resolving certain issues in this docket. The stipulation is attached as Appendix A. On November 25, 2015, the parties filed joint testimony in support of the stipulation. The First Partial Stipulation and joint testimony are received in evidence.

The parties filed prepared testimony and submitted data request responses to be received as evidence on the remaining disputed issues, but waived the opportunity for cross-examination. All of the evidentiary materials proffered by each of the parties are received into evidence.

On January 19, 2016, the parties filed a second partial settlement stipulation (Second Partial Stipulation) resolving one of the remaining contested issues. The stipulation is attached as Appendix B. The parties filed a joint brief in support of the second stipulation on February 24, 2016. The Second Partial Stipulation is received in evidence.

This matter was submitted following oral argument on January 28, 2016.

III. AVISTA'S APPLICATION

According to Avista, the company's rate increase request is attributable to a combination of increasing rate base and general business expenses.[1] Avista states that over 65 percent of the increase (about $5.6 million) relates to increase in rate base, including replacement and maintenance of Avista's utility system and technology to sustain reliability, safety, and service. The remaining 35 percent (about $3.0 million) relates to increase in operation and maintenance (O&M) costs and administrative and general (A&G) expenses and a net change in retail revenues since the company's last rate case.[2]

Avista's request is based on a proposed rate of return of 7.72 percent, with a capital structure common equity component of 50 percent and a 9.9 percent return on equity (ROE). The filing is based on a forecasted test year for the 2016 calendar year. The company used a long-run incremental cost (LRIC) study as the basis for its proposed rate spread.[3]

Assuming an average usage of 47 therms per month, the average residential bill would increase under Avista's request by $5.68 per month, or about 8.9 percent, from $63.65 to $69.33.[4] That calculation includes the cost of gas. Expressed in terms of the proposed changes to the customer charge and base rate, Avista's proposed residential rate increase is 17 percent.

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[1] Avista/100, Morris/8.
[2] *Id.* at 8-9.
[3] *Id.*
[4] *Id.*

IV. THE FIRST PARTIAL STIPULATION

A. Terms of the Stipulation

In their First Partial Stipulation, the parties agree on certain adjustments to the revenue requirement, a decoupling mechanism, issues related to Avista's energy efficiency programs and the Energy Trust of Oregon (ETO), and changes to the basic monthly charges for various schedules. They also agree to refinements to Avista's load forecasting methodology.

1. Revenue Requirement Adjustments

The stipulated changes to the revenue requirement are shown in this table:[5]

Adjustments to Revenue Requirement	
As Filed Revenue Requirement	$8,557,000
Rate of Return	($23,000)
Revenue Sensitive - State Effective Tax Rate	($41,000)
Uncollectibles	($7,000)
Working Capital	($116,000)
State Taxes	($1,353,000)
Depreciation	($278,000)
Directors and Officers (D&O) Insurance	($52,000)
Various Administrative and General (A&G) Expenses	($31,000)
Wages and Salaries	($65,000)
Property Tax	($69,000)
Prepaid Pension Asset	($605,000)
Other Revenues - Miscellaneous Revenue	($34,000)
Load Forecasting	$867,000
Cost Allocations	($9,000)
Total Stipulated Adjustments	**($1,816,000)**
Adjusted Revenue Requirement	$6,741,000

The material changes include reducing working capital by $116,000, reducing state taxes by $1,353,000, reducing depreciation by $278,000, and adjusting rate base to remove Avista's prepaid pension asset ($605,000 reduction in revenue requirement). The parties stipulate to a load forecast that results in an $867,000 increase in revenue requirement. They also agree to reduce the cost of debt from 5.530 percent to 5.515 percent ($23,000 reduction in revenue requirement).

[5] First Partial Stipulation at 3.

2. *Rate Design*

The parties agree to raise the monthly customer basic charge for Residential Service Schedule 410 by $1 per month, from $8 to $9. For General Service Schedule 420 they agree to raise the monthly customer basic charge by $3 per month, from $14 to $17. They propose no change in the monthly rate for Large General Service Schedule 424 and Transportation Service Schedule 456.

3. *Decoupling Mechanism*

The parties agree that Avista will implement a revenue-per-customer decoupling mechanism. To implement this mechanism, Avista filed an application to defer certain expenses or revenues on December 16, 2015 (docket UM 1753). The parties agree to support Avista's application and propose that it be approved at the same time we approve the First Partial Stipulation.

4. *Energy Trust of Oregon and Energy Efficiency Charge*

The parties agree to move Avista's energy efficiency programs to the ETO. Avista will establish a separate natural gas energy efficiency tariff to collect costs (through current rates) for administering and delivering energy efficiency programs. In 2016, Avista will offer conservation programs and the ETO will administer a conservation acquisition program. In 2017, the monies collected through the tariff will be transferred to the ETO.

Avista will continue to collect monies to fund low income household programs delivered by the Avista Oregon Low Income Energy Efficiency Program (AOLIEE) and the Low Income Rate Assistance Program (LIRAP).

5. *Load Forecast Refinements*

The parties agree to load forecast adjustments for purposes of this rate case. They also agree to load forecasting refinements to be applied by Avista in its next load forecast, which is planned to be completed in June 2016.

B. Commission Resolution

We find that the First Partial Stipulation is reasonable and should be adopted. As requested by the parties, we also approve Avista's deferral application, docket UM 1753.

V. SECOND PARTIAL STIPULATION

A. Terms of the Stipulation

On December 30, 2015, Avista revised its requested revenue requirement from the $6.741 million agreed to in the First Partial Stipulation, to $6.447 million (a downward adjustment of $294,000) based on changes to the bonus depreciation adjustment to results of operations to reflect the benefit of bonus tax depreciation in 2015 and its impact on federal income tax payments. In their Second Partial Stipulation, the parties agree to reduce the revenue requirement by $675,000 (instead of Avista's proposed $294,000) to factor in these benefits. With this adjustment, Avista's proposed revenue requirement increase is now $6.066 million.

The parties note that their $675,000 adjustment takes into consideration the level of capital additions proposed by Avista in its original filing for 2015. If we approve capital additions less than the amount proposed by the company, the $675,000 reduction to revenue requirement should be reduced by a *pro rata* amount.

B. Commission Resolution

We find that the Second Partial Stipulation is reasonable and should be adopted.

VI. CONTESTED ISSUES

A. Cost of Capital

1. Positions of the Parties

The parties dispute two issues related to cost of capital. First, the parties disagree on the proper amount of equity in Avista's capital structure. Avista proposes 50 percent equity, Staff recommends 49.86 percent equity, and CUB and NWIGU propose 48.5 percent equity.

Second, the parties disagree on the level of Avista's required ROE. Using three different methodologies, Avista derived a range of reasonable returns of 9.5 percent to 10.8 percent, and recommends we adopt an ROE of 9.9 percent. Staff derived an ROE range of 8.97 percent to 9.39 percent using a multi-stage discounted cash flow (DCF) model, and recommends an ROE of 9.18 percent.[6] CUB's and NWIGU's jointly sponsored witness proposes an ROE of 9.35 percent, based on five different methodologies.

2. Commission Resolution

Based on the evidence, we adopt Avista's proposed capital structure of 50 percent equity, 50 percent debt. Taking into account the positions of the parties as well as the implications of our findings on other issues, we adopt an ROE of 9.4 percent. This results in a rate of return of 7.458 percent.

B. Plant Additions

1. Positions of the Parties

Avista proposes to increase its net plant by $47.6 million, reflecting $45.6 million of capital for 2015, plus an additional $2 million for customer hookups in the first quarter of 2016. The main projects driving the increase are: Project Compass, the Aldyl-A Pipe Replacement, the East Medford Reinforcement, and the Ladd Canyon Gate Station Upgrade, which together account for $21.2 million.

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[6] Modified from 9.11 percent, as explained by Staff in its motion to submit corrected Staff exhibits 202 and 203, filed January 6, 2016.

Staff and CUB/NWIGU challenge the timing and prudence of the plant investments, and primarily focus on two projects: (1) East Medford and (2) Ladd Canyon. Rather than examine the prudence of the plant additions, Staff proposes to reduce the amount of plant additions by about $30 million, based on an analysis of growth rates and its view that Avista failed to meet its burden of proof that its investments are necessary and prudent.

With regard to East Medford and Ladd Canyon, CUB/NWIGU argue that Avista's analysis of these projects was flawed. They claim Avista did not provide a comprehensive cost-benefit analysis of whether or when the project should be built, did not evaluate the range of alternative build dates, and did not analyze the impact on reliability and customer rates.

2. Commission Resolution

We find that Avista has satisfied its burden of proof and allow the company full recovery of its capital costs related to plant additions. However, we share some of Staff's and the intervenors' concerns about Avista's management and timing of these projects.

C. Project Compass Bonuses

We allow Avista to recover 100 percent of the Project Compass bonuses.

D. Wages and Salaries; Bonus Incentives

We adopt Staff's recommendation to disallow 100 percent of officer bonuses, 75 percent of performance-based bonuses, and 50 percent of merit-based bonuses.

E. Medical Benefits

We decline to adopt Staff's proposed adjustment of $133,000 to health insurance expense.

F. Pension Expense

The parties disagree on the proper Expected Return on Assets (EROA), which is used to calculate, in part, pension expense. Avista proposes an EROA for ratemaking purposes of 5.3 percent. Staff and CUB/NWIGU claim that figure is too low, and recommend an EROA of 7.0 percent and 6.6 percent, respectively.

We find that a EROA of 6.6 percent is reasonable.

G. Post-Retirement Medical Expense

We decline to adopt Staff's proposed post-retirement expense adjustment.

H. Results of Operations

The results of our decision are shown in the following table showing adjustments to revenue requirement and rate base:

Adjusted Revenue Requirement incorporating both stipulations	6,066.000
Rate of Return (9.4% ROE, 50% Equity/50% Debt)	(926,000)
Wages & Salaries/Bonus Incentives	(329,000)
Pension Expense (6.6% EROA)	(351,000)
Final Revenue Requirement	4,460.000

The overall effect is a rate increase of $4,460,000 (4.9 percent).

I. Rate Spread

1. Positions of Parties

Avista proposes to raise its residential and general service commodity rates and reduce rates for large general service, seasonal service, and transportation service as shown in this table:

Proposed Increase by Schedule	
Residential Schedule 410	17.0 percent
General Service Schedule 420	21.4 percent
Large General Service Schedule 424	-7.0 percent
Interruptible Service Schedule 440	0.0 percent
Seasonal Service Schedule 444	-7.0 percent
Transportation Service Schedule 456	-7.0 percent

Staff and NWIGU support Avista's proposal, while CUB proposes a rate spread that would have no customer class receiving more than three times the increase of any other customer class.

2. Commission Resolution

We do not adopt any of the rate spread proposals. Instead, we allocate the rate increase to residential and general service customers and do not increase or reduce rates for large customers. Consistent with the company's application, we allocate the rate increase to residential and general service customers so that General Service Schedule 420 will receive a 0.6 percent increase above that of Residential Schedule 410 on total revenue basis.

The adopted rate spread is shown in the following table:

Increase by Schedule		
	Distribution Margin Percentage Increase	Billed Revenue Percentage Increase
Residential Schedule 410	8.6%	5.2%
General Service Schedule 420	11.1%	5.8%
Large General Service Schedule 424	0.0%	0.0%
Interruptible Service Schedule 440	0.0%	0.0%
Seasonal Service Schedule 444	0.0%	0.0%
Transportation Service Schedule 456	0.0%	0.0%
Total	8.5%	4.9%

VII. ORDER

IT IS ORDERED that

1. The first partial settlement 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. The second partial settlement 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 B is adopted.

3. Advice No. 15-03-G is permanently suspended.

4. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this order, to be effective no earlier than March 1, 2016.

5. The application for deferred accounting, docketed as UM 1753, is approved and the docket is closed.

Made, entered, and effective FEB 29 2016.

Susan K. Ackerman
Chair

John Savage
Commissioner

Stephen M. Bloom
Commissioner

PUBLIC UTILITY COMMISSION OF OREGON

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 288

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision.	)))))	PARTIAL SETTLEMENT STIPULATION

This Partial Settlement Stipulation ("Stipulation") is entered into for the purpose of resolving several issues in this Docket.

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 May 1, 2015, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $8,557,000, or 8.0 percent of its annual revenues. The filing was suspended by the Commission on May 6, 2015, per its Order No. 15-143.

2. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of June 5, 2015, a settlement conference was held on September 15, 2015. On October 16, 2015, Staff, CUB, and NWIGU filed Opening Testimony in response to the Company's original filing. On October 20, 2015, an additional settlement conference was held.

3. As a result of the settlement discussions held on October 20, 2015, the Parties have agreed to settle the following issues in this Docket, including adjustments to the revenue requirement, agreement on the institution of a natural gas decoupling mechanism, issues related to the Company's energy efficiency programs and the Energy Trust of Oregon, and rate design issues, on the following terms, subject to the approval of the Commission.

TERMS OF PARTIAL SETTLEMENT STIPULATON

4. **Adjustments to Revenue Requirement:**

The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a total reduction in Avista's revenue requirement increase request from $8.557 million to a base revenue increase of $6.741 million.

This Stipulation represents the settlement of several, but not all, revenue requirement issues in the Company's filing. The Parties support the adjustments to Avista's revenue requirement request shown in Table No. 1 below:

Table No. 1 – Summary of Adjustments to Revenue Requirement and Rate Base

SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE ($000s of Dollars)		Revenue Requirement	Rate Base
Amount as filed:		$8,557	$217,824
Adjustments:			
a	**Rate of Return** Adjusts the Cost of Debt to 5.515%.	(23)	-
b	**Revenue Sensitive - State Effective Tax Rate** Revises the State Income Tax (SIT) rate to factor in an agreed-upon rate. This change impacts the Conversion Factor and adjustment "e" below.	(41)	-
c	**Uncollectibles** Reduces the Company's uncollectible expense to an agreed-upon level.	(7)	-
d	**Working Cash** Removes the additional working capital rate base adjustment to include only materials and supplies.	(116)	(1,090)
e	**State Taxes** Revises the level of SIT to an agreed-upon level. [Note: An additional $650,000 reduction is being proposed by NWIGU and CUB and is not agreed to by the Company. This relates to the impact of 2015 bonus depreciation on ADFIT.]	(1,353)	-
f	**Depreciation** This reduces the level of depreciation expense for updated depreciation rates.	(278)	112
g	**D&O Insurance** This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	(52)	-
h	**Various A&G Expenses** Revises the Company's expected administrative and general expenses related to meals and other expenses.	(31)	-
i	**Wages & Salaries** Reduces wages and salaries expense to an agreed upon level for an updated CPI.	(65)	-
j	**Property Tax** Adjusts property tax expense to an agreed-upon level.	(69)	-
k	**Prepaid Pension Asset** Removes the rate base treatment of the Company's prepaid pension asset from this Docket, in accordance with Order 15-226 in Docket No. UM1633, reducing rate base by $5,655,000.	(605)	(5,655)
l	**Other Revenues - Miscellaneous Revenue** This adjustment includes updates to the Company's other revenues to an agreed-upon level.	(34)	
m	**Load Forecasting** Adjusts for updated load forecast.	867	
n	**Cost Allocations** Reduces utility operations expense to an agreed-upon level.	(9)	
o	**Distribution O&M** The parties accept the Company's level of expenses as excluding costs associated with the Company's 2012 Voluntary Severance Incentive Plan.	-	
p	**Other Gas Supply** The parties accept the Company's level of expense associated with Other Gas Supply labor.	-	
q	**Prepaid Pension Asset (Debt Interest)** The parties accept the Company's level of expense for the debt interest expense associated with the removal of the Prepaid Pension Asset.	-	
	Total Adjustments:	($1,816)	($6,633)
	Adjusted Base Revenue Requirement & Rate Base:	$6,741	$211,191

The following information provides an explanation for each of the adjustments in Table No. 1 above.

a. Cost of Debt (-$23,000): Adjusts the Cost of Debt from 5.530 to 5.515 percent.[1]

b. Revenue Sensitive – State Effective Tax Rate (-$41,000): Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. This change affects the Conversion Factor and adjustment "e" below.

c. Uncollectibles (-$7,000): Reduces the Company's uncollectible expense to an agreed-upon level.

d. Working Capital (-$116,000): Removes the additional working capital rate base adjustment to include only materials and supplies. This adjustment reduces rate base $1,090,000.

e. State Taxes (-$1,353,000): This adjustment removes the Company's pro formed SIT expense to factor in the benefits of bonus depreciation and available tax credits on state income taxes that will be paid. An additional $650,000 reduction is still being proposed by NWIGU and CUB and is not agreed to by the Company. This relates to the impact of 2015 bonus depreciation on ADFIT.

f. Depreciation (-$278,000): This adjustment reduces both the level of depreciation expense, accumulated depreciation, and accumulated deferred federal income tax in rate base for updated depreciation rates.

g. Directors and Officers (D&O) Insurance (-$52,000): This reduces the Company's D&O insurance to exclude 50% of various D&O insurance layers.

[1] Although the Cost of debt has been agreed to, the parties have not yet agreed to the capital structure. Once a capital structure has been established, this will impact the debt interest on all rate base adjustments.

h. Various Administrative & General (A&G) Expenses (-$31,000): This adjustment revises the Company's administrative and general expenses related to meals and other expenses.

i. Wages and Salaries (-$65,000): This adjustment reduces wages and salaries expense to an agreed upon level for an updated CPI.

j. Property Taxes (-$69,000): This adjustment includes updates to the Company's property tax expense to an agreed-upon level.

k. Prepaid Pension Asset (-$605,000): This adjustment removes the rate base treatment of the Company's prepaid pension asset from this Docket, in accordance with Order 15-226 in Docket No. UM 1633, reducing rate base by $5,655,000.

l. Other Revenues – Miscellaneous Revenue (-$34,000): This adjustment includes updates to the Company's other revenues to an agreed-upon level.

m. Load Forecasting (+$867,000): This adjustment reflects an agreed-upon updated load forecast.

n. Cost Allocations (-$9,000): This adjustment reduces utility operations expense to an agreed-upon level.

The following items "o. – q." are adjustments proposed by Parties, where the Parties, for settlement purposes, have accepted the level of expenses as filed by the Company in this docket:

o. Distribution O&M: Staff's proposed adjustment would have reduced O&M for expenses related to the Company's 2012 Voluntary Severance Incentive Plan. The Parties agree that no such adjustment is required.

p. Other Gas Supply: Staff's proposed adjustment would have reduced the level of expenses associated with Other Gas Supply labor. For settlement purposes, the Parties agree that no such adjustment to Other Gas Supply is necessary.

q. Prepaid Pension Asset (Debt Interest): Staff's proposed adjustment would have reduced interest expense for the debt interest expense associated with the removal of the Prepaid Pension Asset. The Parties agree that this adjustment is already captured in Adjustment "k" in Table No. 1 above.

5. **Rate Design:**[2]

The Parties support the following rate design: For Residential Service Schedule 410, the monthly customer basic charge will be increased by $1 per month, from $8.00 to $9.00 per month. The monthly customer charge for General Service Schedule 420 will be increased by $3.00 per month, from $14.00 to $17.00. The monthly customer charge for the Large General Service Schedule 424 and Transportation Service Schedule 456 will remain unchanged.

6. **Natural Gas Decoupling Mechanism:**

The Parties agree that Avista will implement a Revenue-Per-Customer natural gas decoupling mechanism ("Decoupling Mechanism"). Below are the key components of the mechanism:

a. Decoupling Mechanism Term. The mechanism will become effective when new base rates are implemented. The Parties agree that, by September 2019, there will be an opportunity to review the Decoupling Mechanism, which would allow the Company, Staff and other parties to recommend changes, if any. The Parties further agree that the Company may file a deferral application to track decoupling-related revenue variances to begin the first day of the month, in which rates become effective. The Parties agree to support the Company's deferral

[2] While the Parties have resolved all rate design issues, cost of service and rate spread issues have yet to be resolved.

application, understanding that the Commission's approval of the deferral application is an integral part of this Stipulation.

b. Rate Groups. Customers will be combined into two rate groups:

1. Residential – Schedule 410
2. Commercial – Schedules 420, 424, 440, and 444

c. Existing Customers and New Customers. The Parties have agreed that new customers, defined as new meters hooked up to Avista's distribution system, will not be included in the mechanism unless those new meters were included in the test year forecast of revenues.[3] In addition, Avista will track new customer usage, even the usage for the new customers in the rate year, for informational purposes, for a three year period, to determine whether new customers use more or less than existing customers.

d. Quarterly Reporting. Avista will file, within 45 days of the end of each quarter, a report detailing the decoupling activity by month. The reporting will also include information related to the deferrals by rate group, use-per-customer for existing and new customers, and other summary financial information. Avista will provide such other information as may be reasonably requested, from time to time, in the future quarterly reports.

e. Annual Filings. On or before August 1, of each year, the Company will file a proposed rate adjustment (surcharge or rebate) based on the amount of deferred revenue recorded for the prior January through December time period.[4] The rate adjustment will be calculated

[3] The number of customers decoupled each month cannot exceed the monthly forecasted number of customers, by rate group, included in the agreed-upon 2016 forecasted customers. To the extent the number of actual customers in a given month exceed the forecasted level of customers, the Company will use the new customer revenue hookup report to determine the average decoupled revenue per new customer. The average decoupled revenue per customer would then be multiplied by the number of actual customers that exceed the monthly forecasted level of customers. That amount would then be deducted from the monthly actual decoupled revenue prior to calculating the decoupling deferral entry.

[4] For 2016, with the expectation that new rates would go into effect in March 2016, only 10 months (March 1 through December 31, 2016) would be tracked.

separately for each Rate Group, with the applicable surcharge or rebate recovered from each group on a uniform-cents-per-therm basis. The proposed tariff Schedule 475 included with that filing will include a rate adjustment that recovers/rebates the appropriate deferred revenue amount over a twelve-month period, effective on November 1st, for natural gas (to match with the annual Purchased Gas Cost Adjustment rate adjustment time period). The deferred revenue amount approved for recovery or rebate will be transferred to a balancing account and the revenue surcharged or rebated during the period will reduce the deferred revenue in the balancing account. After determining the amount of deferred revenue that can be recovered through a surcharge, or refunded through a rebate, by Rate Group, the proposed rates under Schedule 475 will be determined by dividing the deferred revenue to be recovered by Rate Group by the estimated therm sales for each Rate Group during the twelve-month recovery period. Any deferred revenue remaining in the balancing account at the end of the amortization period will be added to the new revenue deferrals to determine the amount of the proposed surcharge/rebate for the following year.

f. Interest. Interest will accrue on deferrals at the Company's authorized rate of return, similar to other Company deferrals. Once a deferral balance is approved for amortization, interest will accrue at the Modified Blended Treasury Rate, similar to other Company amortizations.

g. Accounting. Avista will set up two deferral accounts to explicitly account for weather[5] and conservation (non-weather). It will record the deferrals in account 186 – Miscellaneous Deferred Debits. The amount approved for recovery or rebate will then be transferred into a Regulatory Asset or Regulatory Liability account for amortization. On the

[5] The Company will use the same weather normalization (IRP weather parameters) as was used in the Company's load forecast.

income statement, the Company will record both the deferred revenue and the amortization of the deferred revenue through Account 495 (Other Gas Revenue), in separate sub-accounts. The Company will file quarterly reports with the Commission showing pertinent information regarding the status of the current deferral. This report will include a spreadsheet showing the monthly revenue deferral calculation for each month of the deferral period (January - December), as well as the current and historical monthly balance in each deferral account.

h. <u>3% Rate Increase Cap</u>. The amount of the rate increase resulting from the decoupling adjustment will be subject to an annual <u>incremental</u> limit of 3%, <u>i.e.</u>, the annual increase in the surcharge cannot exceed 3% of billed revenues for each rate group, each year, with unrecovered balances carried forward to future years for recovery. The incremental surcharge (percentage) increase is determined by subtracting the annual revenue amount recovered by the <u>present</u> surcharge rate from deferred revenue to be recovered through the proposed surcharge rate, and dividing that net amount by the total "normalized" revenue by Rate Group for the most recent January through December period. The normalized revenue is determined by multiplying the weather-corrected usage for the period by the present billing rates in effect.[6] If the incremental surcharge exceeds a 3% rate increase, only a 3% increase is implemented and any additional deferred revenue will remain in the deferred revenue account, and could be recovered the following year, subject to the 3% limitation. Again, the 3% limitation is not applicable if the Company is in a rebate position.

i. <u>Real Time Rebates/Surcharges</u>. Avista will revisit opportunities for "real time" rebates/surcharges within the next twelve months after new rates go into effect.

7. **<u>Energy Trust of Oregon and Energy Efficiency Charge:</u>**

The Parties agree and support the following provisions for Commission approval:

[6] Inclusive of booked billed revenue, booked unbilled revenue and the weather adjustment.

A. Avista will establish a separate natural gas energy efficiency tariff to collect costs, through current rates and not through a deferral mechanism (as is currently used for Avista's energy efficiency programs) for administering and delivering energy efficiency programs. In 2016, Avista will still be offering conservation programs and the Energy Trust of Oregon (ETO) will also administer a conservation acquisition program.[7] The monies collected through the new tariff will go to Avista in 2016, except for the amount of $156,000, that will be conveyed to the ETO in equal monthly installments of $15,600, payable no later than the 15th of each month. The $156,000 is comprised of $84,000 for the ETO Conservation Program and $72,000 for Planning and Development to complete all work necessary to have a "warm start" for the 2017 ETO-administered conservation programs. In 2017, the monies collected through this tariff will be transferred to the ETO. Subject to Commission approval, the tariff will be revised to match the ETO's administrative costs and expenses needed to offer conservation programs to Avista's customers in 2017.[8]

B. The Company will retain collection for funding low income household programs, delivered by the following Community Action Agencies: Avista Oregon Low Income Energy Efficiency Program (AOLIEE) and the Low Income Rate Assistance Program (LIRAP). Effective 2017, a separate tariff to administer AOLIEE program will be established. The Company will continue the Schedule 493 tariff for collecting expenses related to LIRAP.

[7] Per discussions with Staff and the ETO, the ETO stated that it would be able to institute the first program in late 2016.

[8] The tariff will also include a certain level of funding to fund Avista program administration and marketing.

C. Avista's related prudently-incurred expenditures concerning the transition of programs to the ETO, and incremental to those costs included in rates or any deferral balance, will be recoverable through the Company's annual Schedule 478 (DSM Cost Recovery) filing for 2017.

D. For Schedule 478, for rates effective November 1, 2016, that rate will recover prudently incurred conservation-related costs carried out by Avista for the time period July 1, 2015, through the last day prior to the effective date of the tariffs in this general rate filing, UG 288. The November 1, 2016 rate will also recover the unamortized DSM balance as of the last day prior to the effective date of the tariffs in this docket.[9]

E. The Parties agree that, as a part of the final tariff compliance filing at the end of this case, to establish a new rate schedule, Schedule 469, which will be established at the same rates as provided in Schedule 478. The rates under Schedule 478 will be then set at $0.00000 per therm on the effective date of the compliance tariffs, and remain at that level until November 1, 2016, when a revised Schedule 478 will go into effect pursuant to subsection 8.D above. The revenue collected under the new Schedule 469 (which are the same rates as the present rates for Schedule 478) will be used to fund present DSM expenditures starting March 1, 2016 (for Avista and ETO programs), and for 2017 and beyond (ETO programs). Any required adjustments to future DSM funding will be requested on an as-needed basis.

[9] The estimated balance of conservation-related costs as of March 1, 2016 is $526,000, and the unamortized prior period deferral balance, presently being recovered in Schedule 478, is $1.2 million.

8. **Load Forecast Refinements:**

The Parties have agreed on the Load Forecasting adjustment issue in this general rate case. Avista has further agreed to the following refinements, which it will include in its next load forecast, currently planned to be completed in June 2016:

a. The Company will provide written documentation and justification explaining why certain rate schedule forecasts do not rely on traditional regression models.

b. The Company will include a forecast driver related to the timber industry for use-per-customer forecasts for schedules dominated by timber product firms.

c. The Company will maximize the amount of historical data used in the forecasting models. If the full historical data is not used, the Company will provide written details including statistical details when available explaining why the full historical data set was not used.

d. The customer forecasts for La Grande, Roseburg, and Klamath will include population as a direct forecast driver. The Company's current method for integrating population into the Medford customer forecast will also be used for these three regions.

e. In addition to the regression output files provided in UG 288, the Company will also retain, for future forecasts, the modeling and project files so the Parties can more easily replicate the Company's forecasts by schedule.

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

10. 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.

11. 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.

12. **Contested Adjustments:**

The Parties note that the remaining contested revenue requirement issues are as follows:

a. ROE and Capital Structure: The appropriate Return on Equity and Capital Structure.

b. Information Technology related to Project Compass: Staff's proposed disallowance related to Project Compass.

c. Plant Investment: The appropriate level of capital additions.

d. Wage & Salaries – Bonus & Incentives: The appropriate level of bonus and incentives.

e. Medical Benefits: The appropriate level of medical expenses.

f. Pension Expense: The appropriate level of pension expense.

g. Post Retirement Medical Expenses: The appropriate level of post retirement medical expenses.

h. Bonus Depreciation: NWIGU-CUB's proposed adjustment would increase ADFIT, for an additional reduction to rate base for ADFIT.

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 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 6th day of November 2015.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________ David J. Meyer	By: ______________ Michael Weirich
Date: Nov. 6th, 2015	Date: ______________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________ Chad M. Stokes	By: ______________ Sommer Templet Moser
Date: ______________	Date: ______________

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 _____ day of November 2015.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: Miles [signature]
David J. Meyer	Michael Weirich
Date: ______________________	Date: 11/6/15
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________	By: ______________________
Chad M. Stokes	Sommer Templet Moser
Date: ______________________	Date: ______________________

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.

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

DATED this _____ day of November 2015.

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: ____________________ Sommer Templet Moser
Date: 11/6/15	Date: ____________________

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

DATED this _____ day of November 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: Bob [signature]
~~Sommer Templet Moser~~ Bob Jenks

Date: 11-6-15

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 288

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision.	)))))	SECOND PARTIAL SETTLEMENT STIPULATION

This Second Partial Settlement Stipulation ("Stipulation") is entered into for the purpose of resolving an additional issue in this Docket.

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 May 1, 2015, Avista filed revised Tariff Schedules to effect a general rate increase for Oregon retail customers of $8,557,000 or 8.0 percent of its annual revenues. The filing was suspended by the Commission on May 6, 2015, per its Order No. 15-143. Settlement conferences were held with the parties on September 15, 2015, and again, on October 20, 2015, resulting in a Partial Settlement Stipulation that was filed with the Commission on November 6, 2015. In the Stipulation, the parties agreed on several (but not all) adjustments to the proposed

revenue requirement, resulting in a reduction in Avista's revenue requirement increase from $8.557 million to a base revenue increase of $6.741 million.[1]

2. On December 30, 2015, the Company revised its requested revenue requirement from $6.741 million to $6.447 million based on revisions to the Bonus Depreciation adjustment to results of operations to reflect the benefit of bonus tax depreciation in 2015 and its impact on federal income tax payments.

3. As a result of further discussions among the Parties concerning the treatment of Bonus Depreciation in this case, the Parties have agreed to resolve this issue in the manner set forth below.

TERMS OF SECOND PARTIAL SETTLEMENT STIPULATION

4. **Bonus Depreciation:** The Company's revenue requirement contained in its Reply Testimony was $6,741,000. On December 30, 2015, the Company filed revised testimony, and sections of its Post Hearing Brief, to reflect a reduction of $294,000 related to the effects of Bonus Depreciation. The Parties agree to reduce the revenue requirement by $675,000, instead of $294,000, to factor in the benefits of 2015 bonus depreciation and its impact on accumulated deferred federal income taxes (ADFIT). As a result, the Company's proposed revenue requirement is now $6,066,000. This adjustment results from an additional reduction to rate base related to ADFIT. This adjustment is based on the level of capital additions for 2015 that were pro formed in the Company's original filing of approximately $43 million. If the Commission approves 2015 capital additions less than the amount pro formed by the Company, $675,000 reduction to revenue requirement should be reduced by a pro rata amount.

[1] The Parties also agreed on several other non-revenue requirement related items. This includes a natural gas decoupling mechanism, the movement of the Company's energy efficiency programs to the Energy Trust of Oregon, and rate design (not rate spread) items.

5. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). 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.

6. 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.

7. 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.

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

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10. 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 19th day of January 2016.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ________________ David J. Meyer	By: ________________ Michael Weirich
Date: Jan 19, 2016	Date: ________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ________________ Chad M. Stokes	By: ________________ Sommer Templet Moser
Date: ________________	Date: ________________

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

DATED this _____ day of January 2016.

AVISTA CORPORATION

By: ______________________
David J. Meyer

Date: ______________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Mike
Michael Weirich

Date: 1/19/16

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________
Chad M. Stokes

Date: ______________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________
Sommer Templet Moser

Date: ______________________

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

DATED this _____ day of January 2016.

AVISTA CORPORATION

By: ____________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ____________________________
Chad M. Stokes

Date: 1/19/16

CITIZENS' UTILITY BOARD OF OREGON

By: ____________________________
Sommer Templet Moser

Date: ____________________________

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

DATED this _____ day of January 2016.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: ______________________
David J. Meyer	Michael Weirich
Date: ______________________	Date: ______________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________	By: Sommer Moser
Chad M. Stokes	Sommer Templet Moser
Date: ______________________	Date: ______________________