BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 186

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

DISPOSITION: STIPULATION APPROVED

I. INTRODUCTION

On June 25, 2009, Avista Corporation (Avista) filed an application for a general rate revision for Oregon retail customers for an increase of about $14.2 million (11.6% of its annual revenues). Avista's filing was suspended by the Commission at its July 16, 2009, public meeting.

A prehearing conference was held on July 22, 2009. Parties appearing at the prehearing conference were Avista, the Staff of the Oregon Public Utility Commission (Staff), the Citizens' Utility Board of Oregon (CUB) and the Northwest Industrial Gas Users (NWIGU).

Pursuant to procedures adopted at the prehearing conference and in the conference report issued August 11, 2009, CUB filed a request for supplemental opening testimony to be filed by Avista. On August 13, 2009, the Administrative Law Judge issued a ruling directing Avista to file the testimony as requested by CUB. On September 1, 2009, Avista filed its supplemental opening testimony.

On September 29, 2009, parties filed a stipulation "resolving all revenue requirement and rate spread/rate design issues." Parties to the stipulation are Avista, Staff, CUB, and NWIGU.

The parties filed their Stipulation before Staff and Intervenors had filed their testimony. However, it appears from the face of their Stipulation that on September 15, 2009, Staff served on all parties its report on the issues and proposed adjustments to Avista's revenue requirement. Staff's report was intended for settlement purposes and is not in the record in this proceeding.

In their Stipulation, the parties agreed to a rate increase of $8.75 million (7.1 percent). Their agreement is conditioned on having the new rates effective November 1, 2009.

II. AVISTA'S APPLICATION

A. In General

Avista filed its application using a twelve month test period, ending December 31, 2010, presented on a forecasted basis. The Company's pro forma results of operations for the test period indicate that, at current rates, Avista would earn a return on equity of 3.3 percent.

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

Together with its application Avista filed the testimony and exhibits of seven witnesses. Their testimony addresses: (a) policy and operations, (b) financial overview, capital structure and overall rate of return, (c) return on equity, (d) capital projects, (e) revenue requirements and allocations, (f) long-run incremental cost of service, and (g) rate design and rate spread.

B. Policy and Operations

Avista states that its proposed rate increase is driven primarily by net plant investment. The Company reports that it has four major capital projects planned that will be completed in Oregon that have been included in its filing.[1]

Avista states that it serves 95,000 customers in Oregon, in the areas of Medford, Klamath Falls, Roseburg, and LaGrande. In 2008, Avista delivered about 118 million therms to its Oregon customers. Residential customers account for about 60 percent of its revenues, and about 42.5 percent of the delivered gas volume. General service customers account for about 30 percent of revenues and about 23.4 percent of the delivered gas volume. Transportation customers account for 1.6 percent of revenues and 22.8 percent of the delivered gas volume.

Avista received recent upgrades to its corporate credit ratings to investment grade from rating agencies. However, even with those upgrades, it is still at the lowest investment grade status. It considers "timely" rate relief as an important element in continuing to gain financial strength and improve the Company's credit rating.

[1] These four projects are the East Medford Reinforcement Project, the Roseburg Reinforcement Project, the Gas ERT Replacement Project, and the Grants Pass Reinforcement Project.

Avista professes a strong commitment to provide its customers with high quality service. The Company reports that its customer service survey results show an overall customer satisfaction rating of 94 percent in its Oregon, Washington, and Idaho divisions.

Avista acknowledges that its proposed rate increase will result in natural gas bills that will be more difficult for some of its customers to pay. The Company reports that it has undertaken a number of cost-cutting and efficiency measures to try to mitigate the rate impacts. A number of such measures are identified in the Company's testimony.

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

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

Avista states that its goal is to achieve and maintain a good corporate credit rating that will allow it to move away from the "cliff" of the investment grade rating scale. By operating at a higher rating, the Company expects to reduce long-term financing costs to customers and also reduce collateral requirements, allowing it to maintain more access to counterparties for energy transactions.

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

To attract capital investment, Avista reports that it carries a capital structure that provides for a competitive and/or attractive risk/reward proposition for equity holders. The Company has increased its dividend to common shareholders and announced its intent to work toward a dividend payout ratio comparable to other utilities.

Avista describes its borrowing practices in the face of difficult financial markets. The Company was able to negotiate a line of credit that allowed it to defer issuing long-term debt under unfavorable terms.

Avista reports in detail its financial circumstances in terms of its credit ratings by independent agencies. The Company stresses the need to maintain a "solid" investment grade rating.

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

[2] We note that Oregon is just one of the regulatory jurisdictions in which Avista provides service.

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

Avista states that the amount of capital expenditures planned for 2009/2010 is about $420 million. Ratebase on December 31, 2008, was at $1.8 billion, meaning that these planned additions represent "substantial" new investments, given the size of the Company.

Avista states that its stock price currently is below book value and the Company has no plan to issue additional stock at this time. Avista recognizes that its inability to access the equity market creates increased pressure on its capital structure.

Avista proposes a capital structure of 51.45 percent equity and 48.55 percent debt. The Company maintains a central treasury and manages the capital requirements for the entire utility as a whole.

Avista explains how it calculated its cost of debt. Short-term debt carried on the Company's line of credit has been excluded from the capital structure.

Regarding the cost of equity, Avista describes "difficult" economic conditions that have caused investors to migrate toward less risky investments. Avista proposes an 11 percent return on equity, the lower end of its rate of return expert witnesses' recommended range of returns.

D. Return on Equity

Avista first describes the broad range of information sources that were considered in formulating the proposed return on equity. Against the backdrop of "sound regulatory economics" and applicable legal standards, the Company's witness conducted various quantitative analyses to estimate the current cost of equity. Based on those analyses, Avista derived a range of returns from 11 percent to 12.5 percent. As noted above, the Company proposes that an 11 percent return be adopted in this case.

E. Capital Projects

Avista itemizes its forecasted system-wide general plant improvements and its Oregon gas distribution expenditures for 2009 and 2010. The Company states that it is adding significant new distribution facilities in Oregon, due to customer growth, reliability requirements, and capacity upgrades. Other issues driving the need for capital investment include an aging infrastructure, physical degradation, and municipal compliance issues. Avista also reports sharply higher costs for much of its materials.

F. Revenue Requirement and Allocations

The increase in Net Plant Investment is the major factor contributing to Avista's increase in revenue requirement, comprising about 71 percent of the Company's overall request. The next largest factor (19 percent) is an increase in Administrative and General Expenses, attributable in part to higher labor costs. About 10 percent of the proposed increase is due to increased Distribution Operation and Maintenance Costs, including mains and services expense, measuring and regulator station expense, and customer installation expense.

G. Long Run Incremental Cost

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

H. Revenue Adjustment, Rate Spread, and Rate Design

Avista's rate spread is based on projected customer usage for all sales schedules and actual 2008 usage for transportation schedules. Avista's total throughput forecast is considerably lower than the 2006 volume, largely on account of reduced transportation volumes due to the effects of the current recession.

Avista compares its margin to cost at current rates for each rate schedule, based on its long run incremental cost study. Where the results show that the current schedule is "below unity" (present margin is less than the cost of service), the Company proposes to apply an increase to margin that is higher than the overall margin increase. Where the results show that the current schedule is "above unity," the Company proposes to apply an increase to margin that is less than the overall increase. The proposed rates result in the margin-to-cost ratio moving closer to unity for all service schedules.

Avista proposes that the increased revenue requirement be allocated among customer classes as follows:

Schedule	Percent of Increase
Residential (Sch. 410)	12.5%
General (Sch. 420)	10.6%
Lge. General (Sch. 424)	4.4%
Interruptible (Sch. 440)	3.4%
Seasonal (Sch. 444)	4.7%
Transportation (Sch. 456)	34.4%

The proposed increase is recovered through an increase in the monthly customer charges for each schedule, and increases in the volumetric rates.

III. THE STIPULATION

A. In General

The parties to the stipulation are Avista, Staff, CUB, and NWIGU. These parties have settled all issues in this docket. A copy of the Stipulation is attached as Appendix A.

B. Revenue Requirement

The parties agreed to an overall rate increase of $8.75 million, a reduction from the $14.205 million requested by Avista. Their agreement is contingent on having the new rates become effective November 1, 2009.

The stipulated adjustments to Avista's proposed revenue requirement appear in the table on page 3 of the Stipulation. The greatest reduction shown is attributed to rate of return, with other material reductions attributable to capital projects and wages.

In their Stipulation the parties agreed to an overall rate of return of 8.19 percent. That figure is derived using a capital structure consisting of 50 percent common equity and 50 percent long term debt and a return on equity of 10.1 percent.

C. SB 408 Refund for the 2007 Tax Report

The parties support a $2.4 million refund related to the Senate Bill 408 (SB 408) 2007 Tax Report (Docket No. UG 171), to take effect November 1, 2009, coincident with the effective date of the general rate increase in this docket.[3] That refund rate will be in place during the months of November and December, 2009, and expire on December 31, 2009.

The refund will be allocated to each rate schedule on an equal percent of margin basis as each schedule otherwise would have received if the amortization had taken place over a 12 month period.

Avista states that it anticipates that the increased revenues agreed upon in this docket will be equivalent to the refund amount during the refund period; however, an over or under-refunded difference, including the carrying cost on the difference, will be carried forward to be included in the next SB 408 tariff filing.

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[3] The refund resolves all issues in Docket UG 171 and Avista agrees to withdraw its claim that a refund would result in confiscatory rates, contingent on Commission approval of this settlement.

D. Rate Spread

The parties propose the following rate spread among customer classes:

Schedule	Proposed Increase
Residential (Sch. 410)	7.71%
General (Sch. 420)	6.72%
Lge. General (Sch. 424)	2.67%
Interruptible (Sch. 440)	1.52%
Seasonal (Sch. 444)	3.14%
Transportation (Sch. 456)	18.24%

E. Rate Design

As had been proposed by Avista, the parties agreed to increases in the monthly customer charges and volumetric rates.

IV. TESTIMONY IN SUPPORT

A. In General

In their testimony in support of the Stipulation, the parties briefly describe each of the revenue requirement adjustments, their proposed rate design, and timing of the rate increase in concert with the SB 408 tax refund in Docket UG 171. They note that the Stipulation is a compromise, negotiated among the parties, and that the terms incorporated in the Stipulation should not be viewed as precedent setting in subsequent proceedings.

B. Avista

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

C. Staff

Staff states that the Stipulation reflects Staff's recommended adjustments and the consideration of additional information provided by Avista and other parties. Staff supports early implementation of the rates in conjunction with the refund to customers in Docket UG 171, noting that customers will get a full refund while the issue of whether Avista's rates would be "confiscatory" will become moot.

D. CUB

CUB notes that Avista is currently earning less than its authorized return on equity, and believes that a rate increase is "necessary." CUB itself conducted extensive discovery and is satisfied that the stipulation will produce just and reasonable rates. CUB also notes the benefit of Avista withdrawing its confiscatory rate challenge in Docket UG 171.

E. NWIGU

NWIGU believes the Stipulation is in the public interest, while noting that the increase in Avista's overall margin is still "quite large" (28 percent overall, compared to Avista's proposed 45 percent increase). Having engaged in extensive discovery and workshop analysis, NWIGU supports the Stipulation as a fair compromise between Avista and its customers in current financial markets.

NWIGU states that a "significant reason" for its support of the Stipulation is the proposed rate spread. "It is important from NWIGU's perspective that all schedules are moved toward their relative cost of service." In particular, NWIGU approves the relative rate design treatments of the Transportation Schedule (Sch. 456) and Interruptible Sales Service (Sch. 440). NWIGU also supports the coordination of the rate increase in this docket with the refund pending in Docket UG 171

V. DISCUSSION

This matter having settled at an "early" stage in the proceeding, the Commission has a scant record on which to base its decision. In such circumstances the Commission looks first to see whether all parties support the settlement. The support of all parties allows the Commission to approach the settlement with a high degree of confidence.

The testimony offered in support of the Stipulation is not expansive and could be more thorough. However, the Commission recognizes that general rate case issues typically reflect judgments along a continuum of outcomes and rarely can be reduced to one "right" number in any cost category. On that basis, the Commission finds the adjustments to revenue requirement to be reasonable.

Return on equity is the one issue where the Commission can evaluate the proposed result based on some independent judgment. For purposes of future settlements, it would be useful if the parties were to address in their testimony the reasonableness of their proposed return on equity in relation to other returns adopted by the Commission in recent cases, and offer some opinion regarding the relationship among the outcomes. In this case, the Commission finds that the stipulated provisions regarding cost of capital are consistent with Commission actions in other proceedings and are reasonable.

While all settlements are understood to be limited to their specific circumstances, this settlement is unique in that it provides for the rates to go into effect much sooner than would have been the case, had the matter been fully litigated. Thus, Avista's assent to some of Staff's proposed adjustments must be understood to be limited to the purpose of settlement only, and not treated as precedent in any future proceeding.

This settlement also is unique with respect to its relationship with the settlement in Docket UG 171 regarding the SB 408 income tax refunds. While the Commission does not place great weight on Avista having agreed to withdraw its claim of confiscatory rates, the coordination of the rate increase with the tax refunds will reduce the number of rate changes and best serve the public interest.

ORDER

IT IS ORDERED that

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

2. The tariffs in Advice No. 09-03-G are permanently suspended.

3. Avista Corporation, dba Avista Utilities, must file new tariffs consistent with this Order no later than October 28, 2009, to be effective no earlier than November 1, 2009.

Made, entered, and effective OCT 26 2009.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 186

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

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

PARTIES

The Parties to this Stipulation are Avista Corporation (or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties").

BACKGROUND

1. On June 25, 2009, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of approximately $14,205,000, or 11.6 percent of its annual revenues. The filing was suspended by the Commission at its July 16, 2009 public meeting.

2. Avista filed supplemental opening direct testimony on September 1, 2009 to respond to the Information Requests submitted by CUB regarding the timing of rate base additions.

3. On September 15, 2009, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only.

4. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Report of July 22, 2009, settlement conferences were scheduled for September and November of 2009. The settlement conferences were open to all parties to this Docket and all parties participated in the settlement discussions on September 21 and 22, 2009.

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

AGREEMENT

6. **Revenue Requirement:** The Parties support reducing Avista's revenue requirement request to reflect the adjustments discussed below. The adjustments amount to a reduction in Avista's revenue requirement request from $14,205,000 to $8,750,000 and is contingent on having the new rates effective November 1, 2009. This Stipulation represents the settlement of all revenue requirement issues in the Company's filing. The Parties support reducing Avista's revenue requirement request through the adjustments listed in the table below (See Attachment A for further detail on the adjustments):

SUMMARY TABLE OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE (000s of Dollars)	Revenue Requirement	Rate Base
Amount as Filed	**$14,205**	**$147,649**
Adjustments:		
a. Rate of Return Adjust return on equity to 10.1 percent, adjust cost of debt to 6.28 percent, and adjust capital structure to 50% Equity and 50% Debt	**(1,936)**	**-**
b. Common Property Capital Projects Removes pro forma 2009 and 2010 general plant capital projects.	**(333)**	**(1,601)**
c. 2010 Reinforcement Capital Projects Removes pro forma 2010 capital additions due to delays in completion.	**(886)**	**(6,026)**
d. Remove 2009 Capital Project Removes 2009 ERT capital project from pro forma additions.	**(318)**	**(2,022)**
e. Uncollectibles Expense Adjusts pro forma uncollectibles amount.	**(55)**	**-**
f. Remove Portion of Pro Formed Employee Allocates FTE to all jurisdictions.	**(141)**	**-**
g. Wage and Salary Adjusts for PUC wage and salary model.	**(717)**	**(365)**
h. Remove Wage & Salary Adjustment Removes earnings test adjustment.	**(21)**	**(10)**
i. Customer Forecast for 2010 Test Period Adjusts Customer Forecast for 2010 Test Period.	**(229)**	**-**
j. Bonuses and Incentives Adjusts bonuses and Incentives for 50/50 sharing.	**(65)**	**-**
k. Customer Service Expense Removes costs included in test period related to Customer Service Expense.	**(19)**	**-**
l. Advertising Expense Removes excess Category A and Category C epxenses.	**(85)**	**-**
m. O&M Distribution Adjusts pro forma forecasted costs related to O&M Distribution costs.	**(56)**	**-**
n. Administrative and General Expenses Adjusts pro forma forecasted costs related to Administrative and General costs.	**(242)**	**-**
o. FIT/SIT Flow through adjustment.	**146**	**-**
p. Cash Working Capital Adjustment Adjusts rate base for the turning effect of the sale of receivables.	**(498)**	**(4,210)**
Total Adjustments	**(5,455)**	**(14,234)**
Adjusted Revenue Requirement and Rate Base	**$ 8,750**	**$ 133,415**

a. Rate of Return – This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 8.19% based on the following components: a capital structure consisting of 50% common stock equity and 50% long-term debt, return on equity of 10.10%, and a long-term debt cost of 6.28%. This combination of capital structure and capital costs is shown in the schedule below:

Agreed-upon Cost of Capital	**Percent of Total Capital**	**Cost**	**Component**
Long-term Debt	50.0%	6.28%	3.14%
Common Equity	50.0%	10.10%	5.05%
Total	**100.0%**		**8.19%**

b. Common Property Capital Projects - This adjustment removes a portion of 2009 and 2010 pro formed common property additions.

c. 2010 Reinforcement Capital Projects – This adjustment removes the 2010 pro formed capital additions that will not be complete in 2010, including the East Medford Reinforcement Project and the Roseburg Reinforcement Project.

d. Remove 2009 Capital Project – This adjustment removes the pro formed 2009 Natural Gas ERT Replacement capital project.

e. Uncollectibles Expense – This adjustment reflects using a revised 3-year historical average for uncollectible accounts receivables and for updating the conversion factor resulting from this change.

f. Remove Portion of Pro Formed Employee – The Company originally included the entire cost of a new employee devoted solely to Oregon operations. This adjustment removes approximately 91 percent of the adjustment originally proposed by the Company to reflect only Oregon operations.

g. Wage and Salary Adjustment – This wage and salary adjustment adjusts wages and salaries based on market studies for 2007 as a base year. In addition, non-union labor was adjusted for a 3.8% CPI adjustment for 2008 and no increase for 2009 or 2010. Union labor was adjusted 3.5% for 2008, 3.0% for 2009 and 2.25% for 2010.

h. Remove Wage and Salary Adjustment – This adjustment removes the earnings test adjustment for wages and salaries included in the Company's original request.

i. Customer Forecast for 2010 test period - Staff adjusted the customer forecast for the 2010 test period based on normalized historic growth.

j. Bonuses and Incentives - The incentive calculation shall reduce the original amount proposed by the Company (70/30 sharing) to reflect a 50/50 sharing of bonuses and incentives.

k. Customer Service Expense - Staff's proposed adjustment removes costs included in the test period related to Customer Service expenses.

l. Advertising Expense - This adjustment removes costs related to advertising expense for Category C costs and costs in excess of the limit for Category A advertising.

m. O&M Distribution – This adjustment revises the forecasted O&M Distribution costs that had been pro formed in the case.

n. Administrative and General Expenses - This adjustment revises the forecasted Administrative and General expenses that had been pro formed in the case.

o. FIT/SIT – This adjustment is a flow through adjustment for the federal and state tax impact of rate base adjustments.

p. Working Capital Adjustment – This adjustment proposes to account for the benefit that customers receive by the Company's Accounts Receivable Sales program.

7. **Rate Changes Proposed To Be Effective November 1, 2009:** The Parties support having new rates consistent with this Stipulation be effective November 1, 2009.

8. **Senate Bill 408 Refund for the 2007 Tax Report:** Coincident with the November 1, 2009 effective date of the general rate increase in Docket No. UG 186, the Parties support a $2.4 million refund related to the Senate Bill 408 2007 Tax Report (Docket No. UG 171(1)) also to be effective on November 1, 2009. The refund rate will be in place during the months of November and December of 2009, and expire on December 31, 2009. The refund will be allocated to each rate schedule on an equal percent of margin basis as each rate schedule would have otherwise received if the amortization had taken place over a 12 month period. Avista anticipates that the increased revenues agreed upon in Docket No. UG 186 will be equivalent to the refund amount during the refund period; however, any over or under-refunded difference from the $2.4 million, including a carrying cost on the difference, will be carried forward to be included with the next Senate Bill 408 tariff filing. The refund resolves all issues in Docket No. UG 171(1) and the Company agrees to withdraw its claim that a refund would result in confiscatory rates, contingent upon Commission approval of this Settlement.

9. **Rate Spread:** The Parties support the spread of the overall revenue increase of $8.750 million, or 7.10%, to the Company's service schedules, which takes into account the results of the cost of service studies included in the Company's filing. The resulting revenue increase percentage for each of the service schedules is as follows:

Residential Service Sch. 410	7.71%
General Service Sch. 420	6.72%

Large General Service Sch. 424	2.67%
Interruptible Service Sch. 440	1.52%
Seasonal Service Sch. 444	3.14%
Transportation Service Sch. 456	18.24%

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

10. **Rate Design:** The Parties support rate design changes as follows: the monthly customer charges under Residential Service Schedule 410 and General Service Schedule 420 will be increased by $0.50, from $6.00 to $6.50 for Schedule 410 and from $8.00 to $8.50 for Schedule 420. The monthly customer charge for Large General Service Schedule 424 will be increased by $2.00, from $46.00 to $48.00 per month. The usage (therm) charge within each of the sales service schedules will be increased by the appropriate amount to result in the total revenue increase for each schedule.

For Transportation Service Schedule 456, the monthly customer charge will be increased by $62.50 per month, from $187.50 to $250.00. The remaining revenue increase within the Schedule is reflected through a uniform percentage increase applied to the block (usage) rates within the Schedule.

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

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

12. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this

Stipulation shall not be admissible as evidence in this or any other proceeding. Further, this Stipulation sets forth the entire agreement between the Parties and supercedes any and all prior communications, understandings, or agreements, oral or written, between the Parties pertaining to the subject matter of this Stipulation.

13. This Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to use best efforts to prepare and submit the Stipulation and supporting materials to the Commission in time to permit the Commission to put rates into effect by November 1, 2009. 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. Should the Commission fail to adopt the Stipulation, or should the Commission materially modify the Stipulation, any Party hereto shall have the right to withdraw from the Stipulation and proceed with a resolution of all issues in this proceeding.

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 29th day of September 2009.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ________	By: ________
Date: 9/29/09	Date: ________

NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD
By: ________	By: ________
Date: ________	Date: ________

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DATED this _____ day of September 2009.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ____________________	By: ____________________
Date: ____________________	Date: 9/29/9
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD
By: ____________________	By: ____________________
Date: ____________________	Date: ____________________

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DATED this _____ day of September 2009.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ____________________	By: ____________________
Date: ____________________	Date: ____________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD
By: [signature]	By: ____________________
Date: 9/28/09	Date: ____________________

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DATED this _____ day of September 2009.

AVISTA CORPORATION

By: ______________________________

Date: ______________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________

Date: ______________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________

Date: ______________________________

CITIZENS' UTILITY BOARD

By: [signature]

Date: 9-28-09

Avista Utilities
UG 186
Results of Operations
Twelve Months Ended December 31, 2010
($000)

	SUMMARY SHEET	Results Per Company Filing (1)	Adjustments (2)	Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
1	**Operating Revenues**					
2	General Business	$120,417	$451	$120,868	$8,750	$129,618
3	Transportation	2,386	0	2,386	0	2,386
4	Other Revenues	149	0	149	0	149
5	**Total Operating Revenues**	$122,952	$451	$123,403	$8,750	$132,153
6	**Operating Expenses**					
7	Gas Purchased	$89,027	$210	$89,237	$0	$89,237
8	General Operations & Maintenance	10,663	(839)	9,824	0	9,824
9	Administrative and General	7,577	(397)	7,181	0	7,181
10	**Total Operation & Maintenance**	$107,267	($1,025)	$106,242	$0	$106,242
11						
12	Depreciation & Amortization	5,499	(237)	5,262	0	5,262
13	Taxes Other than Income	5,389	(154)	5,235	0	5,235
14	Income Taxes	(73)	1,016	943	3,355	4,298
15	Uncollectibles Expense	0	(54)	(54)	0	(54)
16	**Total Operating Expenses**	$118,082	($454)	$117,627	$3,355	$120,982
17	**Net Operating Revenues**	$4,870	$905	$5,776	$5,151	$10,927
18	**Average Rate Base**					
19	Electric Plant in Service	$266,488	($9,979)	$256,509	$0	$256,509
20	Less: Accumulated Depreciation & Amortization	(95,789)	(241)	(96,030)	0	(96,030)
21	Accumulated Deferred Income Taxes	(25,201)	195	(25,006)	0	(25,006)
22	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0
23	**Net Utility Plant**	$145,498	($10,024)	$135,474	$0	$135,474
24	Plant Held for Future Use	$0	$0	$0	$0	$0
25	Acquisition Adjustments	0	0	0	0	0
26	Working Capital	0	(4,210)	(4,210)	0	(4,210)
27	Fuel Stock	0	0	0	0	0
28	Materials & Supplies	2,151	0	2,151	0	2,151
29	Customer Advances for Construction	0	0	0	0	0
30	Weatherization Loans	0	0	0	0	0
31	Prepayments	0	0	0	0	0
32	Misc. Deferred Debits	0	0	0	0	0
33	Misc. Rate Base Additions/(Deductions)	0	0	0	0	0
34	**Total Average Rate Base**	$147,649	($14,234)	$133,415	$0	$133,415
35	**Rate of Return**	3.30%		4.33%		**8.19%**
36	**Implied Return on Equity**	N/A		2.38%		**10.10%**

REVISED-Attachment A

Avista Utilities
UG 186
Adjustments to Results of Operations
Twelve Months Ended December 31, 2010
($000)

		Uncollectibles Expense (S-1)	O&M Distribution (S-2)	Common Property Ratebase (S-3)	Remove Reinforce Projects (S-4)	O&M Only Oregon Corp Employee (S-5)	W&S Adjustment (3 year model) (S-6)	Remove ERT from Rbase (S-7)	Adjust Customer Forecast (S-8)	Adjust Bonuses and Incentives (S-9)	Customer Service Expense (S-10)	Advertising Expense Adjust (S-11)	A & G Accounts 920 through 935 (S-12)	FIT SIT Adjust (S-13)	Remove Avista W&S Adjustment (d) (S-14)	CUB/NWIGU Working Cap Adjust (S-15)	Total Adjustments (Base Rates)
1	**Operating Revenues**																
2	General Business	$0	$0	$0	$0	$0	$0	$0	$451	$0	$0	$0	$0	$0	$0	$0	$451
3	Transportation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
4	Other Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
5	**Total Operating Revenues**	$0	$0	$0	$0	$0	$0	$0	$451	$0	$0	$0	$0	$0	$0	$0	$451
6	**Operating Expenses**																
7	Gas Purchased	$0	$0	$0	$0	$0	$0	$0	$229	$0	$0	0	$0	$0	($19)	$0	$210
8	General Operations & Maintenance	0	(55)	0	0	(136)	(648)	0	0	0	0	0	0	0	0	0	($839)
9	Administrative and General	0	0	0	0	0	0	0	0	(63)	(18)	(82)	(234)	0	0	0	($397)
10	**Total Operation & Maintenance**	$0	($55)	$0	$0	($136)	($648)	$0	$229	($63)	($18)	($82)	($233)	$0	($19)	$0	($1,025)
11	Depreciation	0	0	(111)	(79)	0	0	(47)	0	0	0	0	0	0	0	0	($237)
12	Amortization	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
13	Taxes Other than Income	0	0	(29)	(90)	0	(5)	(30)	0	0	0	0	0	0	0	0	($154)
14	Income Taxes	22	22	75	141	53	261	55	87	25	7	32	91	86	7	52	$1,016
15	Uncollectibles Expense	(54)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	($54)
16	**Total Operating Expenses**	($32)	($33)	($65)	($28)	($83)	($392)	($22)	$316	($38)	($11)	($50)	($142)	$86	($12)	$52	($454)
17	**Net Operating Revenues**	$32	$33	$65	$28	$83	$392	$22	$135	$38	$11	$50	$143	($86)	$12	($52)	$905
18	**Average Rate Base**																
19	Electric Plant in Service	0	0	(1,597)	(6,032)	0	(365)	(1,975)	0	0	0	0	0	0	(10)	0	($9,979)
20	Accumulated Depreciation & Amortization	0	0	(154)	(1)	0	(14)	(72)	0	0	0	0	0	0	0	0	($241)
21	Accumulated Deferred Income Taxes	0	0	149	7	0	14	25	0	0	0	0	0	0	0	0	$195
22	Accumulated Deferred Inv. Tax Credit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
23	**Net Utility Plant**	$0	$0	($1,601)	($6,026)	$0	($365)	($2,022)	$0	$0	$0	$0	$0	$0	($10)	$0	($10,024)
24	Plant Held for Future Use	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
25	Acquisition Adjustments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
26	Working Capital															(4,210)	($4,210)
27	Fuel Stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
28	Materials & Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
29	Customer Advances for Construction	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
30	Weatherization Loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
31	Prepayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
32	Misc. Deferred Debits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
33	Misc. Rate Base Additions/(Deductions)	0	0	0	0	0	0	0	0	0	0	0	0	0	0		$0
34	**Total Average Rate Base**	$0	$0	($1,601)	($6,026)	$0	($365)	($2,022)	$0	$0	$0	$0	$0	$0	($10)	($4,210)	($14,234)
35	**Revenue Requirement Effect**	($55)	($56)	($333)	($886)	($141)	($717)	($318)	($229)	($65)	($19)	($85)	($242)	$146	($21)	($498)	($3,519)

Rate of Return Adjustment	(1,936)
Total Revenue Requirement Impact	($5,455)

ORDER NO. 09-422

APPENDIX A
PAGE 4 OF 19

Avista Utilities
UG 186
Adjustments to Results of Operations - Income Taxes
Twelve Months Ended December 31, 2010
($000)

	Income Tax Calculations	Uncollectibles Expense (S-1)	0 O&M Distribution (S-2)	Common Property Ratebase (S-3)	Remove Reinforce Projects (S-4)	O&M Only Oregon Corp Employee (S-5)	W&S Adjustment (3 year model) (S-6)	Remove ERT from Rbase (S-7)	Adjust Customer Forecast (S-8)	Adjust Bonuses and Incentives (S-9)	Customer Service Expense (S-10)	Advertising Expense Adjust (S-11)	A & G Accounts 920 through 935 (S-12)	FIT SIT Adjust (S-13)	Remove Avista W&S Adjustment (d) (S-14)	CUB/NWIGU Working Cap Adjust (S-15)	Total Adjustments (Base Rates) 0
1	Book Revenues	$0	$0	$0	$0	$0	$0	$0	$451	$0	$0	$0	$0	$0	$0	$0	$451
2	Book Expenses Other than Depreciation	(54)	(55)	(29)	(90)	(136)	(653)	(30)	229	(63)	(18)	(82)	(233)	0	(19)	0	($1,233)
3	State Tax Depreciation	0	0	(111)	(79)	0	0	(47)	0	0	0	0	0	0	0	0	($237)
4	Interest	0	0	(50)	(189)	0	(11)	(63)	0	0	0	0	0	(219)	(0)	(132)	($666)
5	Schedule M Differences	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
6	State Taxable Income	$54	$55	$190	$358	$136	$664	$140	$222	$63	$18	$82	$234	$219	$19	$132	$2,587
7	Add OR Depletion Adjustment-Net	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
8	Total State Taxable Income	$54	$55	$190	$358	$136	$664	$140	$222	$63	$18	$82	$234	$219	$19	$132	$2,587
9	State Income Tax	$4	$4	$13	$24	$9	$44	$9	$15	$4	$1	$5	$15	$14	$1	$9	$171
10	State Tax Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
11	Net State Income Tax	$4	$4	$13	$24	$9	$44	$9	$15	$4	$1	$5	$15	$14	$1	$9	$171
12	Additional Tax Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
13	Other Schedule M Differences	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
14	Federal Taxable Income	$50	$51	$177	$334	$127	$620	$131	$207	$59	$17	$77	$219	$205	$18	$123	$2,416
15	Federal Tax @ 35%	18	18	62	117	44	217	46	72	21	6	27	76	72	6	43	$845
16	Federal Tax Credits	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
17	Current Federal Tax	$18	$18	$62	$117	$44	$217	$46	$72	$21	$6	$27	$76	$72	$6	$43	$845
18	**ITC Adjustment**																$0
19	Deferral	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
20	Restoration	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
21	Total ITC Adjustment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
																	$0
22	Provision for Deferred Taxes	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	$0
																	$0
23	Total Income Tax	$22	$22	$75	$141	$53	$261	$55	$87	$25	$7	$32	$91	$86	$7	$52	$1,016

ORDER NO. 09-422

Avista Utilities
UG 186
Tax Calculation
Twelve Months Ended December 31, 2010
($000)

		Income Tax Calculations	0 Per Company Filing (1)	Adjustments (2)	0 Adjusted (3)	Required Change for Reasonable Return (4)	Results at Reasonable Return (5)
1		Book Revenues	$122,952	$451	$123,403	$8,750	$132,153
2		Book Expenses Other than Depreciation	112,583	(1,233)	111,349	212	111,561
3		State Tax Depreciation	5,499	(237)	5,262	0	5,262
4		Interest	4,874	(666)	4,208	0	4,208
5	Less:	Schedule M Differences	184	0	184	0	184
6		State Taxable Income	($188)	$2,587	$2,400	$8,538	$10,938
7		Add OR Depletion Adjustment					
8		Total State Taxable Income	($188)	$2,587	$2,400	$8,538	$10,938
9		State Income Tax @ 6.60%	($12)	$171	$159	$564	$723
10		State Tax Credits	0	0	0	0	0
11		Net State Income Tax	($12)	$171	$159	$564	$723
12		Additional Tax Depreciation	0	0	0	0	0
13	Plus:	Other Schedule M Differences	0	0	0	0	0
14		Federal Taxable Income	($176)	$2,416	$2,241	$7,974	$10,215
15		Federal Tax @ 35%	(61)	845	784	2,791	3,575
16		Federal Tax Credits	0	0	0	0	0
17		Current Federal Tax	($61)	$845	$784	$2,791	$3,575
18		ITC Adjustment					
19		Deferral	0	0	0	0	0
20	Less:	Amortization	0	0	0	0	0
21		Total ITC Adjustment	$0	$0	$0	$0	$0
22		Provision for Deferred Taxes	$0	$0	$0	$0	$0
23		Total Income Tax	($73)	$1,016	$943	$3,355	$4,298

Avista Utilities
UG 186
Revenue Sensitive Costs and Cost of Capital
Twelve Months Ended December 31, 2010
($000)

REVENUE SENSITIVE COSTS	
Revenues	1.00000
Operating Revenue Deductions	
Uncollectible Accounts	**0.00609**
Taxes Other - Franchise	0.02110
- Oregon Commission Fees	0.00250
- Resource supplier	0.00069
State Taxable Income	0.96963
State Income Tax	0.06400
Federal Taxable Income	0.90563
Federal Income Tax @ 35%	0.31697
ITC	
Current FIT	0.31697
Other	
Total Excise Taxes	0.38097
Total Revenue Sensitive Costs	0.41134
Utility Operating Income	0.58866
Net-to-Gross Factor	**1.69877**

COST OF CAPITAL - SETTLED	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	50.0%	6.28%	3.14%
Preferred Stock	0.0%	0.00%	0.00%
Common Equity	50.0%	10.10%	5.05%
Total	100.0%		8.19%

COST OF CAPITAL - FILED	% of CAPITAL	COST	WEIGHTED COST
Long Term Debt	48.55%	6.80%	3.30%
Preferred Stock	0.00%	0.00%	0.00%
Common Equity	51.45%	11.00%	5.66%
Total	100.00%		8.96%

Avista Utilities
Docket No. UG 186
Oregon - Natural Gas
Settlement Rate Spread

Line No.		OREGON TOTAL	Residential Service SCH 410	General Service SCH 420	Large General Service SCH 424	Interruptible Service SCH 440	Seasonal Service SCH 444	Special Contract Service SCH 447	Transportation Service SCH 456
1	CURRENT REVENUE	$ 123,321,253	$ 74,355,807	$ 36,342,651	$ 4,876,152	$ 5,143,278	$ 217,070	$ 403,670	$ 1,982,625
2	COST OF GAS	$ 92,135,936	$ 53,594,273	$ 29,320,596	$ 4,387,386	$ 4,635,274	$ 198,407	$ -	$ -
3	CURRENT MARGIN	$ 31,185,317	$ 20,761,534	$ 7,022,055	$ 488,766	$ 508,004	$ 18,663	$ 403,670	$ 1,982,625
4	% of Current Margin excl Sch 447	100.00%	67.45%	22.81%	1.59%	1.65%	0.06%		6.44%
5	**Total Revenue Requirement**	$ 8,750,000							
6	**Revenue Requirement as a Percent of Margin Revenue**	28.06%							
7	**Staff Proposed Percentage of Overall Margin Increase**		98.36%	124.00%	95.00%	55.00%	130.00%		65.00%
8	**Increase as a Percent of Total Current Margin**		27.60%	34.79%	26.66%	15.43%	36.48%		18.24%
9	**PROPOSED MARGIN REVENUE INCREASE**	**$ 8,750,000**	**$ 5,729,816**	**$ 2,443,114**	**$ 130,281**	**$ 78,395**	**$ 6,807**		**$ 361,586**
10	Percentage Revenue Increase	**7.10%**	**7.71%**	**6.72%**	**2.67%**	**1.52%**	**3.14%**		**18.24%**

Avista Utilities
Docket No. UG 186
Oregon - Natural Gas
Settlement Rates By Schedule

Present Rates	Change	Proposed Rates
Residential Service Schedule 410		
$6.00 Customer Charge	$0.50/month	$6.50 Customer Charge
All Therms - $1.36785/Therm	$0.10462/therm	All Therms - $1.47247/Therm
General Service Schedule 420		
$8.00 Customer Charge	$0.50/month	$8.50 Customer Charge
All Therms - $1.29272/Therm	$0.08709/therm	All Therms - $1.37981/Therm
Large General Service Schedule 424		
$46.00 Customer Charge	$2.00/month	$48.00 Customer Charge
All Therms - $1.18131/Therm	$0.03134/therm	All Therms - $1.21265/Therm
Interruptible Service Schedule 440		
All Therms - $0.89041/Therm	$0.01357/therm	All Therms - $0.90398/Therm
Seasonal Service Schedule 444		
All Therms - $1.17586/Therm	$0.03688/therm	All Therms - $1.21274/Therm
Transportation Service Schedule 456		
$187.50 Customer Charge	$62.50/month	$250.00 Customer Charge
1st 10,000 Therms - $0.13148/Therm	$0.02318/therm	1st 10,000 Therms - $0.15466/Therm
Next 20,000 Therms - $0.07906/Therm	$0.01394/therm	Next 20,000 Therms - $0.09300/Therm
Next 20,000 Therms - $0.06496/Therm	$0.01145/therm	Next 20,000 Therms - $0.07641/Therm
Next 200,000 Therms - $0.05080/Therm	$0.00896/therm	Next 200,000 Therms - $0.05976/Therm
Over 250,000 Therms - $0.02568/Therm	$0.00453/therm	Over 250,000 Therms - $0.03021/Therm