

# APPENDIX 1

## Avista Dockets UE-070804 & UG-070805 Partial Settlement of Issues

| Issue                                                   | Resolution                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Power Supply (Electric only)                         | <p>1) Increase Colstrip Availability Factor based on the use of a 2003-2006 average rather than a 2002-2006 average.</p> <p>2) Increase Natural Gas Prices to reflect the 3-month average of 5/30/07 to 8/28/07.</p> <p>3) Add Hydro Filtering by excluding months during the 1928-1978 water year record that fall outside a one standard deviation band.</p> <p>4) Add actual purchases and sales of natural gas and electricity that have already occurred for the calendar year 2008.</p> <p>Net Decrease to Revenue Requirement (\$2,304,000) (See Attachment A – Item PF1)</p> <p>Investment in generation and transmission deemed prudent. The new generation investment reflects upgrades to Cabinet Gorge Unit 4, Noxon Unit 4, and Colstrip Units 3 and 4.</p> |
| 2. Incentives & Executive Compensation (Electric & Gas) | <p>Reduce test year incentive payout based on 8-year average, and reduce executive compensation reflected in the case. Electric Decr. Rev. Req. (\$1,383,000), Gas Decr. Rev. Req. (\$362,000). (See Attachment A – Items x and PF4, and Attachment B – Items p and PF2))</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 3. Adjust Section 199 Deduction (Electric only)         | <p>Increase deduction allowance from 3% to 6%. The deduction allowance for federal income tax expense is related to the Section 199 manufacturing tax credit which increased from 3% in 2006 to 6% in 2007.</p> <p>Decrease Rev. Req. (\$778,000) (See Attachment A – Item p)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 4. Depreciation Study (Electric & Gas)                  | <p>Reduce negative salvage values in determining new depreciation rates on four electric accounts. No change to the proposed new depreciation rates for natural gas. Decrease Electric Rev. Req. (\$1,330,000). See Footnote 1. (See Attachment A – PF8)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 5. Production Property Adjustment (Electric only)       | <p>The Power Supply Adjustments adopted in Item 1, the Depreciation Study Adjustment in Item 4, and the Incentive &amp; Executive Compensation Adjustment in Item 2 above result in a corresponding change to the Production Property Adjustment. Incr. Rev. Req. \$172,000 (See Attachment A – Item PF2)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 6. Deferred FIT Rate Base (Electric & Gas)              | <p>In its next general rate case Avista agrees to reflect dollars in ratemaking consistent with the ruling from Puget's pending Private Letter Ruling related to the level of rate base reduction pertaining to deferred FIT. No adjustment in current case.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 7. Terasen (Gas only)                                   | <p>Remove storage revenues from base rates and include in PGA. Increase Rev. Req. \$1,757,000. See Footnote 2. (See Attachment B – Item PF4)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 8. Other Miscellaneous Adjustments (Electric & Gas)     | <p>Eliminate advertising costs of \$73,000, reduce Dues by \$88,000, reduce Board of Director costs by \$200,000, and increase Pole Attachment revenues by \$40,000. Decr. Electric Rev. Req. (\$336,000) and Decr. Gas Rev. Req. (\$82,000) (See Attachment A – Item PF12, and Attachment B – Item PF5)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 9. Wood Pole Treatment (Electric only)                  | <p>Avista agrees to a one-way balancing account on pro formed expense level. If Avista spends more dollars, there will not be a deferral. If Avista spends less dollars than included in base rates, the difference will be</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

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|                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|---------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                         | deferred and returned to customers if not spent in a succeeding year. The Company will include in its Commission Basis Report a report on the Company's expenses for wood pole inspections and capital expenditures made for wood poles.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 10. Low Income Bill Assistance Funding (Electric & Gas) | Adjust LIRAP portion of tariff riders to provide annual funding as follows: Electric \$2,496,000, Natural Gas \$1,262,000. The proposed increase in LIRAP funding is intended to approximately match the overall percentage increase in retail rates approved in this case. Appendix 3 identifies the tariff rider adjustments to Schedules 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for LIRAP and DSM.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 11. DSM (Electric & Gas)                                | No rate base treatment of DSM – continue to expense annually. Increase the electric DSM tariff rider funding to correspond with DSM targets in 2007 IRP. The electric DSM level incorporates program enhancements contained in Avista's testimony in this docket. No change to the DSM tariff rider for natural gas. This funding includes Low Income DSM funding at \$1,132,000. No electric lost margin recovery mechanism approved in this case. Avista agrees to examine the sufficiency of the electric and gas DSM tariff riders in its next general rate case and to review issues related to negative DSM account balances. Avista further agrees to make an annual DSM tariff filing for the purpose of determining whether the rider should be adjusted to account for recovery of expenses and DSM budget projections. Appendix 3 identifies the tariff rider adjustments to Schedules 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for LIRAP and DSM. Expenditures on DSM through December 31, 2006 are deemed prudent. This Stipulation does not apply to any expenditures for automatic metering. |
| 12. Cost of Service Analysis                            | Avista agrees to prepare a new load study, and will meet with and seek input from the Commission Staff and other interested parties prior to initiation of and during the study. Additionally, the Company will further examine the operating characteristics and associated costs of its electric system resources in conjunction with the allocation of costs within its cost of service study. Finally, as part of the load study, the Company will examine how rates should be designed to properly allocate costs.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 13. Rate Spread/Rate Design                             | Apply uniform percentage increase to only the electric energy charges. For natural gas, the revenue requirement, apart from the increase related to Terasen, would be spread on a uniform percentage of margin across the natural gas service schedules. Intra-schedule adjustments to Schedule 25 per Footnote 3. The treatment of new loads above 25 megawatts as proposed in Schedule 25 (by means of a special contract), will be deferred until a subsequent general rate proceeding.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

### Footnotes:

- Based on a depreciation study performed by the Company, Avista proposed a decrease in electric net operating income by \$660,000 and a decrease to rate base by \$330,000. WUTC Staff has proposed a reduction in the negative net salvage values the Company used in determining new depreciation rates on four electric accounts, which results in lower depreciation accrual rates on those accounts. These proposed changes result in an increase in electric net operating income by \$208,000 and an increase to rate base by \$104,000. The net impact on the electric revenue requirement of these proposed changes is a reduction of approximately \$1.333 million. The net impact by account is as follows:

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|                                            |           |
|--------------------------------------------|-----------|
| Account 311 – Structures & Improvements    | \$408,000 |
| Account 312 – Boiler Plant Equipment       | \$564,000 |
| Account 356 – Overhead Conductor & Devices | \$222,000 |
| Account 369 – Services                     | \$139,000 |

WUTC Staff proposed no changes to Avista's gas depreciation adjustment.

2. The base rate increase associated with the elimination of the Jackson Prairie release revenue received from Terasen will be spread by rate schedule in the same manner in which the revenue has been allocated in the Company's cost of service study. The allocation of this revenue matches the allocation of underground storage costs in the cost of service study which is based on 80% of the costs being allocated to all gas sales schedules and 20% of the costs being allocated to all schedules except for Schedule 148 (special contract). The revenue received from Terasen following the base rate increase will be deferred and allocated to customers in the same fashion in the Company's 2008 PGA filing.
3. Increase the Primary Voltage Discount (PVD) rates for service at or above 60 kV and 115 kV for Schedule 25. The PVD rate for service at or above 60 kV would be increased from \$0.40 per kVA to \$0.80 per kVA and the PVD rate for service at or above 115 kV would be increased from \$0.50 per kVA to \$1.00 per kVA. The revenue reduction resulting from the PVD rate changes would be offset by an increase to the other energy charges under Schedule 25. Additionally, a third energy rate block will be implemented for usage in excess of 6,000,000 KWhs per month. The rate for energy usage under this block will be less than the rates for the first two blocks under the schedule.

### Among the Items Yet to be Resolved

| Issue                               | Resolution |
|-------------------------------------|------------|
| Among the Items Yet to be Resolved: |            |
| 1. Capital Structure                |            |
| 2. Return on Equity                 |            |
| 3. Cost of Debt and Preferred       |            |
| 4. Power Cost Only Rate Case        |            |
| 5. Proposed Effective Date          |            |
| 6. Debt Amortization                |            |
| 7. Late Charges                     |            |
| 8. Advanced Meter Reading           |            |
| 9. Directors & Officers Insurance   |            |
| 10. Customer Deposits               |            |

Attachment A:  
Electric

APPENDIX 1

AVISTA UTILITIES

Summary of Revenue Requirement Adjustments  
Restatement Summary Washington Electric

| Item | Description of Adjustment            | FILED CASE                 |             | PARTIAL SETTLEMENT OF ISSUES |           | DIFFERENCE                 |           | IMPACT ON |           |
|------|--------------------------------------|----------------------------|-------------|------------------------------|-----------|----------------------------|-----------|-----------|-----------|
|      |                                      | Washington Electric<br>NOI | Rate Base   | Washington Electric<br>NOI   | Rate Base | Washington Electric<br>NOI | Rate Base | NOI       | Rate Base |
| b    | Per Results Report                   | \$71,715                   | \$994,207   | \$71,715                     | \$994,207 | \$0                        | \$0       | 0.621863  | 9.39%     |
| c    | Deferred FIT Rate Base               | \$0                        | (\$138,495) | 0                            | (138,495) | \$0                        | \$0       |           |           |
| d    | Deferred Gain on Office Building     | \$0                        | (\$295)     | 0                            | (295)     | \$0                        | \$0       |           |           |
| e    | Colstrip 3 AFUDC Elimination         | \$216                      | (\$2,255)   | 216                          | (2,255)   | \$0                        | \$0       |           |           |
| f    | Colstrip Common AFUDC                | \$0                        | \$492       | 0                            | 492       | \$0                        | \$0       |           |           |
| g    | Kettle Falls Disallow.               | (\$56)                     | (\$993)     | (56)                         | (993)     | \$0                        | \$0       |           |           |
| h    | Customer Advances                    | \$0                        | (\$267)     | 0                            | (267)     | \$0                        | \$0       |           |           |
| i    | PGE Monetization                     | \$866                      | (\$324)     | 866                          | (324)     | \$0                        | \$0       |           |           |
| j    | Settlement Exchange Power            | \$0                        | \$22,441    | 0                            | 22,441    | \$0                        | \$0       |           |           |
|      | Actual                               | 72,741                     | 874,511     | 72,741                       | 874,511   | 0                          | 0         |           |           |
| k    | Eliminate B & O Taxes                | (\$21)                     | \$0         | (21)                         | 0         | \$0                        | \$0       |           |           |
| l    | Property Tax                         | (\$12)                     | \$0         | (12)                         | 0         | \$0                        | \$0       |           |           |
| m    | Uncollect. Expense                   | \$31                       | \$0         | 31                           | 0         | \$0                        | \$0       |           |           |
| n    | Regulatory Expense                   | (\$755)                    | \$0         | (755)                        | 0         | \$0                        | \$0       |           |           |
| o    | Injuries and Damages                 | \$316                      | \$0         | 316                          | 0         | \$0                        | \$0       |           |           |
| p    | FIT                                  | 0                          | \$0         | 0                            | 0         | \$484                      | \$0       | (\$778)   |           |
| q    | Eliminate WA Power Cost Defer        | \$229                      | \$0         | 229                          | 0         | \$0                        | \$0       |           |           |
| r    | Nez Perce Settlement Adjustment      | (\$12)                     | \$0         | (12)                         | 0         | \$0                        | \$0       |           |           |
| s    | Eliminate A/R Expenses               | \$1,116                    | \$0         | 1,116                        | 0         | \$0                        | \$0       |           |           |
| t    | Office Space Charges to Subsidiaries | \$16                       | \$0         | 16                           | 0         | \$0                        | \$0       |           |           |
| u    | Restate Excise Taxes                 | (\$78)                     | \$0         | (78)                         | 0         | \$0                        | \$0       |           |           |
| v    | Net Gains/losses                     | \$57                       | \$0         | 57                           | 0         | \$0                        | \$0       |           |           |
| w    | Revenue Normalization                | (\$23)                     | \$0         | (23)                         | 0         | \$0                        | \$0       |           |           |
| x    | Incentive & Other                    | (336)                      | \$0         | 318                          | 0         | \$654                      | \$0       | (\$1,052) |           |
| y    | Restate Debt Interest                | (1,170)                    | \$0         | (1,164)                      | 0         | \$6                        | \$0       | (\$10)    |           |
|      | Restated Total                       | \$72,099                   | \$874,511   | \$73,243                     | \$874,511 | \$1,144                    | \$0       |           |           |
| PF1  | Pro Forma Power Supply               | (20,792)                   | 0           | (19,359)                     | 0         | \$1,433                    | \$0       | (\$2,304) |           |
| PF2  | Pro Forma Prod Property Adj          | 5,660                      | (28,763)    | 5,551                        | (28,781)  | (\$109)                    | (\$18)    | \$175     | (\$3)     |
| PF3  | Pro Forma Labor NonExec              | (1,375)                    | 0           | (1,375)                      | 0         | \$0                        | \$0       | \$0       |           |
| PF4  | Pro Forma Labor Exec                 | 29                         | 0           | 235                          | 0         | \$206                      | \$0       | (\$331)   |           |
| PF5  | Pro Forma Transmission Rev/Exp       | (857)                      | 0           | (857)                        | 0         | \$0                        | \$0       | \$0       |           |
| PF6  | Pro Forma Transmission Capital Add   | (1,078)                    | 40,274      | (1,078)                      | 40,274    | \$0                        | \$0       | \$0       |           |
| PF7  | Pro Forma Generation Capital Add     | (361)                      | 11,739      | (361)                        | 11,739    | \$0                        | \$0       | \$0       |           |
| PF8  | Pro Forma Depreciation Study         | (660)                      | (330)       | 208                          | 104       | \$868                      | \$434     | (\$1,396) | \$66      |
| PF9  | Pro Forma Wood Pole Test & Treat     | (198)                      | 0           | (198)                        | 0         | \$0                        | \$0       | \$0       |           |
| PF12 | Proforma Misc Adj.                   | 0                          | 0           | 209                          | 0         | \$209                      | \$0       | (\$336)   |           |
|      | Pro Forma Total                      | \$52,467                   | \$897,431   | \$56,218                     | \$897,847 | \$3,751                    | \$416     | (\$6,032) | \$63      |
|      |                                      |                            |             |                              |           |                            |           | (\$5,969) |           |

(1) Includes Officer Compensation Adj.

(2) Includes adjustments for Advertising, Dues, and Board of Director's Fees.

Attachment B:  
Gas

APPENDIX 1  
AVISTA UTILITIES  
Summary of Revenue Requirement Adjustments  
Restatement Summary Washington Gas

| Item | Description                             | FILED CASE     |           | PARTIAL SETTLEMENT OF ISSUES |           | DIFFERENCE     |           | IMPACT ON |           |
|------|-----------------------------------------|----------------|-----------|------------------------------|-----------|----------------|-----------|-----------|-----------|
|      |                                         | Washington Gas | Rate Base | Washington Gas               | Rate Base | Washington Gas | Rate Base | NOI       | Rate Base |
| b    | Per Results Report                      | NOI            | \$10,993  | NOI                          | \$10,993  | NOI            | \$0       | 0.621999  | 9.39%     |
| c    | Deferred FIT Rate Base                  |                | 0         |                              | 0         |                | \$0       |           |           |
| d    | Deferred Gain on Office Building        |                | 0         |                              | 0         |                | \$0       |           |           |
| e    | Gas Inventory                           |                | 0         |                              | 0         |                | \$0       |           |           |
| f    | Weatherization and DSM Investment       |                | 0         |                              | 0         |                | \$0       |           |           |
| g    | Customer Advances                       |                | 0         |                              | 0         |                | \$0       |           |           |
|      | Actual                                  | 10,993         | 149,362   | 10,993                       | 149,362   | 0              | 0         |           |           |
| h    | Revenue Normalization & Gas Cost Adjust |                | 686       |                              | 686       |                | \$0       |           |           |
| i    | Eliminate B & O Taxes                   |                | 6         |                              | 6         |                | \$0       |           |           |
| j    | Property Tax                            |                | 16        |                              | 16        |                | \$0       |           |           |
| k    | Uncollectible Expense                   |                | 38        |                              | 38        |                | \$0       |           |           |
| l    | Regulatory Expense Adjustment           |                | (49)      |                              | (49)      |                | \$0       |           |           |
| m    | Injuries and Damages                    |                | (14)      |                              | (14)      |                | \$0       |           |           |
| n    | FIT                                     |                | 11        |                              | 11        |                | \$0       |           |           |
| o    | Restate Debt Interest                   |                | (207)     |                              | (207)     |                | \$0       |           |           |
| p    | Incentives & Other                      |                | 16        |                              | 187       |                | \$171     |           |           |
| q    | Net Gains/Losses                        |                | 8         |                              | 8         |                | \$0       |           |           |
| r    | Eliminate A/R Expenses                  |                | 178       |                              | 178       |                | \$0       |           |           |
| s    | Office Space Charges to Subs            |                | 4         |                              | 4         |                | \$0       |           |           |
| t    | Restate Excise Taxes                    |                | (20)      |                              | (20)      |                | \$0       |           |           |
|      | Restated Total                          | \$11,666       | \$149,362 | \$11,837                     | \$149,362 | \$171          | \$0       |           |           |
| PF1  | Pro Forma Labor Non-Exec                |                | (363)     |                              | (363)     |                | \$0       |           |           |
| PF2  | Pro Forma Labor Exec                    |                | 7         |                              | 61        |                | \$54      |           |           |
| PF3  | Pro Forma Depreciation Study            |                | 217       |                              | 217       |                | \$0       |           |           |
| PF4  | Pro Forma Storage Contract              |                | (311)     |                              | (1,404)   |                | (\$1,093) |           |           |
| PF5  | Proforma Misc Adj                       |                | 0         |                              | 51        |                | \$51      |           |           |
|      | Pro Forma Total                         | \$11,216       | \$149,471 | \$10,399                     | \$149,471 | (\$817)        | \$0       | \$1,314   | 0         |
|      |                                         |                |           |                              |           |                |           |           | \$1,314   |

(1) Includes Officer Compensation Adj.

(2) Includes adjustments for Advertising, Dues, and Board of Director's Fees