

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION)	
)	DOCKET UE-070804
Complainant,)	
)	and
v.)	
)	DOCKET UG-070805
AVISTA CORPORATION d/b/a)	<i>(consolidated)</i>
AVISTA UTILITIES)	
)	
Respondent.)	
.....)	
)	
In the matter of the Petition of)	
)	DOCKET UE-070311
)	<i>(consolidated)</i>
AVISTA CORPORATION, d/b/a)	
AVISTA UTILITIES,)	PARTIAL SETTLEMENT STIPULATION
)	
For an Accounting Order Regarding the)	
Appropriate Treatment of the Net Costs)	
Associated with the Repurchase of Debt)	
.....)	

I. PARTIES

1. This Partial Settlement Stipulation is entered into by Avista Corporation (“Avista” or the “Company”), the Staff of Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Section of the Washington Office of Attorney General (“Public Counsel”), Northwest Industrial Gas Users (“NWIGU”), Industrial Customers of Northwest Utilities (“ICNU”), and The Energy Project, jointly referred to herein as the “Stipulating Parties.” The Stipulating Parties agree

that this Partial Settlement Stipulation is in the public interest and should be accepted as a partial resolution of issues in this docket. The Stipulating Parties understand this Partial Settlement Stipulation is subject to Commission approval.

II. INTRODUCTION

2. On April 26, 2007, Avista filed with the Commission certain tariff revisions designed to effect general rate increases for electric service (Docket UE-070804) and gas service (Docket UG-070805) in the state of Washington. Avista requests an increase in electric rates of 15.8 percent and an increase in gas rates of 2.3 percent. On February 14, 2007, Avista filed with the Commission a petition seeking an Accounting Order under WAC 480-07-370(b)(i) requesting retroactive approval to account for certain debt repurchase costs in a manner that deviated from the Commission's rules (Docket UE-070311). On May 3, 2007, the Commission entered Order 02 consolidating Docket UE-070311 with Dockets UE-070804 and UG-070805 for hearing and determination pursuant to WAC 480-07-320.

3. After analysis of the filing, all parties commenced discussions for purposes of narrowing the contested issues in this proceeding. The Stipulating Parties have reached a Partial Settlement Stipulation on certain issues in this proceeding and wish to present their agreement for the Commission's consideration. The Stipulating Parties therefore adopt the following Partial Settlement Stipulation in the interest of expediting the disposition of this proceeding.

III. AGREEMENT

A. Revised Revenue Requirement

4. The Stipulating Parties have agreed to a number of revenue requirement adjustments to both the filed electric and gas cases. These are described in the table set forth in Appendix 1. (See Issue #'s 1 – 9) Attachment A to Appendix 1 is a summary of the revenue requirement adjustments for the Company's electric operations, showing a reduction of \$5,969,000 to the Company's filed-for revenue requirement increase. Attachment B to Appendix 1 is a summary of the revenue requirement adjustments for the Company's natural gas operations, showing an adjustment of \$1,314,000 to the Company's filed-for revenue requirement increase.¹ Revised Avista pre-filed exhibits EMA-2 (electric) and EMA-3 (gas) are attached as Appendix 2, showing adjusted proforma results incorporating these agreed-upon adjustments.

5. This Partial Settlement does not resolve all issues impacting the electric and gas revenue requirements, as discussed in Paragraph E below.

B. Cost of Service and Rate Spread/Rate Design

(1.) Cost of Service Analysis:

6. For purposes of this proceeding, the Parties have not reached agreement on the Company's filed cost of service analysis; instead, after the conclusion of this proceeding, the Company 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

¹ The revenue received from Terasen from the Company's released Jackson Prairie Storage capacity & deliverability following the base rate increase will be deferred and returned to customers in the Company's 2008 PGA filing. (See Issue # 7 of Appendix 1)

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. (See Issue 12 of Appendix 1) The revenue allocation for purposes of this proceeding, however, will be described below.

(2.) Rate Spread/Rate Design:

7. The Stipulating Parties agree to apply a uniform percentage increase only to the electric energy charges for purposes of recovering Avista's revenue requirement; the demand charges will remain the same and there will be no increase to the basic charges in Schedule 1, 11, and 31.

8. For Extra Large General Service Schedule 25, the Primary Voltage Discount (PVD) rates for service at or above 60 kV and 115 kV will be increased as follows: The PVD rate for service at or above 60 kV will be increased from \$0.40 per kVA to \$0.80 per kVA and the PVD rate for service above 115 kV will 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. The Company agrees to withdraw, for purposes of this case, its proposal to add language under Schedule 25 that would require the customer to execute a special contract for service to a new/incremental load requirement of 25 megawatts or greater. (See Issue # 13, Appendix 1)

9. For natural gas, the Stipulating Parties agree that 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.²

C. Low Income Bill Assistance Funding:

10. The Stipulating Parties agree to adjust the LIRAP portion of the public purpose tariff riders (Schedules 91 and 191) to provide increased 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 resulting from this case. (See Issue # 10 of Appendix 1) 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.

D. Demand Side Management (DSM) Expenditures:

11. The Stipulating Parties agree that the Company's proposed rate base treatment of DSM expenditures shall not be implemented in this proceeding; instead, prudent expenditures on DSM will continue to be expensed annually. Moreover, no electric lost margin recovery mechanisms will be implemented in this case. The Stipulating Parties agree, however, that expenditures on DSM by Avista made for the period January 1, 2004 through December 31, 2006 are prudent. This Stipulation does not apply to any expenditures for automatic metering.

12. The electric DSM tariff rider funding will be increased to correspond with increased DSM target levels set forth in the 2007 Integrated Resource Plan (IRP) of the Company. This includes

² The base rate increase associated with the elimination of the Jackson Prairie release revenue received from Terasen will be allocated based on 80% of the costs being allocated to all gas sales and 20% of the costs being allocated to all schedules except for Schedule 148 (special contract).

Low Income DSM funding of \$1,132,000. The electric DSM level incorporates program enhancements contained in Avista's testimony in this docket. There will otherwise be no change to the DSM tariff rider for natural gas. 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 riders 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.

E. Unresolved Issues:

13. This Partial Settlement Stipulation resolves only those issues identified above for purposes of this proceeding. Among the items yet to be resolved, either through settlement or litigation, are the following:

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

This is not intended to be an all-inclusive list of the unresolved issues.

IV. EFFECT OF THE PARTIAL SETTLEMENT STIPULATION

14. Binding on Parties. The Stipulating Parties agree to support the terms of the Partial Settlement Stipulation throughout this proceeding, including any appeal, and recommend that the Commission issue an order adopting the Partial Settlement Stipulation contained herein. The Stipulating Parties understand that this Partial Settlement Stipulation is subject to Commission approval. The Stipulating Parties agree that this Partial Settlement Stipulation represents a compromise in the positions of the Stipulating Parties. As such, conduct, statements and documents disclosed in the negotiation of this Partial Settlement Stipulation shall not be admissible evidence in this or any other proceeding.

15. Integrated Terms of Settlement. The Stipulating Parties have negotiated this Partial Settlement Stipulation as an integrated document. Accordingly, the Stipulating Parties recommend that the Commission adopt this Partial Settlement Stipulation in its entirety. Each Stipulating Party has participated in the drafting of this Partial Settlement Stipulation, so it should not be construed in favor of, or against, any particular Party.

16. Procedure. The Stipulating Parties shall cooperate in submitting this Partial Settlement Stipulation promptly to the Commission for acceptance. The Stipulating Parties shall make available a witness or representative in support of this Partial Settlement Stipulation. The Stipulating Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Partial Settlement Stipulation and to supplement the record

accordingly.

The Stipulating Parties agree to stipulate into evidence the prefiled direct testimony and exhibits of the Company as they relate to the stipulated issues, together with such evidence in support of the Stipulation as may be offered at the time of the hearing on the Settlement. If the Commission rejects all or any material portion of this Partial Settlement Stipulation, or adds additional material conditions, each Stipulating Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Partial Settlement Stipulation. If any Stipulating Party exercises its right of withdrawal, this Partial Settlement Stipulation shall be void and of no effect, and the Stipulating Parties will support a joint motion for an expedited procedural schedule to address the issues that would otherwise have been settled herein.

17. No Precedent. The Stipulating Parties enter into this Partial Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Partial Settlement Stipulation, no Stipulating Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Partial Settlement Stipulation, and, except to the extent expressly set forth in the Partial Settlement Stipulation, no Stipulating Party shall be deemed to have agreed that such a Partial Settlement Stipulation is appropriate for resolving any issues in any other proceeding.

18. Public Interest. The Stipulating Parties agree that this Partial Settlement Stipulation is in the public interest.

19. Execution. This Partial Settlement Stipulation may be executed by the Stipulating Parties in

several counterparts and as executed shall constitute one Partial Settlement Stipulation.

Entered into this 15th day of October, 2007

Company:

By: _____

David J. Meyer
VP, Chief Counsel for Regulatory and
Governmental Affairs

Staff:

By: 

Gregory J. Trautman
Assistant Attorney General

Public Counsel:

By: _____

Simon ffitc
Assistant Attorney General

NWIGU:

By: _____

Edward A. Finklea
Cable, Huston, Benedict, Haagenon & Lloyd, LLP

ICNU:

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Davison Van Cleve, P.C.

The Energy Project:

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Ronald Roseman
Attorney at Law

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