Exhibit No. __ (T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-100467

DOCKET UG-100468

JOINT DIRECT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)
ANN M. C. LARUE (STAFF)
DONALD W. SCHOENBECK (ICNU/NWIGU)
LEA DAESCHEL (PUBLIC COUNSEL)
STEFANIE JOHNSON (PUBLIC COUNSEL)
CHARLES M. EBERDT (ENERGY PROJECT)

IN SUPPORT OF
THE SETTLEMENT STIPULATION

I. INTRODUCTION

Q. Please state your names, titles, and the party you represent in this matter.

A. Our names, titles, and representation are as follows:

- Kelly O. Norwood, Vice-President of State and Federal Regulation, Avista
- Ann M. C. LaRue, Regulatory Analyst, WUTC Staff
- Donald W. Schoenbeck, Regulatory & Cogeneration Services, Inc., representing Industrial Customers of Northwest Utilities (ICNU) and Northwest Industrial Gas Users (NWIGU)
- Lea Daeschel, Regulatory Analyst, Public Counsel Section of the Washington Office of Attorney General
- Stefanie Johnson, Regulatory Analyst, Public Counsel Section of the Washington Office of Attorney General
- Charles M. Eberdt, Director, The Energy Project

Q. Are you sponsoring joint testimony in support of the Settlement Stipulation filed with this Commission on August 24, 2010?

A. Yes. This joint testimony recommends approval of the Settlement Stipulation by the Commission. The Settlement Stipulation represents a compromise among differing points of view. Concessions were made by all Parties to reach a reasonable balancing of interests. As will be explained in the following testimony, the Settlement Stipulation received significant scrutiny and is supported by sound analysis and sufficient evidence. Its approval is in the public interest. The Settlement Stipulation has been marked as Exhibit ____.

Q. What is the scope of your testimony?

A. This Joint Testimony addresses Avista's general rate case filings in these dockets and the scope of the Settlement and its principal aspects. It also includes a statement of the Parties' views about why the Settlement satisfies their interests and the public interest, as well as any legal points that bear on the proposed Settlement.

Q. Would you briefly summarize the Settlement Stipulation?

A. Yes. As part of the Settlement Stipulation, Avista's annual electric revenues would increase by $29.5 million, representing a $25.8 million reduction from the Company's original request of $55.3 million. Avista also agreed to an annual natural gas revenue increase of $4.55 million, representing a $3.9 million reduction from its original request of $8.5 million.

The overall increase in base electric rates would be 7.4 percent under the Settlement, down 6.0 percent from Avista's original request to increase base electric rates by 13.4 percent. Natural gas rates would increase overall by 2.9 percent with the Settlement, down 3.1 percent from Avista's original request to increase base natural gas rates by 6.0 percent.

The Settlement Stipulation calls for an overall rate of return of 7.91 percent with a common equity ratio of 46.5 percent and a 10.2 percent return on equity. The common equity ratio and the agreed-upon return on equity are the same as currently authorized.

As part of the settlement proposal, it was agreed that the costs of Lancaster for 2011 and going forward are reasonable and should be reflected in rates and that only $6.8 million of the amounts deferred in 2010 would be recoverable in rates over a five (5) year amortization period, with a rate of return on the unamortized balance. As part of the settlement related to the 2010 Lancaster deferrals, the Parties agree that there will be no deferrals under the Energy Recovery Mechanism (ERM) for 2010 in either the rebate or surcharge direction. Avista will take the risk on any changes in ERM-related power supply costs for 2010.

Also, as part of the Settlement Stipulation, funding would be increased for two existing programs aimed at assisting limited-income customers. Funding for the limited income demand side management (DSM) program would be increased by $500,000 to $2.0 million annually. In addition, annual funding for the Low Income Rate Assistance Program (LIRAP) in Washington would be increased to approximately $5.0 million.

Later in our testimony, we discuss in more detail the elements of the Settlement Stipulation, specifically, the accounting and power supply adjustments, the resolution of the Lancaster issue, and rate spread/rate design.

Q. Who are the signatories to the Settlement Stipulation?

A. The Settlement Stipulation, filed August 24, 2010, was signed by Avista, the WUTC Staff, the Industrial Customers of Northwest Utilities, the Northwest Industrial Gas Users, the Public Counsel Section of the Washington Office of Attorney General, and the Energy Project. As such, all parties to the proceeding have joined in the Settlement.

Q. What is the proposed effective date of the Settlement?

A. The Parties have requested implementation of the Settlement Stipulation on December 1, 2010. This proposed effective date is an "integral" part of the Settlement and was one of the trade-offs among the concessions made on a variety of issues by the Parties.

Q. What was agreed to regarding to the next general rate case that Avista will file?

A. The Company will not file a general rate case in the Washington jurisdiction before April 1, 2011.

II. QUALIFICATIONS OF WITNESSES

Q. Mr. Norwood, please provide information pertaining to your educational background and professional experience.

A. My name is Kelly O. Norwood. I am employed by Avista Utilities as the Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington University with a Bachelor of Arts Degree in Business Administration, majoring in Accounting. I joined the Company in June of 1981. Over the past 29 years, I have spent approximately 18 years in the Rates Department with involvement in cost of service, rate design, revenue requirements and other aspects of ratemaking. I spent approximately 11 years in the Energy Resources Department (power supply and natural gas supply) in a variety of roles, with involvement in resource planning, system operations, resource analysis, negotiation of power contracts, and risk management. I was appointed Vice-President of State & Federal Regulation in March 2002.

Q. Ms. LaRue, please provide information pertaining to your educational background and professional experience.

A. My name is Ann M. C. LaRue. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst. I graduated from Sam Houston State University in Huntsville, Texas with a Bachelor of Business Administration (BBA) in Accounting in 1998 and a Masters of Business Administration (MBA) in 1999. I am licensed in Washington State as a Certified Public Accountant (CPA).

I have testified in Puget Sound Energy's general rate case, Dockets UE-090704 and UG-090705 (consolidated), in Avista Corporation's general rate case, Dockets UE-090134, UG-090135, and UG-060518 (consolidated), and in Northwest Natural Gas Company's general rate case, Docket UG-080546. I was also a Staff member on several other contested cases.

I attended the 49th Annual National Association of Regulatory Utility Commissioners (NARUC) Regulatory Studies Program held at Michigan State University in East Lansing, Michigan in 2007. I also attended the 29th Annual NARUC Western Rate School in San Diego, California in 2008.

Q. Mr. Schoenbeck, please provide information pertaining to your educational background and professional experience.

A. My name is Donald W. Schoenbeck. I am a consultant in the field of public utility regulation and I am a member of Regulatory & Cogeneration Services, Inc. ("RCS"). I have a Bachelor of Science Degree in Electrical Engineering from the University of Kansas, a Master of Science Degree in Engineering Management from the University of Missouri and I have completed all the course work toward a Master of Science Degree in Nuclear Engineering.

From June of 1972 until June of 1980, I was employed by Union Electric Company in the Transmission and Distribution, Rates, and Corporate Planning functions. In the Transmission and Distribution function, I had various areas of responsibility, including load management, budget proposals and special studies. While in the Rates function, I worked on rate design studies, filings, and exhibits for several regulatory jurisdictions. In Corporate Planning, I was responsible for the development and maintenance of computer models used to simulate the Company's financial and economic operations.

In June of 1980, I joined the national consulting firm of Drazen-Brubaker & Associates, Inc. Since that time, I have participated in the analysis of various utilities for power cost forecasts, avoided cost pricing, contract negotiations for gas and electric services, siting and licensing proceedings, and rate case purposes including revenue requirement determination, class cost-of-service, and rate design.

In April 1988, I formed RCS. RCS provides consulting services in the field of public utility regulation to many clients, including large industrial and institutional customers. We also assist in the negotiation of contracts for utility services for large users. In general, we are engaged in regulatory consulting, rate work, feasibility, economic and cost-of-service studies, design of rates for utility service, and contract negotiations.

I will be testifying on behalf of both NWIGU and ICNU in this proceeding.

Q. Ms. Daeschel, please provide information pertaining to your educational background and professional experience.

A. My name is Lea Daeschel and my business address is 800 Fifth Avenue, Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the Public Counsel Section of the Washington Attorney General's Office.

I received a B.A. in International Studies from the University of Oregon in 2006. In 2008, I received a Masters in Public Administration from Portland State University. Since joining Public Counsel in August 2008, I have worked on a wide range of energy issues, including review and evaluation of utility conservation programs, decoupling mechanisms, service quality, low-income issues, renewable energy credits, integrated resource planning, and other analyses of electric and natural gas general rate case and tariff filings before the Commission. In addition, I have presented before this Commission at Open Meetings on many various issues. I have not previously testified before this Commission.

Q. Ms. Johnson, please provide information pertaining to your educational background and professional experience.

A. My name is Stefanie Johnson and my business address is 800 Fifth Avenue, Suite 2000, Seattle, Washington, 98104. I am employed as a Regulatory Analyst with the Public Counsel Section of the Washington Attorney General's Office.

I received a B.A. in Political Studies and History from Whitworth University in 2002. In 2005, I received a Master of Public Administration degree from the Evans School of Public Affairs at the University of Washington. Since joining Public Counsel in December 2005, I have worked on a wide range of energy and telecommunication issues. With respect to energy related issues, my work has included review and evaluation of utility conservation programs, integrated resource planning, power costs, mergers and acquisitions, and other analyses of electric and natural gas general rate case and tariff filings before the Commission. In addition, I have presented before this Commission at Open Meetings on various issues.

I testified before the Commission as part of settlement panel in support of the Settlement Agreement in the CenturyTel/Embarq merger (Docket No. UT-082119). Additionally, I filed two declarations in the proceeding related to PSE's Report Identifying Puget Sound Energy's Ten-Year Potential and Biennial Target (Docket No. UE-100177) and will serve as Public Counsel's witness for that settlement panel in that Docket.

Q. Mr. Eberdt, please provide information pertaining to your educational background and professional experience.

A. My name is Charles M. Eberdt. I am the Director for The Energy Project, which represents low-income customers and Community Action Agencies in energy matters before the Commission and other state agencies. I have an M.A.T. from Harvard University. Since 1993, I have been working with all agencies that provide energy assistance and energy efficiency services to low-income households in Washington. Prior to that I supervised training on energy efficient construction for building code officials and builders for the Washington State Energy Office and provided other public education on energy efficiency. I am a Board member of the National Center for Appropriate Technology and A World Institute for a Sustainable Humanity (A.W.I.S.H.). I have participated in several proceedings before this Commission over the last 17 years.

III. HISTORY OF FILING

Q. Please describe the Company's initial general rate case request.

A. On March 23, 2010, the Company filed proposed tariff revisions requesting that the Commission grant an electric rate increase of $55,298,000 or 13.4 percent in base retail rates. The Company requested that the Commission grant an increase of $8,489,000 or 6.0 percent for Avista's natural gas operations. The Company's request was based on a proposed rate of return of 8.33 percent with a common equity ratio of 48.39 percent and a 10.9 percent return on equity.

The Company proposed to spread the requested electric revenue increase by rate schedule, utilizing the results of the cost of service study, on a basis which: (1) moved the rates for all the schedules closer to the cost of providing service, and 2) resulted in a reasonable range in the proposed percentage increase across the schedules. For natural gas, the Company proposed utilizing the results of the natural gas cost of service study as a guide in spreading the overall revenue requirement which would result in the rates of return for each schedule being reasonably close to the cost of service study results (unity). The

Company proposed to raise the electric and natural gas residential monthly basic charge to $10 from the current $6 charge.

Q. What are the primary factors driving the Company's request for an electric rate increase?

A. The Company's electric request is driven primarily by an increase in production and transmission expenses, due to the addition of the Lancaster plant Power Purchase Agreement (PPA), the termination of some low cost power purchases, reduced hydro generation, and increased fuel costs and higher retail loads. In addition, the Company's request is also driven by an increase in net plant investment in the Company's hydro and thermal generation projects, and transmission and distribution upgrades.

Q. What are the primary factors driving the Company's request for a natural gas rate increase?

A. The Company's natural gas request is driven by changes in various operating cost components, but primarily by the inclusion in this case of the increased plant investment associated with the additional storage at the Jackson Prairie Storage facility effective May 1, 2011.

IV. SETTLEMENT PROCESS

Q. Would you please describe the process that led to the filing of the Settlement Stipulation?

A. Yes. Representatives of all Parties appeared at an August 4, 2010 Settlement Conference, which was held for the purpose of narrowing the contested issues in this proceeding followed by subsequent settlement discussions on August 10-11, 2010.

Extensive discussions occurred on many components of the Company's filing, such as the cost of capital, accounting practices, and power supply adjustments. The Parties engaged in the "give-and-take" that characterizes settlement discussions and attempted to arrive at a reasonable balance of differing interests. Each of the Parties ultimately agreed to concessions on matters which would not have been agreed to if each of the Parties were to proceed to evidentiary hearings.

Significant discovery occurred in the four months leading to the first Settlement Conference. The Company responded to 662 data requests and provided the responses to all Parties

V. REVENUE REQUIREMENT

Q. Please explain the derivation of the Electric and Natural Gas Revenue Requirements outlined in the Settlement Stipulation.

A. After extensive discussions, the Parties agreed that Avista will reduce its revenue increase request to reflect the electric revenue deficiency shown in the table on Page 3 of the Settlement Stipulation. While Avista's filing requested an electric revenue requirement increase of $55.3 million, the adjustments listed on Page 3, including the agreed-upon rate of return, reduce this amount by approximately $25.8 million, resulting in a recommended electric revenue requirement increase of $29.5 million. Similarly, as shown in the table on Page 4 of the Settlement Stipulation, while the Company requested a natural gas revenue requirement increase of $8.5 million, the agreed-upon adjustments serve to reduce this amount by $3.9 million, resulting in a recommended natural gas revenue requirement increase of $4.55 million.

Q. Do the individual adjustments to the originally requested revenue

increases stand alone, or should the revenue requirement be considered in totality?

A. While the line-item adjustments do have separate characteristics, they are being accepted only as part of a comprehensive Settlement Stipulation that resolves all issues associated with the Company's original filing. As can be seen by a quick review of the individual line descriptions, the adjustments accepted for settlement purposes cover a broad range of revenue and cost categories, including the rate of return on investment. It would be inappropriate to view the individual adjustments in isolation. They should be viewed in total as part of the total Settlement Stipulation.

Q. Please explain the Parties' agreement in regards to the Rate of Return, including the Return on Equity.

A. The Parties have agreed to a revenue requirement which produces an overall rate of return of 7.91 percent, based on a return on equity of 10.2 percent and an equity component at 46.5 percent. Avista's existing return on equity is 10.2 percent. By comparison, the Company's original filing requested an overall rate of return of 8.33 percent, a return on equity of 10.9 percent and an equity component of 48.39 percent. The individual cost of capital components of the agreed upon rate of return are as follows:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Total Debt	53.50%	5.93%	3.17%
Common Equity	46.50%	10.20%[1]	4.74%
Total	100.00%		7.91%

[1]The parties reserve the right to argue for a direct reduction in return on equity due to natural gas decoupling in a future general rate case.

Q. Would you please provide an excerpt of the table appearing on Page 3 in the Stipulation for the Company's electric operations for ease of reference?

A. Yes, the table is set forth below:

TABLE 1
SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
000s of Dollars

		Revenue Requirement	Rate Base
Amount As Filed		$ 55,298	$ 1,075,665
	Adjustments:		
a)	**Cost of Capital**		
	Adjust return on equity to 10.2%; common equity to 46.5%; includes a Rate of Return of 7.91%	(7,273)	0
b)	**Power Supply-Related Adjustments**		
	i Lower Gas/Electric Prices	(14,970)	0
	iii Include short-term contracts through 7/22/2010	3,267	0
	iii Include lower colstrip outage	(880)	0
	iv Include higher Colstrip fuel cost	1,498	0
	v Include lower Stimson rates	(126)	0
	vi Include lower WNP-3 rates	(351)	0
	vii Include higher Wells cost	167	0
	viii Adjust for hydro shape change	(165)	0
	ix Include test year loads	(11,230)	0
c)	**Production Property Adj**		
	Remove the Pro Forma Production Property Adjustment due to use of historical loads used for power supply	18,957	37,643
d)	**Lancaster**		
	Recover $6.8 million of Lancaster deferral over 5 years	(1,526)	(3,149)
e)	**Capital Additions**		
	Include the annualized 2009 Noxon upgrade and major (7) generation projects though April 30, 2010	(7,761)	(48,783)
f)	**Noxon 2010/2011**		
	Remove pro forma property taxes on the 2010/2011 Noxon upgrade projects	(126)	0
g)	**Executive Labor**		
	Reduce executive labor charged to the Utility	(563)	0
h)	**Incentives**		
	Remove test period executives' incentives	(309)	0
i)	**Spokane River / CDA Tribe Settlement Deferrals**		
	Revise the Spokane River and CDA Tribe Settlement deferrals previously approved to a 10 year amortization	(661)	214
j)	**Pro Forma Vegetation Management**		
	Increase vegetation management expense by $1.025 million; Increase the Company's Washington annual required spend for vegetation management to $4.125 million	(1,073)	0
k)	**Information Services**		
	Include the annualized actual spend to June 30, 2010, and remove pro forma 2011 costs	(1,162)	0
l)	**Colstrip - Mercury Emission**		
	Revise for known changes to Colstrip mercury emission costs	(33)	0
m)	**Employee Pension**		
	Revise for known changes to pension costs	(35)	0
n)	**Administrative and General Expenses**		
	Reduce administrative and general expenses	(444)	0
o)	**Working Capital**		
	Reduce proposed working capital adjustment	(701)	(5,507)
p)	**Optional Renewable Power Rate (Buck-a-Block) Program**		
	Remove the effect of the Company's Buck-A-Block (renewable) program from base rates	19	0
q)	**Restate Debt**		
	Flow through impact of Rate Base adjustments	(316)	0
	Total Adjustments	**$ (25,797)**	**$ (19,582)**
	Adjusted Revenue Requirement	**$ 29,501**	**$ 1,056,083**

Q. Would you provide a brief description of the table and each line item?

A. Yes. Each of the line items represents adjustments to Avista's originally filed case. The first line, entitled "Amount As Filed" in the amount of $55,298,000 is the electric rate increase requested by Avista. This number can be found in Exhibit No. __ (EMA-2), page 1 of 13, line 6, column e.

a) The adjustment for "Cost of Capital," reflects the agreed upon capital structure and rate of return applied to the adjusted rate base.

b) The adjustment for "Power Supply-Related Adjustments," reflects adjustments to Avista's original power supply calculation for nine items, as follows:

i) Lower Gas/Electric Prices – Due to the reduction in both natural gas and electric prices since the original filing, the Settlement adjustment reduced the annual average gas price from $6.38/dth to $5.13/dth. The price is based on a 3-month average through July 21, 2010 of 2011 forward prices. The average Mid C flat electric price correspondingly dropped from $49.73/MWh to $41.32/MWh.

(ii) Updated ST Contracts – In order to more accurately reflect the actual costs in 2011, the Settlement includes all 2011 electric and gas transactions entered into through July 22, 2010. The original filed pro forma adjustment included actual transaction entered into through December 31, 2009.

(iii) Lower Colstrip Outage – The Settlement decreased the forced outage rate at Colstrip Units 3 and 4 from 9.36 percent to 6.71 percent. This adjustment, for settlement purposes, excludes the effect of the extended outage at Unit 3 in 2009. The new forced outage number is based on the 2003 through 2007 average.

(iv) Higher Colstrip Fuel Cost – The Settlement adjustment reflects an increase in the 2011 Colstrip coal cost from $19.72/ton to $21.92/ton based on updated information from Western Energy Company (Colstrip coal provider). The original filing was based on a 2009 forecast of 2011 coal costs.

(v) Lower Stimson Rates – The Settlement adjustment lowered the purchase price for the Stimpson purchase for October 2011 through December 2011 from $84.28/MWh to $65.15/MWh to reflect new Idaho avoided costs. Idaho avoided costs for projects less than 10 MW were reduced on March 15, 2010.

(vi) Lower WNP-3 Rates – The Settlement adjustment lowered the WNP-3 purchase price to reflect no increase in the midpoint rate from the 2009-10 contract year to the 2011 pro forma period. The midpoint increases each year based on an inflation index, and there is likely to be little inflation from the 2009-2010 contract year.

(vii) Higher Wells Cost – The Settlement adjustment increased the Wells purchase cost based on updated information received from Douglas County PUD on April 30, 2010.

(viii) Hydro Shape Change – The Settlement adjustment reflects changes in the heavy/light load hour hydro production splits to be within 2 percent each month of the actual 5-year average. The hydro production splits in the original filing closely reflected the actual 5-year average on an annual basis, but had more variation from actual on a monthly basis.

(ix) Test Year Loads – The Settlement adjustment decreased load to the weather adjusted 2009 test-year load from a forecasted 2011 pro forma load. System load decreased by 48.3 aMW. The use of test-year load reduces power supply expense and eliminates the production property adjustment.

c) The "Production Property Adjustment," reflects the removal of the adjustment from the revenue requirement due to the use of historical loads for determining power supply costs, as described above.

d) The adjustment for "Lancaster," reflects the recovery of $6.8 million of the 2010 Lancaster deferral, amortized over a five-year period. (See discussion, below, in Section VI.)

e) The adjustment for "Capital Additions," reflects the capital costs and expenses associated with certain major generation project upgrades. This adjustment includes the full effect of the Noxon Unit No. 1 generation upgrade project included in the settlement approved in Dockets UE-090134 and completed during 2009, and certain major projects expected to be completed and transferred to plant-in-service by November 30, 2010, in time for new rates to be in effect. The capital costs have been averaged for their appropriate pro forma period with the associated depreciation expense, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets.

f) The adjustment for the "2010 and 2011 Noxon Generation Upgrades," reflects the revenue requirement and rate base for capital costs and expenses associated with the 2010 and 2011 Noxon generation upgrades. The Noxon Unit No. 3 generation upgrade completed in May 2010 (designed to increase that unit's efficiency by 4.15 percent and provide additional capacity of 7.5 MW) and the Noxon Unit No. 2 generation upgrade scheduled for completion in March of 2011 (designed to increase that unit's efficiency by 2.42 percent and provide additional capacity of 7.5 MW) were included. The capital costs have been averaged for their appropriate pro forma period with the associated depreciation expense, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. Pro forma property taxes have been excluded from this adjustment.

g) The adjustment for "Executive Labor," reflects a reduction to executive labor and consists of three individual components: (1) it reduces the amount of executive salaries and benefits charged to the utility and allocates a greater portion of both to subsidiary/non-utility operations; (2) it reduces executive base salaries so that executive salary costs included in rates reflect increases in closer proportion to those for non-executive employee salaries; and, (3) it removes costs of executive supplemental deferred compensation and long-term disability benefits, which are available only to executive employees.

h) The adjustment for "Incentives," reflects the removal of incentives for executives from the revenue requirement. In addition, the Company will review its non-executive incentive compensation programs and provide testimony in its next general rate case: (1) identifying, explaining, and to the extent possible, quantifying the programs' benefit(s) to ratepayers; and, (2) explaining how the programs comply with the

Commission's Final Orders in previous Avista general rate cases, specifically Dockets UE-991606[1] and UE-090134[2].

i) The adjustment for the "Coeur d'Alene (CDA) Tribe Settlement and Spokane River Relicensing (SRR) Deferrals," reflects a ten-year amortization of the remaining balances beginning December 1, 2010 of the CDA Settlement Deferral, the CDA/SRR - CDR (Coeur d'Alene Reservation Trust Restoration Fund) deferral, the Spokane River Deferral, and the Spokane River PM&E Deferral, rather than the three-year amortization period that the Company proposed in its original filing.

j) The adjustment for "Vegetation Management Expenses," reflects an increase to the electric vegetation management costs. The Company is currently required, by Commission Order in Docket UE-050482, to spend approximately $2.8 million per year for electric vegetation management (includes electric distribution and transmission expenses). Avista reports this to the Commission annually within the Company's Commission Basis Report, and maintains a one-way balancing account to track any funds under-spent (below the $2.8 million). In the event there are unspent funds for vegetation management in any given year, those unspent funds will be accounted for and spent in the subsequent year or credited back to customers. This adjustment increases the electric expense $1.025 million above the test period amount of $3.0 million, and increases the required annual spend level from the current $2.8 million to $4.025 million.

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[1] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Third Supplemental Order, Docket Nos. UE-991606 and UG-991607 (consolidated), ¶¶ 268-73.

[2] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Final Order (Order No. 10), Docket Nos. UE-090134 and UG-090135 (consolidated), ¶¶ 128-29.

k) The adjustment for "Information Services Expenses," reflects an increase in ongoing information service requirements based on actual expenditures through June 30, 2010.

l) The adjustment for "Colstrip Mercury Emissions Expenses," reflects the revised amount for the Company's mercury abatement expenses required for its Colstrip Units #3 and #4 production plant.

m) The adjustment for "Employee Pension," reflects the decrease in employee pension related expenses based on updated information received by the Company.

n) The adjustment for "Administrative and General Expenses," reflects the removal of all or a portion of various administrative and general costs, including certain dues, fifty percent of Board of Director fees and expenses (as ordered in Docket Nos. UE-090134/UG-090135), certain advertising costs, and certain non-recurring expenses. The costs addressed by this adjustment include and/or are related to:

i. Board of Directors' fees
ii. Board of Director meeting costs
iii. Other Director Costs (gifts, non-meeting travel, professional portraits)
iv. Employee retirement party
v. Employee entertainment/sporting event
vi. Executive charity-related travel
vii. Reimbursement of executive relocation expenses
viii. Charitable donations
ix. Dues and fees to civic organizations (Rotaries, Chambers of Commerce, etc.)
x. Corporate aircraft travel (non-cost-effective or non-utility flights)
xi. Promotional/image advertising
xii. Employee gifts
xiii. Customer give-away items and gifts
xiv. Corporate logo apparel and items
xv. Various other costs improperly charged to utility accounts as identified by non-company parties through discovery in this proceeding.

o) The adjustment for "Working Capital," reduces the Company's proposed electric working capital pro forma adjustment.

p) The adjustment for the "Optional Renewable Power Rate (Buck–a-Block) Program," removes the effect of the Company's Optional Renewable Power Rate Program, also referred to as "Buck-A-Block," from base rates. Going forward, the Company will maintain separate accounts for all Buck-a-Block program costs and revenues to ensure compliance with WAC 19.29A.090(5) (specifying that "[a]ll costs…associated with any option . . . must be allocated to the customers who voluntarily choose that option and may not be shifted to any customers who have not chosen such option"). See additional details regarding agreed-upon measures included below, in Section X.

q) The adjustment for "Restate Debt Interest," reflects the income tax effect of the change in interest expense related to all other adjustments in the Settlement Stipulation that affect rate base. This adjustment restates debt interest using the agreed upon pro forma weighted average cost of debt of 3.17 percent as shown in the capital structure table on page 11.

The line entitled "Total Adjustments," represents the net reduction to the revenue requirement ($25,797,000) and rate base ($19,582,000), from Avista's original filing.

The final line is the resulting electric system revenue requirement deficiency of $29,501,000 to be collected by general tariff changes, after taking into account all of the foregoing adjustments.

Q. Would you please provide an excerpt of the table appearing on Page 4 in the Stipulation for the Company's natural gas operations for ease of reference?

A. Yes, the table is set forth below:

TABLE 2
SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT
000s of Dollars

	Revenue Requirement	Rate Base
Amount As Filed	**$ 8,489**	**$ 199,233**
Adjustments:		
a) Cost of Capital Adjust return on equity to 10.2%; common equity to 46.5%; includes a Rate of Return of 7.91%	(1,346)	0
e) Capital Additions Eliminate natural gas capital additions	(231)	(1,525)
g) Executive Labor Reduce executive labor charged to the Utility	(63)	0
h) Incentives Remove test period executive incentives	(87)	0
k) Information Services Include the annualized actual spend to June 30, 2010, and remove pro forma 2011 costs	(324)	0
m) Employee Pension Revise for known changes to pension costs	(8)	0
n) Administrative and General Expenses Reduce administrative and general expenses	(235)	0
o) Working Capital Remove the natural gas working capital adjustment	(516)	(4,053)
p) Optional Renewable Power Rate (Buck-a-Block) Program Remove the effect of the Company's Renewable (Buck-a-Block) program from base rates	(8)	0
q) Restate Debt Flow through impact of Rate Base adjustments	131	0
r) Jackson Prairie Use revised plant and cushion gas accounting in base rates; defer revenue requirement of additional actual 2011 working gas inventory balance to be recovered through PGA	(1,248)	(8,692)
Total Adjustments	**$ (3,935)**	**$ (14,270)**
Adjusted Revenue Requirement	**$ 4,554**	**$ 184,963**

Q. Would you also describe the adjustments to the Company's natural gas case included in the table above?

A. Yes. All adjustments, with the exception of three described below, were explained in the electric section above.

The first line, entitled "Amount As Filed" in the amount of $8,489,000 is the natural gas rate increase requested by Avista. This number can be found in Exhibit No. __ (EMA-3), page 1 of 9, line 6, column e.

(e) The adjustment for "Capital Additions," removes all pro formed capital costs, excluding the Jackson Prairie capital costs discussed below, from Avista's original filing.

o) The adjustment for "Working Capital," removes the natural gas working capital adjustment proposed by the Company.

(r) The adjustment for the "Jackson Prairie (JP) Storage," reflects the revised accounting treatment proposed by the Company for its existing cushion gas using the net book value of the utility assets at February 2010 to record the transfer of the cushion gas from non-recoverable (FERC Account No. 352.3), which is a depreciable asset, to recoverable (FERC Account No. 117.1), which is a non-depreciable asset. The JP assets that will be added on May 1, 2011 will include plant assets as well as cushion gas that will be recorded in both recoverable and non-recoverable FERC accounts using a similar allocation method.

The pro formed Jackson Prairie working gas inventory for the additional storage effective May 1, 2011, and associated additional operations and maintenance costs, were removed from the revenue requirement and rate base. Under the Settlement Stipulation, the revenue requirement associated with Avista's rate of return applied to the actual balance of the additional JP working gas inventory applicable to Washington gas operations would be calculated as a deferred cost beginning May 1, 2011 to be recovered in the Company's future PGA filings starting with Avista's fall 2011 PGA filing, until recovered in base rates in a subsequent general rate case. In addition, the additional operations and maintenance costs would be recorded in the Company's PGA deferrals for later recovery in rates until those costs are included in base retail rates.

The line entitled "Total Adjustments," represents the net reduction to the revenue requirement ($3,935,000) and rate base ($14,270,000), as filed in the original filing.

The final line is the resulting natural gas system revenue requirement deficiency of $4,554,000 to be collected by general tariff changes, after taking into account all of the foregoing adjustments.

Q. How were the specific amounts of the various electric and natural gas adjustments described above determined?

A. Those adjustments are the result of the audit process and analysis conducted by the Commission Staff and other Parties to this case, as adopted and adjusted in the course of the Parties' settlement discussions. Those discussions and adjustments were informed by the views and assessments of the various Parties who participated in the settlement discussions. All such information was considered, along with certain elements of compromise agreed upon in order to achieve settlement.

VI. RECOVERY OF LANCASTER COSTS

Q. Please explain the proposal in the Stipulation related to Lancaster.

A. In its Order 10, in Docket No. 090134, the Commission allowed Avista to defer costs incurred by Avista associated with its purchase of power from the Lancaster Generating Facility[3] until such time as the prudence of such costs and compliance with certain other requirements could be addressed in a subsequent general rate case – i.e., in this Docket No. UE-100467. While the Parties have agreed that the costs of Lancaster for 2011 and going forward are reasonable and should be reflected in rates, only $6.8 million

[3] The Lancaster Generating Facility is a 275 MW combined-cycle combustion turbine located near Rathdrum, Idaho. Avista is a party to a power purchase agreement (PPA) whereby the output of the facility was transferred to Avista on January 1, 2010, for a period ending October 31, 2026.

of the amounts deferred in 2010 would be recoverable in rates over a five (5) year amortization period, with a rate of return on the unamortized balance. As part of the settlement related to the 2010 Lancaster deferrals, the Parties agree that there would be no deferrals under the ERM for 2010 in either the rebate or surcharge direction. Avista will take the risk on any changes in ERM-related power supply costs for 2010.[4] These risks include any variability around actual hydro conditions, actual natural gas prices for thermal generation, actual loads, actual thermal availability, etc.

The Parties agree that the Lancaster PPA complies with the Greenhouse Gases Emissions Performance Standard (EPS) established in RCW 80.80. Staff witness Nightingale is presenting additional testimony in this regard.

VII. RATE SPREAD/RATE DESIGN

Q. Where in the Stipulation is the information related to rate spread and rate design provided?

A. Section B of the Stipulation provides a detailed description of the spread of the proposed electric and natural gas revenue increases. Page 1 of Appendix 4 of the Stipulation shows the proposed increase to the Company's electric service schedules and Page 2 shows the proposed rates within each of those schedules. Page 3 shows the proposed increase to the Company's natural gas service schedules and Page 4 shows the proposed rates within each of those schedules.

Q. Turning to the proposed electric revenue increase of $29,501,000, could you please describe the method to spread the proposed increase?

[4] The current balance in the ERM of approximately $526,400 at July 31, 2010 would also be reduced to zero such that the ERM balance at December 31, 2010 will be zero.

A. Yes. The Parties agreed to use a pro-rata allocation of the Company's electric rate spread percentages from its original filing for purposes of spreading the revenue requirement, as shown on Page 1 of Appendix 4 to the Stipulation.

Q. What rate design was agreed to in the Stipulation for electric service, as shown on page 2 of Appendix 4?

A. The components of rate design follows:

(i) The residential basic charge would remain at the current level of $6 per month.

(ii) Except for Extra Large General Service Schedule 25, the increases to other customer, energy and demand charges would be as proposed in the Company's original filing.

(iii) For Extra Large General Service Schedule 25,

- The minimum charge would be increased from $11,000 to $12,500 per month.
- The excess demand charge would be increased from $3.50 to $4.00 per kVa.
- The voltage discount for over 60kV would be increased to $1.10/kVa and for over 115kV to $1.30/kVa.
- A uniform percentage increase would be applied to the first two energy block rates, and the increase to the third energy block rate would be equal to 0.7 times the percentage increase applied to the first two blocks.

Q. Based on the proposed rates set forth in the Stipulation, what would be the monthly bill increase for a residential electric customer with average consumption?

A. The proposed increase for a residential customer using an average of 1,000 kwhs per month is $5.62 per month, or approximately a 7.8 percent increase in their electric bill.

Q. Turning to the proposed natural gas revenue increase of $4,554,000, could you please describe the method to spread the proposed increase?

A. Yes. For natural gas, the Parties agree to use a pro-rata allocation of the Company's natural gas rate spread percentages from its original filing, modified with the assignment of underground storage costs by throughput for balancing purposes being reduced from 20 percent to 13 percent, for purposes of spreading the revised revenue requirement as shown on Page 1 of Appendix 4 of the Stipulation.

Q. What rate design was agreed to in the Stipulation for natural gas service, as shown on page 4 of Appendix 4?

A. The components of rate design follows:

(i) The residential basic charge would remain at the current level of $6 per month.

(ii) The rates within Schedules 111 and 112 would be increased to maintain the present break-even usage level between Schedules 101 and 111, in order to minimize future customer schedule shifting, as proposed in the Company's filing (Page 24-25 of Ehrbar Direct Testimony).

(iii) The rate design changes for the other schedules would be as proposed in the Company's original filing.

Q. Based on the proposed rates set forth in the Stipulation, what would be the monthly bill increase for a residential natural gas customer with average consumption?

A. The proposed increase for a residential customer using an average of 69 therms per month is $2.17 per month, or approximately a 3.6 percent increase in their natural gas bill.

VIII. LOW INCOME RATE ASSISTANCE PROGRAM

Q. Please describe the Low Income Rate Assistance Program (LIRAP) portion of the Settlement Stipulation.

A. The Parties agreed to adjust the LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase in annual funding that reflects the same percentage increase as the overall percentage increase in revenue requirement in this case – i.e., 7.4 percent for electric and 2.9 percent for natural gas. With this increase, the annual funding level for electric low income customers would be approximately $3.3 million, and for natural gas low income customers would be approximately $1.7 million. Appendix 5 of the Settlement Stipulation identifies the tariff rider adjustments to Schedules 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for LIRAP.

IX. DEMAND-SIDE MANAGEMENT PROGRAMS

Q. Please describe the Demand Side Management (DSM) portion of the Settlement Stipulation.

A. The Parties agree to reallocate existing levels of DSM funding under Schedules 91 and 191 in order to increase low income DSM by $500,000 over and above the existing funding level of $1.5 million. For purposes of program administration, the total funding level of $2 million for low income DSM includes amounts that may be dedicated to energy-related health and human safety measures, the expenditures for which shall not exceed fifteen (15) percent of overall actual low income DSM expenditures. In addition, Avista shall remove $15,000 (related to incorrect customer rebates) from its Washington natural gas DSM account, and shall also remove $56,733 (electric) and $6,500 (natural gas) (reflecting improperly charged dues and memberships) from its Washington DSM tariff rider accounts.

Q. Please describe the accounting review and evaluation of the DSM Program.

A. Avista has agreed to review three areas of the DSM Program, including, 1) rebate processing procedures for DSM programs, 2) Avista's Limited Income Weatherization program, and 3) Avista's data tracking systems and data strategy for its DSM programs. These are described below in further detail.

Q. Please describe the review of the rebate processing procedures for DSM programs.

A. Avista will conduct, either internally or by an independent, third-party, a comprehensive review of its customer rebate processing system for all rebate programs, including process analysis/best practices review of rebate processing to ensure accuracy. As part of this review there will be a thorough examination of the Company’s procedures for prescriptive rebate programs where the amount of the rebate varies and is calculated individually for each customer (e.g., residential insulation and window replacement). The review is expected to culminate in a final report with recommendations regarding any new systems and/or controls the Company should implement to improve and enhance its rebate processing, including but not limited to controls to ensure that rebates do not exceed the program maximum, currently set at fifty percent of project cost for most programs. Avista shall furnish the final report resulting from this review in a report to be provided to all parties, and the Triple E Board, upon completion and prior to the Company's next general rate case.

Q. Please describe the review of Avista's DSM Limited Income Weatherization program.

A. The Company agrees that an independent, third-party will conduct Evaluation, Measurement, and Verification ("EM&V") of Avista's Limited Income Weatherization program as part of the conditions approved by the Commission in Docket UE-100176.[5] The Company also agrees that an independent, third-party will conduct an impact evaluation and cost-effectiveness analysis of Avista's residential windows program (natural gas and electric), using program participant data from 2008 and/or 2009, with a final report completed no later than May 30, 2011. Avista and the selected evaluator will work in good faith to ensure all program participant data is as accurate as possible. If necessary, the selected evaluator may conduct an audit of all participant data for this program.

Q. Please describe the review of Avista's data tracking systems and data strategy for its DSM programs.

A. Avista agrees that an independent, third-party will conduct an evaluation of Avista's data tracking systems and data strategy for its DSM programs. The review will examine Avista's internal operations for data entry, tracking, and reporting, and its systems for ongoing review, oversight and controls to ensure data accuracy. As part of this review, the selected external evaluator will share industry best practices regarding data management strategies. The review will also examine whether the documentation required from participating customers is appropriate. The review is expected to culminate in a final report with findings, as well as recommendations regarding any new systems and/or controls the company should implement to improve and enhance its DSM data management. In addition, the final report will include recommendations regarding effective and accurate procedures that should be followed to correct DSM data, when errors are discovered particularly in filings with the Commission. Avista shall furnish the final report resulting from this review in a report to be provided to all Parties, and the Triple E Board, upon completion and prior to Avista's next general rate case.

X. REVIEW OF ACCOUNTING PROCEDURES

Q. Please describe the review of accounting policies and procedures regarding the Company's allocation of costs between the utility, LIRAP, and non-utility accounts that will be conducted by Avista.

A. Prior to its next Washington general rate case filing, Avista will review its existing policies and procedures regarding the Company's allocation of costs between utility, LIRAP, and non-utility accounts, and produce a report with a detailed description of

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[5] *See* Docket UE-100176, Order 01, "Order Approving Avista's Ten-Year Achievable Conservation Potential And Biennial Conservation Target Subject To Conditions".

these policies and procedures. This report will include an explanation of safeguards in place so that subsidiary or non-utility expenses remain separate from and are not being charged to utility accounts. The report will also include the prescribed methods identified for proper allocation of shared/common costs between utility and non-utility accounts. The policies and procedures and related report shall be served on all Parties to the current rate case. Parties reserve the right to challenge or propose amendments to Avista's allocation policies and methodologies in any future rate case. The Company will maintain records of the cost of performing the review and preparing the report (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

Q. Please describe the annual audit that will be conducted by Avista's Internal Audit Department of the accounting practices conducted by Avista relating to the Company's allocation of costs between the utility, LIRAP, and non-utility accounts.

A. Avista's Internal Audit Department will perform an annual audit of current accounting practices (including accounting for LIRAP programs) relating to: compliance with regulatory treatment of utility expenditures; accuracy of jurisdictional allocations; and allocations between utility and non-utility accounts for subsidiary and corporate-wide (shared) expenses. Following this audit, Avista will make any necessary revisions to its training materials and put in place measures so that inappropriate subsidiary, or shared, costs are correctly accounted for and not recorded to utility operating accounts. The Internal Audit Department will prepare a report regarding the results of its audit, including a list of all concerns, incorrect treatment of costs, and steps for improving the accuracy and propriety of accounting practices.

Avista will commit to performing the annual internal audit as described above and provide a copy of the same to all parties for three (3) years following its initial audit and report. Parties reserve the right to challenge any inappropriately recorded costs. In addition, the Company shall maintain records of the cost of performing the audits and preparing the reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

Q. Please describe the employee training that will be conducted by Avista relating to the accounting and allocation practices as discussed above?

A. Avista will provide ongoing training for Avista employees to comply with required accounting and allocation practices as discussed above. This will include meeting with departments to explain proper labeling of expenses, accounting treatment, and allocations. Training materials will include guidelines regarding the proper use of various FERC accounts and proper expense labeling systems, so that costs are accurately identified for ratemaking purposes. Avista will distribute a semi-annual written reminder to employees to properly label and record expenditures (including appropriate utility/non-utility and jurisdictional allocations). The training described above and the first semi-annual reminder will be provided by Avista before the Company files its next general rate case. In addition, the Company will maintain records of the cost of preparing and providing training and training materials/written reminders (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

Q. Please describe the review that will be conducted by Avista of the accounting procedures relating to the Optional Renewable Power Rate Program.

A. Avista shall perform an internal review of its Optional Renewable Power Rate Program ("Buck-a-Block") and prepare a report to be provided to all parties before its next Washington general rate case that describes the accounting for all costs associated with the program. These costs will include shared and overhead costs, such as labor, information services, and supplies that are used in the administration of the program. The report will provide a narrative explanation of how shared costs are allocated to the program. The report will also provide a breakdown of the 2010 actual costs allocable to Washington for each program component (costs of RECs, advertising/administration, internal labor-related overhead, and all other costs). Going forward, Avista will account for all Buck-a-Block program costs separate from other utility operations. The Company will maintain records of the cost of performing this internal review and preparing the subsequent reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

XI. PUBLIC INTEREST

Statement of Avista

Q. Please explain why Avista believes the Settlement Stipulation is in the public interest.

A. The Settlement strikes a reasonable balance between the interests of Avista's customers, including limited income customers, and the Company. This Settlement Stipulation, if approved, would provide a measure of certainty around future cost recovery, which is an important element in continuing the Company's path to a healthy utility. The Settlement Stipulation was a compromise among differing interests and represents give-and-take.

The Parties have agreed that the Company has demonstrated need for a revenue increase for both its electric and natural gas customers. The Settlement Stipulation provides for recovery of additional costs. The Settlement Stipulation was entered into following extensive discovery, audit and review of the Company's filing and books and records.

Although we are continuing to make progress in improving the Company's financial condition, we are still not as strong financially as we need to be and remain at the lowest rung of the investment grade credit rating scale (BBB- for Standard & Poor's and Baa3 for Moody's Investor Service). Timely rate relief through this filing is an important element in preserving our existing credit ratings, and having the opportunity to improve that rating. With substantial levels of capital spending required over the next several years, it is more important than ever that the Company remain financially healthy in order to attract capital investment and financing under reasonable terms. The Company's initiatives to manage its operating costs and capital expenditures are an important part of improving financial strength, but are not sufficient without the Commission's approval of the agreed cost recovery and return opportunity and conditions provided under the Settlement Stipulation.

Q. How has Avista addressed Public Counsel's concerns regarding certain administrative and general costs in this case?

A. As described in its statement below, Public Counsel refers to approximately two dozen instances of operating expenses being incorrectly recorded to utility accounts or utility costs being recorded to the improper utility accounts. These items totaled approximately $26,000 for electric service and approximately $12,000 for natural gas service[6]. By way of context, the Company processes approximately 3 million transactions annually, which includes approximately 500,000 expense transactions. Nevertheless, the Company believes it should take reasonable steps and use its best efforts to minimize the number of incorrect accounting entries. To that end, it has agreed to take additional measures to address Public Counsel's concerns. As described below, the Company will review its existing accounting policies and procedures, will conduct employee training and will perform internal audits relating to its procedures for recording its expenses.

Q. How has Avista addressed Public Counsel's concerns regarding certain DSM costs in this case?

A. As described in its statement below, Public Counsel identified certain DSM rebates for its residential natural gas window replacement program that were incorrectly made during 2008 and 2009, in addition to several data entry errors. This program issued over $1 million in rebates in 2009, which represents approximately 28,000 transactions.

[6] As shown on Tables 1 and 2 (see Electric Table 1, page 13, and Natural Gas Table 2, page 21) the Parties have agreed to remove a total of $444,000 and $235,000, electric and natural gas respectively, from the Company's revenue requirement, for administrative and general expenses. Of these totals, approximately $214,000 electric and $60,000 natural gas expenses have been removed to reflect a 50/50 sharing of Board of Director expenses, rather than the 10% proposed by the Company. The remaining amounts include those incorrectly recorded, as noted above, and additional amounts challenged by Public Counsel and agreed to by the Company for settlement purposes only.

The Company, however, agreed to remove $15,000 from the Washington natural gas DSM account to address the identified errors. Through the Company's audit process, in early 2010, the Company implemented new protocols for processing DSM rebates with the intent to identify these types of errors[7]. Nevertheless, the Company agreed to implement additional measures, described below, to address Public Counsel's concerns regarding its DSM program.

Statement of Commission Staff

Q. Please explain why Commission Staff believes the all-party Settlement Stipulation is in the public interest.

A. Staff believes that the all-party Settlement Stipulation is in the public interest, based on a comprehensive review of Avista's filing, which included a review of the Company's per books numbers, test-year results of operations, cost of service models, the proposed rate spread/rate design, capital structure and rate of return. Staff issued a total of 162 data requests and also reviewed the responses to discovery requests submitted by other parties. Staff also performed on-site visits to the Company to cover many aspects of the case. The Settlement Stipulation results in reductions of nearly 50% to both the electric and gas revenue requirements requested by Avista in its filed case. The Settlement Stipulation rejects Avista's request to significantly increase the Company's return on equity and equity ratios, by maintaining the levels approved and deemed reasonable in previous Avista cases. The Settlement Stipulation, taken as a whole and with consideration

[7] The new protocols implemented by Avista in early 2010 include: 1) The Avista Customer Service System (CSS) was modified so the rebate is limited to 50% of the cost, 2) Three people review the rebates before they are provided to Accounts Payable for payment, and 3) A monthly report of savings, cost allocations, and rebate amounts is reviewed.

of the issues Staff intended to present if the case were to be fully litigated, provides a fair and reasonable outcome that is in the public interest and will result in rates that are fair, just, reasonable and sufficient. It satisfactorily resolves the interests of all of the parties to this proceeding, including both residential and business consumer interests.

Q. Please explain why Commission Staff believes the all-party Settlement Stipulation satisfies the interests and concerns of Staff.

A. Staff believes the all-party Settlement Stipulation addresses the requirement that the rates be fair, just, reasonable and sufficient. In addition to the issues addressed above, the all-party Settlement Stipulation addresses several revenue requirement issues of importance to Staff. In particular, it makes significant reductions, in comparison to the Company's filed case, to Avista's authorized recovery for capital additions, information services, executive labor and incentives, numerous categories of administrative and general expenses, and several power-supply related expenses. The Settlement Stipulation also resolves all of the issues pertaining to the Lancaster Power Purchase Agreement in an equitable manner, as the parties have agreed to allow recovery of only $6.8 million of the amounts deferred for 2010 (estimated at $12 million total). Avista has further agreed that there will be no deferrals under the ERM for 2010 in either the rebate or surcharge direction, and will take the risk on any changes in ERM-related power supply costs for 2010. The Settlement Stipulation appropriately resolves the issues regarding the prudency of Lancaster and compliance with the Greenhouse Gases Emissions Performance Standard.

Staff also believes that the Settlement Stipulation results in a rate design and rate spread that is fair and reasonable, including an agreement not to increase the basic charge for either residential electric or natural gas service. Finally, the Settlement contains a stayout provision of significance to Staff, under which the Company agrees not to file another rate case until April 1, 2011. For all of these reasons, Staff urges the Commission to approve the Settlement Agreement as satisfying both the public interest and the interests of Staff.

Statement of ICNU

Q. Why does ICNU support the agreed upon power supply costs in the proposed Settlement Stipulation?

A. The amount of costs related to power supply is always critical to ICNU, as these costs represent the vast majority of the rate charges paid by our members. The Settlement Stipulation represents a substantial reduction from the Company's filed power supply costs, which results from many adjustments, including updating gas costs and test period load levels. In addition, the parties have agreed to "lock-in" these costs giving ICNU members, as well as other customers, price certainty (an upper bound) at a time when budgets are being prepared for the coming year. All of these factors were crucial for ICNU, and therefore, ICNU supports the settlement on power costs.

Q. Why does ICNU support the Settlement Stipulation rate spread proposal?

A. The Company's filed rate spread proposal represents an acceptable outcome given the cost-of-service evidence that would have undoubtedly been filed by all settling parties. For ICNU, use of the Company's proposal is appropriate as it moves all classes toward a cost-based rate level. As a result, ICNU believes the Settlement Stipulation rate spread is in the public interest.

Q. Why does ICNU support the Schedule 25 rate design proposed in the Settlement Stipulation?

A. The Company's cost study shows the Schedule 25 demand charges are substantially below a cost based level. The Settlement Stipulation rate design recovers a larger portion of the rate schedule increase in the demand charges as compared to the energy charges to move the charges closer to a cost-based level. Consequently, the Settlement Stipulation Schedule 25 rate design is in the public interest.

Q. Why does ICNU support the cost of capital settlement in the Settlement Stipulation?

A. The cost of capital settlement leaves Avista's return on equity and equity ratio at its current level, while updating the cost of debt. In the context of an overall settlement, ICNU believes that this is reasonable compromise.

Q. Does ICNU support the December 1, 2010 effective date for new rates?

A. Yes. ICNU supports the proposed effective date for new rates, given that Avista has agreed not to file a new general rate case prior to April 1, 2011.

Q. Does ICNU recommend that the Commission approve the Settlement Stipulation?

A. Yes. For the reasons noted above, the Settlement Stipulation is in the public interest, and ICNU recommends approval by the Commission.

<u>Statement of NWIGU</u>

Q. Please explain why NWIGU believes the Settlement Stipulation is in the public interest.

A. NWIGU believes the Settlement Stipulation is in the public interest and recommends the Commission approve the settlement because the best interests of Avista's natural gas customers are served by the underlying fair compromise on certain revenue requirement, rate spread and design issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement addressed in the Settlement Stipulation, NWIGU supports the settlement as the agreement reached on capital costs has brought down the overall gas revenue requirement increase by $1.3 million and Jackson Prairie costs were reduced by $1.2 million. Incorporating all of the agreed upon adjustments, the overall gas revenue increase is now just $4.554 million. NWIGU supports this Settlement Stipulation as the overall result is a fair compromise between Avista and its customers.

NWIGU also finds this Settlement Stipulation to be in the public interest as the spread of the gas rate increase is done in a manner that is consistent with the results of both the Company's cost of service analysis and the preliminary cost of service analysis performed by NWIGU in this proceeding. Under the Settlement Stipulation, it is important from NWIGU's perspective that Schedule 146 is moved towards its relative cost of service. Moving rates closer to cost is appropriate, and is a significant reason NWIGU supports the Settlement Stipulation. In addition for Schedule 146 rate design, the Settlement Stipulation calls for increasing the customer charge from $201.30 to $225.00 per month and applying the same percentage increase to all the volumetric rate blocks. NWIGU support this cost-based Schedule 146 rate design.

For the reasons set forth above, NWIGU believes the Settlement Stipulation is in the public interest and should be approved by the Commission.

<u>Statement of Public Counsel</u>

Q. Please explain the approach that Public Counsel took in this case.

A. Due to budgetary constraints, Public Counsel was unable to retain outside consultants for this case.[8] Accordingly, we were limited to, and therefore focused on, a narrower range of issues consistent with our in-house resource and expertise levels. Public Counsel sent over 400 data requests that informed our position on issues such as: administrative and general costs, employee compensation, demand-side management (DSM) programs, optional renewable power program costs, the Lancaster Purchase Power Agreement (PPA), and accounting practices and rate case presentation.

Q. Please explain why the Stipulation satisfies the interests of Public Counsel.

A. Public Counsel believes this settlement is in the interest of Avista's residential and small business customers because it strikes a balance between allowing the Company to recover legitimate operating expenses while removing inappropriate costs and limiting the monetary impact on customers. The Stipulation also commits Avista to strengthening its accounting practices and future rate case presentations. In addition, the Stipulation reasonably retains Avista's current rate of return and capital structure and includes no increase to the residential fixed monthly charge for either natural gas or electric service. Finally, the Stipulation addresses some concerns regarding Avista's DSM programs and resolves the disputed recovery of costs for the Lancaster PPA.

Q. Did Public Counsel have any specific concerns regarding Avista's presentation of this case?

A. Yes. Through discovery on limited O&M items alone Public Counsel became aware of over two dozen instances of expenses being incorrectly booked to utility accounts, or where utility expenses were booked to improper accounts. Avista conceded to all of these errors. Concern with proper booking of operating expenses was raised by Public Counsel in Avista's last general rate case and was, in at least one context, noted by the Commission.[9]

Q. How does the Stipulation address Public Counsel's concern regarding accounting and record-keeping errors?

A. The Stipulation's provisions regarding internal audits, reporting, training, and oversight of Avista's expense accounting procedures are an important step towards ensuring that, going forward, Avista will not include inappropriate costs in rate case filings and will clearly account for its utility and non-utility operating expenses.[10] These were important provisions that Public Counsel strongly advocated should be part of the settlement.

Q. Were there specific operating expenses that Public Counsel had concerns with in Avista's filing?

A. Yes. As a result of discovery responses, Public Counsel had concerns regarding numerous types of expenses that were included in Avista's test year operating expenses. Many of these are listed in the Stipulation.[11] Of great concern was the

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[8] This was noted on the record at the Preahearing Conference. *See* TR 0028:14-16 (ffitch).
[9] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Docket Nos. UE-090134 and UG-090135 (consolidated), Final Order (Order 10), fn. 171(stating, in part, "[i]n future rate proceedings we expect that the Company will sort out those expenses related to Board of Directors' meetings that do not have any benefit to ratepayers and make the appropriate restating adjustment at the outset. The Company should not expect Public Counsel or Commission Staff to perform that review function") (hereinafter *Avista 2009 GRC*).
[10] *Settlement Stipulation*, ¶¶ 20-24 ("Accounting Procedures").
[11] *Id.*, p. 10 ("Administrative and General Expenses").

continued inclusion of inappropriate Board of Directors' costs, such as luxury resort accommodations, expensive meals and entertainment, and travel costs and accommodations for Directors' spouses, which the Commission explicitly directed Avista to remove in the previous rate case Final Order.[12] Public Counsel was also concerned about the inclusion of other types of costs that are expressly prohibited from recovery in regulated rates, such as: promotional and image advertising costs, charitable donations, costs for employee entertainment and sporting events, and dues and fees paid to rotaries and other civic organizations.

Q. How does the Stipulation address Public Counsel's concerns regarding the operating expenses described above?

A. The Stipulation includes an overall adjustment for administrative and general expenses that removes all expenses prohibited by law, as well as a portion of other expenses challenged by Public Counsel as not properly recoverable in rates.[13] In addition, the accounting procedures provisions help ensure that the Company will not include unlawful expenses in rate case filings. Public Counsel, Staff, and other parties will be more easily able to identify costs as they will be properly labeled and booked.

Q. Did Public Counsel have specific concerns regarding Avista's optional renewable power rate program?

A. Yes. While state law requires that all costs associated with this Program be allocated only to participating electric customers, Avista has not maintained separate accounts for the Program, Buck-a-Block, to ensure that this occurs.[14] Given this, Public

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[12] *Avista 2009 GRC*, Final Order (Order 10), fn. 171.
[13] *Settlement Stipulation*, p. 10 ("Administrative and General Expenses").
[14] *See* RCW 19.29A.090(5).

Counsel was concerned that many Program-related costs, such as administrative overhead, were being borne by all customers.[15] In fact, Avista had allocated a portion of Program costs to natural gas operations.[16]

Q. Does the Stipulation address Public Counsel's concerns regarding Avista's Buck-a-Block program?

A. Yes. The Stipulation addresses this concern by correcting for improperly booked amounts and requiring Avista to perform an internal review of Buck-a-Block and provide to all parties a report regarding program costs.[17] Moreover, Avista will, going forward, maintain separate accounts for Buck-a-Block in order to ensure that *all* Program costs are properly allocated to participating customers.[18]

Q. Please describe Public Counsel's concerns regarding Avista's DSM programs.

A. As a result of discovery responses, Public Counsel had concerns related to Avista's Demand Side Management (DSM) programs. Public Counsel chose to focus some of our DSM-related discovery efforts specifically on the residential natural gas window replacement program, due to the large size of the program in terms of participants, estimated savings, and expenditures.[19] In its review of this single DSM program, Public Counsel discovered some rebates that were issued incorrectly, resulting in payments that

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[15] *See* Avista CONFIDENTIAL Response to Public Counsel Data Request No. 231.
[16] *Settlement Stipulation,* Appendix 1, p. 2 (Item R1).
[17] *Id.* at ¶ 24 ("Review of Accounting Procedures Relating to Optional Renewable Power Rate Program").
[18] *Id.*
[19] In 2009, Avista issued over $1 million in rebates to Washington and Idaho residential customers through the natural gas window replacement program, with estimated savings of 287,704 therms, which represents about 28 percent of residential incentive expenditures and 28 percent of savings for all residential programs. *See* Avista Response to Staff Data Request No. 134, Attachment B (window replacement incentive expenditure and savings data). *See also* "Annual Energy Efficiency Annual Report: 2009 Performance Results, Avista Compliance Filing," Docket No. UE-082272 (filed March 31, 2010).

were higher than they should have been. In a couple of instances, for example, the excess rebate payment was more than $3,000.[20] We found numerous data entry errors, particularly related to the customer cost of the measure, which is a key data element of the cost-effectiveness analysis. Cost-effectiveness, in turn, is a critical factor in determining the appropriateness and prudence of DSM programs and associated expenditures. For 2008 and 2009, Avista's natural gas DSM portfolio was close to, or even below, the 1.0 threshold in the total resource cost-effectiveness analysis.[21] In addition, we also found certain dues and membership expenditures that were inappropriate for ratemaking purposes, and/or should not be charged to the DSM accounts.

Q. How does the Stipulation address these concerns?

A. As part of the Settlement Stipulation, Avista has agreed to remove $15,000 from the Washington natural gas DSM account related to incorrect customer rebates.[22] In addition, the company has agreed to perform a comprehensive review of its rebate processing system.[23] Avista has also agreed to an independent, external review of its DSM data management strategy.[24] This review will share industry best practices regarding DSM data management and will culminate with recommendations regarding any new systems and/or controls that the Company should implement. This external review will also provide recommendations regarding effective and accurate procedures to correct DSM data whenever errors are discovered. Both the Rebate Processing Review and the External Data

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[20] *See* Avista Response to Staff Data Request No. 134, Attachment B.
[21] Exh. BWF-2 (Direct Testimony of Bruce W. Folsom). According to this Exhibit, Avista's Natural Gas DSM TRC ratio was .86 in 2008, and 1.27 in 2009 for the overall portfolio (Washington and Idaho). *Id*., pp. 5-6.
[22] *Settlement Stipulation*, ¶ 13 ("Demand Side Management (DSM) Expenditures").
[23] *Id.* at ¶ 15 ("Rebate Processing Procedures for DSM Programs").
[24] *Id.* at ¶ 17 ("Independent, External Review of Data Management Strategy").

Management Strategy Review will be provided to Avista's External Energy Efficiency (Triple E) Board upon completion. As a member of the Triple E, Public Counsel looks forward to reviewing these reports, and we further anticipate that Avista will engage and consult with the Triple E regarding the recommendations resulting from these reviews.

Avista has also agreed that an independent, third-party will conduct an impact and cost-effectiveness analysis of the residential windows program (natural gas and electric).[25] In light of the large size of this program, in terms of expenditures and savings, we believe this is important and appropriate. As mentioned above, we found numerous data entry errors associated with the residential natural gas window replacement program. Thus, importantly, the Stipulation provides that "Avista and the selected evaluator will work in good faith to ensure all program participant data is as accurate as possible. If necessary, the selected evaluator may conduct an audit of all participant data for this program."[26]

Lastly, Avista has also agreed to remove $56,733 (electric) and $6,500 (natural gas) from its Washington DSM tariff rider accounts, reflecting dues and membership expenditures improperly charged to DSM rider accounts.[27]

Q. Does Public Counsel take a position on the prudence of Avista's DSM expenditures for 2008 and 2009?

A. No. We were not able to conduct a complete audit and review of Avista's DSM expenditures. Consequently, and in light of the concerns and issues identified through discovery, Public Counsel does not take a position on the prudence of Avista's DSM expenditures for 2008 and 2009, as described in the Stipulation.

[25] *Id.* at ¶ 16.
[26] *Id.*
[27] *Id.* at ¶ 13.

Q. Please comment on how the Stipulation addresses the application of the decoupling mechanism.

A. As part of Avista's 2009 general rate case, the Commission extended, with modifications, Avista's natural gas decoupling mechanism. In its Final Order, the Commission noted that Avista's conservation program benefits all customers, and that the DSM target included in the decoupling mechanism includes conservation from all rate schedules. The Commission further stated: "Following the principle of costs following benefits discussed above, we expect the parties to address whether the program should recover DSM-related lost margin from all rate schedules in Avista's next general rate case."[28] This issue was not fully examined and explored in the instant proceeding. This is explicitly recognized in Section III, paragraph 7 of the Stipulation, where Avista agrees to "address in its next general rate case 'whether the program should recover DSM-related lost margin from all rate schedules.'"[29]

Q. Please describe how the settlement addresses the Lancaster-related issues.

A. In Avista's prior rate case, Public Counsel challenged the prudence and recoverability of costs associated with the Lancaster Power Purchase Agreement.[30] *Inter alia*, Public Counsel challenged the assignment of any responsibility for Lancaster-related costs to ratepayers prior to January 1, 2011, on the grounds that the power was not needed prior to that date and that the contracts had a negative value. The Commission Final Order

[28] *Avista 2009 GRC*, Final Order, ¶ 303.
[29] *Id.*
[30] *See Avista 2009 GRC*, Exh. No. KDW-1T (Direct Testimony of Kevin D. Woodruff).

in the prior case deferred the determination of prudence issues to the next rate case.[31] Lancaster-related costs for 2010 were not included in rates but were allowed to be booked in a deferred account until prudence was determined. In this case, in order to resolve all the disputed Lancaster-related issues, the Stipulation adopts a compromise that limits Avista to recovery of only $6.8 million of 2010 deferred Lancaster amounts.[32] The Company projects that the Lancaster deferral amounts for 2010 will be approximately $12 million.[33] The Lancaster-related piece of the settlement also stipulates that there will be no deferrals under the ERM for 2010 in either the rebate or surcharge direction and that the ERM balance will be reduced to zero. Lancaster costs after 2010 are stipulated to be prudent. For settlement purposes, Public Counsel agrees with this resolution of the disputed Lancaster issues, however, Public Counsel takes no position on the prudence of the costs associated with the Lancaster PPA.

<u>Statement of The Energy Project</u>

Q. Please explain why The Energy Project believes the Settlement Stipulation is in the public interest.

A. The Energy Project agrees that the Settlement is in the public interest. The Energy Project raised several questions regarding the impact of the Company's proposal on consumers and on low-income customers in particular. Chief among the latter for The Energy Project were the proposed increase to the monthly basic charge from $6 to $10, the impact of the proposed rate increase on affordability for low-income customers,

31 *Avista 2009 GRC*, Final Order (Order 10), ¶ 229.
32 *Settlement Stipulation*, ¶ 8 ("Recovery of Lancaster in Rates").
33 *Id.*, fn. 5.

maintaining the ability of the LIRAP program to keep pace with the allowed rate increase, and the need for additional funds for low-income energy efficiency.

This Settlement provides a modest increase to the utility's ratepayer funded LIRAP program. The proposed incremental increase is slightly less than the rate increase requested for the residential class, but is indexed to the rate increase across all classes. Since this program targets households on the lowest economic levels, thousands of Avista's poorest customers will be better able to maintain vital electric and gas services. The increase in funding to the low-income energy efficiency program will help Avista and the serving agencies reach more low-income dwellings with more permanent energy relief. Finally, the agreement to maintain the $6 monthly charge will save every residential customer $4 or $8/month, compared to what the Company proposed. Because of the resolution of these low-income concerns as well as the ultimate rate increase levels agreed to and other matters negotiated by the parties, The Energy Project believes this Settlement on the whole represents a fair, just, and reasonable resolution of the matter.

XII. CONCLUSION

Q. What is the effect of the Settlement Stipulation?

A. The Settlement Stipulation represents a negotiated compromise among the Parties. Thus, the Parties have agreed that no particular party shall be deemed to have approved the facts, principles, methods, or theories employed by any other in arriving at these stipulated provisions, and that the terms incorporated should not be viewed as precedent setting in subsequent proceedings except as expressly provided. In addition, the Parties have the right to withdraw from the Settlement Stipulation if the Commission adds any additional material conditions or rejects any material part of the Settlement Stipulation.

Q. In conclusion, why is this Settlement Stipulation "in the public interest?"

A. This Stipulation should be approved for the following reasons:

- It strikes a reasonable balance between the interests of the Company and its customers, including its low-income customers. As such, it represents a reasonable compromise among differing interests and points of view.

- Approval will enhance the prospects for maintaining or improving the Company's credit rating, as it will assist the Company in building its financial strength.

- The filing has been subjected to great scrutiny through the discovery process: over six months have passed since the case was filed and the Company has responded to approximately 662 data requests.

- Staff, for its part, performed an on-site visit during the audit of the Company's books and records; in the process, they reviewed accounting adjustments, the cost of service results, capital structure and rate of return, along with rate spread and design.

- Ample opportunity has been afforded all Parties to participate meaningfully in the settlement process, through multiple scheduled settlement conferences, and the exchange of information.

- In the final analysis, any settlement reflects a compromise, in the give-and-take of negotiations; the Commission, however, has before it a Settlement Stipulation that is supported by sound analysis and sufficient evidence. Its approval is "in the public interest," and satisfies the requirement that rates be fair, just, reasonable and sufficient.

Q. Are there legal standards that must be satisfied with respect to any settlement?

A. Yes. The Commission's charge, of course, is to regulate in the public interest. The settlement, if approved, must result in rates that are fair, just, reasonable and sufficient. (RCW 80.28.010) As such, the Commission must not only assure fair prices and services to customers, but also "…provide the utility with rates sufficient to cover its prudently incurred costs and an opportunity to recover a return on its investment." (WUTC v Avista Corporation, Docket Nos. UE-050482/UG-050483, Order No. 05 (December 21, 2005) at p. 10.) In the final analysis, it's the 'end result" that matters, not the methods by which rates are determined. (Id., at p.11) The settlement represents the Parties' best efforts at arriving at an end result that satisfies these requirements.

Q. Does that conclude your pre-filed direct testimony?

A. Yes it does.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-100467

DOCKET UG-100468

EXHIBIT No. _____

SETTLEMENT STIPULATION

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES Respondent.	)	DOCKET UE-100467 and DOCKET UG-100468 SETTLEMENT STIPULATION

I. PARTIES

1. This 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 "Parties." As such, the Parties represent all parties to this proceeding. The Parties agree that this Settlement Stipulation is in the public interest and should be accepted as a full resolution of all issues in these dockets. The Parties understand this Settlement Stipulation is subject to approval of the Washington Utilities and Transportation Commission (the "Commission").

II. INTRODUCTION

2. On March 23, 2010, Avista filed with the Commission certain tariff revisions designed to increase general rates for electric service (Docket UE-100467) and natural gas service (Docket UG-100468) in the State of Washington. Avista requested an increase in electric rates of $55.3 million, or 13.8 percent, and an increase in natural gas rates of $8.5 million, or 5.4 percent. On April 5, 2010, the Commission entered Order 01 suspending the tariff revisions and consolidating Dockets UE-100467 and UG-100468 for hearing and determination pursuant to WAC 480-07-320. A Prehearing Conference Order (Order 04) issued on April 5, 2010, established a procedural schedule, among other things. Representatives of all Parties appeared at an August 4, 2010 Settlement Conference, which was held for the purpose of narrowing the contested issues in this proceeding, followed by subsequent settlement discussions on August 10-11, 2010.

3. The Parties have reached a settlement of all issues in this proceeding and wish to present their agreement for the Commission's consideration. The Parties therefore adopt the following Settlement Stipulation in the interest of reaching a fair disposition of the issues in this proceeding.

III. AGREEMENT

A. Revised Increase and Rate Effective Date

4. The Parties agree that Avista shall be authorized to implement rate changes designed to increase its annual revenues from Washington electric customers by $29.50 million (or 7.4 percent), and Washington natural gas customers by $4.55 million (or 2.9 percent). The Parties agree that the rate changes identified herein should be effective with service on and after December 1, 2010.

5. The Parties have agreed to a number of revenue requirement adjustments to both filed electric and natural gas cases. These adjustments are summarized in the tables set forth immediately below:

TABLE 1
SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT
000s of Dollars

		Revenue Requirement	Rate Base
Amount As Filed		**$ 55,298**	**$ 1,075,665**
	Adjustments:		
a)	**Cost of Capital** Adjust return on equity to 10.2%; common equity to 46.5%; includes a Rate of Return of 7.91%	(7,273)	0
b)	**Power Supply-Related Adjustments**		
	i Lower Gas/Electric Prices	(14,970)	0
	iii Include short-term contracts through 7/22/2010	3,267	0
	iii Include lower colstrip outage	(880)	0
	iv Include higher Colstrip fuel cost	1,498	0
	v Include lower Stimson rates	(126)	0
	vi Include lower WNP-3 rates	(351)	0
	vii Include higher Wells cost	167	0
	viii Adjust for hydro shape change	(165)	0
	ix Include test year loads	(11,230)	0
c)	**Production Property Adj** Remove the Pro Forma Production Property Adjustment due to use of historical loads used for power supply	18,957	37,643
d)	**Lancaster** Recover $6.8 million of Lancaster deferral over 5 years	(1,526)	(3,149)
e)	**Capital Additions** Include the full effect of the 2009 Noxon upgrade and major (7) generation projects though April 30, 2010	(7,761)	(48,783)
f)	**Noxon 2010/2011** Remove pro forma property taxes on the 2010/2011 Noxon upgrade projects	(126)	0
g)	**Executive Labor** Reduce executive labor charged to the Utility	(563)	0
h)	**Incentives** Remove test period executives' incentives	(309)	0
i)	**Spokane River / CDA Tribe Settlement Deferrals** Revise the Spokane River and CDA Tribe Settlement deferrals previously approved to a 10 year amortization	(661)	214
j)	**Pro Forma Vegetation Management** Increase vegetation management expense by $1.025 million; Increase the Company's Washington annual required spend for vegetation management to $4.025 million	(1,073)	0
k)	**Information Services** Based on the actual spend to June 30, 2010, and remove pro forma 2011 costs	(1,162)	0
l)	**Colstrip - Mercury Emission** Revise for known changes to Colstrip mercury emission costs	(33)	0
m)	**Employee Pension** Revise for known changes to pension costs	(35)	0
n)	**Administrative and General Expenses** Reduce administrative and general expenses	(444)	0
o)	**Working Capital** Reduce proposed working capital adjustment	(701)	(5,507)
p)	**Optional Renewable Power Rate (Buck-a-Block) Program** Remove the effect of the Company's Buck-A-Block (renewable) program from base rates	19	0
q)	**Restate Debt** Flow through impact of Rate Base adjustments	(316)	0
	Total Adjustments	**$ (25,797)**	**$ (19,582)**
	Adjusted Revenue Requirement	**$ 29,501**	**$ 1,056,083**

TABLE 2 SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT 000s of Dollars		Revenue Requirement	Rate Base
Amount As Filed		**$ 8,489**	**$ 199,233**
	Adjustments:		
a)	**Cost of Capital** Adjust return on equity to 10.2%; common equity to 46.5%; includes a Rate of Return of 7.91%	(1,346)	0
e)	**Capital Additions** Eliminate natural gas capital additions	(231)	(1,525)
g)	**Executive Labor** Reduce executive labor charged to the Utility	(63)	0
h)	**Incentives** Remove test period executive incentives	(87)	0
k)	**Information Services** Based on the actual spend to June 30, 2010, and remove pro forma 2011 costs	(324)	0
m)	**Employee Pension** Revise for known changes to pension costs	(8)	0
n)	**Administrative and General Expenses** Reduce administrative and general expenses	(235)	0
o)	**Working Capital** Remove the natural gas working capital adjustment	(516)	(4,053)
p)	**Optional Renewable Power Rate (Buck-a-Block) Program** Remove the effect of the Company's Renewable (Buck-a-Block) program from base rates	(8)	0
q)	**Restate Debt** Flow through impact of Rate Base adjustments	131	0
r)	**Jackson Prairie** Use revised plant and cushion gas accounting in base rates; defer revenue requirement of additional actual 2011 working gas inventory balance to be recovered through PGA	(1,248)	(8,692)
	Total Adjustments	**$ (3,935)**	**$ (14,270)**
	Adjusted Revenue Requirement	**$ 4,554**	**$ 184,963**

Accordingly, the revenue requirement adjustments for the Company's electric operations show a reduction of $25,797,000 to the Company's filed-for revenue requirement increase. The revenue requirement adjustments for the Company's natural gas operations show a reduction of $3,935,000 to the Company's filed-for revenue requirement increase. Attached as Appendix 1 are the electric and natural gas Summary of Revenue Requirement Adjustments schedules showing adjusted pro forma results incorporating these agreed-upon adjustments. These adjustments are described in further detail below. The letter references correspond to the line items in the table of adjustments for both electric (Table 1) and natural gas (Table 2) above.

a.) **Cost of Capital:**

The Parties agree to a 10.2 percent return on equity, with a 46.5 percent common equity ratio, and adopt the capital structure and resulting rate of return as set forth below:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Total Debt	53.50%	5.93%	3.17%
Common Equity	46.50%	10.20%[1]	4.74%
Total	100.00%		7.91%

[1]The Parties reserve the right to argue for a direct reduction in return on equity due to natural gas decoupling in a future general rate case.

b.) **Power Supply-Related Adjustments:**

(i) Natural Gas/Electric Prices – This adjustment reduces the annual average natural gas price, as included in the Company's direct filing, from $6.38/dth to $5.13/dth. This price is based on a 3-month average through July 21, 2010 of 2011 forward prices. The average Mid C flat electric price correspondingly dropped from $49.73/MWh to $41.32/MWh.

(ii) Short-Term Contracts – This adjustment includes all 2011 wholesale electric and natural gas short-term transactions entered into through July 22, 2010.

(iii) Colstrip Outage – The Parties agree to decrease the forced outage rate at Colstrip Units 3 and 4 from 9.36 percent to 6.71 percent.

(iv) Colstrip Fuel Cost – This adjustment reflects an increase in the 2011 Colstrip coal cost from $19.72/ton to $21.92/ton based on updated information from Western Energy Company (Colstrip coal provider).

(v) Stimson Rates – This adjustment reflects a lower purchase price for the Stimson purchase for October 2011 through December 2011 from $84.28/MWh to $65.15/MWh to reflect new Idaho avoided costs.

(vi) WNP-3 Contract Adjustment – The Parties agree to lower the WNP-3 purchase price to reflect no increase in the midpoint rate from the 2009-10 contract year to the 2011 pro forma period.

(vii) Wells Cost – This adjustment increases the Wells purchase cost based on the updated information provided by Douglas County PUD on April 30, 2010.

(viii) Hydro Shape Change – This adjustment reflects changes in the heavy-load/light-load hour hydro production splits to be within 2 percent each month of the actual five-year average.

(ix) Test Year Loads – This adjustment reflects the decrease in load for the use of weather- adjusted 2009 test-year load from a forecasted 2011 pro forma load. System load decreased by 48.3 aMW.

c.) Production Property Adjustment:

The production property adjustment was removed from the revenue requirement due to the use of historical loads for determining power supply costs, as described above.

d.) Lancaster:

Avista will recover $6.8 million of the 2010 Lancaster deferral, amortized over a five-year period. (See discussion, below, in Section III.B.)

e.) **Capital Additions:**

Capital additions for electric operations shall include capital costs and expenses associated with certain major generation project upgrades. This adjustment includes the full effect of the Noxon Unit No. 1 generation upgrade project included in the settlement approved in Dockets UE-090134 and UG-090135 and completed during 2009, and certain major projects expected to be completed and transferred to plant-in-service by November 30, 2010, in time for new rates to be in effect. The capital costs have been averaged for their appropriate pro forma period with the associated depreciation expense, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. Pro formed capital additions for natural gas operations were removed.

f.) **2010 and 2011 Noxon Generation Upgrades:**

The Noxon Unit No. 3 generation upgrade completed in May 2010 (designed to increase that unit's efficiency by 4.15 percent and provide additional capacity of 7.5 MW) and the Noxon Unit No. 2 generation upgrade scheduled for completion in March of 2011 (designed to increase that unit's efficiency by 2.42 percent and provide additional capacity of 7.5 MW) were included. The capital costs have been averaged for their appropriate pro forma period with the associated depreciation expense, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets. Pro forma property taxes have been excluded from this adjustment.

g.) **Executive Labor:**

This adjustment consists of three individual components: (1) it reduces the amount of executive salaries and benefits charged to the utility and allocates a greater portion of both to subsidiary/non-utility operations; (2) it reduces executive base salaries so that executive salary costs included in rates reflect increases in closer proportion to those for non-executive employee salaries; and, (3) it removes costs of executive supplemental deferred compensation and long-term disability benefits, which are available only to executive employees.

h.) **Incentives:**

The incentives for executives were removed from the revenue requirement. The Company will review its non-executive incentive compensation programs and provide testimony in its next general rate case: (1) identifying, explaining, and to the extent possible, quantifying the programs' benefit(s) to ratepayers; and, (2) explaining how the programs comply with the Commission's Final Orders in previous Avista general rate cases, specifically Dockets UE-991606[1] and UE-090134[2].

i.) **Coeur d'Alene (CDA) Tribe Settlement and Spokane River Relicensing (SRR) Deferrals:**

The Parties agree to a ten-year amortization of the remaining balances beginning December 1, 2010 of the CDA Settlement Deferral, the CDA/SRR - CDR (Coeur d'Alene Reservation Trust Restoration Fund) deferral, the Spokane River Deferral, and the Spokane River PM&E Deferral.

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[1] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Third Supplemental Order, Docket Nos. UE-991606 and UG-991607 (consolidated), ¶¶ 268-73.

[2] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Final Order (Order No. 10), Docket Nos. UE-090134 and UG-090135 (consolidated), ¶¶ 128-29.

j.) **Vegetation Management Expenses:**

This adjustment reflects an increase to the electric vegetation management costs. The Company is currently required, by Commission Order in Docket UE-050482, to spend approximately $2.8 million per year for electric vegetation management (includes electric distribution and transmission expenses). Avista reports this to the Commission annually within the Company's Commission Basis Report, and maintains a one-way balancing account to track any funds under-spent (below the $2.8 million). In the event there are unspent funds for vegetation management in any given year, those unspent funds will be accounted for and spent in the subsequent year or credited back to customers. This adjustment increases the electric expense $1.025 million above the test period amount of $3.0 million, and increases the required annual spend level from the current $2.8 million to $4.025 million.

k.) **Information Services Expenses:**

This adjustment reflects an increase in ongoing information service requirements based on actual expenditures through June 30, 2010.

l.) **Colstrip Mercury Emissions Expenses:**

This adjustment reflects the revised amount for the Company's mercury abatement expenses required for its Colstrip Units #3 and #4 production plant.

m.) **Employee Pension:**

This adjustment reflects the decrease in employee pension related expenses based on updated information received by the Company.

n.) Administrative and General Expenses:

This adjustment removes all or a portion of various administrative and general costs, including certain dues, 50 percent of Board of Director fees and expenses (as ordered in Docket UE-090134/UG-090135), certain advertising costs, and certain non-recurring expenses. The costs addressed by this adjustment include and/or are related to:

i. Board of Directors' fees
ii. Board of Director meeting costs
iii. Other Director Costs (gifts, non-meeting travel, professional portraits)
iv. Employee retirement party
v. Employee entertainment/sporting event
vi. Executive charity-related travel
vii. Reimbursement of executive relocation expenses
viii. Charitable donations
ix. Dues and fees to civic organizations (Rotaries, Chambers of Commerce, etc.)
x. Corporate aircraft travel (non-cost-effective or non-utility flights)
xi. Promotional/image advertising
xii. Employee gifts
xiii. Customer give-away items and gifts
xiv. Corporate logo apparel and items
xv. Various other costs improperly charged to utility accounts as identified by non-company parties through discovery in this proceeding.

The Company, for its part, has agreed to remove all or a portion of the expenses related to the above items, for settlement purposes only, and as part of an overall adjustment for administrative and general expenses, including the removal of all expenses that are prohibited by law. The Company reserves the right to address the appropriateness of expenses set forth above in any future proceeding, except where recovery is prohibited by law.

o.) **Working Capital:**

This adjustment reduces the Company's proposed electric working capital pro forma adjustment, and removes the natural gas working capital adjustment proposed by the Company.

p.) **Optional Renewable Power Rate (Buck-a-Block) Program:**

This adjustment removes the effect of the Company's Optional Renewable Power Rate Program, also referred to as "Buck-A-Block," from base rates. See additional details regarding agreed-upon measures included in Paragraph 21 below. Going forward, the Company will maintain separate accounts for all Buck-a-Block program costs and revenues to ensure compliance with WAC 19.29A.090(5) (specifying that "[a]ll costs…associated with any option . . . must be allocated to the customers who voluntarily choose that option and may not be shifted to any customers who have not chosen such option").

q.) **Restate Debt Interest:**

Reflects the income tax effect of the change in interest expense related to all other adjustments in the Stipulation that affect rate base. This adjustment restates debt interest using the agreed-upon pro forma weighted average cost of debt of 3.17 percent.

r.) **Jackson Prairie (JP) Storage:**

The Parties agree to the revised accounting treatment proposed by the Company for its existing cushion gas using the net book value of the utility assets at February 2010 to record the transfer of the cushion gas from non-recoverable (FERC Account No. 352.3), which is a depreciable asset, to recoverable (FERC Account No. 117.1), which is a non-depreciable asset. The JP assets that will be added on May 1, 2011 will include plant assets as well as cushion gas that will be recorded in both recoverable and non-recoverable FERC accounts using a similar allocation method. The pro formed Jackson Prairie working gas inventory for the additional storage effective May 1, 2011, and associated additional operations and maintenance costs, were removed from the revenue requirement and rate base. The revenue requirement associated with Avista's rate of return applied to the actual balance of the additional JP working gas inventory applicable to Washington gas operations shall be calculated as a deferred cost beginning May 1, 2011 to be recovered in the Company's future PGA filings starting with Avista's fall 2011 PGA filing, until recovered in base rates in a subsequent general rate case. In addition, the additional operations and maintenance costs shall be recorded in the Company's PGA deferrals for later recovery in rates until those costs are included in base retail rates.

6. ERM Authorized Level of Expense. Appendix 2 sets forth the agreed-upon level of power supply expense, retail load and retail revenue credit resulting from this Stipulation, that will be used in the monthly Energy Recovery Mechanism ("ERM") calculations.

7. Decoupling Baseline and Application. Pursuant to the Commission's order initially adopting the Avista decoupling pilot, In Re Petition of Avista Corp., Order 04, Docket UG-060518, paragraph 49, the baseline for the decoupling mechanism has been updated so as to use the test year employed in this rate case proceeding. The update of the baseline is reflected in Appendix 3. In addition, the Company will address in its next general rate case "whether the program should recover DSM-

related lost margin from all rate schedules,"[3] an issue which the Parties agree is not resolved at this time.

B. Recovery of Lancaster in Rates

8. In its Order 10, in Docket UE-090134, the Commission allowed Avista to defer costs incurred by Avista associated with its purchase of power from the Lancaster Generating Facility[4] until such time as the prudence of such costs and compliance with certain other requirements could be addressed in a subsequent general rate case – i.e., in this Docket (UE-100467). The Parties have agreed that the costs of Lancaster for 2011 and going forward are reasonable and should be reflected in rates. For settlement purposes, Avista agrees to recover only $6.8 million of the amounts deferred in 2010, which would be recoverable in rates over a five (5) year amortization period, with a rate of return on the unamortized balance. Avista agrees to waive recovery of all other Lancaster-related deferred amounts for 2010.[5] As part of the settlement related to the 2010 Lancaster deferrals, the Parties agree that there will be no deferrals under the ERM for 2010 in either the rebate or surcharge direction.[6] Avista will take the risk on any changes in ERM-related power supply costs for 2010.[7] The Company will continue to file Monthly Power Cost Deferral Reports, per Docket UE-011595, which will specifically account for the deferral for Lancaster-related contracts until that deferral is no longer in place.

[3] *WUTC v. Avista Corporation, d/b/a Avista Utilities*, Final Order (Order No. 10), Docket Nos. UE-090134 and UG-090135 (consolidated), ¶ 303.

[4] The Lancaster Generating Facility is a 275 MW combined-cycle combustion turbine located near Rathdrum, Idaho. Avista is a party to a power purchase agreement (PPA) whereby the output of the facility was transferred to Avista on January 1, 2010, for a period ending October 31, 2026.

[5] The year-to-date cumulative account balance of the Lancaster deferral was $7,570,233 through July 2010, and Avista estimates that the amount deferred for the entire year (2010) will be approximately $12 million.

[6] Through July 2010, the year-to-date difference between actual net power costs and authorized costs is $3,846,404 in the surcharge direction (within the deadband). Avista estimates that the amount of the deferral for the entire year (2010) will be in the range of $0 to $5 million.

[7] The current balance in the ERM of approximately $526,400 at July 31, 2010 shall also be reduced to zero such that the ERM balance at December 31, 2010 will be zero.

9. The Parties agree that the Lancaster PPA complies with the Greenhouse Gases Emissions Performance Standard (EPS) established in RCW 80.80.

C. <u>Rate Spread/Rate Design</u>

10. <u>Electric Rate Spread/Rate Design:</u>

a) Electric Cost of Service/Rate Spread – The Parties agree to use a pro-rata allocation of the Company's electric rate spread percentages from its original filing for purposes of spreading the revised revenue requirement, as shown on Page 1 of Appendix 4.

b) Electric Rate Design –

(i.) The Residential Basic Charge would remain at the current level of $6.00 per month.

(ii.) For the rate design of Schedule 25, the basic charge would increase from $11,000 to $12,500, and there would be a uniform percentage increase in the first two blocks, and an increase of 70 percent of the increase in Blocks 1 & 2 for Block 3. In addition, the demand charge would increase from $3.50 to $4.00, the Primary Voltage Discount for 60 kV would increase from $1.00 to $1.10, and the Primary Voltage Discount for 115 kV would increase from $1.20 to $1.30.

(iii.) The Rate Design for other Schedules would be as proposed by Avista in its original filing:

- Schedule 1 would have a uniform percentage increase for the blocks.
- Schedule 11 would have an increase in the Basic Charge from $6.75 to $10.00 per month, and a uniform percentage increase to blocks. In addition, the demand charge would increase from $4.25 to $5.00 per kilowatt.

- Schedule 21 would have an increase in the Basic Charge from $300 to $350 per month, and a uniform percentage increase to blocks. In addition, the demand charge would increase from $4.00 to $4.75 per kilowatt.
- Schedule 31 would have an increase in the Basic charge from $6.75 to $7.75 per month, and there would be a uniform percentage increase to blocks.
- Lighting would see a uniform percentage increase.

11. Natural Gas Rate Spread/Rate Design:

a) Natural Gas Cost of Service/Rate Spread – The Parties agree to use a pro-rata allocation of the Company's natural gas rate spread percentages from its original filing, modified as described in part b. below, for purposes of spreading the revised revenue requirement as shown on Page 1 of Appendix 4.

b) The Parties agree that the assignment of underground storage costs by throughput for balancing purposes will be reduced from 20 percent to 13 percent, with the additional Jackson Prairie capacity. The Company agrees to provide further information with respect to this issue in its next general rate case.

c) Natural Gas Rate Design

(i.) The Residential Basic Charge will remain at the current level of $6.00 per month.

(ii.) The Rate Design for other Schedules would be as proposed by Avista in its original filing:

- Schedule 111 would have an increase in the monthly Minimum Charge based on Schedule 101 rates (breakeven at 200 therms), and a uniform percentage increase to blocks 2 and 3.

- Schedule 121 would have an increase in the monthly Minimum Charge based on 101 rates (breakeven at 500 therms), and a uniform percentage increase to blocks 2-4, with no change to block 5.
- Schedule 131 would have a uniform percentage increase to blocks.
- Schedule 146 would have an increase in the Basic Charge from $201.30 to $225 per month, and a uniform percentage increase to all blocks.

D. <u>Low Income Rate Assistance Program (LIRAP) Funding:</u>

12. The Parties agree to adjust the LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase in annual funding that reflects the same percentage increase as the overall percentage increase in revenue requirement in this case – i.e., 7.4 percent for electric and 2.9 percent for natural gas. With this increase, the annual funding level for electric low income customers will be approximately $3.3 million, and for natural gas low income customers will be approximately $1.7 million. Appendix 5 identifies the tariff rider adjustments to Schedule 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for LIRAP. As a part of its compliance filing, the Company will file revised Schedule 91 and 191 tariffs consistent with the changes identified in Appendix 5.

E. <u>Demand Side Management (DSM) Expenditures:</u>

13. The Parties agree to reallocate existing levels of DSM funding under Schedules 91 and 191 in order to increase low income DSM by $500,000 over and above the existing funding level of $1.5 million. For purposes of program administration, the total funding level of $2 million for low income DSM includes amounts that may be dedicated to energy-related health and human safety measures, the expenditures for which shall not exceed fifteen (15) percent of overall actual low income DSM expenditures. In addition, Avista shall remove $15,000 (related to incorrect customer

rebates) from its Washington natural gas DSM account, and shall also remove $56,733 (electric) and $6,500 (natural gas) (reflecting improperly charged dues and memberships) from its DSM tariff rider accounts.

F. <u>Prudence of Energy Efficiency Expenditures:</u>

14. Avista, Staff, NWIGU, ICNU, and The Energy Project agree that Avista's expenditures for electric and natural gas energy efficiency programs in 2008 and 2009 were prudently incurred. Public Counsel does not take a position on the prudence of these expenditures, but does not oppose the settlement of this issue due to the conditions related to DSM set forth herein.

G. <u>DSM Accounting Review and Evaluation:</u>

15. <u>Rebate Processing Procedures for DSM Programs</u> Avista will conduct, either internally or by an independent, third-party, a comprehensive review of its customer rebate processing system for all rebate programs, including process analysis/best practices review of rebate processing to ensure accuracy. As part of this review there will be a thorough examination of the Company's procedures for prescriptive rebate programs where the amount of the rebate varies and is calculated individually for each customer (e.g., residential insulation and window replacement). The review is expected to culminate in a final report with recommendations regarding any new systems and/or controls the Company should implement to improve and enhance its rebate processing, including but not limited to controls to ensure that rebates do not exceed the program maximum, currently set at fifty percent of project cost for most programs. Avista shall furnish the final report resulting from this review in a report to be provided to all parties, and the Triple E Board, upon completion and prior to the Company's next general rate case.

16. In addition, the Company agrees that an independent, third-party will conduct Evaluation, Measurement, and Verification ("EM&V") of Avista's Limited Income Weatherization program as

part of the conditions approved by the Commission in Docket UE-100176.[8] The Company also agrees that an independent, third-party will conduct an impact evaluation and cost-effectiveness analysis of Avista's residential windows program (natural gas and electric), using program participant data from 2008 and/or 2009, with a final report completed no later than May 30, 2011. Avista and the selected evaluator will work in good faith to ensure all program participant data is as accurate as possible. If necessary, the selected evaluator may conduct an audit of all participant data for this program.

17. Independent, External Review of Data Management Strategy. Avista agrees that an independent, third-party will conduct an evaluation of Avista's data tracking systems and data strategy for its DSM programs. The review will examine Avista's internal operations for data entry, tracking, and reporting, and its systems for ongoing review, oversight and controls to ensure data accuracy. As part of this review, the selected external evaluator will share industry best practices regarding data management strategies. The review will also examine whether the documentation required from participating customers is appropriate. The review is expected to culminate in a final report with findings, as well as recommendations regarding any new systems and/or controls the company should implement to improve and enhance its DSM data management. In addition, the final report will include recommendations regarding effective and accurate procedures that should be followed to correct DSM data, when errors are discovered particularly in filings with the Commission. Avista shall furnish the final report resulting from this review in a report to be provided to all Parties, and the Triple E Board, upon completion and prior to Avista's next general rate case.

[8] *See* Docket UE-100176, Order 01, "Order Approving Avista's Ten-Year Achievable Conservation Potential And Biennial Conservation Target Subject To Conditions".

H. Effective Date:

18. As an integral part of this settlement, the Parties have agreed that the new rates shall be implemented on December 1, 2010, and support a modification of the procedural schedule to accommodate such a date.

I. Next General Rate Case:

19. The Company will not file a general rate case in the Washington jurisdiction before April 1, 2011.

J. Accounting Procedures:

20. Policies/Procedures Regarding Cost Allocations.

Prior to its next Washington general rate case filing, Avista will review its existing policies and procedures regarding the Company's allocation of costs between utility, LIRAP, and non-utility accounts, and produce a report with a detailed description of these policies and procedures. This report will include an explanation of safeguards in place so that subsidiary or non-utility expenses remain separate from and are not being charged to utility accounts. The report will also include the prescribed methods identified for proper allocation of shared/common costs between utility and non-utility accounts. The policies and procedures and related report shall be served on all Parties to the current rate case. Parties reserve the right to challenge or propose amendments to Avista's allocation policies and methodologies in any future rate case. The Company will maintain records of the cost of performing the review and preparing the report (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

21. Internal Audit of Certain Accounting Policies Regarding Allocations.

Avista's Internal Audit Department will perform an annual audit of current accounting practices (including accounting for LIRAP programs) relating to: compliance with regulatory treatment of utility expenditures; accuracy of jurisdictional allocations; and allocations between utility and non-utility accounts for subsidiary and corporate-wide (shared) expenses. Following this audit, Avista will make any necessary revisions to its training materials (see Paragraph 23, below) and put in place measures so that inappropriate subsidiary, or shared, costs are correctly accounted for and not recorded to utility operating accounts. The Internal Audit Department will prepare a report regarding the results of its audit, including a list of all concerns, incorrect treatment of costs, and steps for improving the accuracy and propriety of accounting practices.

22. Avista will commit to performing the annual internal audit as described above and provide a copy of the same to all parties for three (3) years following its initial audit and report. Parties reserve the right to challenge any inappropriately recorded costs. In addition, the Company shall maintain records of the cost of performing the audits and preparing the reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

23. Employee Training.

Avista will provide ongoing training for Avista employees to comply with required accounting and allocation practices as discussed in Paragraphs 20 and 21 above. This will include meeting with departments to explain proper labeling of expenses, accounting treatment, and allocations. Training materials will include guidelines regarding the proper use of various FERC accounts and proper expense labeling systems, so that costs are accurately identified for ratemaking purposes. Avista will distribute a semi-annual written reminder to employees to properly label and record expenditures (including appropriate utility/non-utility and jurisdictional allocations). The training described above and the first semi-annual reminder will be provided by Avista before the

Company files its next general rate case. In addition, the Company will maintain records of the cost of performing the preparing and providing trainings and training materials/written reminders (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

24. Review of Accounting Procedures Relating to Optional Renewable Power Rate Program.

Avista shall perform an internal review of its Optional Renewable Power Rate Program ("Buck-a-Block") and prepare a report to be provided to all parties before its next Washington general rate case that describes the accounting for all costs associated with the program. These costs will include shared and overhead costs, such as labor, information services, and supplies that are used in the administration of the program. The report will provide a narrative explanation of how shared costs are allocated to the program. The report will also provide a breakdown of the 2010 actual costs allocable to Washington for each program component (costs of RECs, advertising/administration, internal labor-related overhead, and all other costs). Going forward, Avista will account for all Buck-a-Block program costs separate from other utility operations. The Company will maintain records of the cost of performing this internal review and preparing the subsequent reports (including labor overhead/time spent) and Parties reserve the right to challenge Avista's recovery of all or part of these costs at such time as Avista may seek recovery (i.e., its next general rate case).

IV. EFFECT OF THE SETTLEMENT STIPULATION

25. Binding on Parties. The Parties agree to support the terms of the Settlement Stipulation throughout this proceeding, including any appeal, and recommend that the Commission issue an order adopting the Settlement Stipulation contained herein. The Parties understand that this

Settlement Stipulation is subject to Commission approval. The Parties agree that this Settlement Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement Stipulation shall not be admissible evidence in this or any other proceeding.

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

27. Procedure. The Parties shall cooperate in submitting this Settlement Stipulation promptly to the Commission for acceptance. The Parties shall make available a witness or representative in support of this Settlement Stipulation. The 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 Settlement Stipulation and to supplement the record accordingly.

28. Reservation of Rights. The 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 Settlement Stipulation, or adds additional material conditions, each 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 Settlement Stipulation. If any Party exercises its right of withdrawal, this Settlement Stipulation shall be void and of no effect, and the Parties will support a joint motion for a procedural schedule to address the issues that would otherwise have been settled herein.

29. Advance Review of News Releases. All Parties agree:

(i.) to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Settlement Stipulation. This right of advance review includes a reasonable opportunity for a Party to request changes to the text of such announcements. However, no Party is required to make any change requested by another Party; and,

(ii.) to include in any news release or announcement a statement that Staff's recommendation to approve the settlement is not binding on the Commission itself. This subsection does not apply to any news release or announcement that otherwise makes no reference to Staff.

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

31. Public Interest. The Parties agree that this Settlement Stipulation is in the public interest.

32. Execution. This Settlement Stipulation may be executed by the Parties in several counterparts and as executed shall constitute one Settlement Stipulation.

Entered into this 24 +4 day of August, 2010.

Company:	By: ______________________ David J. Meyer VP, Chief Counsel for Regulatory and Governmental Affairs
Staff:	By: ______________________ Gregory J. Trautman Assistant Attorney General
Public Counsel:	By: ______________________ Sarah A. Shifley Assistant Attorney General
NWIGU:	By: ______________________ Chad M. Stokes Cable Huston Benedict Haagensen & Lloyd LLP
ICNU:	By: ______________________ S. Bradley Van Cleve Davison Van Cleve, P.C.
The Energy Project:	By: ______________________ Ronald Roseman Attorney at Law

Entered into this 24th day of August, 2010.

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VP, Chief Counsel for Regulatory and Governmental Affairs

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The Energy Project: By: ______________________
Ronald Roseman
Attorney at Law

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<u>ICNU</u>: By: ______________________________
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<u>The Energy Project</u>: By: ______________________________
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ICNU:	By: ______________________ S. Bradley Van Cleve Davison Van Cleve, P.C.
The Energy Project:	By: for Ronald Roseman Ronald Roseman Attorney at Law by Chad M. Stokes

APPENDIX 1

AVISTA UTILITIES

APPENDIX 1

Summary of Revenue Requirement Adjustments - Electric

	(000's Of Dollars)	FILED CASE		FILED SETTLEMENT		DIFFERENCE		REVENUE REQUIREMENT	
		Washington Electric		Washington Electric		Washington Electric		NOI	Rate Base
Column	**Description**	**NOI**	**Rate Base**	**NOI**	**Rate Base**	**NOI**	**Rate Base**	**0.62116**	**7.91%**
b	Per Results Report	$73,374	$1,150,959	$73,374	$1,150,959	$0	$0	$0	$0
c	Deferred FIT Rate Base	0	(163,716)	0	(163,716)	0	0	0	0
d	Deferred Gain on Office Building	0	(41)	0	(41)	0	0	0	0
e	Colstrip 3 AFUDC Elimination	193	(1,700)	193	(1,700)	0	0	0	0
f	Colstrip Common AFUDC	0	426	0	426	0	0	0	0
g	Kettle Falls Disallow.	(56)	(756)	(56)	(756)	0	0	0	0
h	Customer Advances	0	(257)	0	(257)	0	0	0	0
i	Customer Deposits	(6)	(3,060)	(6)	(3,060)	0	0	0	0
j	Settlement Exchange Power	0	16,412	0	16,412	0	0	0	0
k	Restating CDA Settlement	(558)	4,676	(558)	4,676	0	0	0	0
l	Restating CDA Settlement Deferral	(329)	822	(99)	938	230	116	(370)	15
m	Restating CDA/SRR CDR	(951)	3,746	(935)	3,754	16	8	(26)	1
n	Restating Spokane River Relicensing	(242)	7,271	(242)	7,271	0	0	0	0
o	Restating Spokane River Deferral	(158)	395	(47)	450	111	55	(179)	7
p	Restating Spokane River PM&E Deferral	(100)	250	(30)	285	70	35	(113)	4
q	Restating Montana Lease	(53)	2,419	(53)	2,419	0	0	0	0
	Actual	71,114	1,017,846	71,541	1,018,060	427	214	(687)	27
r	Eliminate B & O Taxes	(36)	0	(36)	0	0	0	0	0
s	Property Tax	(1,194)	0	(1,194)	0	0	0	0	0
t	Uncollect. Expense	42	0	42	0	0	0	0	0
u	Regulatory Expense	(47)	0	(47)	0	0	0	0	0
v	Injuries and Damages	35	0	35	0	0	0	0	0
w	FIT	(890)	0	(890)	0	0	0	0	0
x	Eliminate WA Power Cost Defer	153	0	153	0	0	0	0	0
y	Nez Perce Settlement Adjustment	(7)	0	(7)	0	0	0	0	0
z	Eliminate A/R Expenses	181	0	181	0	0	0	0	0
aa	Office Space Charges to Subsidiaries	5	0	5	0	0	0	0	0
ab	Restate Excise Taxes	7	0	7	0	0	0	0	0
ac	Net Gains/losses	53	0	53	0	0	0	0	0
ad	Revenue Normalization	3,882	0	3,882	0	0	0	0	0
ae	Misc Restating	161	0	437	0	276	0	(444)	0
af	Colstrip Mercury Emiss. O&M	(577)	0	(556)	0	21	0	(34)	0
ag	Working Capital	0	23,695	0	18,188	0	(5,507)	0	(701)
ah	Restate Debt Interest	(962)	0	(766)	0	196	0	(316)	0
R1	Revised Buck-A Block	0	0	(12)	0	(12)	0	19	0
R2	Officer Incentives Adj	0	0	192	0	192	0	(309)	0
	Restated Total	$71,920	$1,041,541	$73,020	$1,036,248	$1,100	($5,293)	($1,771)	($674)
PF1	Pro Forma Power Supply	(18,288)	0	(4,132)	0	14,156	0	(22,790)	0
PF2	Pro Forma Production Property	8,798	(37,643)	0	0	(8,798)	37,643	14,164	4,794
PF3	Pro Forma Lancaster Amortization	(1,583)	7,127	(884)	3,978	699	(3,149)	(1,125)	(401)
PF4	Pro Forma Labor Non-Exec	(1,269)	0	(1,269)	0	0	0	0	0
PF5	Pro Forma Labor Exec	(102)	0	248	0	350	0	(563)	0
PF6	Pro Forma Transmission Rev/Exp	1,167	0	1,167	0	0	0	0	0
PF7	Pro Forma Capital Add 2010	(1,067)	55,984	(105)	7,201	962	(48,783)	(1,549)	(6,212)
PF8	Pro Forma Noxon Gen 2010/2011	(191)	8,656	(113)	8,656	78	0	(126)	0
PF9	Pro Forma Vegetation Management	(1,332)	0	(666)	0	667	0	(1,073)	0
PF10	Pro Forma Information Services	(1,555)	0	(833)	0	722	0	(1,162)	0
PF11	Pro Forma Employee Benefits	417	0	439	0	22	0	(35)	0
PF12	Pro Forma Insurance	(42)	0	(42)	0	0	0	0	0
PF13	Pro Forma Clark Fork/Spokane Rel PM&E	(1,619)	0	(1,619)	0	0	0	0	0
	Pro Forma Total	**$55,254**	**$1,075,665**	**$65,212**	**$1,056,083**	**$9,958**	**($19,582)**	**($16,030)**	**($2,494)**

	($18,524)
Impact of ROE reduced to 10.2% & Common Equity to 46.5%	($7,273)
Total Adjustments to Proposed Revenue Requirement	**($25,797)**
Originally Filed Revenue Requirement	$55,298
Revenue Increase Per Settlement	**$29,501**

AVISTA UTILITIES

APPENDIX 1

Summary of Revenue Requirement Adjustments - Natural Gas

	(000's Of Dollars)	FILED CASE Washington Gas		FILED SETTLEMENT Washington Gas		DIFFERENCE Washington Gas		REVENUE REQUIREMENT	
								NOI	Rate Base
Item	Description	NOI	Rate Base	NOI	Rate Base	NOI	Rate Base	0.62130	7.91%
b	Per Results Report	$12,148	$204,811	$12,148	$204,811	$0	$0	$0	$0
c	Deferred FIT Rate Base	0	(31,005)	0	(31,005)	0	0	0	0
d	Deferred Gain on Office Building	0	(14)	0	(14)	0	0	0	0
e	Gas Inventory	0	8,440	0	8,440	0	0	0	0
f	Customer Advances	0	(38)	0	(38)	0	0	0	0
g	Customer Deposits	(3)	(1,359)	(3)	(1,359)	0	0	0	0
	Actual	12,145	180,835	12,145	180,835	0	0	0	0
h	Revenue Normalization & Gas Cost Adjust	(395)	0	(395)	0	0	0	0	0
i	Eliminate B & O Taxes	(6)	0	(6)	0	0	0	0	0
j	Property Tax	(124)	0	(124)	0	0	0	0	0
k	Uncollectible Expense	229	0	229	0	0	0	0	0
l	Regulatory Expense Adjustment	24	0	24	0	0	0	0	0
m	Injuries and Damages	123	0	123	0	0	0	0	0
n	FIT	(7)	0	(7)	0	0	0	0	0
o	Net Gains/losses	3	0	3	0	0	0	0	0
p	Eliminate A/R Expenses	32	0	32	0	0	0	0	0
q	Office Space Charges to Subs	1	0	1	0	0	0	0	0
r	Restate Excise Taxes	1	0	1	0	0	0	0	0
s	Weatherization & DSM Investment Amort Removal	200	0	200	0	0	0	0	0
t	Misc Restating Adjustments	48	0	194	0	146	0	(235)	0
u	Working Capital	0	4,053	0	0	0	(4,053)	0	(516)
v	Restate Debt Interest	(111)	0	(192)	0	(82)	0	131	0
R1	Remove Buck-a-Block Program	0	0	5	0	5	0	(8)	0
R2	Remove Officer Incentives	0	0	54	0	54	0	(87)	0
	Restated Total	$12,163	$184,888	$12,287	$180,835	$123	($4,053)	($199)	($516)
PF1	Pro Forma Labor Non-Exec	(367)	0	(367)	0	0	0	0	0
PF2	Pro Forma Labor Exec	(29)	0	10	0	39	0	(63)	0
PF3	Pro Forma Capital Add 2010	(23)	1,525	0	0	23	(1,525)	(37)	(194)
PF4	Pro Forma JP Storage 2011	(101)	12,820	(13)	4,128	88	(8,692)	(142)	(1,107)
PF5	Pro Forma Information Services	(430)	0	(229)	0	201	0	(324)	0
PF6	Pro Forma Employee Benefits	120	0	125	0	5	0	(8)	0
PF7	Pro Forma Insurance	(12)	0	(12)	0	0	0	0	0
	Pro Forma Total	**$11,321**	**$199,233**	**$11,801**	**$184,963**	**$479**	**($14,270)**	**($773)**	**($1,817)**
									($2,589)
	Impact of ROE reduced to 10.2% & Common Equity to 46.5%								**($1,346)**
	Total Adjustments to Proposed Revenue Requirement								**($3,935)**
	Originally Filed Revenue Requirement								$8,489
	Revenue Increase Per Settlement								**$4,554**

APPENDIX 2

AVISTA UTILITIES

Pro forma Januray 2011 - December 2011

ERM Authorized Expense and Retail Sales

ERM Authorized Power Supply Expense

	Total	January	February	March	April	May	June	July	August	September	October	November	December
Account 555 - Purchased Power	$94,057,336	$11,944,984	$9,846,565	$10,853,067	$6,732,714	$4,712,966	$4,927,815	$7,041,743	$7,484,808	$6,620,235	$6,005,442	$8,349,912	$9,537,086
Account 501 - Thermal Fuel	$34,270,177	$3,348,316	$3,062,689	$3,327,639	$1,902,982	$1,556,472	$1,454,724	$3,034,374	$3,367,673	$3,234,240	$3,355,439	$3,270,601	$3,355,029
Account 547 - Natrual Gas Fuel	$114,574,309	$10,313,555	$9,965,514	$8,687,285	$3,518,933	$2,675,756	$3,294,621	$11,094,720	$13,127,806	$12,566,735	$11,569,604	$13,114,461	$14,645,319
Account 447 - Sale for Resale	$61,906,487	$3,563,619	$4,040,473	$3,415,529	$4,350,662	$5,618,561	$5,671,884	$10,007,193	$7,148,106	$6,784,137	$2,871,260	$4,145,606	$4,289,456
Power Supply Expense	$180,995,334	$22,043,235	$18,834,295	$19,452,461	$7,803,967	$3,326,633	$4,005,275	$11,163,644	$16,832,181	$15,637,073	$18,059,225	$20,589,368	$23,247,978
Transmission Expense	$17,646,080	$1,583,916	$1,428,384	$1,489,847	$1,545,721	$1,353,126	$1,434,184	$1,446,414	$1,475,811	$1,441,885	$1,464,318	$1,464,565	$1,517,909
Transmission Revenue	$12,346,484	$901,304	$825,004	$1,002,240	$898,432	$1,029,104	$1,371,347	$1,379,878	$1,150,203	$1,025,629	$1,027,312	$925,342	$810,690
Broker Fees	$124,311	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359	$10,359

ERM Authorized Washington Retail Sales

	Total	January	February	March	April	May	June	July	August	September	October	November	December
Total Retail Sales, MWh	5,407,533	527,099	488,794	481,286	395,019	410,896	405,797	418,600	445,346	406,550	415,472	473,455	539,219
Retail Revenue Credit Rate	$50.31 /MWh												

APPENDIX 3

Avista Utilities
Washington - Gas - Test Year Calculations for Decoupling
12 Months Ended December 2009 - Docket No. UG-100468

12 MONTHS ENDED DECEMBER 2009 TEST YEAR BASE

Settlement Docket No. UG-100468

Schedule 101	Per PDE(1)	**Annual Total**	**January**	**February**	**March**	**April**	**May**	**June**	**July**	**August**	**September**	**October**	**November**	**December**
Therms														
Usage from Revenue Run(2)	124,216,208	124,216,208	24,885,757	21,106,338	17,754,612	12,666,299	7,615,545	3,714,717	2,373,945	2,111,270	2,274,191	4,129,665	9,700,573	15,883,296
Ded: Prior Mo. Unbilled(2)	(15,919,236)	(80,466,703)	(15,919,236)	(13,556,027)	(9,801,943)	(9,117,730)	(5,222,312)	(2,486,077)	(1,639,848)	(1,405,084)	(1,544,210)	(1,964,249)	(7,223,636)	(10,586,351)
Add: Current Mo. Unbilled(2)	17,648,827	82,196,294	13,556,027	9,801,943	9,117,730	5,222,312	2,486,077	1,639,848	1,405,084	1,544,210	1,964,249	7,223,636	10,586,351	17,648,827
Add: Weather Adjustment(2)	(6,829,575)	(6,829,575)	(1,357,367)	(710,932)	(2,583,342)	(595,333)	270,319	674,950	-	-	-	(1,734,191)	747,742	(1,541,421)
Test Year Monthly Therms	119,116,224	119,116,224	21,165,181	16,641,322	14,487,057	8,175,548	5,149,629	3,543,438	2,139,181	2,250,396	2,694,230	7,654,861	13,811,030	21,404,351
Customers / Billings														
Test Yr Customers/Billings(2)	1,722,614	1,722,614	143,747	143,734	143,649	143,462	143,299	143,101	143,012	143,096	143,401	143,630	144,120	144,363
Test Year Average Use/Cust		69	147	116	101	57	36	25	15	16	19	53	96	148

	Schedule 101
Sch 101 Base Rate/therm(3)	$0.89276
Times: 1 minus Revenue Related Items (4)	0.955843
Revenue prior to gross up	$0.85334
Less: Weighted Average Gas Cost/therm(5)	$0.58246
Margin Rate/therm	**$0.27088**

(1) From Ehrbar workpapers in Docket No. UG-100468 PDE-G -1, PDE-G-16, and PDE-G-17
(2) From Monthly Data below
(3) From Docket No. UG-100468 Settlement Stipulation Appendix 4, page 5
(4) From Docket No. UG-100468 Andrews Exhibit EMA-3, page 4, line 7
(5) From Schedule 156 purchased gas cost per therm rate (15th revision sheet effective 11/1/2009)

Avista Utilities
Washington - Gas - Test Year Calculations for Decoupling
12 Months Ended December 2009 - Docket No. UG-100468

12 MONTHS ENDED DECEMBER 2009 TEST YEAR BASE
UG-100468 Weather Normalization and Unbilled Calculation

12 Months Ended December 2009 Monthly Data

Revenue Run Therms		Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Total
Total 101 (6)		24,885,757	21,106,338	17,754,612	12,666,299	7,615,545	3,714,717	2,373,945	2,111,270	2,274,191	4,129,665	9,700,573	15,883,296	124,216,208

Weather Normalization		Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Total
Normal Degree Days (30 Year Average 1980 - 2009)		1,120	913	776	542	323	143	35	34	185	540	889	1,157	6,657
Actual Degree Days		1,204	957	936	586	303	93	17	23	103	668	834	1,252	6,976
Degree Day Adjustment (1,7)		(84)	(44)	(160)	(44)	20	50	18	11	82	(128)	55	(95)	(319)
	Monthly													
Res 101	Use/DD/Cust(7)	0.1002	0.1002	0.1002	0.0877	0.0877	0.0877	0.0000	0.0000	0.0000	0.0877	0.0877	0.1002	
Com 101	Use/DD/Cust(7)	0.2467	0.2467	0.2467	0.1670	0.1670	0.1670	0.0000	0.0000	0.0000	0.1670	0.1670	0.2467	
Ind 101	Use/DD/Cust(7)	0.4266	0.4266	0.4266	0.2961	0.2961	0.2961	0.0000	0.0000	0.0000	0.2961	0.2961	0.4266	

Sch. 101	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Total
Res 101	(1,109,528)	(581,150)	(2,112,216)	(507,737)	230,511	575,387	-	-	-	(1,478,524)	637,401	(1,260,401)	(5,606,257)
Com 101	(244,757)	(128,130)	(465,256)	(86,515)	39,305	98,305	-	-	-	(252,408)	108,989	(277,535)	(1,208,002)
Ind 101	(3,082)	(1,652)	(5,870)	(1,081)	503	1,258	-	-	-	(3,259)	1,352	(3,485)	(15,316)
Total 101	(1,357,367)	(710,932)	(2,583,342)	(595,333)	270,319	674,950	-	-	-	(1,734,191)	747,742	(1,541,421)	(6,829,575)

Revenue Run Customers (Meters Billed)

	Class		Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Annual Total
Residential 101	01	(8)	131,823	131,816	131,750	131,579	131,420	131,217	131,144	131,208	131,483	131,710	132,145	132,409	1,579,704
Commercial 101	21	(8)	11,811	11,804	11,787	11,774	11,768	11,773	11,757	11,776	11,805	11,808	11,866	11,842	141,571
Industrial 101	31	(8)	86	88	86	83	85	85	85	86	87	86	83	86	1,026
Interdepartmental 101	80	(8)	27	26	26	26	26	26	26	26	26	26	26	26	313
Total			143,747	143,734	143,649	143,462	143,299	143,101	143,012	143,096	143,401	143,630	144,120	144,363	1,722,614

Monthly Unbilled Calculation

	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
WA101 (9)	15,919,236	13,556,027	9,801,943	9,117,730	5,222,312	2,486,077	1,639,848	1,405,084	1,544,210	1,964,249	7,223,636	10,586,351	17,648,827

(6) From Knox workpapers in Docket No. UG-100468, TLK-R-120
(7) From Knox workpapers in Docket No. UG-100468, TLK-R-53
(8) From Knox workpapers in Docket No. UG-100468, TLK-R-23
(9) From Knox workpapers in Docket No. UG-100468, TLK-R-6 with monthly columns expanded

APPENDIX 4

Proposed Rate Spread (Electric)

Revenue Requirement **$29,501,000**

Rate Schedule		Base Revenues		Proposed Increase	% of Overall Increase	Pro Rata Share	Overall Increase
1	$	177,103,000	$	26,160,000	47.31%	$13,956,000	7.9%
11	$	42,070,000	$	5,230,000	9.46%	$2,790,000	6.6%
21	$	120,869,000	$	16,105,000	29.12%	$8,591,000	7.1%
25	$	44,938,000	$	5,645,000	10.21%	$3,012,000	6.7%
31	$	9,096,000	$	1,347,000	2.44%	$719,000	7.9%
4x	$	5,867,000	$	811,000	1.47%	$433,000	7.4%
	$	**399,943,000**	**$**	**55,298,000**	**100%**	**$29,501,000**	**7.4%**

Proposed Rate Spread (Natural Gas)

Revenue Requirement **$4,553,000**

Rate Schedule		Base Revenues		As Filed Proposed Increase		UG Storage 87/13 Proposed Increase	% of Overall Increase	Pro Rata Share	Overall Increase
101	$	112,965,000	$	6,890,000	$	6,924,000	81.56%	$3,713,000	3.3%
111	$	38,484,000	$	1,254,000	$	1,268,000	14.94%	$680,000	1.8%
121	$	4,342,000	$	142,000	$	143,000	1.68%	$77,000	1.8%
131	$	441,000	$	12,000	$	13,000	0.15%	$7,000	1.6%
146	$	1,662,000	$	191,000	$	141,000	1.66%	$76,000	4.6%
	$	**157,894,000**	**$**	**8,489,000**	**$**	**8,489,000**	**100.00%**	**$4,553,000**	**2.9%**

AVISTA UTILITIES
WASHINGTON ELECTRIC
PROPOSED INCREASE BY SERVICE SCHEDULE
12 MONTHS ENDED DECEMBER 31, 2009
(000s of Dollars)

Line No.	Type of Service	Schedule Number	Base Tariff Revenue Under Present Rates(1)	General Increase	Base Tariff Revenue Under Proposed Rates(1)	**Base Tariff Percent Increase**	Total Billed Revenue at Present Rates (2)	Gen. Incr. as a % of Billed Revenue	Sch. 91 LIRAP Increase	Total General & Sch. 91 Increase	**Percent Increase on Billed Revenue**
	(a)	(b)	(c)	(d)	(e)	**(f)**	(g)	(h)	(i)	(j)	**(k)**
1	Residential	1	$177,103	$13,956	$191,059	**7.9%**	$178,941	**7.8%**	$96	$14,052	**7.9%**
2	General Service	11	$42,070	$2,790	$44,860	**6.6%**	$44,249	**6.3%**	$25	$2,815	**6.4%**
3	Large General Service	21	$120,869	$8,591	$129,460	**7.1%**	$126,995	**6.8%**	$63	$8,654	**6.8%**
4	Extra Large General Service	25	$44,938	$3,012	$47,950	**6.7%**	$47,189	**6.4%**	$26	$3,038	**6.4%**
5	Pumping Service	31	$9,096	$719	$9,815	**7.9%**	$9,570	**7.5%**	$6	$725	**7.6%**
6	Street & Area Lights	41-48	$5,867	$433	$6,300	**7.4%**	$6,178	**7.0%**	$3	$436	**7.1%**
7	Total		$399,943	$29,501	$429,444	**7.4%**	$413,122	**7.1%**	$219	$29,720	**7.2%**

(1) Excludes all present rate adjustments: Sch. 59 - BPA Residential Exchange, and Sch. 91 - Public Purpose Rider.

(2) Includes all present rate adjustments: Sch. 59 - BPA Residential Exchange and Sch. 91 - Public Purpose Rider.

AVISTA UTILITIES
WASHINGTON ELECTRIC
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE

(a)	Base Tariff Sch. Rate (b)	Present Rate Adjustments(1) (c)	Present Billing Rate (d)	**General Rate Increase (e)**	**Sch. 91 LIRAP Increase(2) (f)**	**Proposed Billing Rate (g)**	**Proposed Base Tariff Rate (h)**
Residential Service - Schedule 1							
Basic Charge	$6.00		$6.00	**$0.00**		**$6.00**	**$6.00**
Energy Charge:							
First 600 kWhs	$0.06103	$0.00077	$0.06180	**$0.00524**	**$0.00004**	**$0.06708**	**$0.06627**
600 - 1,300 kWhs	$0.07101	$0.00077	$0.07178	**$0.00609**	**$0.00004**	**$0.07791**	**$0.07710**
All over 1,300 kWhs	$0.08324	$0.00077	$0.08401	**$0.00713**	**$0.00004**	**$0.09118**	**$0.09037**
General Services - Schedule 11							
Basic Charge	$6.75		$6.75	**$3.25**		**$10.00**	**$10.00**
Energy Charge:							
First 3,650 kWhs	$0.09638	$0.00530	$0.10168	**$0.00399**	**$0.00006**	**$0.10573**	**$0.10037**
All over 3,650 kWhs	$0.09023	$0.00530	$0.09553	**$0.00370**	**$0.00006**	**$0.09929**	**$0.09393**
Demand Charge:							
20 kW or less	no charge		no charge	**no charge**			**no charge**
Over 20 kW	$4.25/kW		$4.25/kW	$0.75/kW		$5.00/kW	$5.00/kW
Large General Service - Schedule 21							
Energy Charge:							
First 250,000 kWhs	$0.06284	$0.00391	$0.06675	**$0.00288**	**$0.00004**	**$0.06967**	**$0.06572**
All over 250,000 kWhs	$0.05614	$0.00391	$0.06005	**$0.00262**	**$0.00004**	**$0.06271**	**$0.05876**
Demand Charge:							
50 kW or less	$300.00		$300.00	**$50.00**		**$350.00**	**$350.00**
Over 50 kW	$4.00/kW		$4.00/kW	$0.75/kW		$4.75/kW	$4.75/kW
Primary Voltage Discount	$0.20/kW		$0.20/kW			$0.20/kW	$0.20/kW
Extra Large General Service - Schedule 25							
Energy Charge:							
First 500,000 kWhs	$0.04928	$0.00256	$0.05184	**$0.00290**	**$0.00003**	**$0.05477**	**$0.05218**
500,000 - 6,000,000 kWhs	$0.04433	$0.00256	$0.04689	**$0.00262**	**$0.00003**	**$0.04954**	**$0.04695**
All over 6,000,000 kWhs	$0.04156	$0.00256	$0.04412	**$0.00171**	**$0.00003**	**$0.04586**	**$0.04327**
Demand Charge:							
3,000 kva or less	$11,000		$11,000	**$1,500**		**$12,500**	**$12,500**
Over 3,000 kva	$3.50/kva		$3.50/kva	$0.50/kva		$4.00/kva	$4.00/kva
Primary Volt. Discount							
11 - 60 kv	$0.20/kW		$0.20/kW			$0.20/kW	$0.20/kW
60 - 115 kv	$1.00/kW		$1.00/kW	$0.10/kW		$1.10/kW	$1.10/kW
115 or higher kv	$1.20/kW		$1.20/kW	$0.10/kW		$1.30/kW	$1.30/kW
Annual Minimum	Present:	$649,330			Proposed:	**$697,830**	
Pumping Service - Schedule 31							
Basic Charge	$6.75		$6.75	**$1.00**		**$7.75**	**$7.75**
Energy Charge:							
First 165 kW/kWh	$0.08109	$0.00347	$0.08456	**$0.00630**	**$0.00004**	**$0.09090**	**$0.08739**
All additional kWhs	$0.05792	$0.00347	$0.06139	**$0.00450**	**$0.00004**	**$0.06593**	**$0.06242**

(1) Includes all present rate adjustments: Sch. 59 - BPA Residential Exchange (Sch. 1 only), Sch. 91 - DSM Rider.

AVISTA UTILITIES
WASHINGTON GAS
PROPOSED INCREASE BY SERVICE SCHEDULE
12 MONTHS ENDED DECEMBER 31, 2009
(000s of Dollars)

Line No.	Type of Service	Schedule Number	Base Tariff Revenue Under Present Rates(1)	Proposed General Increase	Base Tariff Revenue Under Proposed Rates (1)	**Base Tariff Percent Increase**	Total Billed Revenue at Present Rates	Sch. 191 LIRAP Increase	Total General & LIRAP Increase	**Percent Increase on Billed Revenue**
	(a)	(b)	(c)	(d)	(e)	**(f)**	(g)	(h)	(i)	**(j)**
1	General Service	101	$112,965	$3,713	$116,678	**3.3%**	$103,604	$33	$3,746	**3.6%**
2	Large General Service	111	$38,484	$680	$39,164	**1.8%**	$34,347	$12	$692	**2.0%**
3	Large General Svc.-High Annual Load Factor	121	$4,342	$77	$4,419	**1.8%**	$3,878	$1	$78	**2.0%**
4	Interruptible Service	131	$441	$7	$448	**1.5%**	$387	$1	$8	**2.0%**
5	Transportation Service	146	$1,662	$76	$1,738	**4.6%**	$1,662	$0	$76	**4.6%**
6	Special Contracts	148	$1,449	$0	$1,449	**0.0%**	$1,449	$0	$0	**0.0%**
7	Total		$159,343	$4,553	$163,896	**2.9%**	$145,327	$47	$4,600	**3.2%**

(1) Includes Purchase Adjustment Schedule 150/156; excludes other rate adjustments.

AVISTA UTILITIES
WASHINGTON GAS
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE

(a)	Base Rate(1) (b)	Present Rate Adj.(2) (c)	Present Billing Rate (d)	General Rate Increase (e)	Sch. 191 LIRAP Increase (f)	Proposed Billing Rate(2) (g)	Proposed Base Rate(1) (h)
General Service - Schedule 101							
Basic Charge	$6.00		$6.00	**$0.00**		**$6.00**	**$6.00**
Usage Charge:							
All therms	$0.86159	($0.07859)	$0.78300	**$0.03117**	**$0.00028**	**$0.81445**	**$0.89276**
Large General Service - Schedule 111							
Usage Charge:							
First 200 therms	$0.89142	($0.08484)	$0.80658	**$0.03135**	**$0.00024**	**$0.83817**	**$0.92277**
200 - 1,000 therms	$0.81545	($0.08484)	$0.73061	**$0.01227**	**$0.00024**	**$0.74312**	**$0.82772**
All over 1,000 therms	$0.74742	($0.08484)	$0.66258	**$0.01124**	**$0.00024**	**$0.67406**	**$0.75866**
Minimum Charge:							
per month	$140.68		$140.68	**$6.27**		**$146.95**	**$146.95**
per therm	$0.18802	($0.08484)	$0.10318	**($0.00000)**	**$0.00024**	**$0.10342**	**$0.18802**
High Annual Load Factor Large General Service - Schedule 121							
Usage Charge:							
First 500 therms	$0.85841	($0.07761)	$0.78080	**$0.04636**	**$0.00022**	**$0.82738**	**$0.90477**
500 - 1,000 therms	$0.81137	($0.07761)	$0.73376	**$0.01548**	**$0.00022**	**$0.74946**	**$0.82685**
1,000 - 10,000 therms	$0.74218	($0.07761)	$0.66457	**$0.01416**	**$0.00022**	**$0.67895**	**$0.75634**
10,000 - 25,000 therms	$0.69872	($0.07761)	$0.62111	**$0.01333**	**$0.00022**	**$0.63466**	**$0.71205**
All over 25,000 therms	$0.68684	($0.07761)	$0.60923		**$0.00022**	**$0.60945**	**$0.68684**
Minimum Charge:							
per month	$342.46		$342.46	**$23.18**		**$365.64**	**$365.64**
per therm	$0.17349	($0.07761)	$0.09588		**$0.00022**	**$0.09610**	**$0.17349**
Annual Minimum per therm	Present:	$0.23144				Proposed:	$0.24560
Interruptible Service - Schedule 131							
Usage Charge:							
First 10,000 therms	$0.71369	($0.08203)	$0.63166	**$0.01132**	**$0.00022**	**$0.64320**	**$0.72501**
10,000 - 25,000 therms	$0.67174	($0.08203)	$0.58971	**$0.01066**	**$0.00022**	**$0.60059**	**$0.68240**
25,000 - 50,000 therms	$0.66145	($0.08203)	$0.57942	**$0.01050**	**$0.00022**	**$0.59014**	**$0.67195**
All over 50,000 therms	$0.65805	($0.08203)	$0.57602	**$0.01044**	**$0.00022**	**$0.58668**	**$0.66849**
Annual Minimum per therm	Present:	$0.16100				Proposed:	$0.17166
Transportation Service - Schedule 146							
Basic Charge	$201.30		$201.30	**$23.70**		**$225.00**	**$225.00**
Usage Charge:							
First 20,000 therms	$0.07512		$0.07512	**$0.00317**		**$0.07829**	**$0.07829**
20,000 - 50,000 therms	$0.06688		$0.06688	**$0.00282**		**$0.06970**	**$0.06970**
50,000 - 300,000 therms	$0.06034		$0.06034	**$0.00255**		**$0.06289**	**$0.06289**
300,000 - 500,000 therms	$0.05583		$0.05583	**$0.00236**		**$0.05819**	**$0.05819**
All over 500,000 therms	$0.04206		$0.04206	**$0.00178**		**$0.04384**	**$0.04384**
Annual Minimum per therm	Present:	$0.06688				Proposed:	$0.06970

(1) Includes Schedules 150/156 - Purchased Gas Cost Adj.

(2) Includes Schedule 155 - Gas Rate Adj., Schedule 159 - Gas Decoupling Rate Adj. (Sch. 101 only), and Schedule 191 - Public Purpose Rider Adj.

APPENDIX 5

AVISTA UTILITIES

SCHEDULE 91 - Electric Public Purpose Rider

	Current DSM Rate	Current LIRAP Rate	LIRAP Increase	New DSM Rate	New LIRAP Rate	Total DSM & LIRAP Rate	Change
Schedule 1	$0.00317	$0.00058	7.38%	$0.00317	0.00062	$0.00379	$0.00004
Schedule 11 & 12	$0.00449	$0.00081	7.38%	$0.00449	0.00087	$0.00536	$0.00006
Schedule 21 & 22	$0.00331	$0.00060	7.38%	$0.00331	0.00064	$0.00395	$0.00004
Schedule 25	$0.00217	$0.00039	7.38%	$0.00217	0.00042	$0.00259	$0.00003
Schedule 31 & 32	$0.00295	$0.00052	7.38%	$0.00295	0.00056	$0.00351	$0.00004
Schedule 41 - 48	4.65%	0.84%	7.38%	4.33%	0.84%	5.16%	

AVISTA UTILITIES

SCHEDULE 191 - Natural Gas Public Purpose Rider

	Current DSM Rate	Current LIRAP Rate	LIRAP Increase	New LIRAP Rate	Total DSM & LIRAP Rate	Change
Schedule 101	$0.05135	$0.00979	2.88%	$0.01007	$0.06142	$0.00028
Schedule 111 & 112	$0.04939	$0.00846	2.88%	$0.00870	$0.05809	$0.00024
Schedule 121 & 122	$0.04675	$0.00781	2.88%	$0.00803	$0.05478	$0.00022
Schedule 131 & 132	$0.04298	$0.00756	2.88%	$0.00778	$0.05076	$0.00022