Exhibit No. __ (T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET UE-080416

DOCKET UG-080417

JOINT DIRECT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)
DANNY P. KERMODE (STAFF)
PAULA E. PYRON (NWIGU)
CHARLES M. EBERDT (ENERGY PROJECT)

IN SUPPORT OF
THE MULTIPARTY 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
- Danny P. Kermode, Regulatory Analyst, WUTC Staff
- Paula E. Pyron, Executive Director, Northwest Industrial Gas Users (NWIGU)
- Charles M. Eberdt, Director, The Energy Project

Q. Are you sponsoring joint testimony in support of the Multiparty Settlement Stipulation filed with this Commission on September 16, 2008?

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

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 Corporation 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 27 years, I have spent approximately 16 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. Mr. Kermode, please provide information pertaining to your educational background and professional experience.

A. My name is Danny P. Kermode. I am employed by the Washington Utilities and Transportation Commission as a Regulatory Analyst since 1996. I graduated in 1982 from Arizona State University in Tempe, Arizona with a Bachelor of Science in Accounting. Later that same year, I attended San Carlos University in the Philippines for postgraduate studies in economic analysis and quantitative business analysis. I am licensed in Washington as a Certified Public Accountant ("CPA").

In 1992 and 1993, I was a member of the faculty at the National Association of Regulatory Utility Commissioners ("NARUC") Annual Regulatory Studies Program held at Michigan State University in East Lansing, Michigan. I taught classes in Financial and Regulatory Accounting Standards and in Deferred Tax Accounting. This year I taught classes in income taxes and the regulatory income statement for the NARUC Western Rate School in San Diego, California.

I am a financial professional with over 20 years experience in private practice, industry and government. I spent ten years (1983-1993) as a CPA in private practice in Phoenix, Arizona, where I was an expert witness in a number of utility cases before the Arizona Corporation Commission, the state's public utility regulatory body. From 1994 to

1996, I was the controller for the Rocky Mountain Institute, a large internationally-recognized non-profit organization that conducts research and performs services in the energy field.

During my employment at the UTC, I have testified in numerous cases on a variety of issues, including results of operations, accounting, and income tax issues.

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

A. My name is Paula E. Pyron. I am an experienced energy law attorney serving the last eight years as the Executive Director of NWIGU. In addition to my 25 years of energy law experience, I have a Bachelor of Science in Economics from the University of Texas at Dallas. NWIGU is a non-profit trade association of 38 industrial-sized natural gas end users who have facilities in the states of Oregon, Washington, and Idaho. NWIGU provides information to its members on natural gas issues that impact their facilities and represents its members' interests in proceedings before the Federal Energy Regulatory Commission and the Pacific Northwest state utility commissions, including the Washington Utilities and Transportation Commission. As Executive Director, my responsibilities include the review of all filings made by LDCs in Washington, Oregon, and Idaho as well as the representation of the NWIGU industrial customers' issues in connection with this 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 15 years.

Q. Would you briefly summarize the Multiparty Settlement Stipulation?

A. Yes. As part of the Multiparty Settlement Stipulation, Avista's annual electric revenues would increase by $32.5 million, representing a $4.1 million reduction from the Company's original request of $36.6 million. Avista also agreed to an annual natural gas revenue increase of $4.8 million, a $1.8 million reduction from its original request of $6.6 million.

The overall increase in base electric rates would be 9.1 percent under the Settlement, down 1.2 percent from Avista's original request to increase base electric rates by 10.3 percent. Natural gas rates would increase overall by 2.4 percent with the Settlement, down 0.9 percent from Avista's original request to increase base natural gas rates by 3.3 percent.

The Multiparty Settlement Stipulation calls for an overall rate of return of 8.22 percent with a common equity ratio of 46.3 percent and a 10.2 percent return on equity.

The settlement proposal also calls for modifications to the existing Energy Recovery Mechanism (ERM). This modification incorporates an element of asymmetry in the ERM by giving customers a greater share of the benefits when power expenses are lower than the authorized level.

As part of the Multiparty 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 $350,000 to $1.482 million annually. In addition, annual funding for the Low Income Rate Assistance Program (LIRAP) in Washington would be increased from $3.9 million to $4.4 million.

Later in our testimony, we discuss in more detail the elements of the Multiparty Settlement Stipulation, specifically, the accounting and power supply adjustments, the modifications to the ERM, and rate spread/rate design.

Q. Who are the signatories to the Multiparty Settlement Stipulation?

A. The Multiparty Settlement Stipulation, filed September 16, 2008, was signed by Avista, the WUTC Staff, the Northwest Industrial Gas Users and the Energy Project. The Industrial Customers of Northwest Utilities, while a signatory, only joins in those portions of the Stipulation as discussed below. The Public Counsel Section of the Washington Attorney General's Office did not join in the Multiparty Settlement Stipulation.

Q. What is the scope of ICNU's support of this Multiparty Settlement Stipulation?

A. ICNU joins with the following identified portions of the Stipulation: Power Supply-Related Adjustments (Section III. A. (a.)); Cost of Capital (Section III. A. (m.)); Rate Spread/Rate Design (Section III. B.); Low Income Bill Assistance Funding (Section

III. C.); Demand Side Management (DSM) Expenditures (Section III. D.); and Prudency of Energy Efficiency Expenditures (Section III. E.). ICNU expressly reserved the right to contest other issues that have been resolved among the Stipulating Parties, and shall not be foreclosed from raising additional issues as may be properly within the scope of this proceeding.

Q. What is the scope of NWIGU's testimony in this proceeding?

A. NWIGU supports the Multiparty Settlement Stipulation but takes no position on any specific issues other than those related to the Company's natural gas operations, because NWIGU only represents the natural gas interests of its member companies. NWIGU recommends that the Commission adopt the Multiparty Settlement Stipulation as it impacts Avista's base natural gas rates in its entirety.

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

A. The Stipulating Parties have requested implementation of the Multiparty Settlement Stipulation on or before January 1, 2009. 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 Stipulating Parties.

II. HISTORY OF FILING

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

A. On March 4, 2008, the Company filed proposed tariff revisions requesting that the Commission grant an electric rate increase of $36,617,000 or 10.29% in base retail rates. The Company requested that the Commission grant an increase of $6,587,000 or 3.33% for Avista's natural gas operations. The Company's request was based on a proposed rate of return of 8.43% with a common equity ratio of 46.3% and a 10.8% return on equity.

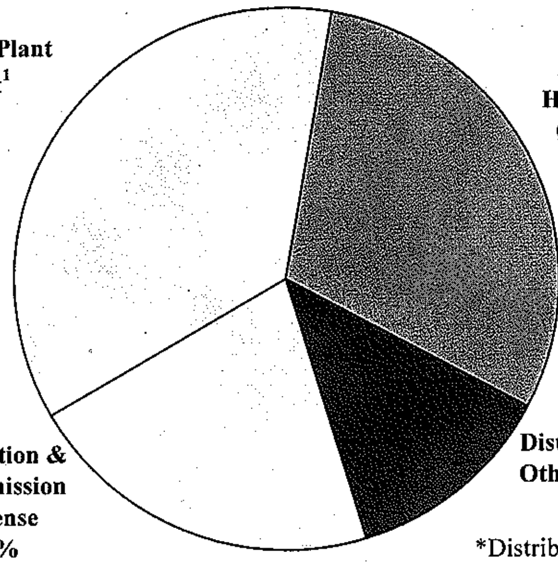
The Company proposed to spread the requested electric revenue increase by rate schedule on a uniform percentage basis. The proposed natural gas increase by rate schedule would result in rates of return for each schedule that are reasonably close to the cost of service study results (unity). The Company proposed to raise the electric and natural gas residential monthly basic charge to $5.75 from the current $5.50 charge.

On July 25, 2008, the Company filed supplemental evidence to reflect a revised electric service revenue requirement of $47.4 million; the Company, however, did not otherwise revise its tariff filing to reflect these changes.

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

A. The following pie chart, excerpted from the pre-filed direct testimony of Company witness Mr. Morris (Exhibit No. __SLM-1T, Page 11), describes the primary drivers of the Company's request for electric rate relief:

Primary Electric Revenue Requirement Factors



[1] Includes return on investment, depreciation and taxes, offset by the tax benefit of interest.

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

A. The Company's natural gas request is driven by changes in various operating cost components, but primarily the addition of the Jackson Prairie expansion project planned for completion in the fourth quarter of 2008. This causes an increase in the fixed costs of providing gas service to customers.

III. SETTLEMENT PROCESS

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

A. Yes. All six parties to this case commenced discussions for purposes of resolving or narrowing the contested issues in this proceeding in a settlement conference held on August 20, 2008. Subsequently, the parties participated in telephonic Settlement

Conferences on August 29, 2008, September 4, 2008, September 8, 2008, and September 9, 2008.

Extensive discussions occurred on many components of the Company's filing, such as the cost of capital, and accounting 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. As is common in settlements, each of the Stipulating Parties ultimately agreed to concessions on matters which would not have been agreed to if each of the Stipulating Parties were to proceed to evidentiary hearings.

Settlement meetings were scheduled during the Prehearing Conference in March 2008, and thus were set well in advance. Significant discovery occurred in the four months leading to the first Settlement Conference. The Company responded to 450 data requests which were provided to all parties. The final telephonic settlement conference of September 9th was within approximately two weeks of the September 19th due date of filing testimony by Staff and Intervenors, and therefore it is reasonable to expect discovery to be substantially complete and the major issues already identified for purposes of settlement discussions.

IV. PUBLIC INTEREST

Statement of Avista

Q. Please explain why Avista believes the Multiparty 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 Multiparty 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 Multiparty Settlement Stipulation was a compromise among differing interests and represents give-and-take. For example, from Avista's point of view, it does not reflect any adjustment for union wage increases that we know will occur in 2009. Nor does the agreed-upon revenue increase cover the significant capital additions that will occur in 2009. As such, the Settlement, even if approved, will not fully address increasing costs during the 2009 rate year and represents, if anything, a conservative portrayal of Avista's need for rate relief.

The Settling Parties have agreed that the Company has demonstrated need for a revenue requirement increase for both its electric and natural gas customers. The Multiparty Settlement Stipulation provides for recovery of additional costs. The Multiparty 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, as shown by the recent upgrades in the Company's corporate credit ratings to investment grade, 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 Baa2 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 higher 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 Multiparty Settlement Stipulation.

<u>Statement of Commission Staff</u>

Q. Please explain why Commission Staff believes the Multiparty Settlement Stipulation is in the public interest.

A. Staff's belief that the Multiparty Settlement Stipulation is in the public interest is based on its 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. The Settlement Stipulation is the result of compromises by all parties and was negotiated as a comprehensive package. Staff believes the agreement taken as a whole, and with consideration 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.

Staff sent a total of 101 data requests and also reviewed responses to discovery requests submitted by other parties. In addition, Staff performed several on-site visits to Avista covering all aspects of the case. The on-site visits included one-to-one interviews with most of the witnesses in this case along with extended review and examination of the supporting workpapers with the employees responsible for them. The primary focus was to evaluate the 2007 test-year results and evaluate the adjustments proposed by the Company to develop a reasonable revenue requirement.

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

A. Staff believes the Multiparty Settlement Stipulation addresses the requirement that the rates be fair, just, reasonable and sufficient. Specifically, of particular importance in obtaining that goal from the Staff's perspective is the settlement's reduction of the proposed authorized return on equity to 10.2% from a requested 10.8%. Staff also believes the agreement prudently addresses genuine concerns regarding future purchased energy and fuel costs, and strikes a reasonable balance in recognizing the recent volatility in energy fuel prices. Among other things, the agreement also includes a modification to the Energy Recovery Mechanism (ERM) to incorporate an element of asymmetry in the ERM. The asymmetry in the design gives customers a greater share of the benefits when power expenses are lower than the authorized level than under the current design, while maintaining the 50%/50% sharing when power supply expenses are higher.

Staff believes the Multiparty Settlement Stipulation taken as a whole provides rates that are fair, just, reasonable and sufficient and recommends approval of the Multiparty Settlement Stipulation.

Statement of NWIGU

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

A. NWIGU recommends the Commission adopt the Multiparty Settlement Stipulation because the best interests of Avista's natural gas customers are served by the underlying fair compromise on all revenue requirement issues. While the signing parties may each hold different positions on the individual components of Avista's natural gas revenue requirement and cost of capital adjustments, NWIGU has based its assessment upon the compromises of various revenue requirement issues that brought down the overall gas revenue requirement increase by $1.8 million to $4.8 million, applying cost of capital adjustments that result in a fair compromise between Avista and its customers in current financial markets. NWIGU also finds this Multiparty 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 the Company's cost of service analysis. Under the Multiparty Settlement Stipulation, it is important from NWIGU's perspective that all schedules move toward their relative cost of service. In recommending Commission approval of this Multiparty Settlement Stipulation, NWIGU is not seeking Commission approval of any new process or ratemaking method as part of the Multiparty Settlement Stipulation and reserves the right to raise all issues compromised in this proceeding in any future natural gas rate case.

Statement of The Energy Project

Q. Why is The Energy Project concerned with the effect of Avista's rate increases on their limited income customers?

A. The frequency and extent of rate increases from utility rate cases, power cost adjustments, and/or purchased gas adjustments have had a costly effect on all of Avista customers. This is particularly true for those living at the bottom of the economic hierarchy. Since those are exactly the people in Avista's service territory served by the Washington State Community Action Partnership, the Energy Project was duty-bound to intervene in this general rate case.

Q. What efforts have been made with Avista and the Community Action Agencies to mitigate theses rate increases on limited income customers?

A. The Community Action Agencies have enjoyed a cooperative relationship with Avista in providing bill assistance and energy efficiency services with ratepayer funding from Avista's customers for several years now. When the Company included in their testimony an increase to the Limited Income Rate Assistance Program (LIRAP) funding indexed to the rate increase approved by the Commission in this docket, we were pleased at their recognition of the need. With the downturn in the economy, low-income households feel this pinch more acutely than anyone. So when utility rates are increased, they have no discretionary income to supply the difference. And there is almost always a difference.

Q. Would increasing LIRAP funding by an amount of the Commission's approved rates in this docket address the growing need of Avista's low income customers?

A. No. Unfortunately LIRAP funding only provides rate assistance to a small portion of Avista's eligible limited income customers. For example, in 2007 approximately 32,500 households were living below 125% of the federal poverty level in Spokane County, which receives the bulk of the LIRAP benefits. At most, without adjusting for duplication, LIRAP funds provided assistance to less than 14% of those eligible. The indexing of funding to rate increases at best only allows this same percentage of limited income customers to receive assistance.

Q. Then, why is this settlement satisfactory to The Energy Project?

A. The need for assistance funds for the low-income population due to the increase in energy costs from rate increases is further heightened by the fact that this population is growing in Avista's service territory. This settlement allows for an increase in LIRAP by the amount of the rate increase approved by the Commission and some additional funding. It is our fervent hope that this LIRAP increase will allow us a modest increase in the number of limited income customers we can serve.

We believe the increase in energy efficiency funds is essential as well. This increase represents a compromise and is well within the existing capacity of agencies to provide service. We believe targeting additional funds to the low-income residential market is warranted because the need is high and unlike other customer sectors these households do not have funds to invest. Furthermore, the matrix of measures we install is cost-effective and consistent with the company's integrated resource plan. Increasing the energy efficiency of the homes we work in should benefit the occupant through lower bills and greater comfort, while capturing energy efficiency the company will need to reduce load and demand.

Q. Has The Energy Project's role in this docket focused primarily on low income issues and is this settlement in the public interest?

A. Yes. There are many issues discussed and evaluated in rate cases that we are not experts in, but we are experienced in working with low-income household on energy consumption issues. For these reasons we believe this settlement represents a satisfactory compromise and is in the public interest.

Conclusion

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 Stipulating Parties best efforts at arriving at an end result that satisfies these requirements.

V. ELEMENTS OF THE PROPOSAL

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

A. After extensive discussions, the Stipulating Parties agreed that Avista will reduce its revenue increase request to reflect the electric revenue deficiency shown in the table on Page 4 of the Multiparty Settlement Stipulation. While Avista's filing requested an electric revenue requirement increase of $36.6 million, the adjustments listed on Page 4, including the agreed-upon rate of return, reduce this amount by approximately $4.1 million, resulting in a recommended electric revenue requirement increase of $32.5 million. Similarly, as shown in the table on Page 5 of the Multiparty Settlement Stipulation, while the Company requested a natural gas revenue requirement increase of

$6.6 million, the agreed-upon adjustments serve to reduce this amount by $1.8 million, resulting in a recommended natural gas revenue requirement increase of $4.8 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 Multiparty 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 Multiparty Settlement Stipulation.

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

A. The Stipulating Parties have agreed to a revenue requirement which produces an overall rate of return of 8.22%, based on a return on equity of 10.2% and an equity component at 46.3%. Avista's existing return on equity is 10.2%. By comparison, the Company's original filing requested an overall rate of return of 8.43%, a return on equity of 10.8% and an equity component of 46.3%. The individual cost of capital components of the agreed upon rate of return are as follows:

Component	Capital Structure	Cost	Weighted Cost
Total Debt	53.70%	6.51%	3.50%
Common Equity	46.30%	10.20%	4.72%
Total	100.00%		8.22%

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

A. Yes, the table is set forth below:

Line		SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT 000s of Dollars	Revenue Requirement	Rate Base
1		**Amount As Filed**	**$ 36,617**	**$ 950,944**
		Adjustments:		
	*	Power Supply-Related Adjustments		
2		Hydro filtering	(1,597)	0
3		WNP-3 Contract (Use of 5-year average availability)	(136)	0
4		Fuel (Natural Gas) (Use of $8.30/Dth and include actual short-term transaction through August 25, 2008)	8,486	0
5		Colstrip (Correct Colstrip fuel price)	(877)	0
6		Noxon Generation Upgrade (Pro Form 2009 capital upgrade project)	1,557	8,714
	*	Cost of Capital		
7		Adjust return on equity to 10.20%	(4,229)	0
8		Adjust cost of debt to 6.51%	1,017	0
		Relicensing/Litigation[(1)]		
9		Relicensing and confidential litigation costs deferred for later recovery, with carrying charge (5.0%); Include amortization of Montana riverbed litigation costs with accrued interest	(8,053)	(37,044)
		Capital Additions		
10		Pro form in the capital cost and expenses associated with the major generation and transmission project upgrades	60	14,299
		Customer Deposits		
11		Remove customer deposits from Rate Base; include interest as operating expense	(189)	(2,155)
		Federal/Deferred Income Tax Expense		
12		Adjust federal and deferred federal income tax expense	405	0
		Incentives		
13		Adjust incentives to actual	(415)	0
		Officers' Salaries		
14		Adjust officers' salaries for correction of error	(140)	0
		Union and Non-Executives' Salaries		
15		Remove union and non-executive 2009 wage increase	(1,188)	0
		Colstrip Generation O&M Expenses		
16		Reduce mercury emissions O&M costs	(699)	0
		Administrative and General Expenses		
17		Remove sponsorship costs	(109)	0
		Production Property		
18		Flow through impact of Production & Transmission adjustments	2,174	4,549
		Restate Debt Interest		
19		Flow through impact of Rate Base adjustments	(146)	0
20		**Total Adjustments**	**(4,079)**	**(11,637)**
21		**Adjusted Amounts**	**$ 32,538**	**$ 939,307**
		(1) Please see Andrews' (EMA-1T) unredacted testimony at Pages 23-24.		

[*] Denotes concurrence of ICNU

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. Line 1, entitled "Amount As Filed" in the amount of $36,617,000 is the electric rate increase requested by Avista. This number can be found in Exhibit No. __ (EMA-2), page 1 of 9, line 6, column e.

The next lines, entitled "Power Supply-Related Adjustments," reflects adjustments to Avista's original power supply calculation for five items, as follows:

(i) Hydro filtering –This adjustment (line 2) removes the power supply expense from the 50-year average for months when the hydro generation was either higher or lower by more than one standard deviation from the average generation for that month.

(ii) WNP-3 Contract – This adjustment (line 3) increases the amount of energy purchased under the WNP-3 contract by including 2007 energy purchased in the 5-year average. Increasing the amount of WNP-3 power purchased lowers power supply expense because the WNP-3 price is lower than market power prices in the AURORA model.

(iii) Adjust (Natural Gas) Fuel Costs – This adjustment (line 4) reflects a pro forma period natural gas price of $8.30/Dth for natural gas-fired generation for the unhedged portion of the 2009 generation. This adjustment also includes the actual 2009 calendar-year wholesale electric and natural gas transactions entered into through August 25, 2008.

(iv) Correct Colstrip Fuel Cost Error – This adjustment (line 5) corrects a mathematical error in the calculation of the Colstrip coal cost. The correction is designed to properly reflect the 2009 pro forma period fuel price.

(v) Noxon Generation Upgrade – The Noxon upgrade, scheduled for completion in March of 2009, is designed to increase that unit's efficiency by 5%, and provide additional capacity of 7.5 MW. (See line 6.) The Company's original filing included the additional generation expected from the upgrade (2.33 average megawatts of additional energy in an average water year) within the Company's Dispatch Model for the rate year, but inadvertently excluded the capital investment for this project from its revenue requirement. The Stipulating Parties agree, for settlement purposes, to include the capital investment and increased generation for ratemaking purposes.

Lines 7 and 8, adjustments for "Cost of Capital," reflect the agreed upon capital structure and rate of return applied to the adjusted rate base.

Line 9, entitled "Relicensing/Litigation," reflects the removal of the Company's revenue requirement and rate base related to the Spokane River Relicensing Costs and Confidential Litigation Costs that were pro formed into the original filing. The Stipulating Parties have agreed to deferred accounting treatment of these items and further details are provided below in Section VI.

Line 10, entitled "Capital Additions," reflects the revenue requirement and rate base for capital costs and expenses associated with the major generation and transmission project upgrades for electric operations. These capital additions include projects completed during 2007, and projects expected to be completed and transferred to plant-in-service by

December 31, 2008, 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 and property tax, as well as the appropriate accumulated depreciation and deferred income tax rate base offsets.

Q. Please continue with the remaining adjustments.

A. Line 11, entitled "Customer Deposits," reduces rate base for settlement purposes by the average amount of customer deposits during the test year and treats the interest on the deposits as an operating expense.

Line 12, entitled "Federal/Deferred Income Tax Expense," removes the Company's Schedule M tax computation deduction for Allowance for Funds Used During Construction (AFUDC) that was incorrectly included in the Company's calculation of taxable income in determining federal income tax expense. Also, the proper level of deferred tax expense (DFIT) based on the proper allocation percentage used to calculate allocated DFIT for the test period has been reflected.

Line 13, entitled "Incentives," reflects the actual expenses for the test period instead of the six-year average proposed by the Company.

Line 14, entitled "Officers' Salaries," corrects the Company's pro forma adjustment of officers' salaries for an error identified by the Company.

Line 15, entitled "Union and Non-Executives' Salaries," removes the pro formed 2009 wage increase for union and non-executives

Line 16, entitled "Colstrip Generation O&M Expenses," reduces the pro formed 2009 O&M costs associated with the mercury control abatement project at Colstrip. The original system expense amount of the mercury control O&M costs was estimated to be approximately $3 million annually or $250,000 monthly, and this process had been anticipated to start in July 2009. The plan was revised to start this mercury abatement process in November 2009, for a total cost of approximately $465,000 for two months.

Line 17, entitled "Administrative and General Expenses," removes non-utility expenses that should have been excluded from utility results within the Company's test period, in its original filing. These expenses are related to costs expended by the Company for sponsorship agreements in support of community affairs.

Line 18, entitled "Production Property," corrects an error in the calculation of the production property adjustment contained within the Company's original filing, representing approximately $2.1 million of this adjustment. The remaining portion of the adjustment is directly linked to all other adjustments in the Multiparty Settlement Stipulation that affect production and transmission related revenues, expenses, and rate base.

Line 19, entitled "Restate Debt Interest," reflects the income tax effect of the change in interest expense related to all other adjustments in the Multiparty Settlement Stipulation that affect rate base. This adjustment restates debt interest using the agreed upon pro forma weighted average cost of debt of 3.5% as shown in the capital structure table on page 18.

Line 20, entitled "Total Adjustments," represents the net reduction to the revenue requirement ($4,079,000) and rate base ($11,637,000), from Avista's original filing.

Line 21, is the resulting electric system revenue requirement deficiency of $32,538,000 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 5 in the Stipulation for the Company's natural gas operations for ease of reference?

A. Yes, the table is set forth below:

	SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT 000s of Dollars		Revenue Requirement	Rate Base
1	**Amount As Filed**		**$ 6,587**	**$ 172,957**
	Adjustments:			
	Cost of Capital			
2		Adjust return on equity to 10.20%	(778)	0
3		Adjust cost of debt to 6.51%	194	0
	Natural Gas Inventory			
4		Natural gas inventory included in Rate Base as originally filed	0	0
	Capital Additions			
5		Remove pro forma capital additions	(666)	(2,506)
	Customer Deposits			
6		Remove customer deposits from Rate Base; include interest as operating expense	(109)	(1,248)
	Federal Income Tax Expense			
7		Remove tax deduction	48	0
	Incentives			
8		Adjust incentives to actual	(109)	0
	Officers' Salaries			
9		Adjust officers' salaries for correction of error	(37)	0
	Union and Non-Executives' Salaries			
10		Remove union and non-executive 2009 wage increase	(320)	0
	Restate Debt Interest			
11		Flow through impact of Rate Base adjustments	(42)	0
12	**Total Adjustments**		**(1,819)**	**(3,754)**
13	**Adjusted Amounts**		**$ 4,768**	**$ 169,203**

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

A. Yes. This is essentially the same type of revenue requirement adjustment summary as is presented in the table on Page 4 of the Settlement Stipulation, but addressing Avista's natural gas operations instead of electric operations. All adjustments, with the exception of capital additions, were explained in the electric section above. Line

5, entitled "Capital Additions," removes all pro formed capital costs, excluding the Jackson Prairie expansion capital costs, from Avista's original filing. Line 12, entitled "<u>Total Adjustments</u>," represents the net reduction to the revenue requirement ($1,819,000) and rate base ($3,754,000), as filed in the original filing.

Line 13, is the resulting natural gas system revenue requirement deficiency of $4,768,000 to be collected by general tariff changes, after taking into account all of the foregoing adjustments.

Q. Were any other adjustments, included in the Company's original filing, specifically addressed by the Stipulating Parties in the Multiparty Settlement Stipulation?

A. Yes, two other adjustments were specifically addressed. First, the Stipulating Parties agree that the use of a rolling 25-year average of normal heating and cooling degree days in the calculation of the weather adjustment is for settlement purposes only, and shall not be deemed as precedent for any other proceeding. Also, the Stipulating Parties agree that the pro formed Jackson Prairie working gas inventory (AMA balance for 2009 pro forma period) shall be included in rate base.

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, including consideration of positions advocated by parties who did not sign the Multiparty Settlement Stipulation. All such information was considered, along with certain elements of compromise agreed upon in order to achieve settlement.

VI. ACCOUNTING TREATMENT FOR CERTAIN COSTS

Q. Please explain the proposal in the Stipulation related to the Spokane River Relicensing.

A. The Company included in its filing the processing costs associated with its Spokane River relicensing efforts, which expenditures included actual life-to-date costs from April 2001 through December 31, 2007, and 2008 pro forma expenditures through December 31, 2008. (See Andrews' Direct Testimony at page 23.) Although the Company anticipates receiving a final license from the Federal Energy Regulatory Commission ("FERC") in the near future, that has yet to occur. The relicensing costs will remain in CWIP (Construction Work in Progress), and the Company will continue to accrue AFUDC until issuance of the license, at which time the relicensing costs will be transferred to plant in service and depreciation will begin to be recorded.

The Stipulating Parties have agreed that the costs were prudently incurred and have agreed, that once the Company receives the license, to defer as a regulatory asset (in Account 182.3 – Other Regulatory Assets) Washington's share of the depreciation/amortization associated with the aforementioned relicensing costs and related protection, mitigation, or enhancement expenditures, together with a carrying charge on the deferral, as well as a carrying charge on the amount of relicensing costs not yet included in rate base. The annual carrying charge for deferrals and rate base not yet included in establishing rates shall be 5.0%. Any costs that exceed the pro formed costs in this case would be addressed in a separate filing.

Q. Please explain the proposal in the Stipulation related to the Confidential Litigation.

A. Company witness Andrews describes the confidential litigation at pages 23 and 24 of her pre-filed direct testimony (unredacted)(EMA-1T). Although the matter is still pending and has yet to be finally resolved, it is expected to reach resolution in the near future. The Stipulating Parties have agreed that the pro forma costs in this case are prudent and have agreed to defer as a regulatory asset (in Account 182.3 – Other Regulatory Assets) Washington's share of the depreciation/amortization associated with the aforementioned costs with a carrying charge on the deferral as well as a carrying charge on the amount of costs not yet included in rate base for subsequent recovery in rates. The annual carrying charge shall be 5.0%. Any costs that exceed the pro formed costs in this case would be addressed in a separate filing.

Q. Please explain the proposal in the Stipulation related to the Montana Riverbed Litigation.

A. On November 11, 2007, Avista filed an Application with the Commission (Docket No.UE-072131) requesting an accounting order authorizing deferral of settlement lease payments and interest accruals relating to the recent settlement of a lawsuit in the State of Montana over the use of the riverbed related to the Company's ownership of the Noxon Rapids and Cabinet Gorge hydroelectric projects located on the Clark Fork River. The Commission, in its Order No. 01, authorized the deferral of settlement lease payments together with interest, at the weighted cost of debt, until the matter was addressed in this general rate filing. The Stipulating Parties have agreed to the Company's requested amortization of costs, together with recovery of accrued interest on the Washington share of deferrals at the weighted cost of debt, net of related deferred tax benefit.

VII. MODIFICATION TO THE ENERGY RECOVERY MECHANISM (ERM)

Q. Are any modifications being proposed to the Company's existing Energy Recovery Mechanism or ERM?

A. Yes. One modification to the existing Energy Recovery Mechanism will be implemented to incorporate an element of asymmetry in the ERM by giving customers a greater share of the benefits when power expenses are lower than the authorized level. The adjustment changes the sharing level in the second ERM band ($4 million to $10 million) to 75% customer/25% Company when power supply expenses are lower (rebate direction), while maintaining the 50%/50% sharing in the second band when power supply expenses are higher (surcharge direction).

VIII. LOW INCOME DEMAND-SIDE MANAGEMENT AND RATE ASSISTANCE PROGRAMS.

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

A. The Stipulating Parties and ICNU agree to adjust the LIRAP portion of the tariff riders (Schedules 91 and 191) to provide an increase in annual funding of $500,000. With this increase, the annual funding level for electric low income customers will be $2,864,000, and for natural gas customers will be $1,580,000. Appendix 5 of the Multiparty Settlement Stipulation identifies the tariff rider adjustments to schedule 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for LIRAP.

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

A. The Stipulating Parties and ICNU agree to increase low income DSM by $350,000 over and above existing funding level of $1,132,000, and to adjust the Tariff Rider Adjustment Schedules (91 and 191) accordingly. Appendix 5 of the Multiparty Settlement Stipulation identifies the tariff rider adjustments to schedule 91 and 191 (in ¢/kwh or ¢/therm) to reflect increased levels of funding for DSM.

For purposes of program administration, the total funding level of $1,482,000 for low income DSM includes amounts that may be dedicated to energy-related health and safety measures, the expenditures for which shall not exceed fifteen percent (15%) of overall actual low-income DSM expenditures. The Company and The Energy Project agree to work with participating low income agencies on the development of contract provisions to assure that the combined portfolio of electric and natural gas low-income DSM expenditures remain cost-effective. The Company will provide the External Energy Efficiency ("Triple-E") board with enhanced reporting on the status of the limited income portfolio on a quarterly basis and as part of the biannual meetings of the board.

IX. 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 $32,538,000, could you please describe the method to spread the proposed increase?

A. Yes. The Stipulating Parties and ICNU agree to apply a uniform percentage increase across the electric service schedules for purposes of recovering Avista's revenue requirement. The residential basic charge for electric residential customers would be increased from $5.50 to $5.75 per month.

Q. Are there any differences between the Company's proposed rate design in its direct case and the proposed rates contained in the Stipulation, as shown on page 2 of Appendix 4?

Yes. For Extra Large General Service Schedule 25 rate design, the Stipulating Parties and ICNU agree with the following rate design recommendations for Schedule 25: The Company's proposed Schedule 25 demand charges should be adopted. The first and second energy block rates shall be increased by a uniform percentage. The increase applied to the third energy block rate shall be 2.0 percent less than the percentage increase applied to the first and second block rates as shown on Page 2 of Appendix 4. This Schedule 25 rate design formula shall apply to the final revenue requirement in this case, regardless of whether it is different from the revenue requirement in Appendix 4.

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 $5.86 per month, or approximately an 8.7% increase in their electric bill.

Q. Turning to the proposed natural gas revenue increase of $4,768,000, could you please describe the method to spread the proposed increase?

A. Yes. For natural gas, the Stipulating Parties agree that the final revenue requirement shall be spread across natural gas service schedules in the same proportion to the Company's filed rate spread proposal as set forth in column (d), Page 1 of 3, Exhibit (BJH-7).

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 70 therms per month is $2.18 per month, or approximately a 2.6% increase in their natural gas bill.

X. CONCLUSION

Q. What is the effect of the Multiparty Settlement Stipulation?

A. The Multiparty Settlement Stipulation represents a negotiated compromise among the Stipulating Parties. Thus, the Stipulating 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 Stipulating Parties have the right to withdraw from the Multiparty Settlement Stipulation if the Commission adds any additional material conditions or rejects any material part of the Multiparty Settlement Stipulation.

Q. In conclusion, why is this Multiparty 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 450 data requests.

- Staff, for its part, performed several on-site visits during the audit of the Company's books and records; in the process, they reviewed every accounting adjustment, 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 Multiparty 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. Does that conclude your pre-filed direct testimony?

A. Yes it does.