

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKETS UE-100467
TRANSPORTATION	)	and UG-100468
COMMISSION,	)	(consolidated)
	)	
Complainant,	)	ORDER 07
	)	
v.	)	
	)	FINAL ORDER APPROVING AND
AVISTA CORPORATION d/b/a	)	ADOPTING SETTLEMENT
AVISTA UTILITIES,	)	STIPULATION; REQUIRING
	)	COMPLIANCE FILING
Respondent.	)	
.....	)	

*Synopsis: The Commission approves and adopts an all party full settlement that increases Avista Corporation’s electric rates by \$29,501,000, an average of 7.4 percent across all rate classes, and its natural gas rates by \$4,554,000, an average of 2.9 percent across all rate classes. The Commission, in adopting the Settlement Stipulation, also authorizes increased funding for Avista’s low income demand side management and low income rate assistance programs.*

**SUMMARY**

1 **PROCEEDINGS:** On March 23, 2010, Avista Corporation d/b/a Avista Utilities (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-28, Electric Service in Docket UE-100467, and revisions to its currently effective Tariff WN U-29, Gas Service in Docket UG-100468. These proposed revisions would have implemented a general rate increase of \$55.3 million, or 13.4 percent, for electric service and \$8.5 million, or 6.0 percent, for gas service. The stated effective date of the proposed tariff revisions was April 23, 2010. The Commission suspended the filings on April 5, 2010, consolidated the two dockets, and set the matter for hearing. *Order 01*. The parties filed a “Settlement Stipulation” (Settlement) on August 25,

2010, resolving all issues raised in the Company's original filing. The Settlement is supported by Avista's prefiled testimony and exhibits and by joint testimony filed on September 16, 2010, as well as supplemental testimony from Commission Staff witness David Nightingale filed that same day.

2 **PARTY REPRESENTATIVES:** David J. Meyer, Vice President and Chief Counsel for Regulatory and Governmental Affairs, represents Avista. Sarah Shifley, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Section of the Washington Office of Attorney General (Public Counsel). Greg Trautman and Michael Fassio, Assistant Attorneys General, Olympia, Washington, represent the Commission's regulatory staff (Commission Staff or Staff).<sup>1</sup> S. Bradley Van Cleve and Irion Sanger, Davison Van Cleve, P.C., Portland, Oregon, represent the Industrial Customers of Northwest Utilities (ICNU). Chad M. Stokes and Tommy Brooks, Cable Huston Benedict Haagensen & Lloyd LLP, Portland, Oregon, represent Northwest Industrial Gas Users (NWIGU). Ronald Roseman represents The Energy Project.

3 **COMMISSION DETERMINATIONS:** After considering the evidence presented by the parties, including testimony in support of the Settlement, we find reasonable the parties' proposal to allow Avista to recover additional revenue of \$29,501,000 in electric rates. We also find reasonable the parties' proposal to allow Avista to recover \$4,550,000 in additional revenue in natural gas rates considering increased operating and administrative costs. The parties have shown that Avista has increased its total investment in plant necessary to provide utility service, incurred higher electricity transmission costs, and demonstrated other factors causing Avista's power costs to rise. We conclude that the Settlement's revenue requirements reflect these higher costs, and that the increased rates are fair, just, reasonable and sufficient, as required by law. Therefore, we find that the Settlement is in the public interest and should be approved and adopted as filed and without further condition.

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<sup>1</sup> In formal proceedings, such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See RCW 34.05.455.*

## MEMORANDUM

### **I. Background and Procedural History**

- 4 The Commission convened a prehearing conference in these dockets at Olympia, Washington on April 20, 2010, before Administrative Law Judge Adam E. Torem. Judge Torem, in consultation with the parties, established a procedural schedule providing dates for response testimony by Commission Staff, Public Counsel, and the intervenors.
- 5 The Commission conducted a public comment hearing in Spokane, Washington, on Wednesday, October 6, 2010. Fourteen members of the public who wished to comment on the Company's filing gave oral testimony. The Commission also received 170 written comments from members of the public. The transcript of oral comments and the written comments are part of the official record in this proceeding.
- 6 The Commission held an evidentiary hearing on November 2, 2010, before Chairman Jeffrey D. Goltz, Commissioner Patrick J. Oshie, Commissioner Jones, and Judge Torem. The hearing provided the Commissioners an opportunity to question a panel of witnesses sponsored by the parties in support of the Settlement, which they propose to fully resolve all issues in this proceeding.

### **II. Proposed Settlement**

- 7 *Revenue Requirement.* The Settlement would increase electric rates by \$29.5 million and gas rates by \$4.55 million. The parties negotiated 17 adjustments to the Company's originally proposed electric revenue requirement and 11 adjustments to the Company's originally proposed natural gas revenue requirement. Collectively, these adjustments reduced the Company's \$55.3 million as-filed request on the electric side by nearly \$26 million and the Company's \$8.5 million as-filed request on the gas side by \$3.9 million.<sup>2</sup>

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<sup>2</sup> Settlement at 3-4, Tables 1 and 2.

- 8 *Cost of Capital.* The Company originally sought a rate of return on equity (ROE) of 10.9 percent and an overall rate of return (ROR) of 8.33 percent. In the Settlement, the parties agreed to a 10.2 percent ROE and 46.50 percent equity in Avista's capital structure, which are the same levels approved in the Company's most recent general rate cases (UE-090134 and UG-090135).<sup>3</sup> The resulting overall ROR would be 7.91 percent.
- 9 *Power Supply (PF1).* Avista's pro forma adjustment for power supply increased its costs by \$29.4 million, which represented over half of the Company's original revenue requirement. The Settlement reduces these power supply costs by nearly \$15 million, which reflects the sizeable reductions in annual average natural gas prices and average Mid-Columbia electric prices that the Company is expected to pay.<sup>4</sup> In addition, for purposes of settlement, the Company agreed to include test year weather adjusted loads from 2009, further reducing the power supply adjustment by another \$11.2 million.<sup>5</sup>
- 10 *Capital Additions (PF7).* In the original filing, Avista sought to add almost \$56 million in capital additions to rate base, which would have increased its revenue requirement by \$9.2 million. The Settlement limits proformed capital additions to the Noxon Unit No. 1 generation upgrade project (completed in 2009) and certain other major projects expected to be completed and transferred to plant-in-service by November 30, 2010. As adjusted, just over \$7.2 million in capital additions are added to electric rate base, which increases the electric revenue requirement by approximately \$1.1 million.<sup>6</sup> With the exception of Jackson Prairie storage capacity, the Settlement removes proformed capital additions for natural gas operations, lowering the natural gas revenue requirement by \$231,000.<sup>7</sup>

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<sup>3</sup> Settlement at 5; Joint Testimony at 11.

<sup>4</sup> Settlement at 5 (*see also* Table 1, line b(i)); Joint Testimony at 14.

<sup>5</sup> Settlement at 6 (*see also* Table 1, line b(ix)); Joint Testimony at 16. As a result of the parties' agreement to use historical loads for determining power supply costs, system load decreased by 48.3 aMW. Consequently, the production property adjustment (PF2) was removed from the Company's original revenue requirement. *Id.* (*see also* Table 1, line c).

<sup>6</sup> *See* Settlement at 7 (*see also* Table 1, line e); Joint Testimony at 16. Table 1 shows the results of the new proformed adjustment from the Company's original filing revenue requirement: approximately \$7.8 million less in revenue requirement and almost \$49 million less into rate base.

<sup>7</sup> Settlement at 7 (*see also* Table 2, line e); Joint Testimony at 16.

- 11 *Jackson Prairie (PF4)*. In its initial filing, the Company included the cost of additional Jackson Prairie storage capacity expected to be received and operational in May 2011. The Company included the addition's capital costs, as well as its operation and maintenance expenses. The Settlement removes these capital costs and proposes deferred accounting for the return on Avista's additional Jackson Prairie working gas inventory. Further, the Settlement allows the Company to temporarily include the operation and maintenance costs associated with the additional storage in its Purchased Gas Adjustment (PGA) deferral when the storage is successfully transferred to the Company, which is expected to be May 1, 2011.<sup>8</sup> This accounting treatment would be allowed until the additional capacity is included in general rates.
- 12 *Other Settlement Terms*. The Settlement resolves other revenue requirement issues as follows:
- *Executive Labor and Incentives*: reduces amounts charged to utility operations and removes costs of benefits not available to non-executive employees.
  - *Vegetation Management (electric)*: increases the required annual spending level to just over \$4 million.
  - *Administrative & General Expenses*: removes some or all of various costs, including some required by prior Commission orders and several discovered by other parties to the Settlement.
  - *Working Capital*: reduces the Company's proposed adjustment for the electric utility and eliminates the natural gas utility's proposed pro forma adjustments.
- 13 *Lancaster Power Purchase Agreement (PPA)*. The Settlement addresses all remaining issues associated with the Lancaster acquisition. First, it resolves the PPA's prudence.<sup>9</sup> It also asserts that the transmission contracts, necessary for Lancaster's integration into Avista's system for 2011 and beyond, are prudent. Finally, it caps the Company's 2010 cost recovery at \$6.8 million, which is

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<sup>8</sup> The parties propose that the Company be permitted to (a) value the gas at February 2010 book value and (b) reclassify a portion of the cushion gas from non-recoverable to recoverable, reducing the amount of recognized depreciation. Settlement at 11-12; Joint Testimony at 22:6-23.

<sup>9</sup> The Settlement does not directly address the affiliate interest filing requirement raised by Public Counsel in the Company's previous general rate case. However, Public Counsel now takes no position on the prudence of the Lancaster PPA costs. Joint Testimony at 48:10-12.

significantly lower than its projected cost of \$12 million, and amortizes Lancaster's cost recovery over five years.<sup>10</sup> The parties also agreed that there would be no deferral under Avista's energy recovery mechanism (ERM) for 2010 in either direction (rebate or surcharge).<sup>11</sup>

14 *Rate Spread / Rate Design.* The parties agreed to use a pro-rata allocation of both the Company's electric and natural gas rate spread percentages contained in the original filing.<sup>12</sup> The Settlement maintains the residential basic charges at \$6 per month, rather than the originally filed request to raise those basic charges to \$10 per month.<sup>13</sup>

15 *Low Income Programs.* The Settlement would reallocate Avista's existing levels of demand side management (DSM) funding under Schedules 91 and 191 in order to increase low income DSM by another \$500,000.<sup>14</sup> The Settlement also requires the Company to correct DSM accounts to reflect incorrect customer rebates and improperly charged dues and memberships. In addition, the parties agree to increase the Low Income Rate Assistance Program (LIRAP) portion of Schedules 91 and 191 to reflect the overall percentage increase in retail rates.<sup>15</sup>

16 *Accounting Reviews and Evaluations.* The Settlement obligates Avista to conduct several comprehensive studies and audits of its internal processes, to include:

- Customer rebate processing for all DSM rebate programs;
- Evaluation, Measurement and Verification (EM&V) of limited income weatherization programs;
- Data tracking and data strategy for DSM programs;

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<sup>10</sup> Settlement at 6; Joint Testimony at 16:10-12.

<sup>11</sup> Settlement at 13; Joint Testimony at 23:14 – 24:7.

<sup>12</sup> Settlement at 14-15; Joint Testimony at 25:1-3 (electric), 26:9-13 (natural gas).

<sup>13</sup> Settlement at 14-15; Joint Testimony at 25:7-8 (electric), 26:17-18 (natural gas).

<sup>14</sup> With this addition, total funding for low income DSM would reach \$2 million. Settlement at 16-17; Joint Testimony at 3:3-7, 27:21 – 28:10.

<sup>15</sup> These expenditures are approximately \$3.3 million for electric and \$1.7 million for natural gas. Settlement at 16; Joint Testimony at 3:3-7 and 27:9-20.

- Optional Renewable “Buck-a-Block” Power Rate Program; and
- Accounting policies and procedures for allocation of costs between utility and non-utility accounts and a separate audit regarding regulatory compliance.

In addition to these studies and inspections, the Company has agreed to institute an ongoing accounting and allocation training program for employees involved with accounting and regulatory compliance practices.<sup>16</sup>

- 17 The parties agree that the new higher rates contemplated by the Settlement should take effect on December 1, 2010.<sup>17</sup> Finally, the Company agreed not to file another general rate case in Washington before April 1, 2011.<sup>18</sup>

### **III. Discussion and Decision**

- 18 The Settlement represents the efforts of the parties to resolve the myriad of issues presented in a general rate case filing. As no party, other than the Company, pre-filed expert testimony representing their litigation positions, we have a limited record to decide this case. That said, we have been assured by the parties that the settlement terms and resulting rates are fair, just, reasonable and sufficient. We discuss the Settlement provisions below and make our own decisions on the issues presented, and whether the agreement is in public interest.

#### **A. Revenue Requirements**

- 19 *Cost of Capital.* As noted above, the Settlement preserves Avista’s current ROE and equity percentage at 10.2 percent and 46.50 percent, respectively. As a result and considering the company’s current debt cost, the company’s overall ROR would be 7.91 percent, which is somewhat lower than the 8.25 percent recently authorized in

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<sup>16</sup> The Settlement fully describes these myriad reviews and reports at 17-24.

<sup>17</sup> Settlement at 19; Joint Testimony at 3:16-19.

<sup>18</sup> Settlement at 19; Joint Testimony at 3:20-23.

the 2009 general rate case.<sup>19</sup> We find the parties agreement to be reasonable in the context of this settlement.

20 *Reduced Power Costs.* The proposed settlement reduces power supply costs by \$15 million, largely because of natural gas and electricity price forecasts that were updated before the Settlement's execution in July 2010.<sup>20</sup> At that time, gas futures had fallen from the Company's original filing of \$6.38/dekatherm (dth) to \$5.13/dth. Similarly, the Mid-Columbia (Mid-C) flat price of \$49.73/MWh in Avista's original filing had fallen to \$41.32/MWh when the parties reached their accord. Upon Commission inquiry, the parties confirmed that power supply prices had fallen even further in the intervening months, with gas futures at \$4.24/dth and Mid-C prices down to \$34.19/MWh.<sup>21</sup>

21 In a rate case, Avista's power costs are fully forecasted. To provide the most accurate cost forecast at the time of setting rates, companies have incorporated the most current energy pricing information into their forecasts. We do this to ensure that rates are set using the most accurate projection of future market conditions. We believe that ratepayers and the Company are best served by this practice, and this case is no exception.

22 However, the parties ask us to adopt rates that reflect the power cost information available to the parties when they reached their agreement in July 2010. Speaking for the parties at the settlement hearing, witness Don Schoenbeck expressed support for retaining the energy costs reflected in their agreement, arguing that all parties benefit when greater certainty can be achieved regarding future costs.<sup>22</sup> We have concerns with this approach, as revealed by our questions from the bench, because the continued trend in lower gas prices could have further reduced the Company's overall

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<sup>19</sup> *WUTC v. Avista*, Dockets UE-090134 & UE-090135 & UG-080545 (consolidated), *Order 10* (Avista 2009 GRC Order), ¶¶ 24, 26.

<sup>20</sup> In this case, proposed power costs represent approximately half of the company's original revenue request.

<sup>21</sup> See Avista Corporation's Response to Bench Request No. 1 (November 8, 2010), at 1.

<sup>22</sup> Joint Testimony at 38:12-15; Schoenbeck, TR. 157:20 – 158:2; 159:14 – 160:6 (“We felt the price certainty of locking with the exact prices would outweigh the potential benefit on our risk of having a gas price update.”).

power costs, with a potential reduction in the resulting rates. Accordingly, we issued a bench request designed to probe further into this question.<sup>23</sup>

23 Responses to this bench request from the Company, Staff, and ICNU indicated that the Company is not in a position to realize much short-term benefit from the falling wholesale prices on the natural gas market. According to Kelly Norwood of Avista, as of early November 2010, the Company “[had] essentially hedged 91% of its load for 2011.”<sup>24</sup> As a result, the incorporation of more recent market data would not substantially affect authorized power costs. Further, there is merit to the positions articulated by all parties that the Commission should give some deference to the desire of the parties to lock in some certainty of prices through the settlement process.<sup>25</sup>

24 After much consideration, we conclude that the Settlement’s terms as to Avista’s power cost forecast are reasonable and sufficiently reflect the actual costs expected to be incurred by the Company.<sup>26</sup>

25 *Lancaster PPA*. In its 2009 general rate case,<sup>27</sup> the Company requested that the Commission find the assignment of the Lancaster Generating Facility agreement from its affiliate, Avista Turbine Power, to be prudent. However, the Company did not support its request with the contract detailing the agreement’s terms and conditions.<sup>28</sup>

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<sup>23</sup> Bench Request No. 1 (November 3, 2010).

<sup>24</sup> See Avista Corporation’s Response to Bench Request No. 1 (November 8, 2010), at 1.

<sup>25</sup> See TR. 156:16 – 158:11. In response to Chairman Goltz’s questions on locking in power costs as of information available in July 2010, Kelly Norwood of Avista and Don Schoenbeck of ICNU and NWIGU explained the logic involved in this term of the Settlement. Commission Staff and Public Counsel also indicated their support of the overall settlement, including this term.

<sup>26</sup> We are not privy to the Company’s strategies for hedging future power costs, but given the benefit of hindsight, Avista may have hedged too many positions too soon. However, in this case, no party questioned Avista’s practices in this regard. We ask the parties to investigate the appropriateness of Avista’s hedging strategies in the Company’s next rate case or before in a separate proceeding.

<sup>27</sup> Avista 2009 GRC Order, ¶¶ 210-214.

<sup>28</sup> In fact, the Company had no written agreement with its affiliate detailing the terms and conditions of acquisition at the time of filing or when the case was heard. Avista 2009 GRC Order, ¶¶ 185, 192. See also RCW 80.16, which requires affiliate contracts to be submitted to the Commission for approval.

Nor did it file other evidence supporting the conclusion that the generating facility met the state's greenhouse gas emissions standard.<sup>29</sup> Rather than rejecting the proposal in its entirety, the Commission allowed the Company to defer the costs associated with the Lancaster facility during 2010, which allowed the Company to make the necessary filings and gave the parties additional time to review Avista's proposal. In December 2009, Avista filed the necessary contracts with the Commission.<sup>30</sup>

- 26 In the Settlement, the parties agree that Lancaster's costs for 2011 and beyond "are reasonable and should be reflected in rates."<sup>31</sup> As to costs incurred in 2010, the parties would limit Avista's cost recovery to \$6.8 million, which represents a significant departure from the facility's forecast \$12.0 million cost during the same period. Further, the \$6.8 million will be amortized over 5 years, which mitigates the impact to ratepayers. Finally, the parties have agreed that the Lancaster plant meets Washington's greenhouse gas emissions standard.
- 27 Given the affiliated interest filings made by the Company and the testimony filed by the parties as to cost and plant emissions, we find the Lancaster PPA to be a prudent acquisition that should be included in rates as requested by the parties. Our prudence determination does not relieve the Company of its continuing obligation to pursue a lower-cost option for the transmission of power dispatched from the Lancaster plant.
- 28 The record from Avista's 2009 general rate case demonstrates that Avista could construct a substation and directly interconnect the Lancaster plant to its own transmission system, which would allow it to forego 150 MWs of BPA transmission service.<sup>32</sup> Avista testified that this alternative would benefit customers but explained that as of September 2009, construction on that substation was two years from completion.<sup>33</sup>

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<sup>29</sup> Avista 2009 GRC Order, ¶¶ 199-202, 205.

<sup>30</sup> See Docket UE-091902.

<sup>31</sup> Settlement at 13.

<sup>32</sup> Lafferty, Exh. RJL-1T at 2:11-12.

<sup>33</sup> *Id.* at 4:13-15.

- 29 By approving this Settlement, we do not endorse Avista's reliance on BPA transmission service as a long-term option for Lancaster. We expect the Company to fully evaluate the self-build option for a Lancaster substation and keep Commission Staff informed of its progress.
- 30 *Administrative and General Expenses.* The testimony supporting the Settlement explained that the Company's original filing contained costs that were either incorrectly booked to utility accounts or booked to improper accounts.<sup>34</sup> These errors were discovered through Public Counsel's targeted audit. Although Public Counsel's audit was limited to a small subset of accounting entries, it revealed several instances where ratepayers would have been inappropriately and unlawfully saddled with costs that must be borne by shareholders alone.<sup>35</sup> We are concerned that a broader investigation will reveal many more such instances.
- 31 It is not Public Counsel's function to provide accounting oversight for the Company. Nor should Staff and the other parties be responsible for ensuring that Avista is complying with the law. We are confident that the Company can, and will, do better. The Settlement provides for an internal audit and additional training for Avista personnel. Given the attention to these matters, we expect that future filings will be free of blatant errors and accounting adjustments that are unquestionably improper. As to the findings of the internal audit, we reserve the right to adjust rates we set through this order should the audit reveal material accounting errors, improper cost allocations between the utility and Avista's unregulated interests, or unlawful expenses booked to the utility. Finally, we support the parties' reservation of right to challenge the cost of remedial action to correct these problems.

### **B. Rate Design**

- 32 Avista proposed in its initial filing to change its current electric and gas rate designs to recover more of its fixed costs through customer charges rather than in its volumetric rates. Avista's as-filed rates, for both electric and gas, proposed to increase the current monthly residential customer charges from \$6.00 to \$10.00. The

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<sup>34</sup> Joint Testimony at 42:15 – 43:8.

<sup>35</sup> See Joint Testimony at 41:21 – 43:16; see also TR., Daeschel at 126:13 – 127:6.

Settlement preserves the status quo and leaves customer charges fixed at their current levels of \$6.00 per month.

### **C. Deferral of Jackson Prairie Addition**

33 The primary purpose of the Purchased Gas Adjustment mechanism is to track changes in purchased gas costs, not the costs of plant additions (including return on investment). Nevertheless, the parties agree that Avista should be allowed to defer the Jackson Prairie addition's operation and maintenance costs from May 2011 until a future rate filing when it can be included base retail rates. The same accounting treatment is afforded the return on capital associated with the "cushion" gas needed to efficiently operate the facility. The Settlement provides the Company the opportunity to temporarily recover these deferred costs through the Company's PGA.

34 The accounting treatment requested by the parties for the Jackson Prairie addition is unusual in that it would allow recovery, albeit temporary, of capital and operation and maintenance costs through the PGA. As noted, the PGA was not designed as a vehicle for recovery of such costs. In the context of this case, we accept this provision with the understanding that the PGA will not be used in the future as an alternative recovery mechanism for costs that occur outside of the test year and are not otherwise subject to being proformed by application of our rate case accounting principles.

### **D. Low Income**

35 While approving increased rates in recognition of our obligation to ensure rates that are fair, just, reasonable and sufficient, we remain mindful of the impact rate increases have on the utility's customers, particularly those least able to afford it. We commend the parties for their attention to this important issue and approve the Settlement's increase in Low Income Ratepayer Assistance Program (LIRAP) funding and low-income DSM assistance. However, testimony at hearing indicated that these increases in assistance programs may not be keeping pace with customer needs.<sup>36</sup> We appreciate the continued involvement of the Energy Project in rate cases,

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<sup>36</sup> Eberdt, TR. 173:2-20.

and we urge the Company to continue to seek out new ways to minimize the frequency and the consequent impact of rate increases on its customer base.

### **E. Summary**

36 The parties recommend that we approve \$29,501,000 in additional electric revenue and \$4,550,000 in additional gas revenue for Avista, which will result in an average 7.4 percent rate increase for electric customers and an average 2.9 percent rate increase for gas customers. While these are noteworthy increases, particularly with regard to electric rates, we believe that, on balance, they represent a reasonable compromise relative to the Company's originally filed rate requests and reflect significant compromises made by all parties.<sup>37</sup>

37 Having concluded that the Settlement terms are supported by the available evidence in the record, we approve and adopt it as a full resolution of the issues presented in this proceeding. We are satisfied that the Settlement will result in rates that are fair, just, reasonable and sufficient, and find it to be in the public interest.

### **FINDINGS OF FACT**

38 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

39 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate the rates,

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<sup>37</sup> Avista has spent the better part of the past decade striving to improve its bond ratings and creditworthiness. The Company believes it has steadily regained Wall Street's confidence, as reflected by the "positive" outlook that ratings agencies have on the Company. *See* Joint Testimony at 34:12-23 and Norwood, TR. 130:7-16 and 131:8-10. We support Avista's efforts in this regard. Stronger credit ratings will result in lower long-term costs to Avista's customers and should allow longer intervals between general rate cases.

rules, regulations, practices, and accounts of public service companies, including electrical and gas companies.

- 40 (2) Avista is a “public service company,” an “electrical company,” and “gas company” as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. Avista is engaged in Washington in the business of supplying utility services and commodities to the public for compensation.
- 41 (3) Avista filed certain revisions to its currently effective tariffs for electric service and gas service. Avista proposed an effective date of April 23, 2010, upon which to change its rates recovering the cost of power as a result of increased production and transmission expense, investments in plant, load growth, and increased natural gas costs.
- 42 (4) The Commission suspended the operation of the proposed tariff revisions on April 5, 2010, pending an investigation and hearing and consolidated the Company’s proposed tariff revisions and its petition for an accounting order.
- 43 (5) On August 25, 2010, the parties filed a Settlement Stipulation that, if approved, would resolve the remaining issues.
- 44 (6) The existing rates for electric service and gas service Avista provides are insufficient to yield reasonable compensation for the services rendered.
- 45 (7) It is necessary to increase the Low Income Rate Assistance Program portion of Schedules 91 and 191 as specified in the Settlement Stipulation to reflect the overall percentage increase in retail rates.

### **CONCLUSIONS OF LAW**

46 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:

- 47 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, these proceedings.
- 48 (2) The rates proposed by tariff revisions filed by Avista on March 23, 2010, and suspended by prior Commission order, were not shown to be fair, just or reasonable and should be rejected.
- 49 (3) The existing rates for electric service and gas service that Avista provides in Washington are insufficient to yield reasonable compensation for the services rendered.
- 50 (4) Avista requires relief with respect to the rates it charges for electric service and gas service provided in Washington.
- 51 (5) The Settlement Stipulation filed by the Parties to this proceeding on August 25, 2010, if approved, would result in rates for Avista that are fair, just, reasonable and sufficient, and are neither unduly preferential nor discriminatory.
- 52 (6) The Settlement Stipulation, attached to this Order as Appendix A, and incorporated by reference as if set forth here, should be approved by the Commission as a reasonable resolution of the issues presented.
- 53 (7) The Low Income Rate Assistance Program portion of Schedules 91 and 191, should be increased in the Company's electric and gas tariffs to levels specified in the Settlement Stipulation, which will approximately match LIRAP funding to levels commensurate with the overall percentage increase in retail rates.
- 54 (8) Approval and adoption of the Settlement Stipulation is in the public interest.
- 55 (9) Avista should be required to make such compliance and subsequent filings as are necessary to effectuate the terms of this Order.

- 56 (10) The Commission should retain jurisdiction to effectuate the terms of this Order.

**ORDER**

THE COMMISSION ORDERS:

- 57 (1) The proposed tariff revisions Avista filed on March 23, 2010, and suspended by prior Commission order, are rejected.
- 58 (2) The Settlement Stipulation filed by the Parties on August 25, 2010, which is attached to this Order as Appendix A and incorporated by reference as if set forth in full here, is approved and adopted.
- 59 (3) Avista is required to make a compliance filing including such new and revised tariff sheets as are necessary to implement the requirements of this Order. The stated effective date of the revised tariff sheets shall be December 1, 2010, in accordance with the terms of the Settlement Stipulation. Avista must make its compliance filing sufficiently in advance of December 1, 2010 to afford Staff a reasonable opportunity to review the filing and to inform the Commission whether Staff finds the revised tariff sheets fully conform to the requirements of this Order.
- 60 (4) The Lancaster Power Purchase Agreement is a prudent acquisition and the plant complies with the Greenhouse Gas requirements set out in RCW 80.80.
- 61 (5) Increases to levels specified in the Settlement Stipulation are approved for the Low Income Rate Assistance Program portion of Schedules 91 and 191 to reflect the overall percentage increase in retail rates.
- 62 (6) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, such filings as Avista makes to comply with the terms of this Order.

- 63 (7) The Commission retains jurisdiction to effectuate the terms of this Order.

Dated at Olympia, Washington, and effective November 19, 2010.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

**NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.**

[Service Date November 19, 2010]

# Appendix A

Dockets UE-100467 and  
UG-100468

Settlement Stipulation