

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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

**I. PARTIES**

1. This Full Settlement Stipulation is entered into by Avista Corporation ("Avista" or the "Company"), the Staff of Washington Utilities and Transportation Commission ("Staff"), the Public Counsel Section of the Washington Office of Attorney General ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), Industrial Customers of Northwest Utilities ("ICNU"), and The Energy Project, jointly referred to herein as the "Stipulating Parties." As such, the Stipulating Parties represent all parties to these proceedings. The Stipulating Parties agree that this Full

Settlement Stipulation is in the public interest and, when combined with the previously-filed Partial Settlement Stipulation, should be accepted as a full resolution of all issues in this docket. The Stipulating Parties understand this Full Settlement Stipulation is subject to Commission approval.

## **II. INTRODUCTION**

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

3. After analysis of the filing, all parties commenced discussions for purposes of narrowing the contested issues in this proceeding. On October 15, 2007, all Stipulating Parties to these consolidated dockets filed with the Commission a Partial Settlement Stipulation resolving some, but not all, issues in the above-referenced dockets.<sup>1</sup> Subsequently, on October 29, 2007, all parties to these proceedings participated in a scheduled settlement conference, in an effort to resolve the remaining issues. The Stipulating Parties were successful in that regard, and the following describes the essential terms of the settlement reached by all Stipulating Parties, which resolves, in full, the remaining issues in these dockets, subject to Commission approval. The Stipulating Parties therefore

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<sup>1</sup> This Partial Settlement Stipulation served to reduce Avista's filed-for electric revenue requirement by \$5,969,000, and increase its gas revenue requirement by \$1,314,000.

agree to the following Full Settlement Stipulation in the interest of reaching a fair disposition of this proceeding.

### III. AGREEMENT

- A. **Cost of Capital** - The following table sets forth the agreed-upon elements of the cost of capital determination in this proceeding:

Agreed-upon Cost of Capital	Percent of Total Capital	Cost	Component
Total Debt	49.30%	6.491%*	3.20%
Trust Preferred Securities	4.70%	6.575%	0.31%
Common Equity	46.00%	10.20%	4.69%
TOTAL	100.00%		8.20%

\* The cost of debt incorporates the modifications proposed by Staff in Exhibit KLE-1T.

B. **Remaining Revenue Requirement Issues** –

- (1.) **Customer Deposits**: Avista accepts Staff's recommendation to adjust rate base and operating expense for electric and gas operations with respect to customer deposits, resulting in a decrease of \$171,000 in revenue requirement for electric and \$100,000 in revenue requirement for gas operations
- (2.) **Directors' and Officers' (D&O) Insurance**: All Parties have agreed to a reduction in revenue requirement of \$117,000 for electric and \$30,000 for gas operations, reflecting an adjustment to assign some of the utility portion of premiums paid for D&O insurance to shareholders.
- (3.) **Late Charges**: No late charges will be implemented in this proceeding.

**C. Resulting Revenue Requirement:** After recognizing the cumulative effect of the previous Partial Settlement Stipulation, together with the resolution of all remaining issues in this Stipulation, the resulting increases in revenue requirement for electric and gas operations are:

- Electric: \$30,166,000 (9.34% increase overall)
- Gas: \$3,282,000 (1.65% increase overall)

The Stipulating Parties had previously agreed to a number of revenue requirement adjustments to both the filed electric and gas cases. These were described in Appendix 1 to the Partial Settlement Stipulation, and resulted in a reduction of \$5,969,000 to the Company's filed-for electric revenue requirement increase, and a \$1,314,000 increase to the Company's filed-for gas revenue requirement increase. Attached to this Full Settlement as Appendix 4 is a cumulative summary of all revenue requirement adjustments resulting from the previous Partial Settlement Stipulation as well as the resolution of all remaining issues herein. Likewise, Appendix 5 consists of revised Avista pre-filed exhibits EMA-2 (electric) and EMA-3 (gas) showing adjusted proforma results incorporating the cumulative effect of all agreed-upon adjustments.<sup>2</sup> Appendix 6 shows the impact on each service schedule of the spread of the proposed increase.

**D. Effective Date:** As an integral part of this settlement, the Stipulating Parties have agreed that the new rates shall be implemented on January 1, 2008. All Stipulating Parties agree to request an expeditious hearing date before the Commission prior to the end of November of 2007, for approval of the settlement.

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<sup>2</sup> This should be compared with Appendix 2 to the Partial Settlement Stipulation, which reflects revised pre-filed exhibits EMA-2 (electric) and EMA-3 (gas) showing adjusted proforma results capturing only the effect of the Partial Settlement Stipulation.

**E. Power Cost Only Rate Case (PCORC):** The Stipulating Parties have agreed not to adopt a PCORC mechanism in this proceeding. The Stipulating Parties will meet and confer prior to Avista's next general rate case, regarding whether there is a need for, and the design of a PCORC or similar mechanism.

**F. Advanced Meter Reading (AMR):** Avista acknowledges that nothing in this proceeding shall be deemed to constitute pre-approval of Avista's AMR program. Moreover, Avista will bear the burden of proof in any subsequent proceeding to demonstrate that the investment in AMR or any other Time of Use (TOU) or other demand response program is prudent, fair, just and reasonable. Finally, Avista agrees to address the issues raised in the Commission's "Interpretative and Policy Statement" (Docket UE-060649, para. 33 and other applicable provisions), in connection with any future proposal for cost recovery of its AMR investment.

**G. Accounting for Debt Amortization (Docket UE-070311):** Avista agrees to charge against 2007 earnings \$3.850 million of debt repurchase costs associated with the repurchase of certain debt. In addition, Avista will pay a \$15,000 penalty for non-compliance with Commission rules regarding the need to file for proper accounting authorization. (See WAC 480-90-203 and WAC 480-100-203) For any new debt repurchases, Avista will follow FERC General Instruction 17, or request an accounting order from the Commission, prior to any new repurchase of debt, if it desires to use an accounting method other than FERC General Instruction 17. Avista agrees that its Director of Internal Auditing, within the context of Avista's annual financial audit, will review Avista's compliance with Commission rules regarding accounting for debt issuance expenses and reacquisition of debt, and will, in writing, affirm Avista's compliance with such rules. Additionally, the costs of short-term lines of credit may be deferred and amortized over the five year life of the

lines of credit, and the costs of interest rate hedges may be deferred and amortized over the life of bonds to be issued upon the maturity of the 9.75% bonds in June of 2008. The parties recommend that the Commission approve such accounting treatment.

**H. Decoupling Baseline:** Pursuant to the Commission's order adopting the Avista decoupling pilot, In Re Petition of Avista Corp., Order 04, Docket UG-060518, para. 49, the baseline for the decoupling mechanism has been updated so as to use the test year employed in this rate case proceeding. (See Settlement Agreement, Docket UG-060518, supra, section III. C. (6.)) The update of the baseline is reflected in Appendix 7.

**I. Partial Settlement Stipulation:** As noted, the parties to this docket have entered into a Partial Settlement Stipulation. A copy of the Partial Settlement Stipulation is attached hereto as Appendix 8, and is incorporated herein as part of the Full Settlement Stipulation resolving this proceeding.

#### **IV. EFFECT OF THE FULL SETTLEMENT STIPULATION**

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

5. **Integrated Terms of Settlement.** The Stipulating Parties have negotiated this Full Settlement Stipulation as an integrated document. Accordingly, the Stipulating Parties recommend that the Commission adopt this Full Settlement Stipulation in its entirety. Each Stipulating Party has

participated in the drafting of this Full Settlement Stipulation, so it should not be construed in favor of, or against, any particular Party.

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

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

7. **No Precedent.** The Stipulating Parties enter into this Full Settlement Stipulation to avoid further expense, uncertainty, and delay. By executing this Full Settlement Stipulation, no Stipulating Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Full Settlement Stipulation, and, except to the extent expressly set forth

in the Full Settlement Stipulation, no Stipulating Party shall be deemed to have agreed that such a Full Settlement Stipulation is appropriate for resolving any issues in any other proceeding.

8. **Public Interest.** The Stipulating Parties agree that this Full Settlement Stipulation is in the public interest.

9. **Execution.** This Full Settlement Stipulation may be executed by the Stipulating Parties in several counterparts and as executed shall constitute one Full Settlement Stipulation.



Entered into this 5<sup>th</sup> day of November, 2007

Company:

By: 

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

Staff:

By: \_\_\_\_\_

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By: \_\_\_\_\_

Simon ffitich  
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NWIGU:

By: \_\_\_\_\_

Edward A. Finklea  
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ICNU:

By: \_\_\_\_\_

S. Bradley Van Cleve  
Davison Van Cleve, P.C.

The Energy Project:

By: \_\_\_\_\_

Ronald Roseman  
Attorney at Law

Entered into this 5<sup>th</sup> day of November, 2007

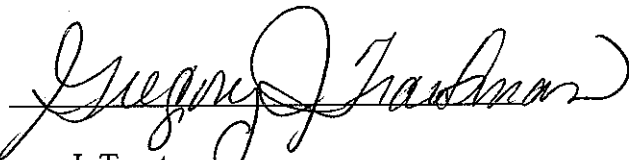
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