

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND |) | DOCKET NO. UG-041515 |
| TRANSPORTATION COMISSION. |) | |
| |) | |
| |) | |
| Complainant, |) | |
| |) | SETTLEMENT AGREEMENT |
| v. |) | |
| |) | |
| |) | |
| AVISTA CORPORATION, D/B/A |) | |
| AVISTA UTILITIES, |) | |
| |) | |
| |) | |
| |) | |
| Respondent. |) | |
| |) | |

I. PARTIES

1. This settlement Agreement is entered into by Avista Corporation (the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), and the Northwest Industrial Gas Users (“NWIGU”) (referred to as the “Signing Parties”). The Signing Parties agree this Settlement Agreement is in the public interest and resolves all issues as between themselves in this docket. The Signing Parties understand this Settlement Agreement is subject to Commission approval.

II. INTRODUCTION

2. On August 20, 2004, the Company filed with the Commission a request seeking Commission authorization to increase its rates and charges for its natural gas service to natural gas customers in the State of Washington. With this filing, the Company requested an overall general rate increase of 6.2% or \$8.6 million. The filing was suspended by the Commission in its Order No. 01, issued on September 8, 2004.

3. At the prehearing conference held on September 23, 2004, the Northwest Industrial Gas Users (“NWIGU”) and the Energy Project/Opportunity Council (“Energy Project”) were granted permission to intervene and participate along with Staff and Public Counsel.

4. After analysis of the filing, all Parties, including Public Counsel and the Energy Project, commenced discussions for purposes of resolving or narrowing the contested issues in this proceeding, culminating in a settlement conference on October 5, 2004.

5. The Signing Parties have reached agreement on the issues in this proceeding and wish to present their agreement for the Commission’s consideration. The Signing Parties therefore adopt the following Settlement Agreement, which is entered into by the Signing Parties voluntarily to resolve all matters in dispute among them, in the interest of expediting the disposition of this proceeding.

III. AGREEMENT

6. Revenue Requirement. The Signing Parties agree that Avista will reduce its revenue increase request to reflect the revenue deficiency shown on Attachment A to this Settlement Agreement. Accordingly, the Signing Parties have accepted for purposes of this Settlement, the “Commission-basis” adjustments made in conformance with prior commission orders, but have eliminated any additional proforma adjustments.¹ While Avista’s filing sought to justify a revenue requirement increase of \$8.6 million, the adjustments listed on Attachment A, including the agreed-upon rate of return, reduce this

¹ As stated in WAC480-90-208 (2), the “intent of the ‘commission basis’ report is to depict the gas operations of a utility under normal temperature and gas supply conditions during the reporting period.” Accordingly, the commission basis report includes booked results of gas operations and rate base, and all the necessary adjustments as accepted by the commission in the utility’s most recent general rate case or subsequent orders, adjusted for out-of-period, nonoperating, nonrecurring, and extraordinary items, and which reflect operations under normal temperature conditions. Commission basis reports do not include adjustments that otherwise “annualize price, wage, or other cost changes during a reporting period, or new theories or approaches that have not been previously addressed and resolved by the commission.” Id.

amount by approximately \$3.2 million, resulting in a recommended revenue requirement increase of \$5.377 million.

7. November 1, 2004 Effective Date. Tariffs designed to effectuate this increase in revenue requirement would become effective on November 1, 2004, in order to coincide with the effective date of Avista's Purchased Gas Cost (PGA) adjustment, now pending before the Commission, and also proposed to become effective on November 1, 2004.

8. Rate of Return. The Signing Parties agree upon an adjustment to the revenue requirement which produces an overall rate of return of 8.68%. With respect to the individual cost of capital components, the Signing Parties agree not to (1) represent that the overall cost of capital adjustment represents any particular outcome on any particular issues, or (2) characterize this settlement as reflecting a particular result on any individual issue.

9. Rate Design/Rate Spread. The Signing Parties agree that the stipulated revenue requirement increase of \$5.377 million will be spread to customer classes as outlined in Attachment B to this Agreement, which calls for a uniform percentage increase in margin for all schedules/classes. The Signing Parties understand that the Company did not propose any changes to the present rate structures contained in its gas service schedules, however, the Company proposed an increase in the basic charge from \$5.00 to \$5.50 per month for Schedule 101 (residential and small commercial) customers. The Signing Parties agree to this proposed increase in the basic charge.

10. Allocation of Storage and GRI Costs. The Signing Parties agree to the allocation of underground storage and related TF-2 transportation costs, Plymouth liquefied natural gas (LNG) costs, and Gas Technology Institute or Gas Research Institute ("GRI" or "GTI") contributions reflected in the Company's purchased gas adjustment (PGA) filing dated September 30, 2004 in UG-041786. Further, the Signing Parties agree that the Company, in its next general rate case filing, will allocate all applicable underground storage costs and GRI/GTI contributions in a manner consistent with the allocation methodology used in the PGA filing and that the Company will continue to apply that

methodology in all subsequent PGA filings unless a different allocation method is ordered by the Commission. However, if any Signing Party, including the Company, performs a study related to underground storage costs supporting a different allocation methodology, those results can be used in the Company's next general rate case filing. Accordingly, this provision does not preclude any Signing Party in the Company's next general rate case filing from proposing a different allocation of underground storage costs.

11. Compliance Filing. Attachment C contains tariffs designed to implement the settlement rates identified in Attachment B. The Signing Parties request that the order approving this Settlement explicitly accept these tariffs as the Company's compliance filing, in order to implement this Settlement on November 1, 2004.

IV. EFFECT OF THE SETTLEMENT AGREEMENT AND PROCEDURE

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

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

14. Procedure. The Signing Parties shall cooperate in submitting this Settlement Agreement promptly to the Commission for acceptance, so that revised rates may become

effective on November 1, 2004. The Signing Parties shall make available a witness or representative in support of this Settlement Agreement. The Signing Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Agreement and to supplement the record accordingly.

The Signing Parties agree to stipulate into evidence the prefiled direct testimony and exhibits of the Company, together with such evidence in support of the Agreement as may be offered at the time of the hearing on the Settlement.

If the Commission rejects all or any material portion of this Settlement Agreement, or adds additional material conditions, each Signing Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Settlement Agreement. If any Signing Party exercises its right of withdrawal, this Settlement Agreement shall be void and of no effect, and the Signing Parties will support a joint motion for an expedited procedural schedule to address the issues that would otherwise have been settled herein.

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

16. Public Interest. The Signing Parties agree that this Settlement Agreement is in the public interest and results in rates which are fair, just, reasonable and sufficient.

17. Execution. This Settlement Agreement may be executed by the Signing Parties in several counterparts and as executed shall constitute one agreement.

Entered into this 14th day of October 2004.

Company:

By: _____

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

Staff:

By: _____

Gregory J. Trautman
Assistant Attorney General
Counsel For Commission Staff

NWIGU:

By: _____

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