

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

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	DOCKETS UE-090134 and UG-
Complainant,)	090135
)	<i>(consolidated)</i>
)	
v.)	
)	
AVISTA CORPORATION d/b/a AVISTA UTILITIES,)	
)	
Respondent.)	
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In the Matter of the Petition of)	DOCKET UG-060518
)	<i>(consolidated)</i>
AVISTA CORPORATION d/b/a AVISTA UTILITIES,)	
)	
For an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated with the Mechanism.)	PARTIAL SETTLEMENT STIPULATION
)	
)	
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I. PARTIES

This Partial Settlement Stipulation is entered into pursuant to WAC 480-07-730(2) by Avista Corporation ("Avista" or the "Company"), the Staff of the Washington Utilities and Transportation Commission ("Staff"), the Public Counsel Section of the Washington Office of Attorney General ("Public Counsel"), the Industrial Customers of Northwest Utilities ("ICNU"), the Northwest Industrial Gas Users ("NWIGU"), and The Energy Project (jointly referred to herein as the "Parties"). Together with the NW Energy Coalition ("NVEC"),¹ the foregoing represent all parties in these consolidated dockets. The Parties agree that this Partial Settlement

¹ The NW Energy Coalition ("NVEC") is not a party to this Stipulation but does not oppose the Settlement among the Parties. NVEC did not take a position in prefiled testimony with respect to any of the issues that are the subject of this Stipulation.

Stipulation is in the public interest and should be adopted by the Commission as a resolution of those issues identified below, which relate to cost of capital, power supply, rate spread and rate design, and low-income ratepayer assistance. This Partial Settlement Stipulation is limited to its terms and leaves other matters for further litigation or resolution, including revenue requirement, power supply (Lancaster issues), Schedule 101 gas rate design (including customer charges), and decoupling issues.

II. INTRODUCTION

On January 23, 2009, Avista filed with the Washington Utilities and Transportation Commission ("Commission") revisions to its currently effective Tariff WN U-28, Electric Service in Docket UE-090134, and revisions to its currently effective Tariff WN U-29, Gas Service in Docket UG-090135. The proposed revisions would have implemented a general rate increase of \$69.8 million, or 16.0 percent, for electric service and \$4.9 million, or 2.4 percent, for gas service. The Commission suspended the filings on February 3, 2009, consolidated the two dockets, and, following a pre-hearing conference held on February 24, 2009, set the dockets for hearing in October 2009.

On April 30, 2009, Avista filed a petition to consolidate Docket UG-060518, a matter regarding the Company's pilot decoupling mechanism, with the rate case proceeding. The Company's petition also sought to extend the pilot beyond its scheduled termination date of June 30, 2009. On May 15, 2009, the Commission issued Order No. 06, granting the petition to consolidate. Subsequently, on June 30, 2009, the Commission, in Order 07, granted Avista's request for approval of an interim extension of the existing decoupling mechanism.

All parties conducted settlement discussions in this docket on July 24, 2009, and during the week of August 24-28, 2009. These discussions resulted in the resolution of issues, as

among themselves, in the areas of cost of capital, power supply, rate spread and rate design, as well as funding under the low-income ratepayer assistance program (LIRAP), as set forth herein.

III. AGREEMENT

A. Revised Revenue Requirement

The Parties agree to the revenue requirement adjustments to both the filed electric and natural gas cases, as described in Attachment A, which consists of a summary of revenue requirement adjustments for electric and natural gas. The summaries also identify, for reference purposes only, the remaining contested adjustments to revenue requirement. After giving effect to this Stipulation, Avista recommends a revenue requirement of \$38.61 million for electric and \$3.14 million for gas, revised downward from \$69.76 million (electric) and \$4.92 million (gas), respectively. Non-company parties to this Stipulation continue to recommend a lower revenue requirement, based on the remaining contested issues, and all Parties may continue to litigate these disputed items.

1. Cost of Capital

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

Agreed-upon			
Cost of Capital	<u>Percent of Total capital</u>	<u>Cost</u>	<u>Component</u>
Total Debt	53.50%	6.57%	3.51%
Common Equity	<u>46.50%</u>	10.20%	<u>4.74%</u>
TOTAL	<u>100.00%</u>		<u>8.25%</u>

2. Power Supply-Related Adjustments

The Parties agree to the following adjustments related to power supply:

(a) Adjust (Natural Gas) Fuel Costs. This adjustment reflects a pro forma period natural gas price of \$5.61/Dth (at Stanfield) for natural gas-fired generation for the unhedged portion of the 2010 generation. This adjustment also includes the actual 2010 calendar-year wholesale electric and natural gas transactions entered into through July 3, 2009. For purposes of calculating power costs for the rate year, the Parties agree that there shall be no further changes to the price of natural gas or to the electric or natural gas transactions in this case.

(b) Hydro Filtering. This adjustment 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.

(c) Retail Load Adjustment. This adjustment reduces, by three percent (3%) (from 5.1% to 2.1%), the increase in pro forma system loads (January 2010 through December 2010), used for purposes of adjusting test period loads in order to determine pro forma year power supply expense levels.

(d) Colstrip Availability. The Parties agree to use the five (5)-year average equivalent availability factor for Colstrip, for the period ending December 31, 2007, as reflected in the Company's filing.

(e) WNP-3 Contract Adjustment. The Parties agree to use the level of WNP-3 O&M costs approved by the Commission in Cause No. U-86-99, and as reflected in the Company's filing.

(f) Kettle Falls Fuel Adjustment. This adjustment reduces available Kettle Falls generation to reflect a lower level of fuel availability for the plant in 2010.

3. Pro Forma O&M Generation.

The Parties agree to the adjustment recommended by Staff and Public Counsel to remove \$2,372,000 of 2010 pro forma period costs included in the Company's filing for generation O&M.

4. Remaining Contested Revenue Requirement Adjustments.

Attachment A provides a summary listing of remaining contested adjustments. This summary is provided for reference purposes only and no party to this Stipulation waives its rights to raise issues not included in the list which have not expressly been resolved in the Stipulation.

B. Rate Spread/Rate Design

The Parties agree to the following settlement of issues related to rate spread and rate design:

1. Electric Services:

(a) Rate Spread – The Parties agree to apply an equal percentage increase to all electric service schedules for purposes of recovering the Company's revenue requirement ultimately determined by the Commission.

(b) Rate Design –

(i) The residential basic charge will be increased from \$5.75 to \$6.00 per month.

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

(iii) For Extra Large General Service Schedule 25,

- The minimum charge will be increased from \$10,000 to \$11,000 per month.
- The excess demand charge will be increased from \$3.00 to \$3.50 per kVa.
- The voltage discount for over 60kV will be increased to \$1.00/kVa and for over 115kV to \$1.20/kVa.
- A uniform percentage increase will be applied to the first two energy block rates, and the increase to the third energy block rate will be equal to 0.5 times the percentage increase applied to the first two blocks.

2. Gas Service:

(a) Rate Spread –

- (i) The Parties agree to apply an equal percentage of margin increase to all gas service schedules, except Schedule 146 (Transportation).
- (ii) Schedule 146 (Transportation) will receive two-thirds of an equal margin increase, with the residual one-third allocated proportionately (based on margin) to the other schedules.

(b) Rate Design –

- (i) The rates within Schedules 111 and 112 will be increased to maintain the present break-even usage level between Schedules 101 and 111, in order to minimize future customer schedule shifting, as proposed in the Company's filing (Page 23 of Hirschhorn Direct Testimony). The design of the rates under

Schedule 101 in this proceeding will not be conditioned or dependent upon the rates under Schedules 111 and 112.

- (ii) The rates under Schedule 146 (including the customer charge) will be increased on an equal percentage basis.
- (iii) This Partial Settlement Stipulation does not resolve Schedule 101 gas rate design issues (including customer charges).

C. Low Income Bill Assistance Funding

The Parties agree to increase rates for the LIRAP (Low Income Ratepayer Assistance Program) portion of the Tariff riders (Schedules 91 and 191), expressed as a percentage, by the greater of:

1. For Electric – the overall percentage increase in base revenue approved for electric or 9.0%.
2. For Gas – the overall percentage increase in base revenue approved for gas or 1.75%.

IV. EFFECT OF THE PARTIAL SETTLEMENT STIPULATION

A. Binding on Parties.

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

B. Integrated Terms of Partial Settlement.

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

C. Procedure.

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

At time of hearing, the Parties agree to stipulate into evidence the pre-filed direct testimony and exhibits of the 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 Partial Settlement.

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

D. Advance Review of News Releases.

All Parties Agree:

- (i) to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Partial Settlement Stipulation. This right of advance review includes a reasonable opportunity for a Party to request changes to the text of such announcements. However, no Party is required to make any change requested by another Party; and
- (ii) to include in any news release or announcement a statement that the recommendation to approve the settlement is not binding on the Commission itself.

E. No Precedent.

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

F. Public Interest.

The Parties agree that this Partial Settlement Stipulation is in the public interest and should be adopted by the Commission.

G. Execution.

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

Entered into this 4th day of September, 2009.

Company:

By:  _____

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

Staff:

By: _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel:

By: _____

Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU:

By: _____

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

NWIGU:

By: _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project:

By: _____

Ronald Roseman
Attorney at Law

Entered into this 4th day of September, 2009.

Company:

By: _____

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

Staff:

By:  _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel:

By: _____

Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU:

By: _____

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

NWIGU:

By: _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project:

By: _____

Ronald Roseman
Attorney at Law

Entered into this 5th day of September, 2009.

Company: By: _____

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

Staff: By: _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel: By: _____

Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU: By: _____

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

NWIGU: By: _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project: By: _____

Ronald Roseman
Attorney at Law

Entered into this ____ day of September, 2009.

Company: By: _____

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

Staff: By: _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel: By: _____

Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU: By: S. Bradley Van Cleve

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

NWIGU: By: _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project: By: _____

Ronald Roseman
Attorney at Law

Entered into this ____ day of September, 2009.

Company:

By: _____

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

Staff:

By: _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel:

By: _____

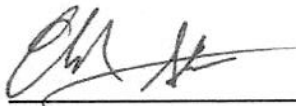
Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU:

By: _____

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

NWIGU:

By:  _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project:

By: _____

Ronald Roseman
Attorney at Law

Entered into this 23rd day of September, 2009.

Company: By: _____

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

Staff: By: _____

Gregory J. Trautman
Assistant Attorney General

Public Counsel: By: _____


Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

ICNU: By: _____

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

NWIGU: By: _____

Chad M. Stokes
Cable Huston Benedict
Haagensen & Lloyd LLP

The Energy Project: By: 

Ronald Roseman
Attorney at Law

Avista Utilities
Docket Nos. UE-090134, UG-090135, and UG-060518
Electric

	\$000s
Revenue Requirement As Filed by Avista	\$ 69,762
Agreed Upon Adjustments:	
Cost of Capital	
(1) Return On Equity = 10.2% Cost of Debt = 6.57%	(6,152)
(2) Common Equity = 46.5%	(815)
Power Supply	
(3) Power Supply Adj - Updated Gas Prices & Contracts	(18,100)
(4) Power Supply Adj - Filtering Adjustment	(729)
(5) Power Supply Adj - Retail Load Adjustment	(9,091)
(6) Power Supply Adj - Colstrip Availability (No Adjustment to Original Filing)	0
(7) Power Supply Adj - WNP-3 (No Adjustment to Original Filing)	0
(8) Adjust Kettle Falls Fuel Volume	383
Total Power Supply Adjustments	(27,537)
(9) Pro Forma O&M Generation	(2,372)
 Contested Adjustments:	
Lancaster Prudence	
Labor	
Capital Additions	
CDA Tribe Settlement	
Asset Management	
Information Services	
Colstrip - Mercury Emission	
Incentives	
Pension Expense	
Insurance	
Director & Officers Insurance	
Board of Directors Fees	
Board Meeting Expenses	
Property Taxes	
Customer Deposits	
Injuries & Damages	
Spokane River Relicensing	
Dues (Edison Electric Institute)	
Restate Debt Interest	
Production Property Adjustment	

Avista Utilities
Docket Nos. UE-090134, UG-090135, and UG-060518
Natural Gas

	\$000s
Revenue Requirement As Filed by Avista	\$ 4,918
Agreed Upon Adjustments:	
Cost of Capital	
(1) Return On Equity = 10.2% Cost of Debt = 6.57%	(1,088)
(2) Common Equity = 46.5%	(145)

Contested Adjustments:

- Labor
- Capital Additions
- Asset Management
- Information Services
- Incentives
- Pension Expense
- Insurance
- Director & Officers Insurance
- Board of Directors Fees
- Board Meeting Expenses
- Property Taxes
- Customer Deposits
- Injuries & Damages
- Restate Debt Interest
- Dues (American Gas Association)

Other Issues:

The continuation of the decoupling mechanism remains contested.