

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518

(consolidated)

JOINT DIRECT TESTIMONY OF

KELLY O. NORWOOD (AVISTA)

DANNY P. KERMODE (STAFF)

MICHAEL P. GORMAN (PUBLIC COUNSEL)

DONALD W. SCHOENBECK (ICNU/NWIGU)

GLENN A. WATKINS (PUBLIC COUNSEL/ENERGY PROJECT)

IN SUPPORT OF
THE PARIAL SETTLEMENT STIPULATION

I. INTRODUCTION

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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
 - Michael P. Gorman, Managing Principal, Brubaker & Associates, Inc., representing Public Counsel
 - Donald W. Schoenbeck, Regulatory & Cogeneration Services, Inc., representing Industrial Customers of Northwest Utilities (ICNU) & Northwest Industrial Gas Users (NWIGU)
 - Glenn A. Watkins, Principal and Senior Economist, Technical Associates, Inc., representing Public Counsel & The Energy Project

Q. Are you sponsoring joint testimony in support of the Partial Settlement Stipulation filed with this Commission on September 4, 2009?

A. Yes. This joint testimony recommends approval of the Partial Settlement Stipulation by the Commission. The Partial 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 Partial Settlement Stipulation received significant scrutiny and is supported by sound analysis and sufficient evidence. Its approval is in the public interest. The Partial Settlement Stipulation has been marked as Exhibit ____.

Q. Would you briefly summarize the Partial Settlement Stipulation?

A. Yes. As part of the Partial Settlement Stipulation, the Parties agree to the revenue requirement adjustments to both the filed electric and natural gas cases, as described in Attachment A of the Partial Settlement Stipulation, which consists of a

1 summary of revenue requirement adjustments for electric of \$36,876,000 and natural gas of
2 \$1,233,000. The summaries also identify, for reference purposes only, the remaining
3 contested adjustments to revenue requirement. After giving effect to this Stipulation,
4 Avista recommended a revenue requirement of \$38.61 million for electric and \$3.14
5 million for gas, revised downward from \$69.76 million (electric) and \$4.92 million (gas),
6 respectively¹. Non-company parties to this Stipulation recommend a revenue requirement
7 of no more than \$32,886,000 for electric and \$3,685,000 based on the agreed adjustments,
8 as well as further reductions based on remaining contested issues, and all Parties may
9 continue to litigate these disputed items.

10 The Partial Settlement Stipulation calls for an overall rate of return of 8.25 percent
11 with a common equity ratio of 46.5 percent and a 10.2 percent return on equity. Parties
12 remain free to recommend a lower ROE based on the adoption of decoupling or another
13 risk reduction mechanism. The settlement proposal also calls for adjustments related to
14 power supply, removal of the Company's filed request for 2010 level generation O&M
15 expense, and settlement of issues related to rate spread and rate design.

16 As part of the Partial Settlement Stipulation, the Parties also agree to increase rates
17 for the LIRAP (Low Income Ratepayer Assistance Program) portion of the Tariff riders
18 (Schedules 91 and 191), expressed as a percentage, by the greater of: 1.) For Electric –
19 the overall percentage increase in base revenue approved for electric or 9.0%; and 2.) For
20 Gas – the overall percentage increase in base revenue approved for gas or 1.75%.

¹ Avista further adjusted its revenue requirement through rebuttal testimony filed on September 11, 2009 downward to \$37.5 million for electric and \$2.8 million for natural gas. See Exhibit No.__(EMA-4T) page 1.
Joint Testimony Page 2 of 24
Docket Nos. UE-090134, UG-090135 and UG-060518 (consolidated)

1 Later in our testimony, we discuss in more detail the elements of the Partial
2 Settlement Stipulation, specifically, the power supply adjustments, cost of capital, rate
3 spread/rate design, and low income rate assistance.

4 **Q. Who are the signatories to the Partial Settlement Stipulation?**

5 A. The Partial Settlement Stipulation, filed September 4, 2009, was signed by
6 Avista, the WUTC Staff, the Public Counsel Section of the Washington State Attorney
7 General's Office, the Industrial Customers of Northwest Utilities, the Northwest Industrial
8 Gas Users and the Energy Project.

9

10 **II. QUALIFICATIONS OF WITNESSES**

11 **Q. Mr. Norwood, please provide information pertaining to your**
12 **educational background and professional experience.**

13 A. My name is Kelly O. Norwood. I am employed by Avista Corporation as
14 the Vice-President of State & Federal Regulation. I am a graduate of Eastern Washington
15 University with a Bachelor of Arts Degree in Business Administration, majoring in
16 Accounting. I joined the Company in June of 1981. Over the past 28 years, I have spent
17 approximately 17 years in the Rates Department with involvement in cost of service, rate
18 design, revenue requirements and other aspects of ratemaking. I spent approximately 11
19 years in the Energy Resources Department (power supply and natural gas supply) in a
20 variety of roles, with involvement in resource planning, system operations, resource
21 analysis, negotiation of power contracts, and risk management. I was appointed Vice-
22 President of State & Federal Regulation in March 2002.

23

1 **Q. Mr. Kermode, please provide information pertaining to your**
2 **educational background and professional experience.**

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

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

15 I am a financial professional with 20 plus years experience in private practice,
16 industry and government. I spent ten years (1983-93) as a CPA in private practice in
17 Phoenix, Arizona, where I was an expert witness in a number of utility cases before the
18 Arizona Corporation Commission, the state’s public utility regulatory body. From 1994 to
19 1996, I was the controller for the Rocky Mountain Institute, a large internationally-
20 recognized non-profit organization that conducts research and performs services in the
21 energy field.

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

1 **Q. Mr. Gorman please provide information pertaining to your educational**
2 **background and professional experience.**

3 A. My name is Michael P. Gorman, I am a Managing Principal for Brubaker &
4 Associates, Inc., a public utility regulation consulting firm. I hold an MBA with a
5 concentration in Finance from the University of Illinois (Springfield). From 1987 to 1989 I
6 was Director of the Financial Analysis Department at the Illinois Commerce Commission.
7 My professional experience and qualifications are detailed in my Exhibit No ____ (MPG-2).
8 I am representing Public Counsel and Industrial Customers of Northwest Utilities on the
9 cost of capital and capital structure issues in this case.

10 **Q. Mr. Schoenbeck please provide information pertaining to your**
11 **educational background and professional experience.**

12 A. My name is Donald W. Schoenbeck. I am a consultant in the field of public
13 utility regulation and I am a member of Regulatory & Cogeneration Services, Inc. (“RCS”).
14 I have a Bachelor of Science Degree in Electrical Engineering from the University of
15 Kansas, a Master of Science Degree in Engineering Management from the University of
16 Missouri and I have completed all the course work toward a Master of Science Degree in
17 Nuclear Engineering.

18 From June of 1972 until June of 1980, I was employed by Union Electric Company
19 in the Transmission and Distribution, Rates, and Corporate Planning functions. In the
20 Transmission and Distribution function, I had various areas of responsibility, including
21 load management, budget proposals and special studies. While in the Rates function, I
22 worked on rate design studies, filings, and exhibits for several regulatory jurisdictions. In

1 Corporate Planning, I was responsible for the development and maintenance of computer
2 models used to simulate the Company's financial and economic operations.

3 In June of 1980, I joined the national consulting firm of Drazen-Brubaker &
4 Associates, Inc. Since that time, I have participated in the analysis of various utilities for
5 power cost forecasts, avoided cost pricing, contract negotiations for gas and electric
6 services, siting and licensing proceedings, and rate case purposes including revenue
7 requirement determination, class cost-of-service, and rate design.

8 In April 1988, I formed RCS. RCS provides consulting services in the field of
9 public utility regulation to many clients, including large industrial and institutional
10 customers. We also assist in the negotiation of contracts for utility services for large users.
11 In general, we are engaged in regulatory consulting, rate work, feasibility, economic and
12 cost-of-service studies, design of rates for utility service, and contract negotiations.

13 **Q. Mr. Watkins please provide information pertaining to your educational**
14 **background and professional experience.**

15 A. My name is Glenn A. Watkins, I am Vice President and Senior Economist
16 for Technical Associates, Inc. I hold MBA and BS degrees from Virginia Commonwealth
17 University. My qualifications and experience are detailed fully in my Exhibit No.
18 ____(GAW-2). In this case I am representing both Public Counsel & The Energy Project
19 regarding electric and gas rate spread and rate design, and regarding Avista's low income
20 program proposals.

21

22 **III. HISTORY OF FILING / SETTLEMENT PROCESS**

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

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

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

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

18 A. Yes. All parties conducted settlement discussions in this docket on July 24,
19 2009, and during the week of August 24-28, 2009. These discussions resulted in the
20 resolution of issues, as among themselves, in the areas of cost of capital, power supply, rate
21 spread and rate design, as well as funding under the low-income ratepayer assistance
22 program (LIRAP), as set forth herein.

1 Extensive discussions occurred on many components of the Company's filing, such
2 as the cost of capital, and accounting and power supply adjustments. The parties engaged
3 in the "give-and-take" that characterizes settlement discussions and attempted to arrive at a
4 reasonable balance of differing interests. As is common in settlements, each of the
5 Stipulating Parties ultimately agreed to concessions on matters which would not have been
6 agreed to if each of the Stipulating Parties were to proceed to evidentiary hearings.

7 Settlement meetings were scheduled during the Prehearing Conference in February
8 2009, and thus were set well in advance. Significant discovery occurred in the five months
9 leading to the first Settlement Conference. The Company has responded to over 700 data
10 requests which were provided to all parties. The settlement conferences held the week of
11 August 24-28 were approximately 1 week after the August 17th due date of filing testimony
12 by Staff and Intervenors, and therefore it was reasonable to expect discovery to be
13 substantially complete on the previously filed testimony and the major issues already
14 identified to that point for purposes of settlement discussions.

15

16 **IV. ELEMENTS OF THE PROPOSAL**

17 **Q. Please explain the derivation of the Electric and Natural Gas Revenue**
18 **Requirements outlined in the Partial Settlement Stipulation.**

19 A. After extensive discussions, the Stipulating Parties agreed to the revenue
20 requirement adjustments to both the filed electric and natural gas cases, totaling for electric
21 \$36,876,000 and natural gas \$1,234,000. These adjustments are described in Attachment
22 A to the Partial Settlement Stipulation, which consists of a summary of revenue
23 requirement adjustments for electric and natural gas. The summaries also identify, for

1 reference purposes only, the remaining contested adjustments to revenue requirement.
2 After giving effect to this Stipulation, Avista recommends a revenue requirement of \$38.61
3 million for electric and \$3.14 million for gas, revised downward from \$69.76 million
4 (electric) and \$4.92 million (gas), respectively². Non-company parties to this Stipulation
5 recommend a revenue requirement of no more than \$32,886,000 for electric and
6 \$3,685,000 based on the agreed adjustments, as well as further reductions based on
7 remaining contested issues, and all Parties may continue to litigate these disputed items..

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

10 A. The Parties agree to a 10.2% return on equity, with a 46.5% common equity
11 ratio, and adopt the capital structure and resulting rate of return as set forth in the table
12 below. Avista's existing return on equity is 10.2%. By comparison, the Company's
13 original filing requested an overall rate of return of 8.68%, a return on equity of 11.0% and
14 an equity component of 47.51%. The individual cost of capital components of the agreed
15 upon rate of return are shown in Table 1 below. However, in the event that decoupling or
16 another risk reduction mechanism is approved, some parties recommend a lower return on
17 equity and are free to continue to litigate that issue.

18

² Avista further adjusted its revenue requirement through rebuttal testimony filed on September 11, 2009 downward to \$37.5 million for electric and \$2.8 million for natural gas. See Exhibit No.__(EMA-4T) page 1.
Joint Testimony Page 9 of 24
Docket Nos. UE-090134, UG-090135 and UG-060518 (consolidated)

Table 1: Cost of Capital

Agreed-upon			
Cost of Capital	Percent of <u>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>

Q. Would you please describe the Power Supply adjustments agreed to by the parties within the Partial settlement?

A. Yes. 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.

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

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

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

9 **Q. Now please explain the adjustment agreed to by the Parties related to**
10 **the Company's filed Pro Forma O&M Generation expense?**

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

14 **Q. What were the Rate Spread/Rate Design issues agreed to by the**
15 **Parties?**

16 A. The Parties agreed to the following settlement of issues related to rate
17 spread and rate design:

18 1. Electric Services:

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

22 (b) Rate Design –

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

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

6 (iii) For Extra Large General Service Schedule 25,

7 • The minimum charge will be increased from \$10,000 to
8 \$11,000 per month.

9 • The excess demand charge will be increased from \$3.00 to
10 \$3.50 per kVa.

11 • The voltage discount for over 60kV will be increased to
12 \$1.00/kVa and for over 115kV to \$1.20/kVa.

13 • A uniform percentage increase will be applied to the first two
14 energy block rates, and the increase to the third energy block
15 rate will be equal to 0.5 times the percentage increase applied
16 to the first two blocks.

17 2. Gas Service:

18 (a) Rate Spread –

19 (i) The Parties agree to apply an equal percentage of margin increase to
20 all gas service schedules, except Schedule 146 (Transportation).

21 (ii) Schedule 146 (Transportation) will receive two-thirds of an equal
22 margin increase, with the residual one-third allocated proportionately (based
23 on margin) to the other schedules.

1 (b) Rate Design –

2 (i) The rates within Schedules 111 and 112 will be increased to
3 maintain the present break-even usage level between Schedules 101 and
4 111, in order to minimize future customer schedule shifting, as proposed in
5 the Company's filing (Page 23 of Hirschhorn Direct Testimony). The design
6 of the rates under Schedule 101 in this proceeding will not be conditioned or
7 dependent upon the rates under Schedules 111 and 112.

8 (ii) The rates under Schedule 146 (including the customer charge) will
9 be increased on an equal percentage basis.

10 (iii) This Partial Settlement Stipulation does not resolve Schedule 101 gas
11 rate design issues (including customer charges).

12 **Q. Please describe the Low Income Rate Assistance Program (LIRAP)**
13 **portion of the Partial Settlement Stipulation.**

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

17 1. For Electric – the overall percentage increase in base revenue approved for
18 electric or 9.0%.

19 2. For Gas – the overall percentage increase in base revenue approved for gas
20 or 1.75%.

21 **Q. Are there remaining contested revenue requirement adjustments for**
22 **which the parties have not yet agreed upon?**

1 A. Yes. Attachment A of the Settlement Stipulation provides a summary
2 listing of remaining contested adjustments. This summary was provided for reference
3 purposes only and no party to the Partial Settlement waived its rights to raise issues not
4 included in the list which have not expressly been resolved in the Stipulation.

5 **Q. How were the specific amounts of the various electric and natural gas**
6 **adjustments described above determined?**

7 A. Those adjustments are the result of the audit process and analysis conducted
8 by the Commission Staff and other parties to this case, as adopted and adjusted in the
9 course of the parties' settlement discussions. Those discussions and adjustments were
10 informed by the views and assessments of the various parties who participated in the
11 settlement discussions. All such information was considered, along with certain elements
12 of compromise agreed upon in order to achieve the Partial Settlement.

13

14

V. PUBLIC INTEREST

Statement of Avista

15
16 **Q. Please explain why Avista believes the Partial Settlement Stipulation is**
17 **in the public interest.**

18 A. The Partial Settlement strikes a reasonable balance between the interests of
19 Avista's customers, including limited income customers, and the Company on certain
20 revenue requirement, rate spread and rate design issues, and Low Income Assistance
21 Program issues included in the Partial Settlement. This Partial Settlement Stipulation, if
22 approved, would provide a measure of certainty around future cost recovery of a
23 significant portion of certain costs impacting the Company. The Partial Settlement

1 Stipulation was a compromise among differing interests and represents give-and-take. As
2 such, the Settlement on its own, even if approved, will not fully address increasing costs
3 during the 2010 rate year and represents, if anything, a conservative portrayal of Avista's
4 need for rate relief surrounding the specific costs included in the Partial Settlement.

5 The Partial Settlement Stipulation provides for recovery of additional costs related
6 to power supply, while recognizing the significant reduction in (natural gas) fuel costs.
7 The Partial Settlement also provides consensus around nearly all issues regarding rate
8 spread and rate design, with the exception of the natural gas basic charge issue, as it
9 relates to the resolution of the decoupling mechanism. The Partial Settlement Stipulation
10 was entered into following extensive discovery, audit and review of the Company's filing
11 and books and records.

12 Although we are continuing to make progress in improving the Company's
13 financial condition, as shown by the recent upgrades in the Company's corporate credit
14 ratings to investment grade, we are still not as strong financially as we need to be and
15 remain at the lowest rung of the investment grade credit rating scale (BBB- for Standard &
16 Poor's and Fitch, Inc. and Baa3 for Moody's Investor Service). Timely rate relief through
17 this filing is an important element in preserving our existing credit ratings, and having the
18 opportunity to improve that rating.

19 In conclusion, the Partial Settlement resolves major issues included in the
20 Company's electric and natural gas general rate case filings, including cost of capital,
21 power supply, and a multitude of rate spread and rate design issues. For these reasons, the
22 Partial settlement is in the public interest and should be approved by the Commission.

1 **Q: Why does Staff believe that the Partial Settlement Stipulation satisfies its**
2 **interests and the public interest?**

3 A: The partial settlement stipulation resolves several significant issues in this
4 case in a satisfactory manner, which helps further Staff's and the public's interest in fair,
5 just, and reasonable rates. First, the settlement resolves all cost of capital issues, and
6 provides for a 10.2% return on equity (ROE) with a capital structure containing 46.5%
7 common equity. The 10.2% ROE closely approximates Staff's litigation position of 10.0%
8 (in contrast to the 11.0% contained in the Company's original filing), is within Staff's
9 range of 9.5% and 10.5%, and is the same as the ROE that was approved in the most recent
10 Avista settlement. It is consistent with Staff's position that recent events in the capital
11 markets do not justify an increase in the Company's ROE at this time. The 46.5% common
12 equity ratio is a reasonable compromise between Staff's litigation position of 45.4% (based
13 on Avista's actual 2008 year-end capital structure) and the Company's request for 47.51%
14 (based on Avista's projected 2009 year-end capital structure).

15 Second, the settlement resolves power supply issues in a manner that is very
16 satisfactory to both Staff and the public interest. It substantially reduces the Company's
17 filed power supply costs, by over \$27.5 million, and includes several adjustments
18 recommended jointly by Staff and ICNU. The settlement updates natural gas costs to
19 reflect the significant drop in the price of natural gas since the filing of the Company's
20 case, and provides certainty to customers by ensuring that there shall be no further changes
21 to the price of natural gas in this case. It also includes the retail load adjustment and
22 filtering adjustment jointly recommend by Staff and ICNU. The settlement also removes

1 \$2.4 million of 2010 pro forma costs that were included in the Company's filing for
2 generation operations and maintenance, which benefits ratepayers.

3 Third, the settlement resolves rate spread and rate design issues in a manner very
4 similar to that advocated by Staff witness Ms. Huang. The parties have agreed to apply an
5 equal percentage increase to all electric service schedules, and an equal percentage of
6 margin increase to all gas service schedules except Schedule 146; and to increase the
7 electric residential basic charge from \$5.75 to \$6.00. Staff believes these provisions are
8 fair and reasonable and further the public interest.

9 Finally, funding for electric low income rate assistance is increased by the greater
10 of the overall percentage increase or 9 percent. Funding for natural gas low income rate
11 assistance is increased by the greater of the overall percentage increase or 1.75 percent.
12 The natural gas program is within the range of other natural gas companies and even
13 though Avista's electric program is a larger percentage of revenue than other electric
14 companies, Staff is supportive of the electric and gas increases to the low income rate
15 assistance programs as a component of the overall settlement package.

16 **Statement of Public Counsel and ICNU Regarding Cost of Capital**

17 **Q. Why do Public Counsel and ICNU support the cost of capital agreement in**
18 **the proposed partial settlement stipulation?**

19 A. The settlement maintains Avista at its current authorized ROE of 10.2
20 percent. This is consistent with Mr. Gorman's recommendation in testimony that Avista
21 did not establish a basis for receiving an increase to an 11 percent ROE and that its request
22 was excessive. The return on equity (ROE) of 10.2 percent agreed to in the partial

1 settlement is only slightly higher than Mr. Gorman's recommendation of 10.1 percent,
2 Exhibit No. ____ (MPG-1T), p.4, and is within his ROE range of 9.70 to 10.50 percent.

3 The partial settlement does not address and reserves for litigation at the hearing the
4 appropriate level of ROE in the event that a decoupling or other risk-shifting mechanism is
5 adopted. In this regard, the settlement ROE of 10.2 percent represents a "cap" on ROE
6 which could be reduced depending on the outcome of this issue. Mr. Gorman
7 recommends a reduction of 25 basis points to reflect the reduction of risk created by
8 Avista's decoupling mechanism, if decoupling is continued. Exhibit No. ____ (MPG-1T),
9 pp. 5-8.

10 The capital structure equity ratio of 46.5 percent is reasonable as a compromise for
11 settlement purposes. This avoids the use of Avista's projected year-end 2009 capital
12 structure of 47.5 percent, which Mr. Gorman opposed in his testimony. It is closer to
13 Avista's actual equity ratio, which has ranged from 45.1 to 46.3 percent during the period
14 2006 to 2008. Exhibit No. ____ (MPG- 1T), p. 17.

15 For the reasons stated, Public Counsel and ICNU support the partial settlement as
16 to cost of capital as establishing a reasonable rate of return for Avista, unless a decoupling
17 or other risk reduction mechanism is adopted.

18 **Statement of ICNU Regarding Power Supply, Rate Spread and Rate Design**

19 **Q. Why does ICNU support the agreed upon power supply costs in the**
20 **proposed Partial Settlement Stipulation?**

21 A. The amount of costs related to power supply is always critical to ICNU, as
22 these costs represent the vast majority of the rate charges paid by our members. The Partial
23 Settlement Stipulation represents a substantial reduction from the Company's filed power

1 supply cost, which results from updating gas costs, updating short-term purchases and
2 sales, including a hydro filtering adjustment and lowering the load forecast. In addition,
3 the parties have agreed to “lock-in” these costs giving ICNU members price certainty (an
4 upper bound) at a time when budgets are being prepared for the coming year. All of these
5 factors were crucial for ICNU, and therefore, ICNU supports the Settlement.

6 **Q. Why does ICNU support the Settlement rate spread proposal calling**
7 **for an equal percentage increase for all electric rate classes?**

8 A. The Company agreed to perform a new cost and load study pursuant to the
9 Settlement Agreement approved by the Commission in Docket No. UE-070804. The new
10 study is expected to be completed in 2010. Giving each class the same percentage increase
11 is appropriate until such time as all parties have the opportunity to review and analyze the
12 updated load research and cost causation information that will be contained in the new
13 study. In essence, the rate spread proposal maintains the status quo or existing cost to
14 revenue relationships for all classes during this interim period. As a result, the Settlement
15 rate spread is in the public interest.

16 **Q. Why does ICNU support the Schedule 25 rate design presented in the**
17 **Settlement?**

18 A. The Settlement rate design moves all Schedule 25 charges closer to a cost-
19 based level. The Company’s cost study shows cost-based charges for Schedule 25 of \$7.83
20 per kW and 4.45 cents per kWh. The Settlement rate design moves toward these values by
21 placing a larger part of the increase recovery in the demand charges as compared to the
22 energy charges. In addition, the demand charges are structured such that the implicit
23 demand charge for the first 3,000 kVa is \$3.67 per kVa, which is greater than the proposed

1 second block charge of \$3.50 for deliveries above 3,000 kVa. For these reasons, the Partial
2 Settlement is in the public interest and should be approved by the Commission.

3 **Statement of NWIGU**

4 **Q. Please explain why NWIGU believes the Partial Settlement Stipulation**
5 **is in the public interest.**

6 A. NWIGU believes the Partial Settlement Stipulation is in the public interest
7 and recommends the Commission approve the settlement because the best interests of
8 Avista's natural gas customers are served by the underlying fair compromise on certain
9 revenue requirement and rate spread and design issues. While the signing parties may
10 each hold different positions on the individual components of Avista's natural gas revenue
11 requirement addressed in the Partial Settlement Stipulation, NWIGU supports the partial
12 settlement as the agreement reached on capital costs has brought down the overall gas
13 revenue requirement increase by \$1.29 million to \$3.63 million. After incorporation of
14 Avista's revised litigation positions on gas issues that remain contested, the overall revenue
15 increase is now no more than \$3.144 million. NWIGU supports this Partial Settlement
16 Stipulation as an overall result that is a fair compromise between Avista and its customers
17 in current financial markets.

18 NWIGU also finds this Partial Settlement Stipulation to be in the public interest as
19 the spread of the gas rate increase is done in a manner that is consistent with the results of
20 both the Company's cost of service analysis and the cost of service analysis performed by
21 NWIGU. See Direct Testimony of Don Schoenbeck, Exhibit No. ____ (DWS-5T). Under
22 the Partial Settlement Stipulation, it is important from NWIGU's perspective that Schedule
23 146 is moved towards its relative cost of service. Moving rates closer to cost is appropriate,

1 and is a significant reason NWIGU supports the Partial Settlement Stipulation. In addition,
2 the Partial Settlement Stipulation resolves the rate design within Schedule 146 consistent
3 with its costs by increasing the customer charge on Schedule 146 by the same percentage
4 applicable to the volumetric rate blocks, which was a rate design change supported in my
5 earlier testimony for NWIGU.

6 For the reasons set forth above, NWIGU believes the Partial Settlement Stipulation
7 is in the public interest and should be approved by the Commission. By supporting this
8 Partial Settlement Stipulation, NWIGU reserves the right to litigate all unresolved issues
9 and further reserves the right to raise all issues compromised in this proceeding in any
10 future natural gas rate case.

11 **Statement of Public Counsel and The Energy Project Regarding Rate Spread and**
12 **Rate Design and Low Income Issues**
13

14 **Q. Why do Public Counsel and the Energy Project support the partial**
15 **settlement of rate spread and rate design issues.**

16 A. The partial settlement is reasonable with respect to both rate spread and rate
17 design issues and is quite consistent with Public Counsel's prefiled written testimony,
18 Exhibit No. ____ (GAW-1T). As to rate spread(class revenue responsibility), Public
19 Counsel witness Glenn Watkins' prefiled testimony, accepted and agreed with Avista's rate
20 spread proposals for electric and gas service. Exhibit No. ____ (GAW-1T), pp. 3-8.
21 However, Mr. Watkins also recommended that if Avista's rate increase was scaled back
22 substantially, an across-the-board equal percentage increase in base rates by class would be
23 appropriate. That is the outcome adopted in this settlement and Public Counsel believes it
24 is a fair and reasonable approach, particularly given that a new cost and load study will be

1 completed in 2010. Until that time, this settlement maintains the status quo on rate
2 spread, established in the 2008 general rate case.

3 With respect to rate design, Public Counsel and The Energy Project support the
4 settlement because it reflects Mr. Watkins' agreement in testimony with Avista's proposed
5 \$0.25 increase to the electric customer charges. While fixed customer charges should be
6 set at a minimal level to recover on the cost of maintaining the customer's account, the
7 modest increase (4%) is acceptable. Exhibit No. ____ (GAW-1T), p. 9.

8 It is important to note, however, that the settlement leaves for litigation at the
9 hearing the proper level of the customer charge for gas customers under Schedule 101 (see
10 provisions III.B.2.b. (i) and (iii)). Mr. Watkins' testimony concurs with Avista's proposed
11 increase of \$0.25 for gas whether not decoupling is continued, but the parties were unable
12 to reach agreement on this issue.

13 For these reasons, Public Counsel and The Energy Project believe the rate
14 spread/rate design provisions of the settlement are in the public interest.

15 **Q. Why do Public Counsel and the Energy Project support the low income**
16 **provisions in the partial settlement?**

17 A. The partial settlement with respect to low income rate assistance is in the
18 public interest. Mr. Watkins testified for Public Counsel and The Energy Project that the
19 economic decline has increased pressure on low income households and that the
20 penetration rate of the existing Limited Income Rate Assistance Program (LIRAP), already
21 limited, is negatively impacted by the economy. Avista's original filing did not provide
22 additional funds for this program. The settlement adopts Mr. Watkins' recommendation
23 that low income rate assistance be increased by the same percentage as the rate increase

1 approved in this case, subject to a floor percentage to ensure that the increase is not
2 de minimis. This increase in funding for LIRAP is consistent with RCW.80.28.068. This
3 partial settlement will have a minimal impact on other ratepayers. Exhibit No. ____ (GAW
4 -1T), pp. 10-14. The settlement results in additional rate assistance funds for those
5 hardest hit by the recession while spreading the cost fairly to other customers and is
6 therefore in the public interest.

7

8

VI. CONCLUSION

9

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

10

A. The Partial Settlement Stipulation represents a negotiated compromise
11 among the Stipulating Parties. Thus, the Stipulating Parties have agreed that no particular
12 party shall be deemed to have approved the facts, principles, methods, or theories
13 employed by any other in arriving at these stipulated provisions, and that the terms
14 incorporated should not be viewed as precedent setting in subsequent proceedings except
15 as expressly provided. In addition, the Stipulating Parties have the right to withdraw from
16 the Partial Settlement Stipulation if the Commission adds any additional material
17 conditions or rejects any material part of the Partial Settlement Stipulation. In conclusion,
18 it strikes a reasonable balance between the interests of the Company and its customers,
19 including its low-income customers. As such, it represents a reasonable compromise
20 among differing interests and points of view. In the final analysis, any settlement reflects a
21 compromise, in the give-and-take of negotiations; the Commission, however, has before it
22 a Partial Settlement Stipulation that is supported by sound analysis and sufficient

1 evidence. Its approval is “in the public interest,” and satisfies the requirement that rates
2 be fair, just, reasonable and sufficient.

3 **Q. Does that conclude your pre-filed direct testimony?**

4 **A. Yes it does.**

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-090134

DOCKET NO. UG-090135

DOCKET NO. UG-060518

(consolidated)

EXHIBIT No. _____

PARTIAL SETTLEMENT STIPULATION

**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.)	
<hr/>		
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
)	
)	
<hr/>		

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.

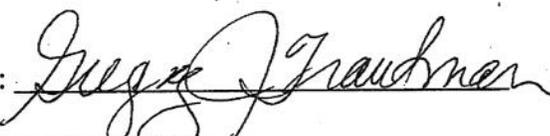
Company:

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: _____

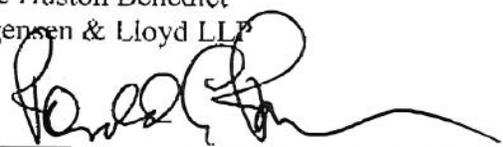
Simon ffitch
Senior Assistant Attorney General
Public Counsel Section
Washington Attorney General

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.