

REDACTED  
**AVISTA CORP.**  
**RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	11/03/08
CASE NO:	UE-080416 & UG-080417	WITNESS:	Toni Pessemier
REQUESTER:	Public Counsel	RESPONDER:	Linda Gervais
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	PC-348C	TELEPHONE:	(509) 495-4975
		EMAIL:	linda.gervais@avistacorp.com

**REQUEST:**

Please provide any filing, correspondence, or communication of any type at any time in the past by Avista or Washington Water Power with any state or federal regulatory body or any other entity regarding the ratemaking effect or treatment of the Lake CDA ownership issue. Please include any decisions or any other communications received from any state or federal regulatory body with respect to the ratemaking effect or treatment of the Lake CDA ownership issue.

**RESPONSE:**

Please see Avista's prior response to PC-015 and PC-015C. In addition, the Company provides the following:

1. May 28, 2004 – Avista meeting with WUTC Staff. Please see the attached presentation (PC\_DR\_348CAttachment-A).
2. January 13, 2005 – Meetings with all three IPUC Commissioners separately. Please see the attached presentation (PC\_DR\_348-Attachment-B).
3. January 19, 2005 – WUTC Commissioner Update Meeting. Please see the attached agenda (PC\_DR\_348-Attachment-C).
4. April 29, 2005 – Update meeting with WUTC Commissioner Mark Sidran. Please see the attached presentation (PC\_DR\_348-Attachment-D).
5. November 2, 2006 – Update meeting with IPUC Commissioners. Please see the attached agenda (PC\_DR\_348-Attachment-E).
6. August 13, 2007 - Update meeting with IPUC Commissioners. Please see the attached agenda and presentation (PC\_DR\_348C-Attachment-F).
7. December 12, 2007 – Meeting with IPUC Commissioner Mack Redford. Please see the attached agenda (PC\_DR\_348-Attachment-G).
8. February 6, 2008 - Meeting with IPUC Commissioner Jim Kempton. Please see the attached agenda (PC\_DR\_348-Attachment-H).
9. February 28, 2008 – Update meeting with IPUC Commissioners. Please see the attached agenda (PC\_DR\_348-Attachment-I).

10. Direct Testimony of Toni E. Pessemier in Avista's Idaho General Rate Case No. AVU-E-08-01 (PC\_DR\_348C-Attachment-J).
11. Settlement Stipulation in Avista's Idaho General Rate Case No. AVU-E-08-01 (PC\_DR\_348-Attachment-K).
12. Order No. 30647 in Avista's Idaho General Rate Case No. AVU-E-08-01 (PC\_DR\_348-Attachment-L).

# *Coeur d'Alene Tribal Issues Related to Post Falls Dam*



May 28, 2004

## Post Falls Dam

- 1891 - Frederick Post obtained patent to site on Spokane River
- 1905 - WWP completed purchases for site
- 1907 - Post Falls Hydro-electric Development completed
- Obtained overflow rights from State of Idaho and Landowners



## Post Falls Operations

- Coeur d'Alene Lake is a natural lake
- Post Falls Dam controls the lake level 5 to 7 months out of the year - during the remainder of the year, the lake is on free flow conditions
- Summer elevation 2128'  
Minimum elevation 2120'
- 10 aMW generation at Post Falls
- Stored water provides some incremental generation downstream



May 28, 2004

## *Significant Dates*

- **1972** - FPC grants license for 4 projects (excluding Post Falls), expires in 2007
- **1973** - Coeur d'Alene Tribe intervenes
- **1979** - WWP seeks to amend license to include Post Falls and add 6th turbine
- **1981** - FERC issues order to include Post Falls in Spokane River Project
  - ✓ Notes annual charges for use of Tribal lands to be determined at a later hearing
- **1998** - U.S. District Court finding that Tribe owns portions of Lake Coeur d'Alene bed and banks
- **2001** - U.S. Supreme Court decision affirming Coeur d'Alene Tribe ownership

## *Coeur d'Alene Tribal Issues*

- *Compensation for Storage*
  - ✓ 1907 – 1978; past storage - trespass claim (U.S. District Court)
  - ✓ 1979 – Today; past storage - §10(e) charge (FERC)
- *Relicensing (Expires in 2007)*
  - ✓ Federal Power Act §10 (e) future storage charges – annual payments for use of reservation lands
  - ✓ Federal Power Act §4 (e) mandatory conditions imposed by Department Of Interior for protection and utilization of reservation
    - Fisheries, erosion, recreation, wetlands, wildlife, lake level, flows
  - ✓ National Historic Preservation Act Section 106 – cultural resources, approximately 300 sites

## *Coeur d'Alene Tribal Issues (cont.)*

### ➤ *Rights of Way*

- ✓ Transmission - 230kV and 115kV
- ✓ Tribal trust lands and lake crossings

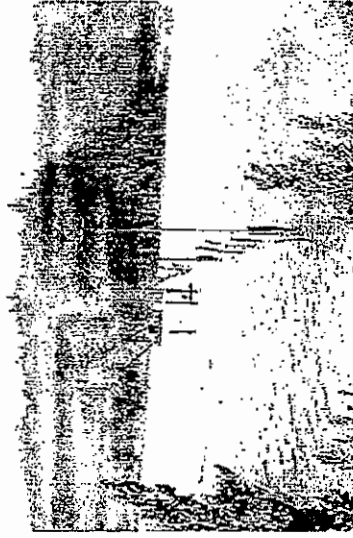
### ➤ *Potential Issues*

- ✓ Water rights
  - Tribal Ordinance

- Tribe has exclusive right to use all surface and ground water within Reservation. Tribe recognizes other water permits as subordinate.

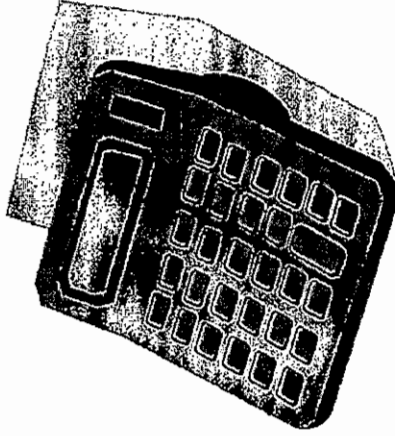
### ✓ Taxes

Power Lines to Lake Lake Crossing at Shoshone  
1/26





## Storage Charges

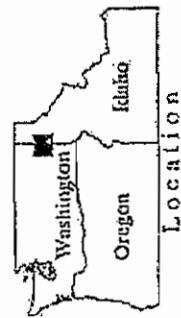
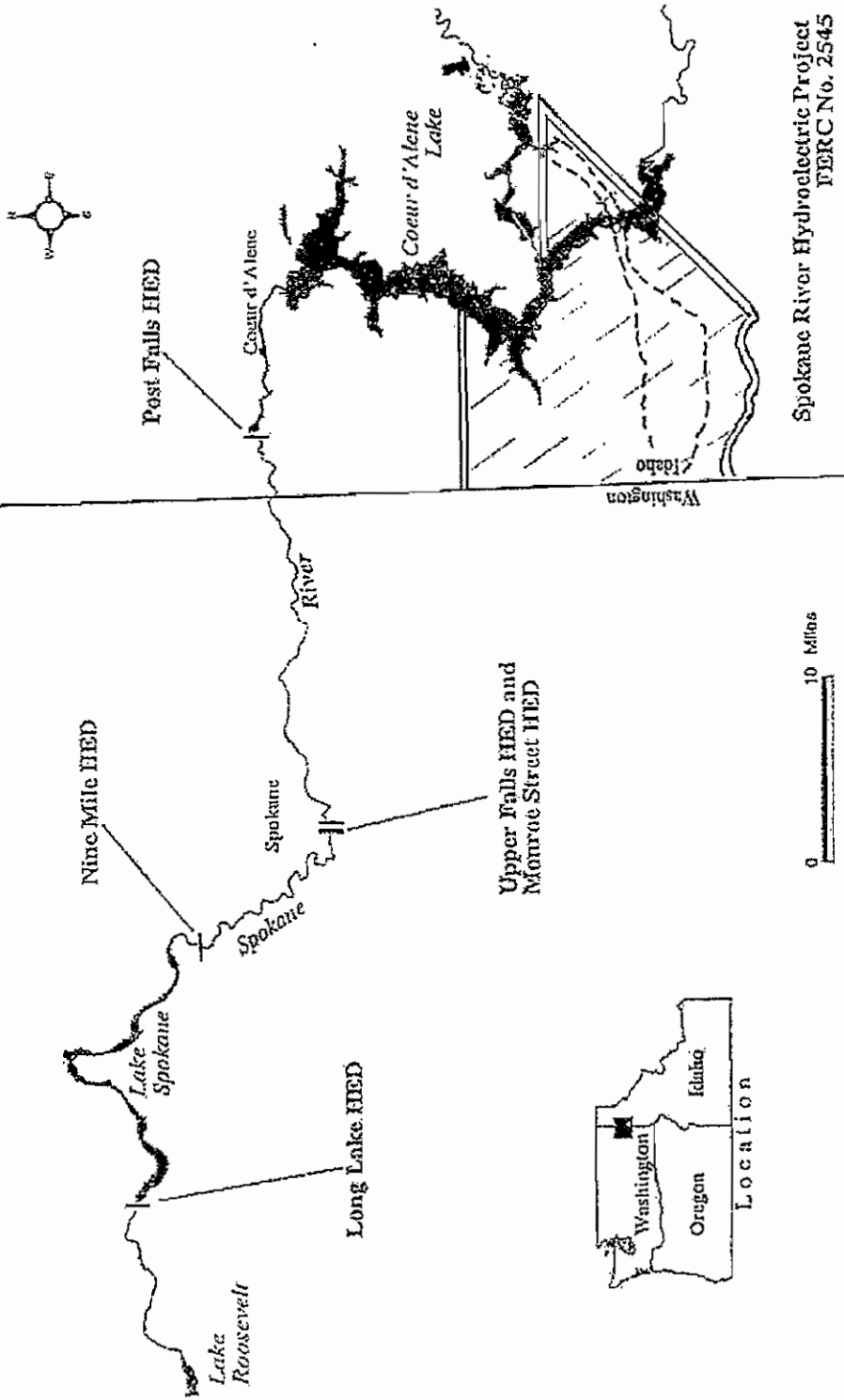


- *Sharing of net benefits approach*
  - ✓ No definitive model but is accepted by FERC
  - ✓ Results can vary widely due to assumptions
- *Factors*
  - ✓ Net benefit (difference between alternative power costs and project costs)
  - ✓ Amount of generation (Post Falls or Spokane River Project)
  - ✓ Allocation of benefits between Avista and landowners
  - ✓ Percent of land owned by Tribe
- *Interest on amount owed* (simple or compounded)

**Prior Avista Settlements with Tribes**

<u>Issues</u>	<u>Spokane</u>	<u>Nez Perce</u>	<u>CD'Alene</u>
	Little Falls Dam partially on Tribal Lands; Back to 1910; Taxes; Natural & cultural resource damages	Fish damages; Right of way; Taxes	Water storage on Tribal Lands; Back to 1907 and future storage payments; Relicensing; Taxes; Water Rights
<u>Project Capability</u>	36 MW	11 MW (Removed)	18 -192 MW
<u>Average Annual Energy</u>	205,212 MWh	None	75,660 Mwh (Post Falls only) 875,232 MWh (Total Project)
<u>Payments:</u>			
Upfront	\$1,000,000	\$2,500,000	
Annual	\$583,000	\$835,000	
Number of yrs	50	45	
Escalation	4%; and annual payments vary with generation - payment shown for 2004	None	
Land Purchases	\$3,000,000		
Fish Trap	\$200,000		

# Spokane River Project Location Map



Spokane River Hydroelectric Project  
FERC No. 2545

May 28, 2004

# *Coeur d'Alene Tribal Issues Related to Post Falls Dam*



January 13, 2005

## *Post Falls Dam*

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### ➤ *Potential Issues*

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- Tribe has exclusive right to use all surface and ground water within Reservation. Tribe recognizes other water permits as subordinate.

- ✓ Taxes

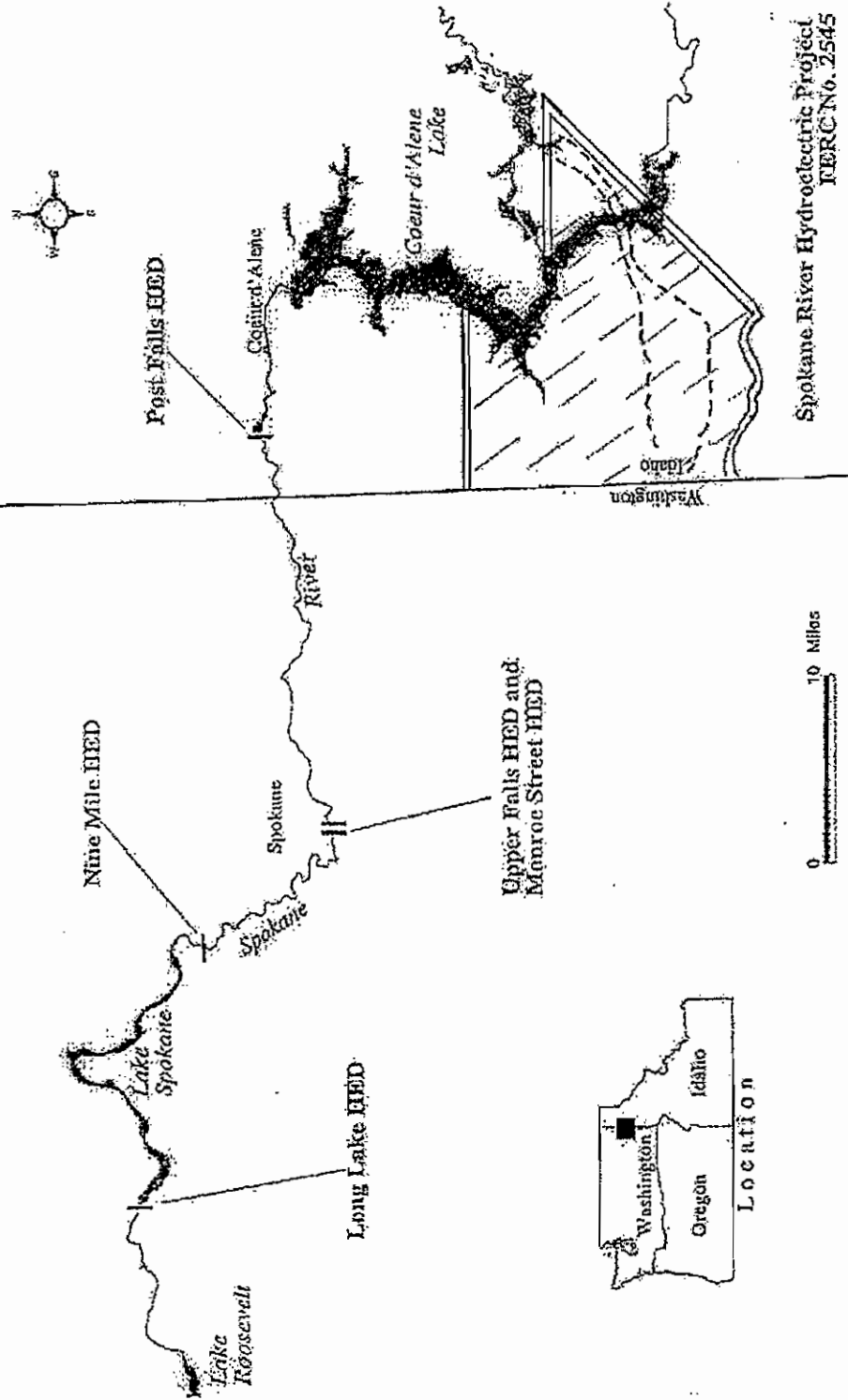


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# Spokane River Project Location Map



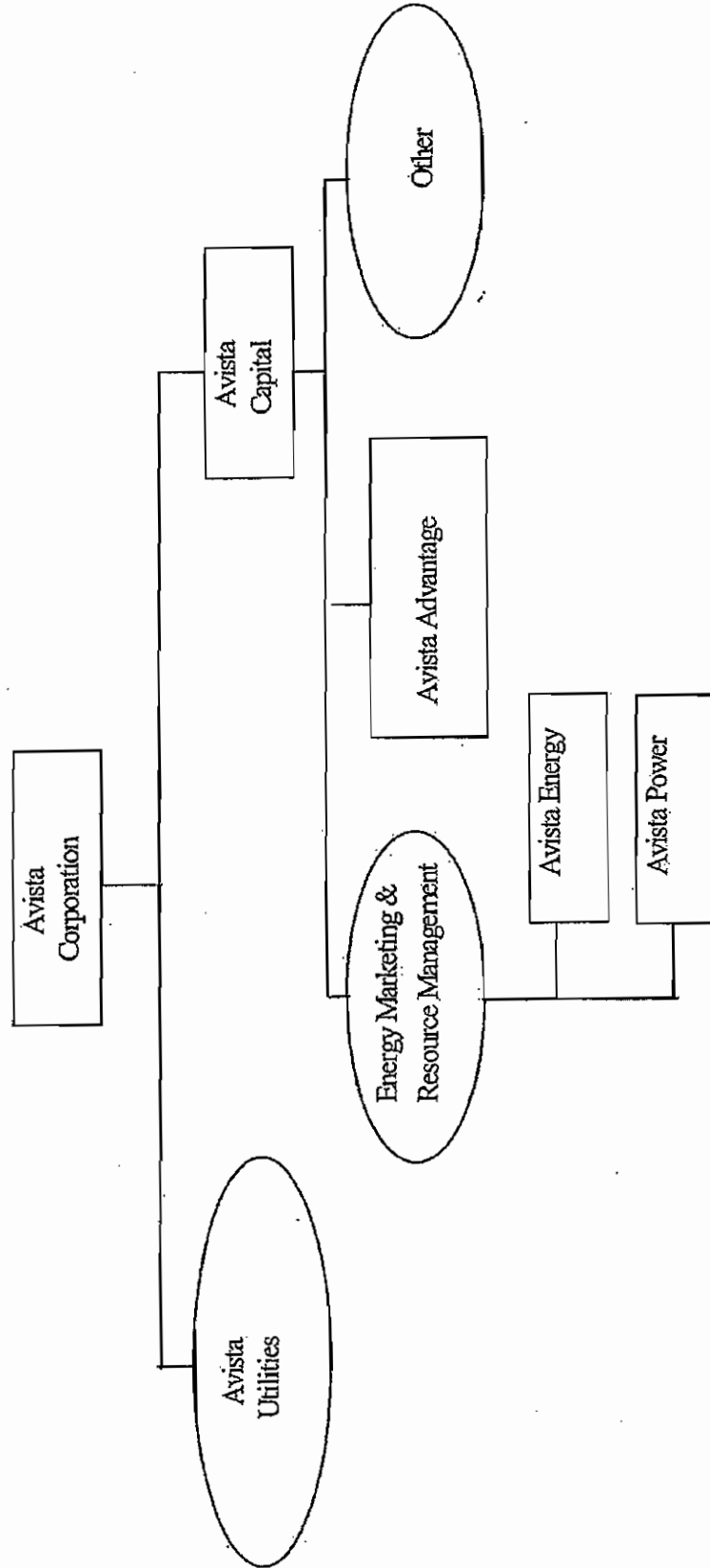
Spokane River Hydroelectric Project  
FERC No. 2545

January 13, 2005

# Overview of Avista

March 2005

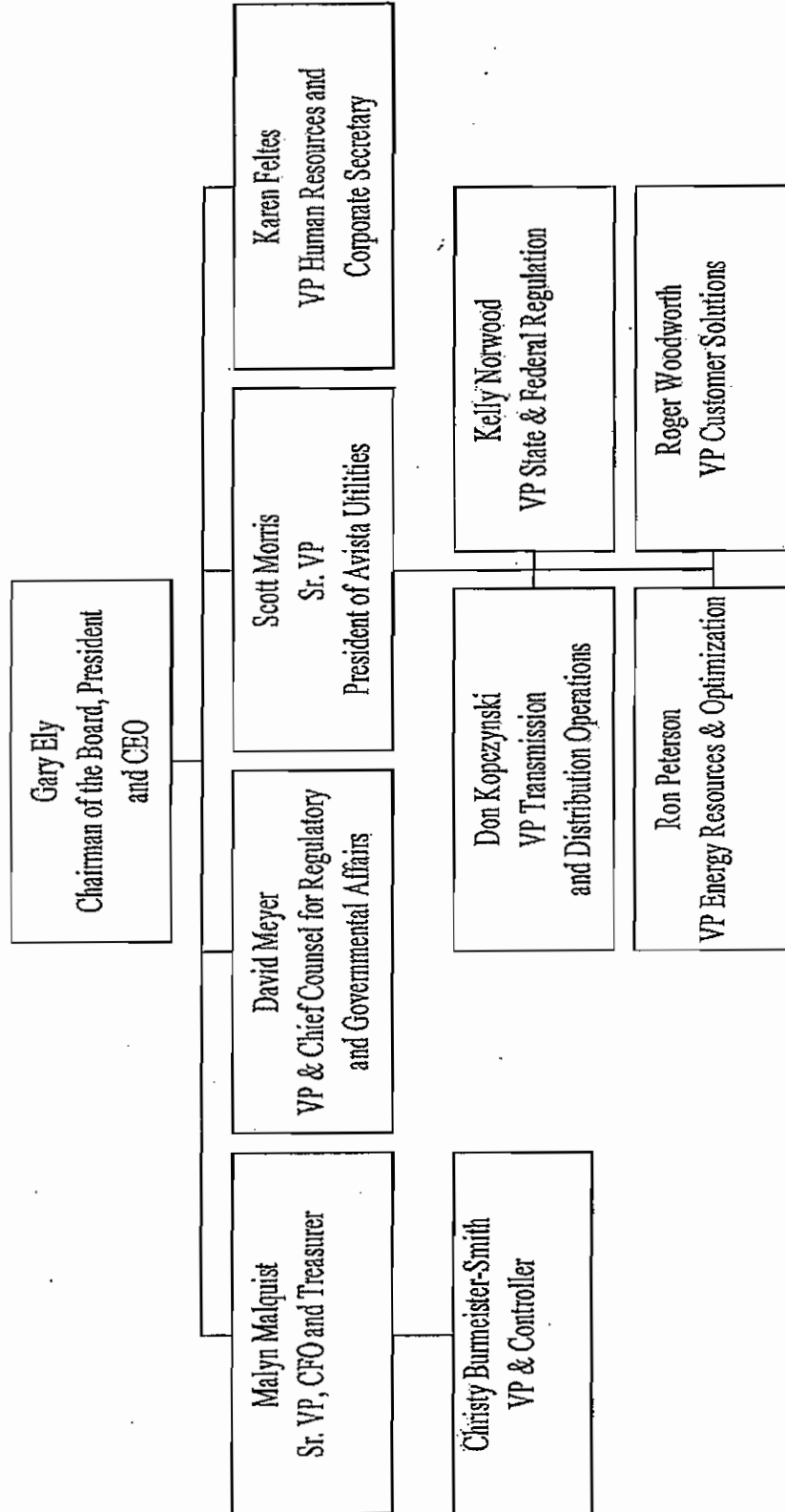
# Avista Corporation Organizational Structure

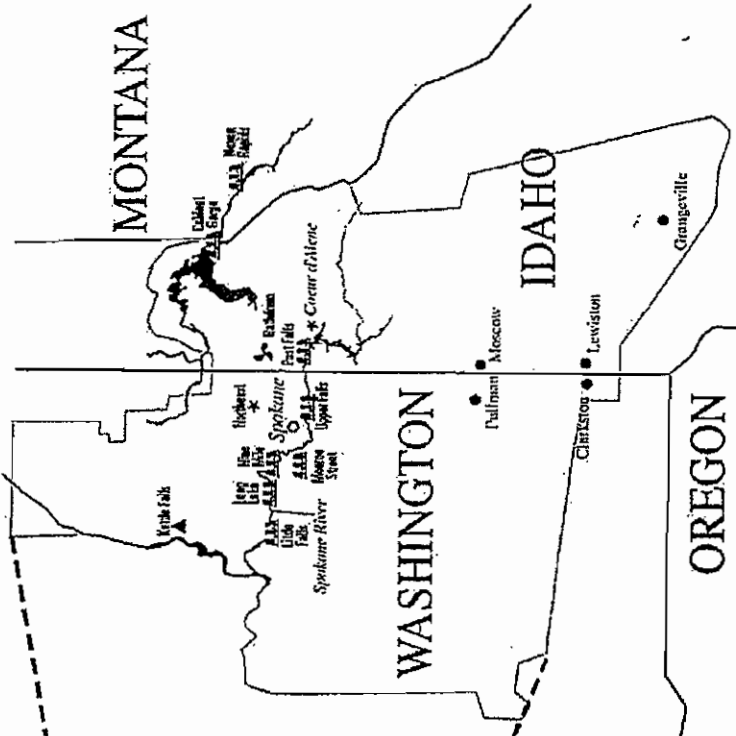


□ - Denotes a business entity

○ - Denotes an operating division or line of business

## Avista Corporation Executive Overview





- Avista Utility Service Territory
- ⊕ Corporate Headquarters—Spokane, Washington
- ▲ Avista Utilities Hydroelectric Projects
- ▲ Kettle Falls Wood-Waste-Fueled Generating Station
- ⊕ Rathdrum Combustion Turbine Generating Station
- ⊕ Plymouth Liquefied Natural Gas Facility
- ⊕ Jackson Prairie Underground Gas Storage Project
- ⊕ Coyote Springs II Generating Station
- ⊕ Northeast Combustion Turbine Generating Station



Electric Customers 326,985  
Gas Customers 300,753

## Utility Business by Service and by State

(12 Months Ended December 2004)

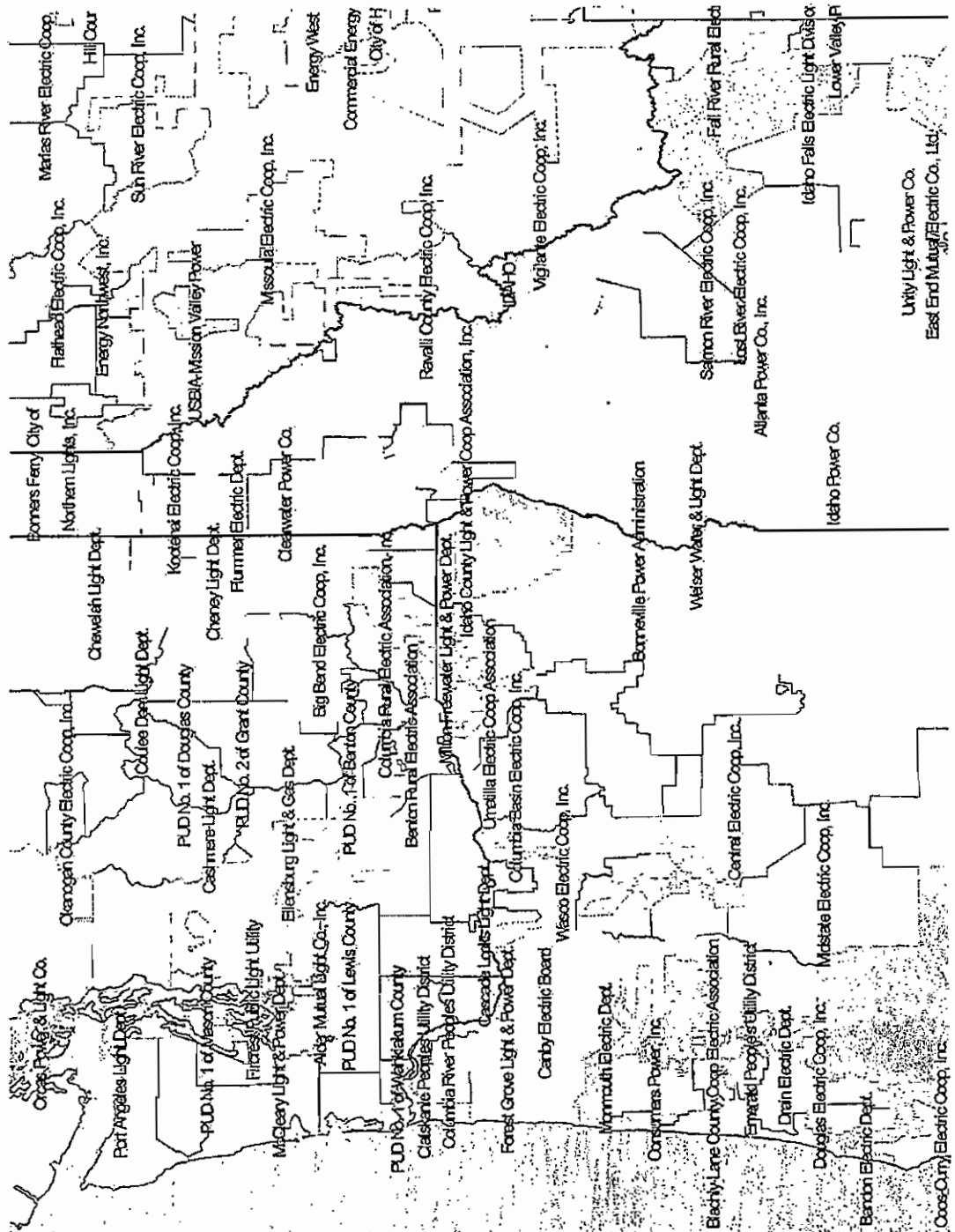
### Annual General Business Revenue (\$000s)

	WA	ID	OR	CA	Total
Electric	\$324,433	\$182,859			\$507,292
Gas	\$145,940	\$58,761	\$83,717	\$20,467	\$308,885
<b>Total</b>	<b>\$470,373</b>	<b>\$241,620</b>	<b>\$83,717</b>	<b>\$20,467</b>	<b>\$816,177</b>

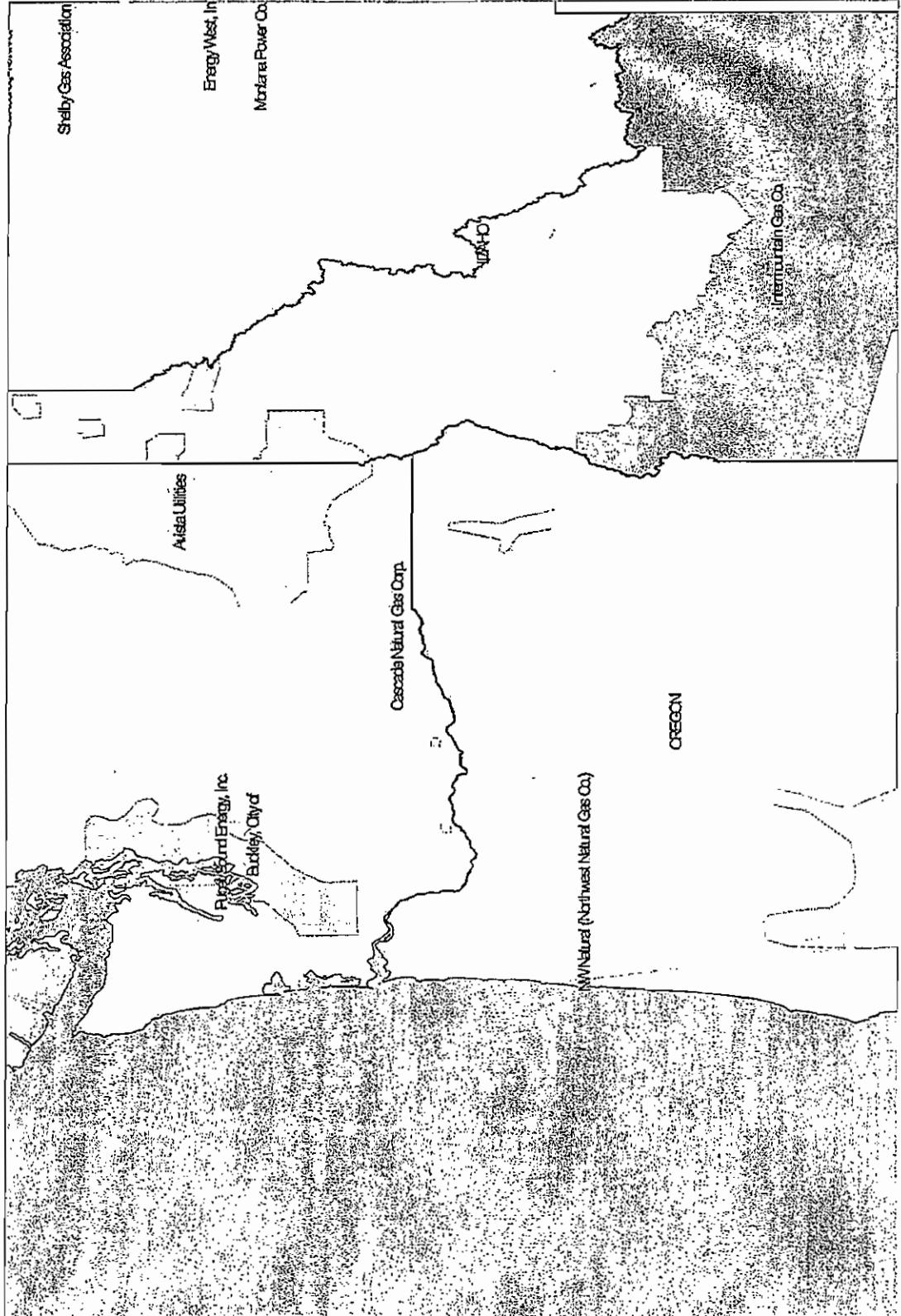
### Retail Customers

	WA	ID	OR	CA	Total
Electric	216,701	110,284			326,985
Gas	131,943	62,804	87,431	18,575	300,753

# Electric Service Territories



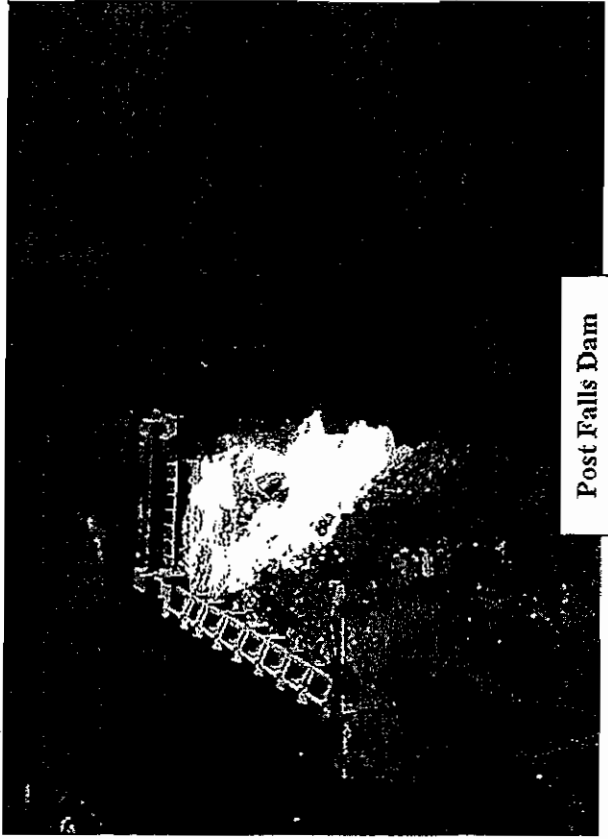
# Natural Gas Service Territories



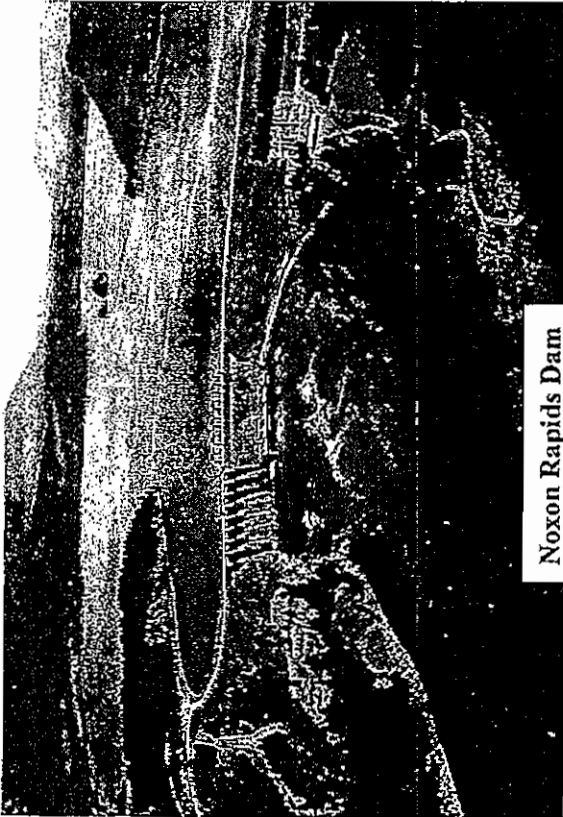




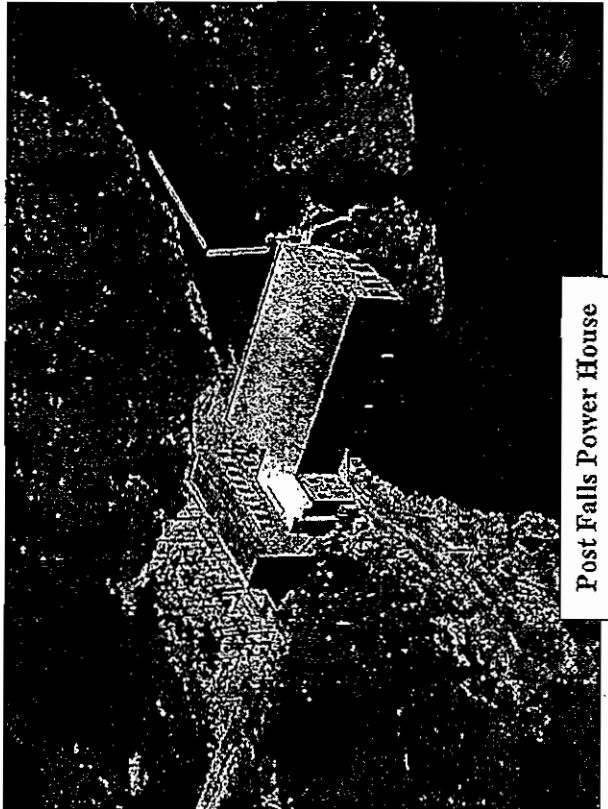
Cabinet Gorge Dam  
261 MW



Post Falls Dam



Noxon Rapids Dam  
527 MW



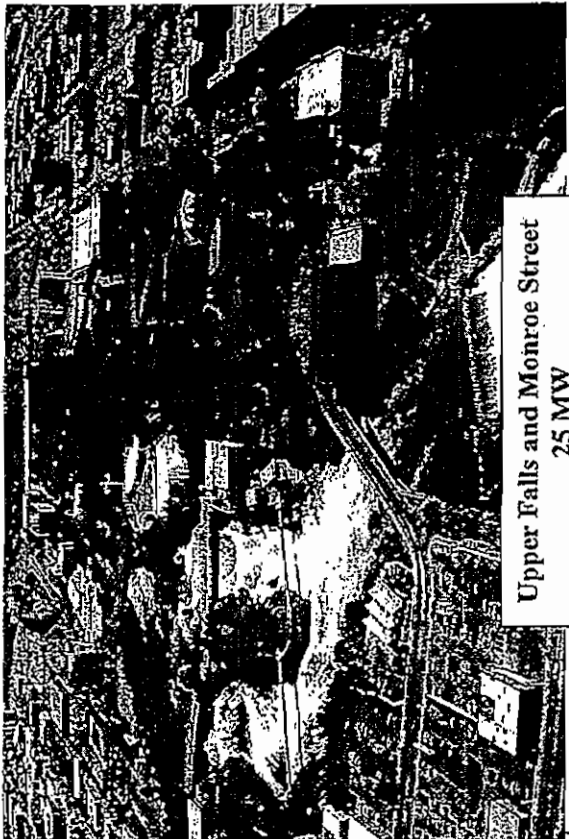
Post Falls Power House  
18 MW



Nine Mile Dam  
25 MW



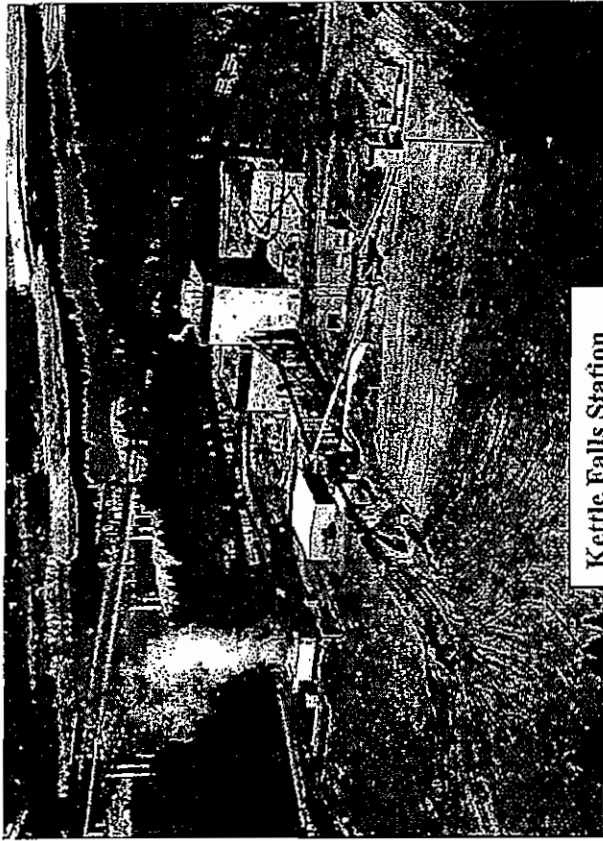
Little Falls Dam  
36 MW



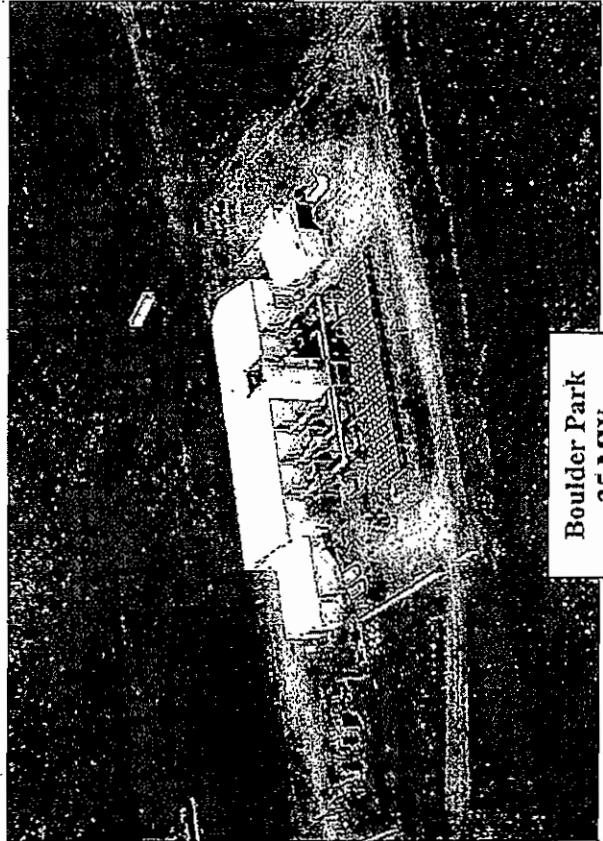
Upper Falls and Monroe Street  
25 MW



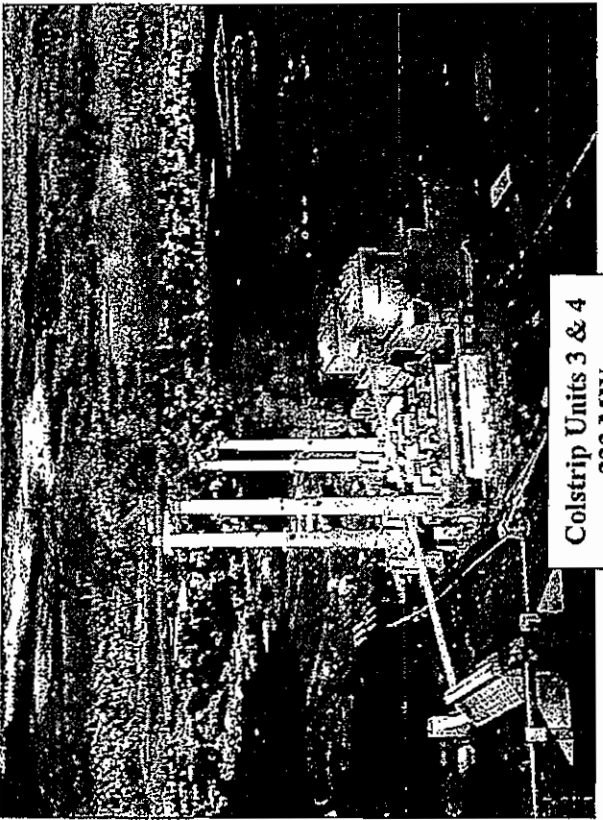
Long Lake Dam  
88 MW



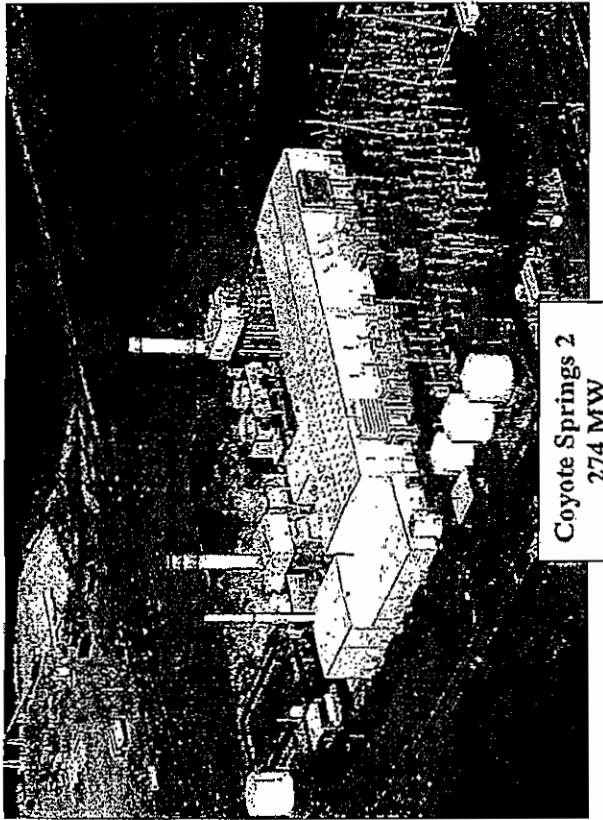
**Kettle Falls Station**  
57 MW



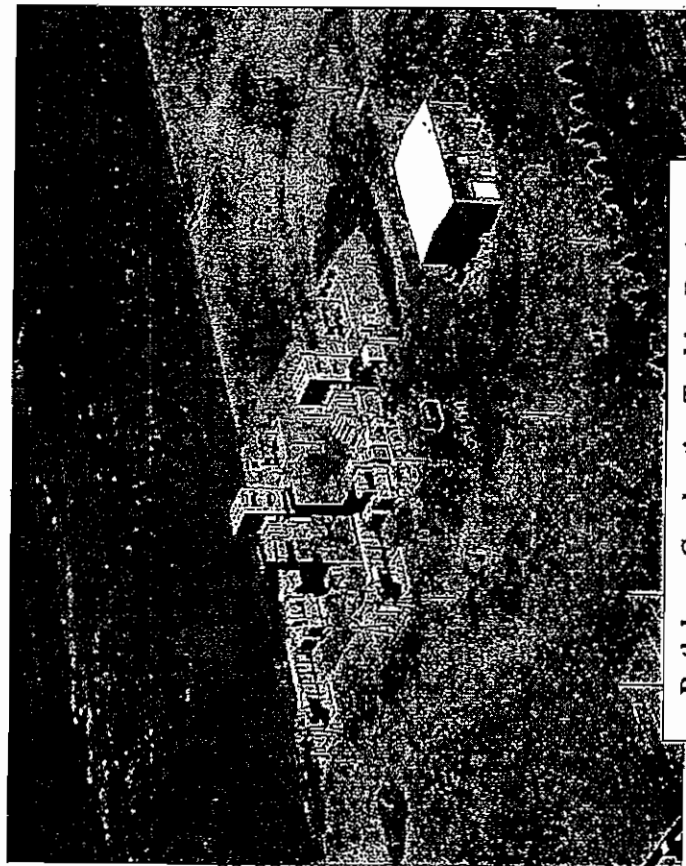
**Boulder Park**  
25 MW



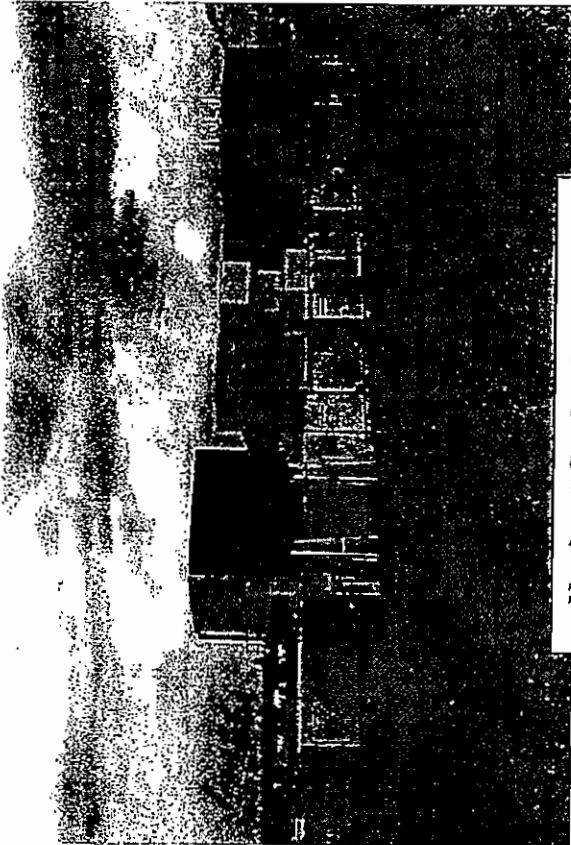
**Colstrip Units 3 & 4**  
222 MW



**Coyote Springs 2**  
274 MW



Rathdrum Combustion Turbine Project  
176 MW



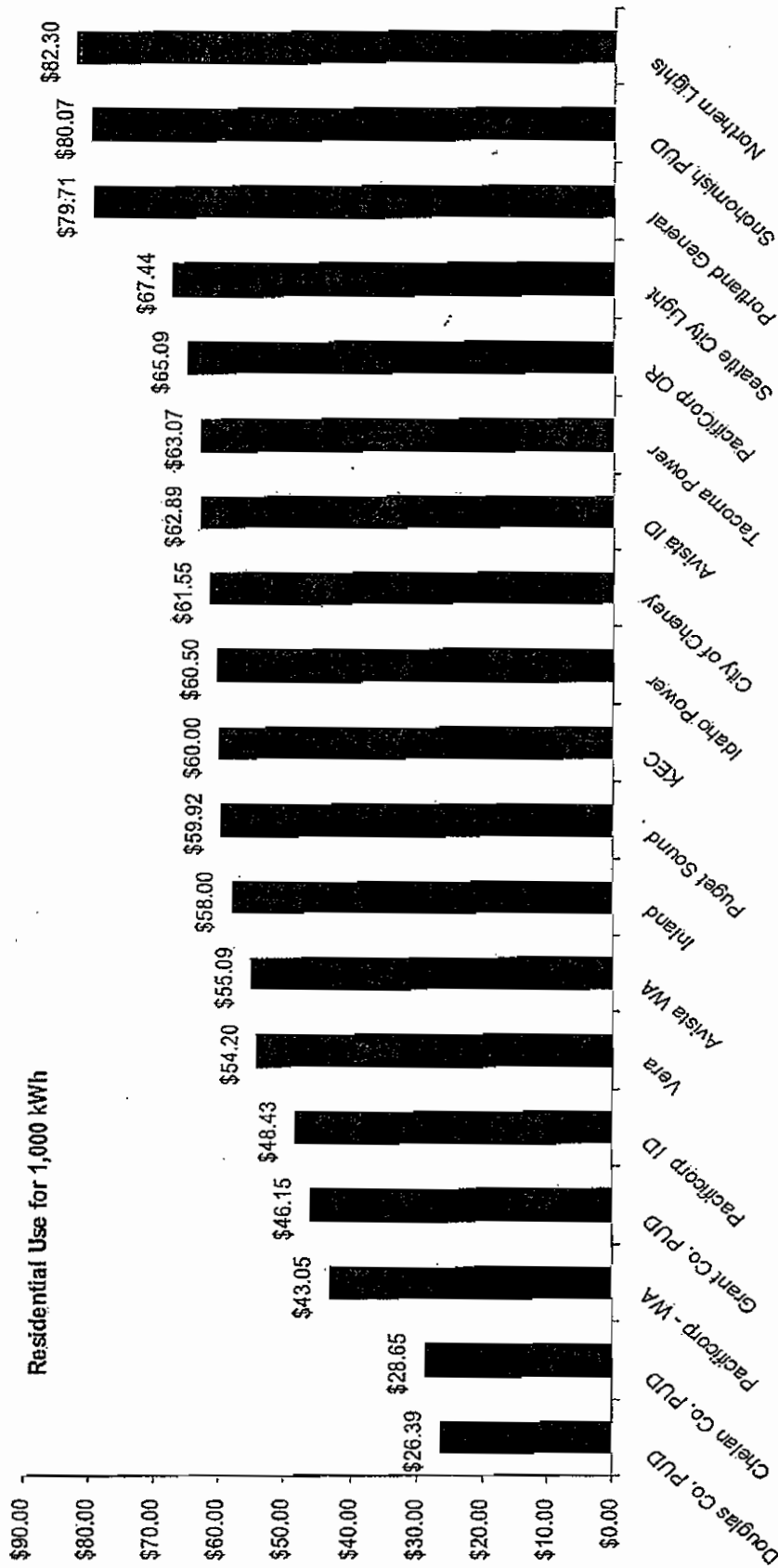
Northeast Combustion Project  
67 MW

**Generation Properties (1)**

	<u>No. of Units</u>	<u>Nameplate Rating (MW) (2)</u>	<u>Present Capability (MW) (3)</u>
<b><u>Hydroelectric Generating Stations (River)</u></b>			
Washington:			
Upper Falls (Spokane)	1	10.0	10.2
Monroe Street (Spokane)	1	14.8	15.0
Nine Mile (Spokane)	4	26.4	24.5
Long Lake (Spokane)	4	70.0	88.0
Little Falls (Spokane)	4	32.0	36.0
Idaho:			
Cabinet Gorge (Clark Fork)	4	265.0	261.0
Post Falls (Spokane)	6	14.8	18.0
Montana:			
Noxon Rapids (Clark Fork)	5	466.2	527.0
<b>Total Hydroelectric:</b>		<b>899.2</b>	<b>979.7</b>
<b><u>Thermal Generating Stations</u></b>			
Washington:			
Kettle Falls	1	50.7	50.0
Kettle Falls CT	1	6.9	6.9
Northeast (Spokane) CT	2	61.8	66.8
Boulder Park	6	24.6	24.6
Idaho:			
Rathdrum CT (1)	2	166.5	176.0
Montana:			
Colstrip (Units 3 & 4) (4)	2	233.4	222.0
Oregon:			
Coyote Springs II	1	287	274.2
<b>Total Thermal:</b>		<b>830.9</b>	<b>820.5</b>
<b>Total Generation Properties:</b>		<b>1730.1</b>	<b>1,800.2</b>

- (1) All generation properties are owned by Avista Utilities with the exception of the Rathdrum CT, which is leased from WP Funding LP, an entity that is included in Avista Corp.'s consolidated financial statements.
- (2) Nameplate Rating, also referred to as "installed capacity," is the manufacturer's assigned power capability under specified conditions.
- (3) Present capability is the maximum capacity of the plant without exceeding approved limits of temperature, stress and environmental conditions.
- (4) Jointly owned; data refers to Avista Utilities' 15 percent interest.

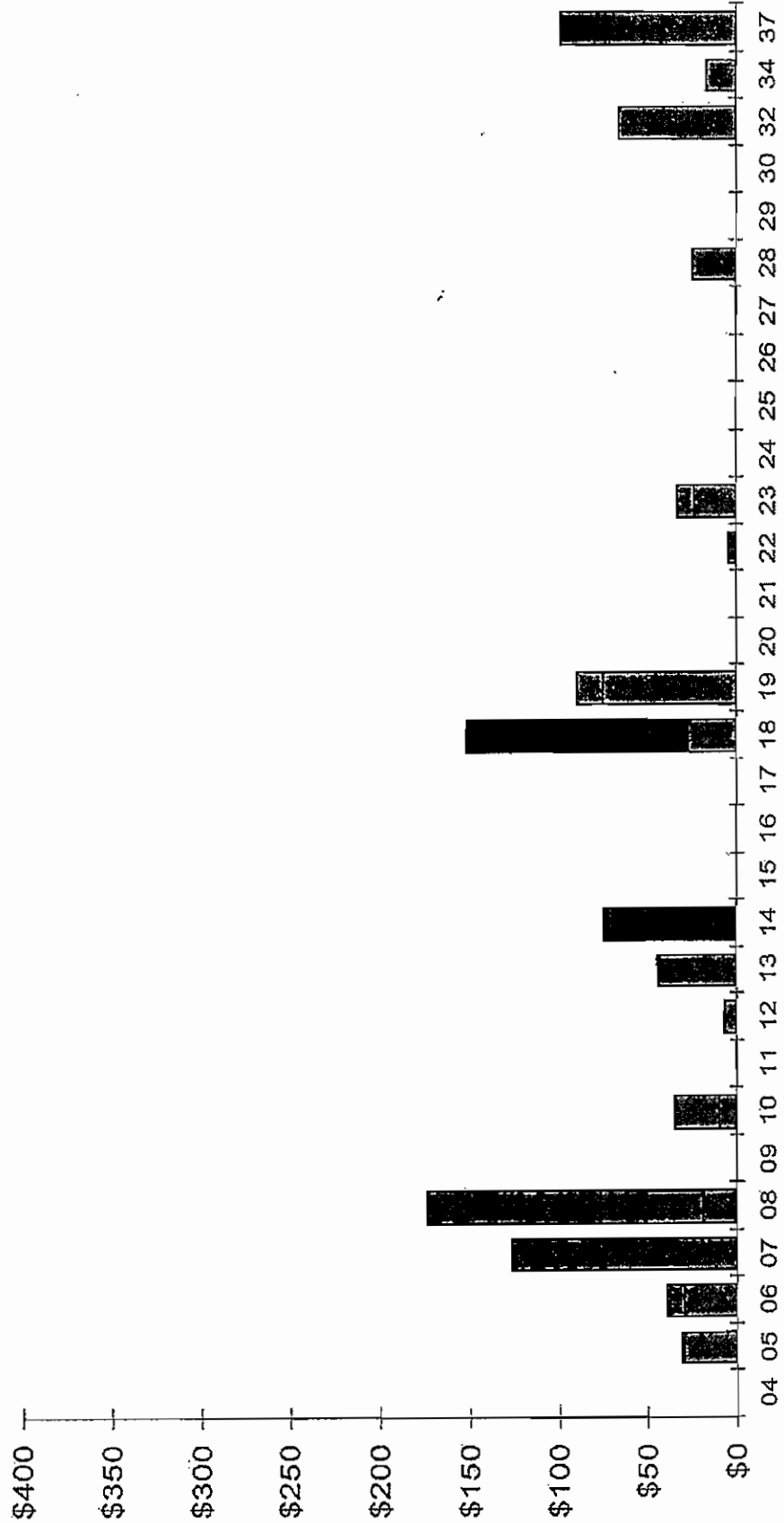
## Electric Bill Comparison



Major Issues:

1. Return to investment grade credit ratings
2. Maturing debt in 2007/2008
3. California Refund and Northwest Refund Cases at FERC
4. Hydroelectric Upgrades
5. Dissolved Gas at Cabinet Gorge
6. Relicensing of Spokane River Projects (license expires in 2007)
7. Coeur d' Alene Tribe ownership of Southern one-third of Lake Coeur d' Alene
8. Transmission Upgrades
9. Regional Transmission Organization (RTO) efforts

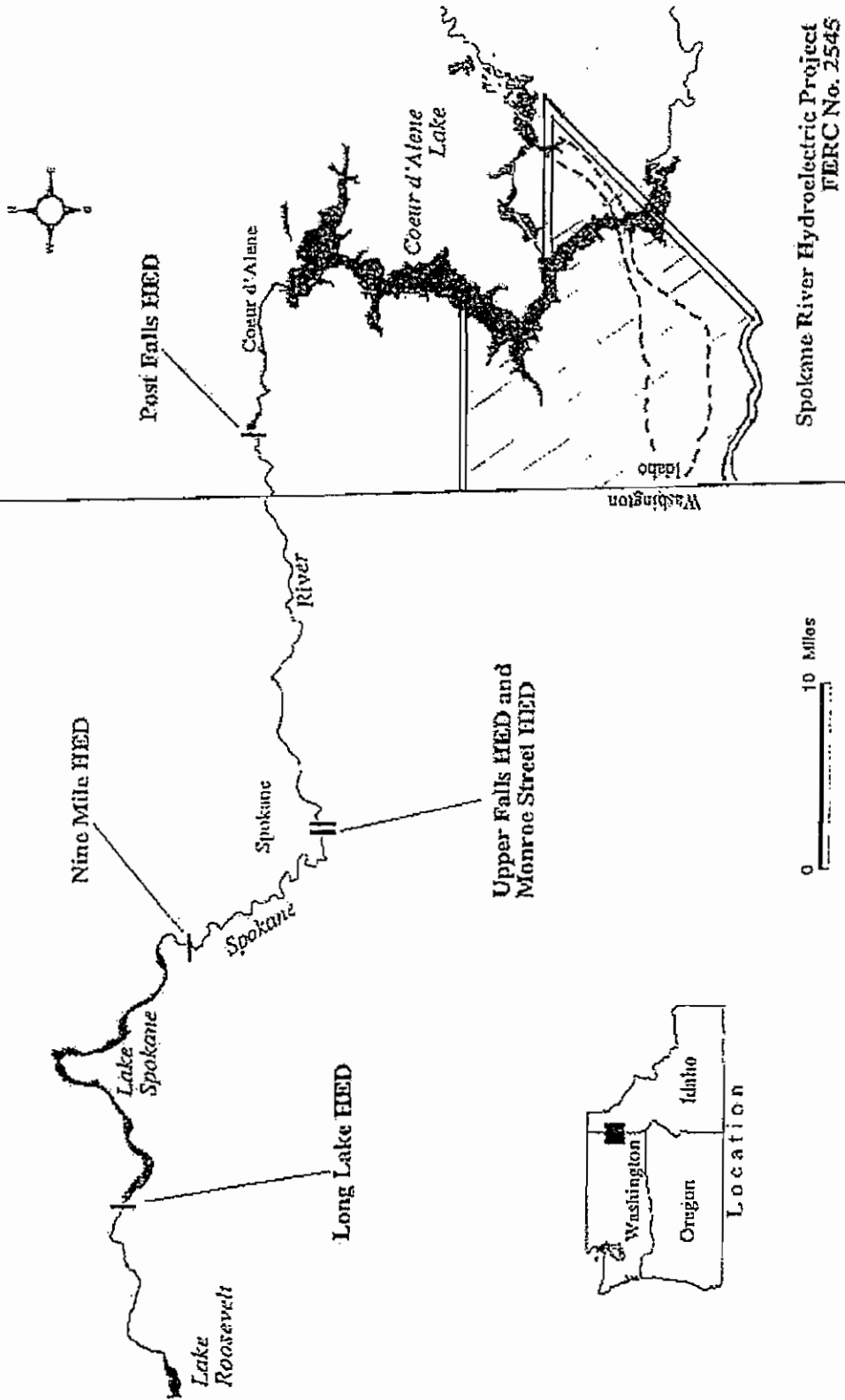
# Debt Maturity Profile December 2004



64

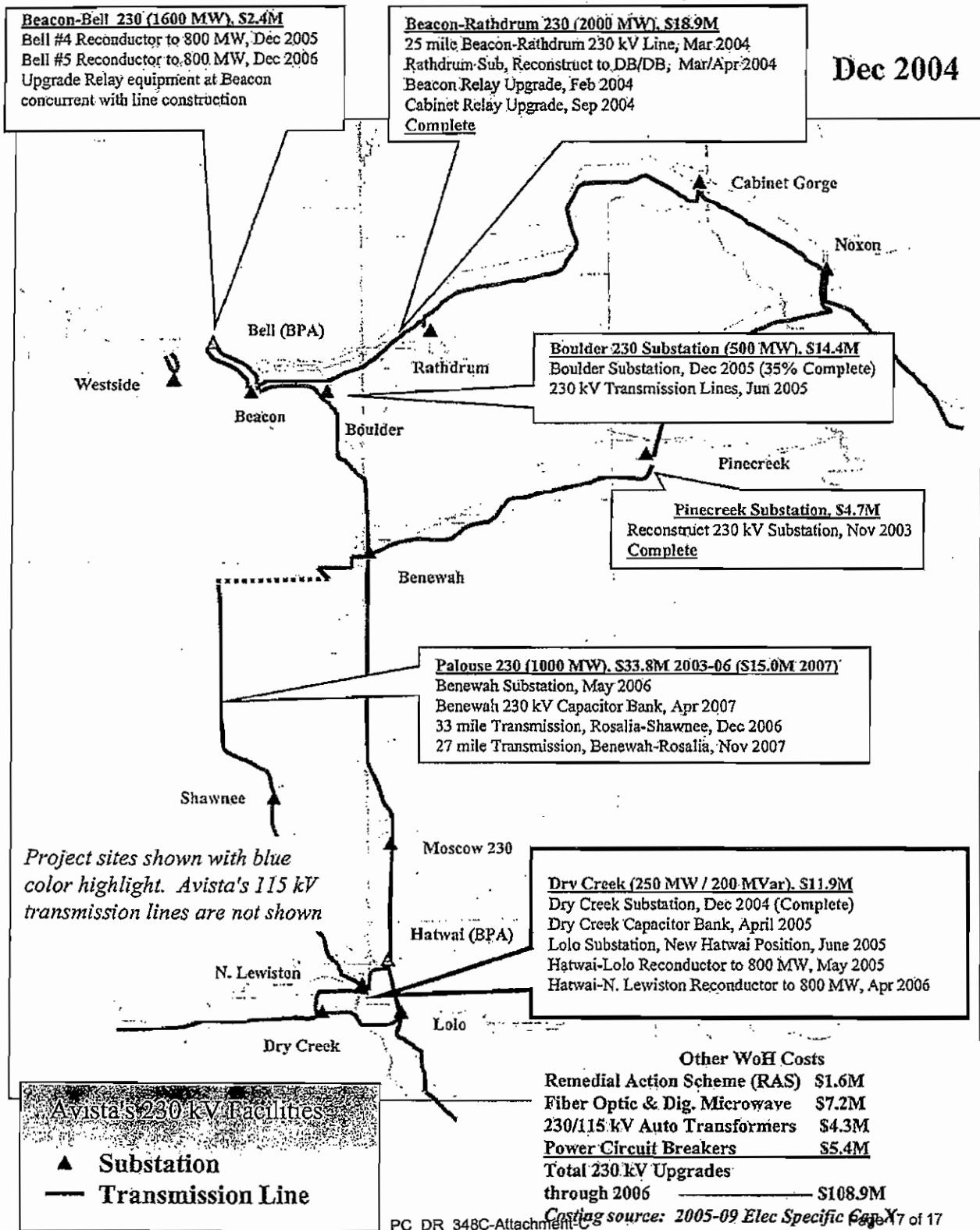


# Spokane River Project



Spokane River Hydroelectric Project  
FERC No. 2545

# 2003-2006 230 kV Upgrade Project Transmission & Substation



WA Commissioner Update  
January 19, 2005  
Olympia, WA

Meeting Schedule:

Marilyn Showalter 12:15-1:00  
Pat Oshie 1:30-2:30  
Roger Braden 2:30-3:30  
Dick Hemstad 4:00-5:00

Attending:

Malyn Malquist  
David Meyer  
Kelly Norwood  
Bruce Folsom

Agenda:

1. Rate Case Plans
  - a. Washington
  - b. Idaho
  - c. Oregon
  - d. California
2. FERC
  - a. 206 Investigation
  - b. CS2 Acquisition (Section 203)
  - c. Market-Based Rate Authority (Section 205)
3. Financial
  - a. Financial Progress
  - b. Financings
  - c. Interest Rate Reduction Financing
4. Subsidiaries
  - a. Energy
  - b. Advantage
5. Other Issues
  - a. Transmission Upgrades
  - b. Cabinet Gorge Dissolved gas
  - c. Spokane River Relicensing
  - d. Coeur d' Alene Tribe negotiations

**Idaho Commissioner Update  
November 2, 2006  
Boise, ID**

Meeting Schedule:

Marsha Smith 9:30  
Dennis Hansen 10:30  
Paul Kjellander 11:30

Attending:

Scott Morris  
Marian Durkin  
Kelly Norwood

Jeff Schlect  
Randy Cloward

Agenda:

1. Columbia Grid –  
Jeff Schlect and Randy Cloward will provide a separate update
2. Update on Subsidiary operations
3. Update on Holding Company Proposal
4. Update on Spokane River Relicensing
5. Update on Coeur d' Alene Lake/Coeur d' Alene Tribe Issue
6. Update on Cabinet Gorge Dissolved Gas
7. Pending and Planned Rate Cases

IPUC Update Meeting  
August 13, 2007  
Boise, Idaho

Avista:

Dennis Vermillion  
Toni Pessemier  
David Meyer  
Kelly Norwood

Meeting Schedule:

9:00 Mack Redford  
10:00 Paul Kjellander  
11:00 Marsha Smith

Draft Agenda:

Update on Coeur d'Alene Tribe Negotiations

Renewable Resources Status Report

Expectations for Next General Rate Case

Other

**MISTA**  
Spokane River Hydroelectric Projects



Coeur d'Alene Tribe Issues and Mediation Status

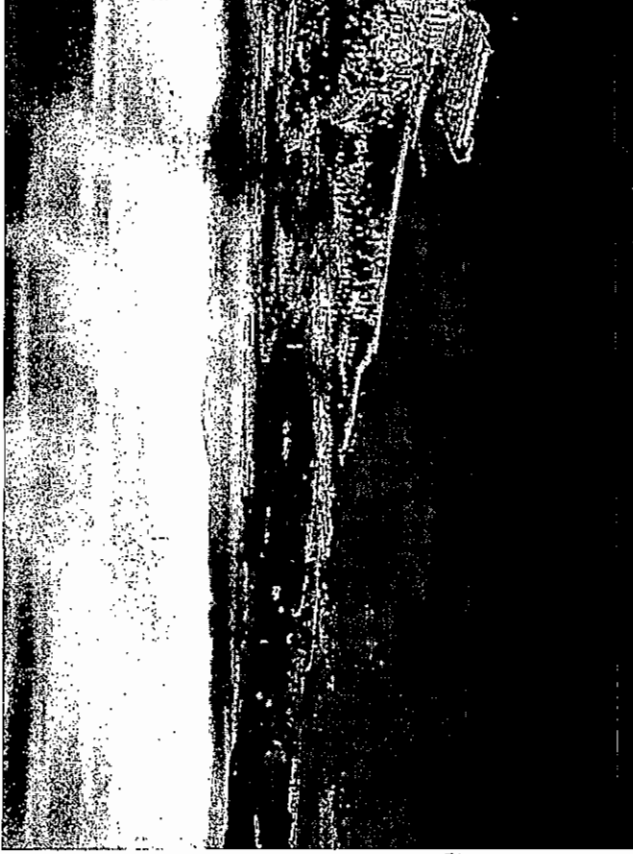
IPUC  
August 2007  
*Confidential*

## Objectives

- Provide overview of Avista's operations related to Lake Coeur d'Alene, significance of lake ownership and FERC relicensing
- Identify issues, risks and value of settlements and relicensing process
- Understand possible impact to rates

# Lake Coeur d'Alene Operations

- Post Falls Dam controls Coeur d'Alene Lake levels, including the portion of the Lake held in trust for the Tribe, 5 to 7 months out of the year
- During the remainder of the year, the lake is on free flow conditions
- Normal summer elevation
  - 2126.5' prior to 1941
  - 2128.0' current
- Minimum elevation 2120.5'





# Overview of Issues

- Compensation for storage
  - Past trespass 1907 – 1981
  - §10(e) FPA 1981 – 2007 and 2007 forward
    - Annual charge for use and occupancy of federal/tribal lands
  
- FERC relicensing for Spokane River Projects
  - FERC measures for all resource areas
  - §4(e) FPA mandatory conditions imposed by DOI for the protection of Indian Reservations and public lands (erosion, wetlands, cultural, fisheries, water quality, recreation)
  - Additional conditions for off-reservation areas (e.g. 401 certifications, ESA requirements)

## Overview of Issues (cont'd)

- Transmission line right-of-way on tribal lands
- Water rights
- Tribal Employment Rights Ordinance

## Historical Context

**1873, 1887, 1889** – U.S. negotiations with Coeur d’Alene Tribe

- Ceded  $\frac{2}{3}$  of lake for compensation

**1890 – 1891**

- Senate ratifies agreement with tribe (pending in House)
- Idaho Statehood ratified by Congress
- Congress ratifies 1887 and 1889 agreements with tribe
- Congress ratifies land grant by Chief Seltice to Frederick Post for the Post Falls Dam site

**1905** – Avista completes purchase of dam site

**1907** – Post Falls HED reconstructed by Avista

**1909** – Avista acquires DOI permit to overflow lands within reservation

*Assumption that State owns the Lake*

## Historical Context (cont'd)

**1972** – FERC grants license to Avista for four Projects (excluding Post Falls), license expires in August 2007

**1972-1973** – Tribe and DOI, for the first time, claim the Tribe owns all or part of the Lake

**1979** – Avista seeks to amend license

- include the Post Falls HED
- add a 6<sup>th</sup> turbine for increased capacity
- requested that FERC decide on the Lake ownership in an effort to resolve the issues brought forth by the Tribe

**1980** – An ALJ ruled that Idaho owned the Lake

**1981** – FERC issues order to include Post Falls in the Spokane River license

- notes annual charges for use of tribal lands to be determined at a later hearing

## Historical Context (*cont'd*)

- 1983** – FERC reverses ALJ decision which was appealed
- 1988** – FERC decides it lacks jurisdiction to determine ownership
- 1994** – U.S. brings action for ownership on behalf of the Tribe against Idaho
- 1998** – U.S. District Court finds that Tribe owns a portion of the Lake
- 1999** – Discussions were initiated with the Tribe to identify issues and seek resolution
- 2001** – U.S. Supreme Court affirms lake ownership decision (5 to 4)
- 2002** – Avista entered formal process to relicense the Spokane River Project
- 2007** – FERC license expires August 1, 2007

# Mediation Process Compensation for Storage

- Claims
  - Past trespass 1907-1981 (U.S. District Court)
  - Past §10(e) 1981-2007 (FERC)
  - Future §10(e) 2007 forward (FERC)
- 20+ meetings with Tribe, 1999-2003
- Selected mediator in 2003
  - Confidentiality agreement
- Initiated legal advisory opinion in 2005 with Judge Canby
  - 9<sup>th</sup> Circuit Judge – Senior Status
  - Expert in Indian Law

# Storage Mediation Process

- Phase 1 – Liability
  - Trespass
  - Statute of Limitations

*Decision in December 2006*
- Phase 2 – Damages
  - Net Benefit Methodology (accepted by FERC)
  - Prejudgment Interest (discretion of the Court)

*Oral argument in June 2007*

# Storage Mediation Process (cont'd)

CONFIDENTIAL per Protective Order in WUTC Dockets UE-080416 & UG-080417

CONFIDENTIAL per Protective Order  
in WUTC Dockets UE-080416 & UG-080417





# Settlement Value Enhanced by resolving other issues

- Water rights
  - Tribe to grant Avista water rights
  - Tribe's ordinance states that they have exclusive rights to use all surface and ground water within reservation with tribal court jurisdiction
- Tribal Employment Rights Ordinance
  - Proposed settlement language would address intent of TERO and eliminate fees
- Transmission line Right-of-Way

# Coeur d'Alene Tribe Rights-of-Way

CONFIDENTIAL per Protective  
Order in WUTC Dockets UE-080416 & UG-080417

CONFIDENTIAL per Protective Order  
in WUTC Dockets UE-080416 & UG-080417



# Rights-of-Way Alternatives

CONFIDENTIAL per Protective  
Order in WUTC Dockets UE-080416 & UG-080417

CONFIDENTIAL per Protective Order  
in WUTC Dockets UE-080416 & UG-080417



# Spokane River Relicensing

## Coeur d'Alene Tribe Involvement

- Key issues
  - §4(e) mandatory conditions imposed by DOI on Coeur d'Alene Reservation
  - FERC directed measures
  - Clean Water Act 401 Certification
  - Endangered Species Act
- July 2005 filed 2 applications to FERC (*Post Falls Project separate from others*)

# Post-Application Process DOI Mandatory Conditions

CONFIDENTIAL per Protective  
Order in WUTC Dockets UE-080416 & UG-080417

CONFIDENTIAL per Protective Order  
in WUTC Dockets UE-080416 & UG-080417



# DOI Mandatory Conditions

CONFIDENTIAL per Protective Order  
in WUTC Dockets UE-080416 & UG-080417

CONFIDENTIAL per Protective  
Order in WUTC Dockets UE-080416 & UG-080417



**Idaho Commissioner Mack Redford and  
Avista Board Member Roy Eiguren Visit  
Wednesday, December 12, 2007**

**Avista Utilities  
1411 E. Mission  
Spokane, WA  
Conference Room 512  
10:45 am to 12:15 pm**

10:30 am **Arrive Avista**

10:45 am **Discussions in Room 512**

Malyn Malquist Sr. VP and Chief Financial Officer  
• Financial Update

Don Kopczyński VP, Transmission & Distribution Operations  
• Change Agents/Challenges  
• Mobile Dispatch  
• Outage Management  
• Idaho AMR

Roger Woodworth VP, for Sustainable Energy Solutions  
• Every Little Bit Campaign  
• Energy Efficiency Update

Dennis Vermillion VP, Energy Resources  
• Power Supply Overview  
• Relicensing Update  
• Cd'A Tribe Update

Kelly Norwood VP, State & Federal Regulation  
• Rate Case Plans

Other Issues – Open Discussion

12:30 pm Off site for lunch

**Idaho Commissioner Jim Kempton and  
Avista Board Member Roy Eiguren Visit  
Wednesday, February 6, 2008**

**Avista Utilities  
1411 E. Mission  
Spokane, WA  
Conference Room 512**

- 10:15 am     **Arrive Avista**
- 10:30 am     **Discussions in Room 512**
- Scott Morris                      Chairman of the Board, President, and CEO
- Welcome
- Ann Wilson                         VP, and Controller
- Financial Update
- Don Kopczynski                    VP, Transmission & Distribution Operations
- Mobile Dispatch
  - Outage Management
  - Idaho AMR
- Roger Woodworth                 VP, for Sustainable Energy Solutions.
- Every Little Bit Campaign
  - Energy Efficiency Update
- Dennis Vermillion                VP, Energy Resources
- Energy Resources Overview
  - Relicensing Update
  - Cd'A Tribe Update
- Kelly Norwood                    VP, State & Federal Regulation
- Rate Case Plans
- Other Issues – Open Discussion
- 11:30 pm     Lunch provided by Azar's



**Idaho Commissioner Update**  
**February 28, 2008**  
**Boise, ID**

Meeting Schedule:

9:00 Jim Kempton  
10:00 Randy Lobb & Staff  
11:00 Mack Redford

Attending:

Scott Morris  
Malyn Malquist  
Kelly Norwood  
David Meyer

Draft Agenda:

1. Credit Rating Upgrades
2. Status of plans to refinance 9 ¾% debt
3. Update on Hydro Conditions
4. BPA Residential Exchange
  - Current Surcharge
  - Interim Benefits
  - Expectation for Long-term benefits
5. General Rate Case Plans
6. Update CDA Lake
7. Update Spokane River Relicensing
8. Wind Project Development
9. Low Income Issues
10. Other

DAVID J. MEYER  
VICE PRESIDENT, GENERAL COUNSEL, REGULATORY &  
GOVERNMENTAL AFFAIRS  
AVISTA CORPORATION  
P.O. BOX 3727  
1411 EAST MISSION AVENUE  
SPOKANE, WASHINGTON 99220-3727  
TELEPHONE: (509) 495-8851  
FACSIMILE: (509) 495-4361

**REDACTED**

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )	CASE NO. AVU-E-08-01
OF AVISTA CORPORATION FOR THE )	
AUTHORITY TO INCREASE ITS RATES )	
AND CHARGES FOR ELECTRIC AND )	
NATURAL GAS SERVICE TO ELECTRIC )	DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE )	OF
STATE OF IDAHO )	TONI E. PESSEMIER
)	

FOR AVISTA CORPORATION

(ELECTRIC ONLY)

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I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Toni E. Pessemier. I am employed as the American Indian Relations Advisor by Avista Corporation located at 1411 East Mission Avenue, Spokane, Washington.

Q. Would you briefly describe your educational and professional background?

A. I received a Bachelor of Arts in Business Administration from Pacific University in 1986, and a Master of Business Administration degree from Eastern Washington University in 1995. I started working for Avista in 1988 as a Customer Service Representative. Since that time I have worked in various positions including Internal Auditor and Power Resource Engineer/Analyst. In 1993, I began my current position as Advisor to the Office of the President, American Indian Relations. My primary responsibilities involve the management and support of projects related to business operations or legal issues involving Tribes, maintaining corporate compliance with tribal-related regulations and settlements, and sustaining working relationships with regional American Indian Tribes.

Pessemier, Di 1  
Avista Corporation

1           **Q. What is the scope of your testimony in this**  
2 **proceeding?**

3           A. My testimony will provide an overview of the  
4 Coeur d'Alene Tribe's claims concerning compensation for  
5 storage of water on Coeur d'Alene Lake and subsequent  
6 settlement of these issues.<sup>1</sup> The testimony provides  
7 background data concerning the claims for past storage,  
8 compensation for future storage associated with the Spokane  
9 River Project FERC relicensing, settlement of these issues,  
10 and transmission rights of way on tribal lands.

11           **Q. Are you sponsoring any exhibits?**

12           A. Yes. I am sponsoring Exhibit 8, Schedule 1 (Map  
13 of Lake Coeur d'Alene and Post Falls Hydroelectric Project)  
14 and Schedule 2 (Memorandum Concerning Settlement of Claims  
15 with the Coeur d'Alene Tribe).

16           **Q. What are the main issues concerning the Coeur**  
17 **d'Alene Tribe?**

18           A. There are several legal issues concerning  
19 trespass and compensation for water storage for the Coeur  
20 d'Alene Tribe (CDA Tribe). The past trespass covers the  
21 period from 1907 through 1981, during which the tribal  
22 ownership of the lower third of the lake was not known to  
23 the Company or any of its regulatory agencies. The second

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<sup>1</sup> Final execution of the settled documents and public disclosure of the terms will await final review of the settlement by the Department of Interior (DOI), which Avista currently believes will occur in April of 2008. Thereafter, unredacted versions of the testimony and exhibits pertaining to this issue will be filed with the Commission.

Pessemier, Di           2  
Avista Corporation

1 period covers 1981 through 2007, where compensation for  
2 storage is governed under the Federal Power Act, because  
3 the Post Falls Hydroelectric Development was added to the  
4 FERC Spokane River Project license in 1981. The third  
5 issue covers all aspects of the Spokane River Relicensing  
6 process, which includes future compensation for storage for  
7 the new license period. Finally, another key issue  
8 concerned Avista's transmission rights-of-way across tribal  
9 trust and fee lands.

10 Q. Would you please provide a brief overview of Lake  
11 Coeur d'Alene in relation to the Spokane River  
12 Hydroelectric Project?

13 A. Yes. Lake Coeur d'Alene has a minimum elevation  
14 of approximately 2,120.5 feet and normal summer elevation  
15 of 2,128.0 feet. Prior to 1941, the summer elevation was  
16 2,126.5 feet. The Post Falls Dam has controlled Coeur  
17 d'Alene Lake levels for five to seven months of the year  
18 since the project began operation in 1906. The lake is on  
19 free-flow conditions for the remaining months of the year.  
20 See Exhibit 8, Schedule 1, consisting of a map of the CDA  
21 Lake and the location of Post Falls Dam in relation  
22 thereto.

23 Q. Please summarize the history of the dispute with  
24 the Coeur d'Alene Tribe.

Pessemier, Di  
Avista Corporation

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1           A.   Exhibit 8, Schedule 2 provides an in-depth  
2 history of the litigation and basis for settlement. As  
3 explained in this exhibit, Avista believed that it had all  
4 necessary permits to store water on the lake for the Post  
5 Falls Project between 1907 and 1972. During this period,  
6 the State of Idaho exercised exclusive ownership of the  
7 lake and the use of the lake for storage by Avista was not  
8 challenged by any parties during this time.

9           The CDA Tribe first made a claim to partial ownership  
10 of the lake in 1973 when they sought to intervene in FERC  
11 proceedings concerning the license of the Spokane River  
12 Project. In 1979, Avista stipulated to allow FERC to  
13 decide the issue, which resulted in a 1980 FERC decision  
14 that the State of Idaho owned the lake. This decision was  
15 reversed in 1983 which resulted in further appeals until  
16 1988, when FERC ultimately determined that it did not have  
17 jurisdiction to resolve the lake ownership issue. No  
18 further action was taken on the matter until 1992, when the  
19 CDA Tribe filed suit in federal court for ownership of the  
20 lake. The State of Idaho claimed immunity from suit and  
21 the case was ultimately dismissed.

22           In 1994, the ownership issue was taken up by the U.S.  
23 as Trustee for the Tribe. In 1998, the United States  
24 District Court for the District of Idaho determined that  
25 the CDA Tribe owns portions of the bed and banks of Lake

        } Pessemier, Di  
        } Avista Corporation

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1 Coeur d'Alene that are within the current boundaries of the  
2 Coeur d'Alene Reservation. The case eventually reached the  
3 U.S. Supreme Court, where a narrow 5-to-4 decision in 2001  
4 established that the United States holds, in trust for the  
5 CDA Tribe, the portion of the lake that is located within  
6 the Reservation boundaries. This amounts to approximately  
7 the lower one-third of the lake. This ruling directly  
8 impacts the Company because Avista owns and operates the  
9 Post Falls Hydroelectric Generating Station (Post Falls),  
10 which controls the lake water level during portions of the  
11 year. The ruling resulted in the Company being liable for  
12 compensation to the CDA Tribe for water storage on  
13 reservation lands under §10(e) of the Federal Power Act.  
14 The Company and the CDA Tribe subsequently engaged in  
15 ongoing discussions with respect to past and future  
16 compensation.

17 **Q. Please describe the process that ultimately led**  
18 **to a settlement of this matter.**

19 A. Avista and the Tribe agreed to a mediation  
20 process before commencing with litigation. A unique  
21 process was used that involved a blending of traditional  
22 litigation elements along with mediated settlement  
23 negotiations. The services of John Bickerman, a mediator  
24 from Washington, D.C., were retained by the parties to  
25 oversee and facilitate settlement discussions. The

Pessemier, Di  
Avista Corporation

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1 Honorable Judge William Canby of the U.S. Ninth Circuit  
2 Court of Appeals for the Ninth Circuit was retained to  
3 provide the parties with non-binding advisory opinions  
4 regarding liability and damages. The mediation process  
5 took several years and resulted in a large volume of data  
6 collection and analysis. The negotiated settlement  
7 comprehensively addressed and resolved the Tribe's claims  
8 of trespass, §10(e) charges, transmission line rights of  
9 way, and many of the Tribe's issues also associated with  
10 the Spokane River Relicensing process.

11 **Q. What was determined during the settlement?**

12 A. [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED]  
16 [REDACTED]  
17 [REDACTED]  
18 [REDACTED]  
19 [REDACTED]  
20 [REDACTED]

21 [REDACTED] The methodology for determining  
22 damages owed to the Tribe was also reviewed through Judge  
23 Canby and the amounts of those damages were then determined  
24 through additional mediation and negotiations. The  
25 financial components of the settlement covered compensation



1 for trespass, §10(e) charges, transmission rights of way,  
2 water rights permit, and satisfaction of §4(e) conditions  
3 with a new FERC license for the Spokane River Project.

4 **Q. What are the terms of the settlement agreement?**

5 A. There are several areas covered under the terms  
6 of the settlement agreement:

- 7 • Regarding compensation for trespass, the settlement  
8 includes the payment of \$25 million in 2008, \$10  
9 million in 2009 and \$4 million in 2010 for resolution  
10 of the past trespass and §10(e) charges. The future  
11 §10(e) payments are \$400,000 flat annual payments for  
12 the first 20 years of the license and \$700,000 flat  
13 annual payments for the remaining 30 years of the  
14 license.
- 15 • There was an agreement by the Tribe to indemnify,  
16 defend and hold Avista harmless from any and all  
17 liability, judgment, loss, cost, and expense resulting  
18 from any and all claims of any kind or nature that may  
19 be asserted by the United States, or any governmental  
20 department, agency or officer thereof, arising out of  
21 or related to or in any way connected with the use or  
22 occupancy by Avista of the bed and banks of the Lake  
23 and the St. Joe River lying within the boundaries of  
24 the reservation.

Pessemier, Di  
Avista Corporation

7

- 1 • The Tribe granted Avista transmission line rights of  
2 way across tribal trust and fee land for a time period  
3 correlated with the term of a new Spokane River  
4 Project FERC license for a single payment of \$32,000.
- 5 • The Tribe issued a water permit and agreed that the  
6 settlement payments will satisfy any future tax claims  
7 for water storage.
- 8 • §4(e) conditions for relicensing the Spokane River  
9 Project would be satisfied through payments of \$10  
10 million in the first year, \$2 million per year for the  
11 next eight years, \$1.5 million for the next 16 years  
12 and \$2 million per year for the remainder of the 50-  
13 year FERC license into a resources restoration fund to  
14 implement provisions of the §4(e) conditions.
- 15 • A master agreement would be filed under a joint  
16 petition in Federal District Court seeking a consent  
17 judgment to maintain the continuing jurisdiction of  
18 the Federal District Court to enforce the terms of the  
19 settlement.
- 20 • Finally, there is a reservation of claims and defenses  
21 in the event the Tribe makes a claim to ownership of  
22 the northern two-thirds of the Lake and Heyburn State  
23 Park.

24 Q. Why did the Company choose to settle the case at  
25 this time rather than proceed with litigation?

Pessemier, Di  
Avista Corporation

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1           the Tribe. In this respect, the settlement provides  
2           certainty to Avista.

3           Accordingly, the settlement does not give either party all  
4           of the outcomes that might be obtained or desired under  
5           various scenarios, including the possibility of successful  
6           litigation in federal court. However, this must be weighed  
7           against the likelihood that formal litigation could last  
8           decades, could potentially subject Avista to significant  
9           past damages; and could render operation of the Post Falls  
10          HED impracticable. Therefore, considering the risks of  
11          litigation, together with the potential exposure and other  
12          considerations involved, the settlement reflects a  
13          reasonable compromise, and a fair accommodation, to the  
14          interests of Avista and its customers. Upon execution of  
15          the final agreement by the parties, a copy of the  
16          settlement will be submitted to the Commission. Company  
17          witness Ms. Andrews discusses the impact of the settlement  
18          in the Company's request in this case.

19           **Q. Does this conclude your pre-filed direct**  
20           **testimony?**

21           A. Yes it does.

Avista Corp.  
1411 East Mission, P.O. Box 3727  
Spokane, Washington 99220-3727  
Telephone: 509-489-0500  
Toll Free: 800-777-8170

RECEIVED



2008 AUG -8 PM 10:36

IDAHO PUBLIC  
UTILITIES COMMISSION

August 7, 2008

Jean D. Jewell  
Commission Secretary  
Idaho Public Utilities Commission  
472 W. Washington Street  
Boise, ID 83702

Re: Case Nos. AVU-E-08-01 and AVU-G-08-01  
Avista's Motion for Approval of Stipulation

Enclosed for filing with the Commission in the above-referenced docket are the original and seven copies of Avista's Motion for Approval of Stipulation dated August 7, 2008.

The parties to the Stipulation intend to file testimony in support of the Stipulation.

Sincerely,

A handwritten signature in cursive script that reads "Kelly O. Norwood".

Kelly O. Norwood  
Vice President

Enclosures

c: Service List

**CERTIFICATE OF SERVICE**

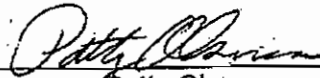
I HEREBY CERTIFY that I have this 7th day of August, 2008, served the Avista's Motion For Approval of Stipulation in Docket No. AVU-E-08-01 and AVU-G-08-01 upon the following parties, by mailing a copy thereof, property addressed with postage prepaid to:

Jean D Jewell, Secretary  
Idaho Public Utilities Commission  
Statehouse  
Boise, ID 83720-5983

Brad M. Purdy  
Attorney at Law  
2019 N 17<sup>th</sup> Street  
Boise, ID 83720

Scott Woodbury  
Deputy Attorney  
Idaho Public Utilities Commission  
472 W. Washington  
Boise, ID 83702-0659

Conley E. Ward  
Givens Pursley LLP  
602 W. Bannock Street  
Boise, ID 83702-2720



Patty Olsness  
Rates Coordinator

David J. Meyer, Esq.  
Vice President and Chief Counsel of  
Regulatory and Governmental Affairs  
Avista Corporation  
1411 E. Mission Avenue  
P. O. Box 3727  
Spokane, Washington 99220  
Phone: (509) 425-4316, Fax: (509) 495-8851

RECEIVED  
2008 AUG -8 PM 10:36  
IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF AVISTA CORPORATION FOR THE )  
AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR ELECTRIC AND )  
NATURAL GAS SERVICE TO ELECTRIC )  
AND NATURAL GAS CUSTOMERS IN THE )  
STATE OF IDAHO )  
CASE NOS. AVU-E-08-01  
AVU-G-08-01  
MOTION FOR APPROVAL OF  
STIPULATION

COMES NOW, Avista Corporation ("Avista" or "Company"), the  
Commission Staff and the other Parties to the settlement Stipulation, and hereby move  
the Commission for an Order accepting the settlement Stipulation filed herewith. RP 56;  
272; 274. This Motion is based on the following:

1. On April 3, 2008, Avista filed an Application with the Commission for  
authority to increase revenue for electric and natural gas service in Idaho by 16.7% and  
5.8%, respectively. If approved, the Company's revenues for electric base retail rates  
would have increased by \$32.3 million annually; Company revenues for natural gas  
service would have increased by \$4.7 million annually. The Company requested an  
effective date of May 5, 2008 for its proposed electric/gas rate increase. By Order No.  
30528, dated April 16, 2008, the Commission suspended the proposed schedules of rates

and charges for electric and natural gas service for a period of thirty (30) days plus five (5) months from May 5, 2008, or until such time as the Commission entered an Order accepting, rejecting or modifying the Application in this matter.

2. Petitions to intervene in this proceeding were filed by Potlatch Corporation ("Potlatch") and Community Action Partnership Association of Idaho ("CAPAI"). By various orders, the Commission granted these interventions. See, IPUC Order Nos. 30550 and 30551.

3. Public workshops for Avista customers were held on July 23, 2008 in Moscow, Idaho, and on July 24, 2008 in Coeur d'Alene, Idaho, for the purpose of explaining the Company's Application and in order to provide an opportunity for customers to ask questions of Staff.

4. Based on settlement discussions, the Parties whose signatures appear on the Stipulation have agreed to resolve and settle all of the issues in the case. A copy of the signed Stipulation evidencing that settlement is enclosed as Attachment 1.

5. The Parties recommend that the Commission grant this Motion and approve the Stipulation in its entirety, without material change or condition, pursuant to RP 274.

6. The Parties respectfully request an evidentiary hearing for the purpose of presenting the Stipulation and intend to pre-file supporting testimony in advance thereof. In addition, it is understood that the Commission may schedule hearings for the receipt of public testimony at a time and place of its own choosing.

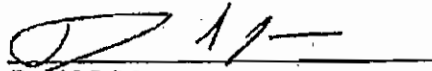
7. As noted in the Stipulation, all of the Parties agree that the Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.



NOW, THEREFORE, the Parties respectfully request that the Commission issue a final order in Case Nos. AVU-E-08-01 and AVU-G-08-01:

1. Granting this Motion and accepting the Stipulation (Attachment 1), in its entirety, without material change or condition; and
2. Authorizing the Company to implement revised tariff schedules designed to recover \$23,163,000 in additional annual electric revenue and \$3,878,000 in additional annual natural gas revenue from Idaho customers consistent with the terms of the Stipulation; and
3. Authorizing that revised tariff schedules be made effective October 1, 2008.

Respectfully submitted this 7<sup>th</sup> day of August, 2008.

  
David J. Meyer  
Attorney for Avista Corporation

ATTACHMENT 1

David J. Meyer, Esq.  
 Vice President and Chief Counsel of  
 Regulatory and Governmental Affairs  
 Avista Corporation  
 1411 E. Mission Avenue  
 P. O. Box 3727  
 Spokane, Washington 99220  
 Phone: (509) 425-4316, Fax: (509) 495-8851

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF AVISTA CORPORATION FOR THE	)	CASE NOS. AVU-E-08-01
AUTHORITY TO INCREASE ITS RATES	)	AVU-G-08-01
AND CHARGES FOR ELECTRIC AND	)	
NATURAL GAS SERVICE TO ELECTRIC	)	STIPULATION
AND NATURAL GAS CUSTOMERS IN THE	)	
STATE OF IDAHO	)	

This Stipulation is entered into by and among Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), the Staff of the Idaho Public Utilities Commission ("Staff"), Potlatch Corporation ("Potlatch"), and the Community Action Partnership Association of Idaho ("CAPAI"). These entities are collectively referred to as the "Parties," and represent all parties in the above-referenced cases. The Parties understand this Stipulation is subject to approval by the Idaho Public Utilities Commission ("IPUC" or the "Commission").

**I. INTRODUCTION**

1. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of the issues raised in the proceeding and that this Stipulation and its acceptance by the Commission represent a reasonable resolution of multiple issues identified in this matter. The Parties,

therefore, recommend that the Commission, in accordance with RP 274, approve the Stipulation and all of its terms and conditions without material change or condition.

## II. BACKGROUND

2. On April 3, 2008, Avista filed an Application with the Commission for authority to increase revenue from electric and natural gas service in Idaho by 16.7% and 5.8%, respectively. If approved, the Company's revenues for electric base retail rates would have increased by \$32.3 million annually; Company revenues for natural gas service would have increased by \$4.7 million annually. The Company requested an effective date of May 5, 2008 for its proposed electric/gas rate increase. By Order No. 30528, dated April 16, 2008, the Commission suspended the proposed schedules of rates and charges for electric and natural gas service for a period of thirty (30) days plus five (5) months, from May 5, 2008, or until such time as the Commission entered an Order accepting, rejecting or modifying the Application in this matter.

3. Petitions to intervene in this proceeding were filed by Potlatch and CAPAI. By various orders, the Commission granted these interventions. See, IPUC Order Nos. 30550 and 30551.

4. Public workshops for Avista customers were held on July 23, 2008 in Moscow, Idaho, and on July 24, 2008 in Coeur d'Alene, Idaho, for the purpose of explaining the Company's Application, and in order to provide an opportunity for customers to ask questions of Staff.

5. On July 28, 2008, Commission Staff filed with the Commission a Notice of Intent to Engage in Settlement Discussions. RP 272. A settlement conference was

subsequently held in the Commission offices on July 31, 2008, and was attended by representatives of all Parties.

6. Based upon the settlement discussions among the Parties, as a compromise of positions in this case, and for other consideration as set forth below, the Parties agree to the following terms:

### III. TERMS OF THE STIPULATION

7. Revenue Requirement. The Parties agree that Avista shall be allowed to implement revised tariff schedules designed to recover \$23,163,000 in additional annual electric revenue and \$3,878,000 in additional annual natural gas revenue, which represent an 11.98% and 4.7% increase in electric and natural gas annual base tariff revenues, respectively. In determining these revenue increases, the Parties have agreed to various adjustments to the Company's filing, which are summarized in the Tables below and are reflected in Appendix I and will be further explained in prefiled testimony to be filed by the Parties in support of the Stipulation. In addition, certain elements of the revenue increases are further discussed immediately below:

(a.) Cost of Capital. The Parties agree that Avista's cost of capital shall be determined using a capital structure consisting of 47.94% common stock equity, and 52.06% long-term debt. Avista's authorized return on equity shall be 10.20%; the cost of debt shall be 6.84%. These components produce an authorized rate of return of 8.45%.

(b.) Other Adjustments. The Summary Table of Adjustments, as set forth immediately below, describes the remaining revisions to the Company's originally-filed electric and natural gas revenue requirements:

**SUMMARY TABLE OF ADJUSTMENTS TO ELECTRIC REVENUE REQUIREMENT**

000s of Dollars

		Revenue Requirement	Rate Base
<b>Amount As Filed</b>		<b>\$ 32,328</b>	<b>\$ 548,266</b>
<b>Adjustments:</b>			
Return on Equity	Adjust return on equity to 10.20%	(2,485)	0
Power Supply	-Priest Rapids/Wanapum Contracts \$(614) (use average of '08 & '09 figures)	(735)	0
	-Elimination of PPM Wind Integration costs \$(109)		
	-Reflect Kootenai Transmission contract \$( 12)		
Labor-Non-Exec	Remove 50% of 2009 non-executive labor expense	(296)	0
Labor-Executive	Remove 2009 executive labor expense	(39)	0
Transmission Rev/Exp	Remove 2009 revenues and expenses	81	0
Capital Additions 2008	Includes capital investment and depreciation through December 2008	152	1,327
Asset Management	Remove 50% of 2009 expenses	(489)	0
Spokane River Relicensing	Remove adjustment (establish deferral)	(2,831)	(12,039)
Confidential Litigation *	Remove adjustment (establish deferral)	(1,514)	(8,264)
Colstrip Mercury Emission O&M	Remove adjustment	(533)	0
Executive Incentives	Remove executives' incentives	(103)	0
CS2 Levelized Adjustment	Remove 2009 deferred return	(114)	0
Carbon Financial Instruments (CFIs)	Add net revenues from sale of CFIs	(427)	0
Miscellaneous A&G Expenses	Remove various A&G expenses, including dues, sponsorships, A&G study, 50% of Directors & Officers' insurance, and 50% of Board of Director expenses	(502)	0
Production Property	Flow through impact of Production & Transmission adjustments	320	997
Restate Debt Interest	Flow through impact of Rate Base adjustments	350	0
<b>Total Adjustments</b>		<b>\$ (9,165)</b>	<b>\$ (17,979)</b>
<b>Adjusted Amounts</b>		<b>\$ 23,163</b>	<b>\$ 530,287</b>

\* Please see Andrews' Direct unredacted testimony at Pages 32-33.

**SUMMARY TABLE OF ADJUSTMENTS TO NATURAL GAS REVENUE REQUIREMENT**

000s of Dollars

		Revenue Requirement	Rate Base
<b>Amount As Filed</b>		\$ 4,725	\$ 85,890
<b>Adjustments:</b>			
Return on Equity	Adjust return on equity to 10.20%	(389)	0
Labor-Non-Exec	Remove 50% of 2009 non-executive labor expense	(73)	0
Labor-Executive	Remove 2009 executive labor expense	(9)	0
Capital Additions 2008	Includes capital investment and depreciation through December 2008	(103)	(531)
Incentives	Remove executives' incentives	(23)	0
Miscellaneous A&G Expenses	Remove various A&G expenses, including dues, sponsorships, A&G study, 50% of Directors & Officers' insurance, and 50% of Board of Director expenses	(260)	0
Restate Debt Interest	Flow through impact of Rate Base adjustments	10	0
<b>Total Adjustments</b>		\$ (847)	\$ (531)
<b>Adjusted Amounts</b>		\$ 3,878	\$ 85,159

8. Rate Effective Date. The Parties request that the Commission issue its order approving the retail rates contained in this Stipulation to become effective October 1, 2008.

9. Accounting Treatment for Certain Costs.

(a.) Spokane River Relicensing – The Company included the processing costs associated with its Spokane River relicensing efforts, which expenditures included actual life-to-date costs from April 2001 through December 31, 2007, and 2008 pro forma expenditures through December 31, 2008. (See Andrews' Direct Testimony at page 32)

Although the Company anticipates receiving a final license from the Federal Energy Regulatory Commission ("FERC") in the near future, that has yet to occur. The

relicensing costs will remain in CWIP (Construction Work in Progress) and the Company will continue to accrue AFUDC until issuance of the license, at which time the relicensing costs will be transferred to plant in service and depreciation will begin to be recorded. The Parties have agreed to defer as a regulatory expense item (in Account 186 – Miscellaneous Deferred Debits) on the Company's balance sheet depreciation associated with Idaho's share of the aforementioned relicensing costs and related protection, mitigation, or enhancement expenditures, until the earlier of twelve (12) months from the date of the issuance of the license or the conclusion of Avista's next general rate case ("GRC"), together with a carrying charge on the deferral, as well as a carrying charge on the amount of relicensing costs not yet included in rate base. The carrying charge for deferrals and rate base not yet included in establishing rates would be the customer deposit rate at that time (presently 5%).

(b.) Confidential Litigation – Company Witness Andrews describes confidential litigation at pages 32 and 33 of her prefiled direct testimony (unredacted). Inasmuch as that matter is still pending and has yet to be finally resolved, but is expected to reach resolution in the near future, the Parties have agreed to defer as a regulatory expense item (in Account 186 – Miscellaneous Deferred Debits) on the Company's balance sheet depreciation associated with Idaho share of the aforementioned costs with a carrying charge on the deferral as well as a carrying charge on the amount of costs not yet included in rate base for subsequent recovery in rates. The carrying charge will be the customer deposit rate (presently 5%). This deferral, together with a carrying charge, will continue until the earlier of twelve (12) months from the date of resolution of the litigation or until the conclusion of Avista's next general rate case (GRC).



(c.) Montana Riverbed Litigation – On November 1, 2007, Avista filed an Application with the Commission (Case No. AVU-E-07-10) requesting an accounting order authorizing deferral of settlement lease payments and interest accruals relating to the recent settlement of a lawsuit in the State of Montana over the use of the riverbed related to the Company's ownership of the Noxon Rapids and Cabinet Gorge hydroelectric projects located on the Clark Fork River. The Commission, in its Order No. 30492, authorized the deferral of settlement lease payments and delayed a decision on interest, until the matter was addressed in this general rate filing. The Parties have agreed to the Company's requested amortization of costs, together with recovery of accrued interest on the Idaho share of deferrals at the customer deposit rate (presently 5%).

(d.) Revenues Associated with Sale of Carbon Financial Instruments (CFIs) – On May 22, 2008 Avista filed a request with the Commission (Case No. AVU-E-08-2) to defer the revenues associated with the sale of Carbon Financial Instruments (CFIs) on the Chicago Climate Exchange. The Company's Application was approved on August 5, 2008 in Order No. 30610. Idaho's share of the revenues, net of expenses, from the CFI sales is \$850,571. These dollars will be amortized over a two-year period beginning in the calendar month of the effective date of new retail rates resulting from this Stipulation, with a carrying charge on the unamortized balance at the customer deposit rate. The revenue requirement included in this Stipulation has been reduced for the CFI revenues, in order to flow these benefits through to customers.

10. PCA Authorized Level of Expense. Appendix 3 sets forth the agreed-upon level of power supply expense, retail load and revenue credit resulting from this

Stipulation, that will be used in the monthly Power Cost Adjustment ("PCA") mechanism calculations.

11. Prudence of Energy Efficiency Expenditures. The Parties agree that Avista's expenditures for electric and natural gas energy efficiency programs from November 1, 2003 through December 31, 2007 have been prudently incurred.

12. Rate Spread. Appendix 2 shows the impact on each service schedule of the agreed-upon electric and natural gas increases. The proposed electric revenue increase of \$23,163,000 represents an overall increase of 11.98% in base rates, and with one exception, is spread on a uniform percentage basis to all schedules. Schedule 25P (for Potlatch's Lewiston plant), however, will receive an increase of 10.36%, in order to reflect a Schedule 25P rate that is no higher than the tailblock rate of Schedule 25. With this change, the relative rate of return for Schedule 25P would move approximately one-half way toward unity, more consistent with the movement of other service schedules. All other schedules will receive a 12.33% increase.

The spread of the increased natural gas revenue requirement of \$3,878,000 is set forth in Appendix 2, and represents an overall increase of 4.7% in base rates. It reflects a reduction to what the Company had proposed by way of an increase for each of the gas service schedules proportional to the reduction in the overall increase.

13. Rate Design. The Parties agree to changes in the electric customer and demand charges as set forth in the Company's filing, and summarized in Appendix 2. This includes an increase in the residential monthly basic charge from \$4.00 to \$4.60. The energy rates within each electric service schedule are increased by a uniform percentage.

With respect to natural gas rate design, the Parties agree to apply the increase in rates within each service schedule in the same manner as proposed by the Company. The monthly basic charge for the residential schedule will increase from \$3.28 to \$4.00, as proposed by the Company.

14. Customer-Related Issues.

(a.) Low-Income DSM Funding – At present, \$350,000 per year is provided to Idaho service (CAP) agencies for proposed funding of low-income Demand-Side Management (DSM). The Parties agree to increase the annual level of funding to \$465,000 for such programs (which includes administrative overhead). The continuation and level of such funding will be revisited in the Company's next general rate filing.

(b.) Funding for Outreach for Low-Income Conservation – The Parties agree that annual funding in the amount of \$25,000 will be provided to Idaho (CAP) agencies for the purpose of underwriting the dedication of agency personnel to assist in low-income outreach and education concerning conservation. The dollars will be funded through the DSM Tariff Rider (Schedules 91 and 191), and will be in addition to the \$465,000 of Low-Income DSM Funding. The continuation and level of such funding will be revisited in the Company's next general rate filing.

(c.) Establishment of Generic Workshops – Avista agrees to support and actively participate in any Commission-established workshops for the purpose of examining issues surrounding energy affordability and customers' ability to pay energy bills with respect to all jurisdictional utilities. As part of this process, Avista agrees to explore the feasibility of establishing a Low-Income Rate Assistance Program (LIRAP), or similar program, to assist low-income residential customers in Idaho.

15. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in RP 272, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

16. The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to RP 274. Parties shall support this Stipulation before the Commission; and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement terms embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

17. If the Commission rejects any part or all of this Stipulation or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such case, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case. The Parties agree to cooperate in development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing testimony and briefs.

18. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

19. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other

proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

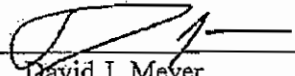
20. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

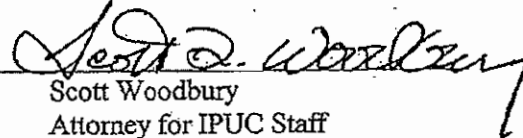
21. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 7<sup>th</sup> day of August, 2008.

Avista Corporation

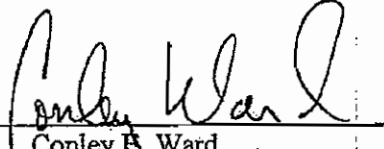
Idaho Public Utilities Commission Staff

By   
David J. Meyer  
Attorney for Avista Corporation

By   
Scott Woodbury  
Attorney for IPUC Staff

Potlatch Corporation

Community Action Partnership Association

By   
Conley B. Ward

By \_\_\_\_\_  
Brad M. Purdy

are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

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21. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 7<sup>th</sup> day of August, 2008.

Avista Corporation

Idaho Public Utilities Commission Staff


By \_\_\_\_\_  
David J. Meyer  
Attorney for Avista Corporation

By \_\_\_\_\_  
Scott Woodbury  
Attorney for IPUC Staff

Potlatch Corporation

Community Action Partnership Association

By \_\_\_\_\_

By 

Stipulation

Page 11 of 12

APPENDIX 1



**APPENDIX 1  
AYI'SLA UTILITIES  
Summary of Revenue Requirement Adjustments  
Restatement Summary Idaho Electric  
(000s of Dollars)**

Item	Description	FILED CASE		FINAL SETTLEMENT		DIFFERENCE		IMPACT ON	
		Idaho Electric	Rate Base	Idaho Electric	Rate Base	Idaho Electric	Rate Base	NOI	Rate Base
h	Per Incalls Report	\$01,716	\$593,176	\$41,216	\$579,176	\$0	\$0	0.639562	\$ 45%
i	Deferred PPT Rate Base	0	(80,527)	0	(80,527)	\$0	\$0		
j	Deferred Gain on Office Building	0	(196)	0	(196)	\$0	\$0		
k	Gain on AFUDC Elimination	(235)	2,342	(235)	2,342	\$0	\$0		
l	Costs of Construction AFUDC	0	376	0	376	\$0	\$0		
m	Kettle Falls & Boulder Park Disallow.	0	(23,461)	0	(23,461)	\$0	\$0		
n	Construction Advances	0	3,769	0	(763)	\$0	\$0		
o	Weatherization and DSM Investment	0	2,630	0	2,630	\$0	\$0		
p	Actual	(41,491)	\$01,287	41,491	\$01,287	0	0		
q	Depreciation True-up	492	0	492	0	\$0	\$0		
r	Eliminating P&O Taxes	67	0	(67)	0	\$0	\$0		
s	Property Tax	164	0	164	0	\$0	\$0		
t	Utility Expense	77	0	77	0	\$0	\$0		
u	Regulatory Expense	(109)	0	(109)	0	\$0	\$0		
v	Injuries and Damages	(22)	0	(22)	0	\$0	\$0		
w	PII	91	0	91	0	\$0	\$0		
x	Idaho PCA	(16,888)	0	(16,888)	0	\$0	\$0		
y	Net Interest Settlement Adjustment	8	0	8	0	\$0	\$0		
z	Eliminate A/R Expenses	337	0	337	0	\$0	\$0		
aa	Clark Fork PM&E	(316)	0	(316)	0	\$0	\$0		
ab	Revenue Normalization Adjustment	(632)	0	(632)	0	\$0	\$0		
ac	Restate Debt Interest	(883)	0	(883)	0	\$0	\$0		
ad	Restated Total	\$30,074	\$801,287	\$29,850	\$801,287	(\$224)	\$0	\$350	\$0
ae	Pro Forma Power Supply	(222)	0	248	0	\$470	\$0	(\$735)	
af	Pro Forma Production Property Adj	2,845	(15,326)	3,725	(14,429)	(\$821)	\$0	\$188	\$132
ag	Pro Forma Labor Non-Exec	(777)	0	(598)	0	\$189	\$0	(\$296)	
ah	Pro Forma Labor Exec	(85)	0	(60)	0	\$25	\$0	(\$39)	
ai	Pro Forma Transmission Rev/Exp	(265)	0	(17)	0	(\$248)	\$0	\$81	
aj	Pro Forma Capital Add 2007	(189)	17,276	(129)	17,276	\$60	\$0	(\$23)	\$195
ak	Pro Forma Capital Add 2008	(1,016)	2,716	(1,001)	2,043	\$15	\$1,327	(\$489)	(\$1,591)
al	Pro Forma Asset Management	(843)	0	(712)	0	\$131	\$0	(\$127)	(\$1,032)
am	Pro Forma Spillways & Relicensing	(793)	12,039	(276)	0	\$513	(\$12,039)	(\$472)	\$0
an	Pro Forma Completion Litigation	(276)	8,264	0	0	\$270	(\$8,264)	\$0	\$0
ao	Pro Forma Construction Mercury Lemiar, Or.	(1,197)	1,758	(1,197)	1,758	\$561	\$0	(\$537)	\$0
ap	Pro Forma Licenses	(541)	0	0	0	\$541	\$0	(\$103)	\$0
aq	Pro Forma ID AMR	(1,377)	0	(71)	0	\$566	\$0	\$0	\$0
ar	Pro Forma CS2 Levelized Adj	(689)	21,852	(689)	21,852	\$0	\$0	(\$114)	(\$502)
as	Pro Forma K&S A&O	(140)	0	(87)	0	\$53	\$0	(\$27)	\$0
at	Pro Forma CCG (CFI)	0	0	273	0	(\$273)	\$0	(\$427)	\$0
au	Pro Forma Total	\$22,242	\$348,766	\$29,995	\$530,287	\$7,753	(\$17,979)	(\$4,904)	(\$2,376)
av									(\$4,689)
aw									(\$2,461)
ax									(\$9,169)

\* Please see Appendix D, Director's Report, as introduced in testimony at Pages 23-33.

**APPENDIX I  
AVISTA UTILITIES  
Summary of Revenue Requirement Adjustments  
Restatement Summary-Idaho Gas  
(000s of Dollars)**

Item	Description	FILED CASE		FINAL SETTLEMENT		DIFFERENCE		IMPACT ON	
		NOI	Rate Base	NOI	Rate Base	NOI	Rate Base	NOI	Rate Base
b	Per Resaler Report	\$5,410	\$83,866	\$5,410	\$83,866	\$0	\$0	\$0	\$0
c	Deferred FIT Rate Base	0	(13,209)	0	(13,209)	\$0	\$0	\$0	\$0
d	Deferred Capital on Office Building	0	(63)	0	(63)	\$0	\$0	\$0	\$0
e	Gas Inventory	0	2,171	0	2,171	\$0	\$0	\$0	\$0
f	Weatherization and DSM Investment	0	355	0	355	\$0	\$0	\$0	\$0
g	Customer Advances	0	(74)	0	(74)	\$0	\$0	\$0	\$0
	<b>Actual</b>	<b>5,410</b>	<b>73,046</b>	<b>5,410</b>	<b>73,046</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
h	Depreciation Pick-up	97	0	97	0	\$0	\$0	\$0	\$0
i	Weather Normalization & Cost Adjust	(42)	0	(42)	0	\$0	\$0	\$0	\$0
j	Eliminate B. & O Taxes	(1)	0	(1)	0	\$0	\$0	\$0	\$0
k	Property Tax	12	0	12	0	\$0	\$0	\$0	\$0
l	Uncollectible Expense	94	0	94	0	\$0	\$0	\$0	\$0
m	Regulatory Expense Adjustment	3	0	3	0	\$0	\$0	\$0	\$0
n	Injuries and Damages	(53)	0	(53)	0	\$0	\$0	\$0	\$0
o	FIT	9	0	9	0	\$0	\$0	\$0	\$0
p	Eliminate A/R Expenses	48	0	48	0	\$0	\$0	\$0	\$0
q	Reserve Debt Interest	(26)	0	(26)	0	\$0	\$0	\$0	\$0
	<b>Restated Total</b>	<b>\$5,519</b>	<b>\$73,046</b>	<b>\$5,513</b>	<b>\$73,046</b>	<b>(\$6)</b>	<b>(\$6)</b>	<b>\$0</b>	<b>\$0</b>
P11	Pro Forma Labor Non-Exec	(19)	0	(144)	0	\$47	\$0	(\$73)	\$0
P12	Pro Forma Labor Exec	(21)	0	(15)	0	\$6	\$0	(\$9)	\$0
P13	Pro Forma ID Storage	(52)	7,238	(52)	7,238	\$0	\$0	\$0	\$0
P14	Pro Forma Capital Add 2007	94	(2,102)	94	(2,102)	\$0	\$0	\$0	\$0
P15	Pro Forma Capital Add 2008	(183)	1,232	(162)	701	\$21	(\$311)	(\$339)	(\$70)
P16	Pro Forma Incentives	(32)	0	(17)	0	\$15	\$0	(\$31)	\$0
P17	Pro Forma AMR	(28)	6,276	(28)	6,276	\$0	\$0	\$0	\$0
P18	Pro Forma Misc. A&G	0	0	166	0	(\$66)	\$0	(\$260)	\$0
	<b>Pro Forma Total</b>	<b>\$4,467</b>	<b>\$85,690</b>	<b>\$4,716</b>	<b>\$85,159</b>	<b>\$249</b>	<b>(\$531)</b>	<b>(\$348)</b>	<b>(\$70)</b>

Impact of ROE reduced to 10.2%  
Total Revenue Requirement Difference

APPENDIX 2

AVISTA UTILITIES  
 IDAHO ELECTRIC  
 PROPOSED INCREASE BY SERVICE SCHEDULE  
 12 MONTHS ENDED DECEMBER 31, 2007  
 (000s. of Dollars)

Line No.	Type of Service	Schedule Number	Base Tariff Revenue Under Present Rates (1)	General Increase	Base Tariff Revenue Under Proposed Rates	Base Tariff Percent Increase	Total Billed Revenue at Present Rates (2)	Percent Increase on Billed Revenue
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
1	Residential	1	\$76,282	\$9,284	\$84,566	12.33%	\$72,941	12.73%
2	General Service	11, 12	\$24,573	\$3,028	\$27,601	12.33%	\$25,640	11.81%
3	Large General Service	21, 22	\$40,086	\$4,943	\$45,029	12.33%	\$42,333	11.88%
4	Extra Large General Service	25	\$13,077	\$1,613	\$14,690	12.33%	\$14,084	11.45%
5	Pollatch	25P	\$34,045	\$3,529	\$37,574	10.36%	\$36,887	9.57%
6	Pumping Service	31, 32	\$3,690	\$455	\$4,145	12.33%	\$3,855	11.80%
7	Street & Area Lights	41-49	\$2,518	\$311	\$2,828	12.33%	\$2,579	12.04%
8	Total		\$193,270	\$23,163	\$216,433	11.98%	\$198,288	11.68%

(1) Excludes all present rate adjustments (see below).

(2) Includes all present rate adjustments: Schedule 66-Temporary PCA Adj., Schedule 91-Energy Efficiency Rider Adj., and Schedule 59-Residential & Farm Energy Rate Adj.

**AVISTA UTILITIES  
IDAHO ELECTRIC  
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE**

(a)	Base Tariff Sch. Rate (b)	Present ERM & Other Adj. (1) (c)	Present Billing Rate (d)	General Rate Increase (e)	Proposed Billing Rate (f)	Proposed Base Tariff Rate (g)
<b>Residential Service - Schedule 1</b>						
Basic Charge	\$4.00		\$4.00	\$0.60	\$4.60	\$4.60
Energy Charge:						
First 600 kWhs.	\$0.05842	(\$0.00206)	\$0.05636	\$0.00710	\$0.06346	\$0.06552
All over 600 kWhs	\$0.06612	(\$0.00206)	\$0.06406	\$0.00804	\$0.07210	\$0.07416
<b>General Services - Schedule 11</b>						
Basic Charge	\$6.00		\$6.00	\$0.50	\$6.50	\$6.50
Energy Charge:						
First 3,650 kWhs	\$0.07295	\$0.00362	\$0.07657	\$0.00913	\$0.08570	\$0.08208
All over 3,650 kWhs	\$0.06223	\$0.00362	\$0.06585	\$0.00778	\$0.07363	\$0.07001
Demand Charge:						
20 kW or less	no charge		no charge	no charge		no charge
Over 20 kW	\$3.50/kW		\$3.50/kW	\$0.50/kW	\$4.00/kW	\$4.00/kW
<b>Large General Service - Schedule 21</b>						
Energy Charge:						
First 250,000 kWhs	\$0.04800	\$0.00340	\$0.05140	\$0.00534	\$0.05724	\$0.05384
All over 250,000 kWhs	\$0.04097	\$0.00340	\$0.04437	\$0.00497	\$0.04934	\$0.04594
Demand Charge:						
50 kW or less	\$250.00		\$250.00	\$25.00	\$275.00	\$275.00
Over 50 kW	\$3.00/kW		\$3.00/kW	\$0.50/kW	\$3.50/kW	\$3.50/kW
Primary Voltage Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
<b>Extra Large General Service - Schedule 25</b>						
Energy Charge:						
First 500,000 kWhs	\$0.03942	\$0.00319	\$0.04261	\$0.00469	\$0.04730	\$0.04411
All over 500,000 kWhs	\$0.03339	\$0.00319	\$0.03658	\$0.00397	\$0.04055	\$0.03736
Demand Charge:						
3,000 kva or less	\$9,000		\$9,000	\$1,000	\$10,000	\$10,000
Over 3,000 kva	\$2.75/kva		\$2.75/kva	\$0.50/kva	\$3.25/kva	\$3.25/kva
Primary Volt. Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
Annual Minimum	Present:	\$511,470			\$571,460	
<b>Potlatch - Schedule 25P</b>						
Energy Charge:						
all kWhs	\$0.03404	\$0.00313	\$0.03717	\$0.00318	\$0.04035	\$0.03722
Demand Charge:						
3,000 kva or less	\$9,000		\$9,000	\$1,000	\$10,000	\$10,000
Over 3,000 kva	\$2.75/kva		\$2.75/kva	\$0.50/kva	\$3.25/kva	\$3.25/kva
Primary Volt. Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
Annual Minimum	Present:	\$482,440			\$529,420	
<b>Pumping Service - Schedule 31</b>						
Basic Charge	\$6.00		\$6.00	\$0.50	\$6.50	\$6.50
Energy Charge:						
First 165 kW/kWh	\$0.06555	\$0.00343	\$0.06898	\$0.00815	\$0.07713	\$0.07370
All additional kWhs	\$0.05589	\$0.00343	\$0.05932	\$0.00695	\$0.06627	\$0.06284

(1) Includes all present rate adjustments: Schedule 66-Temporary PCA Adj., Schedule 91-Energy Efficiency Rider Adj., and Schedule 59-Residential & Farm Energy Rate Adj. (Sch. 1 only).

AVISTA UTILITIES:  
IDAHO GAS  
PROPOSED INCREASE BY SERVICE SCHEDULE  
12 MONTHS ENDED DECEMBER 31, 2007  
(000s of Dollars)

<u>Line No.</u>	<u>Type of Service</u> (a)	<u>Schedule Number</u> (b)	<u>Base Tariff Revenue Under Present Rates(1)</u> (c)	<u>Proposed General Increase</u> (d)	<u>Base Tariff Revenue Under Proposed Rates</u> (e)	<u>Base Tariff Percent Increase</u> (f)
1	General Service	101	\$63,207	\$3,375	\$66,582	5.3%
2	Large General Service	111	\$17,869	\$486	\$18,355	2.7%
3	Interruptible Service	131	\$367	\$15	\$382	4.0%
4	Transportation Service	146	\$417	\$3	\$420	0.8%
5	Special Contracts	148	\$211	\$0	\$211	0.0%
6	Total		\$82,071	\$3,878	\$85,950	4.7%

(1) Includes Purchase Adjustment Schedule 156 / Excludes other rate adjustments.

**AVISTA UTILITIES  
IDAHO GAS  
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE**

(a)	Base Rate(1) (b)	Present Rate Adj.(2) (c)	Present Billing Rate (d)	General Rate Increase (e)	Sch. 191 Change (f)	Proposed Billing Rate(2) (g)	Proposed Base Rate(1) (h)	
<b>General Service - Schedule 101</b>								
Basic Charge	\$3.28		\$3.28	\$0.72		\$4.00	\$4.00	22.0%
Usage Charge:								
All Therms	\$1.10888	(\$0.00328)	\$1.10560	\$0.05087		\$1.15647	\$1.15975	4.6%
<b>Large General Service - Schedule 111</b>								
Usage Charge:								
First 200 therms	\$1.09137	(\$0.00564)	\$1.08573	\$0.05445	(\$0.00010)	\$1.14008	\$1.14582	5.0%
200 - 1,000 therms	\$1.07319	(\$0.00564)	\$1.06755	\$0.01087	(\$0.00010)	\$1.07832	\$1.08406	1.0%
1,000 - 10,000 therms	\$0.97077	(\$0.00564)	\$0.96513	\$0.04023	(\$0.00010)	\$1.00526	\$1.01100	4.1%
All over 10,000 therms	\$0.97077	(\$0.00564)	\$0.96513	\$0.00023	(\$0.00010)	\$0.96526	\$0.97100	0.0%
Minimum Charge:								
per month	\$156.63		\$156.63	\$10.89		\$167.52	\$167.52	7.0%
per therm	\$0.30822	(\$0.00564)	\$0.30258		(\$0.00010)	\$0.30248	\$0.30822	0.0%
<b>High Annual Load Factor Large General Service - Schedule 121 - MOVE TO SCH 111</b>								
Usage Charge:								
First 200 therms	\$1.08048	(\$0.00552)	\$1.07396	\$0.06534	\$0.00078	\$1.14008	\$1.14582	6.0%
200 - 500 therms	\$1.08048	(\$0.00552)	\$1.07396	\$0.00358	\$0.00078	\$1.07832	\$1.08406	0.3%
500 - 1,000 therms	\$1.07319	(\$0.00552)	\$1.06867	\$0.01087	\$0.00078	\$1.07832	\$1.08406	1.0%
1,000 - 10,000 therms	\$0.97077	(\$0.00552)	\$0.96425	\$0.04023	\$0.00078	\$1.00526	\$1.01100	4.1%
All over 10,000 therms	\$0.95199	(\$0.00552)	\$0.94547	\$0.01901	\$0.00078	\$0.96526	\$0.97100	2.0%
Minimum Charge:								
per month	\$386.13		\$386.13	(\$218.61)		\$167.52	\$167.52	-56.6%
per therm	\$0.30822	(\$0.00552)	\$0.30170		\$0.00078	\$0.30248	\$0.30822	0.0%
<b>Interruptible Service - Schedule 131</b>								
Usage Charge:								
All Therms	\$0.87157	(\$0.00866)	\$0.86289	\$0.03480		\$0.89769	\$0.90837	
<b>Transportation Service - Schedule 146</b>								
Basic Charge	\$200.00		\$200.00	\$0.00		\$200.00	\$200.00	
Usage Charge:								
All Therms	\$0.10976		\$0.10976	\$0.00086		\$0.11062	\$0.11062	

(1) Includes Schedule 150 - Purchased Gas Cost Adj.

(2) Includes Schedule 155 - Gas Rate Adj., Schedule 191 - Energy Efficiency Rider Adj.

APPENDIX 3



APPENDIX 3

AVISTA UTILITIES

Pro forma January 2009 - December 2009, Idaho Jurisdiction

PCA Authorized Expense and Retail Sales

PCA Authorized Power Supply Expense

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	
Total	128,347,743	17,126,941	14,722,009	13,157,328	7,801,399	5,990,720	5,600,115	7,491,957	10,240,270	10,523,566	12,416,534	13,360,427	14,597,477
Account 556 - Purchased Power	31,507,125	2,810,807	2,727,459	2,932,608	2,582,443	1,333,012	2,189,523	3,025,093	2,909,474	3,016,833	2,936,277	2,887,751	
Account 501 - Thermal Fuel	79,320,453	5,172,381	5,821,983	5,439,685	4,114,144	3,082,431	3,297,083	7,590,714	10,106,773	9,082,585	8,882,756	9,271,960	
Account 547 - Natural Gas Fuel	79,531,456	3,281,844	4,590,314	5,648,493	9,379,926	13,648,568	11,529,382	9,946,927	4,900,262	4,281,137	3,758,884	5,005,546	
Account 447 - Sale for Resale	159,043,865	21,848,195	15,881,148	13,699,369	5,119,059	-3,319,745	-1,006,401	8,325,959	18,234,408	20,397,440	20,593,117	21,919,461	

Power Supply Expense:

PCA Authorized Retail Sales and Production

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	
Total	3,120,008	305,199	299,161	274,330	240,487	237,579	230,879	254,119	242,680	232,668	259,470	269,684	303,723
Total Retail Sales, MWh	462,755	40,053	35,882	25,908	38,217	39,430	40,146	43,017	44,432	35,902	35,765	42,576	41,333

Note: For Oct-Dec, 2008 the Retail Revenue Credit rate is the Embedded Rate of \$41.45/MWh; for 2009 the Retail Revenue Credit Rate is \$53.69/MWh per Johnson Direct at Page 14.

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )  
OF AVISTA CORPORATION FOR THE ) CASE NOS. AVU-E-08-01  
AUTHORITY TO INCREASE ITS RATES ) AVU-G-08-01  
AND CHARGES FOR ELECTRIC AND )  
NATURAL GAS SERVICE TO ELECTRIC )  
AND NATURAL GAS CUSTOMERS IN THE ) ORDER NO. 30647  
STATE OF IDAHO )**

On April 3, 2008, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for authority to increase its rates and charges for electric and natural gas service in Idaho. The Commission in this Order approves the Stipulation offered as a proposed settlement of the rate issues in Case Nos. AVU-E-08-01 and AVU-G-08-01. The Parties to the Stipulation are: Avista; Potlatch Corporation (Potlatch); the Community Action Partnership Association of Idaho (CAPAI); and Commission Staff. The Commission finds the proposed settlement to be fair, just and reasonable and in the public interest.

Rate changes approved with an effective date of October 1, 2008, increase authorized annual base tariff revenues for electric service by \$23.2 million, or 11.98%, and for natural gas service by \$3.9 million, or 4.7%. The net amount of actual increase will vary by class of customer and usage. An average electric residential customer (Schedule 1) using 977 kilowatt hours of electricity per month will see a \$7.89 per month increase. This includes an increase in the basic monthly customer service charge from \$4.00 to \$4.60. An average residential natural gas customer (Schedule 101) using 65 therms per month will see an increase of \$4.03 per month. This includes an increase in the monthly basic customer service charge from \$3.28 to \$4.00.

The Commission in this Order also announces the contemporaneous establishment of a generic docket to examine energy affordability issues (GNR-U-08-01, Order No. 30644), approves increased funding for low-income weatherization, and authorizes funding for low-income outreach and conservation education. An intervenor funding grant of \$3,400 is approved for the Community Action Partnership Association of Idaho (CAPAI).

## **Initial Application**

On April 3, 2008, Avista filed an Application with the Commission for authority to recover \$32.3 million (16.7%) in additional annual electric revenue and \$4.7 million (5.8%) in additional annual natural gas revenue. Tr. p. 81.

### *Electric*

The proposed revenue increase for electric service requested in this case, the Company states, is driven primarily by increased power supply costs (including higher retail loads, reduced hydro generation, increased fuel costs, increased Mid-Columbia purchases, and increased transmission expenses), capital investments in generation, transmission and distribution plant to increase capacity and reliability, various hydro relicensing costs, and the Company's investment in advanced meter reading (AMR). Tr. pp. 83-85.

### *Natural Gas*

Driving the natural gas rate request in this case is Avista's investment in expanding the natural gas storage and delivery capacity at its Jackson Prairie Storage Facility and the Company's investment in advanced meter reading (AMR). Tr. p. 85. The proposed rate change for natural gas customers does not reflect changes in the cost of natural gas purchased by Avista to serve customers. Changes in the cost of natural gas are reflected in the Company's annual Purchased Gas Adjustment.

Evidence in support of the Company's need for a rate increase for electric and natural gas is based on a 2007 test year. Tr. p. 83. The Company in its initial Application proposed an average rate of return on rate base of 8.74%, with a 47.94% common equity ratio and a 10.8% return on equity. Also identified was a cost of debt of 6.84% and a long-term debt component of 52.06%. Tr. p. 88. Avista alleges that unless it is authorized to increase its rates, the Company's rates will not be fair, just and reasonable and it will not have the opportunity to realize a fair return on its investment.

The Company's base rates and charges for electric and natural gas service were last adjusted in 2004 (Case Nos. AVU-E-04-01/AVU-G-04-01, Order No. 29602). An additional electric rate adjustment related to the Coyote Springs II generating project was implemented April 12, 2005 (Case No. AVU-E-05-01).

### **Stipulation and Proposed Settlement (hereafter "Stipulation")**

On July 28, 2008, the Commission Staff filed with the Commission a Notice of Intent to Engage in Settlement Discussions. RP 272. A settlement conference was subsequently held on July 31, 2008, wherein all parties to the case as of that date (the Settlement Parties) were present and participated. Pursuant to settlement discussions, the Settlement Parties entered into a Stipulation that purports to resolve all issues raised in this proceeding. RP 272-276. The Stipulation was filed with the Commission on August 8, 2008. Tr. Exh. 101. Under the terms of the Stipulation, Avista is authorized to recover \$23.2 million (11.98%) in additional annual electric revenue and \$3.9 million (4.7%) in additional annual natural gas revenues. Stipulation ¶ 2. The Stipulation represents a compromise of the positions of the Settlement Parties in this proceeding. Stipulation ¶ 15. The Settlement Parties represent that the Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable. Stipulation ¶ 18.

### **Parties of Record**

A Notice of Application and Notice of Intervention Deadline was issued by the Commission on April 16, 2008, setting a May 9, 2008 deadline for intervention. Two parties timely filed for, and were granted, intervention – Potlatch Corporation (Potlatch) and Community Action Partnership of Idaho (CAPAI). On August 18, 2008, Bennett Forest Industries, Inc. (Bennett Forest) filed an untimely Petition for Intervention and was granted intervention with qualified participatory rights. Order No. 30632, August 27, 2008. Bennett Forest did not participate in settlement negotiations or sign the Stipulation, but in post-hearing written comments filed September 5, 2008, states it “does not oppose approval of the Settlement Stipulation.” Bennett Comments p. 4.

### **Public Workshops/Hearings**

Public workshops for Avista customers were held in Moscow and Coeur d’Alene on July 23 and 24, 2008, respectively for the purpose of explaining the Company’s initial Application and to provide an opportunity for customers to ask questions of Commission Staff.

On August 28, 2008, a technical and evidentiary hearing on the Settlement Stipulation was held in Boise. Public hearings in northern Idaho were held in Lewiston and Sandpoint on August 27 and 28, 2008. At the technical hearing the following parties appeared by and through their respective counsel:

Avista Corporation	David J. Meyer
Potlatch	Conley E. Ward
CAPAI	Brad M. Purdy
Commission Staff	Scott D. Woodbury
Bennett Forest Industries, Inc.	Dean J. Miller

Pursuant to Rule 274 of the Commission's Rules of Procedure, "when a settlement, be it active or passive, is presented to the Commission, the Commission will prescribe procedures appropriate to the nature of the settlement to consider the settlement." As reflected in the Commission's Rules, the Commission is not bound by settlements. RP 276. Proponents of a proposed settlement carry the burden of showing that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. RP 275. On August 12, 2008, the Proposed Settlement was noticed, an August 22 deadline for supporting testimony was set, public and technical hearings on the settlement were scheduled, and a September 5 deadline for public comments was established.

***Settlement Terms***

The terms of the Stipulation are described and discussed below. Testimony supporting the Stipulation was presented on August 28, 2008 by Avista witness Kelly Norwood, Vice President of State and Federal Regulation for the Company; Commission Staff witness Randy Lobb, Administrator of the Utilities Division; and Terri Ottens, Policy Director of CAPAI.

***Cost of Capital – Stipulation ¶ 7a***

The Settlement Parties agree that Avista's cost of capital will be determined using a capital structure consisting of 47.94% common stock equity and 52.06% long-term debt, the same as proposed in the original Application. Avista's authorized return on equity (ROE) will be 10.2% (Application 10.8%); its cost of debt 6.84%. These components produce an authorized rate of return (ROR) of 8.45% (Application 8.74%). Tr. pp. 86-88.

A 10.2% return on equity, Staff states, is within the range Staff would have recommended if the case were fully litigated. It is a return that was approved in Avista's recent Washington settlement and is reasonable, Staff contends, given the improved financial performance of the Company and improved credit rating upgrades for Avista by Standard & Poor

and Moody's. It also recognizes the ongoing capital requirements of the Company and the need for investment grade ratings. Tr. p. 45.

***Revenue Requirement – Stipulation ¶ 7***

In supporting testimony, Staff states it established an overall revenue requirement target that it believed could be achieved with reasonable and reliable certainty and then negotiated adjustments that had debatable and less compelling justification to arrive at an overall revenue requirement compromise. Tr. p. 42. Pursuant to Paragraph 7 of the Stipulation, Avista will be authorized to recover \$23,163,000 in additional annual electric revenue and \$3,878,000 in additional annual natural gas revenue, representing an 11.98% and 4.7% increase in electric and natural gas annual base tariff revenues, respectively.

In determining these revenue increases the parties have agreed to various adjustments to the Company's filing. Exh. 101, Appendix 1. Individual adjustments, the Company states, should not be viewed in isolation; rather they should be viewed in total as part of the entire Stipulation, and are the result of hard bargaining and compromise. Tr. p. 86. The Stipulation summarizes the adjustments made by the Settlement Parties to the Company's electric general rate case filing and discusses specific accounting treatment for (a) Spokane River relicensing, (b) confidential litigation, (c) Montana riverbed litigation, and (d) revenues associated with sale of carbon financial instruments (CFIs). Stipulation ¶ 9a-d; Tr. pp. 88-93. Other adjustments are detailed in Stipulation ¶ 7(b) in a summary table. The nature of the adjustments consist of (a) deferral of pending capital and expense additions; (b) removal of proformed test year costs as not "known and measurable" or not "used and useful"; and (c) elimination or reduction of inappropriate or unjustified costs. Tr. p. 40. The Proposed Settlement is based upon a 2007 historical test year adjusted for known and measurable expense changes and major capital additions through 2008. Tr. p. 40. As proposed, the revised tariff schedules would become effective October 1, 2008. Stipulation ¶ 8.

Staff states that for natural gas service, \$3 million of the agreed \$3.8 million increase is associated with acquisition of Jackson Prairie Natural Gas Storage and installation of automated meters (AMR), both planned for completion in the fourth quarter of 2008. Additional storage will provide benefits to gas customers through the annual Purchased Gas Adjustment (PGA). Automated Meter Reading (AMR) will provide savings in meter reading and customer

service expense. The technology would allow for time of use or critical peak pricing; although additional changes would be required for data storage and billing. Tr. pp. 44, 85, 114-115.

***Cost of Service***

In its investigation, Staff reviewed Avista's cost of service (COS) models for electric and gas service and found that the methodology has not changed from the Company's 2004 general rate case filing. Tr. p. 37. The electric load data used in the Company's cost of service model was generated in the 1980s and was statistically updated in 1993 (i.e., adjusted based on changes in customer counts and load per customer that occurred between 1980 and 1993). Tr. pp. 49, 60. Given the age of the load data, Staff believes that cost of service results in this case can be used only as a general guideline for assigning revenue responsibility and cannot be used to make meaningful changes in class revenue contribution or justify significant changes in rate design. Tr. pp. 37-39. Avista concedes that the present load study information is dated, but contends that does not mean it's bad data, or that it's not representative of the cost to serve customers. Tr. p. 126. While Avista has agreed to engage in new load studies, the Company is only now selecting the hourly meters. The information necessary to update the cost of service analysis will not be available until late 2009. Tr. pp. 49, 75. Consequently, the Parties agreed to use the current results to move all classes halfway to COS as specified by the study. Tr. p. 49.

***Rate Spread – Stipulation ¶ 12***

Appendix 2 to the Stipulation reflects the impact on each service schedule of the agreed-upon electric and natural gas increases. As reflected in Stipulation ¶ 12, the proposed electric revenue increase of \$23.2 million represents an overall increase of 11.98% in base rates and, with one exception, is spread on a uniform percentage basis to all schedules. However, Schedule 25P for the Potlatch Lewiston facility will receive an increase of 10.36% in order to reflect a Schedule 25P rate that is no higher than the tail block rate of Schedule 25. The Schedule 25P adjustment can be supported by cost of service and load data, the Company states, because Schedule 25 and 25P customers have hourly meters. Tr. p. 105. The Schedule 25P Potlatch plant is a high load factor customer and is three times the combined size of all Schedule 25 customers (i.e., 100 aMW). Tr. pp. 112-113. With this change the relative rate of return for Schedule 25P will move approximately halfway toward unity [i.e., toward full cost of service], and be more consistent with the movement of other service schedules. All other schedules will receive a 12.3% percent increase. Tr. pp. 49-50, 98, 104. The monthly bill of a residential

electric customer using 977 kWh/month (the average for Avista) will increase by \$7.89/month. Tr. p. 54. The proposed increase by customer class and a comparison of present and proposed rate components are set forth in Attachment 1 to this Order.

The spread of the increased natural gas revenue requirement of \$3.8 million is also set forth in Appendix 2, and represents an overall increase of 4.7% in base rates. It reflects a reduction to what the Company had proposed by way of an increase for each of the gas service schedules proportional to the reduction and the overall increase. An average gas customer who uses 65 therms/month will see an increase of \$4.03/month. Tr. pp. 50, 54, 98.

***Rate Design – Stipulation ¶ 13***

Neither Avista nor Staff believes major changes in rate design are warranted given the imprecise and dated nature of the Company's cost of service studies. Tr. p. 51. Avista, Staff notes, remains the only electric utility in Idaho with true residential tiered rates – a second block differential of 13% for usage over 600 kWh/month. Tr. p. 52. The parties to the Stipulation in ¶ 12 agree to an increase in the electric and demand charges as recommended in the Company's original filing, and summarized in Appendix 2. This includes an increase in the residential monthly basic charge from \$4.00 to \$4.60. This increase, Staff states, represents the increasing monthly costs of metering and billing. All other rate components are increased by a uniform percentage to generate the required revenue. Tr. pp. 52, 90. In filed written comments, the Idaho Community Action Network (ICAN) opposes an increase to the base rates, which it states disproportionately impacts low-income customers and customers on fixed incomes.

Regarding natural gas rate design, the Settlement Parties agree to apply the increase in rates within each service schedule in the same manner as proposed by the Company in its original filing. The monthly base charge for the residential schedule will increase from \$3.26 to \$4.00. Tr. pp. 52, 90. As with the electric base rate, ICAN similarly opposes any increase to the base rate for gas.

As reflected in Staff testimony, Staff and Avista discussed adjusting block size and rate differentials in the future once accurate cost of service data is available. They will also investigate whether there are economies of scale (bundling of electric/gas service) that could allow reduced monthly customer charges when a customer takes both gas and electric service. Tr. p. 52.



***PCA Authorized Level of Expense – Stipulation ¶ 10***

Stipulation Exhibit 101, Appendix 3 (Attachment 2 to this Order) specifies the use of 2009 power supply costs for use in the Company's monthly Power Cost Adjustment (PCA) calculations and in the treatment of power supply costs associated with retail load and revenue credit. Stipulation ¶ 10; Tr. p. 40.

Staff concludes that the inputs and assumptions used by Avista, including those related to fuel prices and loads, are reasonable. Tr. p. 47. Staff agreed with the Company's proposal to use 2009 loads in the calculation of base power supply costs recognizing that normalized power supply costs included in base rates are always based on an estimate or a forecast. Tr. pp. 47, 48. In addition, Staff notes that the Company included a hydro mitigation adjustment in its calculation that reduces the base rate power supply costs and a production property adjustment that reduces the base rate revenue requirement for generation to serve 2009 loads. Appendix 3 of the Stipulation notes that the retail revenue credit will be \$41.45/MWh for October-December 2008 and then \$53.63/MWh for 2009. The Company benefits from using 2009 loads by reducing its exposure to the retail revenue adjustment embedded in the PCA. Tr. p. 48. Adjustments to the Company's proposed power supply costs were discussed during settlement negotiations and an annual \$735,000 reduction in the Priest Rapids contract price recoverable in rates was incorporated. Tr. pp. 48, 49.

***Prudence of Energy Efficiency Expenditures – Stipulation ¶ 11***

The Settlement Parties in Stipulation ¶ 11 agree that Avista's expenditures for electric and natural gas energy efficiency programs from November 1, 2003 through December 31, 2007 were prudently incurred.

***Customer-Related Issues – Stipulation ¶ 14***

***• Low-Income DSM Funding (Stipulation ¶ 14a)***

Currently only 10% of homes receiving LIHEAP benefits are weatherized. Tr. p. 140. The Settlement Parties agree to increase the annual level of funding provided to Idaho service (CAP) agencies for low-income demand-side management (DSM) weatherization programs from \$350,000 to \$465,000, which includes administrative overhead. The increased funding will come from the Company's existing DSM tariff riders. Tr. pp. 54, 93, 94.

In filed written comments, the Idaho Community Action Network (ICAN) states that weatherization benefits cost an average of \$3,366 per household. ICAN believes that the

\$115,000 increase to low-income weatherization is too little. Even if weatherization costs have not increased at all in three years, a \$115,000 increase will serve only an additional 34 households. ICAN states that low-income weatherization program funding should be increased to \$700,000.

Staff notes that the ratio of customers to dollars committed for weatherization is fairly similar for Avista and Idaho Power. In fact, Avista's investment, Staff contends, is greater than either Idaho Power and PacifiCorp. Tr. p. 63.

• ***Funding for Outreach for Low-Income Conservation (Stipulation ¶ 14b)***

CAPAI is concerned that the combined proposed increases in fees and rates will add to the already unwieldy energy cost burden that low-income families in Idaho face. Tr. p. 138. The Settlement Parties agree that annual funding through the DSM tariff rider in the amount of \$25,000 will be provided to Idaho (CAP) agencies for the purpose of underwriting agency personnel assisting in low-income outreach and conservation education. Tr. p. 94.

• ***Establishment of Generic Workshops on Energy Affordability (Stipulation ¶ 14c)***

Avista agrees to support and actively participate in any Commission-established workshops for the purpose of examining issues surrounding energy affordability and ability of customers to pay energy bills. As part of this process, Avista agrees to explore the feasibility of establishing a Low-Income Rate Assistance Program (LIRAP), or something similar. Tr. p. 94. Reference new Commission Docket No. GNR-U-08-01. Staff suggests that universal service and alternative rate designs be included as discussion topics in the workshops. Tr. p. 57. The Commission noted at hearing that sometimes what is done by working groups on the outside can format the structure of the legislative review of those issues and how legislation is developed. Tr. p. 124.

Avista identifies the following additional programs that are available to assist customers with the proposed rate increase: Energy Efficiency programs, Project Share, Comfort Level Billing, Payment Arrangements, the Customer Assistance Referral and Evaluation Services (CARES) program, and customer service automation. Tr. pp. 95-98.

**Customer Comments and Testimony**

The Idaho Community Action Network (ICAN) appeared at the Commission's August 27 hearing in Lewiston and also submitted written comments. ICAN opposes the rate hike and the Proposed Settlement and urges the Commission to continue with the rate case

process, including investigation and preparation of testimony by Commission Staff and public hearings after Staff testimony has been made public. The role of the Commission, ICAN contends, "is to protect the interests of the customers, rather than the utility company's shareholders." ICAN Comments p. 1. ICAN appears to believe that the settlement was negotiated by the utility and the intervening parties before Commission Staff had time to review the Company's filing. While the CAP agencies and other organizations may speak for some consumers, ICAN contends they cannot speak for all consumers. ICAN is concerned about settlement negotiations being conducted in a secret meeting without public input.

The opposition of ICAN to the proposed increase is generally representative of other written comments filed by customers, customers on fixed incomes who budget every penny. Tr. p. 10. Many customers cite a newspaper article in the Spokesman Review reporting a 72% quarterly jump in Avista profits as reason to deny the Company's proposed rate increase. The Company explains the inaccuracy of the Spokesman Review headline beginning at Tr. p. 130, concluding that for calendar year 2007 the Company still failed to realize the overall Idaho return authorized by the Commission. Profit or earnings, the Company contends, is really the interest piece for the investor; and if that return is not attractive enough, investors will take their money someplace else. Tr. p. 133.

Customers also cite what they believe to be excessive executive compensation for Avista employees. The Spokesman Review reports a total annual compensation for the top five Avista executives of approximately \$3.6 million. In its testimony, Staff notes that the Settlement in Idaho is based on annual rate base compensation of \$1.45 million for the top five executives, or 40% of the total \$3.6 million compensation. While still seemingly high, Staff states that if all compensation included in rates for the top 12 executives were eliminated, the effect would be a rate reduction of less than 0.5%.

#### ***Commission Findings***

The Commission has reviewed and considered the filings of record in Case Nos. AVU-E-08-01 and AVU-G-08-01 including Stipulation provisions and the comments of customers. The supporting context for the Commission's deliberation regarding the reasonableness of the Stipulation terms is the Commission's August 28, 2008 transcript of the technical and evidentiary hearing in this case. The Commission is also informed by the transcripts of Lewiston and Sandpoint, Idaho proceedings where customers and other parties of

interest were provided the opportunity to raise their concerns and give testimony on the Settlement Stipulation, and by filed public comments, including the written comments of Bennett Forest. The Commission finds that the established record forms a sufficient basis for decision and that no further hearing or procedure is required.

Settlements are reviewed under Commission Rules of Procedure 274-276. We incorporate by reference the submitted Stipulation (and Proposed Settlement) as if set forth herein in its entirety. See Tr. Exh. 101.

The Commission finds it necessary to correct the misperception of some at public hearing and in written comments that the settlement process is a private and secret process that excludes participation and does not provide for representation of all customers. The Commission's Rules of Procedure establish the framework for settlements. RP 271-276. Settlements may involve one or more parties. If Commission Staff is involved in settlement negotiations, Staff must provide other parties with notice. Staff must also give all other parties an opportunity to participate in or be apprised of the course of the settlement negotiations before a final settlement involving Staff is reached. RP 272. The problem in a general rate case affecting different customer classes is that not all customer interests are the same. In fact, customers often have opposing interests. The only truly common interest of all customers is to limit the increase allowed the Company. Commission Staff, whether processing a case through hearing or through settlement, represents the interests of all customer classes. This is the objective of the Staff regardless of the process followed, and is a result, Staff believes, that can sometimes be best achieved through settlement. Tr. p. 39.

Participants in settlement negotiations must be parties of record. Early on in this rate case the Commission issued a Notice of Intervention Deadline. One of the stated purposes of intervention, as set forth in our Notice, is "to participate in settlement or negotiation conferences." Without intervenor status, public participation in the settlement process in this case was limited to testifying at the public hearings or filing written comments.

As a general rule, settlement talks are not initiated until parties are familiar with a utility's application, have participated in the discovery process, have a familiarity with the issues presented in the case and have developed party positions and goals. Participants are expected to have a good grasp of the case they themselves would present, including the witnesses they would use and the testimony they would file. Only then are they able to sit down and engage in

constructive and fruitful dialogue. Negotiations do not always result in settlement. Unless all participants agree to the contrary, the positions taken in negotiations are confidential. RP 272. This condition of confidentiality allows for candid discussions by the parties and an opportunity for compromise. The advantage of a negotiated settlement is that the parties themselves are able to craft mutually acceptable terms. Even then however, under Rule 275 of the Commission's Rules of Procedure, proponents of a proposed settlement carry the burden of proof showing that the settlement is reasonable, in the public interest, or otherwise in accordance with the law or regulatory policy.

As stated in Rule 276

The Commission is not bound by settlements. It will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. When a settlement is presented for decision, the Commission may accept the settlement, reject the settlement, or state additional conditions under which the settlement will be accepted. . . .

We find that the process used and notice given in this case complies with the letter and spirit of the Commission's Settlement Rules. IDAPA 31.01.01.271-276.

As reflected in the August 28, 2008 transcript of proceedings, the Company in this case initially requested authority to recover \$32.3 million (16.7%) in additional annual electric revenue and \$4.7 million (5.8%) in additional annual natural gas revenue. Tr. p. 81. In the Stipulation, the Settlement Parties agree that the Company will be authorized to recover \$23.2 million (11.98%) in additional annual electric revenue and \$3.9 million (4.7%) in additional annual natural gas revenue. Stipulation ¶ 7.

In arriving at their recommended rate increase for the Company's Idaho electric and gas operations, the Settlement Parties agree that the cost of capital for Avista will be determined using a capital structure consisting of 47.94% common stock equity and 52.06% long-term debt. Avista's agreed authorized return on equity (ROE) will be 10.2%, a reduction from the 10.8% ROE originally requested; the Company's cost of debt is recognized to be 6.84%. These components produce an authorized rate of return of 8.45%. Stipulation ¶ 7a.

The Commission at hearing inquired of the Company regarding its intentions to update its "cost of service" study as part of its next general rate case filing. Under Commission Rules of Procedure (Rule 121.01.e), a general rate case by Avista must be accompanied by

“appropriate cost of service studies.” Bennett Forest in post-hearing comments suggests that “in the absence of a current cost of service study, it is difficult for the Commission to make a record-based evidentiary finding that allocations to customer classes, and resulting rates, are fair, just and reasonable. Avista is a multi-jurisdictional utility. Once the Company’s Idaho jurisdictional costs are determined the next step is to allocate those costs among the different customer classes. This assigning of cost responsibility is generally done with a cost of service study. Certainly the Commission’s preference in decision-making is to have good studies and the most recent and best information available. We prefer actual data to statistical estimates or forecasts. Avista informs the Commission that it may not have complete load data that it can roll into a cost of service study until late 2009. Tr. p. 75. A cost of service study, while useful, is not a perfect tool for assigning system and service costs to customer classes. Load data is only one element of a cost of service study. This Commission relies on a cost of service study as a starting point to allocate costs, but in the end we must, and do, consider other factors such as rate continuity, equity and proportionality. We expect as always that the Company in its rate filings will comply with the Commission’s procedural requirements. Avista states a cost of service study will be provided in its next rate case. Presently only Schedule 25 and Schedule 25P customers have hourly meters. Tr. p. 105. The Company contends that the completed load data for other classes will result only in a fine-tuning as opposed to a major shift in dollars, whether it be across customer classes or within schedules. Tr. p. 126. In this case the Commission finds the Company-filed cost of service study to be sufficient to determine rate design in this case. We direct the Company in its next general rate case to provide updated load data as part of its COS study or, in the alternative, show how the lack of such an update affects COS-based revenue allocations to customer classes.

The Commission finds the Stipulation and negotiated settlement terms submitted in these cases to be fair, just and reasonable and in the public interest. As represented, we find that the Settlement is a compromise by all Settlement Parties. We find the proposed \$23.2 million (11.98%) authorized increase in electric revenue and \$3.9 million (4.7%) authorized increase in natural gas revenue to be fair, just and reasonable, as is spreading the increase to customer classes in the manner set forth in the Stipulation, including the proposed increase in base charges for electric and gas residential customers. *Idaho Code* § 61-502. We find the proposed uniform percentage spread of the rate adjustment to be reasonable given the age of the COS data. We

also find the adjustment made for Schedule 25P reasonable and find it to be supported by Potlatch's relative load characteristics compared to Schedule 25. The resultant average changes in electric and gas rates for the Company's customer service schedules that we find reasonable to approve are set forth in Attachment to this Order. The effective date of implementation is October 1, 2008.

The Commission also authorizes an increase in the base charges for residential electric and gas customers. We do so in part because it is an integral term of a negotiated stipulation. Stipulation ¶ 13. Testimony reflects also that the increase in the base charge is justified by the increased monthly cost of metering and billing. Tr. p. 52.

The Stipulation provides for an increase in weatherization program benefits (Stipulation ¶ 14a), and funding for low-income outreach and conservation education (Stipulation ¶ 14b). The funding is payable from the Company's existing DSM tariff riders, and involves simply a re-allocation of DSM dollars. The increase in weatherization funding is not as much as ICAN recommends, but as Staff notes, is greater than either Idaho Power or PacifiCorp in the ratio of customers to dollars committed. Tr. p. 63. The Commission has initiated a generic case (GNR-U-08-01, Order No. 30644) to examine energy affordability issues. Stipulation ¶ 14c. In that case, we direct Avista and our other major energy providers (Idaho Power, PacifiCorp and Intermountain Gas) to participate. We encourage CAPAI, ICAN and other stakeholders to also participate.

In addressing energy affordability for low-income customers, we are reminded by Bennett Forest that large increases in electric rates also have serious consequences for Schedule 25 industrial customers, many of whom, like Bennett Forest, operate in a competitive market and do not necessarily have the ability to raise prices to recover increases in operating costs. In calendar year 2007 Bennett Forest reports it purchased almost 25 million kilowatt hours of electric energy from Avista, at a cost of almost \$1.1 million. There can be no denying that the cumulative increase to Bennett Forest resulting from increases in this docket and the Company's PCA docket are significant and will have operational consequences. Bennett Forest requests no change to the Stipulation. Still, in its comments, it reminds this Commission that "rate shock" is a shorthand expression for regulatory policy that favors rate stability and disfavors abrupt and significant changes to current rates. This Commission is not oblivious to the consequences of its rate orders. The volatility in the energy markets however shows no sign of abating. Avista in

this case announces its intent to file another rate case in early 2009. A phase-in of rates does not appear to be a viable option.

Opportunity for real near-term relief for customers, including Bennett Forest, lies in their ability to enact energy efficiency and conservation measures and reduce their energy demand. At hearing, Bennett Forest inquired about programs to mitigate rate impacts for large customers. Tr. p. 110. Avista stated that it has a number of energy efficiency programs for its industrial customers and Company engineers who will go to customer sites to work with customers to identify cost recovery measures. We encourage Bennett Forest to take advantage of this opportunity.

### **Intervenor Funding**

Intervenor funding is available pursuant to *Idaho Code* § 61-617A and Commission Rules of Procedure 161 through 165. Section 61-617A(1) declares that it is the “policy of [Idaho] to encourage participation at all stages of all proceedings before this Commission so that all affected customers receive full and fair representation in those proceedings.” The statutory cap for intervenor funding that can be awarded in any one case is \$40,000. *Idaho Code* § 61-617A(2). Accordingly, the Commission may order any regulated utility with intrastate annual revenues exceeding \$3.5 million to pay all or a portion of the costs of one or more parties for legal fees, witness fees and reproduction costs not to exceed a total for all intervening parties combined of \$40,000.

On September 10, 2008, the Community Action Partnership Association of Idaho (CAPAI) filed a Petition for Intervenor Funding. *Idaho Code* § 61-617A; RP 161-165. CAPAI is dedicated to promoting self-sufficiency through removing the causes and conditions of poverty in Idaho’s communities. Tr. p. 136. The organization was created by federal law to help administer federal low-income programs. Tr. p. 145. CAPAI advanced the low-income consumer issues addressed in Stipulation ¶ 14a, b and c. CAPAI requests \$3,400. Petition, Exh. A.

Rule 162 of the Commission’s Rules of Procedure provides the form and content requirements for a Petition for Intervenor Funding. The petition must contain: (1) an itemized list of expenses broken down into categories; (2) a statement of the intervenor’s proposed finding or recommendation; (3) a statement showing that the costs the intervenor wishes to recover are reasonable; (4) a statement explaining why the costs constitute a significant financial hardship



for the intervenor; (5) a statement showing how the intervenor's proposed finding or recommendation differed materially from the testimony and exhibits of the Commission Staff; (6) a statement showing how the intervenor's recommendation or position addressed issues of concern to the general body of utility users or customers; and (7) a statement showing the class of customer on whose behalf the intervenor appeared. The Petition for Intervenor Funding filed by CAPAI comports with the procedural and technical requirements of the Commission's Rules.

***Commission Findings***

Submitted for Commission consideration is the Petition for Intervenor Funding filed by the Community Action Partnership Association of Idaho. The Commission has reviewed the Petition, the Stipulation and the testimony of the Petitioner.

*Idaho Code* § 61-617A includes a statement of policy to encourage participation by intervenors in Commission findings. The Commission determines an award for intervenor funding based on the following considerations:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission; and
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor; and
- (c) The recommendation made by the intervenor differed materially from the testimony and exhibits of the Commission Staff; and
- (d) The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

*Idaho Code* § 61-617A. We find that the Petition of CAPAI satisfies the substantive findings that we are required to make to justify an award. IDAPA 31.01.01.165.01.a-e. We find that the participation and presentation of CAPAI, as reflected in its testimony and the Stipulation, materially contributed to the Commission's decision. CAPAI's participation adds an informed perspective to the hearing record. We find that the recommendation of CAPAI differed materially from the testimony of Commission Staff and provided measurable form and substance to the Settlement Stipulation.

This particular case was resolved by way of settlement and not litigation. CAPAI is a non-profit corporation overseeing a number of agencies that assist with issues related to the causes and conditions of poverty in Idaho. We find it fair, just and reasonable to award the total

request of CAPAI in the amount of \$3,400 and find that the public interest is well served by such award. We find the itemized costs of CAPAI to be reasonable and recognize that the cost to CAPAI of participating in this proceeding constitutes a significant financial hardship. We find that CAPAI was professional and economical in the marshalling of its time and efforts.

The Commission finds that the intervenor funding award to CAPAI is fair and reasonable and will further the purpose of encouraging "participation at all stages of all proceedings before the Commission so that all affected customers receive full and fair representation in those proceedings." *Idaho Code* § 61-617A(1).

#### CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities, an electric utility, and the issues presented in this case, pursuant to the powers granted it under Title 61 of the Idaho Code and pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*, including specifically Rules 272 through 280 as pertains to settlements.

#### ORDER

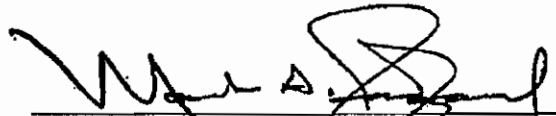
In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission hereby accepts the Stipulation and Proposed Settlement tendered in Case Nos. AVU-E-08-01 and AVU-G-08-01 approving a \$23.2 million (11.98%) authorized increase in annual base tariff revenues for electric service and a \$3.9 million (4.7%) authorized increase in annual base tariff revenues for natural gas service for an effective date of October 1, 2008. Reference Order No. 30647, Attachment 1. The Company is directed to file amended tariffs comporting with this Order.

IT IS FURTHER ORDERED that the Community Action Partnership Association of Idaho's Petition for Intervenor Funding is granted in the amount of \$3,400. Reference *Idaho Code* § 61-617A. Avista is directed to pay said amount to CAPAI within 28 days from the date of this Order. IDAPA 31.01.01.165.02. Avista shall include the cost of this award of intervenor funding to CAPAI as an expense to be recovered in the Company's next general rate case proceeding from the residential customer class. *Idaho Code* § 61-617A(3).

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7)

days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 30<sup>th</sup> day of September 2008.



MACK A. REDFORD, PRESIDENT

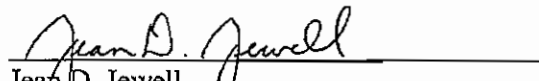


MARSHA H. SMITH, COMMISSIONER



JIM D. KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

b1s/O:AVU-E-08-01\_AVU-G-08-01\_sw3

**AVISTA UTILITIES**  
**BAHIO ELECTRIC**  
**PROPOSED INCREASE BY SERVICE SCHEDULE**  
**12 MONTHS ENDED DECEMBER 31, 2007**  
 (000s. of Dollars)

Line No.	Type of Service (a)	Schedule Number (b)	Base Tariff Revenue Under Present Rates (c)	General Increase (d)	Base Tariff Revenue Under Proposed Rates (e)	Base Tariff Increase Percent (f)	Total Billed Revenue at Present Rates (g)	Percent Increase on Billed Revenue (h)
1	Residential	1	\$75,282	\$9,284	\$84,566	12.33%	\$72,941	12.73%
2	General Service	13-14	\$24,573	\$3,029	\$27,601	12.33%	\$25,640	11.81%
3	Large General Service	21-22	\$40,066	\$4,945	\$45,029	12.33%	\$42,333	11.68%
4	Extra Large General Service	25	\$19,077	\$1,613	\$20,690	12.33%	\$14,084	11.45%
5	Pool/Hot	23P	\$34,045	\$3,529	\$37,574	10.38%	\$36,857	9.57%
6	Pumping Service	31-32	\$3,690	\$455	\$4,145	12.33%	\$3,855	11.80%
7	Street & Area Lights	41-49	\$2,619	\$311	\$2,928	12.33%	\$2,679	12.04%
B	Total		\$193,270	\$23,103	\$216,373	11.98%	\$196,288	11.68%

(1) Excludes all present rate adjustments (see below).

(2) Includes all present rate adjustments: Schedule 66 - Temporary PCA Adj., Schedule 91 - Energy Efficiency Rider Adj., and Schedule 59 - Residential & Parat Energy Rate Adj.

**AVISTA UTILITIES  
IDAHO ELECTRIC  
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE**

(a)	Base Tariff Sch. Rate (b)	Present ERM & Other Adj. (1) (c)	Present Billing Rate (d)	General Rate Increase (e)	Proposed Billing Rate (f)	Proposed Base Tariff Rate (g)
<b>Residential Service - Schedule 1</b>						
Basic Charge	\$4.00		\$4.00	\$0.60	\$4.60	\$4.60
Energy Charge:						
First 600 kWhs.	\$0.05842	(\$0.00206)	\$0.05636	\$0.00710	\$0.06346	\$0.06552
All over 600 kWhs	\$0.06642	(\$0.00206)	\$0.06436	\$0.00804	\$0.07240	\$0.07446
<b>General Services - Schedule 11</b>						
Basic Charge	\$6.00		\$6.00	\$0.50	\$6.50	\$6.50
Energy Charge:						
First 3,650 kWhs	\$0.07295	\$0.00362	\$0.07657	\$0.00913	\$0.08570	\$0.08208
All over 3,650 kWhs	\$0.06223	\$0.00362	\$0.06585	\$0.00778	\$0.07363	\$0.07001
Demand Charge:						
20 kW or less	no charge		no charge	no charge	no charge	no charge
Over 20 kW	\$3.50/kW		\$3.50/kW	\$0.50/kW	\$4.00/kW	\$4.00/kW
<b>Large General Service - Schedule 24</b>						
Energy Charge:						
First 250,000 kWhs	\$0.04800	\$0.00340	\$0.05140	\$0.00584	\$0.05724	\$0.05384
All over 250,000 kWhs	\$0.04097	\$0.00340	\$0.04437	\$0.00497	\$0.04934	\$0.04594
Demand Charge:						
50 kW or less	\$250.00		\$250.00	\$25.00	\$275.00	\$275.00
Over 50 kW	\$3.00/kW		\$3.00/kW	\$0.50/kW	\$3.50/kW	\$3.50/kW
Primary Voltage Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
<b>Extra Large General Service - Schedule 25</b>						
Energy Charge:						
First 500,000 kWhs	\$0.03942	\$0.00319	\$0.04261	\$0.00469	\$0.04730	\$0.04411
All over 500,000 kWhs	\$0.03339	\$0.00319	\$0.03658	\$0.00397	\$0.04055	\$0.03736
Demand Charge:						
3,000 kva or less	\$9,000		\$9,000	\$1,000	\$10,000	\$10,000
Over 3,000 kva	\$2.75/kva		\$2.75/kva	\$0.50/kva	\$3.25/kva	\$3.25/kva
Primary Volt. Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
Annual Minimum	Present:	\$511,470			\$571,450	
<b>Pottatch - Schedule 25P</b>						
Energy Charge:						
all kWhs	\$0.03404	\$0.00313	\$0.03717	\$0.00313	\$0.04035	\$0.03722
Demand Charge:						
3,000 kva or less	\$9,000		\$9,000	\$1,000	\$10,000	\$10,000
Over 3,000 kva	\$2.75/kva		\$2.75/kva	\$0.50/kva	\$3.25/kva	\$3.25/kva
Primary Volt. Discount	\$0.20/kW		\$0.20/kW		\$0.20/kW	\$0.20/kW
Annual Minimum	Present:	\$482,440			\$529,420	
<b>Pumping Service - Schedule 31</b>						
Basic Charge	\$6.00		\$6.00	\$0.50	\$6.50	\$6.50
Energy Charge:						
First 165 kW/kWh	\$0.06555	\$0.00343	\$0.06898	\$0.00815	\$0.07713	\$0.07370
All additional kWhs	\$0.05589	\$0.00343	\$0.05932	\$0.00695	\$0.06627	\$0.06284

(1) Includes all present rate adjustments: Schedule 66-Temporary PCA Adj., Schedule 91-Energy Efficiency Rider Adj., and Schedule 59-Residential & Farm Energy Rate Adj. (Sch. 1 only).

AVISTA UTILITIES:  
IDAHO GAS  
PROPOSED INCREASE BY SERVICE SCHEDULE  
12 MONTHS ENDED DECEMBER 31, 2007  
(000s of Dollars)

<u>Line No.</u>	<u>Type of Service</u> (a)	<u>Schedule Number</u> (b)	<u>Base Tariff Revenue Under Present Rates</u> <sup>(1)</sup> (c)	<u>Proposed General Increase</u> (d)	<u>Base Tariff Revenue Under Proposed Rates</u> (e)	<u>Base Tariff Percent Increase</u> (f)
1	General Service	101	\$63,207	\$3,375	\$66,582	5.3%
2	Large General Service	111	\$17,869	\$486	\$18,355	2.7%
3	Interruptible Service	131	\$867	\$15	\$882	4.0%
4	Transportation Service	146	\$417	\$3	\$420	0.8%
5	Special Contracts	148	\$211	\$0	\$211	0.0%
6	Total		\$82,071	\$3,878	\$85,950	4.7%

(1) Includes Purchase Adjustment Schedule 156 / Excludes other rate adjustments.

**AVISTA UTILITIES  
IDAHO GAS  
PRESENT AND PROPOSED RATE COMPONENTS BY SCHEDULE**

(a)	Base Rate(1) (b)	Present Rate Adj.(2) (c)	Present Billing Rate (d)	General Rate Increase (e)	Sch. 191 Charge (f)	Proposed Billing Rate(2) (g)	Proposed Base Rate(1) (h)	
<b>General Service - Schedule 101</b>								
Basic Charge	\$3.28		\$3.28	\$0.72		\$4.00	\$4.00	22.0%
Usage Charge:								
All Therms	\$1.10888	(\$0.08328)	\$1.10560	\$0.05087		\$1.15647	\$1.15975	4.6%
<b>Large General Service - Schedule 111</b>								
Usage Charge:								
First 200 therms	\$1.09137	(\$0.00564)	\$1.08573	\$0.05445	(\$0.00010)	\$1.14008	\$1.14582	5.0%
200 - 1,000 therms	\$1.07319	(\$0.00564)	\$1.06755	\$0.01087	(\$0.00010)	\$1.07832	\$1.08406	1.0%
1,000 - 10,000 therms	\$0.97077	(\$0.00564)	\$0.96513	\$0.04023	(\$0.00010)	\$1.00526	\$1.01100	4.1%
All over 10,000 therms	\$0.97077	(\$0.00564)	\$0.96513	\$0.00023	(\$0.00010)	\$0.96526	\$0.97100	0.6%
Minimum Charge:								
per month	\$155.55		\$155.55	\$10.89		\$167.52	\$167.52	7.0%
per therm	\$0.30822	(\$0.00564)	\$0.30258		(\$0.00010)	\$0.30248	\$0.30822	0.0%
<b>High Annual Load Factor Large General Service - Schedule 121 - MOVE TO SCH 111</b>								
Usage Charge:								
First 200 therms	\$1.08048	(\$0.00552)	\$1.07596	\$0.05534	\$0.00078	\$1.14008	\$1.14582	6.0%
200 - 500 therms	\$1.08048	(\$0.00552)	\$1.07596	\$0.00358	\$0.00078	\$1.07832	\$1.08406	0.3%
500 - 1,000 therms	\$1.07319	(\$0.00552)	\$1.06867	\$0.01087	\$0.00078	\$1.07832	\$1.08406	1.0%
1,000 - 10,000 therms	\$0.97077	(\$0.00552)	\$0.96525	\$0.04023	\$0.00078	\$1.00526	\$1.01100	4.1%
All over 10,000 therms	\$0.95199	(\$0.00552)	\$0.94647	\$0.01901	\$0.00078	\$0.96526	\$0.97100	2.0%
Minimum Charge:								
per month	\$886.13		\$886.13	(\$248.81)		\$167.52	\$167.52	-56.6%
per therm	\$0.30822	(\$0.00552)	\$0.30170		\$0.00078	\$0.30248	\$0.30822	0.8%
<b>Interruptible Service - Schedule 131</b>								
Usage Charge:								
All Therms	\$0.87157	(\$0.00868)	\$0.86289	\$0.03460		\$0.89769	\$0.90637	
<b>Transportation Service - Schedule 145</b>								
Basic Charge	\$200.00		\$200.00	\$0.00		\$200.00	\$200.00	
Usage Charge:								
All Therms	\$0.10976		\$0.10976	\$0.00086		\$0.11062	\$0.11062	

(1) Includes Schedule 150 - Purchased Gas Cost Adj.

(2) Includes Schedule 155 - Gas Rate Adj., Schedule 191 - Energy Efficiency Rider Adj.

APPENDIX 3  
AVISTA UTILITIES

Pro forma January - December 2009, Idaho Jurisdiction  
PCA Authorized Expense and Retail Sales

PCA Authorized Power Supply Expenses

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Total	128,347,743	17,128,971	11,157,009	11,157,328	7,801,899	5,890,720	5,690,115	7,491,957	10,246,270	10,623,666	12,416,534	14,597,477
Account 555 - Purchased Power	51,607,125	2,727,459	2,992,808	2,582,443	1,254,673	1,353,012	2,089,626	3,025,063	2,909,474	3,016,833	2,936,277	2,887,751
Account 347 - Natural Gas Fuel	79,320,453	5,172,381	5,881,893	4,114,744	3,082,431	3,247,869	7,580,714	10,105,723	9,082,685	8,682,766	8,271,960	7,657,967
Account 447 - Sales for Resale	79,531,456	3,254,944	4,590,317	5,688,422	13,648,588	14,670,302	9,646,327	4,900,202	4,281,137	3,719,884	5,005,546	3,923,733
Power Supply Expense	159,649,065	21,949,195	15,001,140	13,091,309	3,319,745	-1,008,181	2,325,669	18,460,745	18,334,488	20,397,440	20,589,117	21,319,461

PCA Authorized Retail Sales

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Total	305,498	269,181	274,580	240,497	237,579	230,879	254,119	243,880	232,668	259,470	269,684	303,729
Total Retail Sales, MWh	482,756	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853
Electric Generation, MWh	482,756	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853	487,853

Note: For Dec. 2008 the Retail Revenue Credit rate is the Embedded Rate of \$41.45/MWh; for 2009 the Retail Revenue Credit Rate is \$63.63/MWh per Johnson Direct at Page 14.