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September 22, 2005

**VIA ELECTRONIC FILING
and HAND-DELIVERY**

Carol Washburn
Executive Secretary
Washington Utilities & Transportation Commission
1300 s. Evergreen Park Drive, S.W.
P.O. Box 47250
Olympia, WA 98504-7250

**Re: Avista Electric & Gas GRC 2005
Docket Nos. UE-050482 & UG-050483**

Dear Ms. Washburn:

Enclosed please find the original and sixteen copies of the Rebuttal Testimony of Donald W. Schoenbeck on behalf of the Northwest Industrial Gas Users for filing in the above-referenced dockets.

Respectfully submitted,



Edward A. Finklea

EAF/nh
Enclosure
cc: Service List

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WUTC v. AVISTA CORPORATION d/b/a AVISTA UTILITIES

DOCKET NOS. UE-050482 and UG-050483

REBUTTAL TESTIMONY OF

DONALD W. SCHOENBECK

ON BEHALF OF THE NORTHWEST INDUSTRIAL
GAS USERS IN SUPPORT OF THE SETTLEMENT AGREEMENT

September 22, 2005

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Donald W Schoenbeck. I am a member of Regulatory & Cogeneration Services, Inc. ("RCS"), a utility rate and economic consulting firm. My business address is 900 Washington Street, Suite 780, Vancouver, WA 98660.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND EXPERIENCE.

A. I've been involved in the electric and gas utility industries for over 30 years. For the majority of this time, I have provided consulting services for large industrial customers addressing regulatory and contractual matters. I have appeared before the Washington Utilities and Transportation Commission ("WUTC" or "Commission") on many occasions, including several proceedings regarding the establishment of charges for customers of Avista Utilities ("Avista" or "Company"). A further description of my educational background qualifications and work experience was attached to the Joint Testimony filed August 26, 2005 as Exhibit No. ____ (2) pp. 6-7.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. I am testifying on behalf of the Northwest Industrial Gas Users ("NWIGU"). NWIGU is a trade association whose members are large industrial customers served by gas utilities throughout the Pacific Northwest, including Avista. NWIGU is a signatory to the Settlement Agreement, along with Staff, Avista Corporation, and the Energy Project (collectively the "Signing Parties").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to rebut the testimony of Public Counsel Witness Jim Lazar. Exhibit No. ____ (JL-1T) pp. 26-28. Mr. Lazar urges the Commission to reject the settlement, and instead allow Avista a lower overall rate increase for its gas operations,

but spread any resulting rate increase on an equal percentage of margin basis. My rebuttal testimony addresses why the rate increase for Avista's gas operations should be spread as agreed to in the settlement.

Q. WHAT IS THE BASIS OF THE SETTLEMENT AGREEMENT RELATING TO THE RATE SPREAD AND RATE DESIGN FOR GAS CUSTOMERS?

A. The Signing Parties agreed to spread the increased revenue requirement in a manner that gives Schedules 131 and 146 one-half of the average percentage increase to margin, Schedules 111 and 121 the average percentage increase, and the balance of the increase is then spread to Schedule 101. The resulting increases are applied to the existing rate schedule structures in Avista's Washington tariffs in the manner proposed by the Company in its initial filing.

Q. WAS THE SPREAD OF THE RATE INCREASE FOR GAS OPERATIONS A CRITICAL ASPECT OF THE OVERALL SETTLEMENT?

A. Yes. The Settlement Agreement is the product of give and take on the part of all Signing Parties. From NWIGU's perspective, it was both the lower size of the overall rate increase for gas operations and the spread of that increase that were important factors in reaching the agreement. The size of the overall increase was reduced for gas customers to \$968,000, which is a reduction of \$1.9 million from the \$2.9 million originally sought by the Company. The Settlement Agreement includes an equity-building mechanism, under which Avista has agreed to increase the utility's equity component to meet target levels by 2007 and 2008. As part of the settlement, Avista has also agreed to not raise natural gas base rates prior to July 1, 2007, absent a showing by

the Company that it faces extraordinary circumstances related to its natural gas operations.

A critical aspect of the settlement from NWIGU's perspective is that the increase is being spread in a manner that is consistent with the results of the Company's cost of service study. Avista prepared and filed a cost of service study as part of its case. The results of that study showed that industrial schedules, especially sales Schedule 131 and transportation Schedule 146, are currently above a proper cost of service level. Thus, the Company proposed to spread any increase for gas customers so that less of the overall increase went to Schedule 131 and 146 customers. Avista proposed that Schedules 131 and 146 receive one-half the average increase in order to properly reflect the result of the cost of service study. The Settlement Agreement implements the Company's recommendation on rate spread, and reflects the results of the cost of service study.

Q. ON WHAT BASIS DOES NWIGU SUPPORT THE OVERALL RATE INCREASE PROPOSED IN THIS SETTLEMENT AGREEMENT?

A. NWIGU recommends the Commission adopt the Settlement Agreement because the best interests of Avista's natural gas customers are served by the underlying fair compromise on all issues. While the Signing Parties may each hold different positions on the individual components of Avista's natural gas revenue requirement and cost of capital adjustments, NWIGU has based its assessment upon the compromises on various revenue requirement issues that brought down the overall gas revenue requirement increase to \$968,000, the spread of the gas rate increase in a manner that is consistent with the results of the Company's cost of service analysis, as well as the equity-building mechanism and the promised rate stability until mid-2007. In recommending

Commission approval of this Settlement Agreement, NWIGU is not seeking Commission approval of any new process or ratemaking method as part of the Settlement Agreement. In this case, the Signing Parties found a reasonable method for analytical compromise among themselves that enabled them to achieve the Settlement Agreement. While in some gas utility cases an equal percentage of margin spread is fair, just and reasonable, it would not be in this proceeding due primarily to the results of the cost of service study.

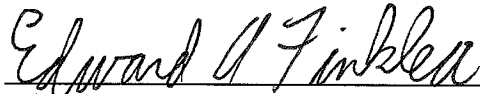
Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, at this time.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing **Rebuttal Testimony of Donald W. Schoenbeck** upon the parties on the following attached current Master Service List in Docket Nos. DOCKET NO. UE-050482 and DOCKET NO. UG-050483, via U.S. Mail, postage prepaid.

DATED: September 22, 2005, Portland, Oregon



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on behalf of the
NORTHWEST INDUSTRIAL GAS USERS

MASTER SERVICE LIST

As of: 09/22/05 Docket: UE-050482 Page: 1
 Name: Avista Corporation, d/b/a Avista Utilities (E016)
 Comments: In the Matter of the Request of Avista Corp. d/b/a Avista Utilites for
 a General Rate Increase of \$35.8 Million (12.52 percent).
 Original MSL Date: 04/04/05

Status	Name and Address.....	Phone & Fax.....	Added....	By.
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As of: 09/22/05 Docket: UE-050482 Page: 2
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Status Name and Address..... Phone & Fax..... Added.... By.

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MASTER SERVICE LIST

As of: 09/22/05 Docket: UE-050482 Page: 3
Name: Avista Corporation, d/b/a Avista Utilities (E016)
Comments: In the Matter of the Request of Avista Corp. d/b/a Avista Utilites for
a General Rate Increase of \$35.8 Million (12.52 percent).
Original MSL Date: 04/04/05

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MASTER SERVICE LIST

As of: 09/22/05 Docket: UG-050483 Page: 1
 Name: Avista Corporation, d/b/a Avista Utilities (G024)
 Comments: In the Matter of the Request of Avista Corp. d/b/a Avista Utilities
 for a General Rate Increase of \$2.9 Million (1.82 percent).
 Original MSL Date: 04/04/05

Status	Name and Address.....	Phone & Fax.....	Added....	By.
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