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) 495-4316, Fax: (509) 495-8851

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IDAHO PUBLIC
UTILITIES COMMISSION

Donald L. Howell, II
Kristine Sasser
Deputy Attorneys General
Idaho Public Utilities Commission Staff
P.O. Box 83720
Boise, ID 83720-0074
Phone: (208) 334-0312, Fax: (208) 334-3762

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-10-01 AVU-G-10-01 **STIPULATION AND SETTLEMENT**

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"), Clearwater Paper Corporation ("Clearwater"), Idaho Forest Group, LLC ("Idaho Forest"), the Community Action Partnership Association of Idaho ("CAPAI"), the Snake River Alliance ("Snake River"), and the Idaho Conservation League ("Conservation League"). These entities are collectively referred to as the "Parties," and represent all parties in the above-referenced cases that participated in settlement discussions.[1] 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 all the issues raised in the proceeding and that this Stipulation and its acceptance by the Commission represent a reasonable resolution of the multiple issues identified in this Stipulation. 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 March 23, 2010, Avista filed an Application with the Commission for authority to increase revenue from electric and natural gas service in Idaho by 14% and 3.6%, respectively. If approved, the Company's revenues for electric base retail rates would have increased by $32.1 million annually; Company revenues for natural gas service would have increased by $2.6 million annually. The Company requested an effective date of April 23, 2010 for its proposed electric/natural gas rate increase. By Order No. 31038, dated April 9, 2010, 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 April 23, 2010, until such time as the Commission enters an Order accepting, rejecting or modifying the Application in this matter.

3. Petitions to intervene in this proceeding were filed by Clearwater, Idaho Forest, CAPAI, the Idaho Conservation League, the Idaho Community Action Network ("ICAN"), Snake River, and North Idaho Energy Logs. By various orders, the Commission granted these interventions. *See*, IPUC Order Nos. 31041, 31052, 31054, 31058, 31068, 31069 and 31070.

[1] The Idaho Community Action Network and North Idaho Energy Logs, Inc., as intervenors, were provided notice of the settlement discussions, but did not participate.

4. Public workshops for Avista customers were held on June 28, 2010, in Lewiston, Idaho, and on June 29, 2010, 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. No customers attended the workshop in Lewiston, and approximately five customers attended in Coeur d'Alene. Settlement conferences were subsequently noticed and held in the Commission offices on July 6 and 8, 2010, and were attended by signatories to this Stipulation. Further public customer hearings have yet to be scheduled. The technical hearing was previously scheduled to begin on September 22, 2010. The Parties' request to modify the procedural schedule will be the subject of a separate Motion.

5. 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 AND SETTLEMENT

6. <u>Overview of Settlement and Revenue Requirement</u>. The Parties engaged in productive settlement discussions in the conferences on July 6 and 8, 2010. The Parties agree that Avista should be allowed to implement revised tariff schedules designed to recover $21.25 million in additional annual electric revenue and $1.85 million in additional annual natural gas revenue, which represent a 9.25% and 2.62% increase in electric and natural gas annual base tariff revenues, respectively. However, these increases are offset by a rate impact mitigation plan discussed below resulting in a 3.59% increase in electric and a 1.9% increase in gas revenues. New electric and natural gas rates would become effective October 1, 2010.

The Parties agree that this settlement is not contingent upon any specific methodology for individual components of the revenue requirement determination, but all Parties support the overall increase to the Company's revenue requirement, and agree that the overall increase represents a fair, just and reasonable compromise of the issues in this proceeding and that this Stipulation is in the public interest.

7. Rate Impact Mitigation Plan. The electric rate impact to customers will be phased-in, beginning on October 1, 2010, over three years, resulting in a 3.59% increase October 1, 2010, a 3.92% increase on October 1, 2011, and a 1.74% increase on October 1, 2012, after giving effect to a two-year amortization of $17 million of Deferred State Income Tax (DSIT) refund which is being credited to electric ratepayers to mitigate the rate impact. The table below illustrates this rate mitigation plan in more detail.

ELECTRIC RATE IMPACT MITIGATION PLAN

Revenue Increase of $21.25 million or 9.25%, partially offset by the amortization of DSIT over 2 years.

	Year 1 (October 1, 2010)		**Year 2 (October 1, 2011)**		**Year 3 (October 1, 2012)**	
Total Increase	$21.25 million	9.25%	$21.25 million	9.25%	$21.25 million	9.25%
Less - DSIT Credit	$13.00 million	5.66%	$4.00 million	1.74%	$0.00 million	0.00%
Less - Prior Increase	$0.00 million	0.00%	$8.25 million	3.59%	$17.25 million	7.51%
Net Increase to Customers	**$8.25 million**	**3.59%**	**$9.00 million**	**3.92%**	**$4.00 million**	**1.74%**

The DSIT reflected on the Company's balance sheet totals approximately $11.1 million, and when adjusted for the effect of the revenue conversion factor of 0.63676, totals approximately $17.5 million, representing normalization of state income taxes for a period of years. As part of this mitigation plan, the Parties agree to credit $17 million of the DSIT to electric customers over two years to help offset the rate impact, and $0.5 million for one year to help offset a portion of the first year natural gas rate increase (thereby reducing the first year impact from 2.6% to 1.9%). The Company will record regulatory liabilities in Account 254 to account for the $17 million electric and $0.5 million gas DSIT refunds, and will record deferrals for the associated revenue related expenses and deferred federal income tax. The deferral amounts will be amortized as the refunds are passed on to customers. The Company will file, with its compliance filing, tariff schedules 099 (electric) and 199 (natural gas) which will be used to pass the DSIT credit back to customers.

8. Recovery of Lancaster Costs. In Case No. AVU-E-09-01, a settlement was reached in which the purchase of the output from the Lancaster combined-cycle generating plant was found to be reasonable with the recovery of the fixed and variable costs through the PCA. Those costs have now been incorporated into the base revenue requirement in this case.[2]

9. PCA Authorized Level of Expense. The new level of power supply expense, retail load and Clearwater Paper generation, and retail revenue credit rate resulting from the settlement revenue requirement for purposes of the monthly PCA mechanism calculations, are detailed in Attachment A.

10. Prudence of Energy Efficiency Expenditures. The Parties agree that Avista's expenditures for electric and natural gas energy efficiency programs from January 1, 2008 through November 30, 2008, and from December 1, 2008 through December 31, 2009 are prudent and recoverable.

11. Cost of Service. As part of this rate case, the Company prepared an analysis of using a peak credit method of classifying production costs, allocating 100% of transmission costs to demand, and allocating transmission costs to reflect any peak and off-peak seasonal cost differences over seven months, rather than assuming an equal weighting over twelve months. The Parties agree to take into account, for purposes of rate spread in this proceeding, the allocation of 100% of transmission costs to demand. The Parties have otherwise agreed to exchange information and convene a public workshop, prior to the Company's next general rate case, with respect to the

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[2] The Lancaster power plant is a 275 MW gas-fired combined cycle combustion turbine located in Rathdrum, Idaho. Avista Utilities will purchase all of the output of the plant through 2026.

possible use of a revised peak credit method for classifying production costs, as well as consideration of the use of a 12 CP (whether "weighted" or not) versus a 7 CP or other method for allocating transmission costs.

The Parties have also agreed to move all electric rate schedules approximately 25% toward unity (except for the Street and Area Lighting Schedules, which will receive a percentage increase equal to the overall increase in revenue requirement). The following table shows the relative rates of return after giving effect to the foregoing adjustments.[3]

ELECTRIC PRESENT & PROPOSED RELATIVE RATES OF RETURN

	Present Relative ROR	Settlement Relative ROR
Residential Schedule 1	0.85	0.89
General Service Schedule 11	1.56	1.42
Large General Service Schedule 21	1.18	1.14
Ex Large General Service Schedule 25	0.61	0.70
Clearwater Paper Schedule 25P	0.85	0.88
Pumping Service Schedule 31	0.79	0.85
Street & Area Lighting Schedules	1.03	0.95
Overall	**1.00**	**1.00**

The Parties agreed to move all natural gas rate schedules approximately 60% toward unity (except for Transportation Service Schedule 146, which will receive a full decrease to unity), as shown below:

3 The following assumptions were used to incorporate the settlement into the cost of service model for rate spread purposes: (1) Begin with the filed pro forma results of operation; (2) input the agreed-upon revised power supply adjustment; (3) reflect power supply changes in production property adjustment; (4) reflect cost of debt from AVU-E-09-01 in restated debt adjustment; (5) determine remaining adjustment necessary to achieve revenue requirement given rate of return from AVU-E-09-01; (6) run cost of service model on these results using the prior method, except transmission costs are 100% demand (allocated by 12 CP); (7) adjustment amount included as common cost allocated by four-factor allocator; (8) use results to determine rate spread with 25% movement toward unity.

NATURAL GAS PRESENT & PROPOSED RELATIVE RATES OF RETURN

	Present Relative ROR	**Settlement Relative ROR**
General Service Sch. 101	0.95	0.98
Large General Service Sch. 111	1.24	1.10
Interruptible Sales Service Sch. 131	1.10	1.03
Transportation Service Sch. 146	1.33	1.00
Overall	**1.00**	**1.00**

12. Rate Spread/Rate Design.

(a) As indicated above, the Parties agree that the increase in base revenue would be spread to move all electric rate schedules approximately 25% toward unity (except for the Street and Area Lighting Schedules, which will receive a percentage increase equal to the overall increase in revenue requirement) and all natural gas rate schedules approximately 60% toward unity (except for Transportation Service Schedule 146, which will receive a full decrease to unity).

(b) The Parties agree that there will be an increase in the basic charges, monthly minimum charges, and demand charges in Schedules 11, 21 and 25, as shown in Attachment B.

(c) Otherwise, a uniform percentage increase will be applied to each energy rate within each electric service schedule excluding Schedule 1, residential service where the block differential remains constant.

(d) The Parties agree that the current residential electric basic charge of $4.60 per month will be increased to $5.00, and the residential natural gas basic charge of $4.00 per month will remain the same.

(e) Attachment B provides a summary of the current and revised rates and charges (as per the settlement) for electric and natural gas service.

13. Resulting Percentage Increase by Schedule. The following tables reflect the agreed-upon percentage increase by schedule for electric and natural gas service, along with the first-year net rate impact resulting from the rate impact mitigation plan set forth in Section 7:

Electric Increase Percentage by Schedule:

Rate Schedule	General Increase	First Year Net with Credit
Residential Schedule 1	11.0%	4.3%
General Service Schedule 11	6.6%	2.6%
Large General Service Schedule 21	8.7%	3.4%
Ex Large General Service Schedule 25	9.8%	3.8%
Clearwater Paper Schedule 25P	7.2%	2.8%
Pumping Service Schedule 31	13.5%	5.2%
Street & Area Lighting Schedules	9.2%	3.6%
Overall	**9.3%**	**3.6%**

Natural Gas Increase Percentage by Schedule[4]:

Rate Schedule	General Increase	First Year Net with Credit
General Service Schedule 101	3.4%	2.6%
Large General Service Schedule 111	0.2%	-0.3%
Interruptible Sales Service Schedule 131	1.0%	0.6%
Transportation Service Schedule 146	-6.9%	-8.6%
Overall	**2.6%**	**1.9%**

14. Residential First Tier Energy Blocks. The Parties will exchange information and convene a public workshop, prior to the Company's next general rate filing, with respect to the appropriate size of the first tier energy block for Residential Electric Service Schedule 1 (currently at 600 Kwhs).

[4] As part of this case, the Parties agreed, for purposes of clarity and transparency, to move all natural gas commodity and demand costs from base rates to Schedule 150 (Purchased Gas Cost Adjustment); the retail rate schedules will now only reflect the non-commodity distribution rates. The application of the DSIT to natural gas customers would be spread based on each schedule's contribution to base revenues including the general increase in this case.

15. Effective Date for New Rates. The Parties agree, as an integral part of the Settlement, that the effective date for new electric and natural gas rates should be October 1, 2010.

16. Customer Service-Related Issues.

(a) Low-Income Weatherization Funding. The Parties agree that the annual level of funding of $465,000 to the Community Action Partnership (CAP) agencies for funding of weatherization (which includes administrative overhead) should be increased to $700,000. The continuation and level of such funding will be revisited in the Company's next general rate filing, or other appropriate proceeding. This total amount will be funded through the Energy Efficiency Tariff Rider (Schedules 91 and 191).

(b) Funding for Outreach for Low-Income Conservation. The Parties agree to annual funding of $40,000 to Idaho CAP for purposes of providing low-income outreach and education concerning conservation. This amount will be funded through the Energy Efficiency Tariff Rider (Schedules 91 and 191), and will be in addition to the $700,000 of Low-Income Weatherization Funding. The continuation and level of such funding will be revisited in the Company's next general rate filing or other appropriate proceedings.

(c) Other Service Commitments.

(i) The Company will review its policies and address in its next general rate case the appropriateness of charging for services it now provides without charge to customers or other parties, e.g., establishing new accounts or managing tenant/landlord accounts. The Company will also reexamine its existing non-recurring charges to determine whether those amounts cover a reasonable portion of the Company's current cost to provide those services.

(ii) The Company will use its best efforts to meet or exceed its current contact center service level standards.

(iii) In coordination with Staff, the Company will develop and conduct a study on Avista's deposit policy and practices with respect to residential customers. Among the objectives of the study would be to determine if the current deposit policy correctly identifies customers who pose a credit risk to the Company, whether it encourages customers who pose a credit risk to improve payment habits, and whether it reduces the amount of credit and collection activity as well as bad debt associated with those customer accounts.

(iv) The Company will hold at least five Senior Energy Conservation workshops in different Idaho communities prior to December 31, 2011.

(v) The Company will begin tracking and reporting to the Commission monthly data regarding customer credit activity.

(vi) The Company will actively monitor the Low Income Weatherization and Low Income Energy Conservation Education Programs to assure that the stated goals and objectives of these programs are achieved and that costs associated with these programs are prudently incurred.

(vii) The Company will work with Commission Staff to address Staff's concerns about Avista's policies and practices with respect to: (a) opening and closing customer accounts, and (b) offering term payment arrangements to customers.

17. Other Accounting Treatments. The Parties agree to the accounting treatment for the following items:

(a) **Coeur d'Alene Tribe Settlement and Spokane River Relicensing Deferrals** – The Parties agree to a ten-year amortization of the remaining balances beginning October 1, 2010 of the CDA Settlement Deferral, the Spokane River Deferral, and the Spokane River PM&E Deferral.

(b) **Colstrip Lawsuit Settlement** – The Parties agree to eliminate the amortization of the deferred costs, due to insurance proceeds received subsequent to the original filing of the case.

(c) **Jackson Prairie (JP) Storage** – The parties agree to the revised accounting treatment proposed by the Company for its existing cushion gas using the net book value of the utility assets at February 2010 to record the transfer of the cushion gas from non-recoverable (FERC Account No. 352.3), which is a depreciable asset, to recoverable (FERC Account No. 117.1), which is a non-depreciable asset. The JP assets that will transfer from Avista Energy on May 1, 2011, will include plant assets, operations and maintenance expenses, as well as cushion gas that will be recorded in both recoverable and non-recoverable FERC accounts using a similar allocation method.

IV. OTHER GENERAL PROVISIONS

18. 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.

19. 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.

20. 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.

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

22. 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.

23. 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.

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

DATED this 23rd day of July 2010.

Avista Corporation

By: ______________________

David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By: ______________________

Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By: ______________________

Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By: ______________________

Dean J. Miller
Attorney for Idaho Forest Group LLC

Community Action Partnership Association

By: ______________________

Brad M. Purdy
Attorney for CAPAI

Idaho Conservation League

By: ______________________

Benjamin J. Otto

Snake River Alliance

By: ______________________

Ken Miller

DATED this 23d day of July 2010.

Avista Corporation

By:______________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By: Donald L. Howell
Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By:______________________________
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:______________________________
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Idaho Conservation League

By:______________________________
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Snake River Alliance

By:______________________________
Ken Miller

DATED this 23rd day of July 2010.

Avista Corporation

By:______________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By:______________________________
Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By: Peter J. Richardson
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:______________________________
Dean J. Miller
Attorney for Idaho Forest Group LLC

Community Action Partnership Association

By:______________________________
Brad M. Purdy
Attorney for CAPAI

Idaho Conservation League

By:______________________________
Benjamin J. Otto

Snake River Alliance

By:______________________________
Ken Miller

DATED this ____ day of July 2010.

Avista Corporation

By:________________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By:________________________________
Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By:________________________________
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:________________________________
Dean J. Miller
Attorney for Idaho Forest Group LLC

Community Action Partnership Association

By:________________________________
Brad M. Purdy
Attorney for CAPAI

Idaho Conservation League

By:________________________________
Benjamin J. Otto

Snake River Alliance

By:________________________________
Ken Miller

DATED this 26th day of July 2010.

Avista Corporation

By:______________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By:______________________________
Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By:______________________________
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:______________________________
Dean J. Miller
Attorney for Idaho Forest Group LLC

Community Action Partnership Association

By: Brad M. Purdy
Brad M. Purdy
Attorney for CAPAI

Idaho Conservation League

By:______________________________
Benjamin J. Otto

Snake River Alliance

By:______________________________
Ken Miller

DATED this 23 day of July 2010.

Avista Corporation

By:__________________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By:__________________________________
Donald L. Howell, II
Kristine A. Sasser
Deputy Attorneys General

Clearwater Paper Corporation

By:__________________________________
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:__________________________________
Dean J. Miller
Attorney for Idaho Forest Group LLC

Community Action Partnership Association

By:__________________________________
Brad M. Purdy
Attorney for CAPAI

Idaho Conservation League

By:__________________________________
Benjamin J. Otto
Attorney for I.C.L.

Snake River Alliance

By:__________________________________
Ken Miller

DATED this ____ day of July 2010.

Avista Corporation

By:______________________________
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

By:______________________________
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Deputy Attorneys General

Clearwater Paper Corporation

By:______________________________
Peter Richardson
Attorney for Clearwater Paper

Idaho Forest Group

By:______________________________
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Idaho Conservation League

By:______________________________
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Snake River Alliance

By: Ken Miller
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STIPULATION AND SETTLEMENT
Case Nos. AVU-E-10-01 & AVU-G-10-01

ATTACHMENT A

Electric PCA Authorized Expense and Retail Sales

Avista Corp
Idaho Pro forma October 2010 - September 2011
PCA Authorized Expense and Retail Sales

PCA Authorized Power Supply Expense

	Total	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-10	Nov-10	Dec-10
Account 555 - Purchased Power	$92,384,879	$10,941,610	$9,233,475	$9,539,010	$7,063,545	$5,316,934	$5,361,214	$5,701,893	$7,193,928	$5,952,043	$7,390,676	$9,461,004	$9,229,546
Account 501 - Thermal Fuel	$30,868,464	$3,100,309	$2,835,019	$3,077,762	$1,679,320	$1,404,069	$1,311,997	$2,806,615	$3,112,239	$2,986,010	$2,882,561	$2,802,027	$2,870,538
Account 547 - Natrual Gas Fuel	$106,824,463	$10,726,297	$9,786,640	$8,238,144	$3,592,012	$2,793,269	$3,354,055	$10,431,836	$12,681,697	$12,137,828	$9,371,710	$11,156,828	$12,554,146
Account 447 - Sale for Resale	-$51,242,307	-$2,225,290	-$2,530,244	-$2,608,828	-$3,647,386	-$4,606,408	-$4,700,919	-$5,814,112	-$3,528,338	-$3,346,244	-$4,019,962	-$5,157,334	-$9,057,241
Power Supply Expense	$178,835,499	$22,542,926	$19,324,890	$18,246,087	$8,687,490	$4,907,864	$5,326,347	$13,126,233	$19,459,526	$17,729,637	$15,624,985	$18,262,525	$15,596,989
Transmission Expense	$17,646,416	$1,583,917	$1,428,385	$1,489,847	$1,545,721	$1,353,126	$1,434,184	$1,433,753	$1,488,811	$1,441,885	$1,464,318	$1,464,565	$1,517,909
Transmission Revenue	$12,388,460	$901,304	$825,004	$1,002,240	$898,431	$1,029,104	$1,371,347	$1,379,878	$1,150,203	$1,025,629	$1,041,304	$939,334	$824,682

PCA Authorized Idaho Retail Sales

	Total	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-10	Nov-10	Dec-10
Retail Sales (w/o Clearwater), MWh	3,068,294	306,392	272,039	268,005	237,221	230,622	232,091	250,538	247,926	228,348	246,382	263,854	284,875
Clearwater Paper Generation	452,317	37,718	33,460	38,076	34,456	40,718	38,206	36,660	39,076	37,032	36,706	37,108	43,101
Retail Revenue Credit Rate	$48.00 /MWh												