

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF AVISTA CORPORATION DBA AVISTA</b>	)	<b>CASE NOS. AVU-E-16-03</b>
<b>UTILITIES FOR AUTHORITY TO</b>	)	
<b>INCREASE ITS RATES AND CHARGES FOR</b>	)	
<b>ELECTRIC AND NATURAL GAS SERVICE</b>	)	<b>ORDER NO. 33682</b>
<b>IN IDAHO</b>	)	

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On May 26, 2016, Avista Corporation applied to the Commission for authority to increase its electric base rates by \$15.4 million (6.3%) on January 1, 2017. If approved, the average Avista residential customer would experience an electric bill increase of \$6.54 (7.7%) per monthly bill.

On June 7, 2016, the Commission issued a Notice of Application, suspended the proposed effective date, and set a June 21, 2016 intervention deadline. The following parties intervened: Clearwater Paper Corporation; Idaho Forest Group, LLC; Snake River Alliance (SRA); and Community Action Partnership Association of Idaho (CAPAI). On July 15, 2016, the Commission set deadlines for the filing of testimony, set a settlement conference, and a technical hearing. The Commission subsequently ordered Staff to conduct two public workshops, in Moscow and Coeur d'Alene. Order Nos. 33536, 33555, and 33634.

On October 24, 2016, the Company and Staff notified the Commission that all parties had agreed to settle the rate case, and recommended that the Commission approve the parties' Stipulation and Settlement. As part of the proposed settlement, Avista agreed to a reduced increase of \$6.25 million (2.57%), effective January 1, 2017. On October 20, 2016, the Commission issued a Notice of Proposed Settlement and requested comments on the proposed settlement. Order No. 33641. The Commission convened a telephonic customer hearing on November 29, 2016, and a technical hearing in Boise on December 2, 2016. Having thoroughly reviewed the Application, the proposed settlement, public comments and the testimony of the parties, we approve the settlement as set out in greater detail below.

**THE INITIAL APPLICATION**

Avista is a public utility engaged in the generation, transmission and distribution of electricity and natural gas. Avista's electric service area includes eastern Washington and northern Idaho. Avista's existing base rates and charges for electric and natural gas services

were approved by the Commission on December 18, 2015, and took effect in January 2016. Order No. 33437.

Avista claimed its existing electric rates are not fair, just, and reasonable, and that it must increase them so it can earn a fair return on its investment. Avista notified its customers about the proposed rate increase by distributing bill stuffers during the June 2016 billing cycle.

Avista claimed that approximately 77% of the proposed increase is to cover an increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest). Application at 3. Avista requested an overall rate of return of 7.78%, which includes a 50% common equity ratio, and a 9.9% return on equity. Avista asserted that the proposed rate of return and capital structure reasonably balance safety and economy. *Id.* at 7. Avista's requested rate increase is based on a 12-month test year ending December 31, 2015. *Id.* at 4.

If the Commission were to approve the Application as requested, residential electric customers using an average of 918 kilowatt hours (kWh) per month could expect to see a bill increase of \$6.54 per month in 2017, including an increase in the basic monthly charge from \$5.25 to \$6.25. The proposed electric rate increase for particular customer classes/schedules is as follows:

<b>Rate Schedule</b>	<b>Increase in Base Rates</b>
Residential Schedule 1	7.7%
General Service Schedule 11/12	4.5%
Large General Service Schedule 21/22	5.6%
Extra Large General Service Schedule 25	4.7%
Schedule 25P	4.5%
Pumping Service Schedule 31/21	7.5%
Street & Area Lights Schedules	8.2%
<b>Overall</b>	<b>6.3%</b>

#### **THE PROPOSED SETTLEMENT**

On October 3, 2016, the parties engaged in settlement negotiations that resulted in a proposed settlement. The terms of the proposed settlement are supported by all parties to the case, and would fully resolve all the issues now before us. The parties agreed that the Company's requested increase should be reduced to \$6.25 million (2.57%) and go into effect January 1, 2017. The settlement also includes a \$0.50 increase in the monthly residential customer charge.

**A. Cost of Capital**

The parties agreed to a 9.5% return on equity and the following capital structure and rate of return:

<b>Component</b>	<b>Capital Structure</b>	<b>Pro Forma Cost</b>	<b>Pro Forma Weighted Cost</b>
Total Debt	50.00%	5.67%	2.83%
Common Equity	50.00%	9.50%	4.75%
Total	100.00%		7.58%

Settlement at 3.

**B. Settled Increase by Service Schedule**

The following table reflects the agreed upon percentage increase by:

<b>Rate Schedule</b>	<b>Net Increase in Billing Rates</b>
Residential Schedule 1	3.1%
General Service Schedule 11/12	1.8%
Large General Service Schedule 21/22	2.3%
Extra Large General Service Schedule 25	1.9%
Clearwater Paper Schedule 25P	1.8%
Pumping Service Schedule 31/21	3.0%
Street & Area Lights Schedules	3.3%
<b>Overall</b>	<b>2.5%</b>

*Id.* at 7.

**C. Other Settlement Provisions**

1. Cost-of-Service. The parties agreed that, prior to the filing of the next general rate case, they will meet and confer to discuss the methodologies used by the Company to classify and allocate costs, and review the changes that result from the filing of this case. The Company agreed to provide meaningful data, as requested, to enable meaningful discussions.

2. Low-Income Issues. Avista agreed to meet and confer with interested parties prior to the filing of the Company’s next general rate case to assess and discuss the performance of the Company’s Low Income Weatherization and Low Income Energy Conservation Education programs with the goal of enhancing and improving those programs. *Id.* at 15-16.

## COMMENTS AND SETTLEMENT TESTIMONY

### *A. Public Comments*

After the Application was filed in late May, the Commission received 11 customer comments regarding the proposed increase in Avista's electric rates. These comments were entirely from residential customers who oppose any increase in rates. The customers generally argue that their income is being outpaced by the Company's rate increases. They also expressed general disapproval of the perception of where the Company is spending the money (executive pay, charitable matters, and marketing).

Following notice of the proposed settlement, the Commission received six customer comments objecting to the Company's initial request. One customer filed comments in support of the settlement as a compromise of the Company's initial position. No customers testified during the telephonic customer hearing on November 29, 2016.

### *B. The Company*

The Company offered two witnesses who testified that the settlement is in the public interest and a fair, just and reasonable compromise of the parties' positions. *See* Andrews Direct at 3-4, *see also*, Ehrbar Direct. The Company notes that the proposed settlement is "the end result" of extensive Staff audits, discovery, various on-site audit visits by Staff, and "hard bargaining by all Parties in this proceeding." Andrews Direct at 3-4.

Ms. Andrews described that the settlement is in the public interest for several reasons: Overall, Ms. Andrews noted that the settlement is the product of thorough give-and-take of negotiations that produced a just and reasonable end result. *Id.* Further, Ms. Andrews noted that the proposed settlement is supported by record evidence demonstrating the need for rate adjustments. *Id.* Finally, she pointed out that the settlement enjoys unanimous support from the parties in this case. *Id.*

### *C. CAPAI*

CAPAI witness Christina Zamora provided unconditional support of the proposed settlement. Zamora Direct at 4. Ms. Zamora testified that the proposed settlement is agreeable to CAPAI because it presents a revenue requirement, rate spread, and overall increase that is fair, just, and reasonable. *Id.* at 6-10. Ms. Zamora also testified that the \$0.50 increase on the fixed monthly residential basic charge is not excessive and will not be contrary to the interests of the low-income customers represented by CAPAI. *Id.* at 5.

Ms. Zamora further explained that CAPAI participated fully throughout the entirety of the case and in all settlement negotiations. At the conclusion of negotiations, CAPAI determined that the settlement is in the best interest of Avista's low-income ratepayers and all ratepayers in general. *Id.* at 4.

#### ***D. Commission Staff***

Staff witness Randy Lobb testified on behalf of Commission Staff. Mr. Lobb stated that Staff agreed to the settlement only “[a]fter a comprehensive review of the Company’s application, thorough audit of the Company books and records and extensive negotiation with parties to the case. . . .” Lobb Direct at 2. Mr. Lobb noted that the proposed agreement includes nine adjustments to the Company’s requested base rate revenue requirements: (1) removal of \$4.5 million associated with the Palouse Wind project; (2) a \$2.47 million reduction to the proposed return on equity; (3) a \$1.33 million reduction to capital plant additions; (4) a \$1.06 million reduction to reflect removal of 2015 storm costs; (5) adjustment to actual 2016 deferred debits and credits; (6) removal of 2017 non-union labor expenses; (7) inclusion of a Nine Mile investment tax credit; (8) removal of officer incentives; and (9) removal of legal expenses. *Id.* at 5.

Mr. Lobb explained that Staff’s approach to the settlement “was to extensively review the Company’s filing, identify adjustments to its revenue requirement request and prepare to file testimony for a fully-litigated proceeding.” *Id.* at 7. He noted Staff’s active discovery process, included on-site investigation, and auditing. He further stated that Staff went into the settlement conference with several revenue requirement adjustments, test year pro forma changes, class revenue allocations and rate design modifications. *Id.*

Mr. Lobb pointed out that the Company had originally proposed a return on common equity of 9.9% while the settlement specifies a return of 9.5%, which Staff believed is within a reasonable range for Avista’s financial situation and consistent with the proposed capital structure. *Id.* at 12. The settlement includes a \$0.50 increase in the customer charge, with direction that the proposed increase be allocated to the various customer classes using a prorated 25% move toward cost-of-service. Staff felt that these measures will better move all customer classes closer to their actual cost-of-service. *Id.* at 5-6.

Mr. Lobb maintained that Staff’s position in settlement was aimed to reach a conclusion that “was as good or better [for customers] than what could be achieved through

litigation.” *Id.* at 9. Based upon Staff’s investigation and analysis, he concluded that “the proposed Settlement represents a reasonable compromise of revenue requirement issues.” *Id.* at 2. Consequently, Staff recommended that the Commission should approve the settlement.

## **DISCUSSION AND FINDINGS**

### ***A. Standard of Review***

The Commission’s process regarding settlement stipulations is set forth in Rules 271-277, IDAPA 31.01.01.271-277. Generally, when a settlement is presented to the Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it. In this case, the Commission accepted testimony in support of the settlement and convened both a technical hearing and public customer hearing on the Settlement. IDAPA 31.01.01.274. The purpose of the evidentiary hearing is “to consider the reasonableness of the settlement.” IDAPA 31.01.01.274 and .275. Finally, we note that the Commission is not bound by settlement agreements. Rather, the Commission “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.” IDAPA 31.01.01.276.

### ***B. The Proposed Settlement***

The proposed settlement comes to the Commission with the unanimous support of the parties to this case. The parties represent a wide variety of customers and have testified or otherwise represented that the settlement is a reasonable compromise of disputed issues, and that the Commission should approve it as in the public interest. Based upon our thorough review of the record, we find the settlement is fair, just and reasonable.

The Company initiated this process with an Application seeking approval of an electric rate increase of \$15.4 million (6.3%), effective January 1, 2017. The Company provided supporting testimony, calculations, and projections to justify these initial requests. Staff reviewed the Application, performed an audit of Company records, and identified a number of adjustments to the Company’s proposal. In October, the parties met and conducted settlement negotiations and a settlement was reached. Under the terms of the agreement, Avista will recover a much lower amount, \$6.25 million (2.57%) in additional annual electric revenue. This is a significant departure from Avista’s requested revenue increase. According to party witnesses, this reduction is due primarily to: (1) the removal of Palouse Wind contract expenses;

(2) a lower return on equity; (3) removal of projected plant; and (4) an adjustment to storm expense projections.

The Company submits that its existing rates are insufficient to recover costs and expenses. We find that claim has merit and that the stipulated \$6.25 million in additional annual electric revenue will provide adequate recovery for the Company without unreasonably burdening the utility's customers. Consequently, we find the stipulated revenue increase to be fair, just and reasonable. *See Idaho Code* § 61-622. We further find that the parties' compromises regarding cost-of-service and rate design are fair and reasonable. We further find the agreement that the interested parties meet on low-income energy efficiency issues, including appropriate funding levels, as well as the \$0.50 increase in monthly residential customer charges are fair and reasonable.

We specifically note the large single adjustment of \$4.5 million relating to the Palouse Wind contract expenses. Circumstances and evidence suggests that the Company acquired Palouse Wind to meet Resource Portfolio Standards for the State of Washington, not to meet Idaho load needs. Further, we find that the difference between what Avista pays for the project's energy and the market value of the energy is substantial. Still, we recognize that some power produced by the project necessarily serves Idaho load. Over the years, the compromise has been to remove the above market value from base rate recovery and flow it through the PCA at 90%. This has resulted in "a savings to Idaho customers of \$450,000 annually." *See Lobb Direct* at 11. We continue to support this treatment and find it results in just and reasonable recovery of expenses.

Accordingly, based on the record in this case, we find the terms of the settlement to be fair, just and reasonable. The settlement represents a reasonable compromise of the positions held by the parties and reflects a significant reduction in the requested revenue increase. We thus find it is in the public interest. *See IDAPA* 31.01.01.274-276.

The Commission appreciates the parties' work on the settlement, and their ability to resolve all of the issues in this case.

#### **INTERVENOR FUNDING**

On December 23, 2016, CAPAI timely filed a Petition for Intervenor Funding, seeking an award of \$12,870. *See CAPAI's Petition for Intervenor Funding*. Intervenor funding is available under *Idaho Code* § 61-617A, which declares 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 statute empowers the Commission to 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. *Id.* The Commission must consider the following factors when deciding whether to award intervenor funding:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission;
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;
- (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(2). To obtain an intervenor funding award, an intervenor must comply with Commission Rules of Procedure 161 through 165. Rule 162 provides the form and content for the petition. IDAPA 31.01.01.162.

We find that CAPAI’s Petition satisfies the intervenor funding requirements. CAPAI intervened and participated in all aspects of the proceeding, with a focus on low-income customers. CAPAI’s Petition shows that it worked closely with Avista throughout the process both formally and informally since March 2016, prior to the Company’s filing. CAPAI noted its role in the Company agreeing to meet with CAPAI and other interested parties to discuss the Company’s Low Income Weatherization Assistance and Low Income Conservation Education programs with the goal of improving those programs. CAPAI also noted its role in the Company agreeing to commence a study of low income customers similar to what the Company has done in the state of Washington. CAPAI stated it also participated in the formulation of the overall revenue requirement increase, and on rate design issues including the proposed and agreed upon customer charge.

The Commission finds that CAPAI has materially contributed to the Commission’s decision. CAPAI’s recommendation materially differs from Staff’s testimony and exhibits, and



CAPAI's participation addressed issues of concern to the general body of customers. Finally, we find the costs and fees incurred by CAPAI are reasonable in amount, and that CAPAI, as a non-profit organization, would suffer financial hardship if the request is not approved. Accordingly, we approve an award of intervenor funding to CAPAI in the amount of \$12,870. This amount will be recovered from Avista's residential electric customers.

**ORDER**


IT IS HEREBY ORDERED that the parties' Motion to Accept the Stipulation and Settlement is approved.

IT IS FURTHER ORDERED that the proposed electric tariff schedules, attached to the Stipulation, are approved as filed, effective January 1, 2017.


IT IS FURTHER ORDERED that CAPAI's Petition for Intervenor Funding is granted in the amount of \$12,870.

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.

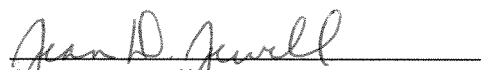
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28<sup>th</sup>  
day of December 2016.

  
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PAUL KJELLANDER, PRESIDENT

  
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KRISTINE RAPER, COMMISSIONER

  
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ERIC ANDERSON, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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