

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

