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July 1, 2011

IDAHO PUBLIC
UTILITIES COMMISSION

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

RE: Tariff I.P.U.C. No. 28 (Electric) and Tariff I.P.U.C. No. 27 (Natural Gas)
Docket Nos. AVU-E-11-01 and AVU-G-11-01

Enclosed for filing with the Commission are an original and nine copies of an Application by Avista Corporation, dba Avista Utilities (Avista), dated July 1, 2011 for approval of revised electric and natural gas rates. This filing reflects a general rate increase for both electric and natural gas service in the State of Idaho, to be effective August 5, 2011.

Avista has also included for filing nine copies of its prepared direct testimony, and exhibits in support of its revised rates, as well as three copies of workpapers showing how test period data were adjusted. Please note that the workpapers of Clint G. Kalich are being provided in electronic format only due to the voluminous nature of these files. Computer-readable copies of the testimony, exhibits, and workpapers, required under Rule 231.05, are included on the attached compact disc.

Attached to the Application is the form of Customer Notice and form of Press Release to be issued by the Company. Additionally, Avista has included the Attorney's Certificate and Claim of Confidentiality Relating to Portions of Avista's Exhibits and Workpapers.

Sincerely,

A handwritten signature in black ink that reads "Kelly O. Norwood". The signature is written in a cursive, flowing style.

Kelly O. Norwood
Vice President

Enclosures

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 1st day of July, 2011, served the foregoing application, and Avista's Direct Testimony and Exhibits in Docket No. AVU-E-11-01 and AVU-G-11-01, upon the following parties, by mailing a copy thereof properly addressed with postage prepaid to:

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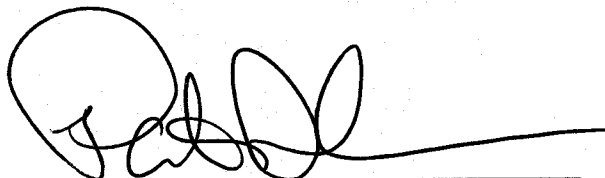
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Patrick Ehrbar
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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-11-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-11-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	
NATURAL GAS SERVICE TO ELECTRIC AND)	
NATURAL GAS CUSTOMERS IN THE STATE)	
OF IDAHO)	

APPLICATION OF AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

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Kelly Norwood
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Avista Utilities
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Spokane, WA 99220-3727
Phone: (509) 495-4267
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II.

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Avista is a public utility primarily engaged in the generation, transmission and distribution of electric power and the distribution of natural gas in certain portions of eastern and central Washington, northern Idaho, as well as distribution of natural gas in northeast and southwest Oregon. The Company is subject to the jurisdiction of this Commission, the Washington Utilities and Transportation Commission, the Oregon Public Utility Commission, the Montana Public Service Commission and the Federal Energy Regulatory Commission.

20

III.

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Applicant's existing base rates and charges for electric service were approved as a result of the Commission's Order No. 32070, dated September 21, 2010, in Case No. AVU-E-10-01. The existing rates and charges for electric service on file with the Commission (designated as Applicant's Tariff No. 28) are incorporated herein as though fully attached hereto.

27

IV.

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Applicant's existing base rates and charges for natural gas service were approved as a result of the Commission's Order No. 32070, dated September 21, 2010, in Case No. AVU-G-10-01. The existing rates and charges for natural gas service on file

1 with the Commission (designated as Applicant's Tariff No. 27)
2 are incorporated herein as though fully attached hereto.

3 **V.**

4 The electric and natural gas rates and charges which
5 Applicant desires to have the Commission approve are filed
6 herewith as Exhibit A. Also included in Exhibit A are copies
7 of the tariff schedules showing the proposed changes by
8 striking over the existing rates and underlining the proposed
9 rates. Company witness Mr. Ehrbar fully describes in his
10 testimony and exhibits the proposed changes.

11 **VI.**

12 The circumstances and conditions relied upon, and
13 justification for, the approval of the proposed increase in
14 rates for electric and natural gas service are as follows:

15 Applicant's present electric and natural gas rates will
16 not produce sufficient revenue to provide operating income
17 required to allow the Applicant the opportunity to earn the
18 8.49% rate of return being requested and supported in this
19 Application.

20 The Applicant's last electric and natural gas
21 general rate case change (Case Nos. AVU-E-10-01 and
22 AVU-G-10-01) in Idaho was effective in October 2010. The
23 proposed revenue increases are driven primarily by an increase
24 in Net Plant Investment (including return on investment,
25 depreciation and taxes, and offset by the tax benefit of
26 interest). The request is also being driven by increases in
27 distribution, operation and maintenance (O&M), and

1 administrative and general (A&G) expenses, partially offset by
2 a reduction in net power supply and transmission expenditures.

3 Unless the increased rates as requested in this filing are
4 approved, Applicant's rates will not be fair, just and
5 reasonable and it will not have the opportunity to realize a
6 fair rate of return on its investment.

7 Applicant's evidence in support of its need for increased
8 electric and natural gas rates is based on a 12-month ended
9 December 31, 2010 test year. Applicant's rate base evidence
10 is presented on an average basis. Documentation showing how
11 the test year data was adjusted is provided in the testimony
12 and exhibits of Company witness Andrews.

13 Applicant provides utility service in states other than
14 Idaho. A jurisdictional separation of all investments,
15 revenues and expenses allocated or assigned in whole or in part
16 to the Idaho utility business regulated by this Commission is
17 described in the testimony and exhibits of Company witness
18 Andrews.

19 **VII.**

20 Applicant's evidence will show that an overall rate of
21 return of 8.49% is fair, just and reasonable. The Company's
22 exhibits and testimony support an increase in retail electric
23 and natural gas revenue of \$9.0 million and \$1.9 million,
24 respectively. Simultaneous with the filing of this
25 Application, Applicant has filed its prepared direct
26 testimony, and exhibits in support of its revised rates, as well
27 as workpapers showing how test year data were adjusted.

1 **VIII.**

2 In addition, as part of this filing, the Applicant is
3 specifically requesting deferred accounting treatment of
4 changes in generating plant operation and maintenance costs
5 related to its Coyote Springs 2 combined-cycle natural
6 gas-fired plant and its 15% ownership share of the Colstrip 3
7 & 4 coal-fired generating plants. Company witness Ms. Andrews
8 discusses the request and associated justification in her
9 direct testimony.

10 **IX.**

11 A complete justification of the proposed increases in
12 electric and natural gas rates is provided in the testimony and
13 exhibits of Company witnesses. These witnesses and a brief
14 summary of their testimony are as follows.

15 Mr. Scott L. Morris, Chairman, President, and Chief
16 Executive Officer of Avista, presents the Company's policy
17 testimony and provides an overview of Avista Corporation. He
18 also summarizes the Company's rate requests in this filing, the
19 primary factors driving the Company's need for rate relief, and
20 provides some background on why utility costs are continuing
21 to increase. He explains that much of the Company's need for
22 rate relief is driven primarily by the increased costs
23 associated with the need to expand and replace our aging utility
24 infrastructure, and our obligation to reliably serve
25 customers. He explains that it is simply not possible to cut
26 other costs enough to offset these cost increases.

1 In his testimony, however, Mr. Morris does provide an
2 overview of some of the measures the Company has taken to cut
3 costs, as well as initiatives to increase operating
4 efficiencies in an effort to mitigate a portion of the cost
5 increases. He explains the Company's customer support programs
6 in place to assist our customers, as well as our communications
7 initiatives to help customers better understand the changes in
8 costs that are causing our rates to go up.

9 Mr. Mark Thies, Senior Vice President and Chief Financial
10 Officer will provide, among other things, a financial overview
11 of the Company and will explain the overall rate of return
12 proposed by the Company in this filing for its electric and
13 natural gas operations. The proposed rate of return is derived
14 from Avista's total cost of long-term debt and common equity,
15 weighted in proportion to the proposed capital structure. He
16 will address the proposed capital structure, as well as the
17 proposed cost of debt and equity in this filing.

18 In brief, he will provide information that shows:

- 19 • Avista's plans call for significant capital
20 expenditure requirements for the utility over the
21 next two years to assure reliability in serving our
22 customers and meeting customer growth. Capital
23 expenditures of approximately \$482 million are
24 planned for 2011-2012 for customer growth,
25 investment in generation upgrades and transmission
26 and distribution facilities, as well as necessary
27 maintenance and replacements of our natural gas
28 utility systems. Capital expenditures of
29 approximately \$1.2 billion (excluding forecasted
30 wind expenditures), are planned for the five-year
31 period ending December 31, 2015. Avista needs
32 adequate cash flow from operations to fund these
33 requirements, together with access to capital from
34 external sources under reasonable terms.
35

- 1 • Avista's corporate credit rating from Standard &
2 Poor's (S&P) is currently BBB and Baa2 from Moody's
3 Investors Service (Moody's). Avista must operate at
4 a level that will support a solid investment grade
5 corporate credit rating, of BBB on a short-term basis
6 and BBB+ as a long-term goal, in order to access
7 capital markets at reasonable rates, which will
8 decrease long-term borrowing costs to customers. In
9 March 2011, S&P upgraded Avista's Corporate Credit
10 Rating to BBB from BBB- and Moody's upgraded Avista's
11 Issuer Rating to Baa2 from Baa3. A supportive
12 regulatory environment is an important
13 consideration by the rating agencies when reviewing
14 Avista. Maintaining solid credit metrics and credit
15 ratings will also help support a stock price
16 necessary to issue equity under reasonable terms to
17 fund capital requirements.
18
- 19 • The Company is proposing an overall rate of return
20 of 8.49%, including a 50.15% equity ratio and a
21 10.90% return on equity. Our proforma cost of debt
22 is 6.05%.

23
24 Dr. William E. Avera, as President of Financial Concepts
25 and Applications (FINCAP), Inc., has been retained to present
26 testimony with respect to the Company's cost of common equity.
27 He concludes that:

- 28 • In order to reflect the risks and prospects associated
29 with Avista's jurisdictional utility operations, his
30 analyses focused on a proxy group of twenty-eight other
31 utilities with comparable investment risks.
32 Consistent with the fact that utilities must compete
33 for capital with firms outside their own industry, he
34 also referenced a proxy group of comparable risk
35 companies in the non-utility sector of the economy;
- 36 • Because investors' required return on equity is
37 unobservable and no single method should be viewed in
38 isolation, he applied both the DCF and CAPM methods,
39 as well as the expected earnings approach, to estimate
40 a fair ROE for Avista;
- 41 • Based on the results of these analyses, and giving less
42 weight to extremes at the high and low ends of the range,
43 he concluded that the cost of equity for the proxy
44 groups of utilities and non-utility companies is in the
45 10.3 percent to 11.3 percent range, or 10.45 percent
46 to 11.45 percent after incorporating an adjustment to

1 account for the impact of common equity flotation
2 costs; and,

3 • As reflected in the testimony of Mr. Thies, Avista is
4 requesting a fair ROE of 10.9 percent, which is
5 essentially equal to the midpoint of his recommended
6 range. Considering capital market expectations, the
7 exposures faced by Avista, and the economic
8 requirements necessary to maintain financial integrity
9 and support additional capital investment even under
10 adverse circumstances, it is his opinion that 10.9
11 percent represents a fair and reasonable ROE for
12 Avista.

13 Mr. Robert Lafferty, Director of Power Supply, will
14 provide an overview of Avista's resource planning and power
15 supply operations. This includes summaries of the Company's
16 generation resources, the current and future load and resource
17 position, future resource plans, and an update on the Company's
18 plans regarding the acquisition of new renewable resources. As
19 part of an overview of the Company's risk management policy,
20 he will provide an update on the Company's hedging practices.
21 He will address hydroelectric and thermal project upgrades,
22 followed by an update on recent developments regarding hydro
23 licensing.

24 Mr. Clint Kalich, Manager of Resource Planning & Power
25 Supply Analyses, will describe the Company's use of the AURORA_{XMP}
26 dispatch model, or "Dispatch Model." He will explain the key
27 assumptions driving the Dispatch Model's market forecast of
28 electricity prices. The discussion includes the variables of
29 natural gas, Western Interconnect loads and resources, and
30 hydroelectric conditions. He will also describe how the model
31 dispatches its resources and contracts to maximize customer
32 benefit and tracks their values for use in pro forma

1 calculations. Finally, he will present the modeling results
2 provided to Company witness Mr. Johnson for his power supply
3 pro forma adjustment calculations.

4 Mr. William Johnson, Wholesale Marketing Manager, will 1)
5 identify and explain the proposed normalizing and pro forma
6 adjustments to the January 2010 through December 2010 test
7 period power supply revenues and expenses, and 2) describe the
8 proposed level of expense and retail revenue credit for the
9 Power Cost Adjustment (PCA) purposes, using the pro forma costs
10 proposed by the Company in this filing. His testimony also
11 shows the change in power supply expense incorporating the
12 Energy Efficiency Load Adjustment proposed by the Company in
13 this case.

14 Mr. Kevin Christie, Director of Gas Supply, will describe
15 Avista's natural gas procurement planning process, provide an
16 overview of the Jackson Prairie natural gas storage facility,
17 and discuss how the Company uses Jackson Prairie for balancing
18 on behalf of our Local Distribution Company (LDC) customers.

19 Mr. Don Kopczynski, Vice President of Customer Solutions,
20 will describe Avista's electric and natural gas energy delivery
21 facilities and operations, and recent efforts to increase
22 efficiency and improve customer service. Mr. Kopczynski
23 describes:

- 24 • Avista's customer service programs such as energy
25 efficiency, Project Share, CARES program, Senior
26 Outreach Program, and payment plans. Some of these
27 programs will serve to mitigate the impact on
28 customers of the proposed rate increase.
- 29 • The Company's multi-faceted effort to increase
30 customer service automation, including replacement

1 and upgrade of the new Enterprise Voice Portal (EVP)
2 system.
3 Mr. Scott Kinney, Director, Transmission Operations, will
4 discuss the electric transmission and distribution capital
5 investments included in this case, and presents the Company's
6 pro forma period transmission revenues and expenses. In
7 addition, he describes the Company's Asset Management Program
8 (including the additional vegetation management expenses
9 included in the Company's case).

10 Ms. Elizabeth Andrews, Manager of Revenue Requirements,
11 will generally cover accounting and financial data in support
12 of the Company's need for the proposed increase in rates. She
13 will explain pro formed operating results, including expense
14 and rate base adjustments made to actual operating results and
15 rate base. She incorporates the Idaho share of the proposed
16 adjustments of other witnesses in this case. In addition, she
17 will explain the Company's request for deferred accounting
18 treatment of changes in generating plant operation and
19 maintenance (O&M) costs related to its Coyote Springs 2
20 combined-cycle natural gas-fired plant and its 15% ownership
21 share of the Colstrip 3 & 4 coal-fired generating plants.

22 Mr. Dave DeFelice, Senior Business Analyst, will cover the
23 Company's proposed restating and pro forma adjustments for
24 capital investments in utility plant for the 2010 test period.

25 Mr. DeFelice explains:

- 26 • The rising cost of essential materials specific to
27 the utility industry is causing significant
28 increases in capital project funding requirements.

- 1 • These costs must be pro formed into the test-year in
2 order to allow necessary recovery of our costs to
3 serve customers.
4

5 Ms. Tara Knox, Senior Regulatory Analyst, sponsors the
6 Company's electric and natural gas cost of service studies
7 performed for this proceeding. Additionally, she is sponsoring
8 the electric and natural gas revenue normalization adjustments
9 to the test year results of operations and the proposed Load
10 Change Adjustment Rate (LCAR) to be used in the Power Cost
11 Adjustment (PCA). Ms. Knox's studies indicate:

- 12 • The electric residential service, extra large
13 general service, pumping service, and the street and
14 area lighting service schedules are earning less
15 than the overall rate of return under present rates,
16 while general service, large general service and
17 extra large general service to Clearwater Paper
18 schedules are earning more than the overall rate of
19 return under present rates.
20
21 • The natural gas general service schedule is earning
22 slightly less than the overall rate of return at
23 present rates, and large general service,
24 interruptible, and transportation service
25 schedules are earning slightly more than the overall
26 rate of return at present rates.
27
28

29 Mr. Patrick Ehrbar, Manager of Rates and Tariffs,
30 discusses the spread of the proposed annual revenue changes
31 among the Company's general service schedules as well as the
32 proposed rate design within each schedule. He explains, among
33 other things, that:

- 34 • The proposed increase in electric base rates is
35 3.7%, which consists of an increase in electric base
36 retail revenues of \$9.0 million.
37
38 • The monthly bill for a residential customer using
39 an average of 956 kWhs per month would increase from
40 \$83.81 to \$86.87 per month, an increase of \$3.06 or

1 3.7%. This includes the proposed increase in the
2 monthly basic or customer charge from \$5.00 to
3 \$5.50.
4

- 5 • The proposed natural gas annual revenue increase in
6 base rates is \$1.9 million, or 2.7%.
7
- 8 • The monthly bill for a residential customer using
9 62 therms per month would increase from \$60.76 to
10 \$62.91 per month, an increase of \$2.15 or 3.5%. This
11 includes the proposed increase in the monthly basic
12 or customer charge from \$4.00 to \$4.50.
13

14 In addition, he will provide further information related
15 to the Company's proposed Energy Efficiency Load Adjustment.

16 **X.**

17 Avista has provided under separate cover an Attorney's
18 Certificate And Claim Of Confidentiality Relating To Portions
19 Of Avista's Exhibits and Workpapers pursuant to Idaho Code
20 Section 9-340D and IDAPA 31.01.01.067 and 31.01.01.233.

21 **XI.**

22 Notice to the public of the proposed rates and charges,
23 pursuant to IDAPA 31.01.01.125, will be given simultaneously
24 with the filing of the Application by distributing a customer
25 notice, as a bill stuffer, to each customer over a billing
26 cycle, and by a news release, both of which are attached as
27 Exhibit B. Notice of proposed rates will also be given to all
28 Idaho customers by individual bill insert as required by rule.

29 **XII.**

30 Portions of the Company's Application and accompanying
31 testimony and exhibits are based on computer models.
32 Documentation and explanation on some of the models have
33 already been provided to Commission Staff. Additional

1 documentation and explanation are provided with testimony,
2 exhibits and workpapers in this filing. Further information
3 can be provided upon request.

4 **XIII.**

5 The Applicant stands ready for immediate consideration of
6 this Application.

7 WHEREFORE Applicant requests the Commission issue its
8 Order finding the proposed rates and charges to be fair, just,
9 reasonable and nondiscriminatory, and effective for electric
10 and natural gas service rendered on and after August 5, 2011.

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DATED at Spokane, Washington, this 1st day of July, 2011

AVISTA CORPORATION

By David Meyer,
by Patrick Chaban

David J. Meyer
Vice President and Chief Counsel for
Regulatory & Governmental Affairs
Avista Corporation

1 STATE OF WASHINGTON)

2 : SS

3 County of Spokane)

4

5 David J. Meyer, being duly sworn, on oath deposes and
6 says:

7 That he is the Vice President and Chief Counsel of Regulatory
8 and Governmental Affairs of Avista Corporation;

9 That he has read the foregoing Application, knows the contents
10 thereof, and believes the same to be true.

11

12

13

14

David Meyer, by Patrick Urban

15

David J. Meyer

16

17

18 Subscribed and sworn to before me this 1st day of July, 2011.

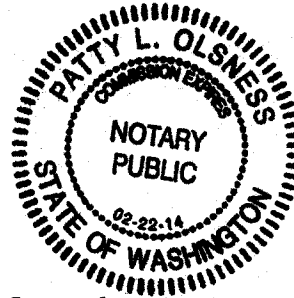
19

20

21

22

Patty L. Olsnes



23

Notary Public in and for the State

24

Washington, residing in Spokane

EXHIBIT A

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UTILITIES COMMISSION

AVISTA CORPORATION
 dba Avista Utilities

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Issued July 5, 2011

Effective August 5, 2011

Issued by Avista Utilities
 By

Kelly Norwood, Vice President, State & Federal Regulation



