

increase in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest). The Company also cited increases in distribution, operation and maintenance (O&M), and administrative and general (A&G) expenses, partially offset by a reduction in net power supply and transmission expenditures. The Company requested an overall rate of return of 8.49% with a proposed 10.9% return on equity.

As part of the overall proposed increase, the Company's Application requested an increase in the electric service basic/customer charge from \$5.00 to \$5.50 per month. The monthly bill for a residential customer using an average of 956 kWh per month would increase from \$83.81 to \$86.87 per month, an increase of \$3.06, or 3.7%. Avista's Application proposed an increase in the natural gas monthly customer charge from \$4.00 to \$4.50 per month. The monthly bill for a residential customer using 62 therms per month would increase from \$60.76 to \$62.91 per month, an increase of \$2.15, or 3.5%.

B. The Parties

In its Notice of Application dated July 14, 2011, the Commission established a deadline for intervention. The Commission subsequently granted intervention to four parties. The parties in this case and their respective counsel are listed below:

| | |
|---|---|
| Avista Corporation: | David J. Meyer, Vice President & Chief Counsel of Regulatory & Governmental Affairs |
| Commission Staff: | Kristine A. Sasser Deputy Attorney General |
| Idaho Forest Group, LLP: | Dean J. Miller McDevitt & Miller LLP |
| Clearwater Paper Corporation: | Peter J. Richardson Greg M. Adams Richardson & O'Leary, PLLC |
| Idaho Conservation League: | Benjamin J. Otto |
| Community Action Partnership Association of Idaho: | Brad M. Purdy |

C. Course of Proceedings

On July 14, 2011, the Commission issued its Notice of Application and set a deadline for intervention. Order No. 32292. The Commission also suspended the Company's proposed increases for a period of six months pursuant to *Idaho Code* §§ 61-622 and 61-623. The parties held a settlement conference in this matter on August 17, 2011. All parties attended and participated in the settlement conference. As a result of the settlement negotiations, all parties agreed to resolve and settle all issues raised in this proceeding. On August 26, 2011, the parties filed a Motion for Approval of Stipulation and Settlement. The Motion urged the Commission to adopt and approve the Settlement Stipulation in its entirety. The Motion requested that the Commission consider the settlement at the time of the technical hearing. On September 9, 2011, the Company and Staff each filed testimony in support of the Stipulation and Settlement.

The Commission conducted both a public hearing and a technical hearing in Coeur d'Alene on September 13, 2011. No customers testified at the public hearing. At the technical hearing, Avista witness Kelly Norwood and Staff witness Randy Lobb testified in support of the Stipulation and Settlement. Based upon the Settlement, the parties moved and the Commission ordered that the testimony in support of the Stipulation and Settlement be spread upon the record. Tr. at 8, 37.

PUBLIC COMMENTS AND TESTIMONY

The Commission received approximately 26 customer comments regarding the proposed increase in Avista's electric and gas rates. The vast majority of these comments were from residential customers. The commenters strongly oppose any increase in rates. Many customers explained that they are retired and/or operating on fixed incomes and cannot afford a rate increase. Several commenters expressed that they believe the Company needs to operate leaner and show more compassion to its ratepayers in our difficult economic climate.

One customer attended the public hearing on September 13, 2011, in Coeur d'Alene. No customers testified.

THE STIPULATION AND SETTLEMENT

Following the settlement conference, all of the parties executed the Stipulation and Settlement resolving all of the issues raised in this proceeding. Stipulation at ¶ 1. The Stipulation provides that annual revenues for Avista's electric and natural gas service may

increase by \$2.8 million (1.1%) and \$1.1 million (1.6%), respectively. The revenue increases would be uniformly spread among the customer classes and be effective October 1, 2011.

Limitation on Effective Date of Any New Rates Established by Subsequent General Rate Filing. As part of the settlement, the Company agrees that it will not seek to make effective a change in base electric or natural gas rates prior to April 1, 2013, by means of a general rate filing. (Any filing of a general rate case prior to April 1, 2013, may not request an effective date prior to April 1, 2013.) This will not prevent the Company, however, from otherwise seeking to implement other rate changes affecting the rates billed to customers, including, but not limited to, adjustments under the Power Cost Adjustment (PCA) mechanism; Purchased Gas Cost Adjustments (PGA); DSM tariff rider adjustments; etc.

Cost of Service. As part of this rate case, the Company prepared an analysis of 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 on a weighted 12-month basis. The parties have agreed to exchange information and convene a public workshop, prior to the Company's next general rate case, with respect to the method of allocation of demand and energy among the customer classes, such as the possible use of a revised peak credit method for classifying production costs, as well as consideration of the use of a 12 Coincident Peak (CP) (whether "weighted" or not) versus a 7 CP or other method for allocating transmission costs. This workshop will also address the merits of inclining or declining block rates for service Schedules 11, 21, 25 and 31.

Rate Spread/Rate Design. The parties agree that the increase in base revenue would be spread to all electric and natural gas rate schedules on a uniform percentage basis. The settlement provides that the current residential electric basic charge of \$5.00 per month will be increased to \$5.25, and the residential natural gas basic charge of \$4.00 per month will be increased to \$4.25.

Customer Service-Related Issues. (a) Funding for Outreach for Low-Income Conservation. The parties agree to annual funding of \$50,000 for purposes of providing low-income outreach and education concerning conservation (representing an increase of \$10,000 from previous funding levels). 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 currently in place.

(b) Collaboration on Low-Income Weatherization. The Company and interested parties will meet and confer prior to the Company’s next general rate filing in order to assess the Low Income Weatherization and Low Income Energy Conservation Education Programs and discuss appropriate levels of low-income weatherization funding in the future.

Net Impact of All Proposed Revenue Adjustments on October 1, 2011. By separate filings not a part of the Settlement Agreement, several other rate adjustments are proposed to also take effect on October 1, 2011. With respect to electric service, these proposed adjustments include the following: an increase of \$2.2 million for residential exchange credits for residential and small farm customers (Schedule 59); a decrease of \$15.5 million in Schedule 66 Power Cost Adjustment (PCA) rates. In addition, an increase of \$8.7 million for the previously-approved adjustment for deferred state income taxes (DSIT) in Schedule 99, as part of the settlement approved in Case Nos. AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. After taking into account the settlement-proposed increase of \$2.8 million in electric general rate revenues, the net overall reduction resulting from all of the proposed aforementioned adjustments, if approved as filed, would total approximately \$6.2 million. The following table summarizes these proposed revenue adjustments:

| Electric – October 1, 2011 Revenue Change | |
|--|-----------------------|
| Schedule 99 – DSIT Increase | \$ 8,698,844 |
| Schedule 59 – Residential Exchange | \$ (2,207,088) |
| Schedule 66 – PCA Decrease | \$(15,517,483) |
| GRC Rate Increase | \$ 2,800,000 |
| Total Revenue Change | \$ (6,225,757) |

With respect to natural gas service, the following rate adjustments, by means of separate filings, are proposed to take effect on October 1, 2011: an increase of \$0.8 million in Schedules 150/155 for Purchased Gas Costs (PGA); and a decrease of \$2.9 million in demand-side management (DSM) tariff rider Schedule 191. In addition, an increase of \$0.5 million for the previously-approved adjustment for deferred state income taxes (DSIT) in Schedule 199, as part of the settlement approved in Case Nos. AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. After taking into account the settlement-proposed increase of \$1.1 million in natural gas general rate revenues, the net overall decrease resulting from all of the proposed aforementioned adjustments, if approved as filed, would be \$0.525 million. The following table summarizes these proposed revenue adjustments:

| | |
|---|---------------------|
| Natural Gas – October 1, 2011 Revenue Change | |
| Schedule 199 – DSIT Increase | \$ 470,423 |
| Schedule 150/155 – PGA Increase | \$ 776,190 |
| Schedule 191 – DSM Decrease | \$(2,871,236) |
| GRC Rate Increase | \$ 1,100,000 |
| Total Revenue Change | \$ (524,623) |

THE TECHNICAL HEARING

The Commission held its technical hearing in Coeur d’Alene on September 13, 2011. The Commission Staff and the Company presented testimony in support of the Stipulation and Settlement.

1. Avista. The Company’s Vice-President of State and Federal Regulation, Kelly Norwood, testified in support of the Stipulation. Mr. Norwood stated that the Stipulation, if approved by the Commission, would resolve all issues associated with calculation of the Company’s requested revenue requirement, all issues related to rate spread and rate design, and provides additional funding for low-income energy efficiency education. Tr. at 11. He noted that the Stipulation and Settlement is not contingent on any specific methodology for individual components of the revenue requirement determination. However, Mr. Norwood explained that the Stipulation does specify annual power supply cost levels for the Power Cost Adjustment (PCA) mechanism, future treatment of costs associated with the Palouse Wind power purchase agreement and deferred accounting treatment for non-fuel operation and maintenance costs associated with the Company’s thermal generating plants. Tr. at 17.

Mr. Norwood explained that under the terms of the settlement, Avista would be allowed to implement revised tariff schedules effective October 1, 2011, designed to recover \$2.8 million in additional annual electric revenue, or a 1.1% increase. Avista would also be allowed to implement revised tariff schedules effective October 1, 2011, designed to recover \$1.1 million in additional annual natural gas revenue, or a 1.6% increase. The parties also agreed to annual funding of \$50,000 to CAPAI for low-income outreach and education concerning conservation (an increase of \$10,000 from previous funding levels and funded through the energy efficiency tariff rider). Mr. Norwood emphasized that the October 1, 2011, effective date is an integral element of the Stipulation as part of the overall negotiated resolution. Use of an October 1 date will also synchronize with several other rate adjustments proposed to take effect on that date. Tr. at 18.

Mr. Norwood also noted the parties' agreement to meet and confer prior to the Company's next general rate filing to assess the Low Income Weatherization and Low Income Energy Conservation Education Programs and discuss appropriate levels of low-income weatherization funding in the future. Mr. Norwood represented that all parties support the overall increase and agree that the Stipulation represents a fair, just and reasonable compromise among differing interests and points of view and is in the public interest. Tr. at 29.

2. The Staff. The Utilities Division Administrator, Randy Lobb, encouraged the Commission to adopt the Stipulation and Settlement. He testified that the settlement provisions represented a better outcome for customers than could reasonably be anticipated through litigation. In particular, "Staff believes the base rate increase and stay-out provision in addition to the other settlement terms represent a reasonable resolution of this case and a good deal for customers." Tr. at 43.

Mr. Lobb explained that Avista originally proposed to increase annual base electric revenue by \$9 million or 3.7% and increase annual base natural gas revenue by \$1.9 million or 2.7%. "The Stipulated Settlement provides for an increase in annual base electric revenue of \$2.8 million or approximately 31% of the original request. The Stipulated Settlement provides for an increase in annual natural gas revenue of \$1.1 million or 58% of the Company's original request." Tr. at 41. Moreover, when base rate increases are combined with other electric and natural gas rate adjustments either pending before the Commission or proposed for filing, the net effect is a 2.4% decrease in billed electric rates and a 0.8% decrease in billed natural gas rates. Tr. at 40-41.

Mr. Lobb explained that the Stipulation does not specifically identify revenue adjustments or an authorized return on equity (ROE) because, "[w]hile the Settlement parties generally agreed on a reasonable level of revenue, there was considerable disagreement on the individual adjustments proposed to reach that revenue level. . . . Rather than specify an ROE that all parties could not support, the Stipulation simply specified an overall revenue requirement that could be fully supported." Tr. at 46. Mr. Lobb stated that the proposed settlement resolving all issues and agreed to by all parties to the case is in the public interest, is just and reasonable and should be approved by the Commission. Tr. at 39.

DISCUSSION AND FINDINGS

A. Standards of Review

In this case, all of the parties have signed the Stipulation and Settlement Agreement. Our Procedural Rule 276 recognizes that the Commission is not bound by the parties' settlement agreement. IDAPA 31.01.01.276. The Commission will independently review any settlement to determine whether it is fair, just and reasonable; in the public interest; or otherwise in accordance with law or regulatory policy. *Id.* Furthermore, the proponents of a proposed settlement have the burden of showing that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. Our settlement rules permit the Commission to convene an evidentiary hearing so that the parties may develop a record in support of a proposed settlement. In this case, Staff and Avista offered testimony at the technical hearing that addressed the settlement. Pursuant to Rule 276, the Commission may accept, reject, or amend a proposed settlement. IDAPA 31.01.01.276.

B. Commission Findings

In this case, the parties advocate that the settlement is just and reasonable, and in the public interest. The parties assert that the Stipulation and Settlement represents a reasonable resolution of disputed issues and that it is in the public interest for the Commission to approve the Stipulation and Settlement.

Based upon our review of the Stipulation and Settlement, the testimony supporting the Stipulation, and the public comments, we find that the record is comprehensive and further proceedings are not necessary. After reviewing this record, we find the Stipulation and Settlement is fair, just and reasonable. The Stipulation represents a reasonable compromise of the positions held by the parties and we find it is in the public interest. IDAPA 31.01.01.274-276. We appreciate the diligent work by the parties on the settlement and their ability to resolve all of the issues in this case. We note that the Stipulation and Settlement represents a significant reduction in the requested revenue increase. Moreover, the stay-out provision prohibiting any new electric or natural gas base rate increase prior to April 1, 2013, provides an extended period of rate stability that might not otherwise occur.

Accordingly, we find it reasonable to authorize Avista to increase its jurisdictional electric base rates to recover an additional \$2.8 million in annual revenues. This represents an overall average increase in base electric revenues of 1.14%. In concurrent filings, we also

approved rates that reflect an increase in the residential exchange credit for residential and small farm customers (Tariff Advice No. 11-04-E) and a decrease of \$15.5 million in Schedule 66 PCA rates (AVU-E-11-03). In addition, an increase of \$8.7 million for the previously-approved adjustment as part of the settlement proposed and approved in Case Nos. AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. Thus, the net effect of all adjustments is a 2.4% decrease in billed electric rates.

We further find it reasonable for Avista to increase its jurisdictional natural gas base rates to recover an additional \$1.1 million in annual revenues. Also in concurrent filings, we have approved the following natural gas service rate adjustments scheduled to take effect on October 1, 2011: an increase of \$0.8 million in Schedules 150/155 for Purchased Gas Costs (AVU-G-11-04) and a decrease of \$2.4 million in demand-side management (DSM) tariff rider Schedule 191 (AVU-G-11-03). In addition, an increase of \$0.5 million for the previously-approved adjustment as part of the settlement proposed and approved in Case Nos. AVU-E-10-01 and AVU-G-10-01 will take effect on October 1, 2011. Thus, the net effect of all proposed adjustments is a 0.1% decrease in billed natural gas rates.¹

The Stipulation and Settlement also contains provisions for non-revenue issues such as discussion regarding cost-of-service and rate design issues, and considerations regarding the cost-effectiveness and funding of the Company's low-income weatherization program. We encourage the Company and all interested parties to actively participate in cost-of-service and rate design workshops. Given the current economic climate, we strongly endorse discussions regarding the cost-effectiveness and funding of the Company's low-income programs that could further assist customers in reducing their monthly bills.

Finally, we find that it is reasonable that Avista implement the rates contemplated in the Stipulation and Settlement effective October 1, 2011. Following the issuance of this Order, Avista shall prepare and submit new electric and natural gas rate schedules consistent with this Order.

¹ In Case No. AVU-G-11-03, the Commission approved a decrease of \$2.9 million in the Company's DSM tariff rider, Schedule 191, instead of the \$2.8 million proposed by Avista. Order No. 32366. As a result, the net decrease in rates as a result of all natural gas service adjustments is slightly less than what was anticipated by the parties to this case when the Settlement and Stipulation was filed with the Commission.

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 26, 2011, the Idaho Conservation League (ICL) filed an Application for Intervenor Funding. ICL is a non-profit organization that works to protect Idaho’s environment. ICL’s views represent its members and supporters who are ratepayers of Avista, as well as those who have an interest in promoting energy efficiency throughout Idaho. Application at 2. ICL advanced discussion and encouraged Avista to withdraw its request to decrease the energy efficiency rider and limit the residential basic charge increase to \$0.25 for both electric and gas customers. In addition, ICL proposed workshops to discuss the merits of inclining or declining block rates for Schedules 11, 21, 25, and 31 prior to the next general rate case. ICL requested \$3,625 in intervenor funds. Application, Exhibit A.

On September 27, 2011, Community Action Partnership Association of Idaho (CAPAI) filed an Application for Intervenor Funding. CAPAI is a non-profit corporation that oversees numerous agencies who work to offset the causes and conditions of poverty throughout Idaho. Application at 8. CAPAI proposed and advanced discussion regarding an increase of \$10,000 to the Company’s existing Outreach for Low-Income Conservation Education program. *Id.* at 5, Stipulation and Settlement at 8. CAPAI also actively participated in discussions regarding the stay-out provision preventing another base rate increase prior to April 1, 2013. CAPAI requested \$10,885.16 in intervenor funds. Application, Exhibit 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 consumers; and (7) a statement showing the class of customer on whose behalf the intervenor appeared. IDAPA 31.01.01.162.

Commission Findings

The Commission has reviewed ICL's Application for Intervenor Funding. We find that the intervenor funding request filed by ICL comports with the procedural and technical requirements of the Commission's Rules. We find that the participation of ICL materially contributed to the Commission's decision. Specifically, ICL vigorously defended its position that electric energy efficiency rider funding should be tied to efficiency potential, not used to offset a proposed rate increase. ICL also proposed further discussion among the parties on rate design issues. As a result, the Stipulation provides a commitment by the parties to discuss and review rate design issues prior to the next general rate case. ICL's participation added a unique and well-informed perspective to the record. We find that the recommendations of ICL differed materially from the testimony of Commission Staff and provided important contributions to the Stipulation and Settlement.

The Commission has reviewed CAPAI's Application for Intervenor Funding. We find that the intervenor funding request filed by CAPAI comports with the procedural and technical requirements of the Commission's Rules. We further find that the participation of CAPAI materially contributed to the Commission's decision. Specifically, CAPAI's participation led to an increase of \$10,000 to Avista's Low-Income Conservation Education program. CAPAI also took an active role in stay-out discussions. CAPAI's participation lends an experienced and distinct perspective to the record for the benefit of Avista's low-income customers. We find that the recommendations of CAPAI differed materially from the testimony of Commission Staff and provided significant contributions to the Stipulation and Settlement.

This particular case was resolved by way of settlement and not litigation. ICL's and CAPAI's involvement required the investment of considerable time and resources to effectively participate in and address the issues of concern to the general body of ratepayers. We find it fair, just and reasonable to award ICL intervenor funding in the amount of \$3,625. We further find it

fair, just and reasonable to award CAPAI intervenor funding in the amount of \$10,885.16. We find that the public interest is well served by such awards. We find the itemized costs of ICL and CAPAI to be reasonable and recognize that the cost to these non-profit organizations of participating in this proceeding constitutes a significant financial hardship. ICL's and CAPAI's participation was professional and valuable. We also find that the allocation of ICL's and CAPAI's time and efforts were cost-effective.

The Commission finds that the intervenor funding awards to ICL and CAPAI are fair and reasonable and will further the purpose of encouraging "participation at all stages of all proceedings before the Commission so that all affected customers receive full and fair representation in those proceedings." *Idaho Code* § 61-617A(1). Both ICL's and CAPAI's award shall be chargeable to the electric residential customer class (Schedule 1). *Idaho Code* § 61-617A(3).

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Avista Corporation dba Avista Utilities is an electric utility subject to the Commission's regulation under the Idaho Public Utilities Law. *Idaho Code* § 61-119 and 61-129. The rates of all its tariff schedule gas and electric customers in the State of Idaho are subject to the Commission's regulation pursuant to the power granted under Title 61 of the Idaho Code and pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*, including specifically Rules 272 through 280 pertaining to settlements.

Based upon the record, we find that the Stipulation and Settlement is reasonable and is in the public interest. We further find it reasonable for costs associated with power purchases from the Palouse Wind project to be accounted for in the Company's PCA until such costs can be incorporated in general base rates. We also approve the use of deferred accounting treatment for non-fuel O&M costs associated with the Company's thermal generating plants in order to address the large variability in these costs from year-to-year.

We strongly encourage the parties to actively participate in the cost-of-service, rate design, and low-income program workshops set out in the Stipulation and Settlement. We look forward to proposals in future filings that result from such collaboration.

O R D E R

IT IS HEREBY ORDERED that the Joint Motion by Avista and Staff for approval of the Stipulation and Settlement is granted. The Commission approves the Stipulation and Settlement.

IT IS FURTHER ORDERED that Avista is authorized to recover \$2.8 million in additional annual base revenues for electric service and \$1.1 million in additional annual base revenues for gas service.

IT IS FURTHER ORDERED that the Company file new electric and natural gas base rate schedules in conformance with the authorized revenues set out in this Order. The change in electric and natural gas base rates is effective for service rendered on and after October 1, 2011.

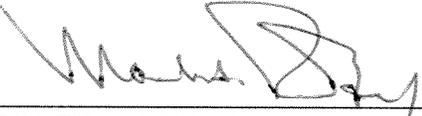
IT IS FURTHER ORDERED that the parties comply with all of the terms and conditions contained in the Stipulation and Settlement Agreement.

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 30th day of September 2011.



PAUL KJELLANDER, PRESIDENT

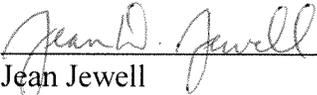


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean Jewell
Commission Secretary

O:AVU-E-11-01_AVU-G-11-01_ks2