

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF AVISTA CORPORATION DBA AVISTA)	CASE NOS. AVU-E-12-08
UTILITIES FOR AUTHORITY TO)	AVU-G-12-07
INCREASE ITS RATES AND CHARGES FOR)	
ELECTRIC AND NATURAL GAS SERVICE)	ORDER NO. 32769
IN IDAHO)	

On October 11, 2012, Avista Corporation dba Avista Utilities filed an Application requesting authority to increase its electric base rates by \$11.4 million (4.6%) and its natural gas base rates by \$4.6 million (7.2%). Application at 1. The Company proposed that the new rates take effect on April 1, 2013. *See* Amendment to Application. The Commission subsequently suspended the proposed effective date for thirty days plus five months, or until the Commission issues an earlier final order in the case. *See Idaho Code* § 61-622. The Commission also granted intervention petitions filed by: Idaho Forest Group, LLC; Clearwater Paper Corporation; Community Action Partnership Association of Idaho (CAPAI); Idaho Conservation League (ICL); and Snake River Alliance (SRA). *See* Order Nos. 32671, 32678, 32680 and 32687, and 32689.¹

Settlement conferences occurred on January 17 and 24, 2013, and the Company, Staff, Idaho Forest Group, Clearwater Paper, and ICL later filed a Stipulation and Settlement (“Settlement”) that proposes to fully resolve the case. *See* Exh. 101 (attaching the proposed Settlement); Motion for Approval of Stipulation and Settlement. Although intervenors CAPAI and SRA initially did not sign the Settlement, they now fully support the Settlement and joined in it through later filings. *See* SRA’s Comments filed February 21, 2013, and CAPAI’s Notice of Joinder in Settlement filed February 25, 2013.

Commission Staff held public informational workshops in Sandpoint and Moscow on February 12 and 13, 2013. The Commission also convened customer hearings in Lewiston and

¹ The intervenors’ petitions explain their interests in this case. Idaho Forest Group is an Avista electric customer that receives service under Schedule 25 – Extra Large General Service. Clearwater Paper is an Avista electric and natural gas customer that receives services under Tariff IPUC Nos. 27 (Natural Gas) and 28 (Electric). CAPAI represents the interests of the Company’s low-income customers. ICL is Idaho’s largest state-based conservation organization and has about 1,000 members who are residential customers of Avista. SRA represents clean energy interests, including those of residential class customers.

Coeur d’Alene on March 4 and 5, 2013, and a technical hearing in Boise on March 7, 2013. *See* Notice of Public Workshops, Order No. 32740.

The evidentiary record in this case is now closed. Having thoroughly reviewed that record, we summarize the Application, proposed Settlement, comments and testimony, make findings of fact and conclusions of law, and enter this Order approving the Settlement.

THE APPLICATION

Avista generates, transmits, and distributes electric power, and distributes natural gas in parts of eastern and central Washington and northern Idaho. It also distributes natural gas in northeast and southwest Oregon. The Commission approved the Company’s existing Idaho rates and charges on September 30, 2011, and they took effect in October 2011. Application at 2-3, *citing* Order No. 32371.

In its Application, the Company claims its existing rates are not fair, just, and reasonable, and that it must increase rates and revenues to enable it to earn a fair return on its investment. The Company seeks an 8.46% rate of return, which includes a 50% equity ratio, a 6.02% pro forma cost of debt, and a 10.9% return on equity. *Id.* at 3-4. The Company’s proposed percentage increases by rate schedule for electric and natural gas service are reflected in the tables below:

Proposed Electric Increase by Percentage

Service Schedule	Proposed Increase in Billed Revenues
Residential Service Schedule 1	5.3%
General Service Schedules 11 & 12	4.1%
Large General Service Schedules 21 & 22	4.8%
Extra Large General Service Schedule 25	3.9%
Extra Large General Service Schedule 25P	3.3%
Pumping Service Schedules 31 & 32	5.7%
Street & Area Lighting Schedules 41-48	4.5%
Overall Increase	4.6%

Proposed Natural Gas Increase by Percentage

Service Schedule	Proposed Increase in Billed Revenues
General Service Schedule 101	7.8%
Large General Service Schedule 111	5.7%
Interruptible Sales Service Schedule 131	5.9%
Transportation Service Schedule 146 (excluding natural gas costs)	12.8%
Overall Increase	7.3%

See Morris Direct at 19-20.

In the Application, the Company says its evidence supporting the requested rate increase is based on a 12-month test year ending June 30, 2012, and that the following investment-and-expense increases drive its need for rate relief: (1) increases in net plant investment (including return on investment, depreciation and taxes, and offset by the tax benefit of interest); and (2) increases in distribution, operation and maintenance, and administrative and general expenses, which are partially offset by reduced net power supply and transmission expenditures. Application at 3-4.

The Company explains that much of its requested rate relief is driven by increased costs associated with the need to expand and replace its aging utility infrastructure, and its obligation to reliably serve customers. *Id.* at 5. Notably, the Company plans to make \$500 million in capital expenditures from 2012-2013 to account for customer growth, investment in generation upgrades and transmission and distribution facilities, and maintenance and replacements of the Company's natural gas systems. The Company plans to make \$1.2 billion in capital expenditures through December 31, 2016. *Id.* at 6.

THE PROPOSED SETTLEMENT

After the Company filed its Application, the parties engaged in settlement negotiations that resulted in the proposed settlement. In summary, the proposed Settlement that is signed or otherwise supported by all parties to the case proposes to fully resolve the case as follows:

A. Overview of Proposed Settlement and Revenue Requirement

The parties agree that Avista should recover its revenue requirement in two steps. After the two-step process occurs, Avista will not file another electric or natural gas general rate

case before May 31, 2014, and new rates arising from that filing will not go into effect before January 1, 2015. The two steps are:

Electric

Step 1: April 1, 2013

- a. No electric base rate change effective April 1, 2013, instead of the proposed 4.6%, or \$11.393 million.

Step 2: October 1, 2013

- a. Overall electric base rate increase of 3.1% (3.2% in billed rates) or \$7.825 million effective October 1, 2013.
- b. Offsets – Apply \$3.865 million for rate mitigation purposes (the Bonneville Power Administration (“BPA”) Parallel Operation Settlement²), and amortize that offset over 15 months, from October 1, 2013 to December 31, 2014.
- c. Net overall bill increase to customers of 1.9% effective October 1, 2013.

Natural Gas

Step 1: April 1, 2013

- a. Overall natural gas base rate increase of 4.9% (5.0% in billed rates) or \$3.115 million, instead of the proposed 7.2%, or \$4.561 million, effective April 1, 2013.

Step 2: October 1, 2013

- a. Overall natural gas base rate increase of 2.0% (2.0% in billed rates) or \$1.330 million effective October 1, 2013.
- b. Offsets – Apply \$1.550 million Purchased Gas Adjustment (“PGA”)³ deferral credit balance from 2012 PGA to partially offset the base rate

² The BPA Settlement Revenue of \$3.865 million represents the Idaho customers’ share of \$12.224 million (system) for the past use of Avista’s transmission system for the period January 2005 through February 2013. In December 2012, Avista and the BPA reached a settlement that pertains to the BPA’s use of Avista’s transmission system. Avista anticipates FERC approval of the settlement in February 2013, after which Avista will bill the BPA.

³ The PGA mechanism is used to adjust rates to reflect annual changes in the Company’s costs for the purchase of natural gas from suppliers – including transportation, storage, and other related costs.

increase, amortized over 15 months, October 1, 2013 to December 31, 2014.⁴

c. Net overall bill impact to customers of 0.3% effective October 1, 2013.

B. Cost of Capital

The parties agree to a 9.8% return on equity and the following capital structure and rate of return:

Component	Capital Structure	Pro Forma Cost	Pro Forma Weighted Cost
Total Debt	50.00%	6.01%	3.01%
Common Equity	50.00%	9.80%	4.90%
Total	100.00%		7.91%

The Company will refund to customers one-half of any earnings above the 9.8% return on equity for each of the years 2013 and 2014, to allay any concerns that the base rate relief in April 1, 2013, and October 1, 2013, may allow the Company to exceed its authorized return.

C. Percentage Increase by Service Schedule

The following tables reflect the agreed upon percentage increase by schedule for electric and natural gas service:

Electric Increase Percentage by Schedule – October 1, 2013

Rate Schedule	Increase in Base Rates	Net Increase in Billing Rates
Residential Schedule 1	3.5%	2.6%
General Service Schedule 11/12	2.8%	1.9%
Large General Service Schedule 21/22	3.3%	2.1%
Extra Large General Service Schedule 25	2.7%	1.0%
Clearwater Paper Schedule 25P	2.3%	0.4%
Pumping Service Schedule 31/21	3.9%	2.9%
Street & Area Lights Schedules	3.1%	2.7%
Overall	3.1%	1.9%

⁴ In Case No. AVU-G-12-05, the Commission approved Staff’s proposal that about \$1.55 million in unrefunded credit balances be held back due to the Company’s filing of a “Notice of Intent to File a General Rate Case.” The Commission stated that “the resulting \$1.55 million un-refunded credit balance will help mitigate potential rate increases and provide rate stability for customers.” See Order No. 32651 at 6.

Natural Gas Increase Percentage by Schedule – April 1, 2013

Rate Schedule	Increase in Base Rates	Net Increase in Billing Rates
General Service Schedule 101	5.3%	5.4%
Large General Service Schedule 111/112	3.8%	3.9%
Interruptible Sales Service Schedule 131/132	4.0%	4.0%
Transportation Service Schedule 146	8.7%	8.7%
Overall	4.9%	5.0%

Natural Gas Increase Percentage by Schedule – October 1, 2013

Rate Schedule	Increase in Base Rates	Net Increase in Billing Rates
General Service Schedule 101	2.1%	0.6%
Large General Service Schedule 111/112	1.6%	-0.5%
Interruptible Sales Service Schedule 131/132	1.4%	-1.4%
Transportation Service Schedule 146	3.5%	3.5%
Overall	2.0%	0.3%

As noted above, Commission Staff, the Company, Idaho Forest Group, Clearwater Paper, and ICL signed the Settlement Stipulation, and CAPAI and SRA later supported and joined in it.

COMMENTS AND TESTIMONY OF PARTIES

Commission Staff, CAPAI, SRA, and the Company testified or otherwise filed position statements supporting the Settlement. These parties' positions are summarized below.

A. The Company

The Company testified that the Settlement is in the public interest and a fair, just and reasonable compromise of the parties' positions. Tr. p. 3. The Company stressed that the parties signed the Settlement after an extensive investigation, which included a week long, onsite audit by Commission Staff" and Company responses to more than 270 production requests from Staff and intervenors. Tr. p. 29.

The Company explained why the Settlement is in the public interest. First, the Settlement is the product of the give-and-take of negotiation that produced a just and reasonable end result. Second, it is supported by evidence demonstrating the need for rate adjustments to provide recovery of necessary expenditures and investment, the costs of which are not offset by a growth in sales margins. Third, it enjoys broad-based support from the variety of constituencies represented in this case. Fourth, it provides base rate certainty over the next two years

(2013/2014), which benefits all customers as they plan and budget for their needs. Fifth, it breaks the yearly cycle of rate filings by prohibiting Avista from changing base rates again before January 1, 2015. Sixth, the impact of the base rate increases in Step 2, effective October 1, 2013, is partly mitigated by the amortization of the BPA settlement payment for electric and the PGA deferral credit balance for natural gas. Seventh, the “stay-out” provision—which prevents additional changes to base rates until 2015—will challenge Avista to manage its costs to have the opportunity to earn the agreed-upon return on equity. Finally, to allay any concerns that Avista might over-earn during the 2013/2014 rate-effective period, the Stipulation requires Avista to refund to customers 50% of any earnings above the 9.8% agreed-upon return on equity during the rate-effective period. Tr. pp. 30-31.

B. CAPAI

CAPAI did not initially sign the Settlement because it wanted more time to investigate whether the proposed Settlement was in the best interests of its constituents. After conducting its investigation, CAPAI determined that the Settlement is in the best interests of Avista’s low-income ratepayers and all ratepayers in general. *See* CAPAI’S Notice of Joinder in Settlement at 2. CAPAI now unconditionally supports and joins in the Settlement. *Id.*; Tr. p. 113.

C. The SRA

SRA analyzed the Settlement by focusing on the magnitude and timing of the base rate increases; adjustments to Avista’s electric revenue requirement; how much time should pass between the resolution of this general rate case and the filing of the next one; and treatment of the expected BPA settlement revenue as an offset to a portion of the base rate increase; and rate spread of the base rate changes. *See* SRA Comments at 1. The SRA said the Settlement satisfactorily resolves these and other issues. SRA thus concurs that the Settlement is fair, just, and reasonable and in the public interest, and it joins the parties in requesting that the Commission accept the Settlement. *Id.*

D. Commission Staff

Staff entered the Settlement only after thoroughly reviewing “the Company’s application, detailed identification of adjustments, two settlement workshops, and thoughtful assessment of settlement alternatives” Tr. p. 79. Staff began analyzing the Company’s

Application on April 29, 2012, and 21 Staff members were assigned to the case.⁵ Tr. p. 85. Staff submitted 199 formal production requests to the Company and numerous formal and informal audit requests. Staff also reviewed Avista's last rate case filings in Washington, including over 300 data requests and responses. *Id.* Further, three Staff accountants conducted a week long onsite audit of Company books and reviewed external auditor workpapers. *Id.* Staff said it fully and aggressively pursued what it believes is the best outcome, and that before settling it "did everything that [it] would have done had [it]" gone to a full hearing before the Commission. Tr. p. 110.

Staff testified that it focused on adjusting five areas of the Company's proposed electric revenue requirement: (1) rate of return; (2) power supply expenses; (3) 2012/2013 capital investment and Operations & Maintenance expenses; (4) salaries; and (5) miscellaneous test year expenses. Tr. p. 87. Staff also applied most of these adjustments to the Company's proposed natural gas revenue requirement. Tr. p. 89. Staff noted that it had completed its investigation and identified all potential adjustments before beginning settlement negotiations. Tr. pp. 90-91.

Staff compared the Settlement's benefits to the relief initially requested in Avista's Application. The Company's Application proposed increasing annual electric revenue by \$11.393 million (or 4.6%) and annual natural gas revenue by \$4.561 million (or 7.2%), effective April 1, 2013. Tr. pp. 82-83. The Application also requested a 10.9% return on equity with an 8.46% overall rate of return. Tr. p. 83. In contrast, the Settlement specifies a lesser, 9.8% return on equity and 7.91% overall rate of return, which Staff attests is a reasonable compromise and the same return on equity that was recently approved in Washington. Tr. p. 97. Additionally, the Settlement provides for *no* electric rate increase on April 1, 2013, and a lesser, \$7.825 million (or 3.2%) annual electric revenue increase October 1, 2013. Tr. p. 83. Staff said the Settlement thus increases annually electric revenue by about 68% of the Company's originally proposed electric increase, and delays implementation of an electric rate increase for six months. *Id.* Under the Settlement, annual natural gas revenues would increase by \$3.12 million (or 4.92%) on April 1, 2013, and by \$1.33 million (or 2.0%) on October 1, 2013. Staff said the proposed, April 1, 2013 increase in natural gas revenue is also about 68% of what the Company's originally requested. Staff said the April 1, 2013, natural gas increase combines with the October 1, 2013, natural gas

⁵ Although the Company did not file its Application until October 2012, by August 10, 2012, it had notified the Commission that it would be filing such an Application. *See* Notice of Intent to File a General Rate Case. This advance Notice is required by Commission Rule of Procedure 122.

increase for an ultimate natural increase of about 98% of what the Company originally proposed. *Id.* Staff stressed that a key difference between the Company's original proposal and the Settlement is that the Settlement prohibits additional base rate increases through January 1, 2015. *Id.* Staff testified that without the Settlement, the Company could have filed three more general rate cases before the stipulated January 1, 2015, stay-out date. Tr. pp. 83-84.

Staff strove to achieve the best outcome for customers with respect to base rates in this case and with respect to base rate increases that might otherwise occur due to additional general rate filings during the Settlement stay-out period. Tr. pp. 94-95. Further, although Staff identified significant adjustments to propose at hearing, Staff acknowledged it is unlikely that Staff would have prevailed on all or most of them. Further, Staff said that even if it prevailed on other adjustments here, doing so would only delay Avista's recovery until the next rate case and would likely ensure that Avista would immediately file one or more new rate cases. Tr. p. 95. Staff noted that the Settlement document here is more transparent than past settlements in that it outlines the agreed-upon adjustments and shows exactly what is and is not included in rates. Tr. p. 110.

Staff testified, based on its investigation and analysis, that the proposed, multi-phase, two-year Settlement is fair, just, and reasonable and in the public interest. Consequently, the Commission should approve it. Tr. p. 79.

CUSTOMER COMMENTS AND TESTIMONY

Sixteen Avista customers testified or filed written comments in this case. The Commission appreciates the time and effort extended by these customers. Customers opposed the rate increases proposed in the Application and in the Settlement. Some customers suggested the Company cut back on employee compensation and use that money to pay for infrastructure improvements. Customers explained that the difficult economic environment, including lost jobs and reduced incomes, makes any rate increase a hardship. Testimony at the March 5, 2013 customer hearing, in particular, stressed that a rate increase will negatively impact senior citizens and other customers who have low or fixed incomes. Tr. pp. 9-18.

DISCUSSION AND FINDINGS

A. Standard of Review

The Commission's process for considering settlement stipulations is set forth in Procedural Rules 271-277. IDAPA 31.01.01.271-277. When a settlement is presented to the

Commission, the Commission will prescribe the procedures appropriate to the nature of the settlement to consider it. In this case, the Commission convened both a technical hearing and public customer hearings on the Settlement. IDAPA 31.01.01.274. The purpose of an evidentiary hearing on a settlement is “to consider the reasonableness of the settlement and whether acceptance of the settlement is just, fair, and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.274. Proponents of a proposed settlement must show that the settlement is reasonable, in the public interest, or otherwise in accordance with law or regulatory policy. IDAPA 31.01.01.275. Finally, the Commission is not bound by settlement agreements. Instead, the Commission “will independently review any settlement proposed to it to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.276.

B. Commission Findings

In this case, all parties advocate that the Settlement is just, fair, and reasonable. 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 Settlement.

Based upon our review of the Settlement, the testimony, and the public comments, we find that the record is comprehensive and further proceedings are not necessary. After reviewing this record, we find the Settlement is fair, just and reasonable. The Settlement 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.

The Company initially applied to increase revenue from electric and natural gas service by \$11.4 million (4.6%) and \$4.6 million (7.2%), with all rate increases taking effect on April 1, 2013. The Company also filed supporting testimony with which to justify its requests. Commission Staff thoroughly analyzed the Application and identified potential adjustments that could be made. But Staff acknowledged that it might not have prevailed on all or most of the identified adjustments if the matter had proceeded to a full hearing. The parties—including intervenors representing a wide array of customer interests—opted to compromise and settle. Under the Settlement, there will be *no electric increase in April 2013*. Rather, a much smaller, \$7.825 million (or 3.2%) electric increase is delayed for about six months, until October 1, 2013. Further, under the Settlement annual natural gas revenues increase by \$3.12 million (or 4.92%)

on April 1, 2013, and by \$1.33 million (or 2.0%) on October 1, 2013. After this, the Settlement *prohibits additional base rate increases through January 1, 2015*. The Settlement represents a significant reduction in Avista's requested revenue increase. Moreover, the stay-out provision prohibiting any new electric or natural gas base rate increase before January 1, 2015, provides an extended period of rate stability that might not otherwise occur.

On the record in this case, we find the stipulated \$7.825 million electric revenue increase, effective October 1, 2013, and the \$3.12 million and \$1.33 million natural gas revenue increases, effective April 1, 2013, and October 1, 2013, to be just, fair and reasonable. These increases and the moratorium on new rate increases until January 1, 2015, provide appropriate rate relief for the Company while providing reasonable rate stability to customers. The Commission appreciates the parties' work on the Settlement, and their ability to resolve all of the issues in this case.

INTERVENOR FUNDING

On March 20, 2013, CAPAI petitioned the Commission for an \$8,115.00 intervenor funding award. *See* CAPAI's Petition for Intervenor Funding. Intervenor funding is available under *Idaho Code* § 61-617A, which declares it is the "policy of [Idaho] to encourage participation at all stages of all proceedings before this Commission so that all affected customers receive full and fair representation in those proceedings." The statute empowers the Commission to order any regulated utility with intrastate annual revenues exceeding \$3.5 million to pay all or a portion of the costs of one or more parties for legal fees, witness fees and reproduction costs not to exceed a total for all intervening parties combined of \$40,000. *Id.* The Commission must consider the following factors when deciding whether to award intervenor funding:

- (a) A finding that the participation of the intervenor has materially contributed to the decision rendered by the Commission;
- (b) A finding that the costs of intervention are reasonable in amount and would be a significant financial hardship for the intervenor;
- (c) The recommendation made by the intervenor differed materially from the testimony and exhibits of the Commission Staff; and
- (d) The testimony and participation of the intervenor addressed issues of concern to the general body of users or consumers.

Idaho Code § 61-617A(2).

To obtain an intervenor funding award, an intervenor must comply with Commission Rules of Procedure 161 through 165. Rule 162 provides the form and content for the petition. IDAPA 31.01.01.162.

The Commission finds that CAPAI's Petition satisfies the intervenor funding requirements. CAPAI intervened and participated in two settlement workshops and uniquely focused on residential rate design issues. CAPAI obtained and analyzed low-income consumption data and tried to assess how different rate designs might impact low-income residential customers. CAPAI ultimately joined in the Settlement even though the Settlement did not propose residential rate design changes. But before doing so, CAPAI analyzed the current rate design and proposed Settlement to ensure it would not disproportionately and adversely affect low-income interests. CAPAI recommended that the Commission encourage Avista, Staff, and other utilities to begin, or enhance ongoing efforts, to track and maintain consumption data for the low-income sector of the residential class for the purpose of examining rate design in greater detail in future rate cases.

The Commission finds that CAPAI has materially contributed to the Commission's decision. CAPAI's recommendation materially differs from Staff's testimony and exhibits, and CAPAI'S participation addressed issues of concern to the general body of customers. Finally, the documentation of the costs and fees incurred by CAPAI establishes that the request is reasonable in amount, and that CAPAI would suffer financial hardship if the request is not approved. Accordingly, we approve an award of intervenor funding to CAPAI in the amount of \$8,115.00.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Company is an electrical and gas corporation providing service to the public within the State of Idaho, *Idaho Code* § 61-117, 61-119, and is operating as a public utility. *Idaho Code* § 61-129.

The Commission has jurisdiction over this matter as authorized by Title 61 of the Idaho Code, and more particularly *Idaho Code* §§ 61-501, 61-502, 61-503, 61-520, 61-523.

The Commission finds that the Company's existing rates are unreasonable, and that the rates approved in this Order are fair, just and reasonable. *Idaho Code* § 61-622.

ORDER

IT IS HEREBY ORDERED that the Company's and Staff's Joint Motion for Approval of Stipulation and Settlement is granted; the Commission approves the Stipulation and Settlement supported by all parties.

IT IS FURTHER ORDERED that the Company shall file tariffs to implement rates as set forth in the Stipulation and Settlement.

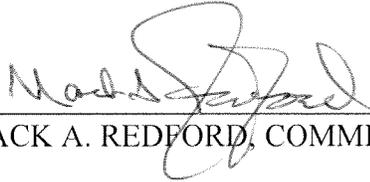
IT IS FURTHER ORDERED that the CAPAI's Petition for Intervenor Funding is granted in the amount of \$8,115.00.

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.

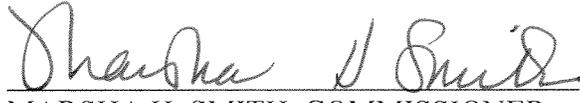
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 27th day of March 2013.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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