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FILED ELECTRONICALLY AND VIA OVERNIGHT MAIL

July 14, 2014

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

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IDAHO PUBLIC
UTILITIES COMMISSION

Re: Case Nos. AVU-E-14-05 and AVU-G-14-01
Stipulation and Settlement and Joint Motion

Enclosed for filing with the Commission in the above-referenced docket are the original and seven copies of the Joint Motion for Approval of Stipulation and Settlement, and the Stipulation and Settlement, dated July 11, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "D J Meyer", with a horizontal line extending to the right.

David J. Meyer
Vice President, Chief Counsel for Regulatory
& Governmental Affairs

Enclosures

c: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 14th day of July, 2014, served the Stipulation and Settlement, and Joint Motion for Approval of Stipulation and Settlement, upon the following parties, by mailing a copy thereof, properly addressed with postage prepaid to:

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE No. AVU-E-14-05
OF AVISTA CORPORATION TO INITIATE)	CASE No. AVU-G-14-01
DISCUSSIONS WITH INTERESTED)	
PARTIES ON AN EXTENSION OF THE)	STIPULATION AND
EXISTING RATE PLAN.)	SETTLEMENT

This Stipulation is entered into by and among Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), the Staff of the Idaho Public Utilities Commission ("Staff"), Clearwater Paper Corporation ("Clearwater"), the Idaho Forest Group, LLC ("Idaho Forest"), the Idaho Conservation League ("ICL"), the Community Action Partnership Association of Idaho ("CAPAI"), and the Snake River Alliance. These entities are collectively referred to as the "Parties", and represent all parties in the above-referenced cases that participated in settlement discussions. The Parties understand this Stipulation is subject to approval by the Idaho Public Utilities Commission ("IPUC" or the "Commission").

I. INTRODUCTION

A. The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of all the issues raised in the proceeding and that this Stipulation and its acceptance by the Commission represents a reasonable resolution of the issues. The Parties, therefore, recommend that the Commission, in accordance with Rule 274, approve the Stipulation and all of its terms and conditions without material change or condition.

B. On March 24, 2014, in compliance with the minimum sixty-day notice requirement of Rule 122 of the IPUC Rules of Procedure "Notice of Intent to File a General Rate Case," Avista Corporation provided notice to the Idaho Public Utilities Commission that the Company intended to file a combined electric and natural gas general rate case on or after June 2, 2014.

C. In Case Nos. AVU-E-12-08 and AVU-G-12-07, the Commission previously approved a settlement that provided for a rate plan that set base rates for a period extending through January 1, 2015.

D. Between May 22 and May 27, 2014, Avista had informal discussions, individually, with Commission Staff, Clearwater, Idaho Forest Group, CAPAI, ICL, and the Snake River Alliance, representing all intervenors and interested parties in the Company's last general rate case (Case Nos. AVU-E-12-08 and AVU-G-12-07).

E. As a part of those informal discussions, Avista explained a proposal to extend the existing rate plan approved by the Commission in the Company's last general rate case, and avoid the need for Avista to immediately file a general rate case that would otherwise take effect on or after the expiration of the existing rate plan on January 1, 2015. All of the

parties expressed a willingness to engage in settlement discussions for the purpose of exploring an extension of the existing rate plan.

F. On May 30, 2014, Avista filed a request with the Commission for approval to initiate settlement discussions with the Parties. On June 11, 2014, the Commission issued Order No. 33051 and formally notified the public and interested parties of Avista's intent to engage in settlement discussions, pursuant to Rule 273. The Order set a settlement conference for June 25, 2014, so the Parties could discuss the Company's desire to avoid filing a general rate case in 2014, and extend the existing rate plan for an additional period of time.

G. On June 25, 2014, the Parties (signatories to this Stipulation) met for the purpose of exploring a settlement that would extend the existing base rates for an additional year. The Parties were able to reach agreement among themselves on terms and conditions such that Avista would not seek to implement a change in base rates prior to 2016. In addition, under the Stipulation, the increases in rates that would otherwise occur on January 1, 2015, resulting from the expiration of the BPA Credit (1.3%), and the PGA Deferral Credit (1.7%), will not occur, but will be replaced with other credits or rebates to customers.

II. BACKGROUND

The current and existing Idaho Rate Plan from Case Nos. AVU-E-12-08 and AVU-G-12-07 contains the following elements:

- A. **Rate Freeze** - The current Avista Rate Plan in Idaho provides for no new electric or natural gas general rate increases to become effective prior to January 1, 2015.
- B. **BPA Credit** - Avista's electric customers are currently receiving a rebate of \$3.865 million (1.3% on Schedule 97), related to the prior settlement with the Bonneville Power Administration ("BPA"), for the 15-month period October 1, 2013 through

December 31, 2014. Retail electric rates would increase 1.3% effective January 1, 2015 with the expiration of this rebate.

- C. **PGA Deferral Credit** - Avista's natural gas customers are currently receiving a rebate of \$1.55 million (1.7% on Schedule 197), related to a Purchased Gas Cost Adjustment ("PGA") deferral credit balance, for the 15-month period October 1, 2013 through December 31, 2014. Retail natural gas rates would increase 1.7% effective January 1, 2015 with the expiration of this rebate.
- D. **2013 Earnings Test** - In the Company's last general rate case, the Company agreed to an after-the-fact earnings test, where it would refund to customers one-half of any earnings in excess of the 9.8% return on equity ("ROE"), on a consolidated basis for electric and natural gas, for each of the years 2013 and 2014. For the 2013 earnings test, Avista deferred a benefit of \$3.914 million for electric customers, and \$444,000 for natural gas customers.
- E. **Natural Gas Energy Efficiency Funding Balance** - Avista currently has a Schedule 191 Natural Gas Energy Efficiency funding balance due customers of \$653,000 (the current Schedule 191 tariff rate is zero and no energy efficiency projects are ongoing).

III. TERMS OF THE STIPULATION AND SETTLEMENT

- A. Avista would not file an electric or natural gas general rate case in 2014, and would not file for new electric or natural gas base rates to be effective prior to January 1, 2016.¹
- B. The BPA Credit and the PGA Deferral Credit would be replaced using other deferral balances such that customers would not experience rate increases effective January 1, 2015.
 - 1. The \$653,000 Schedule 191 Natural Gas Energy Efficiency funding balance and the \$444,000 2013 natural gas earnings test deferral would be used to replace the 1.7% PGA Deferral Credit (\$1,179,000) on natural gas Schedule 197 from January 1, 2015 to December 31, 2015, which would result in no rate increase for customers January 1, 2015. The language on Schedule 197 would be revised to describe the new rebate.
 - 2. \$3.201 million of the \$3.914 million 2013 electric earnings test deferral would be used to replace the 1.3% BPA credit on electric Schedule 97 from January 1, 2015 to December 31, 2015, which would result in no rate increase for

¹ Accordingly, the Parties agree that Avista will not file another electric or natural gas general rate case before May 31, 2015, and while it may request an effective date earlier than January 1, 2016, final approved new rates will not go into effect prior to January 1, 2016. This does not apply to tariff filings authorized by or contemplated by the terms of the Power Cost Adjustment (PCA), or the Purchased Gas Cost Adjustment tariff (PGA), or other miscellaneous filings.

customers January 1, 2015. The language on Schedule 97 would be revised to describe the new rebate.

3. The remaining \$713,000 of the 2013 earnings test deferral would be credited to customers through the Power Cost Adjustment (“PCA”) over a one-year period beginning October 1, 2014.
4. Any differences between the estimated 2015 electric and natural gas credits, and the actual amounts rebated to customers through December 31, 2015 on Schedules 97 and 197, would be added to, or subtracted from, the PCA and PGA deferral balances, respectively.

C. **Project Compass**² – Eighty-percent (80%) of the revenue requirement associated with Project Compass during 2015, beginning the month the Project goes into service, would be deferred for recovery in a future proceeding. The 80% figure was arrived at through negotiation for calendar year 2015 only, and is unrelated to any assessment or determination of the prudence of the Project. The deferral is due, in part, to the uncertainty of the timing of the in-service date for the project. In its next general rate case, Avista will address the prudence of Project Compass, and request full recovery of the cost of the project on a going-forward basis.³

D. **CS2/Colstrip O&M Amortization** – The three-year amortization of the 2013 Coyote Springs 2/Colstrip O&M deferral balance of \$1.253 million (\$418,000 per year) would begin January 1, 2016, instead of January 1, 2015.⁴

² Project Compass involves the replacement of Avista’s legacy Customer Information System, which is composed of three highly-connected applications, which include:

- Customer Service System – this application supports the traditional utility business functions of meter reading, customer billing, payment processing, credit, collections, field requests and customer service orders;
- Work Management System – this application is used to create orders for service and emergency calls and for construction jobs for customers and Company operations; and
- Electric & Gas Meter Application – this application hosts the data for the Company’s in-service electric and gas meters.

Together, these three applications have been connected over time with many other applications and systems required to conduct all aspects of Avista’s customer service, and natural gas and electric business operations.

³ Eighty-percent of the estimated 2015 electric revenue requirement is \$2.663 million (Idaho share), plus \$0.637 million for natural gas (Idaho share), for an estimated total of \$3.3 million. There would be no carrying charge on the deferral.

⁴ Per Order No. 32371 (Case No. AVU-E-11-01), the Company was allowed to defer changes in O&M costs related to its Coyote Springs 2 (CS2) natural gas-fired generating plant located near Boardman, Oregon, and its fifteen (15) percent ownership share of the Colstrip 3 & 4 coal-fired generating plants located in southeastern Montana in order to address the large variability in year-to-year O&M costs, beginning in 2011. The Company compares actual, non-fuel, O&M expenses for the Coyote Springs 2 and Colstrip 3 & 4 plants with the amount of expenses authorized for recovery in base rates in the applicable deferral year, and defers the difference from that currently authorized. The deferral occurs annually, with no carrying charge, with deferred costs being amortized over a three-year period, beginning in January of the year following the period costs are deferred. In Case No. AVU-E-12-08, the beginning of the amortization of the 2013 deferral was delayed from 2014 to 2015. This Stipulation delays the beginning of the amortization of the 2013 deferral for one year from 2015 to 2016, consistent with the one-year extension of the rate plan. The amortization of any deferral from 2014 will begin in 2015.

E. **Earnings Test** – Any earnings test deferral for 2014 would be set aside to support the one-year extension of the Rate Plan as explained below:

1. An ROE deadband would be established for 2015 between the authorized ROE of 9.8% and 9.5%.
2. During the calendar year 2015, if Avista earns less than a 9.5% ROE, on an actual consolidated basis for electric and natural gas, any earnings test deferral balance from 2014 would be used to move Avista's earnings up to, or up toward, the 9.5% ROE on an actual consolidated basis.
3. Any 2014 earnings test deferral balance that is not needed to achieve a 9.5% ROE for 2015, e.g., Avista earns more than 9.5% ROE during 2015, would continue to be held as a deferral for future credit to customers.
4. During the 2015 calendar year, if Avista earns more than a 9.8% ROE, on an actual consolidated basis for electric and natural gas, Avista would defer, for future rebate to customers, 50% of any earnings above the 9.8%.

Included as Attachment A to this Stipulation is a schematic of the components of the Rate Extension Plan.

F. Meet and Confer Regarding Low-Income Issues:

On or before October 1, 2014, Avista will meet with Commission Staff and other interested Parties to this case to review the following issues:

1. Cost-effectiveness and appropriate funding of natural gas and electric demand-side management ("DSM") programs for low-income customers: Prior to the meeting, Avista will provide the Parties with the 2013 DSM Impact Evaluation prepared by its consultant, Cadmus, as well as current information pertaining to the cost-effectiveness of its low-income programs in Idaho. In addition, Avista will provide its analysis of when and under what conditions natural gas DSM programs will become cost-effective and program funding resumes.
2. Electric and natural gas usage by low-income customers in Avista's Idaho service territory and potential rate-design implications for such customers: Prior to the meeting, Avista will provide usage data for its Idaho residential customers for 2011-2013. Avista will consult with the Parties to identify their specific data requirements.
3. No later than December 1, 2014, the Parties will determine if a formal filing with the Commission is warranted based upon review of low-income DSM program cost-effectiveness and low-income usage.

IV. OTHER GENERAL PROVISIONS

A. The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in Rule 272, other than any comments filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

B. The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to Rule 274. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement terms embodied in this Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

C. If the Commission rejects any part or all of this Stipulation or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party shall be bound or prejudiced by the terms of this Stipulation, and each

Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate.

D. The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

E. No Party shall be bound, benefited or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

F. The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

G. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 11th day of July 2014.

Avista Corporation

By: 
David J. Meyer
Attorney for Avista Corporation

Idaho Public Utilities Commission Staff

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Donald L. Howell, II
Deputy Attorney General

Clearwater Paper Corporation

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Peter Richardson
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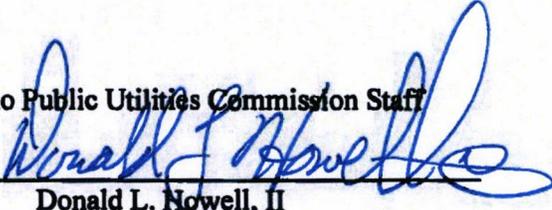
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DATED this ____ day of July 2014.

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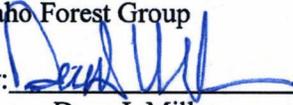
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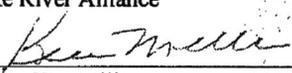
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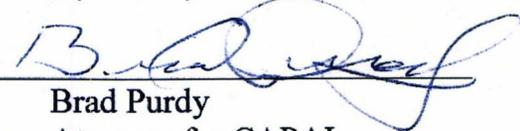
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**Case Nos. AVU-E-14-05 and AVU-G-14-01
Schematic of Rate Plan Extension Components**

