PUBLIC UTILITY COMMISSION
OF
OREGON

UG 284

STAFF/AVISTA/NWIGU/CUB EXHIBIT 103

Joint Testimony in Support of Amended Stipulation In the Matter of Avista's Request for a General Rate Revision

March 6, 2015

Q. Please state your names and positions.

A. Our names are Marianne Gardner, Patrick D. Ehrbar, Bob Jenks, and Edward Finklea. Our qualifications were previously provided in Exhibit 100 (Joint Testimony in Support of Stipulation filed on January 21, 2015).

Q. What is the purpose of your joint testimony?

A. The purpose of our joint testimony is to describe and support the Amended Stipulation, filed on March 6, 2015, between Commission Staff, CUB, NWIGU, and the Company in Docket UG 284 (the "Amended Stipulation"). The Amended Stipulation responds to the concerns raised in Commission Order No. 15-054.

The Amended Stipulation is the product of settlement discussions, open to all parties to the UG 284 Docket. The Amended Stipulation between the Parties, resolves all issues, including revenue requirement and cost of capital issues, as well as rate spread and rate design.

Q. Have you prepared any Exhibits?

A. Yes. The Parties' Exhibit 104 is the Amended Stipulation filed with the Commission on March 6, 2015.

Procedural History

Q. Please describe the procedural history leading up to this Amended Stipulation.

A. On September 2, 2014, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $9,140,000, or 9.1 percent of its annual revenues. The filing was suspended by the Commission on September 8, 2014.

On January 5, 2015, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of September 24, 2014, settlement conferences were held on December 15, 2014, and January 13, 2015.

On January 21, 2015, the Parties filed a Stipulation resolving all issues among themselves in this Docket. Joint Testimony in support of the Stipulation was subsequently filed on January 28, 2015. In addition, Staff filed separate testimony on January 29, 2015.

On February 23, 2015, the Commission issued Order No. 15-054, rejecting the Stipulation and ordering further proceedings. In doing so, the Commission expressed concerns over the early rate implementation credit, rate spread, and the customer count tracking mechanism.

The Parties have again conferred and, by means of the Amended Stipulation, have agreed to settle all issues in this Docket, while also addressing concerns raised by the Commission in its Order rejecting the original settlement Stipulation. The Amended Stipulation eliminates both the "early rate implementation credit" and the "customer count tracking mechanism." The Parties have also proposed a rate spread which, while different than what was contained in the original settlement Stipulation, is more consistent with Avista's original rate spread as filed on September 2, 2014. Additional support is being provided in this Joint Testimony for the revised spread of the settlement rates. Finally, the proposed effective date has been moved from March 1, 2015, to April 16, 2015.

<u>Revenue Requirement for Base Rate Change on April 16, 2015</u>

Q. What is the overall increase in revenue and timing of the change in rates agreed to by the Parties in the Amended Stipulation?

A. The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed later in this Joint Testimony. The adjustments amount to a reduction in Avista's originally requested revenue requirement increase from $9.140 million to a base revenue increase of $5.262 million[1], with the new rates effective on April 16, 2015. The implementation date remains an integral part of the Amended Stipulation. The Amended Stipulation represents the settlement of all revenue requirement issues in the Company's filing.

Q. How does the Amended Stipulation differ from the earlier Stipulation filed on January 21, 2015, that was rejected by the Commission?

A. The Amended Stipulation (Exhibit No. 104) directly addresses the three areas of concern expressed by the Commission in its Order:

1) It <u>removes</u> the "Customer Count Tracking Mechanism." Although the customer tracking mechanism was not intended to establish any precedent or going-forward policy, we appreciate the Commission's concerns and actively responded to the Commission direction and removed this mechanism;

[1] Included in the $5.262 million base revenue increase is the revenue requirement of $0.262 million related to Aldyl A Pipe Replacement. This revenue requirement was approved for recovery in Phase 2 of Avista's last general rate case, UG-246. Currently, the revenue requirement for Phase 2 Aldyl A Pipe Replacement Costs is being recovered through tariff Schedule 497. Consistent with the provisions of Schedule 497, the energy rates charged in that schedule will end at such time as the costs associated with the Phase 2 Aldyl A Pipe Replacement are included in base rates in this general rate case. Accordingly, the rates under Schedule 497 will be set at $0.00/therm on the effective date of the tariffs filed in compliance with the Commission order in this docket. We note that the prior Stipulation was based on a permanent rate increase of $6.112 million, and included a $0.850 million offset.

2) It eliminates the "early rate implementation credit" as an express adjustment; instead the value of early implementation is reflected in both the lower base revenue requirement of $5.262 million in the Amended Stipulation, as compared with the $6.112 million base revenue requirement increase in the rejected Stipulation (Exhibit No. 101), as well as pushing back the implementation date for the new rates to April 16, 2015. This later date will bypass most of the 2014-2015 heating season; and,

3) It proposes a rate spread which eliminates any reductions to certain customer classes contained in the original Stipulation. Additional support is being provided in this Joint Testimony for the revised spread of the settlement rates. This rate spread is more consistent with Avista's proposal contained in its original filing.

Q. What is the new revenue requirement in the Amended Stipulation and its proposed effective date?

A. After taking into account the above modifications in the Amended Stipulation, the adjusted base revenue requirement is reduced from $6.112 million to $5.262 million, and is made effective on April 16, 2015, instead of March 1, 2015. This delay, in and of itself, will reduce Avista's expected revenue in 2015 from the settlement rates by approximately $745,000.[2]

Removal of Customer Count Tracking Mechanism

Q. Will you please first explain why the Parties have removed the "customer count tracking mechanism" as part of the Amended Stipulation?

[2] The value to Avista from earlier implementation of the settlement rates drops from approximately $1.5 million as of March 1, 2015 to approximately $730,000 on April 16, 2015. As explained below, the latter value informed the judgment and negotiating positions of the Parties in arriving at a settlement of the various issues making up the overall revenue requirement.

A. Yes. In its Order No. 15-054, at pages 5-6, rejecting the earlier Stipulation, the Commission found that the proposed customer count tracking mechanism was not supported by a sufficient rationale, that it presented a "policy" decision, was contrary to standard ratemaking practices, and raised questions as to whether the mechanism was meant to be permanent or generic to all utilities.

This mechanism was not intended to become permanent, precedential or policy-setting so as to be applied generically to other utilities; it was expressly set to expire when new base rates were established in Avista's next general rate case. In that sense, it was not intended to establish policy; rather it was intended to resolve a dispute between the Parties related to the Company's load forecast adjustment in this case. Accordingly, this mechanism had been included as a means for reaching a compromise on Staff's proposed load forecast adjustment.

Both the PUC and Avista recently added staff responsible for load forecasts and it is our intention to hold one or more informal workshops for the purposes of sharing ideas and information in a collegial and collaborative manner on forecasting methods for Avista sales and revenues.

Elimination of Early Rate Implementation Credit

Q. Would you explain why the Parties have eliminated the "early rate implementation credit" as part of the Amended Stipulation?

A. Yes. In its Order rejecting the Stipulation, the Commission observed that there was no evidence or discussion in the record explaining the derivation of the early rate implementation credit or why it was necessary to implement rates early. Moreover, it questioned why the credit would be applied to all customers, even those receiving rate decreases. (See Order No. 15-054 at 5.)[3]

Avista and the Parties recognize that there is value to the Company in implementing new rates earlier than the end of the suspension period, in this case, July 3, 2015. As in previous settlements, the Parties acknowledged that value and it formed the backdrop for negotiating various adjustments; i.e., each party formulated their settlement positions on issues, taking into account the rate effective date. In the case of Avista, it chose to further compromise on various issues, with the early implementation date in mind.

The proposed implementation of new settlement rates prior to the end of the suspension period is not unique to this settlement. Indeed, in the last three settlement Stipulations approved by this Commission, rates were implemented before the end of the statutory period: Docket No. UG-186 (5.5 months early); Docket No. UG-201 (4.5 months early); and Docket No. UG-246 (4.5 months early). In none of these cases was there an explicit "early rate implementation credit" – it was, as with the case of the Amended Settlement, simply factored into the settlement calculus of each party.

[3] Pursuant the directive of Administrative Law Judge Patrick Power on page 2 of the Prehearing Conference Memorandum dated September 24, 2014, in this Docket, with new rates effective earlier than the end of the statutory suspension period, the calculation of additional net revenue, or value, to the Company from implementing a base revenue increase of $5.262 million on April 16, 2015 instead of July 3, 2015, is approximately $730,000. (The previously agreed-upon March 1, 2015 implementation date would have provided additional net revenue of approximately $1.5 million.) The April 16, 2015 effective date is prior to the expiration of the statutory suspension period (July 3, 2015), but after most of the heating season (which reduces the value of early implementation). Each party, in developing their respective positions, has already taken the impact of an early implementation into consideration when agreeing to the base revenue increase of $5.262 million.

Early implementation in this case will address what all Parties recognize is a revenue shortfall during the 2015 rate period. For the twelve months ending December 31, 2014, Avista has represented that its weather-normalized earned return on equity is 7.0 percent, and that under-earning will persist until new rates are put into effect.[4] Because the Parties are in agreement that there is an existing revenue shortfall, and because the settled revenue increase captures each Party's view as to the value of early implementation, the Parties support early implementation with an effective date for service on and after April 16, 2015.

In sum, early implementation of settlement rates is an important factor in the settlement process that allows for negotiated trade-offs on a variety of issues. It also streamlines the litigation process by allowing for earlier settlement opportunities that can avoid protracted litigation where the parties can come to agreement on the need for some appropriate level of rate relief. If the value of early implementation of rate increases was not available to be captured in an overall settlement, that could incent parties to continue to litigate such that the full suspension period would take place.

<u>Resolution of Rate Design and Rate Spread Issues</u>

Q. Turning now to rate spread, the Commission stated that "[a]bsent compelling evidence that warrants more immediate action, however, we are not inclined to raise some rates while reducing others" (See Order 15-054 at 5). What have the Parties done in the Amended Stipulation in response to this commission directive?

[4] Presently authorized ROE is 9.65 percent, established in Docket No. UG-246.

A. While the Parties may disagree on whether "compelling evidence" exists in this case for a reduction to certain customer classes, in the Amended Stipulation the Parties have agreed, for purposes of this docket only, upon a rate spread that eliminates any reductions to certain customer classes contained in the original Stipulation, thereby addressing the Commission's concerns. Tables 2 and 3, discussed later in this Joint Testimony, show the spread of rates by customer schedule[5] on both a total revenue and margin basis. This rate spread is more consistent with Avista's rate spread proposal set forth in its general rate filing for this case.

Q. Did the Company present the long-run incremental cost study as part of its initial filing?

A. Yes. Company witness Mr. Miller, in Exhibit No. 801, presented the Company's natural gas long-run incremental cost (LRIC) study.[6] In addition, in Exhibit No. 802, Mr. Miller provided the functional component classification of the Company's proposed revenue requirement.

Q. What were the results of the Company's LRIC study?

A. The results of Avista's LRIC study, adjusted for Staff agreed-upon revisions, are provided in Table No. 1, below:

[5] It is not uncommon for settlements to address the cost of service disparities between rate schedules, by increasing rates for some schedules while reducing rates for others in order to achieve a rates-to-marginal cost ratio that is closer to unity. In the most recent Commission-approved all-party settlement in Avista's 2013 general rate case, Docket No. UG-246, some schedules received a rate increase and others received a decrease. In addition, in Northwest Natural's last general rate case, Docket UG 221, the Commission approved the proposed settlement in that proceeding, which included a 5 percent reduction to any rate schedule receiving a zero percent base margin increase under Northwest Natural's original proposed rate spread, while all other schedules received an increase. Of course, these stipulations contained non-precedent clauses, such as: No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving the issues in any other proceeding.

[6] A long-run incremental cost study is an engineering-economic study which estimates the incremental annual cost of providing natural gas service to customers segregated into groups by rate schedule. When applied to current results of operations, the study indicates the adequacy of current rates compared to costs. The study results are used as one of the guidelines in determining the appropriate rate spread among rate schedules.

<u>Table No. 1: Avista's LRIC Study Summary Results by Schedule</u>

Customer Class	LRIC Summary Relative Margin-to-Cost Present Rates
Residential Service Schedule 410	0.99
General Service Schedule 420	0.91
Large General Service Schedule 424	1.75
Interruptible Sales Service Schedule 440	1.41
Seasonal Sales Service Schedule 444	1.68
Special Contracts Schedule 447	1.24
Transportation Service Schedule 456	1.59
Total Oregon Natural Gas	1.00

Table No. 1 sets forth the Company's LRIC study results by schedule and incorporates certain Staff modifications that were agreed to by the Parties for purposes of settlement.[7] <u>While all Parties to the Amended Stipulation do not agree to the specifics of the LRIC study prepared by the Company (and concurred with by Staff), and do not believe it should be precedential, all Parties do agree, for purposes of this settlement only, that it forms a sufficient basis for the rate spread agreed upon as part of this settlement.</u>

Avista contends, and Staff concurs, that the results of Avista's LRIC study indicate that general service (primarily commercial) customers on Schedule 420 are paying less than their relative cost of service, while large general (Schedule 424), interruptible (Schedule 440), seasonal (Schedule 444), and transportation (Schedule 456) service customers are paying more than their relative cost of service.

[7] The Company agrees, and the Parties support, that in future rate cases filed by the Company, it will make the following adjustments to its Long Run Incremental Cost study:

1. Natural Gas Planning will be allocated on a volumetric basis rather than on a customer-count basis.
2. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main costs minus main extension costs.
3. Storage investment will be allocated on the basis of January sales rather than annual sales.

Residential service customers on Schedule 410 are just below parity (1.00) on a relative margin-to-cost basis.

Q. Therefore, what is the agreement of the Parties relating to rate spread?

A. The Parties agree there is no precedent being established by the agreed-upon, one-time rate spread, and all support the spread of the April 16, 2015, overall base revenue increase of $5.262 million to the Company's service schedules as shown in Table No. 2:

Table No. 2:

Customer Class	Proposed Base Revenue Adjustment	Less Currently Approved Schedule 497 *	**Net Revenue Increase**	**Percent Increase on Billed Revenue**
Residential Service Schedule 410	$ 3,474,029	$ 183,000	**$ 3,291,029**	**5.2%**
General Service Schedule 420	$ 1,793,971	$ 85,000	**$ 1,708,971**	**6.0%**
Large General Service Schedule 424	$ (1,000)	$ (1,000)	**$ -**	**0.0%**
Interruptible Sales Service Schedule 440	$ 3,000	$ 3,000	**$ -**	**0.0%**
Seasonal Sales Service Schedule 444	$ -	$ -	**$ -**	**0.0%**
Special Contracts Schedule 447	$ -	$ -	**$ -**	**0.0%**
Transportation Service Schedule 456	$ (8,000)	$ (8,000)	**$ -**	**0.0%**
Total Oregon Natural Gas	$ 5,262,000	$ 262,000	**$ 5,000,000**	**4.9%**

* See paragraph 7 of the Amended Stipulation discussing elimination of Schedule 497.

The Parties have <u>not</u> agreed to increase the residential and general service rates beyond what the Company had originally filed. (See Order 15-054 at 5). In the Company's original filing, Avista proposed to increase rates, on a <u>margin basis</u>, by 19.2 percent for residential service (Schedule 410) and 26.6% for general service (Schedule 420). Under the terms of the Amended Stipulation, the proposed rate increase on a margin basis for Schedule 410 is 10.5 percent and for Schedule 420 is 14.6 percent, both of which are <u>below the increases originally proposed</u> by the Company. This is shown in Table No. 3 below:

Table No. 3:

Customer Class	**Avista Proposed Revenue Increase as a Percentage of Margin**	**Amended Stipulation Net Revenue Increase as a Percentage of Margin**
Residential Service Schedule 410	19.2%	**10.5%**
General Service Schedule 420	26.6%	**14.6%**
Large General Service Schedule 424	0.0%	**0.0%**
Interruptible Sales Service Schedule 440	0.0%	**0.0%**
Seasonal Sales Service Schedule 444	0.0%	**0.0%**
Special Contracts Schedule 447	0.0%	**0.0%**
Transportation Service Schedule 456	0.0%	**0.0%**
Total Oregon Natural Gas	19.2%	**10.5%**

The calculation of the revenue increase by service schedule is shown on Page 1 Attachment B to the Amended Stipulation (Exhibit 104).

Q. What other terms associated with rate design are contained in the Amended Stipulation?

A. The Parties support the following rate design: For Residential Service Schedule 410, the monthly customer charge will remain at the current $8.00. The monthly customer charge for General Service Schedule 420 will be increased by $2.00 per month, from $12.00 to $14.00.

The present and proposed base rates, as well as the increases to all rate components within the schedules, are shown on Page 2 of Attachment B to the Amended Stipulation (Exhibit 104).

Agreed-Upon Revenue Requirement

Q. What revenue requirement adjustments to Avista's originally-filed case are included in the Amended Stipulation (Exhibit 104)?

A. Table No. 1, at page 4 of the Amended Stipulation is reproduced below, and provides a summary of the adjustments to Avista's originally-filed case. Staff will also present testimony to supplement its testimony as filed earlier in support of the prior stipulation. In comparison to the prior stipulation, the Amended Stipulation changes the recommended revenue requirement in only two areas—Capital Additions and Property Tax. Both of those cost components have been decreased, resulting in a reduction to the proposed revenue requirement from $6.112 million to $5.262 million.

TABLE No. 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE

($000s of Dollars)

		Revenue Requirement	Rate Base
Amount as filed:		**$9,140**	**$198,448**
Adjustments:			
a	**Rate of Return**		
	Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	**(853)**	**-**
b	**Revenue Sensitive - uncollectible rate and state tax rate**		
	Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "f" below.	**(147)**	**-**
c	**Uncollectibles**		
	Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	**(39)**	**-**
d	**Working Cash**		
	Removes the additional working capital rate base adjustment to include only materials and supplies.	**(501)**	**(4,641)**
e	**Interest Synchronization**		
	Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	**61**	**-**
f	**State Taxes**		
	Revises level of SIT to an agreed-upon level.	**(317)**	**-**
g	**Escalation**		
	Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	**(97)**	**-**
h	**Advertising and Marketing**		
	This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	**(40)**	**-**
i	**D&O Insurance**		
	This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	**(31)**	**-**
j	**Various A&G Expenses**		
	Revises the Company's expected administrative and general expenses related to meals and other expenses.	**(44)**	**-**
k	**Capital Additions**		
	Adjusts capital additions to remove a vehicle included in Oregon plant additions in error.	**(4)**	**(37)**
l	**Distribution O&M**		
	Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	**(602)**	**-**
m	**Other Gas Supply Expense**		
	Reduces the Company's natural gas supply expense to an agreed-upon level.	**(60)**	**-**
n	**Memberships and Dues**		
	Reduces the Company's membership and dues expense to an agreed-upon level.	**(3)**	**-**
o	**Regulatory Commission Expense**		
	Reduces the Company's regulatory commission expense to an agreed-upon level.	**(76)**	**-**
p	**Allocation Factors**		
	Includes a reduction in allocated expense to an agreed-upon level.	**(100)**	**-**
q	**Incentives**		
	Includes reduction to incentives to agreed-upon level.	**(11)**	**(76)**
r	**Wages & Salaries**		
	Revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.	**(108)**	**-**
s	**Medical Benefits**		
	Includes a reduction to medical expenses to an agreed-upon level.	**(170)**	**-**
t	**Pensions**		
	Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	**(282)**	**(4,318)**
u	**Property Tax**		
	Adjusts property tax expense to an agreed-upon level.	**(426)**	**-**
v	**Insurance**		
	Includes updates to the Company's insurance expense.	**(28)**	
	Total Adjustments:	**($3,878)**	**($9,072)**
Adjusted Base Revenue Requirement & Rate Base - Effective April 16, 2015:		**$5,262**	**$189,376**
	Expiration of Schedule 497	**($262)**	
Net Revenue Increase Effective April 16, 2015		**$5,000**	**$189,376**

Q. What is the basis of the Amended Stipulation relating to Issue (a), Rate of Return Adjustment? [8]

A. The Company's original filed requested cost of capital was as follows:

Originally Filed Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.56%	2.72%
Common Equity	51.0%	9.90%	5.05%
Total	**100.0%**		**7.77%**

This adjustment revises the Company requested cost of capital to a capital structure comprised of 51 percent common stock equity and 49 percent long-term debt, with a return on equity (ROE) of 9.50 percent, and cost of debt of 5.452 percent. The revised cost of debt of 5.452 percent reflects the most recent financings of the Company, which lowers the overall cost of debt from the 5.56 percent included in the original filing. The 9.50 percent ROE, combined with the 51 percent equity layer, is a negotiated rate that the Parties support as reasonable, and reflects the give and take on other issues in the case. This combination of capital structure and capital costs produces a rate of return of 7.516 percent, as shown in the table below:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.452%	2.671%
Common Equity	51.0%	9.500%	4.845%
Total	**100.0%**		**7.516%**

[8] Much of this testimony is duplicative of the testimony filed in support of the original stipulation. It is provided again here for ease of reference.

Q. Please explain the basis of the Amended Stipulation relating to Issue (b), Revenue Sensitive – Uncollectible Rate and State Tax Rate Adjustment?

A. This adjustment revises the State Income Tax (SIT) rate included in the Company's direct filing to factor in future use of SIT credits expected during the rate year. This adjustment also revises the uncollectible rate to 0.5313 percent calculated on a three-year historical average. These changes impact the Conversion Factor and adjustment Issue (f) below.

The result of this adjustment decreased the Company's requested revenue requirement by $147,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (c), Uncollectibles Adjustment?

A. This adjustment reduces the Company's uncollectible expense by adjusting the three-year historical average used to estimate the level of uncollectible customer accounts receivable during the rate year.

The result of this adjustment decreased the Company's requested revenue requirement by $39,000.

Q. Please describe Issue (d), the Working Capital Adjustment?

A. In the Company's direct filing, the Company included an increase to total rate base for the Company's calculated cash working capital using the Investor Supplied Working Capital (ISWC) method. The Parties agreed, for settlement purposes, to remove the Company's proposed working capital adjustment, including in rate base only its inventory of materials and supplies.

The result of this adjustment decreased the Company's requested revenue requirement by $501,000 and rate base by $4,641,000.

Q. What is the basis of the Amended Stipulation relating to Issue (e), the Interest Synchronization Adjustment?

A. This adjustment is simply a flow-through adjustment for the federal and state tax impact of the cost of debt component of rate of return, and increases the Company's requested revenue requirement by $61,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (f), State Taxes Adjustment.

A. This adjustment reduces the level of SIT to an agreed-upon level, including the impact of the future use of SIT credits expected during the rate year as noted in Item (b) above.

The result of this adjustment reduced the Company's requested revenue requirement by $317,000.

Q. What formed the basis for the agreement on Issue (g), Expense Escalation Adjustment?

A. In the Company's direct filing, the Company included increases to non-labor O&M and A&G expenses based on forecasts through 2015. The Company used a CPI of 2.1 percent year over year for 2014 and 2015. The Parties agreed, for settlement purposes, to use a lower forecasted inflation factor to determine the 2014 and 2015 expense levels.

The result of this adjustment decreased the Company's requested revenue requirement by $97,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (h), Advertising and Marketing Adjustment.

A. In the Company's direct filing, the Company included increases to advertising and marketing expenses based on forecasts through 2015. The Parties agreed, for settlement purposes, to use lower inflation factors for 2014 and 2015 expenses.

The result of this adjustment decreased the Company's requested revenue requirement by $40,000.

Q. How did the Parties arrive at the Amended Stipulation relating to Issue (i), Directors & Officers (D&O) Insurance Adjustment?

A. In the Company's direct filing, the Company included increases for D&O insurance premiums expected in 2015. The Parties agreed, for settlement purposes, to remove 50 percent of certain D&O premium layers.

The result of this adjustment decreased the Company's requested revenue requirement by $31,000.

Q. What formed the basis for the agreement on Issue (j), Various Administrative and General Expenses Adjustment?

A. This adjustment removes 50 percent of certain administrative and general expenses related to meals and other expenses included in the Company's filed case.

The result of this adjustment decreased the Company's requested revenue requirement by $44,000.

Q. What is the basis of the Amended Stipulation relating to Issue (k), Capital Additions Adjustment?

A. In the Company's direct filing, the Company included Oregon capital projects that would become operational and transfer to plant-in-service through March 31, 2015, the associated accumulated depreciation and accumulated deferred federal income taxes (ADFIT) on an end-of-period (EOP) basis, and the annual level of associated depreciation expense and property taxes.

This adjustment revises capital additions, as proposed by Staff, to remove a vehicle included in Oregon plant additions in error, decreasing the Company's requested revenue requirement by $4,000 and rate base by $37,000.

Q. What is the basis of the Amended Stipulation relating to Issue (l), Distribution Operating and Maintenance Expenses Adjustment?

A. In the Company's filed case, it had included test period level distribution O&M expenses, adjusted for inflation. During the process of the case the Company determined expenses related to its Atmospheric Testing program experienced during the historical test period would not remain at that level during the rate year. This adjustment reduces the Company's Atmospheric Testing expense to reflect expected rate period levels and adjusts for revised CPI.

The result of this adjustment decreased the Company's requested revenue requirement by $602,000.

Q. How did the Parties arrive at the Amended Stipulation relating to Issue (m), Other Gas Supply Expense Adjustment?

A. This adjustment reduces the Company's natural gas supply expense to an agreed-upon level, based on an escalation of other gas supply expense from prior periods to the rate year.

The result of this adjustment decreased the Company's requested revenue requirement by $60,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (n), Memberships & Dues Adjustment.

A. This adjustment reduces the Company's membership and dues expense to an agreed-upon level.

The result of this adjustment decreased the Company's requested revenue requirement by $3,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (o), Regulatory Commission Expense Adjustment.

A. This adjustment reduces the Company's regulatory commission expense to an agreed-upon level

The result of this adjustment decreased the Company's requested revenue requirement by $76,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (p), Allocation Factors Adjustment.

A. The Parties agreed, for settlement purposes, to include a reduction in allocated expenses to an agreed-upon level.

The result of this adjustment decreased the Company's requested revenue requirement by $100,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (q), Incentive Compensation Adjustment.

A. This adjustment includes a reduction to incentives to an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $11,000 and rate base by $76,000.

Q. How did the Parties arrive at the Amended Stipulation relating to Issue (r), Wages and Salaries Adjustment?

A. This adjustment changes pro forma wages and salaries to reflect adjustments proposed by Staff. Wages & salaries were adjusted using the Commission's three-year Wage and Salary Model. Staff also adjusted the test year full time equivalent (FTE) levels, associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.

The result of this adjustment decreased the Company's requested revenue requirement by $108,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (s), Medical Benefits Adjustment.

A. This adjustment includes an update to medical expenses for costs expected during the rate period and additional adjustments resulting in an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $170,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (t), Pension Expense & Prepaid Pension Asset Adjustment?

A. In the Company's direct filing, the Company proposed rate base treatment of its prepaid pension assets, net of accumulated deferred federal income taxes (ADFIT). The Parties agreed to remove the utility prepaid pension asset (net of ADFIT) from this Docket, as the current UM 1633 Pension Investigation Docket is still in progress. This adjustment also includes an update to pension expenses for costs expected during the rate period and an additional adjustment resulting in an agreed-upon level for settlement purposes.

The result of this adjustment decreased the Company's requested revenue requirement by $282,000 and rate base by $4,318,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (u), Property Taxes Adjustment.

A. This adjustment adjusts property tax to an agreed-upon level for settlement purposes. The result of this adjustment decreases the Company's requested revenue requirement by $426,000.

Q. Please explain the basis of the Amended Stipulation relating to Issue (v), Insurance Adjustment.

A. This adjustment includes an update to insurance expenses for costs expected during the rate period.

The result of this adjustment decreased the Company's requested revenue requirement by $28,000.

<u>Conclusion</u>

Q. Do the Parties agree that the Amended Stipulation provided as Exhibit 104 is in the public interest and results in an overall fair, just and reasonable outcome?

A. Yes.

Q. What do the Parties recommend regarding the Amended Stipulation?

A. We recommend that the Commission adopt the Amended Stipulation in its entirety, with new retail rates effective April 16, 2015. For the reasons set forth above, the Amended Stipulation establishes just and reasonable rates and should be approved. The Amended Stipulation is the product of extensive negotiations between all parties that occurred after detailed and comprehensive discovery. It involved compromise and give-and-take on a variety of issues; ultimately, all parties were able to agree on a settlement package that resolved all issues in this proceeding.

The Amended Stipulation and Joint Testimony address each of the issues identified by the Commission in its Order No. 15-054, rejecting the Parties previous Settlement Stipulation in this Docket. The Parties have 1) eliminated the "customer count tracking mechanism;" 2) eliminated the "early rate implementation credit;" 3) adjusted downward the base revenue adjustment from $6.112 million to $5.262 million; 4) moved the proposed implementation date from March 1, 2015 to April 16, 2015; and 5) have revised the proposed rate spread. This Joint Testimony also provides additional evidentiary support for the Amended Stipulation. In this way, the Parties have attempted to be responsive to the Commissions' concerns and respectfully request that the Commission approve the Amended Stipulation as filed.

Q. Does this conclude your Joint Testimony?

A. Yes.

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UG-284

In the Matter of AVISTA CORPORATION, dba AVISTA UTILITIES Request for a General Rate Revision	)))))))	AFFIDAVIT OF PATRICK D. EHRBAR

STATE OF WASHINGTON)
) as
County of Spokane)

I, Patrick D. Ehrbar, being first duly sworn on oath, depose and say:

1. I am the Manager of Rates and Tariffs of Avista Utilities ("Avista").

2. On behalf of Avista, I sponsored the pre-filed testimony submitted in this docket entitled Joint Testimony/Gardner, et.al. (Exhibit Stipulating Parties/103).

3. My statements in the pre-filed testimony are true and accurate based on my information and belief and my responses would be the same if I were to answer those same questions today.

SIGNED this ____ day of March, 2015.

Patrick D. Ehrbar

SUBSCRIBED AND SWORN to before me this 6th day of March, 2015.

Wendy D. Manskey

Notary Public for Spokane
My Commission Expires: 10-09-2018

WENDY D. MANSKEY
Notary Public
State of Washington
My Commission Expires
October 09, 2018

PUBLIC UTILITY COMMISSION
OF
OREGON

UG 284

STAFF/AVISTA/NWIGU/CUB EXHIBIT 104

Amended Stipulation of the Parties
In the Matter of Avista's
Request for a General Rate Revision

March 6, 2015

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 284

In the Matter of AVISTA CORPORATION, dba AVISTA ALL UTILITIES Request for a General Rate Revision.	)))))	AMENDED STIPULATION RESOLVING ISSUES

This Amended Stipulation is entered into for the purpose of resolving all issues in this Docket. As such, this Amended Stipulation resolves all revenue requirement issues, including cost of capital issues, as well as rate spread and rate design.

PARTIES

The Parties to this Amended Stipulation are Avista Corporation ("Avista" or the "Company"), the Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), and the Northwest Industrial Gas Users ("NWIGU") (collectively, "Parties"). These Parties represent all who intervened and appeared in this proceeding.

BACKGROUND

1. On September 2, 2014, Avista filed revised tariff schedules to effect a general rate increase for Oregon retail customers of $9,140,000, or 9.1 percent of its annual revenues. The filing was suspended by the Commission on September 8, 2014, in Order No. 14-311.

2. On January 5, 2015, Staff served on all of the Parties its report of issues and proposed adjustments to Avista's revenue requirement filing. Staff's report was provided for settlement purposes only.

3. Pursuant to Administrative Law Judge Patrick Power's Prehearing Conference Memorandum of September 24, 2014, settlement conferences were held on December 15, 2014, and January 13, 2015.

4. On January 21, 2015, the Parties filed a Stipulation resolving all issues among themselves in this Docket. Joint Testimony was subsequently filed on January 28, 2015, in support of the Stipulation. In addition, separate testimony was filed by Staff on January 29, 2015.

5. On February 23, 2015, the Commission issued an Order rejecting the Stipulation and ordering further proceedings. In doing so, the Commission expressed concerns over the early rate implementation credit, rate spread, and the customer count tracking mechanism. See Order No. 15-054 at page 1.

6. The Parties have again conferred and, by means of this Amended Stipulation, have agreed to settle all issues in this Docket, addressing concerns raised by the Commission in its Order rejecting the original settlement Stipulation by eliminating both the "early rate implementation credit," and the "customer count tracking mechanism." The Parties have also proposed a rate spread which eliminates any revenue reductions contained in the original Stipulation to any rate schedules, while otherwise increasing rates to others. Additional support has been provided in the accompanying Joint Testimony for the revised spread of the settlement rates in the Amended Stipulation. Finally, the proposed effective date has been moved from March 1, 2015 to April 16, 2015.

AGREEMENT

7. **Revenue Requirement:** The Parties support reducing Avista's requested revenue requirement to reflect the adjustments discussed below. The adjustments amount to a reduction in Avista's revenue requirement increase originally requested from $9.140 million to a base revenue increase of $5.262 million, with the new rates effective on April 16, 2015.[1] The implementation date remains an integral part of this Amended Stipulation. To establish the $5.262 million base rate increase, rate base and property taxes were the two categories of costs that were revised downward from the prior stipulation.

Included in the $5.262 million base revenue increase is the revenue requirement of $0.262 million related to Aldyl A Pipe Replacement. This revenue requirement was approved for recovery in Phase 2 of Avista's last general rate case, UG-246. Currently, the revenue requirement for Phase 2 Aldyl A Pipe Replacement Costs is being recovered through tariff Schedule 497. Consistent with the provisions of Schedule 497, the energy rates charged in that schedule will end at such time as the costs associated with the Phase 2 Aldyl A Pipe Replacement are included in base rates in this general rate case. Accordingly, the rates under Schedule 497 will be set at $0.00/therm on the effective date of the tariffs filed in compliance with the Commission order in this docket.

[1] Per the directive of Administrative Law Judge Patrick Power on page 2 of the Prehearing Conference Memorandum dated September 24, 2014, in this Docket, with new rates effective earlier than the end of the statutory suspension period, the calculation of additional net revenue, or value, to the Company from implementing a base revenue increase of $5.262 million on April 16, 2015 instead of July 3, 2015, is approximately $730,000. (The previously agreed-upon March 1, 2015 implementation date would have provided additional net revenue of approximately $1.5 million.) The April 16, 2015 effective date is prior to the expiration of the statutory suspension period (July 3, 2015), but after most of the heating season (which reduces the value of early implementation). Each party, in developing their respective positions, has already taken the impact of an early implementation into consideration when agreeing to the base revenue increase of $5.262 million. In addition, it should be noted that the permanent rate decrease has been reduced, from the prior stipulated amount of $6.112 million, to $5.262 million.

This Amended Stipulation represents the settlement of all revenue requirement issues in the Company's filing. The Parties support the adjustments to Avista's revenue requirement request shown in Table No. 1 below:

TABLE No. 1: SUMMARY OF ADJUSTMENTS TO REVENUE REQUIREMENT AND RATE BASE			
	($000s of Dollars)		
		Revenue Requirement	Rate Base
Amount as filed:		$9,140	$198,448
Adjustments:			
a	**Rate of Return**		
	Adjusts return on equity to 9.50%, long-term debt cost to 5.452%, with a common stock equity component of 51%, and overall Cost of Capital of 7.516%.	(853)	-
b	**Revenue Sensitive - uncollectible rate and state tax rate**		
	Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. These changes impact the Conversion Factor and adjustment "f" below.	(147)	-
c	**Uncollectibles**		
	Reduces the Company's uncollectible expense by adjusting the 3-year historical average.	(39)	-
d	**Working Cash**		
	Removes the additional working capital rate base adjustment to include only materials and supplies.	(501)	(4,641)
e	**Interest Synchronization**		
	Includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.	61	-
f	**State Taxes**		
	Revises level of SIT to an agreed-upon level.	(317)	-
g	**Escalation**		
	Reduces non-labor expense based on a lower forecasted inflation factor (CPI) for calendar years 2014 and 2015 expenses.	(97)	-
h	**Advertising and Marketing**		
	This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.	(40)	-
i	**D&O Insurance**		
	This reduces the Company's D&O insurance to exclude 50% of various D&O layers.	(31)	-
j	**Various A&G Expenses**		
	Revises the Company's expected administrative and general expenses related to meals and other expenses.	(44)	-
k	**Capital Additions**		
	Adjusts capital additions to remove a vehicle included in Oregon plant additions in error.	(4)	(37)
l	**Distribution O&M**		
	Reduces the Company's Atmospheric Testing expense and adjusts for revised CPI.	(602)	-
m	**Other Gas Supply Expense**		
	Reduces the Company's natural gas supply expense to an agreed-upon level.	(60)	-
n	**Memberships and Dues**		
	Reduces the Company's membership and dues expense to an agreed-upon level.	(3)	-
o	**Regulatory Commission Expense**		
	Reduces the Company's regulatory commission expense to an agreed-upon level.	(76)	-
p	**Allocation Factors**		
	Includes a reduction in allocated expense to an agreed-upon level.	(100)	-
q	**Incentives**		
	Includes reduction to incentives to agreed-upon level.	(11)	(76)
r	**Wages & Salaries**		
	Revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.	(108)	-
s	**Medical Benefits**		
	Includes a reduction to medical expenses to an agreed-upon level.	(170)	-
t	**Pensions**		
	Removes the Company's net prepaid pension asset from rate base and revises the Company's pension expense to an agreed-upon level.	(282)	(4,318)
u	**Property Tax**		
	Adjusts property tax expense to an agreed-upon level.	(426)	-
v	**Insurance**		
	Includes updates to the Company's insurance expense.	(28)	
	Total Adjustments:	($3,878)	($9,072)
Adjusted Base Revenue Requirement & Rate Base - Effective April 16, 2015:		$5,262	$189,376
	Expiration of Schedule 497	($262)	
Net Revenue Increase Effective April 16, 2015		$5,000	$189,376

The following information provides an explanation for each of the adjustments in Table No. 1 above. Attachment A summarizes the Company's filed rate case and the stipulated adjustments. The numbers in parenthesis represent the agreed-upon increase or decrease in revenue requirement associated with the item.

a. Rate of Return – (-$853,000) This adjustment reduces Avista's requested cost of capital to an overall cost of capital equal to 7.516% based on the following components: a capital structure consisting of 51% common stock equity and 49% long-term debt, return on equity of 9.50%, and a long-term debt cost of 5.452%. This combination of capital structure and capital costs is shown in the schedule below:

Agreed-upon Cost of Capital

	Percent of Total Capital	Cost	Component
Long-term Debt	49.0%	5.452%	2.671%
Common Equity	51.0%	9.500%	4.845%
Total	**100.0%**		**7.516%**

b. Revenue Sensitive – uncollectible rate and state tax rate – (-$147,000) Revises the State Income Tax (SIT) rate to factor in future use of SIT credits. The adjustment also revises the uncollectible rate to 0.5313 percent calculated on a three-year historical average. These changes impact the Conversion Factor and adjustment "f" below.

c. Uncollectibles – (-$39,000) Reduces the Company's uncollectible expense by adjusting the three -year historical average.

d. Working Capital – (-$501,000) Removes the additional working capital rate base adjustment to include only materials and supplies. This adjustment reduces rate base $4,641,000.

e. Interest Synchronization – (+$61,000) This adjustment includes the flow through of the federal and state tax impact on rate base adjustments due to the change in the cost of debt.

f. State Taxes – (-$317,000) – This adjustment reduces the level of SIT to an agreed-upon level.

g. Expense Escalation – (-$97,000) This adjustment reduces non-labor expenses based on a lower forecasted inflation factor (Consumer Price Index or CPI) for calendar years 2014 and 2015.

h. Advertising and Marketing – (-$40,000) This reduces advertising and marketing expenses based on lower inflation factors for 2014 and 2015 expenses.

i. Directors & Officers (D&O) Insurance – (-$31,000) This reduces the Company's D&O insurance to exclude 50% of various D&O insurance layers.

j. Various Administrative & General (A&G) Expenses – (-$44,000) This adjustment revises the Company's expected administrative and general expenses related to meals and other expenses.

k. Capital Additions – (-$4,000) This adjustment revises capital additions to remove a vehicle included in Oregon plant additions in error. This adjustment decreases rate base $37,000.

l. Distribution Operating & Maintenance (O&M) Expenses – (-$602,000) This adjustment reduces the Company's Atmospheric Testing expense to reflect expected rate period levels and adjusts for revised CPI.

m. Other Gas Supply Expense – (-$60,000) Reduces the Company's natural gas supply expense to an agreed-upon level.

n. Memberships & Dues – (-$3,000) This adjustment reduces the Company's membership and dues expense to an agreed-upon level.

o. Regulatory Commission Expense – (-$76,000) Reduces the Company's regulatory commission expense to an agreed-upon level.

p. Allocation Factors – (-$100,000) This adjustment includes a reduction in allocated expenses to an agreed-upon level.

q. Incentive Compensation – (-$11,000) This adjustment includes a reduction to incentives to an agreed-upon level. This adjustment reduces rate base $76,000.

r. Wages and Salaries – (-$108,000) This adjustment revises wages and salaries related to overtime, full-time employee equivalents (FTE), associated payroll taxes, and applicable depreciation expense related to the reduction to rate base and an update to CPI.

s. Medical Benefits – (-$170,000) Includes an adjustment to reduce medical expenses to an agreed-upon level.

t. Pension Expense & Prepaid Pension Asset – (-$282,000) This adjustment removes the rate base treatment of the Company's prepaid pension asset from this Docket, reducing rate base by $4,318,000, and revises the Company's pension expense to an agreed-upon level.

u. Property Taxes – (-$426,000) This adjustment reduces property tax expense to an agreed-upon level.

v. Insurance – (-$28,000) This adjustment includes updates to the Company's insurance expense.

8. **Long-Run Incremental Cost Study:** The Parties agree that in future rate cases filed by the Company, it will make the following adjustments to its Long Run Incremental Cost (LRIC) study:

a. Natural Gas Planning will be allocated on a volumetric basis rather than on a customer-count basis.

b. Core main costs, estimated on a LRIC/as-new basis, will be defined as total main costs minus main extension costs.

c. Storage investment will be allocated on the basis of January sales rather than annual sales.

While all Parties to the Amended Stipulation do not agree to the specifics of the LRIC study prepared by the Company (and concurred with by Staff), and do not believe it should be precedential, all Parties do agree, for purposes of this settlement only, that it forms a sufficient basis for the rate spread below, as agreed upon as part of this settlement. The development of the LRIC study and its use in arriving at the agreed-upon spread of rates are described in the Joint Testimony accompanying this Amended Stipulation.

9. **Rate Spread:** The Parties agree there is no precedent being established by the agreed-upon, one-time rate spread, and all support the spread of the April 16, 2015 overall base revenue increase of $5.262 million to the Company's service schedules as shown in Table No. 2:

Table No. 2:

Customer Class		Proposed Base Revenue Adjustment		Less Currently Approved Schedule 497 *		Net Revenue Increase	Percent Increase on Billed Revenue
Residential Service Schedule 410	$	3,474,029	$	183,000	$	3,291,029	5.2%
General Service Schedule 420	$	1,793,971	$	85,000	$	1,708,971	6.0%
Large General Service Schedule 424	$	(1,000)	$	(1,000)	$	-	0.0%
Interruptible Sales Service Schedule 440	$	3,000	$	3,000	$	-	0.0%
Seasonal Sales Service Schedule 444	$	-	$	-	$	-	0.0%
Special Contracts Schedule 447	$	-	$	-	$	-	0.0%
Transportation Service Schedule 456	$	(8,000)	$	(8,000)	$	-	0.0%
Total Oregon Natural Gas	$	5,262,000	$	262,000	$	5,000,000	4.9%

* See paragraph 7 of this Amended Stipulation discussing elimination of Schedule 497.

It is important to note that the Parties have not agreed to increase the residential and general service rates beyond what the Company had originally filed.[2] In the Company's original filing, Avista proposed to increase rates, on a <u>margin basis</u>, by 19.2% for residential service

[2] See Order 15-054 at page 5.

(Schedule 410) and 26.6% for general service (Schedule 420). Under the terms of the Amended Stipulation, the proposed rate increase on a margin basis for Schedule 410 is 10.5% and for Schedule 420 is 14.6%, both of which are below the increases originally proposed by the Company. This is shown in Table No. 3 below:

Table No. 3:

Customer Class	**Avista Proposed Revenue Increase as a Percentage of Margin**	**Amended Stipulation Net Revenue Increase as a Percentage of Margin**
Residential Service Schedule 410	19.2%	**10.5%**
General Service Schedule 420	26.6%	**14.6%**
Large General Service Schedule 424	0.0%	**0.0%**
Interruptible Sales Service Schedule 440	0.0%	**0.0%**
Seasonal Sales Service Schedule 444	0.0%	**0.0%**
Special Contracts Schedule 447	0.0%	**0.0%**
Transportation Service Schedule 456	0.0%	**0.0%**
Total Oregon Natural Gas	19.2%	**10.5%**

The calculation of the revenue increase by service schedule is shown on Page 1 of Attachment B.

10. **Rate Design:** The Parties support the following rate design: For Residential Service Schedule 410, the monthly customer charge will remain at the current $8.00. The monthly customer charge for General Service Schedule 420 will be increased by $2.00 per month, from $12.00 to $14.00.

The present and proposed base rates, as well as the increases to all rate components within the schedules, are shown on Page 2 of Attachment B.

11. The Parties agree that this Amended Stipulation is in the public interest and results in an overall fair, just and reasonable outcome.

12. The Parties agree that this Amended Stipulation represents a compromise in the positions of the Parties. Without the written consent of all Parties, evidence of conduct or statements, including but not limited to term sheets or other documents created solely for use in settlement conferences in this Docket, are not admissible in the instant or any subsequent proceeding unless independently discoverable or offered for other purposes allowed under ORS 40.190. Nothing in this paragraph precludes a party from stating as a factual matter what the Parties agreed to in this Amended Stipulation or in the Parties' testimony supporting the Amended Stipulation.

13. Further, this Amended Stipulation sets forth the entire agreement between the Parties and supersedes any and all prior communications, understandings, or agreements, oral or written, between the Parties pertaining to the subject matter of this Amended Stipulation.

14. This Amended Stipulation will be offered into the record in this proceeding as evidence pursuant to OAR 860-001-0350(7). The Parties agree to use best efforts to prepare and submit the Amended Stipulation and supporting materials to the Commission in time to permit the Commission to take action that will allow rates to go into effect by April 16, 2015. The Parties agree to support this Amended Stipulation throughout this proceeding and any appeal. The Parties further agree to provide witnesses to sponsor the Amended Stipulation at any hearing held, or, in a Party's discretion, to provide a representative at the hearing authorized to respond to the Commission's questions on the Party's position as may be appropriate.

15. If this Amended Stipulation is challenged by any other party to this proceeding, the Parties to this Amended Stipulation reserve the right to 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 embodied in this Amended Stipulation.

Notwithstanding this reservation of rights, the Parties agree that they will continue to support the Commission's adoption of the terms of this Amended Stipulation.

16. The Parties have negotiated this Amended Stipulation as an integrated document. If the Commission rejects all or any material portion of this Amended Stipulation, or imposes additional material conditions in approving this Amended Stipulation, any Party disadvantaged by such action shall have the rights provided in OAR 860-001-0350(9) and shall be entitled to seek reconsideration or appeal of the Commission's Order.

17. By entering into this Amended Stipulation, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Amended Stipulation. No Party shall be deemed to have agreed that any provision of this Amended Stipulation is appropriate for resolving the issues in any other proceeding.

18. This Amended Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document. The Parties further agree that any facsimile copy of a Party's signature is valid and binding to the same extent as an original signature.

19. This Amended Stipulation may not be modified or amended except by written agreement among all Parties who have executed it.

This Amended Stipulation is entered into by each Party on the date entered below such Party's signature.

DATED this 6th day of March 2015.

AVISTA CORPORATION	STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON
By: ______________________	By: ______________________
David J. Meyer	Michael Weirich
Date: March 6, 2015	Date: ______________________
NORTHWEST INDUSTRIAL GAS USERS	CITIZENS' UTILITY BOARD OF OREGON
By: ______________________	By: ______________________
Chad M. Stokes	G. Catriona McCracken
Date: ______________________	Date: ______________________

DATED this _____ day of March 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
G. Catriona McCracken

Date: ____________________________

DATED this _____ day of March 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ______________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Michael Weirich

Date: ______________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: 3-6-15

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________________
G. Catriona McCracken

Date: ______________________________

DATED this 6th day of March 2015.

AVISTA CORPORATION

By: ______________________________
David J. Meyer

Date: ____________________________

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________________
Michael Weirich

Date: ____________________________

NORTHWEST INDUSTRIAL GAS USERS

By: ______________________________
Chad M. Stokes

Date: ____________________________

CITIZENS' UTILITY BOARD OF OREGON

By: ______________________
Bob Jenks

Date: 3/6/15______________

Avista Utilities
UG 284
Twelve Months Ended December 31, 2015
(000)

		Company Filed 2015 Results at Reasonable Return (1)	Stipulated Adjustments (2)	2015 Adjusted (3)	Stipulated Price Increase (4)	Results at Stipulated Return (5)
1	**Operating Revenues**					
2	General Business	$104,037	$0	$94,897	**$5,262**	$100,159
3	Transportation	$3,320	$0	$3,320	$0	$3,320
4	Other Revenues	$153	$0	$153	$0	$153
5	**Total Operating Revenues**	$107,510	$0	$98,370	$5,262	$103,632
6	**Operating Expenses**					$0
7	Gas Purchased	$49,086	$0	$49,086	$0	$49,086
8	OPUC Fees	$356	$0	$326	$17	$343
9	Franchise Fees	$2,181	$0	$1,996	$107	$2,103
10	Uncollectibles	$610	($38)	$523	$28	$551
11	General Operations & Maintenance	$12,613	($737)	$11,876	$0	$11,876
12	Admin & General Expenses	$7,777	($821)	$6,956	$0	$6,956
13	**Total Operation & Maintenance**	$72,623	($1,596)	$70,763	$152	$70,915
14	Depreciation	$7,828	$0	$7,828	$0	$7,828
15	Amortization	$2,126	$0	$2,126	$0	$2,126
16	Taxes Other than Income	$2,313	$0	$2,313	$0	$2,313
17	Income Taxes	$7,201	$545	$4,270	$1,944	$6,214
18	**Total Operating Expenses**	$92,091	($1,050)	$87,300	$2,096	$89,396
19	**Net Operating Revenues**	$15,419	$1,051	$11,070	$3,163	$14,234
20	**Average Rate Base**					
21	Utility Plant in Service	$339,602	($113)	$339,489	$0	$339,489
22	Accumulated Depreciation & Amortization	($110,159)	$0	($110,159)	$0	($110,159)
23	Accumulated Deferred Income Taxes	($44,585)	$0	($44,585)	$0	($44,585)
24	Accumulated Deferred Inv. Tax Credit	$0	$0	$0	$0	$0
25	**Net Utility Plant**	$184,858	($113)	$184,745	$0	$184,745
26	Plant Held for Future Use	$0	$0	$0	$0	$0
27	Acquisition Adjustments	$0	$0	$0	$0	$0
28	Working Capital	$6,728	($4,641)	$2,087	$0	$2,087
29	Fuel Stock	$2,544	$0	$2,544	$0	$2,544
30	Materials & Supplies	$0	$0	$0	$0	$0
31	Customer Advances for Construction	$0	$0	$0	$0	$0
32	Weatherization Loans	$0	$0	$0	$0	$0
33	Prepayments	$4,318	($4,318)	$0	$0	$0
34	Misc. Deferred Debits & Credits	$0	$0	$0	$0	$0
35	Misc. Rate Base Additions/(Deductions)	$0	$0	$0	$0	$0
36	**Total Average Rate Base**	$198,448	($9,072)	$189,376	$0	$189,376
37	**Rate of Return**	7.77%		5.85%		**7.516%**
38	**Implied Return on Equity**	9.90%		6.22%		**9.50%**

Docket No. UG 284
Amended Stipulation Rate Spread

Line No.		OREGON TOTAL	Residential Service SCH 410	General Service SCH 420	Large General Service SCH 424	Interruptible Service SCH 440	Seasonal Service SCH 444	Special Contract Service SCH 447	Transportation Service SCH 456
1	CURRENT **BASE** MARGIN (from Avista/903 Ehrbar/page 2 of 4)	$ 47,670,000	$ 31,376,000	$ 11,731,000	$ 667,000	$ 458,000	$ 43,000	$ 320,000	$ 3,075,000
2	% of Current Margin excl Sch 447	100.00%	66.26%	24.78%	1.41%	0.97%	0.09%		6.49%
3	**Present Base Revenue (from Avista/903 Ehrbar/page 2 of 4)**	**$ 98,217,000**	**$ 61,343,000**	**$ 27,875,000**	**$ 3,376,000**	**$ 2,030,000**	**$ 198,000**	**$ 320,000**	**$ 3,075,000**
4	**Total Margin Revenue Increase (Line 3 times Line 4)**	**$ 5,000,000**	**$ 3,291,029**	**$ 1,708,971**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
5	Incremental **Margin** Increase as % of Present Margin Revenue (Line 4 divided by Line 1)	**10.5%**	**10.5%**	**14.6%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
6	**Base Revenue Summary:**								
7	Net Base Revenue Increase	$ 5,000,000	$ 3,291,029	$ 1,708,971	$ -	$ -	$ -	$ -	$ -
8	Currently Approved Schedule 497 Moved into Base Revenue (UG-246 Step 2 Increase)	$ 262,000	$ 183,000	$ 85,000	$ (1,000)	$ 3,000	$ -	$ -	$ (8,000)
9	**Total Base Revenue Increase**	**$ 5,262,000**	**$ 3,474,029**	**$ 1,793,971**	**$ (1,000)**	**$ 3,000**	**$ -**	**$ -**	**$ (8,000)**
10	**Billed Revenue Summary:**								
11	Base Revenue Increase	$ 5,262,000	$ 3,474,029	$ 1,793,971	$ (1,000)	$ 3,000	$ -	$ -	$ (8,000)
12	Cancellation of Schedule 497 (UG-246 Step 2 Increase)	$ (262,000)	$ (183,000)	$ (85,000)	$ 1,000	$ (3,000)	$ -	$ -	$ 8,000
13	**Total Billed Revenue Increase**	**$ 5,000,000**	**$ 3,291,029**	**$ 1,708,971**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
14	**Present Billed Revenue**	$ 101,217,000	$ 63,128,000	$ 28,664,000	$ 3,494,000	$ 2,290,000	$ 205,000	$ 320,000	$ 3,116,000
15	Total Billed Revenue Impact (Line 13 divided by Line 14)	**4.9%**	**5.2%**	**6.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**

16 Basic Charge:
17 Schedule 410 -- $8.00 (no increase)
18 Schedule 420 -- $14.00 ($2.00 increase)

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Amended Stipulation Rates by Schedule
$5.262 Million Base Revenue Increase

Present Base Rates	Net $5 Million Base Rate Change	Current Approved Schedule 497 Moved to Base Rates	Proposed Base Rates
Residential Service Schedule 410			
$8.00 Customer Charge	$0.00/month		$8.00 Customer Charge
All Therms - $0.46998/Therm	$0.06703/therm	$0.00372/therm	All Therms - $0.54073/Therm
General Service Schedule 420			
$12.00 Customer Charge	$2.00/month		$14.00 Customer Charge
All Therms - $0.38147/Therm	$0.05431/therm	$0.00323/therm	All Therms - $0.43901/Therm
Large General Service Schedule 424			
$50.00 Customer Charge	$0.00/month		$50.00 Customer Charge
All Therms - $0.13908/Therm	$0.00000/therm	$-0.00021/therm	All Therms - $0.13887/Therm
Interruptible Service Schedule 440			
All Therms - $0.11584/Therm	$0.00000/therm	$0.00068/therm	All Therms - $0.11652/Therm
Seasonal Service Schedule 444			
All Therms - $0.17082/Therm	$0.00000/therm	$0.00073/therm	All Therms - $0.17155/Therm
Transportation Service Schedule 456			
$275.00 Customer Charge	$0.00/month		$275.00 Customer Charge
1st 10,000 Therms - $0.15016/Therm	$0.00000/therm	$-0.00038/therm	1st 10,000 Therms - $0.14978/Therm
Next 20,000 Therms - $0.09037/Therm	$0.00000/therm	$-0.00023/therm	Next 20,000 Therms - $0.09014/Therm
Next 20,000 Therms - $0.07428/Therm	$0.00000/therm	$-0.00019/therm	Next 20,000 Therms - $0.07409/Therm
Next 200,000 Therms - $0.05814/Therm	$0.00000/therm	$-0.00015/therm	Next 200,000 Therms - $0.05799/Therm
Over 250,000 Therms - $0.02949/Therm	$0.00000/therm	$-0.00007/therm	Over 250,000 Therms - $0.02942/Therm

Avista Utilities
Docket No. UG 284
Oregon - Natural Gas
Cancellation of Schedule 497

Capital Cost Recovery (Adlyl A Pipe Replacement from UG-246)

Line No.	Type of Service	Schedule Number	Total Proforma Therms	Schedule 497 Rate Per Therm	Schedule 497 Total Revenue
	(a)	(b)	(c)	(d)	(e)
1	Residential	410	49,097,140	**$ (0.00372)**	$ (182,641)
2	General Service	420	26,450,079	**$ (0.00323)**	$ (85,434)
3	Large General Service	424	4,438,427	**$ 0.00021**	$ 932
4	Interruptible Service	440	3,945,585	**$ (0.00068)**	$ (2,683)
5	Seasonal Service	444	253,423	**$ (0.00073)**	$ (185)
6	Transportation Service	456			
7	Block 1		4,973,548	**$ 0.00038**	$ 1,890
8	Block 2		8,894,640	**$ 0.00023**	$ 2,046
9	Block 3		6,464,231	**$ 0.00019**	$ 1,228
10	Block 4		15,641,729	**$ 0.00015**	$ 2,346
11	Block 5		653,094	**$ 0.00007**	$ 46
12	Total		36,627,242		$ 7,556
13	Special Contract	447	7,979,130	**$ -**	$ -
14	Total		128,791,026		$ (262,455)