

Attachment A

SETTLEMENT AGREEMENT

I. INTRODUCTION

Pursuant to Article 13.5 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), Avista Corporation and Southwest Gas Corporation ("Southwest"), and the Office of Ratepayer Advocates ("ORA"), collectively referred to as "the Parties," have entered into a settlement ("Settlement Agreement") for the purpose of providing to the Commission a recommended resolution of all issues in Application 04-09-009.

II. RECITALS

A. Avista Corporation is a corporation organized under the laws of the State of Washington. Avista Utilities ("Avista"), a division of Avista Corporation, is an energy company engaged, *inter alia*, in the distribution of natural gas in the South Lake Tahoe area in the State of California.

B. Southwest is a corporation organized under the laws of the State of California. Southwest is a public utility engaged, *inter alia*, in the business of

transporting, distributing and selling natural gas for domestic, commercial, agricultural and industrial uses to California customers in the California counties of San Bernardino, El Dorado, Nevada and Placer.

III. PROCEDURAL HISTORY

On September 3, 2004, Avista and Southwest ("Joint Applicants") filed a Joint Application ("Application") requesting a Commission Order authorizing Avista Corporation to sell its California natural gas distribution assets to Southwest. (A.04-09-009). All of Avista Corporation's California natural gas distribution assets are located in the South Lake Tahoe area.

On October 3, 2004, ORA filed a protest to the Application of Joint Applicants. The ORA and the Commission's Energy Division conducted discovery which resulted in additional documentation being provided. A prehearing conference was held on November 30, 2004 and attended by Joint Applicants, ORA and the Energy Division. No other party made an appearance.

IV. SUMMARY OF SETTLEMENT CONDITIONS

It is understood and agreed to by the Parties hereto that the Settlement Agreement is made for the purpose of expediting hearings and a decision in this proceeding. Each of the Parties, however, supports the Settlement Agreement as resolving all outstanding issues in this proceeding. The Parties further agree that the Settlement Agreement, either in whole or in part, shall have no express or implied precedential effect in any future proceeding. Accordingly, the Parties request that the Commission grant the relief requested in the Application, subject to the conditions of settlement as follows:

A. Continuation of Avista's Existing Rates

Avista's existing base margin (non-gas cost) rates shall continue unchanged until new rates are established in a future Southwest general rate case.

B. Extension of the GRC Test Year From 2007 to 2009

Currently, the test year for Southwest's next general rate case is 2007. Within thirty days after the filing of the Settlement Agreement, Southwest shall make a filing requesting Commission authority (1) to extend the test year for Southwest's next general rate case until 2009 and (2) to implement attrition adjustments for the years 2007 and 2008 in its Northern and Southern California Divisions consistent with the methodology approved by the Commission in Southwest's last general rate case. (D.04-03-034). The attrition adjustments for years 2007 and 2008 shall not be applicable to Avista's South Lake Tahoe service territory being acquired by Southwest. ORA agrees to support Southwest's request.

C. Acquisition Premium

Southwest shall not seek Commission authorization to recover the acquisition premium associated with the purchase of Avista's South Lake Tahoe service territory in this or any future regulatory proceeding.

D. Avista's Natural Gas Purchases

The Parties agree that there are no issues regarding prudence of Avista's natural gas purchases or its Purchased Gas Adjustment (PGA) account for its South Lake Tahoe service territory during the period January 2001 through October 2004.

E. Consolidation of Natural Gas Purchases and Gas Cost Rates

Upon approval of the Settlement Agreement, Southwest shall consolidate natural gas purchases for the Avista service territory with its existing northern California purchases. Southwest shall include the Avista South Lake Tahoe service territory in Southwest's monthly purchased gas adjustment mechanism effective with its July 2005 Purchased Gas Adjustment rate change. At such time, the gas cost and gas cost-related balancing accounts will be merged and all of Southwest's northern California customers including those in the South Lake Tahoe service territory would pay the same gas costs.

F. Gas Cost Incentive Mechanism

In the event the Commission authorizes Southwest to implement a gas cost incentive mechanism in its pending application (A.04-11-009), the mechanism shall also be applicable to the current Avista South Lake Tahoe service territory being purchased by Southwest. Southwest will file any necessary tariffs through an advice letter to apply this mechanism to this service territory.

G. Certificate of Convenience and Public Necessity

The certificate of public convenience and necessity, which currently authorizes Avista to provide natural gas distribution service in the South Lake Tahoe area of California, shall be transferred to Southwest without any further action upon the consummation of Southwest's purchase of the natural gas distribution assets of Avista.

H. **Tariffs**

Following the consummation of Southwest's purchase of the natural gas distribution assets of Avista, Southwest shall provide service to customers under the terms and conditions of Southwest's Commission approved tariff except for rates.

V. **TERMS AND CONDITIONS**

- A. **Precedential Effect:** The Parties agree, as provided in Rule 51.8 of the Commission's Rules of Practice and Procedure, that adoption of the Settlement Agreement by the Commission shall not constitute approval of, or precedent regarding, any principle or issue in this proceeding or in any future proceeding.
- B. **Indivisibility of Settlement Agreement:** The Settlement Agreement represents a compromise of many positions and interests of the Parties hereto and no individual term is assented to by any Party except in consideration of the other Parties' assents to all of the other terms of the Settlement Agreement. Except for the extension of the test year from 2007 to 2009 and related attrition adjustments, the Settlement Agreement is indivisible and each part is interdependent on each and all of the other parts. Any Party may withdraw from the Settlement Agreement if the Commission modifies, deletes or adds any term.
- C. **Evidentiary Effect of Settlement Agreement:** The Parties agree, as provided in Rule 51.9 of the Commission's Rules of Practice and Procedure, that no discussion, admission, concession, or offer to stipulate or settle, whether oral or written, made during any negotiation leading to the Settlement Agreement shall be subject to discovery, or admissible in any evidentiary hearing against any

participant who objects to its admission. Furthermore, if the Settlement Agreement is not adopted by the Commission, then the Parties agree that no portion of the Settlement Agreement, or any of its terms or conditions, or any of the discussions leading to it, may be subject to discovery or used in hearings in support of or in opposition to any Party or position without the prior express written consent of the Parties hereto.

D. **Settlement Agreement in the Public Interest:** The Parties agree by executing and submitting the Settlement Agreement that the Commission's approval and adoption of the Settlement Agreement is in the public interest, consistent with the law, and reasonable in light of the record. Approval of the Settlement Agreement will result in a resolution of this proceeding that is fair and reasonable and will avoid unnecessary litigation that would otherwise result.

E. **Effectuation of Settlement Agreement:** The Parties agree to perform diligently and in good faith all actions required or implied hereunder, including, but not necessarily limited to, the execution of any other documents required to effectuate the terms of the Settlement Agreement, and the preparation of exhibits for, and presentation of witnesses at, any hearings which may be required in order to obtain the approval and adoption of the Settlement Agreement by the Commission. It is understood by the Parties that time is of the essence in obtaining the Commission's approval of the Settlement Agreement.

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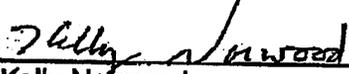
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F. **Entirety of Settlement Agreement:** The Settlement Agreement contains the entire agreement of the Parties hereto. The terms and conditions of the Settlement Agreement may only be modified by a writing subscribed by the Parties.

G. **Final Document:** A facsimile signature will have the same force and effect as the original.

Dated this 11th day of January, 2005.

AVISTA CORPORATION



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Vice President State and Federal
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Spokane, Washington 99202

OFFICE OF RATEPAYER ADVOCATES

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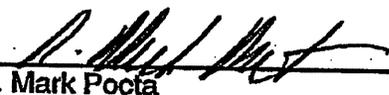
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(End of Attachment A)