January 26, 2009

<u>SENT VIA E-MAIL AND FIRST CLASS MAIL</u>
David Danner
Executive Director
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: Avista's Tariff Filing to Increase Electric and Natural Gas DSM Tariff Rider Levels
Docket Nos. UE-082272 and UG-090052

Dear Mr. Danner:

Public Counsel submits this letter in advance of the Commission's January 29, 2009, Open Meeting with regard to Avista's proposals to increase its electric and natural gas demand side management (DSM) tariff riders. Public Counsel supports the Staff recommendation to allow the tariffs to take effect, in light of the commitments Avista has agreed to in the attachment to the replacement cover letter filed by the Company on January 23, 2009.

While Public Counsel strongly supports utility efforts to achieve cost-effective DSM and commends Avista for its efforts to accomplish this, we are concerned about the large size of the negative DSM tariff rider balances. Avista's proposal to nearly double its DSM tariff rider revenues is driven in large part by the need to devote a substantial amount of the additional revenues to pay down the negative balances.

Since 2005, the negative DSM tariff rider balances have continued to grow, in both the Washington electric and natural gas accounts. At the end of 2008, the balance in the Washington electric DSM tariff rider had reached negative $5.9 million and the Washington natural gas DSM tariff rider had reached negative $2.79 million according to the Company. In comparison, year-to-date total DSM tariff rider revenues at the end of 2008 were $9.1 million for electric and $2.9 million for natural gas.

Avista has proposed to increase the rate for Washington residential customers on the electric tariff rider to $.00317 per kWh, which represents a 70 percent increase from the current rate of $.00186 per kWh. The proposed natural gas DSM tariff rider rate for Washington residential and small commercial customers is $.03344 per therm, which represents an 82 percent increase from the current rate of $.01837 per therm. Avista estimates the DSM rider level increases will generate an additional $6.97 million in Washington electric revenues and $2.41 million in Washington gas revenues annually. With these increases, Avista's total annual Washington DSM revenues are estimated to be $17 million for electric and $5.4 million for natural gas. The Company estimates that the proposed tariff rider rate increases will eliminate the negative balances by the end of 2010, as well as fund estimated future DSM expenditures.

Public Counsel is concerned at the size of the increase to the electric and natural gas tariff riders and that a significant portion of the increased revenue will go to paying down the negative tariff rider balances rather than funding current programs. More than 40 percent of the electric rider increase and almost 60 percent of the gas rider increase will pay down the negative tariff rider balances over the next two years. We understand that in a given year perfect symmetry will not always exist between the proposed budget and actual expenditures, but earlier and more regular review of tariff rider imbalances and appropriate revisions to the rider levels could have prevented the DSM tariff rider balances from growing quite so large.

In light of our concerns regarding this matter, Public Counsel issued written questions to the Company and conferred with Avista and Commission Staff to discuss possible steps to improve the process of monitoring the tariff rider balance. We are hopeful that the commitments Avista has agreed to will reduce the likelihood of such large negative balances after 2010. Below we highlight our understanding of these commitments.

1. **Annual February 15 Filing.** Public Counsel believes an annual date certain filing to revise the DSM portions of the Schedule 91 and 191 tariff rider mechanisms will provide the Company an opportunity to make annual adjustments to rider rates as necessary, based on budget projections for the coming year, and should serve to minimize any potential under or over collections.

2. **Quarterly Tariff Rider Balance Reports.** Avista will file quarterly reports on the Schedule 91 and 191 tariff rider balances with the Commission and the External Energy Efficiency Board (Triple E). The reports will track the Company's progress toward eliminating the negative balances by year end of 2010.

3. **Draft Tariff Revisions and Expenditure Alerts to the Triple E Board**. Avista also commits to share with the Triple E Board draft tariff revisions affecting the Company's DSM portfolio at least 30 days prior to filing such a revision with the Commission. In addition, Avista will send an e-mail alert and action plan to the Triple E if monthly projections indicate that the Company will spend more than 120 percent or less than 80 percent of its annual energy efficiency budgets for either Washington or Idaho electric or natural gas DSM. These commitments are similar to requirements that PSE has in place with its Conservation Resource Advisory Group.

In conclusion, Public Counsel strongly supports Avista's efforts to achieve cost-effective DSM, and we are hopeful that the commitments agreed to by Avista will reduce the likelihood of such large negative DSM account balances going forward. We also note that the prudence of Avista's 2008 DSM expenditures will be reviewed in the rate case Avista filed last week. Lea Daeschel and Mary Kimball will attend the January 29, 2009 Open Meeting to address this matter for Public Counsel.

Sincerely,

Simon J. ffitch
Senior Assistant Attorney General

cc: Anne Solwick (E-mail)
Deborah Reynolds (E-mail)
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