

APPENDIX A

**AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION**

JURISDICTION:	WASHINGTON	DATE PREPARED:	10/05/2009
CASE NO:	UE-090134 & UG-090135	WITNESS:	N/A
REQUESTER:	Bench	RESPONDER:	Elizabeth Andrews
TYPE:	Data Request	DEPT:	State & Federal Regulation
REQUEST NO.:	Bench – 3	TELEPHONE:	(509) 495-8601
		EMAIL:	liz.andrews@avistacorp.com

REQUEST:

The Joint Testimony in Support of the Partial Settlement Stipulation indicates that the settling parties agreed to certain revenue requirement adjustments: \$36,876,000 in the electric case and \$1,234,000 in the natural gas case.¹ Further, the Partial Settlement Stipulation also updates Avista's post-settlement revenue requirement for its electric case (\$38.61 million) and gas case (\$3.14 million) and notes that non-company parties "continue to recommend a lower revenue requirement, based on the remaining contested issues."² In the Joint Testimony, the non-company parties recommend revenue requirements of "no more than \$32,886,000 for electric and \$3,685,000 [for gas] based on the agreed adjustments, as well as further reductions based on remaining contested issues."³

Bench Request No. 3: Please explain whether the figures contained in the Partial Settlement Stipulation and Joint Testimony in Support of the Partial Settlement Stipulation (cited above) give effect to the same agreed adjustments. Further, please explain:

- a) the difference in the electric case between Avista's \$38.61 million request and the non-party \$32.9 million ceiling for the post-Settlement revenue requirement.
- b) the difference in the natural gas case between Avista's \$3.14 million request and the non-party \$3.7 million ceiling for the post-Settlement revenue requirement.

RESPONSE:Electric Service

In the Stipulation, all settling parties agreed to electric adjustments of \$36.876 million. (See Page 1 of Attachment A for detail of adjustments.) After giving effect to these adjustments, the revenue requirement based upon the Stipulation's agreed upon adjustments is \$32.886 million, before recognizing other contested adjustments, as explained below.

Page 1 of the attached exhibit provides detail of Avista's contested adjustments that total \$5.719 million. After giving effect to these adjustments, Avista's revised revenue requirement is \$38.605 million.

One of the Company's contested adjustments is the Production Property Adjustment (PPA). The PPA is impacted by all pro forma production and transmission revenue, expense and rate base adjustments ultimately included in each of the parties individual revenue requirements. It acts as an offsetting adjustment (opposite of the direct production and transmission related adjustments) and therefore will change based upon the Commission's ultimate decision on those pro forma adjustments. The impact of

¹ Exh. JT-1T, Joint Testimony in Support of Partial Settlement Stipulation, at 8:19-21.

² Partial Settlement Stipulation, page 3. See also, Exh. JT-1T, at 2:3-6 and 8:17 – 9: 4.

³ Exh. JT-1T, at 2:6-8; see also Exh. JT-1T, at 9:4-6.

the PPA in the Company's original filing reduced the Company's revenue requirement by \$12.1 million. Since the net power supply costs were decreased \$27.5 million within the Stipulation, as shown in the attachment, mainly due to reduced natural gas prices and a reduction in the expected pro forma loads, the revised reduction to the revenue requirement is \$4.1 million, as proposed by Avista. This results in a net change (increase) to the revenue requirement for the PPA of \$7.992 million, as shown in the attachment. The PPA offset to the \$27.5 million decrease in power supply expenses was not included in the Stipulation, because there was not agreement in the exact amount of the PPA offset.

Natural Gas Service

In the Stipulation, all settling parties agreed to natural gas adjustments of \$1.233 million. (See Page 2 of Attachment A for detail of adjustments.) After giving effect to these adjustments, the revenue requirement based upon the Stipulation's agreed upon adjustments is \$3.685 million, before recognizing other contested adjustments, as explained below.

Page 2 of the attached exhibit provides detail of Avista's contested adjustments that total (\$0.541) million for natural gas. After giving effect to these adjustments, Avista's revised revenue requirement is \$3.144 million.

Avista Utilities
Docket Nos. UE-090134, UG-090135, and UG-060518
Electric

	<u>At Settlement</u>	<u>Rebuttal</u>
	\$000s	
Revenue Requirement As Filed by Avista	\$ 69,762	\$ 69,762
Agreed Upon Adjustments:		
Cost of Capital		
(1) Return On Equity = 10.2% Cost of Debt = 6.57%	(6,152)	(6,152)
(2) Common Equity = 46.5%	(815)	(815)
Power Supply		
(3) Power Supply Adj - Updated Gas Prices & Contracts	(18,100)	
(4) Power Supply Adj - Filtering Adjustment	(729)	
(5) Power Supply Adj - Retail Load Adjustment	(9,091)	
(6) Power Supply Adj - Colstrip Availability (No Adjustment to Original Filing)	0	
(7) Power Supply Adj - WNP-3 (No Adjustment to Original Filing)	0	
(8) Adjust Kettle Falls Fuel Volume	383	
Total Power Supply Adjustments	(27,537)	(27,537)
(9) Pro Forma O&M Generation	(2,372)	(2,372)
Total Agreed Upon Adjustments	(36,876)	(36,876)
Revenue Requirement Based Upon the Stipulations' Agreed Upon Adjustments	32,886	32,886
Avista's Litigation Position on Contested Adjustments:		
Lancaster Prudence	0	0
Labor	(254)	(678)
Capital Additions	0	0
CDA Tribe Settlement	0	0
Asset Management	0	0
Information Services	0	(717)
Colstrip - Mercury Emission	(978)	(978)
Incentives	0	0
Pension Expense	551	551
Insurance	(68)	(68)
Director & Officers Insurance	0	0
Board of Directors Fees	0	0
Board Meeting Expenses	0	0
Property Taxes	(1,306)	(1,306)
Customer Deposits	0	0
Injuries & Damages	0	0
Spokane River Relicensing	194	194
Dues (Edison Electric Institute)	42	42
Restate Debt Interest ⁽¹⁾	(454)	(454)
Production Property Adjustment ⁽¹⁾	7,992	8,003
Avista's Contested Adjustments	5,719	4,589
Avista's Litigation Position Including Contested and Agreed Upon Adjustments⁽²⁾	\$ 38,605	\$ 37,475

(1) The Restate Debt Interest and Production Property Adjustments will change if there are further adjustments to rate base and/or certain expenses from those proposed by Avista.

(2) The Company has since revised its litigation position as shown in the rebuttal testimony filed on September 11, 2009 to \$37,475 million. (See Table 1, Page 3 in Andrews Exhibit No. __ (EMA-4T) and Page 1 of Exhibit No. __ (EMA-5).)

Avista Utilities
 Docket Nos. UE-090134, UG-090135, and UG-060518
 Natural Gas

	<u>At Settlement</u>	<u>Rebuttal</u>
	\$000s	
Revenue Requirement As Filed by Avista	\$ 4,918	\$ 4,918
Agreed Upon Adjustments:		
Cost of Capital		
(1) Return On Equity = 10.2% Cost of Debt = 6.57%	(1,088)	(1,088)
(2) Common Equity = 46.5%	(145)	(145)
Total Agreed Upon Adjustments	(1,233)	(1,233)
Revenue Requirement Based Upon the Stipulations' Agreed Upon Adjustments	3,685	3,685
Avista's Litigation Position on Contested Adjustments:		
Labor	(71)	(184)
Capital Additions	0	0
Asset Management	0	0
Information Services	0	(182)
Incentives	0	0
Pension Expense	146	146
Insurance	(19)	(19)
Director & Officers Insurance	0	0
Board of Directors Fees	0	0
Board Meeting Expenses	0	0
Property Taxes	(471)	(471)
Customer Deposits	0	0
Injuries & Damages	0	0
Restate Debt Interest ⁽¹⁾	(60)	(60)
Dues (American Gas Association)	(66)	(66)
Avista's Contested Adjustments	(541)	(836)
Avista's Litigation Position Including Contested and Agreed Upon Adjustments²	\$ 3,144	\$ 2,849

(1) The Restate Debt Interest Adjustment will change if there are adjustments to rate base from those proposed by Avista.

(2) The Company has since revised its litigation position as shown in the rebuttal testimony filed on September 11, 2009 to \$2.849 million. (See Table 2, Page 4 in Andrews Exhibit No. __ (EMA-4T) and Page 2 of Exhibit No. __ (EMA-5).)

APPENDIX B

Avista Utilities
 Docket Nos. UE-090134, UG-090135, and UG-060518

ELECTRIC						
Revenue Requirement and Rate Base (000s of Dollars)						
Avista		Staff (2)		Public Counsel (3)		
Rebuttal Position	Rate Base	Adjustments to Revenue Requirement	Rate Base	Adjustments to Revenue Requirement	Rate Base	Rate Base
\$	\$ 1,007,076	\$	\$ 1,007,076	\$	\$ 1,007,076	\$ 1,007,076
Revenue Requirement As Filed by Avista						
Agreed Upon Adjustments: (1)						
Cost of Capital:						
ROE = 10.2%	Cost of Debt = 6.57%					
Common Equity = 46.5%						
Net Power Supply Adjustments						
Pro Forma O&M Generation						
	(6,152)	0	(6,152)	0	(6,152)	0
	(815)	0	(815)	0	(815)	0
	(27,537)	0	(27,537)	0	(27,537)	0
	(2,372)	0	(2,372)	0	(2,372)	0
Remaining Adjustments Not Agreed to:						
Pro Forma labor - Non-Exec - 2009 adjust to actual	(219)	0	0	0	(219)	0
Pro Forma labor - Non-Exec - 2010	(409)	0	(1,306)	0	(1,302)	0
Pro Forma labor - Exec - 2009 adjust to actual	(35)	0	(35)	0	(35)	0
Pro Forma labor - Exec - 2010	(15)	0	(55)	0	(192)	0
Pro Forma Incentives	0	0	(592)	0	(592)	0
Pro Forma Pension - Update expenses	551	0	551	0	551	0
Pro Forma Asset Management	0	0	(3,028)	0	(3,028)	0
Pro Forma Information Services	(717)	0	(1,831)	0	(1,831)	0
Pro Forma Colstrip Mercury Emission - Update expense	(978)	0	(944)	0	(944)	0
Pro Forma Insurance - adjust to actual	(68)	0	(68)	0	(68)	0
Directors & Officers Insurance	0	0	(376)	0	(426)	0
Directors Fees	0	0	0	0	(285)	0
Director Board Meeting expenses	0	0	(24)	0	(24)	0
Property Taxes - Update expenses	(1,306)	0	(1,306)	0	(1,510)	0
Customer Deposits	0	0	(317)	0	(318)	(2,473)
Injuries & Damages	0	0	0	0	(14)	(107)
Dues (EEI) - restate between services	42	0	0	0	0	0
Pro Forma Capital Additions	0	0	(5,870)	0	(10,851)	(41,341)
Production Property Adj (4)	8,003	6,574	6,558	1,140	6,467	887
Spokane River Relicensing - adjust to actual	194	(795)	0	0	0	0
CDA Tribe Settlement	0	0	0	0	(2,828)	(16,819)
Lancaster Prudence	0	0	0	0	(12,352)	0
Restate Debt (4)	(454)	0	(39)	0	842	0
Adjusted Revenue Requirement	\$ 37,475	\$ 1,012,855	\$ 24,204	\$ 991,820	\$ 3,927	\$ 947,223

(1) See Partial Settlement agreed to by all parties, filed on September 4, 2009.
 (2) See Exhibit No. B-4 (DPK-2) provided in response to Bench Request No. 2, which was revised for Settlement and Staff Accepted Rebuttal Corrections.
 (3) See Exhibit No. B-5 (HL-5) provided in response to Bench Request No. 2, which was revised for Settlement and Public Counsel Accepted Rebuttal Corrections.
 (4) Restate Debt and Production Property adjustments will change if there are further adjustments to rate base and/or certain expenses.

Avista Utilities		Docket Nos. UE-090134, UG-090135, and UG-060518			
NATURAL GAS					
Revenue Requirement and Rate Base (000s of Dollars)					
Avista		Staff (2)		Public Counsel (3)	
Rebuttal Position	Rate Base	Adjustments to Revenue Requirement	Rate Base	Adjustments to Revenue Requirement	Rate Base
\$	4,918	\$	178,263	\$	4,918
	(1,088)		0		(1,088)
	(145)		0		(145)
Revenue Requirement As Filed by Avista					
Agreed Upon Adjustments: (1)					
Cost of Capital					
	ROE = 10.2%		Cost of Debt = 6.57%		
	Common Equity = 46.5%				
Remaining Adjustments Not Agreed to:					
	(59)		0		(59)
	(108)		(342)		(344)
	(13)		(13)		(13)
	(4)		(14)		(51)
	0		(164)		(164)
	146		146		146
	0		(92)		(92)
	(182)		(469)		(469)
	(19)		(19)		(19)
	0		(103)		(114)
	0		0		(64)
	0		(6)		(6)
	(471)		(471)		0
	0		(179)		(186)
	0		0		(1,353)
	(66)		0		(8)
	0		0		(23)
	(60)		(1,457)		(1,461)
	0		111		111
	(60)		0		0
	2,849		\$	613	\$
			178,263		869
			\$		\$
			169,582		169,525
Adjusted Revenue Requirement					
(1) See Partial Settlement agreed to by all parties, filed on September 4, 2009.					
(2) See Exhibit No. B-4 (DPK-3) provided in response to Bench Request No. 2, which was revised for Settlement and Staff Accepted Rebuttal Corrections.					
(3) See Exhibit No. B-5 (HL-6) provided in response to Bench Request No. 2, which was revised for Settlement and Public Counsel Accepted Rebuttal Corrections.					
(4) Restate Debt adjustment will change if there are further adjustments to rate base.					

APPENDIX C



REGULATORY FOCUS

RRA SPECIAL REPORT

May 21, 2009

DECOUPLING MECHANISMS/ STRAIGHT-FIXED-VARIABLE RATE DESIGN

~ A State-By-State Overview ~

"Green" is the buzzword of the day. We now have green programs, green products, and even green corporations. A large part of the "go-green" movement is energy conservation, something that has troubling consequences for utility revenues and earnings. Generally accepted rate-setting practices create an inherent financial disincentive for utilities to participate in conservation programs, given that a successful energy usage reduction program would have a direct negative impact on utility revenues, and may require the utility to file a new general rate case in an attempt to recoup the related reduction in earnings. As environmental concerns have intensified, many states have adopted compulsory energy conservation standards; consequently, the need to mitigate the possible negative impacts of these programs has accelerated. Decoupling mechanisms and, alternatively, the use of straight fixed variable rate designs, are now being used in certain jurisdictions to ameliorate these disincentives, so that utilities may invest in the mandated conservation programs without the associated potential negative effect on earnings.

Additionally, we note that the issue of decoupling is addressed in the federal stimulus bill that became law in February 2009. The stimulus bill provides roughly \$3 billion in state energy grants, and the Department of Energy has the authority to allocate these funds to the states, so long as the governor has been assured that the PUC in that state will implement regulatory policy that aligns utility financial incentives with the successful implementation of energy efficiency measures.

Decoupling Defined

Utility rates, and we'll use gas utilities as the example, are generally comprised of two distinct buckets: (1) the commodity, or natural gas, rate bucket; and, (2) the distribution rate bucket. In order to understand the need for a decoupling mechanism, we need to review what happens to a utility's revenues when a customer "goes green" and cuts back on energy consumption.

Commodity charges are inherently usage sensitive, meaning that a customer will pay for the amount of gas consumed, no more and no less, and the utility does not earn a return or collect any margin on the commodity portion of the bill. Therefore, the utility's commodity revenues and costs will vary in tandem, and variations in customer usage will not impact the utility's bottom line. The distribution bucket, on the other hand, is comprised generally of both a monthly fixed charge and a volumetric (per Bcf) charge; however, generally speaking, the actual costs associated with distribution service are predominantly fixed, meaning that the utility's distribution costs may not vary as customers' consumption patterns change.

For most of companies, the customer's monthly bill contains a relatively small fixed monthly charge, and most of the bill is derived from a volumetric charge on the amount of gas consumed during the month by each customer. Consequently, not all fixed costs are recovered through the fixed charge; a portion is recovered through the volumetric charge. Therefore, the problem for utilities with respect to a successful conservation program is that, as customers consume less natural gas, they avoid the utilities' volumetric charges, which include variable costs, but also some fixed costs. So, under this scenario, while the customer's bill is going down, the utility's cost of providing service is not falling to the same extent, and the utility fails to recover all of its costs.

The utility's dilemma can be ameliorated in two ways: (1) employing a decoupling mechanism; or, (2) implementing a straight fixed variable (SFV) rate design. A decoupling mechanism essentially allows the utility to defer fixed distribution costs that the utility fails to recoup through its volumetric charges due to customers' participation in conservation programs. The utility is then allowed to recover the deferrals associated with the unrecovered fixed costs through a surcharge mechanism over a period of time, generally with carrying charges on the deferred amounts. The pitfall of decoupling is that even though customers consume less natural gas, they may experience a decoupling-related, after-the-fact surcharge (not what customers expect after making a concerted effort to reduce usage). On the other hand, if the conservation programs are unsuccessful, and there is greater-than-expected gas consumption, the company would defer any related over-recovery and the customers would experience a rate credit.

Straight Fixed Variable Rate Design

An alternative to decoupling is "SFV" rate design. With SFV, a company's fixed costs are fully collected through the customers' fixed monthly charge. Therefore, no matter how successful a company's conservation program is, the utility's fixed costs will always be recovered. The only volumetric charge would be the commodity charge. Therefore, by cutting back gas consumption, the customer would save only on the commodity portion of the monthly bill. And, since these costs are also avoidable by the utility, earnings would not suffer. In addition, from a public policy standpoint, SFV establishes a direct cause-and-effect relationship between usage and customer bill levels, and is easier to administer than a decoupling mechanism. However, a flash cut to an SFV rate design is difficult to accomplish because, as in our example, residential distribution customer rate designs tend to include relatively low fixed charges, and shifting to a fully fixed rate would likely result in rate increases for the residential customers who are among the smallest gas consumers in this customer class.

State-by-State Summary

As indicated in the table on page two and in the text that follows, electric rate decoupling is in use in six states nationwide (CA, CT, ID, MD, NY, OR), while decoupling in the gas industry is in use in 15 states (AR, CA, CO, CT, IL, IN, KY, MD, NJ, NY, NC, OR, UT, VA, WA). SFV rate design is in use for at least one gas company in each of these four states (GA, MO, ND, OH).

Alabama--None

Arizona--In UniSource Energy subsidiary UNS Gas' Nov. 6, 2007 rate decision, the Arizona Corporation Commission denied the company's request to establish a revenue decoupling mechanism, indicating that it was unsupported by the record.

Arkansas--In the context of rate cases decided in 2007, the Arkansas PSC adopted settlements that provided for Arkansas Western Gas (AWG), Arkansas Oklahoma Gas, and CenterPoint Energy Resources (CER) to implement trial billing determinant rate adjustment (BDA) riders, i.e., decoupling mechanisms, to mitigate the impact of reduced customer gas usage associated with conservation programs on the companies' revenues. AWG is a subsidiary of SourceGas, and CER is a subsidiary of CenterPoint Energy.

California--The state's electric and gas utilities operate under revenue adjustment mechanisms that modify rates annually to reflect changes in KWh sales and throughput from levels utilized to establish the revenue requirement.

Colorado--In July 2007, the Colorado PUC approved a residential revenue decoupling mechanism, under which Xcel Energy subsidiary Public Service Company of Colorado is to absorb the lost revenue associated with the first 1.3% reduction in gas sales each year. The mechanism is to be in effect on a pilot basis from Oct. 1, 2008 through Sept. 30, 2011.

Connecticut--House Bill 7432, enacted in June 2007, allows the Connecticut Department of Public Utility Control (DPUC) to implement a mechanism designed to decouple electric and gas distribution revenues from sales volumes. Such decoupling may be accomplished through: a mechanism that adjusts actual distribution revenues to reflect allowed revenues; a sales adjustment clause; or, rate design changes that increase the

Use of decoupling mechanisms/straight-fixed variable rate design at the state level (as of May 2009)									
State	Electric Utilities		Gas Utilities		State	Electric Utilities		Gas Utilities	
	Decoupling	SFV	Decoupling	SFV		Decoupling	SFV	Decoupling	SFV
AL					MT				
AR			✓		NE				
AZ					NV				
CA	✓		✓		NH				
CO			✓		NJ			✓	
CT	✓		✓		NM				
DE					NY	✓		✓	
DC					NC			✓	
FL					ND				✓
GA				✓	OH				✓
HI					OK				
ID	✓				OR	✓		✓	
IL			✓		PA				
IN			✓		RI				
IA					SC				
KS					SD				
KY			✓		TN				
LA					TX				
ME					UT			✓	
MD	✓		✓		VT				
MA					VA			✓	
MI					WA			✓	
MN					WV				
MS					WI				
MO				✓	WY				

Source: Regulatory Research Associates, Inc./SNL Energy

amount of revenue recovered through fixed distribution charges. The law specifies that the DPUC must consider the impact of decoupling on the gas or electric distribution company's equity return and make necessary adjustments thereto.

On Aug. 10, 2007, the DPUC denied a request by UIL Corporation subsidiary United Illuminating to open a generic proceeding to implement electric and gas decoupling, stating that the legislative intent of the decoupling measure was to adopt mechanisms that were company-specific. In Northeast Utilities' subsidiary Connecticut Light & Power's (CL&P's) rate case decided in early 2008, the DPUC rejected the company's request to implement a decoupling mechanism. Alternatively, the DPUC directed CL&P to submit a proposal in its next rate proceeding to implement a "sliding residential customer charge structure that would reduce the amount of distribution revenue that is recovered through energy related charges." In February 2009, the DPUC approved a decoupling mechanism for United Illuminating on a two-year pilot basis. We note that in pending gas distribution rate cases Southern Connecticut Gas and Connecticut Natural Gas are requesting approval of decoupling mechanisms.

Delaware--On Sept. 16, 2008, in a proceeding in which the Delaware PSC was considering Delmarva Power & Light's Energy Blueprint for the Future and generic policies concerning the implementation of revenue decoupling mechanisms for electric and gas utilities, the PSC determined that implementation of surcharge mechanisms to reflect the costs/benefits of energy efficiency programs, including the associated revenue impact of the programs (i.e. decoupling mechanisms) "are not the preferred approach, but that the Commission will not preclude the potential use of surcharges in the future under appropriate conditions."

Additionally, the PSC opined that adoption of a "modified" fixed variable rate design in the context of rate proceedings would be a viable alternative for addressing the revenue impacts of energy efficiency/conservation measures, and indicated that implementation of such rate designs may also be considered in the context of non-base-rate proceedings.

District of Columbia--In the context of an electric distribution rate case decided on Jan. 30, 2008, Pepco Holdings subsidiary Potomac Electric Power proposed to implement a bill stabilization adjustment (BSA)

mechanism (decoupling) that would be applied quarterly in order to mitigate the volatility of revenues and customer bills caused by abnormal weather and customer participation in energy efficiency programs. The District of Columbia PSC deferred consideration of the BSA to a Phase 2 proceeding, which is pending.

Florida--On June 25, 2008, H.B. 7135, which impacts several aspects of the state's energy industry, was enacted. The legislation affects commissioner selection, construction work in progress, revenue decoupling, conservation, renewable energy, and emissions. The law directed the Florida PSC to analyze revenue decoupling and provide a report and recommendations to the governor and Legislature by Jan. 1, 2009.

Georgia--Since 1998, AGL Resources subsidiary Atlanta Gas Light (AGL) has had in place a modified straight-fixed-variable rate design that enables the company to recover non-gas costs throughout the year consistent with the incurrence of these costs, thus minimizing the need for a decoupling mechanism. Initially, AGL instituted a level monthly charge per customer for gas distribution services. The Georgia PSC subsequently replaced this level monthly charge with a sculpted rate that reduced the amount collected during summer months and increased the charge in the winter.

Hawaii--On Oct. 28, 2008, the Hawaii PUC opened a proceeding to examine the issue of decoupling sales from revenues for Hawaiian Electric Industries subsidiaries Hawaiian Electric Company (HECO), Hawaii Electric Light Company (HELCO), and Maui Electric Company (MECO). Testimony is expected to be filed in May 2009, and a PUC decision is expected in fall 2009. HECO, HELCO, and MECO are expected to file rate cases in 2009 in which decoupling will be requested.

Idaho--In March 2007, the Idaho PUC approved, on a pilot basis, IdaCorp Inc. subsidiary Idaho Power's (IP's) request to implement a decoupling mechanism, referred to as a Fixed Cost Adjustment. The mechanism is designed to adjust IP's rates to recover fixed costs independent of the volume of energy costs. Initially, the pilot program is to be applicable to residential and small customers only. The pilot program began on Jan. 1, 2007, and runs through 2009, with the first adjustment occurring on June 1, 2008, and subsequent adjustments occurring on June 1 of each year.

Illinois--In the context of rate cases decided in February 2008 for Integrys Energy Group subsidiaries Peoples Gas Light & Coke and North Shore Gas, the Illinois Commerce Commission (ICC) approved a four-year pilot program for a volume balancing adjustment rider to decouple the companies' delivery revenues from sales in order to eliminate the impact on margins of variations in weather, customer participation in conservation programs, and other factors.

In rate cases decided on Sept. 25, 2008, Ameren subsidiaries Central Illinois Light, Central Illinois Public Service, and Illinois Power, had sought ICC approval of revenue decoupling mechanisms. The ICC declined to adopt the proposals pending the outcome of the above-noted pilot programs. In lieu of approving a revenue decoupling mechanism, the ICC authorized the companies to recover a greater portion of their overall revenue requirements through fixed monthly customer charges rather than variable charges. On March 25, 2009, the ICC approved similar rate design treatment for NICOR subsidiary Northern Illinois Gas.

Indiana--Vectren subsidiaries Indiana Gas and Southern Indiana Gas & Electric utilize energy efficiency riders (EERs) to recover the costs associated with their gas energy efficiency programs. The EERs are comprised of: an energy efficiency funding component, which provides for recovery of the costs to fund these programs, and, a sales reconciliation component to provide an opportunity to recoup revenues lost as a result of these programs. NiSource subsidiary Northern Indiana Public Service also utilizes a gas EER.

Iowa--None

Kansas--On Nov. 14, 2008, the Kansas Corporation Commission (KCC) issued an order in a proceeding in which it had been considering cost recovery mechanisms and incentives that could be applied to electric and gas energy efficiency programs. As part of its order, the KCC noted that it will consider decoupling proposals on a case-by-case basis, although decoupling mechanisms must have an annual cap to provide a "safety mechanism."

In March 2008, the KCC adopted settlements in proceedings concerning the now-completed acquisition of Aquila by Great Plains Energy and Aquila's Kansas gas utility by Black Hills Corporation. The Aquila/Black Hills settlement, among other things, provides for Black Hills to be permitted to implement certain rate changes, specifically those that pertain to a decoupling mechanism/energy efficiency program, should those mechanisms ultimately be approved.

Kentucky--On July 18, 2008, the Kentucky PSC authorized Delta Natural Gas to implement a customer conservation efficiency program (CEP), and an associated demand-side management cost recovery mechanism (essentially a decoupling mechanism) that includes CEP "cost recovery," CEP "revenue from lost sales," and CEP incentive mechanisms.

In the context of its pending rate proceeding, Columbia Gas of Kentucky (CGK) proposes to phase in, over a two-year period, an SFV rate design. CGK is a subsidiary of Columbia Energy Group, which is a subsidiary of NiSource.

Louisiana--None

Maine--None

Maryland--In the context of July 19, 2007 electric rate decisions for Pepco Holdings subsidiaries Potomac Electric Power and Delmarva Power & Light, the Maryland PSC approved a monthly bill stabilization adjustment mechanism (BSA) that is designed to mitigate the volatility of customer bills during colder- and-warmer-than-normal weather conditions, and the impact of energy efficiency programs. A BSA mechanism was implemented for Constellation Energy subsidiary Baltimore Gas & Electric's (BGE's) electric operations in 2008, and has been in place for BGE's gas operations for several years.

Massachusetts--On July 16, 2008, the Massachusetts Department of Public Utilities (DPU) ordered all electric and gas utilities to implement fully decoupled rates on a going-forward basis as part of each company's next base rate proceeding. The DPU expects all companies to have operational decoupling plans in place by year-end 2012. Decoupling reconciliation filings are to be made on an annual basis, with additional filings to be required if the company exceeds a threshold of 10% above or below target revenues. During the transition (2009 through 2012) to the implementation of fully decoupled rates, electric distribution utilities will be permitted to recover lost base revenues (LBR) resulting from the implementation of their three-year energy efficiency plans. Gas distribution companies are currently allowed recovery of energy-efficiency-related LBR through their local distribution adjustment clauses.

In accordance with the DPU's July 2008 order, each energy utility was required to notify the DPU of when it intends to file a rate case to implement decoupling. The following submissions were made: Massachusetts Electric intends to file a rate case to implement revenue decoupling during the second quarter of 2009; Northeast Utilities subsidiary Western Massachusetts Electric expects to file a rate case with decoupling in mid-2010; Fitchburg Gas & Electric intends to file rate cases and associated decoupling proposals for its electric and gas divisions by the third quarter of 2009; NSTAR Electric does not anticipate filing a rate case prior to the expiration of its current rate plan in 2012; NSTAR Gas has no immediate plans to file a rate case; National Grid's gas utilities Boston Gas, Colonial Gas, and Essex Gas intend to file a rate case with decoupling in the second quarter of 2010; and, Berkshire Gas notified the DPU that it has no intention to file a rate case prior to the January 2012 expiration of its existing rate plan. We note that, Bay State Gas filed a rate case and revenue decoupling proposal in April 2009.

Michigan--Senate Bill 213, enacted on Oct. 6, 2008, permits a gas utility that spends at least 0.5% of its revenue on energy efficiency programs to institute a revenue decoupling mechanism. There are no decoupling mechanisms in place at the current time.

Minnesota--None

Mississippi--None

Missouri--In 2007, the Missouri PSC adopted Missouri Gas Energy's (MGE's) proposed SFV rate design for residential customers, whereby all of the company's fixed costs allocable to that customer class are to be recovered through a fixed, monthly customer charge. MGE is a subsidiary of Southern Union.

Montana--None

Nebraska--None

Nevada--On June 14, 2007, Gov. Gibbons signed into law Senate Bill (S.B.) 437, which among its many provisions, requires electric utilities to file for quarterly deferred energy rate adjustments and would allow for the implementation of natural gas revenue decoupling mechanisms. S.B. 437 requires the Nevada PUC to establish regulations designed to remove the financial disincentives for natural gas utilities to support energy

conservation efforts. The PUC submitted proposed rules to the Legislature, which ratified final rules in early 2009.

Southwest Gas is seeking implementation of decoupling mechanisms in its pending rate cases in Nevada.

New Hampshire--In 2007, the New Hampshire PUC opened a proceeding to investigate rate mechanisms, such as revenue decoupling, that could be instituted to remove obstacles for encouraging investments in electric and gas energy efficiency. The PUC ultimately concluded that such mechanisms should only be implemented on a company-by-company basis in the context of a rate case that would examine company-specific revenues, costs, service territory, customer mix, and rate base investment.

New Jersey--The New Jersey Board of Public Utilities has approved pilot revenue decoupling mechanisms for the states gas utilities. As part of its "Energy Blueprint for the Future," Pepco Holdings subsidiary Atlantic City Electric seeks approval of a revenue decoupling mechanism.

New Mexico--In June 2007, in a gas rate decision for Public Service Company of New Mexico (PSNM), the New Mexico Public Regulation Commission rejected the company's proposed decoupling mechanism, stating that the decoupling proposal was too broad. The Commission concluded that the mechanism would make PSNM whole for past conservation efforts of consumers and was therefore fatally flawed. The PRC stated that it would not consider a decoupling mechanism of this type in any case. The company has since sold its gas business.

New York--On Aug. 29, 2007, the New York PSC initiated a proceeding to consider establishing a revenue decoupling mechanism for New York State Electric and Gas' (NYSEG's) electric and gas businesses (Case No. 07-E-0996). On July 23, 2008, in an electric rate decision for Orange and Rockland Utilities, the PSC adopted an agreement that included a revenue decoupling mechanism (RDM) similar to that being considered for NYSEG. In a March 25, 2008 electric rate order for Consolidated Edison of New York (Con Ed), the Commission approved an RDM, but rejected the company-proposed weather normalization provision, considering it to be overly complex. With respect to the RDM, the PSC rejected Con Ed's proposal to reconcile revenues on a per-customer basis, and adopted the total class revenue approach. On Dec. 12, 2007, the PSC authorized National Fuel Gas Distribution to implement a conservation incentive (decoupling) mechanism that will allow the company to implement a surcharge through which it would be able to recover lost margin associated with conservation savings generated during the 2008 test year. Niagara Mohawk Power is requesting a decoupling mechanism in a gas rate initiated on May 23, 2008.

North Carolina--In a rate case decision issued on Oct. 24, 2008 that adopted a settlement, the North Carolina Utilities Commission (NCUC) authorized Piedmont Natural Gas to continue to utilize a Customer Utilization Tracker (CUT) that decouples the recovery of authorized margins from sales levels, thus mitigating the impact of weather and energy conservation programs. The NCUC had initially authorized the company to implement a CUT in 2005. Also on Oct. 24, 2008, the NCUC authorized SCANA Corporation subsidiary Public Service Company of North Carolina to implement a CUT, following the adoption of a settlement in a rate case.

North Dakota--Northern States Power's residential gas rate have been fully decoupled through the adoption of a straight-fixed variable rate design. In a 2005 rate case decision, the North Dakota PSC approved a flat monthly delivery service charge, replacing the fixed basic service charge and a per therm volumetric distribution charge. Northern States Power is a subsidiary of Xcel Energy.

Ohio--In a May 28, 2008 gas rate decision for Duke Energy Ohio, the Ohio PUC adopted a straight fixed variable rate design, which increased residential customers' fixed charge to \$20 from \$6, and should reduce the negative effect on company revenues caused by customer conservation efforts. The PUC noted that this change largely accomplishes the goals of decoupling without the need for an annual audit of the mechanism and subsequent true-ups. Similar rate designs were later adopted for East Ohio Gas, Columbia Gas, and Vectren Gas Delivery of Ohio.

Oklahoma--In the context of a rate case filed in 2006, American Electric Power subsidiary Public Service Oklahoma (PSO) proposed to implement a decoupling mechanism designed to reduce the earnings impact of weather and customer participation in demand-side management programs on annual revenues. In a 2007 rate order, the Oklahoma Corporation Commission rejected the proposal. PSO is a subsidiary of American Electric Power.

Oregon--Decoupling mechanisms are in place for Northwest Natural Gas (NWN) and Cascade Natural Gas (CNG). NWN's decoupling mechanism was first implemented in 2002, on a pilot basis, and was to be in place through Sept. 30, 2005. As initially implemented, the tariff was a partial decoupling mechanism that allowed

the company to defer and recover 90% of the margin differentials related to changes in average consumption patterns due to residential and commercial customers' conservation efforts. In 2005 and 2006, the Oregon PUC approved the continuation of the mechanism through Sept. 30, 2009, and allowed for 100% deferral and amortization of the margin differentials that result from conservation. In September 2007, the PUC approved a stipulation extending NWN's decoupling mechanism until Oct. 31, 2012. As part of the stipulation, the company agreed to a rate case moratorium to Sept. 1, 2011.

In 2006, the PUC adopted a decoupling mechanism for CNG's residential and commercial customers that is to be in effect until September 2010. The decoupling mechanism applies to both conservation-related-demand reduction, and adjusts for deviations from normal weather.

On Jan. 22, 2009, The PUC issued a final order in a Portland General Electric rate case. The Commission outlined the conditional terms of a decoupling mechanism, including acceptance of a lower ROE (10% versus the 10.1% stipulated return in the case). The company accepted the conditions.

Pennsylvania--National Fuel Gas Corporation subsidiary National Fuel Gas Distribution had proposed such a mechanism in their most recent rate proceeding, but the proposal was rejected. The Pennsylvania PUC has initiated a generic investigation into decoupling, but it does not appear that the investigation will lead to the adoption of such mechanisms.

Rhode Island--In a gas rate case for Narragansett Electric in which an order was issued in late January 2009, the Rhode Island PUC declined to adopt the company's proposed decoupling mechanism, concluding that there was not much evidence of its impact on ratepayers and, if adopted, the mechanism would be the first for a gas utility in New England and for National Grid in the U.S.

South Carolina--None

South Dakota--None

Tennessee--On May 5, 2009, the Tennessee House of Representatives deferred House Bill 1349 that would permit gas utilities to implement decoupling mechanisms,

Texas PUC--None

Texas RRC--As part of a May 2006 rate case filing, Atmos Energy sought a "revenue stabilization" (decoupling) mechanism and a weather normalization adjustment (WNA) that would be based on 10-year average data. The parties subsequently reached a settlement whereby Atmos was permitted to implement an interim WNA; however, the revenue stabilization adjustment was not approved.

Utah--On March 25, 2009, Senate Bill (S.B.) 75 was enacted, codifying the Utah PSC's policy of permitting the use of revenue decoupling mechanisms.

In October 2006, the PSC approved a three-year pilot conservation-enabling tariff (CET) for Questar Gas. The CET, which became effective retroactive to Jan. 1, 2006, is designed to fully decouple non-gas revenues from the volume of gas used by customers. Under the CET, a margin-per-customer target is specified for each month, with differences to be deferred and recovered from, or refunded to, customers via periodic rate adjustments. Adjustments under the pilot program are limited to 1% of total revenues. On Nov. 5, 2007, the PSC completed its one-year review of the program and agreed to continue the program for the remaining two years. In continuing the program, the PSC ordered Questar Gas to file a rate case by March 1, 2008, in large part due to the Commission's assertion that the CET program introduces changes in risk that "can only be adequately considered in the context of full rate case scrutiny."

Vermont--None

Virginia--During the 2008 regular session, the Governor signed S.B. 543, which allows gas utilities to seek Virginia State Corporation Commission (SCC) approval of energy conservation programs and related rate treatment for the associated costs/investment, including a revenue decoupling mechanism.

On Dec. 23, 2008, as permitted by the recently enacted statutes, the SCC approved a revenue normalization adjustment (decoupling) designed to mitigate the impact on AGL Resources subsidiary Virginia Natural Gas' revenues of residential customer participation in energy conservation programs.

Washington--On Dec. 30, 2008, the Washington Utilities and Transportation Commission (WUTC) approved the proposed acquisition of Puget Sound Energy parent Puget Energy by Macquarie. In so doing, the WUTC approved, with minor modifications, a July 22, 2008 non-unanimous settlement. The settlement and WUTC order outline a list of commitments, including that PSE will refrain from proposing decoupling mechanisms for its gas and electric operations for two years from the close of the acquisition transaction. The acquisition was completed in February 2009. Previously, in a 2007 rate case decision for PSE, the WUTC denied the company's request for a natural gas decoupling mechanism.

In February 2007, following adoption of a settlement, the WUTC approved a natural gas decoupling program for Avista Corporation to be implemented on a three-year pilot basis, beginning Jan. 1, 2007. The mechanism is to apply only to residential and small commercial customers. The recording of any deferred revenue is to end on June 30, 2009. However, the amortization period is to run from Nov. 1, 2007 through Oct. 31, 2010. Avista is to defer 90% of the margin difference (positive or negative), which is to be recovered from or returned to customers. Furthermore, the recovery of any deferred costs is subject to both an earnings test that would prohibit collection if Avista is earning above its authorized rate of return, and a demand-side management (DSM) test that would prohibit collection if specific conservation targets are not achieved. Rate adjustments associated with the mechanism in any one year are limited to no more than 2%. On April 30, 2009, Avista filed a request with the WUTC to continue the mechanism on a permanent basis.

West Virginia--None

Wisconsin--None

Wyoming--None

Robert Schain
Jim Davis
Russell Ernst
Lillian Federico
Lisa Fontanella
Dennis Sperduto

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