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AVISTA
Corp.

August 7, 2006

State of Washington
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive
Olympia, Washington 98504-8002

Attention: Ms. Carole Washburn, Executive Secretary

RE: Docket No. UG-060518
Avista's Proposed Natural Gas Decoupling Mechanism

The purpose of this filing is to amend Avista's Petition (Petition) for a proposed Natural Gas Decoupling Mechanism (Mechanism), filed with the Commission April 4, 2006. Additionally, this filing includes two substitute Exhibit pages to the Petition to reflect these amendments, with the revisions shown in italics. These revised Exhibit pages include Exhibit 1 – Example Calculation of Monthly Deferred Revenue for Decoupling, and Page 2 of Exhibit 2 – Example Application of Earnings and DSM Tests. The revisions to these Exhibits will be described in conjunction with the amendments to the filing described below.

The amendments to the Company's original petition are the result of discussions and correspondence with the Commission Staff and other interested parties in this Docket. These other parties include: Public Counsel, Northwest Energy Coalition (NWEC), Washington Energy Policy Group (CTED), Northwest Industrial Gas Users (NWIGU), and Spokane Neighborhood Action Program (SNAP).

The proposed amendments to the Company's Petition include:

- A proposed effective date of September 1, 2006 for implementation of the Mechanism
- A refinement in the determination of new customer usage applied in the monthly revenue deferral calculation
- Revised DSM achievement levels used to determine the level of recoverable deferred revenue recorded under the Mechanism
- Additional evaluation of the Company's annual DSM results
- Future evaluation of the Mechanism

These amendments are described in more detail below.

Proposed effective date of September 1, 2006

In the Company's Petition, the Company proposed an effective date of July 1, 2006, for the Mechanism, whereby the Company would begin recording deferred revenue associated with the Mechanism for the month of July. The Company now proposes that the Commission approve the Mechanism to become effective September 1, 2006. In conjunction with the revised effective date, the Company proposes that the first year of accounting entries related to the Mechanism consist of ten months, rather than twelve as originally proposed. The initial deferral period would end on June 30, 2007, as originally proposed, and all other review and filing dates proposed in the Petition would remain the same.

New customer usage adjustment

The proposed calculation of the monthly deferred revenue amount includes the removal of the usage for new customers added since the Company's last test year (2004). The Company originally proposed that the average (weather-corrected) usage for all customers be used as the estimated usage for new customers, as described on pages 8 and 9 of the Petition. Since the Petition was filed, the Company has developed a computer program that captures the actual usage for the current month for all customers added since the corresponding month of the test year. As a result, the actual usage for these "new" customers will be subtracted from the total billed usage for the month, simplifying the monthly deferral calculation. A revised Exhibit 1 to the Petition is filed herewith reflecting this change.

Revised DSM achievement levels

As described on page 9 of the Petition, the final step of the monthly deferral calculation would be to record deferred revenue for 90% of the margin difference between the current month and the corresponding month of the test year. The level of annual recovery of recorded deferred revenue is dependent upon application of both an Earnings and DSM "Test" as described on pages 10-12 of the Petition. The DSM test compares the actual therms saved under the Company's DSM programs during the prior year to the "target" level of savings set forth in the Company's IRP. Below is a table comparing the Company's original proposal and the revised proposal.

Original		**Revised**	
Actual vs Target DSM Savings	Surcharge vs Margin Shortfall	Actual vs Target DSM Savings	Surcharge vs Margin Shortfall
< 50%	0%		
50%-70%	50%	< 70%	0%
		70%-80%	60%
70%-90%	70%	80%-90%	70%
90%-110%	90%	90%-100%	80%
> 110%	100%	> 100%	90% (cap)

The revised proposal shown above provides a more rigorous DSM test as compared to the Company's original proposal in the Petition. Under the revised proposal, the Company must exceed 70% of the DSM target to recover any deferred decoupling revenue, as compared to 50% of the target under the original proposal. Further, the Company must exceed 100% of the DSM target to recover the level of revenue that has been deferred, compared to exceeding only 90% of the target under the original proposal. Under the revised proposal, the level of deferred revenue recovery has been capped at 90%, which matches the amount of deferred revenue recorded. A revised page 2 of Exhibit 2 in the Petition is being filed herewith. This Exhibit shows the application of the revised DSM test under various scenarios.

Additional Evaluation of Company's DSM results

With a financial incentive directly tied to the level of reported DSM savings achieved under the Mechanism, a need arises for an independent evaluation of those reported savings. The Company did not address this issue in the Petition. The Company proposes the retention of an independent third party to audit the results of DSM savings reported for decoupling purposes. The scope of the audit would include an appropriate sampling of projects to verify the work completed, the savings recorded and a review of the engineering estimates used to estimate the savings. The cost of the audit could be funded through DSM tariff rider funds and the scope could potentially be expanded to include other issues related to Avista's DSM programs.

Avista presently recognizes DSM therm savings on larger projects as those projects progress and certain milestones are met. This practice is fairly complicated and would be very difficult to audit, as many of these projects have phases that may be completed in different calendar years that would have to be sorted, identified and verified. Avista would change the present method of recognizing DSM acquisition for decoupling reporting purposes to one where all savings associated with a project are recognized at the time the entire project is completed. This process would substantially reduce the cost of the proposed audit and would not affect the 2006 and 2007 (IRP) DSM goal used for decoupling.

Related to additional oversight of the Company's DSM future targets and results, the Company proposes to file its 2008 gas DSM (IRP) goal as a tariff revision in its decoupling tariff. As proposed in the Petition, the 2008 DSM goal would establish the target for the DSM test during the third and final year of the decoupling pilot period. As the Company's IRP is presently filed for acknowledgement by the Commission, not approval, filing the 2008 DSM goal as part of a tariff revision would provide a process for additional input from all interested parties.

Future Evaluation of the Mechanism

On page 9 the Company's Petition, the Company states that it would file a "qualitative and quantitative assessment of the Mechanism" on or before March 31, 2009. The

Company intentionally did not provide any details regarding this "assessment" as the Company believed that the details of an evaluation plan should be a collaborative process. The Company proposes that the during the first year of the Mechanism, the Company, Commission Staff and other interested parties develop a draft evaluation plan to be presented to the Commission no later than September 1, 2007.

With the revisions to the Company's Petition set forth above, the Company believes that it has addressed the substantive issues raised by the parties involved in this Docket.

If you have any questions regarding this filing, please contact Kelly Norwood at 509-495-4267 or Brian Hirschkorn at 509-495-4723.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State & Federal Regulation

Enc.

Avista Utilities
Proposed Natural Gas Decoupling Mechanism
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***Revised* Example Calculation of Monthly Deferred Revenue for Decoupling**

Step 1: Subtract current month billed usage for "new" customers from total billed usage	
Billed Therms for Current Month	*13,824,000*
Less: Current Month Usage for New Customers(1)	*353,100*
Billed Therms for "Test Year" Customers	*13,470,900*
Step 2 : Calculate current month weather-normalized sales volumes (Current Therm Sales)	
Billed Therms for Test Year Customers	13,470,900
Add: Net Unbilled Therms(2)	(939,000)
Add: Weather Adjustment(3)	1,274,000
Normalized Current Month Therms	13,805,900
Step 3: Calculate difference in usage between current month and test-year	
Normalized Test Year Therms for Month(4)	14,157,000
Less: Normalized Current Month Therms	13,805,900
Current Month Usage Shortfall	351,100
Step 4: Calculate margin difference between current month and test-year	
Current Month Usage Shortfall	351,100
Times: Approved Margin per Therm(5)	$0.23696
Current Month Margin Shortfall	$83,197
Step 5: Calculate deferred revenue based on 90% of margin difference	
Current Month Margin Shortfall	$83,197
Times: 90% Deferral Rate	0.9
Deferred Revenue for Current Month	$74,877

(1) Actual current month usage for new customers added since corresponding month of test year
(2) Addition of current month unbilled & subtraction of prior month unbilled therms
(3) Use of same methodology including coefficients (use/customer/degree day) from test year
(4) Monthly therms adjusted for unbilled and weather - total for all months of the test year equals annual test year volumes from the test year
(5) Rate per therm approved in UG-050483 less puchased gas costs

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***Revised* Example Application of Earnings and DSM Tests**

Margin Shortfall between Current Period (*Sept* '06 - June '07) & 2004 Test Year	**$ 1,110,000**
Deferred Revenue during *Sept* '06 - June '07 Period (90% of Margin difference)	**$ 1,000,000**

Example 2 - Surcharge Level based on Actual DSM savings during 2006

2006 DSM Target Savings 1,062,000 therms

Earnings Test met - Company not over-earning					**Earnings Test Not Met - from Example 1**	
Actual Savings	Actual / Target	Surchg % of Margin diff.(1)	Surcharge Amount	Deferred Rev Carryover	Surcharge Amount(2)	Deferred Rev Carryover(3)
1,100,000	104%	90%	$1,000,000	$0	$585,000	$415,000
900,000	85%	70%	$777,000	$223,000	$585,000	$415,000
700,000	*66%*	*0%*	*$0*	*$1,000,000*	*$0*	*$1,000,000*
1,000,000	*94%*	*80%*	*$880,000*	*$120,000*	*$585,000*	*$415,000*

(1) Based on the following table:

Actual DSM Savings/ Target Savings	*Surcharge as a % of Margin Difference*
< 70%	*0%*
70% - 80%	*60%*
80% - 90%	*70%*
90% - 100%	*80%*
> 100%	*90%*

(2) Based on the lower result of either the earnings test ($585,000) or the DSM test

(3) Total deferred revenue amount of $1,000,000 less surcharge amount - carryover would be used to offset future deferrals as shown in Example 1

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have served Avista Corporation's Petition for an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated with the Mechanism, by mailing a copy thereof, postage prepaid to the following:

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Dated at Spokane, Washington this 7th day of August 2006.

Patty Olsness
Patty Olsness
Rates Coordinator