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October 22, 2009

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

Attention: Mr. David Danner, Executive Director and Secretary

**Docket No. UG-091399 – Revised Filing**  
**Avista's Proposed Natural Gas Decoupling Rate Adjustment**  
**Do Not Redocket**

Enclosed for filing with the Commission is a copy of the following proposed supplemental tariff sheet:

Substitute Fourth Revision Sheet 159 canceling Third Revision Sheet 159

This filing is a revised Natural Gas Decoupling Rate Adjustment filing, replacing the previous filing made by the Company in this Docket, by letter dated August 31, 2009. This revised filing reflects a lower decoupling surcharge under Schedule 159 as compared to the tariff sheet filed August 31. This lower surcharge reflects an agreement between the Company, Commission Staff and Public Counsel related to the Company's programmatic DSM savings during 2008, as described in the "DSM Test" section below.

The substitute tariff sheet filed herewith reflects the proposed Natural Gas Decoupling Rate Adjustment, filed in compliance with the Commission's Order No. 04 in Docket No. UG-060518. This Order approved a natural gas decoupling mechanism for Avista for a three-year pilot period, with this filing reflecting the deferral balance for the third year to be amortized over the period November 1, 2009 – October 31, 2010. The Company will continue to record deferrals under the Mechanism, which may or may not be subject to future recovery, in compliance with Order No. 07 in Docket UG-060518.

The decoupling mechanism allows the Company to: 1) defer 90% of the margin lost due to lower customer gas usage since the Company's last general case, and 2) file a tariff to recover up to the total deferred amount through a surcharge under the proposed tariff. The proposed tariff sheet reflects a surcharge of 0.499 cents per therm, which is a decrease of 0.094 cents per therm compared to the present decoupling rate adjustment of 0.593 cents per therm, or a decrease of 0.08%, or approximately 7 cents per month, applicable to natural gas customers taking service under rate Schedule 101. This tariff

sheet is proposed to become effective November 1, 2009, coincident with the proposed effective date of the Company's Purchased Gas Adjustment, which is an overall proposed decrease of 21.0%.

The proposed surcharge rate of 0.499 cents per therm is designed to recover approximately \$640,000 from the Company's residential and small commercial natural gas customers served under rate Schedule 101. This amount is comprised of \$605,105, which reflects 80% of the lost margin for the July 2008 – June 2009 period, and associated interest and revenue-related expenses. The deferred revenue recorded during the period was \$683,564, reflecting 90% of the lost margin. The difference between the recorded deferred revenue and the recoverable amount (\$78,459) will be written off by the Company during 2009. The workpapers supporting the lost margin and deferred revenue calculations are provided in Exhibit 1. The workpaper supporting the recoverable amount of \$605,105 is provided as Page 1 of Exhibit 2.

If the proposed surcharge is approved by the Commission, the deferred amount of \$605,105 will be transferred to a balancing account, and will begin accruing interest in November at the quarterly rate published by the FERC. The balance in the account will be reduced each month by the revenue collected under the tariff. Page 2 of Exhibit 2 shows the derivation of the proposed surcharge rate to recover the deferred balance of \$605,105 plus interest and revenue-related expenses, based on projected sales volumes for Schedule 101 customers during the surcharge/amortization period (Nov. '09 – Oct. '10).

Effective January 1, 2009, the Company had revised base rates and an updated test year (2007) as a result of Docket No. UG-080417, which affected the calculation of the monthly decoupling deferral from that date forward. These revisions are reflected in Exhibit 1 (monthly deferral calculation) as well as the present decoupling tariff.

#### Earnings Test

A condition of the rate adjustment is that the rate of return for the Company's Washington gas operations not exceed the level authorized by the Commission. This "test" is based on the Commission Basis Report filed by the Company each spring for the prior calendar year. If the Company's actual rate of return exceeds the authorized level, then the amount of the surcharge is reduced, as described on Schedule 159A of the proposed tariff. Attached as Exhibit 3 is the Company's Gas Commission Basis Report for 2008, filed with the Commission by letter dated April 29, 2009. As shown in the summary, the rate of return for 2008 (including restating adjustments) was 7.03%, which is less than the Company's authorized rate of return of 8.22% from UG-080417. Therefore, there is no adjustment to the deferred revenue as a result of the earnings test.

#### DSM Test

The DSM test is based on the Company's level of completed programmatic gas DSM savings (verified by independent audit) for the prior calendar year compared to its targeted level of savings set forth in its most recently acknowledged (2007) Integrated

Resource Plan (IRP). That target level of annual DSM savings is 1,425,070 therms for calendar year 2008. For this filing, the actual level of DSM savings for calendar year 2008 is compared to the target level. If the Company's actual level of DSM savings is less than the target, then the amount of the surcharge is reduced, as shown on Sheet 159A of the present tariff.

In order to verify the Company's reported level of DSM savings for decoupling, the Company retains an independent third party to verify the results. The Company retained the consulting firm of Research Into Action, Inc. (RIA) to verify all three years of its DSM results during the pilot period. A summary of the Company's 2008 claimed DSM savings is provided in Exhibit 4, and the full (RIA) report is provided as Attachment A. As shown on Exhibit 4, the Company's claimed level of DSM savings for 2008 is 1,568,856 therms, which is 110% of the target level of 1,425,070 therms. This claimed level is a reduction from the level shown in the Company's original filing in this Docket as a result of a reclassification of three large DSM projects which affected the final result.

As a result of the review/audit of the Company's original filing in this Docket, Commission Staff and Public Counsel proposed a number of adjustments to the reported DSM results that would have reduced the results beyond the reclassification described above. While the Company did not agree with these adjustments, it also did not believe that it was in the public interest to bring this disagreement before the Commission. Therefore, the Company agreed to reduce the amount of deferred revenue to be recovered through the proposed rate adjustment, consistent with a DSM savings level between 90-100% of the IRP goal.

The decoupling rate adjustment is proposed to become effective November 1, 2009 simultaneous with the Company's proposed Purchase Gas Adjustment (PGA).

If you have any questions regarding this filing, please call Brian Hirschhorn at 509-495-4723.

Sincerely,



Kelly O. Norwood, Vice President  
State & Federal Regulation

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