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July 14, 2010

VIA: Electronic Mail

David Danner
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Notice of Opportunity to File Written Comments - Docket No. U-100522

Dear Mr. Danner,

On July 2, 2010, the Commission requested additional comments from interested persons to indicate if they support, oppose or are neutral to each of the following policy options listed below: making a distinction between gas and electric utilities as applicable for each option. Avista appreciates the opportunity to submit additional comments in the above-cited docket.

1) Full decoupling, including all declines and all increases in sales from any source.

Avista's Comments – Support - The Company believes that full decoupling, including all declines and all increases in sales from any source, is a reasonable approach to ensure that the disincentive towards the promotion of programmatic and non-programmatic energy conservation is removed. Such a method would help ensure that the Company recovers its prudently incurred costs as approved by the Commission. Further, such a mechanism could ensure that utilities will not over-recover nor under-recover its fixed costs, and as such would be the ideal methodology for removing the disincentive towards conservation promotion. If, for example, the weather were colder than normal in the winter, all else being equal, one would surmise that the utility would over-collect its fixed costs from customers. Under this mechanism, all of those over-collected fixed costs would be returned to customers. Likewise, if a winter were warmer than normal, utilities could surcharge its customers to recover its fixed costs. Under either condition, the Company and its customers would be treated fairly, i.e., customers would pay no more and no less than the fixed costs related to serving them.

That being said, the Company is fully aware that such a mechanism would remove some level of risk from the utility as it would be insulated from the effects of a downturn in the economy, weather variation, in addition to reduced fixed cost recovery from conservation. As such, it would be reasonable to consider a reduction to the Company's authorized return on equity to reflect the decreased risk.

However, the Company also knows that a full decoupling mechanism as defined in this question may be objectionable to some parties. As such, a partial decoupling program, similar to that of the Company's natural gas mechanism, may be more palatable as the mechanism is designed to exclude the effects of weather, the economy, and other factors that cause fluctuations in the Company's recovery of fixed costs. Only the effects of programmatic and non-programmatic DSM are targeted to be included in the Company's mechanism.

2) Lost margin adjustment for declines in sales due only to company sponsored conservation efforts.

Avista's Comments – Support – As stated in its initial comments and reply comments in this matter, the Company experiences a reduction in the recovery of its fixed costs of providing service to customers as a direct result of successful implementation of energy efficiency programs. Further, the Company believes that there should be some adjustment in current ratemaking practice to restore recovery of these fixed costs. Methodologies could include a pro forma adjustment, as the programmatic DSM savings (load reduction) should be considered a "known and measureable" event. This load reduction could be matched to the expenses the Company will incur in the rate period. The Company also discussed in previous comments, and above, that some form of a decoupling mechanism could provide for some level of fixed cost recovery.

As it relates to the question at hand, whether the Company would be supportive of a simple lost margin adjustment for declines in sales due only to company sponsored conservation efforts, the Company is inclined to be supportive of this methodology as a reasonable approach to address the disincentive issue. Such an adjustment, though, should ignore all other factors that affect use per customer, recognizing that both increases and decreases in use per customer will occur from those other factors. Such a mechanism, as stated in previous comments, is fully consistent with aligning ratemaking practices with state policy to promote energy efficiency.

3) Attrition adjustment based on the results of an attrition study.

Avista's Response – Neutral – As the Company stated in its initial comments, an attrition adjustment, by itself, would not be an appropriate mechanism. Past practice in Washington has linked, to some degree, an attrition adjustment to a utility experiencing financial hardship. See excerpts from Commission orders in Attachment A. Therefore, if an attrition adjustment were to be employed, it would be important that it be designed specifically to achieve the intended outcome and not simply used as a means to alleviate undo financial hardship. To the extent that the Commission moves toward use of such an adjustment, it would be very important that the criteria be well defined as it relates to fixed cost recovery.

4) An independent conservation provider (i.e. similar in concept to the Energy Trust of Oregon).

Avista's Response – Oppose – First, as Avista stated in previous comments, an independent conservation provider would not resolve the lost margin issue in this Docket, and may also have some unintended outcomes. With regard to lost margins, the engagement of an independent conservation provider would still result in a reduction of revenues to cover fixed costs, and some form of lost margin recovery would still be necessary.

Avista supports the provision of energy efficiency services through the most cost-efficient and cost-effective means. Avista believes that full examination of objective metrics would affirm that WUTC-jurisdictional utilities are providing impactful programs to customers at reasonable costs. No analysis has been provided to suggest that this isn't the case. Avista recommends, if the Commission is interested in pursuing this part of the inquiry, that several metrics be examined. These metrics would include but not be limited to:

a) Percentage of total energy efficiency budget that results in financial incentives/rebates to customers.
b) Percentage of total energy efficiency budget that results in technical assistance to customers.
c) Percentage of total energy efficiency budget that results in administrative and general costs. (The A&G costs would be defined as total costs less financial

incentives/rebates and technical analyses to customers. This definition is appropriate because, while utilities may calculate A&G costs differently, this methodology would provide a common perspective on customer service versus overhead costs.)

d) Energy savings as a function of total costs.

e) Cost per customer to achieve savings.

Avista submits that an analysis of this type would demonstrate that Washington energy utilities are performing well across key performance indices when compared to independent conservation providers.

Additionally, the context of the establishment of independent conservation providers in other states is important for a policy review of energy efficiency delivery in Washington. The Energy Trust of Oregon was developed as a response to a lack of customer-focused conservation programs in the late-1990s. This is not the case in Washington. Washington utilities are generally viewed as having extensive and effective energy efficiency services as compared to other utilities across the country. Nor are there other non-quantitative issues that have been identified as problematic. Washington utilities work with the myriad of independent trade allies (i.e., HVAC contractors, insulation providers, etc.) to deliver conservation services in a non-discriminatory manner. Washington energy utilities have active stakeholder involvement for review and continuous oversight of energy efficiency programs. The Commission has been deliberate and intentional in its oversight of the prudent delivery of effective conservation programs.

If you have any questions regarding these issues, please contact Linda Gervais, Manager, Regulatory Policy at 509-495-4975 or myself at 509-495-4267.

Sincerely,

Kelly Norwood

Kelly Norwood
Vice President, State and Federal Regulation
Avista Corporation