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ADMITTED IN OREGON AND WASHINGTON

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June 21, 2011

Honorable Marguerite E. Friedlander
Administrative Law Judge
Washington Utilities and Transportation
Commission
1300 S. Evergreen Park Dr. SW
PO Box 47250
Olympia, WA 98504-7250

Re: *Washington Utilities and Transportation Commission v. Avista Corporation*
UE-110876 and UG-110877 (consolidated)

Dear Judge Friedlander:

In response to the Washington Utilities and Transportation Commission's (Commission) inquiry at the Avista Corporation d/b/a Avista Utilities (Avista) Prehearing Conference regarding lost margin recovery mechanisms related to conservation, the Northwest Industrial Gas Users (NWIGU) believes that all parties already have the right to address Avista's direct case regarding such mechanisms in their responsive or cross answering testimony, and that no special process is necessary or appropriate. NWIGU urges the Commission to not expand this general rate case beyond the direct filing already made by Avista as to natural gas decoupling.

Avista's direct case includes a new electric lost margin recovery mechanism (Energy Efficiency Load Adjustment). The purpose of this electric adjustment, according to Avista, is to directly address the reduction of retail revenues associated with the Company-sponsored conservation that occurred during the test year (2010), as well as the level of conservation savings that will occur in 2011 and 2012. See *Direct Testimony of Patrick D. Ehrbar*, pp. 38-39. The Commission's policy statement in Docket U-100522 (Policy Statement) was issued on November 4, 2010, and Avista directly participated in that docket. To the extent that Avista has not explicitly addressed in its direct case how its electric Energy Efficiency Load Adjustment complies with the Policy Statement, Avista should not be allowed to supplement its direct case at this time.

With regard to Avista's natural gas decoupling mechanism, Avista complied with the Settlement Stipulation in Docket Nos. UE 100467 and UG 100468 (consolidated) and properly addressed the scope of its already-permanent natural gas decoupling mechanism in its direct case. See *Direct Testimony of Patrick D. Ehrbar*, pp. 47-51. Avista is not proposing any changes to the current gas decoupling mechanism, which is aligned as far as costs and benefits,

and which is recovered from Schedule 101 gas customers. Unlike the new electric mechanism, the gas decoupling mechanism has already been approved by the Commission on December 22, 2009 as a permanent feature of Avista's rates in Order 10 of Dockets UE-090134 & UG-090135 (consolidated). Moreover, Avista's particular natural gas decoupling mechanism was expressly recognized in the Policy Statement as one appropriate for gas utilities (at p. 9).

Any party in their responsive or cross answering testimony should be permitted to respond in testimony and/or briefing to Avista's electric Energy Efficiency Load Adjustment mechanism or Avista's gas decoupling mechanism as set forth in Avista's direct testimony, including how such mechanisms are consistent with the Policy Statement. However, the electric and gas industries are very different, and the mechanisms, one a new proposal and one previously approved and recognized expressly in the Policy Statement, are quite different. Procedurally and substantively these mechanisms should remain separate considerations in this rate case. Indeed, the differences in the industries warrant such separate consideration of lost margin recovery mechanisms. For example, gas utilities purchase all commodity sold to their sales customers on the deregulated natural gas market, and pass through those costs to their sales consumers. The Commission's general rate cases for gas utilities address gas utilities' distribution costs. Upstream pipeline, commodity purchasing and related storage charges are recovered through the purchased gas adjustment mechanism with long term planning accomplished through integrated resource planning. Electric utilities, on the other hand, own and operate generating facilities, but also may purchase some of the electricity they provide to customers on the open market. Accordingly, conservation incentives, conservation strategies and costs associated with conservation are very different for gas and electric utilities and the proposals for such mechanisms must remain distinct.

Based on the foregoing, NWIGU urges the Commission not to expand the issues in this rate case as they pertain to natural gas decoupling. Having already approved Avista's limited natural gas decoupling mechanism as consistent with the Policy Statement, the Commission should in this docket consider only the scope of that mechanism and should not otherwise expand the issues beyond Avista's direct testimony insofar as it pertains to natural gas decoupling. Whatever the Commission determines with regard to electric lost margin recovery mechanisms should be considered by the Commission wholly independently and without impact upon the natural gas customers in this consolidated proceeding. NWIGU asks the Commission to make these distinctions clear in the processing of this matter.

Finally, NWIGU agreed to a schedule based on Avista's case as filed. To the extent that the scope of this proceeding on natural gas issues is expanded, NWIGU reserves the right to seek modification of the procedural schedule.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Chad M. Stokes', written over a horizontal line.

Chad M. Stokes

CMS:da

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing document upon all parties of record (listed below) in this proceeding by electronic mail and by mailing a copy properly addressed with first class postage prepaid.

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Dated in Portland, Oregon this 9th day of June, 2011.



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