



Rob McKenna
ATTORNEY GENERAL OF WASHINGTON
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February 15, 2008

VIA EMAIL AND FIRST CLASS MAIL

Brian J. Hirschhorn
Manager, Retail Pricing
Rates and Regulation Department
Avista Corporation
1411 East Mission MSC-29
P.O. Box 3727
Spokane, Washington 99220-3727

Re: Draft Evaluation Plan Sent to Public Counsel on February 6, 2008

Dear Mr. Hirschhorn:

The purpose of this letter is to provide the company and other interested parties with Public Counsel's preliminary reactions to the draft evaluation plan for Avista's natural gas decoupling pilot, which was circulated by the company to parties on February 6, 2008. As Mr. Ffitch stated in his e-mail to you on February 6, 2008, the company's request for comments by February 15, as a practical matter, only allows time for preliminary comments. The draft plan is also very general in nature. We recommend that as a next step, a meeting or conference call of interested parties should occur to discuss issues raised by all parties. Public Counsel will participate in such discussions and will continue to examine the draft evaluation plan as it undergoes further revisions.

The initial plan did not address the issue of who would conduct the evaluation. Public Counsel recommends that the evaluation be conducted by an independent third-party with a reputation for unbiased research, at the company's expense. The purpose of the evaluation is not to justify the decoupling mechanism's continued existence, but rather, to provide an honest and unbiased assessment of the implementation and effect of the mechanism and its impact on customers. Commission Staff, Public Counsel, and other interested parties should have an opportunity to review proposals from potential evaluators. In addition, interested parties should have an opportunity to review a draft of the final evaluation.

Public Counsel's initial comments to the list of issues raised by Avista on February 6th is provided in *italics* below.

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DSM

Did the company increase its natural gas therm savings through company-sponsored programs over the term of the Mechanism? If not, why not? *See comment below for next issue.*

Did the company increase the scope or magnitude of its natural gas DSM programs as a result of the decoupling mechanism? What incremental program offerings or expansions were attributable to the mechanism? *How do we know whether incremental program offerings and/or achieved savings can be attributed to the decoupling mechanism? Identification and discussion of other factors that may contribute to Avista's decision to expand the scope or magnitude of its DSM programs, and achieved DSM savings. For example, program design changes such as increased rebate levels, may result in greater customer participation and savings.*

How does Avista's DSM program offerings, and achieved savings, compare with that of Puget Sound Energy, both prior to and during the Pilot period? The comparison should include annual data regarding natural gas DSM program expenditures and therm savings achieved, with customer count information. PSE does not currently have a natural gas decoupling mechanism.

What were the annual audited DSM savings for 2006 – 2008? And 2009, if data is available. *Were there any significant issues regarding the timing of achieved savings that may skew results, such as completion of a major industrial project?*

What were the total revenues collected from ratepayers under the gas tariff rider, by schedule, to fund gas DSM programs beginning in 2006 and through the Pilot period?

How did the Company's DSM savings compare to its IRP goal(s)?

What were the company's WA DSM savings by customer class (residential, commercial, industrial).

Is the latest IRP goal still the appropriate DSM incentive to use for the Mechanism? *No comment at this time.*

Were there issues with the third-party DSM audit(s)? *No comment at this time.*

Was the relationship between the annual level of lost margin recovery and incremental DSM savings reasonable? For the future? *Please clarify what Avista is proposing to examine here – what specific data would be examined, and what is meant by the phrase, "for the future?"*

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Mechanism mechanics and other information

What was the total of fixed costs recovered through the decoupling mechanism during the pilot term? How does the amount compare to preliminary estimates developed prior to implementation of the Mechanism? *No comment at this time.*

What was the Company's annual earnings change as a result of the pilot?

What was Avista's overall annual gross margin revenue beginning in 2006 and throughout the Pilot period?

What was the total amount of surcharge revenue collected from ratepayers each year during the Pilot period? What was the bill impact for customers? What was the total amount of interest accrued under the mechanism?

What was the amount of lost margin due directly to Company sponsored DSM compared to the amount of lost margin calculated under the Mechanism? *What was the amount of lost margin due directly to Company sponsored DSM programs for each customer class (residential, commercial, industrial)?*

Were there any issues associated with:

The annual rate adjustment filing?

The earnings test?

The DSM test?

Calculation of the monthly deferral?

The 2% annual rate adjustment limitation?

What was the impact of the new customer adjustment? Did the adjustment increase or decrease annual surcharge revenues, and by how much?

What was the level of customer growth during the Pilot period, and how does this compare to Avista's historical levels of gas customer growth and the national average? What is the forecast for future customer growth?

On a customer class basis, how has natural gas use per customer changed during the pilot term of the Mechanism? *How have overall sales volumes changed during the Pilot period, and total sales volumes by customer class? How have overall revenues changed during the Pilot period, and revenues by customer class?*

What has been the change in natural gas rates during the term of the Mechanism?

How many general rate cases has Avista filed during the Pilot period?

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What is the forecast for natural gas rates/prices and use per customer in the future?

What is the forecast for overall sales volumes and sales volumes by customer class in the future?

~~Based on the overall evaluation of the Mechanism, does it make sense, and is it in the public interest, to extend the term of the Mechanism? If so, with what (if any) changes should be made to the Mechanism?—This issue is not appropriate for the evaluation process. Once the evaluation is complete, each interested party can then make its own recommendation based on the results of the evaluation and any other analysis or research.~~

Please contact me should you have any questions about these comments, and to schedule meetings or conference calls on this matter. I am available on Wednesdays, Thursdays, and Fridays for meetings or conference calls.

Finally, I discovered today that your February 6, 2008 e-mail on this topic was not sent to the Energy Project. I have copied Chuck Eberdt on this letter so that they have an opportunity to participate in these discussions as well.

Sincerely,

MARY KIMBALL
Policy Analyst
Public Counsel Section
(206) 389-2529

MK:cjw

cc: Doug Kilpatrick, Staff
Chuck Eberdt, Energy Project
Paula Pyron, NWIGU
Nancy Hirsh, NVEC