

[Service Date June 28, 2011]

June 28, 2011

NOTICE OF BENCH REQUEST
(Staff's Response is due by October 14, 2011)

RE: *Washington Utilities and Transportation Commission, Complainant, v. Avista Corporation d/b/a Avista Utilities, Respondent, Dockets UE-110876 and UG-110877, consolidated*

TO ALL PARTIES:

On November 4, 2010, the Washington Utilities and Transportation Commission (Commission) issued the Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets (Decoupling Policy Statement). In the Decoupling Policy Statement, the Commission examined several lost margin recovery mechanisms and stated its policy preference for full decoupling.¹ The Commission expressed interest in considering a full decoupling² mechanism for electric and natural gas utilities in the context of a general rate case, so as to “allow a utility to either recover revenue declines related to reduced sales volumes or, in the case of sales volume increases, refund such revenues to its customers.”³

¹ Wash. Util. & Trans. Comm., Docket U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed Their Conservation Targets (Decoupling Policy Statement), ¶¶ 27 - 37 (2010).

² Full decoupling recognizes not only lost margin, i.e., diminishing customer usage resulting in a utility under-recovering its fixed expenses in its volumetric charges, but also found margin, i.e., increasing customer usage whereby the utility over-recovers fixed expenses contained within its volumetric charges. Decoupling Policy Statement, ¶ 11.

³ Decoupling Policy Statement, ¶ 28.

On May 16, 2011, Avista Corporation d/b/a Avista Utilities (Avista or the Company) filed for general rate increases for electric and gas service, in Dockets UE-110876 and UG-110877, respectively.⁴ Avista's filing includes a proposal for a lost margin recovery mechanism for electrical sales (*i.e.*, Energy Efficiency Load Adjustment) and continuation of its current limited "decoupling" mechanism on the gas side.⁵ In the interest of having a more complete record concerning the issues raised by Avista's proposals, the Commission requests that Staff examine full decoupling, as discussed in the Decoupling Policy Statement, as an option for both Avista's electric and natural gas divisions. In response to this Bench Request, Staff should provide the Commission with a discussion of the critical elements that a full decoupling proposal should contain, consistent with the Decoupling Policy Statement, including consideration of lost sales revenues that are potentially offset by avoided costs and other benefits. It should also indicate whether, based on the information it supplies the Commission, it believes that the Commission could make a final decision on a decoupling proposal by the end of this rate proceeding or whether more process may be necessary or desirable.⁶

Staff's filing should be made concurrently with its responsive case on October 14, 2011. Public Counsel and the Intervenors are also invited to present the Commission with full decoupling proposals, or other alternatives, by October 14, 2011. If it did not do so in preparation of its direct case, Avista may analyze alternative recovery mechanisms, including full decoupling, taking into account the Decoupling Policy Statement. If Avista wishes to provide such analysis, it must do so by October 14, 2011. Parties may address Staff's or each other's initial responses to this Bench Request in their November 14, 2011, rebuttal or cross-answering testimony.

Sincerely,

MARGUERITE E. FRIEDLANDER
Administrative Law Judge

⁴ Currently, Avista has a decoupling mechanism for its natural gas operations and, in this latest filing, proposes a recovery mechanism for its electric operations in the Energy Efficiency Load Adjustment mechanism.

⁵ Exhibit PDE-1T (Ehrbar testimony) at 38-51.

⁶ While the Commission expects Staff to provide an analysis of Avista's proposal in light of the our Decoupling Policy Statement, we are neither directing Staff to, nor preventing it from, advocating full decoupling or another alternative. Staff's response may be in the form of testimony, or may be presented in another form (*e.g.*, a narrative discussion), as Staff deems appropriate.