

Exhibit No. __ (BJH-2)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UG-060518

EXHIBIT NO. __ (BJH-2)

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

Draft Evaluation Plan for Avista Natural Gas Decoupling Mechanism

Avista, with substantial input and comments from the other interested parties in Docket No. UG-060518, has prepared this “draft evaluation plan” for Avista’s natural gas decoupling mechanism (Mechanism), as referenced in the Settlement Agreement, included as Appendix A to Order No. 04 (Order) in Docket UG-060518. The Parties present this draft evaluation plan as a starting point for an independent evaluation of the Mechanism through December 31, 2008. The next steps will be to finalize the evaluation plan by April 30, 2008, and select an independent evaluator.

This draft evaluation plan is comprised of a number of areas to be examined as part of the Evaluation. These areas are both directly and indirectly related to the Mechanism, and the final Evaluation Report should allow the Commission to fully examine the Mechanism. This evaluation plan continues to be a work in progress, with input and revisions provided by the Parties throughout the process.

Whether or not the company requests an extension of the decoupling mechanism, the Evaluation Report and supporting workpapers will be filed with the Commission by March 31, 2009. The following section of this draft plan sets forth the proposed timeline for selection of an independent evaluator and completion of the final Evaluation Report. The succeeding sections generally set forth questions to be answered with the information to be examined and documented by the Evaluator.

Proposed Timeline for Evaluation

All parties agree that the evaluation should be conducted by an independent third-party. The parties propose the following timeline to select an independent evaluator and complete the Evaluation Report.

Proposed Timeline:

April 15, 2008 – Parties provide names of potential evaluators

April 30, 2008 – Final Plan filed with Commission

RFP Issued to potential evaluators

May 31, 2008 – Proposals Due from potential evaluators

June 1 – June 30 – Parties review proposals and interview potential evaluators

June 30, 2008 – Parties Select an Evaluator. In the event Parties are unable to reach agreement, they will make separate recommendations to Commission.

July 10, 2008 – Recommendations to Commission

August 1, 2008 – Commission Selects Evaluator

January 1, 2009 – Preliminary Evaluation Report provided to Parties from Evaluator

March 31, 2009 – Final Report filed with Commission (includes calendar 2008 information)

Evaluation of Avista DSM Programs and Savings from 2006 – 2008

Information related to Avista's DSM programs and activities will be examined for 2006-2008 as a key part of the Evaluation. As part of the decoupling pilot program, an independent third-party performs an audit of Avista's estimated annual programmatic savings for the annual rate adjustment filing and "DSM test" each year. The audited DSM savings are based on completed projects during the prior year. Audited programmatic savings for 2006 were used for the DSM-test supporting the decoupling rate adjustment effective November 1, 2007. The independent DSM audit report for 2007 programmatic savings will be completed by August 1, 2008. The independent audit report for 2008 programmatic savings will be completed no later than February 27, 2009.

1) Based on the results of the independent audits, did the company increase its natural gas therm savings through company-sponsored programs over the term of the Mechanism? What were the annual audited DSM savings (completed project basis) for 2006-2008, by customer class and by rate schedule?

2) What were the Company's estimates of DSM savings for 2006-2008 on a "derated" basis? (as some large commercial and industrial DSM projects may begin in one year and are completed in the following year, the Company estimates the savings from the completed portion of the project for each year)

3) Did the company increase the scope or magnitude of its natural gas DSM programs during the term of the decoupling mechanism?

4) What incremental program offerings or expansions were implemented during the term of the mechanism? Identify new and expanded programmatic changes by customer class (residential, commercial, industrial)

5) What other factors contributed to an increase in DSM savings and/or new or expanded DSM program offerings? Identification and discussion of factors that contributed 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, or higher avoided costs, may result in greater customer participation and savings.

6) What customer educational, informational and marketing programs related to DSM were implemented by the Company during 2006-2008? What were the estimated costs of these programs?

7) What were the annual revenues collected from ratepayers under the gas tariff rider (Schedule 191), by rate schedule, to fund gas DSM programs for 2006-2008?

8) How did Avista's natural gas Integrated Resource Plan (IRP) goal(s) compare to the verified/audited DSM savings each year?

Revenue Deferred and Collected under the Mechanism

- 1) What was the monthly, annual, and cumulative amount of revenue deferred and recovered through the decoupling mechanism during 2007 and 2008?
- 2) How do the annual deferral amounts compare to the company's estimate of \$600,000-\$700,000 developed prior to implementation of the Mechanism?
- 3) What was the mathematical result of the earnings test and the DSM test for 2006 and 2007, used for and provided in the November 2007 and 2008 rate adjustment filings, respectively?
- 4) What was the net income resulting from the recoverable revenue deferrals for 2007 and 2008 as a result of the pilot? What percentage of total net income for the company's Washington Gas operations is represented by these deferrals?
- 5) What was Avista's Schedule 101 recorded gas margin revenue for 2006-2008, before and after decoupling deferrals?
- 6) What was the total amount of decoupling surcharge revenue collected from ratepayers each month from November 2007 through December 2008?
- 7) What was the average bill impact of the decoupling rate adjustment for customers for the period November 2007 through December 2008? This should be expressed as an average monthly dollar amount and percentage based on the total decoupling amount collected divided by total revenue recorded for Schedule 101 customers for the November 2007-December 2008 period.
- 8) What was the total amount of interest accrued under the mechanism for the period November 2007-December 2008?

Reduction in Customer Usage and Margin under the Mechanism compared to Programmatic DSM Savings

- 1) What was the annual amount of estimated lost margin due directly to Company DSM programs/installations for Schedule 101 customers during 2007 and 2008 compared to the annual amount of lost margin calculated under the Mechanism? This analysis should compare the estimated annual reduction in customer usage/margin directly attributable to Avista's programmatic DSM for Schedule 101 customers to the total annual reduction in (weather-corrected) customer usage/margin. This information/analysis was specifically cited in the Commission's Order as a "factor" to be "scrutinized" in reviewing the results.

New Customer Usage and Adjustment under the Mechanism

- 1) For 2007 and 2008, what was the actual average annual usage for “new” Schedule 101 customers excluded from the monthly deferral calculation compared to the actual (not weather normalized) average annual usage for Schedule 101 customers?
- 2) Based on the average annual usage determined above, would the inclusion of new customers in the monthly deferral calculation have increased or decreased annual deferrals and surcharge revenues during 2007 and 2008, and by how much?

Customer Migration between Rate Schedules 101 and 111

- 1) What was the level of customer migration (schedule shifting) between schedules 101 and 111 during the time of the pilot?
- 2) Did customers migrate substantially between rate schedules following the results of any rate cases filed subsequent to the initiation of the pilot?
- 3) What is the overall change in total numbers of schedule 101 and schedule 111 customers per year during the term of the Mechanism?

Related Rate and Customer Usage Information (Actual and Forecasted)

- 1) What was the level of gas customer growth from 2006-2008, and how does this compare to Avista’s historical levels of gas customer growth? What is the company’s forecast for future customer growth?
- 2) On a rate schedule basis, how has both actual and weather normalized annual gas use per customer changed during 2006-2008?
- 3) What has been the change in natural gas rates during 2006-2008?
- 4) What has been the natural gas commodity cost change during 2006-2008?
- 5) How many general rate changes has Avista filed and implemented from 2006-2008?
- 6) What is the company’s forecast for natural gas rates/prices and use per customer in the future?
- 7) What is the forecast for overall sales volumes and sales volumes by rate schedule in the future?

Other Information

- 1) Was the Mechanism recognized in any public reports issued by credit rating agencies or financial analysts? If so, provide a copy of the report.