Exhibit No. ___(BWF-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-09_____

DOCKET NO. UG-09_____

DIRECT TESTIMONY OF

BRUCE W. FOLSOM

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Bruce Folsom. I am employed by Avista as the Senior Manager of Demand Side Management (DSM). My business address is East 1411 Mission Avenue, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I graduated from the University of Washington in 1979 with Bachelor of Arts and Bachelor of Science degrees. I received a Masters in Business Administration degree from Seattle University in 1984.

I joined the Company in 1993 in the State and Federal Regulation Department. My duties included work associated with tariff revisions and regulatory aspects of integrated resource planning, demand side management, competitive bidding, and emerging issues. In 2002, I was named the Manager of Regulatory Compliance which added responsibilities such as implementing the Federal Energy Regulatory Commission's major changes to its Standards of Conduct rule. I began my current position in September of 2006. Prior to joining Avista, I was employed by the Washington Utilities and Transportation Commission beginning in 1984, and then served as the Electric Program Manager from 1990 to February, 1993. From 1979 to 1983, I was the Pacific Northwest Regional Director of the Environmental Careers Organization, a national, private, not-for-profit organization.

Q. What is the scope of your testimony in this proceeding?

A. I provide an overview of the Company's DSM programs and recent results. I also provide documentation showing that Avista's expenditures for electric and natural gas energy efficiency programs have been prudently incurred.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit No.___(BWF-2) prepared under my direction. Exhibit No.___(BWF-2) documents the results and cost-effectiveness of Avista's DSM programs.

II. DSM PROGRAMS AND CURRENT PERIOD RESULTS

Q. Would you please provide a brief overview of Avista's DSM programs?

A. Yes. Avista has historically had a significant and consistent commitment to energy efficiency. In the mid-1990s, while the electric industry was pulling back from offering energy efficiency services, Avista pioneered the Energy Efficiency Tariff Rider. Now in its fourteenth year, the tariff rider was the country's first distribution charge to fund DSM and is now replicated in many other states. Schedule 91 currently has a commodity rate of 1.58% for electric service and the Schedule 191 rate is 1.46% for natural gas.

The Company's approach to energy efficiency is based on two key principles. The first is to pursue all cost-effective kilowatt hours and therms by offering financial incentives for energy saving measures with a simple financial payback of over one year. The second key principle is to use the most effective "mechanism" to deliver energy

efficiency services to customers. These mechanisms are varied and include 1) prescriptive programs (or "standard offers" such as high efficiency appliance rebates), 2) site-specific or "customized" analyses at customer premises, 3) "market transformational", or regional, efforts with other utilities, 4) low-income weatherization services through local Community Action Agencies, and 5) low-cost/no-cost advice through a multi-channel communication effort. These will be described later in my testimony.

The Company's offerings include over 300 measures that are packaged into over 30 programs for customer convenience. As part of Avista's planning efforts, over 3000 measures are considered and then examined for cost-effectiveness. The Company's comprehensive energy efficiency outreach, the "Every Little Bit" communications campaign, received several national honors in 2008. This comprehensive communication approach helps customers reorient their thinking about energy efficiency.

The Company's programs are delivered across a full customer spectrum. Virtually all customers have had the opportunity to participate and a great many have directly benefited from the program offerings. As will be described later in my testimony, all customers have indirectly benefited through enhanced cost-efficiencies as a result of this portfolio approach.

Avista offers the following residential programs:

Illustration No. 1:

RESIDENTIAL
- High Efficiency Furnace/Boiler
- High Efficiency Heat Pump
- High Efficiency Variable Speed Motor
- High Efficiency Tank Water Heater
- High Efficiency Tankless Water Heater
- High Efficiency Ground Source Heat Pump
- High Efficiency Replacement Air Conditioning
- Space Heat Conversion (Direct Use of Natural Gas)
- Water Heat Conversion (Direct Use of Natural Gas)
- Heat Pump Conversion (Direct Use of Natural Gas)
- Ceiling, Attic, Floor, Wall Insulation
- High Efficiency Windows
- Fireplace Damper
- Multifamily (UCONS)
- BuiltGreen™ (New Construction Energy Star®)
- Something for Everyone
  - Energy Star® Appliances
  - CFL (and CFL Recycling) Promotions
  - Warm Homes, Warm Hearts
- "Second" Refrigerator Recycling Program
- "Geographic Saturation"
  - Community Events and Workshops
- Low-cost/no-cost information
- Direct Use of Nat Gas: Multi-Family Housing Conversion
- Regional Market Transformation (NEEA)
- On-line Home Audits

LIMITED INCOME RESIDENTIAL
- Limited Income Weatherization with Community Action Programs
  - *(Note: All residential programs above are also available)*

The residential programs shown above are standard offerings or what we call "prescriptive programs." These involve a menu of rebates on selected measures (e.g., lighting, weatherization, appliances, etc.).

For commercial customers, in addition to prescriptive programs, Avista offers "site-specific" programs. Site-specific programs are customized to the customer's premises. The site-specific offering provides incentives on any cost-effective commercial and industrial energy efficiency measure. This is implemented through site analyses, customized diagnoses, and incentives determined for savings generated specific to the customer's premises or process. The following illustration shows the programs available to Avista's commercial and industrial customers.

Illustration 2:

NON-RESIDENTIAL (COMMERCIAL & INDUSTRIAL)
Site-Specific
(Note: Incentives offered for any measure with > 1 year payback)
Air Care Plus (Rooftop HVAC Maintenance)
EnergySmart Commercial Refrigeration
LEED Certification Incentives
Power Management for PC Networks
Premium Efficiency Motors
Food Service
LED Traffic Signals
Refrigerated Warehouse
Commercial HVAC Variable Frequency Drives
Retro-Commissioning
Clothes Washers
Side Steam and Demand Filtration
Vending Machine Controllers
Lighting and Controls

These programs are supported by twenty-one full-time equivalents (FTE) spread over 34 staff. (This does not include Company support from the Contact Center, Corporate Communications, Accounting and other direct and indirect support.) The 2008 DSM budget (system) was over $18 million, representing an increase of $6 million

over 2007. Of the Company's revenues collected under Schedules 91 (electric tariff rider) and 191 (natural gas tariff rider) in 2008, 70.9% was paid out to customers in direct incentives pursuant to the cost-effectiveness tests described below. This does not include additional benefits such as technical analyses provided to customers by the Company's DSM engineering staff.

Q. What were the Company's energy efficiency targets and results for 2008?

A. The Company's energy efficiency targets are established in the process of developing the Electric and Natural Gas Integrated Resource Plans (IRPs). These targets are revisited and adjusted to take into account new programs as part of our ongoing business planning process.

The results of Avista's energy efficiency programs continue to exceed the targets established as part of the IRP process. The current estimate of local energy efficiency savings for January through November 2008 is 62.1 million kWhs (approximately 7 amW) or 117% of the Company's annual target. These preliminary results will be revised based upon ongoing verification of the data by the Company.

These are preliminary, unaudited results that will be updated. Over 137 aMW of cumulative savings have been achieved through Avista's energy efficiency efforts in the past thirty years; over 110 aMW of DSM is currently in place on the Company's system. By comparison Avista's 2008 total electric retail load was 1098 aMW. The 2008 natural gas savings targets for Washington and Idaho is 1.425 million therms.

Over 1.75 million therms have been saved through November of 2008, which is 123% of the 2008 annual target.

Q. Do the 2008 results reflect Avista's participation in regional energy efficiency efforts?

A. No. In addition to Avista's prescriptive and site-specific programs, the Company funds and participates in the activities of the Northwest Energy Efficiency Alliance (NEEA). NEEA focuses on using a regional approach to obtain electric efficiency through the transformation of markets for efficiency measures and services. An example of NEEA-sponsored programs that benefit Avista customers are efforts to decrease the cost of compact fluorescent light bulbs (CFLs) and high-efficiency appliances by working through manufacturers. For some measures, a large-scale, cross-utility approach is the most cost-effective means to achieve energy efficiency savings. This approach seems particularly effective for markets composed of large numbers of smaller usage consumers, such as the residential and small commercial markets.

The results from NEEA programs for 2008 have not been reported as of the date of the submittal of this testimony. Historically, however, Avista has received approximately 1.5 aMW of savings in its service territory from NEEA programs.

Q. How do you increase customer participation in your DSM programs?

A. Our focus on the residential side is to increase customer understanding of our programs and how our programs can help customers reduce their bills. We do this through bill inserts and communications to drive customers to our website with a "call-

to-action" to use our financial rebates. The following depicts a recent enhancement to our website, www.EveryLitteBit.com. This is an interactive tool to engage customers and allows customers to quickly view programs that they can use, by "clicking on" particular features of the dwelling:

Illustration No. 3:

Q. What is the status of the tariff rider balance?

A. The tariff rider balance - both Washington and Idaho, electric and natural gas - is a negative $9,982,000 (i.e. dollars expended exceed dollars collected through the Tariff Rider). By jurisdiction and fuel, the negative rider balances are, as of November 2008: ($5,499,000) - Washington electric; and ($2,476,000) - Washington natural gas; ($1,149,000) - Idaho electric; ($858,000) – Idaho natural gas.

Q. What are the causes of these increasing negative balances?

A. The Company has leveraged the high level of public interest in 'green' technologies to enhance the acquisition of cost-effective energy-efficiency measures. These leveraging opportunities and the customer response to the Company's efficiency programs have exceeded our expectations.

Q. What is the Company's plan to address these balances?

A. The largest negative balances, or over 78%, are in Washington. On December 31, 2008, we filed tariff rider revisions in Washington to reduce the Washington tariff rider balances to zero. We will submit revised tariff riders in Idaho to do the same in February 2009.

Q. What plans does the Company have in the future to address these tariff rider balances?

A. Schedules 91 and 191 should be the equivalent of a "true-up mechanism" that is revised annually to reflect expenditures to fund energy efficiency programs. In the past few years, customer demand for energy efficiency programs has been greater than available funding, which has resulted in the need for increased energy efficiency

funding. Avista remains committed to expeditiously responding to customer requests for funding where the cost-effectiveness tests are satisfied.

Q. What kind of external oversight does the Company have regarding DSM?

A. The Company established a non-binding oversight group, the External Energy-Efficiency (Triple-E) board in 1999 to provide for improved opportunities for communication, input and oversight of Avista's DSM portfolios. Avista currently facilitates meetings of the board twice per year, provides a full analysis of the results of DSM operations on an annual or more frequent basis, discloses (with appropriate concern for customer confidentiality) large projects and projects benefiting Avista facilities, and provides the Triple-E with a quarterly update of DSM activities. Additionally, the Triple-E board can initiate additional meetings of the board at their own request. Board membership has included representatives from regulatory, governmental, environmental, nationally recognized energy-efficiency experts, customer advocates for limited income and industrial segments as well as end-use customer participants.

Q. Does the Company propose to increase its low-income weatherization funding as part of this filing?

A. Yes. The Company proposes to increase its low-income weatherization funding for electric and natural gas service by a percentage amount equal to the percentage rate increase granted in this case for residential customers (net of the ERM

surcharge reduction for electric service). The additional funding would be provided through the DSM tariff riders, Schedules 91 and 191.

III. PRUDENCE OF INCURRED DSM COSTS

Q. Would you please explain the Company's request for a finding of prudence in this case?

A. Yes. When the Commission approved the Company's energy efficiency programs in 1995 (in Docket Nos. UE-941377 and UG-941379), Avista committed to demonstrating the prudence of program expenditures in future general rate cases. In the Company's last general electric and natural gas rate cases (Docket Nos. UE-080416 and UG-080417), the Commission issued a finding in Order No. 8 that electric and natural gas expenditures through December 31, 2007 were prudently incurred. At this time, the Company requests that the Commission issue a finding that electric and natural gas energy efficiency expenditures from January 1, 2008 through November 30, 2008 were prudently incurred.

Q. Would you please summarize the Company's energy efficiency-related savings for this time period?

A. Yes. The Company's tariff riders under Schedules 91 (electric) and 191 (natural gas) are system benefit charges to fund energy efficiency.

As shown in Exhibit No.___(BWF-2), from January 1, 2008 through November 30, 2008, 62.1 million kWh and 1.75 million therms of energy savings were obtained.

Page 1 of Exhibit No.___(BWF-2) details the energy savings by regular and low-income portfolios for both electric and natural gas DSM programs.

Q. Has there been ongoing review of the Company's programs?

A. Yes, as previously discussed, the Company has regularly convened a stakeholders forum known as the External Energy Efficiency Board. These meetings have included customer representatives, Commission staff members, and individuals from the environmental communities. These stakeholder meetings review the Company's program offerings as well as the underlying cost-effectiveness tests and results.

Q. Have the Company's DSM programs been cost-effective?

A. Yes. The electric programs have been cost-effective from both a Total Resource Cost (TRC) and Utility Cost Test (UCT) perspective. Page 2 of Exhibit No. ___(BWF-2) shows that the TRC benefit-to-cost ratio of 1.94 for the overall electric DSM program portfolio is cost-effective, with a net TRC benefit to customers of over $23 million. The UCT benefit-to-cost ratio is cost-effective with a net UCT benefit of over $32 million. The levelized TRC and UCT cost is 4.8 cents and 2.3 cents per kWh, respectively. The overall portfolio of measures has a weighted average measure life of 13 years. The comparable levelized electric avoided cost for a measure of this life is 8.7 cents per kWh. The electric DSM programs were also cost-effective under the Participant Test.

Page 3 of Exhibit No. ___(BWF-2) illustrates the natural gas DSM program portfolio cost-effectiveness under both the TRC and UCT tests. But for one customer, the Company's TRC would be 1.16, with any number above 1.00 being cost effective. This customer, based on their own initiatives, spent $4.2 million on energy efficiency projects of which Avista contributed $247,000. Avista's contribution of $247,000 divided by the 104,000 therms of savings from these projects results in a $2.36 per first year therm utility incentive investment, in comparison to an avoided cost value of approximately $10 for a therm of the measure life associated with those projects. Apart from this customer, the TRC and UCT benefit cost ratios are 1.16 and 2.64 respectively. Therefore, except for the one customer, the natural gas DSM portfolio passes both the TRC and UCT tests.

Q. Please summarize the Company's conclusions.

A. The Company's expenditure of tariff rider revenue has been reasonable and prudent. A portfolio of programs covering all customer classes has been offered with a total savings of over 62.1 million annual kWhs and 1.7 million therms during January 1, 2008 through November 30, 2008. A 13-year levelized utility cost per saved kilowatt hour of 2.3 cents per kWh has been achieved. The levelized avoided costs during this similar period has been 8.7 cents per kWh. The 15 year levelized utility cost per saved therm has averaged 37.1 cents per therm.

The Tariff Rider and programs have been very successful. Participating customers have benefited through lower bills. Non-participating customers have benefited from the Company having acquired lower cost resources as well as

maintaining the energy efficiency message and infrastructure for the benefit of our service territory.

In closing, Avista respectfully requests that the Commission issue a finding of prudence for energy efficiency expenditures from January 1, 2008 through November 30, 2008.

Q. Does that complete your pre-filed direct testimony?

A. Yes, it does.