

Evaluation Plan for Avista's Natural Gas Decoupling Mechanism

A. Introduction

Avista, with substantial input and comments from the other interested parties in Docket No. UG-060518, has prepared this draft evaluation plan (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 participating in the development of this Plan are: Avista, the Staff of the Washington Utilities and Transportation Commission, the Public Counsel Section of the Washington State Attorney General's Office, the Northwest Industrial Gas Users, The Energy Project, and The Northwest Energy Coalition. One representative from each party will serve on a Stakeholder Advisory Group (Advisory Group), which will provide oversight and guidance during the course of evaluation of the Mechanism. This Plan shall serve to define the work plan for an independent evaluation of the Mechanism through December 31, 2008.

This 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, Advisory Group members, and interested parties to fully examine the Mechanism.

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 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 using the information to be examined and documented by the Evaluator. The Evaluator, once selected, may seek clarification or modification of aspects of the Plan from the Advisory Group, as described in the attached Memorandum of Understanding (MOU), provided as Attachment C to the Request for Proposals.

B. Proposed Timeline for Evaluation

All Parties agree that the Evaluation should be conducted by an independent third-party. The Commission has adopted the following timeline to select an independent evaluator and complete the Evaluation Report (Order 05, UG-060518, ¶ 31).

Proposed Timeline:

April 30, 2008 - Plan filed with the Commission by Avista, including any agreed upon request for proposals (RFP) soliciting an evaluation contractor and any agreed upon Memorandum of Understanding (MOU) among the Parties.

May 9, 2008 - Comments filed with Commission by any Party not endorsing the Plan.

May 10-31, 2008 - Plan and any comments reviewed by Commission for possible guidance to the Parties.

June 16, 2008 – Distribution of the RFP by Avista (based on the work of the Advisory Group).

July 15, 2008 - Proposals due from interested evaluation contractors.

August 6, 2008 - Advisory Group selects top 2-4 candidates to interview.

August 18-22, 2008 - Advisory Group conducts interviews with candidates.

September 5, 2008 - Joint Recommendation or Separate Recommendations filed with Commission concerning Evaluator Selection.

September 26, 2008 - Selection of Evaluator as set forth in Section 14.2 of the Request for Proposals.

January 1, 2009 - Preliminary Evaluation Report with final 2007 results due from Evaluator, submitted to Advisory Committee.

February 28, 2009 - All 2008 data provided to Evaluator, including complete DSM verification for 2008.

March 31, 2009 - Final Evaluation Report filed with Commission.

April 30, 2009 – Avista permitted to petition to extend pilot program.

TBD - Prehearing conference to set schedule for petition docket.

June 30, 2009 - End of Pilot. Deferrals terminate if review process is not complete.

C. 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”¹ each year (DSM Verification). 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

¹ As referenced in Docket No. 060518 – Final Order Approving Decoupling Pilot Program

independent audit report for 2008 programmatic savings will be completed no later than February 28, 2009.

Since the DSM Target for the Pilot Mechanism is based on DSM savings in Washington and Idaho, all data in this section, responding to the questions below, should provide disaggregated results for Washington and Idaho, as well as combined totals.

- 1) Based on the results of the independent DSM audits, by what amounts did the Company change its DSM program expenditures and its resulting natural gas therm savings through Company-sponsored programs over the term of the Mechanism, relative to the 2004 – 2005 pre-decoupling period? What were the annual audited DSM savings (completed project basis) for 2006-2008, by customer class, by DSM program and by rate schedule, compared to achieved therm savings in the 2004 – 2005 (completed project basis) pre-decoupling period? For any electric or gas DSM programs sponsored by Avista that may produce combined electric and gas savings, or increased gas or electric usage, what assumptions or methods are used to allocate savings to the gas therm values provided in response to this question? What assumptions or methods are used to allocate any kwh savings or increased electric consumption, and what were the amounts of kwh savings or increased electric consumption from any Avista sponsored gas DSM program? The response to this question should make clear that the 2004-2005 completed project DSM data provided by Avista has not been audited.
- 2) What is the proportion of therm savings from Company-sponsored DSM programs compared to overall weather normalized sales volumes, in total, and by customer class and/or rate schedule for each year 2004, 2005, 2006, 2006, 2007, and 2008?
- 3) What were the associated lost margins from Company sponsored DSM, by customer class and by rate schedule for each year 2004, 2005, 2006, 2006, 2007, and 2008?
- 4) During the 2004 – 2008 time period, did the Company change the scope or magnitude of any of its DSM programs in the following areas: a) natural gas DSM programs, b) natural gas or electric DSM programs that may produce combined gas and electric savings, or c) electric DSM programs that may produce changes in gas usage?
- 5) What incremental program changes or expansions were implemented, and when, during 2004 – 2008, for the three categories of DSM programs described above in question 4? Identify and describe each new, revised or expanded programmatic changes by customer class (residential, commercial, industrial) and corresponding rate schedule.
- 6) Were there any changes in Avista's avoided costs during the Pilot Period that may have contributed to any changes in customer participation and savings for Company sponsored DSM programs? Identify any other factors that may have contributed to an increase in DSM savings and/or new or expanded DSM program offerings.

- 7) What new or revised customer educational, informational and marketing programs related to DSM were implemented by the Company during 2006-2008? What were the primary messages and estimated costs of each of these programs? Were any therm savings attributed to such programs in the independent DSM audit, and if so, how much, and using what assumptions or studies?
- 8) What were the annual revenues collected from ratepayers under the gas tariff rider (Schedule 191), by rate schedule, to fund gas DSM programs for 2004-2008? What was the gas tariff rider (Schedule 191) surcharge for the years 2004-2008?
- 9) What were actual yearly DSM expenditures for 2004-2008? How were such amounts spent each year by customer class (residential, limited income, non-residential) and rate schedule? Identify the total expenditures directly distributed to customers (by customer class), and the total expenditures for the administration of the programs.
- 10) How did Avista's natural gas Integrated Resource Plan (IRP) conservation achievement goal(s) compare to the verified/audited DSM savings each year?

D. 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, before and after any percentage adjustments to reflect the 90% deferral limitation, as well as any percentage adjustments due to the DSM Test or the Earnings Test?
- 2) Has Avista made any changes to its methods or calculations of the decoupling deferral over the course of the pilot, as reflected in the quarterly deferral reports? Describe any such changes, their purpose and impact on the deferral.
- 3) Were there any issues that arose regarding the methodology or input values for calculation of the accounting journal entries which implemented the decoupling deferral? Explain and quantify the impact of any changes in methodology or input values.
- 4) How do the annual recorded decoupling deferral amounts compare to the Company's estimate of \$600,000-\$700,000 developed prior to implementation of the Mechanism, as described in Paragraph 24 of the Commission's Order 04?
- 5) What was the mathematical result of the earnings test and the DSM test for 2006 and 2007, used for and provided in the September 2007 and 2008 rate adjustment filings, respectively?
- 6) What was the pretax margin and net income impact resulting from the recoverable revenue deferrals for 2007 and 2008 as a result of the pilot? What percentage of total pretax margins and net income for the Company's Washington Gas operations is represented by these deferrals in each year?

- 7) What was Avista's Schedule 101 recorded gas margin revenue and recorded gas margin revenue per customer for 2006-2008, before and after decoupling deferrals?
- 8) What was the total amount of decoupling surcharge revenue collected from ratepayers each month from November 2007 through December 2008?
- 9) What is the monthly customer bill impact of the decoupling rate adjustment for customers during the three year recovery period?² The bill impact analysis should provide actual data for the period November 2007 through October 2008, and anticipated bill impact for the periods November 2008 through October 2009, and November 2009 through October 2010, using the latest available cost of gas and billing determinants. The bill impact analysis shall examine annual usages typical of customers having: a) natural gas space heat, b) water heat, c) both space and water heat, as well as d) the average Schedule 101 levels of annual usage. This should be expressed as an average monthly dollar amount collected and percentage based on the total decoupling amount to be collected divided by total estimated revenue for Schedule 101 customers for the November 2007-October 2008 and estimated for the November 2008-October 2009 and November 2009 through October 2010 periods. Estimate the bill impact of the deferrals from July 2008 through February 2009.
- 10) What was the total amount of interest accrued under the Mechanism for each month and for the period November 2007-December 2008?

E. Proportion of Margin Lost to Company-Sponsored DSM Relative to the Amount Subject to Recovery

Paragraph 26 of the Commission's Order No. 4 states that the Commission will "closely scrutinize" the proportion of margin lost to Company-sponsored DSM relative to the amount subject to recovery. This information is therefore a key part of the Evaluation.

- 1) The timing of base rate changes will affect recoveries of lost margins through base rates. The evaluation should therefore identify recoveries of margin through updating of baseline values in rate cases, as well as the deferrals booked under the decoupling authorization.
- 2) 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 (and subject to recovery) under the Mechanism (at both the 100% and 90% levels) ? This analysis should compare the estimated annual reduction in customer usage (therms) and margin (\$) directly attributable to Avista's programmatic DSM for Schedule 101 customers to

² This bill analysis should make clear that while decoupling deferrals are allowed for 2 years and 6 months, the recovery period is longer (three years).

the total annual reduction in (weather-corrected) customer usage/margin as calculated under the deferral Mechanism, as well as additional margin revenues provided by Schedule 101 customers as a result of new rates taking effect.

F. Impact of General Rate Cases During Implementation of the Pilot Mechanism

- 1) Did Avista file any rate cases during the pilot period? If so, when?
- 2) To the extent new base rates took effect during the pilot period, when did those new rates take effect and what impact did that have on the methods and mechanics of the deferral calculations? Please include changes to base therm sales, weather adjustments, and rate of return.

G. New Customer Usage and Adjustment under the Mechanism

- 1) What was the impact of the new customer adjustment? For 2007 and 2008, what were the monthly and annual sales volumes deducted for new customer usage, and how do they compare to total sales volumes (both actual and weather normalized sales volumes)?
- 2) Did Avista's methods to identify, track, and remove new customer usage appear reliable and accurate? Did Avista implement any changes to this methodology during the course of the pilot?
- 3) If the Mechanism did not include a new customer adjustment, what would have been the impact on the decoupling deferral for 2007 and 2008, at both 100% and 90% levels?
- 4) What were the monthly numbers of customers served, by rate schedule, in 2006, 2007 and 2008?
- 5) For 2007 and 2008, what was the actual average annual usage for "new" Schedule 101 customers, as excluded from the monthly deferral calculation compared to the actual average annual usage for existing Schedule 101 customers?
- 6) Based on the average annual usage for existing Schedule 101 customers determined above, would the inclusion of margins earned from serving new customers in the monthly deferral calculation have increased or decreased annual deferrals and surcharge revenues during 2007 and 2008, and by how much? The average therm use per customer for new customers will be compared with the average use per customer for existing customers in the determination of the impact on the monthly deferral calculations.
- 7) In this section, please also refer to and discuss the data regarding total sales volumes and total gas margin revenues, provided in response to questions J1 and J2 below.

H. DSM Verification

- 1) Was the DSM Verification analysis performed, as required by the pilot Mechanism? By whom, and when?
- 2) What was the cost of the DSM verification analysis, for each year (2006, 2007, 2008)?
- 3) For each year, what were the verification analysis results? Were Avista's assumed savings levels increased or decreased?
- 4) Were there any changes in the methodologies used in the independent verification of DSM savings that would have changed the overall audit results during the 2006-2008 time period? What was the resulting impact, if any, on the deferral amount subject to recovery?
- 5) Based upon the Evaluator's review of the DSM Verification Final Reports, did the Evaluator become aware of any problems or potential inaccuracies within any of the DSM Verification (audit) analyses that were performed, and if so, what is the nature and potential importance of each problem or potential inaccuracy, and would each problem or potential inaccuracy have had any significant impact on the verified results? In that regard, please identify any judgmental assumptions, allocations or methodologies that materially impacted the conclusions that were reached?

I. Customer Migration between Rate Schedules 101 and 111

Schedule 101 (General Service – Firm - Washington) is available for residential and low usage commercial customers that use less than 200 therms per month. Schedule 111 (Large General Service – Firm - Washington) is generally a commercial rate schedule that consists of a higher minimum charge and is based on usage greater than 200 therms per month.

- 1) What was the monthly number of customer migrations (schedule shifting) between schedules 101 and 111 during the time of the pilot?
- 2) Based on the answer to #1 above, Did customers migration have any impact upon the decoupling deferrals since initiation of the pilot? Furthermore, what is the actual (or estimated if actual data is not readily available) therm usage resulting from customer migrations between schedules 101 and 111.
- 3) Does the Company periodically audit or verify Schedule 101 customer eligibility? If so, describe the timing and procedures for such audits.

J. Related Rate and Customer Usage Information (Actual and Forecasted)

- 1) What were total therm sales (and transportation) volumes by rate schedule, before and after weather normalization in 2006, 2007 and 2008?

- 2) What were total gas margin revenues by rate schedule, before and after weather normalization in 2006, 2007 and 2008?
- 3) What was the rate of average annual gas customer growth by rate schedule from 2006-2008? How does this compare to Avista's historical levels of gas customer growth in the 2004-2005 period? What is the Company's forecast for future customer growth? What were the average annual customer count totals by rate schedule for the period 2006-2008?
- 4) What proportion of Schedule 101 customers were residential versus commercial during the pilot. What proportion of Schedule 101 usage was residential versus commercial during the pilot?
- 5) On a rate schedule basis, how has both actual and weather normalized annual gas use per customer changed during 2006-2008?
- 6) What has been the change in the Company's natural gas delivered average monthly price per therm by rate schedule during 2006-2008? Provide a detailed incremental chronological listing (including Docket #) and price per therm impact of all rate adjustments (commodity, general rate case, decoupling, etc.) during the 2006 – 2008 time period. What was the cumulative impact factoring in all rate adjustments from the beginning of 2006 to the end of 2008?
- 7) What has been the natural gas commodity cost embedded in the average monthly price per therm values by rate schedule in the previous question and how did margin revenues (excluding recovery of gas commodity cost) change during 2006-2008? Provide a detailed incremental chronological listing (including Docket #) and impact of all commodity adjustments during the 2006 – 2008 time period. What was the total impact factoring in all adjustments from the beginning of 2006 to the end of 2008?
- 8) What is the Company's most recently available five year forecast for (a) natural gas rates/prices, and (b) numbers of customers by rate schedule, and (c) usage per customer by rate schedule, and (d) overall therm volumes and margin revenues by rate schedule in each available projected future period?

K. Impact on Washington Limited Income Customers

- 1) What is the estimated number of limited income customers in Avista's service territory? In evaluating this question, the evaluator may rely on census data, participation in government programs, and other reliable, public information. Describe the methodology used to develop the estimate.
- 2) Based on the results of the independent DSM Verification audits, did the Company change its natural gas therm savings through Company-sponsored limited income

programs for the 2006 – 2008 time period, as compared with 2004 - 2005? What were the annual audited limited income DSM savings (completed project basis) for 2006-2008 for Company sponsored limited income?

- 3) What is the proportion of therm savings from Company-sponsored limited income DSM programs compared to estimated sales volumes to limited income customers taking service under Schedule 101?
- 4) What were the associated lost margins from Company sponsored limited income DSM programs?
- 5) Did Avista make any commitments to program funding, or program changes or expansions as part of any rate cases or other regulatory proceedings during 2004 to 2008? Identify the regulatory proceeding, and provide the program funding, or program changes or expansions Avista made in response.
- 6) What program funding or program changes or expansions were implemented during the 2006 – 2008 time period for gas, shared savings, or electric efficiency with natural gas impact (either savings or increased usage) on limited income DSM programs as compared with the 2004 – 2005 time period? Identify each new, revised or expanded programmatic change including scope and funding.
- 7) Were there any changes in Avista's avoided costs during the Pilot Period that may have contributed to any changes in customer participation and savings for Company sponsored limited income DSM programs? Identify any other factors that may have contributed to an increase in limited income DSM savings and/or new or expanded limited income DSM program offerings. ?
- 8) What limited income DSM customer educational, informational and outreach programs were implemented by the Company during 2006-2008? What were the primary messages, including dates of publication or broadcast, and estimated costs of each of these programs? Were any therm savings attributed to such programs in the independent DSM verification (audit) referenced above in Section (C), and if so, how much, and using what assumptions or studies?
- 9) What information is captured and retained by Avista to track service provided to limited income customers in the normal course of business, including monitoring of participation in DSM and rate assistance programs?
- 10) What is Avista's estimate of average usage per customer for customers that have participated in the limited income DSM, LIHEAP and LIRAP programs, in comparison to all Schedule 101 customers, and how was such estimate derived?
- 11) At the average per customer usage levels for limited income customers provided in response to question #10, what is the approximate cost to a typical limited income customer for funding of DSM programs and for recovery of decoupling deferrals? How does the average cost for recovery of decoupling deferrals compare to the estimated average savings for customers in the limited-income DSM program?

- 12) Using the estimate of limited income customers from Question #1, and the estimate of limited income usage in Question #10, what is the estimated proportion of the total amount of decoupling deferrals borne by limited income customers for 2007 and 2008?
- 13) Identify and summarize any further information or data available that would assist in the determination of whether or not decoupling has a disproportionate impact on limited income customers?
- 14) What was the total limited income DSM expenditures for 2006, 2007, and 2008? Did Avista make any commitments regarding funding levels as part of any rate cases or other regulatory proceedings? What is Avista's best estimate of the proportion of limited income participation in each of its conservation programs and how such estimates were derived?
- 15) What was the total distribution of LIRAP funds to limited income customers for 2006, 2007, and 2008? Did Avista make any commitments regarding funding levels as part of any rate cases or other regulatory proceedings? What is Avista's best estimate of the proportion of limited income participation in this program and how was this estimate derived?
- 16) What was the total distribution of LIHEAP funds to limited income customers for 2006, 2007, and 2008? What is Avista's best estimate of the proportion of limited income participation in this program and how such estimates were derived?
- 17) Based on a sampling of those customers who receive LIHEAP or LIRAP funds, what was the estimated average surcharge for November 2007 – October 2008 and the estimated impact for November 2008 – October 2009?
- 18) What is the approximate cost to the limited-income customer population to fund 1) the DSM programs and 2) the recovery of the decoupling deferrals if each of the average usage figures above were applied to the estimated limited income population derived in Section K, Question #1?

L. Other Information

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