

REQUEST FOR PROPOSALS
Independent Third-Party Evaluation
of Avista's Natural Gas Decoupling Pilot

Scope of Work/ Proposal Instructions

1.0 Introduction and Background

On February 1, 2007, the Washington Utilities and Transportation Commission (Commission) issued a Final Order granting Avista Utilities' (Avista) request for approval of a natural gas decoupling mechanism pilot program, subject to certain conditions, in Docket UG-060518. Avista's Pilot Decoupling Mechanism began on January 1, 2007 and is in place for two and a half years. Under the terms of the Commission's order, Avista is responsible for the delivery of an evaluation of the decoupling pilot. The Commission's Order and the Settlement Agreement, as well as the Commission's First Supplemental Order of April 11, 2008, extending the deadline for filing the draft evaluation plan, are provided as Attachment A.

The Pilot Decoupling mechanism provides Avista with the opportunity to recover lost margins associated with a decline in natural gas usage per customer through an accounting deferral mechanism. The proposed mechanism does not track changes in margin related to variations in customer natural gas usage caused by weather. Rates will be adjusted annually at the same time as the Purchased Gas Adjustment (PGA), and will be limited to no more than a 2% annual rate increase. The Mechanism is applicable to Avista's Schedule 101 customers, which is predominantly residential customers but includes some small commercial customers as well.

An Evaluation Plan has been developed as part of a collaborative process, pursuant to the Settlement Agreement. The Evaluation Plan (Plan) is provided as Attachment B.

2.0 Purpose of this RFP

Avista has issued this RFP to seek a qualified independent evaluation firm or person to complete an objective, independent evaluation of the two and a half year natural gas decoupling pilot as further detailed in the Plan attached as Attachment B. The evaluator will complete the evaluation at the direction of a Stakeholder Advisory Group (Advisory Group), as explained further in Section 3.0.

3.0 Stakeholder Advisory Group

The selected Evaluator will conduct the evaluation under the direction and oversight of the Advisory Group. The Advisory Group will consist of a representative from each of the following parties: Avista, the Energy Project, the Public Counsel Section of the Washington Attorney General's Office, the Northwest Energy Coalition, the Northwest Industrial Gas Users and the staff of the Washington Utilities and Transportation Commission. The Memorandum of Understanding (MOU) provided as Attachment C to the RFP, describes how the Advisory Group will operate and interface with the Evaluator. Upon selection as the Evaluator, the successful bidder will sign the MOU.

4.0 Qualification Requirements of Potential Bidders

The Advisory Group is seeking a qualified, independent evaluator. To this end, firms or persons submitting a proposal, including any subcontractors, shall meet the following qualifications:

- a. An ability to demonstrate relevant experience.
- b. The preferred bidder will have no significant previous working history with Avista, either directly or as a subcontractor. Potential bidders are asked to describe the firm's previous working history with Avista, either directly or as a subcontractor, and to provide copies of all reports, studies, or any other documents provided to Avista.
- c. No prior advocacy position taken with respect to decoupling by the firm itself (or any subcontractors), either in favor or against.
- d. An ability to analyze energy consumption and utility accounting data and methodologies, as well as DSM data.

5.0 Information to Submit in a Proposal to Respond to this RFP

Firms or persons submitting a proposal shall provide the following information:

- a. Cover page with the following summary information:
 - Name of Person or Firm
 - Address
 - Point of contact for Proposal, including e-mail and telephone number
 - Total Cost of Proposal
 - List of any subcontractors and their addresses.
- b. Project Narrative – limited to 25 pages, doubled spaced, 12 point font. This narrative should address the approach contemplated for the evaluation of the decoupling pilot within the guidelines established in the Plan attached hereto as Attachment B. The narrative should also address items (c) through (f) below.
- c. Proposed budget and budget narrative.
- d. A description of the ability to meet the proposed timeline for project completion, including submitting Preliminary and Final Evaluation reports, as well as a proposed timeline of key activities culminating in project completion.
- e. Description of the extent to which the firm meets the key qualifications described above in Section 4.0. Bidders are asked to describe the firm's previous working history with Avista, either directly or as a subcontractor, and to provide copies of all reports, studies, or any other documents provided to Avista. In addition, bidders and any subcontractors are asked to verify and indicate that they have not taken any advocacy position on decoupling, by the firm itself, or any firm employees, either in favor or against. Bidders and any subcontractors are asked to disclose any past experience related to decoupling, including any reports, studies, statements, presentations, analyses, or recommendations.
- f. Description of any experience conducting work on behalf of multiple stakeholders and the firm or person's approach to conducting work under such circumstances.
- g. Staff who would work on the proposal, including lead author(s), and description of their qualifications.
- h. Description of relevant work experience for organizations (minimum 3). Please provide sample reports.
- i. List of any associations or memberships, and the date you became a member.
- j. List and describe any communications related to the Decoupling Mechanism and/or its evaluation that any member of the firm (or its subcontractors) has had with any representatives of the Advisory Group prior to submission of a bid. Please identify the approximate date of such communications, the persons involved, and a description of the communication.
- k. Any relevant attachments, including but not limited to items (g) through (j) above, as well as any documents regarding past experience related to decoupling or any work performed for Avista, as described in response to item (e).

5.1 Pricing

Only fixed cost Proposals inclusive of all expenses will be considered.

6.0 Data Availability

The Evaluator will utilize the following data:

- a. Data will be provided by Avista to the Evaluator and the Advisory Group including but not limited to accounting, sales volumes, margin revenues, and energy efficiency data.
- b. Demand Side Management (DSM) Verification data for 2006, 2007, and 2008 regarding verified, achieved DSM savings from Avista's company-sponsored DSM programs. This data is provided by a separate, independent third-party in the form of a final report. The 2006 DSM Verification report is complete, and the 2007 report is expected to be completed by August, 2008. The final report regarding DSM Verification for 2008 is anticipated on or before February 28, 2009. Avista will provide the Evaluator and the Advisory Group with the Final DSM Verification reports for 2006, 2007, and 2008.
- c. Additional data to determine the impact of the Pilot Mechanism on Avista's low income customers, including but not limited to Census Data.

The Evaluation Plan, included as Attachment B, provides a more detailed description of the type and range of data to be analyzed.

7.0 Independent Nature of the Evaluation

The evaluator selected as a result of this RFP process will perform the evaluation at the direction of the Advisory Group as explained further in Section 3.0 above. Nothing within the selection or contracting procedures contained within this process shall compromise this independence.

8.0 Timeline

The timeline for the RFP process, selection of the evaluator and completion of the Evaluation Plan is set forth in the Evaluation Plan, provided as Attachment B.

9.0 Submittal of Proposal

Please submit one (1) copy of your Proposal to the e-mail address listed in Section 10.0 below for distribution to the Advisory Group. Please submit six (6) copies of your written Proposal via certified mail to:

Avista Corporation
Attn: Pat Ehrbar
1411 East Mission
P. O. Box 3727
Spokane, WA 99220-3727

The written Proposal for the services identified under this RFP must be received on or before **5:00 p.m. on Tuesday, July 15th, 2008**, (the "Due Date") and clearly marked "**Response to RFP No. R-35701**".

No oral or telephoned Proposals will be considered. Proposals sent by e-mail before the deadline will be accepted for evaluation; however, hard copies of such Proposals must be received by mail or delivery, no later than three days after the due date.

It is the responsibility of the Bidder to see that its Proposal is received by the date stated herein. Any Proposal received after the stated Due Date will not be considered. Hard copies of Proposals previously sent by facsimile or e-mail must be identical to the original submittals or they will not be considered.

10.0 Inquiries

Bidders may submit inquiries regarding any aspect of this RFP, in writing, to the Advisory Group at the following email address: decoupling@avistacorp.com. All questions will be logged and responded to by Avista with input from the Advisory Group. All Bidder Inquiries and Responses will be provided in writing and posted at the following website (www.avistautilities.com/decoupling) and thus available to all potential bidders. Interested Bidders may ask questions at any time prior to July 8, 2008.

11.0 Proposal Requirements

The written Proposal shall fully address the Evaluation Plan attached as Attachment B and all items described in Section 5 above. Failure to meet this requirement may result in disqualification. The successful bidder will be expected to enter into a contract that is substantially the same as the sample contract included in the RFP documents marked as Attachment D. The successful bidder will also sign the Memorandum of Understanding, provided as Attachment C.

12.0 Proposal Acceptance

The Proposal shall include a statement that it will remain valid for acceptance for a period of sixty (60) days following the closing time stated in Section 9.0 herein.

13.0 Modifications or Withdrawal of Proposal

13.1 By Bidder

A Bidder may modify or withdraw its Proposal by written request, provided that the request is received by Avista at the address and prior to the time specified in Section 9.0 above. Following withdrawal of its Proposal, a Bidder may submit a new Proposal, provided that such new Proposal is received by Avista at the address and prior to the time specified in Section 9.0.

13.2 By the Advisory Group

The Advisory Group may modify any provision of the RFP at any time prior to the time specified in Section 9.0 above, for the submission of Proposal. Subsequent to the issuance of a bid, any changes to the scope of work will be the subject of an addendum.

14.0 Award or Rejection of Proposal

14.1 Confidentiality

All Proposals will be opened privately by the Advisory Group. A bidder must clearly designate which portions, if any, of its Proposal are confidential, and Avista will use its best efforts to protect the same from public disclosure prior to the award of the bid. Thereafter, the terms and conditions of the winning bid may be made public.

14.2 Process for Selection and Basis of Any Award

The Advisory Group and Avista will compare all Proposals against all other proposals submitted under this RFP. The contract(s), if awarded by Avista with agreement of the Advisory Group, will be awarded on the basis of Proposals received and after consideration of Bidder's ability to provide the required services, complete the project, quality of personnel, extent and quality of relevant

experience, price and any other factors deemed pertinent by the Advisory Group. If there is a dispute between Avista and Advisory Group members regarding the selection of an evaluator, these parties may seek formal input from the Commission. If there is no consensus reached on the selection of the evaluator, Avista will select the evaluator based on additional input, if any, received from the Commission, or as otherwise directed by the Commission.

14.3 Rights

Subject to section 14.2, the Advisory Group reserves the right to reject any or all Proposals, and to award multiple contracts, at its sole discretion.

14.4 Proposal Evaluation and Pre-award Interviews

The Advisory Group will review proposals and may conduct interviews with candidates. In the event a pre-award interview with the Bidder's key team members is required, the interviews will be scheduled in Seattle or Olympia. They will be held at either the office of the Commission or the Office of the Washington Attorney General.

14.5 Pre-award Expenses

All expenses incurred by the Bidder to prepare a Proposal and participate in required pre-bid and pre-award meetings, visits and the interviews shall be borne by the Bidder.

15.0 Contract Execution

15.1 Documentation

Prior to execution of the contract, the Bidder to whom the contract is awarded (the "Successful Bidder") must deliver to Avista certificates of insurance and any other documents required by the RFP or proposed Agreement.

15.2 Preparation and Endorsement

If requested by Avista, the Successful Bidder must assist and cooperate with Avista in preparing the formal contract. Avista's standard contract format and terms and conditions for the type of work or services described in this solicitation are provided herein as RFP Attachment D. Within ten (10) working days after presentation of the formal contract, the successful bidder must duly execute the same and return it for execution by Avista. The failure of the successful bidder to duly execute and return the contract, together with certificates of insurance and any other required documents, will constitute a breach of contract by such bidder and entitle Avista, in addition to all other rights and remedies of Avista, to award the contract to any other bidder.

16.0 About Avista and the Advisory Group Members

Avista is an energy company involved in the generation, transmission and distribution of energy as well as other energy-related businesses, providing service to 330,000 electric and 287,000 natural gas customers in Washington, Idaho and Oregon. Avista's stock is traded under the ticker symbol "AVA." For more information about Avista, please visit www.avistacorp.com.

Avista Utilities is regulated by the Washington Utilities and Transportation Commission (www.utc.wa.gov). Commission Staff operate independently of Commissioners in litigated matters. The Public Counsel section of the Attorney General's Office represents the interests of residential and small commercial customers in matters before the Commission (www.atg.wa.gov/utilities.aspx). The Energy Project represents low-income customers and community action agencies before the Commission. The Northwest Energy Coalition is an alliance of organizations promoting, among other things, renewable

energy and conservation in the Pacific Northwest. The Northwest Industrial Gas Users (NWIGU) represents the interests of industrial natural gas customers in matters before the UTC.

END OF PROPOSAL INSTRUCTIONS

RFP Attachment A
UG-060518 Order and Agreements

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	DOCKET UG-060518
)	
)	
AVISTA CORPORATION, D/B/A	)	ORDER 04
AVISTA UTILITIES,)	
)	
	)	FINAL ORDER APPROVING
For an Order Authorizing	)	DECOUPLING PILOT PROGRAM
Implementation of a Natural Gas)	
Decoupling Mechanism and to)	
Record Accounting Entries)	
Associated With the Mechanism.)	
.....)	

1 ***Synopsis:** The Commission grants Avista’s request for approval of a decoupling mechanism pilot program, and requires an analysis of the pilot program’s results. The Order accepts a proposed multiparty settlement, subject to conditions limiting accumulation of interest and carry-over of benefits between periods, and denies requests by other parties to reject the proposal.*

2 **NATURE OF PROCEEDING.** Docket UG-060518 involves a petition by Avista Corporation for authority to implement a mechanism to decouple its rates for conducting business operations, in part, from its rates for commodity sales.

3 **HEARING.** The Washington Utilities and Transportation Commission (Commission) convened a hearing in this docket at Olympia, Washington on December 22, 2006, before Chairman Mark Sidran, Commissioners Patrick Oshie and Philip Jones and Administrative Law Judge C. Robert Wallis.

4 **APPEARANCES.** David Meyer, attorney, Spokane, Washington, represents Avista Corporation (Avista). Simon ffitth, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Section of the Washington Office of the Attorney General (Public Counsel). Greg Trautman, Assistant Attorney General, Olympia, Washington, represents the Commission’s regulatory staff (Commission Staff or Staff). Ron Roseman, attorney, Seattle, represents intervenor The Energy Project. Nancy Glaser, Seattle, represents Intervenor The Northwest Energy Coalition, and Ed

Finklea and Chad Stokes, attorneys, Portland, represent Intervenor Northwest Industrial Gas Users, or NWIGU.

5 **MULTIPARTY SETTLEMENT:** All parties except Public Counsel and The Energy Project have settled their differences and propose a settlement of all issues. Public Counsel and The Energy Project oppose the proposal.

6 **HEARING AND BRIEFING.** The Commission convened an evidentiary hearing in the proceeding on December 22, 2006. The parties submitted prehearing briefs on December 14, 2006, and presented closing arguments at the conclusion of the evidentiary hearing.

7 **DECISION.** The Commission finds that the benefits of this pilot program sufficiently outweigh its potential disadvantages and should be approved. The pilot program, supported by Staff as well as industrial and environmental interests, will allow a test of decoupling from which the parties can obtain objective data and analysis. The proposal is of relatively small scale and includes provisions to ameliorate the minor risk to ratepayers.

BACKGROUND

8 Decoupling is a ratemaking and regulatory tool intended to break the link between a utility's recovery of fixed costs and a consumer's energy consumption by reducing the impact of energy consumption on a utility's recovery of its fixed costs. Conservation advocates view decoupling as an important tool to promote greater conservation efforts by the utility by removing financial disincentives.

9 Under traditional ratemaking structures, utilities recover a large portion of their fixed costs through charges based on the volume of energy that consumers use. Consequently, a reduction in energy consumption may lower the probability that the utility can fully recover its fixed costs. Energy consumption may be lower for a variety of reasons. Consumers may lower their thermostats or take shorter showers. More energy efficient building codes and appliances, better and more efficient insulation, and warmer than normal weather can also reduce energy use. Conversely, an increase in energy consumption may lead to a utility over-recovering its fixed costs. The traditional financial incentives rewarding higher sales, some argue, create an environment in which utilities do not support conservation because it is inconsistent with their economic interests.

- 10 Promoting energy conservation is a goal that we strongly support, and provides a highly appealing rationale for decoupling on its face. Our states' laws and policies encourage us to look with favor upon incentives to stimulate increased energy conservation as well.¹ Our statutory responsibility to regulate in the public interest, however, requires us to look beyond the abstract and examine the specific evidence to determine whether the facts support this rationale for Avista.²
- 11 Some of the parties to this proceeding reached agreement on all disputed issues. The settling parties are the Company, the Commission Staff, NWIGU, and the NWEC, (the Northwest Environmental Coalition), collectively the "Joint Parties."³ Along with the Northwest Industrial Gas Users (NWIGU) they support adoption of a three-year pilot "partial" decoupling mechanism that they propose as a multiparty settlement.⁴
- 12 Public Counsel and the Energy Project oppose the proposal.

STANDARDS FOR REVIEWING SETTLEMENT AGREEMENTS

- 13 The Commission's procedural rules govern the process for reviewing proposed settlement agreements. The Commission "may accept [a] proposed settlement, with or without conditions, or may reject it."⁵ The Commission must "determine whether a proposed settlement meets all pertinent legal and policy standards."⁶ The Commission may approve settlements "when doing so is lawful, when the settlement

¹ See RCW 80.28.024, RCW 80.28.025, and RCW 80.28.260.

² The Commission has determined that it is not desirable to take a blanket approach to decoupling. "The Commission believes that the wide variety of alternative approaches to decoupling make it more efficient to address these issues in the context of specific utility proposals included in general rate case filings rather than through a generic rulemaking." Rulemaking to Review Natural Gas Decoupling, Docket UG-050369, Notice of Withdrawal of Rulemaking (October 17, 2005). This is the third in a recent series of decoupling proposals we have considered, including one for Puget Sound Energy, Inc., *WUTC v. Puget Sound Energy, Inc.*, Order 08, Dockets UE-060266 and UG-060267 (2007), and the other for Cascade Natural Gas, *WUTC v. Cascade Natural Gas*, Order 05, Docket UG-060256 (2007). Each proposal has unique qualities and a unique setting which has shaped our analysis and determined our decision.

³ Though a sponsor of the settlement stipulation, NWIGU did not sign on to the joint testimony, joint rebuttal testimony, or the pre-hearing brief.

⁴ WAC 480-07-730.

⁵ WAC 480-07-750(2).

⁶ WAC 480-07-740.

terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the Commission.”⁷

14 In reviewing the proposed settlement, we must consider the terms of the decoupling proposal, and whether those terms are lawful, are supported by the record and are in the public interest.

TERMS OF THE PROPOSED SETTLEMENT

15 The main features of this proposed pilot decoupling mechanism include the following:⁸

- **Term:** It would begin January 1, 2007. Recording of deferred revenue will end on June 30, 2009. However, the amortization period would begin on November 1, 2007 and end on October 31, 2010.
- **Application:** It would apply only to schedule 101 (residential and small commercial customers).
- **New Customer Adjustment:** It would remove the usage associated with new customers added since the corresponding month of the test year.
- **The Deferral Amount:** It would defer 90% of the margin difference, either positive or negative, for later recovery (or rebate).
- **Recovery:** It would subject recovery of deferred costs to:
 - *An earnings test* – Avista could not earn more than its authorized 9.11% rate of return.
 - *A demand side management (DSM) test* – recovery based on Avista achieving specific conservation targets.

⁷ WAC 480-07-750(1).

⁸ See Exh. 15 (Settlement), ¶¶6A-6J.

Actual vs. Target DSM Savings	Amount Deferred
< 70%	0%
> 70% and < 80%	60%
> 80% and < 90%	70%
> 90% and < 100%	80%
100%	90%

- Any deferred amount not recovered due to the earnings or DSM tests would carry over and offset future deferrals.⁹
 - Variations due to weather will be excluded from calculations of savings.
- **Review of DSM Savings:** The Company will retain an independent third party to audit the results of DSM savings reported for decoupling purposes.
 - **Annual Rate Changes:** The mechanism would limit annual rate increases due to the mechanism to 2% annually.
 - **Decoupling Evaluation:** Prior to filing a request to continue the mechanism beyond its initial term, the company must evaluate its results.

16 According to the Joint Parties, the stipulated decoupling mechanism would “break the link between the volume of therm sales and the recovery of fixed costs and would provide for an increased focus on energy efficiency and conservation.” They argue that the resulting “increased conservation would not only benefit the individual customers participating in those measures through reduced bills, but would also reduce the overall demand for natural gas, which would help to reduce natural gas prices for all customers.”¹⁰ The Joint Parties further assert that the proposed decoupling mechanism “would align the Company’s interest with that of its customers with an increased focus on effective DSM programs.”¹¹

17 Decoupling, like many other departures from traditional ratemaking structures that have come before this Commission, has both potential advantages and disadvantages.

⁹ We address this provision, and require modification, below.

¹⁰ See Exh. 10 (Joint Testimony), 7:1-15.

¹¹ *Id.*, 7:22-8:2.

A key disadvantage, as Public Counsel points out, is the potential shifting of risk to ratepayers.¹² Under the stipulated proposal, the risks of changes to weather-normalized consumption would shift to customers. All customers, regardless of their individual efforts to lower use, will experience a surcharge in rates should consumption by class fall below the expected level. This points us to a second potentially serious problem—the distortion of price signals and consequent dampening of customer conservation initiatives.

- 18 Balancing fixed-cost recovery on an annual basis via a surcharge or credit mechanism diminishes the value of rates as a means to send appropriate price signals to customers. Based on changing energy market conditions, price signals undoubtedly affect customer choices to conserve or not. This price signal may be weakened if customers conserve and then are faced with paying a surcharge that reduces their financial benefit. In those circumstances, decoupling actually may prove counterproductive to its laudable purpose. Just as we must be concerned that in some instances the absence of decoupling or something similar may prove a disincentive to a company promoting conservation, the implementation of decoupling, and associated surcharges, may prove a disincentive to customers who might be inclined to conserve if it is to their financial advantage.
- 19 A third potential problem, vigorously argued by Public Counsel, is the risk over time of distorting the “matching principle” through single issue ratemaking.¹³ Under this principle, revenues and costs are balanced at a common point in time, i.e., a rate case, to determine fair, just, reasonable and sufficient rates. If a company is largely assured recovery of fixed costs and most variable costs are routinely passed through to customers (e.g., via purchased gas adjustment mechanisms and the like), then the company has fewer reasons to file a general rate case. In this context, any cost savings achieved by the company are not shared with customers. The result risks over-earning by the company and over-paying by the customers.
- 20 Considering these concerns, we must examine carefully the stipulated proposal to determine whether the record is sufficient to prove the potential advantages from decoupling outweigh its potential disadvantages in this case.
- 21 A fundamental test in this regard is the likelihood of increased conservation as a result of implementing a decoupling program. A key complaint of Public Counsel and the

¹² Public Counsel Initial Brief, ¶ 91.

¹³ *Id.*, ¶¶ 22-28, 56-59.

Energy Project is that there is no guarantee that the decoupling proposal would increase conservation. Public Counsel argues that the stipulation's use of the 2006 Integrated Resource Plan's (IRP) savings level as the conservation target does not satisfy the "requirement for incremental conservation."¹⁴ The Energy Project also expresses skepticism over whether the proposed decoupling mechanism would increase conservation and recommends a higher conservation target.¹⁵

22 The Joint Parties respond that Avista performed a comprehensive assessment of natural gas efficiency measures to establish its gas savings targets as part of the IRP¹⁶ development process. This effort was carried out with the help of an external oversight group, the External Energy Efficiency Board. As a result, the Joint Parties claim that the savings target is "meaningful and elevated" as well as being "appropriate and in the public interest."¹⁷ The Joint Parties further assert that with the stipulated decoupling program, the Company can continue to encourage customers to conserve natural gas through education, as well as through programmatic DSM.¹⁸ Finally, the Joint Parties claim that the prospect of a decoupling mechanism has already increased the Company's focus on natural gas DSM. The Company has increased resources "to achieve higher DSM goals in 2006 and beyond."¹⁹

23 We note that the stipulated decoupling mechanism includes a DSM test whereby Avista must achieve *at least* the 2006 IRP's targeted savings level to maximize recovery of deferred costs. Moreover, the Joint Parties point out the 2006 IRP target was based on a comprehensive assessment of available efficiency measures and is about four times the goal of the previous 2004 IRP.²⁰ Finally, it appears that Avista has recently made efforts to increase its conservation program in anticipation of this decoupling mechanism. Ms. Glaser, testifying on behalf of the Northwest Environmental Council, emphatically supported this view. Together, these factors lead us to conclude that the proposed decoupling mechanism has some potential to increase Company conservation.

¹⁴ See Exh. 51 (Public Counsel Testimony), 12:4-20.

¹⁵ See Exh. 60 (Energy Project Testimony), 5.

¹⁶ Integrated Resource Plan, a means by which utilities identify resources to meet likely future loads. See, WAC 480-107.

¹⁷ See Exh. 11 (Rebuttal Joint Testimony), 3:8-9, 4:17-18.

¹⁸ *Id.*, 7:3-11.

¹⁹ *Id.*, 7:18-8:7.

²⁰ *Id.*, 3:8-15.

- 24 Public Counsel also asserts that deferrals under the decoupling mechanism would be far out of proportion to the lost margins from Avista's energy efficiency programs. Of the \$617,000 deferral simulated by the Company for the July 2005-June 2006 time period, it alleges that only \$141,000 (less than 25 percent) was due to Avista's own conservation efforts.²¹ The Joint Parties argue that Public Counsel "fails to recognize that the [decoupling] mechanism is intended to capture up to 90 percent of the lost margin resulting from all reductions in usage... even conservation beyond that which results from the Company's sponsored DSM programs." The Joint Parties further imply that some of the customer conservation results from Company education efforts."²²
- 25 Public Counsel makes a strong argument that the decoupling mechanism may recover lost margin far out of proportion to losses from effects of Avista's efficiency programs. As noted above, we are concerned that the mechanism not simply be a way to shift from the Company to customers the risk of falling individual natural gas consumption. That said, it is reasonable to assume, as the Joint Parties do, that company-sponsored educational efforts have an effect on individual efficiency decisions. It is also reasonable to conclude that the application of an earnings cap and the exclusion of weather from the mechanism will prevent such a significant shift in risks that the Company would earn windfall profits—especially over the three-year test period proposed in the stipulation.
- 26 To ensure that the program does not result in inappropriate benefit to the Company, we require two changes to the proposal. First, any funds that are not deferred due to the "earnings" and/or the "DSM" test may not be carried over to the next period. Second, the Company may not record interest on deferrals until we approve the deferrals for recovery.²³ In light of these changes, we do not find Public Counsel's argument sufficiently strong to prevent implementation of the multi-party settlement. However, the proportion of margin lost to company sponsored DSM relative to the amount subject to recovery is of great interest to us, and we will closely scrutinize this factor in reviewing the results of this pilot decoupling program.

²¹ See Public Counsel Pre-Hearing Brief ¶ 5.

²² See Joint Parties Pre-Hearing Brief ¶ 35.

²³ Generally, interest on deferred amounts should be limited to instances where a utility's investors have provided a direct investment. In this instance, the deferral is the amount of money the company would have made if they had earned their authorized rate of return. Since deferral is not derived from investors' funds that are expensed or capitalized, it should also not earn interest.

- 27 Public Counsel claims that eliminating schedule 111 from the decoupling mechanism creates two serious problems. First, he argues that any incentive resulting from decoupling will benefit Schedule 111 (large user) customers who will not be paying anything to remove the “disincentive.” Second, he argues that since the settlement decoupling proposal recovers the full lost margins for all rate schedules, Schedule 101 (residential) customers are paying not only for their own lost margins, but for all Avista’s lost sales volumes for all customer schedules. This, he alleges, amounts to a cross-subsidy.²⁴
- 28 The Joint Parties respond that Schedule 111 has a significant number of large commercial and industrial customers, whose gas usage can vary greatly due to economic reasons. These customers should not be part of the pilot decoupling mechanism and it would be difficult to identify, track and remove them from the mechanism. So the Joint Parties agreed to eliminate all of Schedule 111 customers. The Joint Parties further assert that the mechanism determines lost margin only from Schedule 101 customers and any adjustment applies only to those customers. Any lost margin associated with Schedule 111 customers would not be included in the decoupling mechanism.²⁵
- 29 We find little merit in the assertion that decoupling proposal would result in Schedule 101 customers subsidizing Schedule 111 customers. The lost margins would be calculated solely for and apply only to Schedule 101 customers. We also do not agree with the apparent argument that a cross subsidy occurs simply because the conservation tariff rider applies to all customers, but all customers may not equally share in the conservation acquired through the rider. The tariff rider creates a public benefit by providing a pool of funds to acquire the most conservation at the least cost, wherever that may occur. The argument that this creates a cross-subsidy could equally apply to other utility programs such as rate relief provided to some low-income customers.
- 30 In prior reviews of proposed decoupling mechanisms, we have noted the importance of the information accompanying a general rate case to making a fully informed decision. Although this petition is not part of a general rate case, the fact that Avista

²⁴ *Id.*, 11:12-22.

²⁵ *See* Exh. 11 (Rebuttal Joint Testimony), 10:9-15.

had such a case before us within the past 13 months is sufficient in this context to guide our decision.²⁶

- 31 Public Counsel raises substantive concerns as to the appropriateness of decoupling. We conclude that an appropriately designed pilot program with adequate safeguards to protect ratepayers is in the public interest, because it will test the hypothetical benefits of decoupling generally and the specifics of this mechanism set forth in the settlement agreement. This proposal, as conditioned, has many limitations and safeguards to protect the public; it follows a review adequate for the purpose in a rate proceeding decided recently; and it is low-risk, putting ratepayers to a minimal exposure.²⁷ As modified, this proposal constitutes an acceptable form for a pilot program.
- 32 To ensure an adequate review of the program and its accomplishments, we require that the program be reviewed at its conclusion in a general rate case.

CONCLUSION

- 33 The Commission favors the resolution of contested issues through settlement “when doing so is lawful and consistent with the public interest.”²⁸ We have carefully considered the design of the stipulated partial decoupling mechanism, including the public protections afforded by the DSM test and the earnings test on recovery of deferred costs. After reviewing all of the arguments, we determine that it is in the public interest to allow the Company to proceed with this pilot program. However, we agree with Public Counsel and the Energy Project that the proposal is not without potential flaws. The settling parties should consider our approval as an opportunity to demonstrate that decoupling mechanisms do indeed increase utility sponsored conservation and that the potential flaws do not outweigh the program's benefits. We will carefully evaluate the mechanism, and will only consider an extension upon a convincing demonstration that the mechanism has enhanced Avista’s conservation efforts in a cost-effective manner.

²⁶ We note in contrast our rejection of Avista’s petition for a power and transmission cost update outside a general rate case. See, Order 04, docket UE-061411 (2006).

²⁷ The mechanism limits annual rate increases to a maximum of 2%. Avista’s study indicates that if the mechanism had been effective between July 2005 and June 2006, ratepayer exposure would have been 35 cents per month for a typical residential customer. Exh. No. 1, p.11.

²⁸ WAC 480-07-700.

FINDINGS OF FACT

34 Having discussed above in detail the evidence received in this proceeding concerning
all material matters, and having stated above our findings and conclusions upon issues
in dispute among the parties and the reasons supporting the findings and conclusions,
the Commission now makes and enters the following summary findings of fact,
incorporating by reference pertinent portions of the preceding detailed findings:

35 (1) The Washington Utilities and Transportation Commission is an agency of the
State of Washington, vested by statute with authority to regulate rates, rules,
regulations, practices, and accounts of public service companies, including gas
companies.

36 (2) Avista Corporation is a “public service company” and a “gas company,” as
those terms are defined in RCW 80.04.010, and as those terms are used in
RCW Title 80. Avista is engaged in Washington State in the business of
supplying utility services and natural gas to the public for compensation.

37 (3) Avista filed a petition on April 5, 2006, requesting an order authorizing a
natural gas decoupling mechanism which would defer certain costs and
revenues in order to potentially recover fixed costs unrelated to consumption.

38 (4) Four parties entered into a multi-party Agreement resolving their differences
and agreeing to a pilot program. The settling parties included the Company,
Commission Staff, and the Northwest Environmental Coalition (NVEC). In
addition, the Northwest Industrial Gas Users (NWIGU) supports the proposed
settlement. The Settlement Agreement is attached to this Order as Appendix
A.

39 (5) Public Counsel and the Energy Project oppose the settlement proposal.

40 (6) The proposed pilot decoupling program includes sufficient elements,
mechanisms and commitments to protect ratepayers and real incentives for the
Company to deliver on the promise of conservation. It is likely to increase
Company conservation.

41 (7) An evaluation of the pilot, partial decoupling program, regardless of whether
Avista seeks to continue the program after the three-year pilot period expires,

is important to determining the value of decoupling mechanisms for regulated utilities in Washington State.

CONCLUSIONS OF LAW

- 42 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law incorporating by reference pertinent portions of the preceding detailed conclusions:
- 43 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, this proceeding. *RCW Title 80.*
- 44 (2) Informal settlements in administrative proceedings are encouraged. *RCW 34.05.060.* The Commission may approve settlements “when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.” *WAC 480-07-750(1).*
- 45 (3) The Settlement Agreement is supported by the record, and is consistent with the law and public interest.
- 46 (4) Avista’s petition should be granted, authorizing accounting treatment effective January 1, 2007, as described in the Settlement Agreement to implement a decoupling mechanism pilot program, but only subject to the following conditions: First, any funds that are not deferred due to the “earnings” and/or the “DSM” test may not be carried over to the next period. Second, the Company may not record interest on deferrals until such time as the deferrals are approved for recovery by the Commission. If the parties fail to accept these conditions, this Order shall become void and Avista’s petition shall be set for a full hearing on the merits.
- 47 (5) The Commission should retain jurisdiction over the subject matter of and the parties to this proceeding to effectuate the terms of this Order. *RCW Title 80.*

ORDER

- 48 The Commission approves, subject to condition, the Joint Parties' proposal and authorizes Avista to implement accounting treatment, as described in the Settlement agreement, to effect a decoupling mechanism pilot program. For the approval to become effective, the settling parties must each agree within ten business days to a settlement agreement modification containing the following changes: First, any funds that are not deferred due to either the "earnings" and/or the "DMS" test may not be carried over to the next period. Second, the Company may not record interest on deferrals until such time as the deferrals are approved for recovery by the Commission.
- 49 The multi-party Settlement Agreement filed in this proceeding on October 27, 2006, attached to this Order as Appendix A and incorporated herein by this reference as if set forth in full, is accepted and approved, subject to conditions, as set out in the body of this Order.

Dated at Olympia, Washington, and effective February 1, 2007.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

MARK H. SIDRAN, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.

**APPENDIX A
PROPOSED SETTLEMENT**

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of	)	DOCKET NO. UG-060518
)	
AVISTA CORPORATON, d/b/a)	
AVISTA UTILITIES,)	
)	
)	
For an Order Authorizing Implementation of a	)	SETTLEMENT AGREEMENT
Natural Gas Decoupling Mechanism and to)	
Record Accounting Entries Associated With the)	
Mechanism.)	
.....)	

I. PARTIES

1. This Settlement Agreement is entered into by Avista Corporation (the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), the NW Energy Coalition (“the Coalition”), and Northwest Industrial Gas Users (“NWIGU”), jointly referred to herein as the “Signing Parties.” The Public Counsel Section of the Washington Attorney General’s Office and The Energy Project do not join in this Settlement. The Signing Parties agree this Settlement Agreement is in the public interest and should be accepted as a resolution of all issues in this docket. The Signing Parties understand this Settlement Agreement is subject to Commission approval.

II. INTRODUCTION

2. The Company filed a Petition, dated April 4, 2006, requesting the Commission to approve a proposed Natural Gas Decoupling Mechanism. The Company also provided a copy of the Petition to representatives of Public Counsel, the Northwest Industrial Gas Users, the Coalition, the Washington Energy Policy Group (Department of Community

Trade and Economic Development or “CTED”) and the Spokane Neighborhood Action Program.

Workshops were held on May 17th and June 28th at the Commission’s offices to discuss the Company’s proposed Mechanism. Representatives of all of the aforementioned organizations were present, as well as a representative of The Energy Project. A number of different issues and alternatives were explored during these workshops. On August 7th, the Company filed an Amendment to its original Petition to address several issues raised by the other parties.

3. A prehearing conference was held on September 6, 2006, and the Coalition, NWIGU and The Energy Project were granted permission to intervene and participate along with Staff and Public Counsel.

4. After analysis of the filing, all parties commenced discussions for purposes of resolving or narrowing the contested issues in this proceeding in a settlement conference held October 16, 2006.

5. The Signing Parties have reached agreement on the issues in this proceeding and wish to present their agreement for the Commission’s consideration. This Settlement is the product of discussions among all parties at the aforementioned workshops and settlement conferences. The Signing Parties believe that the Settlement will serve the broader interest of removing disincentives to engage in additional conservation. The Signing Parties therefore adopt the following Settlement Agreement in the interest of expediting the disposition of this proceeding.

III. AGREEMENT

6. The Signing Parties have agreed that the company's Decoupling Mechanism (hereinafter "Mechanism") shall consist of the following:

A. Term of Pilot Program: The implementation of the Mechanism will begin January 1, 2007, whereupon deferred revenue entries would begin being recorded for that month. The proposed term of the Mechanism is 2 years and 6 months for the recording of deferred revenue (January 2007 – June 2009). However, the proposed amortization period would be three years, beginning on November 1, 2007 and ending on October 31, 2010.

B. Application of the Mechanism: The Mechanism would apply only to customers under the Company's natural gas Schedule 101.

C. Calculation of Monthly Deferral Amount: Following the end of each month, the actual volume of weather-corrected therm sales for the calendar month (Current Therm Sales) will be determined and compared with the weather-corrected therm sales for the corresponding month from 2004 (Base Therm Sales), the Company's most recent test year.

(1.) Adjustment for New Customer Usage – Prior to weather-correcting actual therm sales for the month, an adjustment will be made to remove the usage associated with new customers added since the corresponding month of the test year. To the extent the Company has added customers since the test year, these new customers would increase Current Therm Sales as compared to the Base Therm Sales. The actual usage for new customers will be subtracted from the total current month usage.

(2.) Adjustment to Weather-Correct New Usage - Following the subtraction of usage for new customers, the net current month usage will be weather-corrected. The coefficients (usage per degree-day per customer) used to determine the weather adjustment will be the same as those used in the test year, thereby providing a true comparison of the usage between the two periods.

(3.) Comparison of Usage Between Current Month and Test Year – Following the adjustments for new customer usage and weather, the net Current Therm Sales for the month will be compared with the Base Therm Sales to determine the difference in therm sales. This comparison captures the effect of conservation and price elasticity for “existing” customers since the corresponding month of the test year.

(4.) Over/Under-Recovery of Margin Resulting From Usage Differences – The difference in usage will then be multiplied by the approved margin rate for Schedule 101 (sales rate less purchased gas cost per therm) to calculate the fixed distribution costs that are either under-recovered or over-recovered, as compared to the test year.

(5.) Ninety Percent (90%) of Margin Difference Deferred – Ninety percent (90%) of the margin difference, either positive or negative, will be deferred and recorded in a separate account for later recovery (or rebate).

(6.) Effect of Intervening General Rate Case - If the Company files a natural gas general rate filing and the Commission issues its Order in that filing prior to June 30, 2009, the Base Therm Sales and margins resulting from that filing will be used in the Monthly Revenue Deferral Calculation for the remaining

months of the pilot term. Any weather adjustment approved in that filing would be used for determining the Base Therm Sales and Current Therm Sales. The authorized rate of return in that filing would be used for the prospective application of the earnings test, as set forth below in Section E.(1.).

D. Rate Adjustments Coincident with Annual PGA: The monthly deferred revenue will be accumulated through June of each year during the term of the Mechanism. If the Mechanism is approved to be effective January 1, 2007, the Company will accumulate the monthly deferred revenue for January through June 2007. It will then file a request to implement a rate adjustment, coincident with the 2007 PGA rate adjustment, to amortize that deferred balance over a twelve-month period, subject to the “earnings” and “DSM” tests described below. For each of the two successive years, the Company will accumulate the deferred revenue for each July-June period, and file a request on or before September 1 to implement the appropriate rate adjustment coincident with the annual PGA. Interest would be accrued on the deferred balance at the same rate applied to the Company’s PGA deferral account.

E. Deferred Revenue Recovery Subject to Earnings and DSM Tests: The level of deferred revenue recovery will be subject to (a) an annual earnings test, and (b) a DSM test. The tests will be calculated independently and the test resulting in the lowest surcharge amount would be used.

(1.) Application of Earnings Test - The “earnings-test” will be based on the Company’s annual “Commission-basis” operating results, which are filed with the Commission by April 30 for the previous calendar year results. If the Commission-basis rate of return for the Company’s Washington gas operations exceeds 9.11%, it would reduce the amount of the proposed surcharge (amount

transferred to the balancing account) to bring the rate of return down to 9.11%. (The authorized rate of return of 9.11% is derived from the Commission's Order No. 05 in Docket No. UG-050483.) If removing the entire deferred revenue amount from the Commission-basis results does not reduce the rate of return to 9.11%, no surcharge would be implemented. Where the amount of the surcharge is reduced as a result of the earnings test, the amount of deferred revenue remaining (not recovered through the surcharge) will be carried forward and used to offset future deferrals that would otherwise be recorded, rather than written off the Company's books. (See Attachment 1 for illustration of Earnings Test)

(2.) Application of DSM Test – The “DSM test” relates to the Company achieving pre-established natural gas DSM target savings during the prior year. The Company's 2006 Integrated Resource Plan (IRP) sets forth a natural gas (Washington & Idaho) target savings level of 1,062,000 therms for each of the calendar years 2006 and 2007.¹ This target savings level for each year will be used for determining the level of the 2007 and 2008 surcharges; the target savings level included in the Company's 2008 IRP will be used for the 2009 surcharge. The Company will file its 2008 gas DSM goal as a tariff revision to its decoupling tariff, which will provide an opportunity for review and comment from all interested parties. The following table shows the level of the surcharge (as a percentage of the margin difference between the current year and the test year) based on the actual gas DSM savings compared to the pre-established IRP target:

¹ The expected cost to achieve this savings target is \$2.5 million for 2006 and \$3 million for 2007.

<u>Actual vs Target DSM Savings</u>	<u>Surcharge vs Margin Difference</u>
< 70%	0%
≥ 70% and < 80%	60%
≥ 80% and < 90%	70%
≥ 90% and < 100%	80%
≥ 100%	90% (amount deferred)

If less than 70% of the target savings are achieved, the surcharge amount will be zero. DSM savings achieved between 70% and 100% of the target will result in the corresponding surcharge level shown in the above table. Any deferred revenue that cannot be recovered through a surcharge as a result of not meeting at least 100% of the DSM target will be carried forward and used to offset future deferrals that would otherwise be recorded. (See Attachment 2 for illustration of DSM Test)

F. Independent Third Party Review of DSM Savings: The Company will retain an independent third party to audit the results of DSM savings reported for decoupling purposes. This independent auditor will be chosen through an “RFP” process reviewed and approved by the parties to this Settlement Agreement. The scope of the audit will include an appropriate sampling of projects to verify the work completed, the savings recorded, and a review of the engineering estimates used to estimate the savings.

The cost of the audit will be funded through DSM tariff rider funds and will not exceed \$35,000 per year. (The Company will change the present method of recognizing DSM savings for decoupling reporting purposes to one where all savings associated with a project are recognized at the time the entire project is completed in order to reduce the cost of the audit, and for purposes of applying the DSM test in Section E.(2) above.)

G. Annual Two Percent (2%) Rate Change Limitation: After applying the “earnings” and “DSM” tests, the amount of the rate increase resulting from the adjustment will be subject to an annual incremental limit of 2%, i.e., the annual increase in the surcharge cannot exceed a 2% rate increase each year (cumulative of 6% over the initial term). The incremental surcharge (percentage) increase will be determined by subtracting the annual revenue amount recovered by the present surcharge rate from deferred revenue to be recovered through the proposed surcharge rate, and dividing that net amount by the total “normalized” revenue for Schedule 101 for the most recent July – June period. The normalized revenue would be determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental surcharge would exceed a 2% rate increase, only a 2% increase would be implemented and any excess deferred revenue will remain in the deferred revenue account and could be recovered the following year, subject to the 2% limitation.

H. Annual Decoupling Rate Adjustment Filing: On or before September 1, 2007, the Company will file a proposed decoupling surcharge (or rebate) based on the amount of deferred revenue recorded for the prior January through June 2007 period. For the September 2008 and 2009 filings, the proposed rate adjustment would reflect the total deferred revenue for an entire year (July-June). The results of the “earnings”, “DSM” and “2%” tests will be included with the filing and used to determine the amount of the

rate adjustment. A proposed tariff will be included in those filings. A sample tariff for the decoupling rate adjustment is attached for illustrative purposes as Attachment 3. The Company presently files its Commission-Basis Earnings report (for the prior year) by April 30th and will file its DSM report in advance of the decoupling filing.

The proposed tariff will reflect a rate adjustment that would recover the deferred revenue amount over a twelve-month period to be implemented coincident with the Company's annual PGA. If the rate adjustment is approved by the Commission, the deferred revenue amount approved for recovery or rebate will be transferred to a balancing account and the revenue surcharged or rebated during the period will reduce the deferred revenue in the balancing account. Any deferred revenue remaining in the balancing account at the end of the year, resulting from over- or under-collection, will be added to the new revenue deferrals to determine the amount of the proposed surcharge for the following year.

I. Accounting and Quarterly Reporting for the Mechanism: The Company will record the deferred revenue in account 186 – Miscellaneous Deferred Debits. The amount approved for recovery will be transferred into a 182.3 - Regulatory Asset account for amortization of the surcharge revenue received. On the income statement, the Company would record both the deferred revenue and the amortization of the deferred revenue through Account 407 - Regulatory Debits and Credits, in separate sub-accounts. The Company will file a quarterly report with the Commission showing pertinent information regarding the Mechanism. This information will include a spreadsheet showing the monthly revenue deferral calculation for each month of the current deferral period (July – most recent month), as well as the current and historical monthly balance in the deferral account.

J. Evaluation Plan and Extension of Mechanism: On or before March 31, 2009 (three months prior to the end of the pilot deferral term), the Company may file a request to continue the Mechanism beyond its initial term. That filing would include an evaluation of the Mechanism and any proposed modifications of the Company. Any party is free to argue that the renewal of the Mechanism is only appropriate in the context of a general rate case. The Company would bear the burden of demonstrating why the pilot program should be extended other than in the context of a general rate case.

The Company, Commission Staff, and other interested parties will develop, through a collaborative process, a draft evaluation plan to be filed with the Commission no later than December 31, 2007.

IV. EFFECT OF THE SETTLEMENT AGREEMENT AND PROCEDURE

7. Binding on Parties. The Signing Parties agree to support the terms of the Settlement Agreement throughout this proceeding, including any appeal, and recommend that the Commission issue an order adopting the Settlement Agreement contained herein. The Signing Parties understand that this Settlement Agreement is subject to Commission approval. The Signing Parties agree that this Settlement Agreement represents a compromise in the positions of the Signing Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement Agreement shall not be admissible evidence in this or any other proceeding.

8. Integrated Terms of Settlement. The Signing Parties have negotiated this Settlement Agreement as an integrated document. Accordingly, the Signing Parties recommend that the Commission adopt this Settlement Agreement in its entirety. Each

Signing Party has participated in the drafting of this Settlement Agreement, so it should not be construed in favor of, or against, any particular Party.

9. Procedure. The Signing Parties shall cooperate in submitting this Settlement Agreement promptly to the Commission for acceptance. The Signing Parties shall make available a witness or representative in support of this Settlement Agreement. The Signing Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Settlement Agreement and to supplement the record accordingly.

The Signing Parties agree to stipulate into evidence the prefiled direct testimony and exhibits of the Company, together with such evidence in support of the Agreement as may be offered at the time of the hearing on the Settlement. If the Commission rejects all or any material portion of this Settlement Agreement, or adds additional material conditions, each Signing Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from the Settlement Agreement. If any Signing Party exercises its right of withdrawal, this Settlement Agreement shall be void and of no effect, and the Signing Parties will support a joint motion for an expedited procedural schedule to address the issues that would otherwise have been settled herein.

10. No Precedent. The Signing Parties enter into this Settlement Agreement to avoid further expense, uncertainty, and delay. By executing this Settlement Agreement, no Signing Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at the Settlement Agreement, and except to the extent expressly set forth in the Settlement Agreement no Signing Party shall be deemed

to have agreed that such a Settlement Agreement is appropriate for resolving any issues in any other proceeding.

11 Public Interest. The Signing Parties agree that this Settlement Agreement is in the public interest and results in rates which are fair, just, reasonable and sufficient.

12. Execution. This Settlement Agreement may be executed by the Signing Parties in several counterparts and as executed shall constitute one agreement.

Entered into this 27th day of October, 2006

Company:

By: 

David J. Meyer
VP, Chief Counsel for Regulatory and
Governmental Affairs

Staff:

By: _____

Gregory J. Trautman
Assistant Attorney General
Counsel for Commission Staff

The NW Energy Coalition

By: _____

Nancy Glaser
The NW Energy Coalition

Northwest Industrial
Gas Users

By: _____

Edward A. Finklea
Cable, Huston, Benedict, Haagenon &
Lloyd, LLP

Entered into this 27th day of October, 2006

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By: _____

Nancy Glaser
The NW Energy Coalition

Northwest Industrial
Gas Users

By: Edward A. Finklea

Edward A. Finklea
Cable, Huston, Benedict, Haagenon &
Lloyd, LLP

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of	)	DOCKET UG-060518
)	
)	
AVISTA CORPORATION, D/B/A	)	ORDER 05
AVISTA UTILITIES,)	
)	
	)	FIRST SUPPLEMENTAL ORDER;
For an Order Authorizing	)	EXTENDING DEADLINE FOR
Implementation of a Natural Gas	)	FILING OF DRAFT EVALUATION
Decoupling Mechanism and to	)	PLAN; IMPOSING SANCTION FOR
Record Accounting Entries	)	FAILURE TO COMPLY WITH
Associated With the Mechanism.	)	COMMISSION ORDER 04
.....)	

1 ***Synopsis:** The Commission finds that Avista materially breached its obligations to work with Commission Staff, and other interested parties to develop and file a draft evaluation plan for Avista’s pilot Decoupling Mechanism program. The Commission accepts the parties’ representation that it is not currently evident that Avista’s delay caused irreparable harm to the ability to evaluate the pilot program. Therefore, the Commission extends the deadlines for Avista to develop and file the required plan and to request continuation of the Decoupling Mechanism beyond its initial term, and reiterates all other deadlines previously adopted in Order 04. Finally, the Commission imposes a penalty of \$50,000 for Avista’s non-compliance.*

SUMMARY

2 **PROCEEDINGS.** Docket UG-060518 involves a petition by Avista Corporation (Avista) for authority to implement a mechanism to decouple its rates for conducting business operations, in part, from its rates for commodity sales.

3 On February 1, 2007, the Commission entered a Final Order Approving Decoupling Pilot Program. In conditionally approving a multiparty Settlement Agreement, the Final Order required Avista, Commission Staff, and other interested parties to “develop, through a collaborative process, a draft evaluation plan to be filed with the Commission no later than December 31, 2007.” See Settlement Agreement (Settlement or Agreement), ¶ 6J.

- 4 On January 31, 2008, Public Counsel sent a letter to notify the Commission that Avista had failed to timely initiate the collaborative process and failed to meet the filing deadline for the draft evaluation plan. To date, Avista has not filed the required draft evaluation plan, nor filed a request for extension of the December, 31, 2007, deadline. At its February 28, 2008 Open Meeting, the Commission designated this matter for hearing.
- 5 **COMMENTS AND HEARING ON NON-COMPLIANCE.** The parties submitted prehearing comments on March 17, 2008, and presented additional exhibits as well as a panel of witnesses at the evidentiary hearing. The Washington Utilities and Transportation Commission (Commission) convened a hearing in this docket at Olympia, Washington on March 24, 2008, before Chairman Mark Sidran, Commissioners Patrick Oshie and Philip Jones and Administrative Law Judge Adam E. Torem. The hearing sought to determine whether the substantive value of the evaluation plan and final evaluation report had been irreparably undermined through Avista's delay, and what remedy or sanction, if any, would be appropriate.
- 6 **APPEARANCES.** David Meyer, attorney, Spokane, Washington, represents Avista Corporation (Avista). Simon ffitich, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Section of the Washington Office of the Attorney General (Public Counsel). Greg Trautman, Assistant Attorney General, Olympia, Washington, represents the Commission's regulatory staff (Commission Staff or Staff). Charles M. Eberdt, Bellingham, Washington, represents Intervenor The Energy Project. Nancy Hirsh, Seattle, Washington, represents Intervenor The Northwest Energy Coalition, and Ed Finklea, attorney, Portland, Oregon, represents Intervenor Northwest Industrial Gas Users (NWIGU).
- 7 **COMMISSION DETERMINATION.** The Commission finds that Avista breached its obligations to comply with the Final Order in this docket by failing to timely initiate a collaborative process with interested parties and develop a draft evaluation plan for its pilot decoupling mechanism. The Commission further finds Avista in default for failing to file its draft evaluation plan on or before the December 31, 2007, deadline or failing to file a timely motion for extension of time. Avista remains in default.

- 8 In recognition of the parties' unanimous agreement that Avista's delay has not irreparably damaged their ability to craft an appropriate evaluation plan, the Commission will allow Avista an opportunity to cure its default. Therefore, the Commission extends the filing deadline to April 30, 2008. Nevertheless, the Commission takes seriously Avista's failure to comply with Order 04, finds aggravating factors in the company's non-compliance, and imposes a financial penalty of \$50,000.

MEMORANDUM

I. Background

- 9 On December 22, 2006, the Commission conducted an evidentiary hearing on a proposed multiparty settlement to allow Avista to implement a decoupling mechanism pilot program from January 1, 2007, through June 30, 2009. Public Counsel and The Energy Project opposed the settlement.

- 10 The Settlement Agreement included the following provision:

On or before March 31, 2009 (three months prior to the end of the pilot deferral term), the Company may file a request to continue the Mechanism beyond its initial term. That filing would include an evaluation of the Mechanism and any proposed modifications by the Company. Any party is free to argue that the renewal of the Mechanism is only appropriate in the context of a general rate case. The Company would bear the burden of demonstrating why the pilot program should be extended other than in the context of a general rate case.

The Company, Commission Staff, and other interested parties will develop, through a collaborative process, a draft evaluation plan to be filed with the Commission no later than December 31, 2007.

Settlement Agreement, ¶ 6J.

- 11 At the December 2006 evidentiary hearing, in response to the Commission's inquiry about the Agreement's lack of detail regarding the evaluation of the pilot program, Brian Hirschorn, Avista's Manager of Pricing, testified that the parties would:

[C]ome back to you as a collaborative group and present an evaluation plan by the end of 2007. We thought, rather than – and obviously the Commission has certain things they'd like to see in the final evaluation plan, as well. We thought, let's take our time, develop a good evaluation plan, present it to the Commission, get the Commission's feedback. So rather than do that as part of this, let's give ourselves some time and do it right.

Transcript, Volume II, December 21, 2006, pp. 65-68.

- 12 Avista concedes that in the 11 months between the Commission's entry of its Final Order Approving Decoupling Pilot Program and the above-noted deadline of December 31, 2007, it took little or no action to convene the collaborative group or develop an evaluation plan.
- 13 In mid-January 2008, Avista recognized that it had failed to comply with the deadline to file a draft evaluation plan. Avista took no action to make this violation known to the Commission or otherwise notify the Commission of any plan to cure this defect.
- 14 On January 31, 2008, Public Counsel sent a letter to the Commission's Executive Secretary regarding the failure of Avista and the other settling parties to file the required draft evaluation plan. Public Counsel contended that failure to file the plan was a material violation of Order 04.
- 15 On February 1, 2008, Avista sent a response letter noting that it has begun working to create a draft evaluation plan for discussion purposes at a collaborative meeting to be held in the near future. Avista's letter also apologized for the delay and promised to redouble its efforts to arrive at a draft evaluation plan satisfactory to all parties. Finally, the letter stated that "the Company, within thirty (30) days, will either file a copy of the final evaluation plan or a progress report concerning the status of the plan."
- 16 On February 25, 2008, Avista sent another letter, this time conceding that the plan would not be completed by March 1, 2008, but providing a status report instead.

17 During the Commission's Open Meeting of February 28, 2008, Mr. Hirschorn of Avista accepted full responsibility for failing to comply with the Commission's order. Although Mr. Hirschorn expressed his belief that the evaluation plan would not be jeopardized by the delay, Public Counsel disagreed. The Commission set the matter for a hearing and sought formal comment on this issue.

II. HEARING ON NON-COMPLIANCE

18 At the March 24, 2008, hearing, the Commission accepted the Company's pre-filed testimony from Brian Hirschorn and Jane Peters. The Commission also permitted Public Counsel to present Policy Analyst Mary Kimball and Consultant Mike Brosch as its witnesses, and invited all parties to present their views on the impact of Avista's delay in submitting the draft evaluation plan. The Commission requested that Kelly Norwood, Avista's Vice President, State & Federal Regulation and Mr. Hirschorn's supervisor, provide additional testimony on Avista's behalf.

19 The parties all agreed that it is not currently evident that Avista's delay caused certain and irreparable harm to the substantive value of the evaluation plan or the final evaluation report.¹ Public Counsel recommended, as a sanction for Avista's failure to comply with the evaluation planning requirement, the Company should not be allowed to recover the cost of evaluation from ratepayers.² Public Counsel argues that: "It is important to send a signal to Avista, and other companies, that failure to comply with Commission Orders will be taken seriously and will result in meaningful sanctions."³ Staff did not respond in writing to the Commission's inquiry concerning what sanctions might be appropriate and its counsel remained silent on this question at the hearing.

20 The Company committed to filing the draft evaluation plan no later than April 30, 2008. The Company also agreed to a schedule proposed by Public Counsel, with relevant dates as follows:

April 30, 2008	Draft Evaluation Plan filed with Commission
May 9, 2008	Comments / Objections Filed on Draft Plan
March 31, 2009	Final Evaluation Report filed with Commission
April 30, 2009	Avista Permitted to Petition to Extend Pilot Program

¹ Public Counsel and the Energy Project argued that it was premature to know with certainty whether the program evaluation would be irreparably harmed by the delay.

² Public Counsel Comments at 9.

³ *Id.*

The Company also committed to paying for the evaluation plan without seeking to recover any associated costs in rates.

- 21 The Commission made clear that it would not take an active role in crafting the plan, but would be available to settle disputes among the parties in the unlikely event that any irreconcilable differences arise in the collaborative.
- 22 In response to questions from the bench, Mr. Norwood acknowledged several instances of noncompliance in 2007 and discussions with Staff regarding improving Avista's compliance.⁴
- 23 It is indisputable, and the Company concedes, that Avista's delay in filing the required draft evaluation plan is an ongoing violation of Order 04 and the Settlement Agreement it adopted.

III. COMMISSION DISCUSSION AND DECISION

- 24 Avista not only failed to comply with its obligations to develop and file the required plan, but also failed to promptly notify the Commission of its breach. Only when Public Counsel brought the matter to light did Avista come forward with an explanation and apology for its delay. We take seriously any failure to comply with our orders. In this case, however, there are aggravating factors beyond missing a filing deadline.
- 25 First, despite its own testimony in support of an eleven month process to develop a cogent, thorough evaluation plan, Avista did nothing for almost a year. While this delay may not cause irreparable harm to the value of the final report, it has caused harm. Work that was to be accomplished in eleven months must now be done in four (if the Company meets the new deadlines). Work that could have been done earlier, must now be done while the parties prepare for other pending cases.⁵ The Commission and the parties have had to spend time and effort on hearings addressing this matter. In short, Avista's violation has imposed real costs on others.

⁴ Transcript at 199:23 – 206:23.

⁵ Staff and Public Counsel, for example, are parties to five pending general rate cases and other major proceedings.

- 26 Second, this prolonged failure to comply with Order 04 occurred in the context of other compliance violations and penalties.⁶ In response to questions from the Bench, Mr. Norwood acknowledged discussions with Staff during the latter half of 2007 about the Company's compliance issues and Staff's view that improvement was needed in this area.⁷
- 27 Finally, given the obvious importance of decoupling as a policy issue to the Company, other parties and the Commission, it is hard to understand how Avista could lose track of its evaluation planning process.
- 28 Viewed in this context, Avista's failure to do anything meaningful to develop the evaluation plan over eleven months, its failure to file the plan on time, and its failure to notify the Commission and request an extension of time to file is inexcusable and should be sanctioned.
- 29 Failure to comply with a Commission order is subject to a penalty of up to \$1,000 per day, with each day of a continuing violation constituting a separate offense. *RCW 80.04.380*. Assuming Avista were to file the draft evaluation plan by April 30, 2008, as it has agreed, the filing would be 120 days late and the maximum penalty would be \$120,000. We believe a fine of \$50,000 is appropriate in this case.⁸

⁶ In February 2007, the Company petitioned for an accounting order to obtain retroactive approval of certain debt repurchase costs because it had deviated from the Commission's accounting rules without obtaining advance approval. On December 19, 2007, we approved a Settlement Agreement resolving Avista's petition. We imposed a \$15,000 penalty for violating our rules and Avista agreed to write off \$3.85 million of repurchased debt costs against its 2007 earnings.

In September 2007, the Company filed a petition seeking approval of certain journal entries it used in 2005 to record the repurchase of its general office building and adjacent properties. In a previous order, the Commission had required Avista to file for prior written approval of such journal entries. In light of the Company's failure to seek advance approval of its journal entries, the Commission issued a penalty assessment against Avista in the amount of \$5,000 for violating a prior Commission order, and reminded the Company that "Avista is responsible for complying with Commission orders." *Supra* fn. 4.

⁷*Id.*

⁸ When we originally approved the decoupling pilot program, we allowed the collection of funds from ratepayers before the decoupling program was tested and proven, giving the Company the benefit of the doubt. Avista is currently collecting \$305,677 under the decoupling program pursuant to the Company's filing in Docket UG-071863, which revised rate Schedule 101 effective November 1, 2007. Under the terms of Order 04 in this proceeding, Avista may seek further recovery of deferral balances in Fall, 2008, in conjunction with its purchased gas adjustment filing. We will consider Avista's performance in relation to the terms of Order 04 and this order in determining further recovery of deferred balances during the remainder of the pilot program.

30 While we conclude that it is in the public interest to allow the Company to continue with its pilot decoupling program, we remind Avista of our earlier guidance:

The settling parties should consider our approval as an opportunity to demonstrate that decoupling mechanisms do indeed increase utility sponsored conservation and that the potential flaws do not outweigh the program's benefits. We will carefully evaluate the mechanism, and will only consider an extension upon a convincing demonstration that the mechanism has enhanced Avista's conservation efforts in a cost-effective manner.

Order 04, ¶ 33.

31 As Public Counsel and the Energy Project suggest, the failure of Avista and the other settling parties to ensure timely development and filing of the draft evaluation plan may yet be found to have undermined the value of the final evaluation. All the parties have a responsibility to collaborate in good faith to produce the best possible evaluation under the circumstances. As we have previously noted, however, the ultimate burden in this regard lies squarely with Avista.⁹ We will grant Avista additional time, until April 30, 2008, to file the required draft evaluation plan. We will also adopt the schedule agreed to at the March 24, 2008, hearing, including extending the date for filing for extension of decoupling, and require the Company to strictly adhere to that schedule.

32 We will also require, as agreed to at hearing by the Company, that Avista will bear the reasonable costs of the evaluation, including the costs of consultants it retained for the hearing on March 24, 2008.¹⁰

FINDINGS OF FACT

33 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated above our findings and conclusions upon issues in dispute among the parties and the reasons supporting the findings and conclusions, the Commission now makes and enters the following summary findings of fact, incorporating by reference pertinent portions of the preceding detailed findings:

⁹ Transcript at 151:20-21, 153:20-22, 176:21-23, and 212:5-6.

¹⁰ Exhibit BJH-1T at 12:1 – 9; Transcript at 177:25 – 178:7

- 34 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including gas companies.
- 35 (2) Avista Corporation is a “public service company” and a “gas company,” as those terms are defined in RCW 80.04.010, and as those terms are used in RCW Title 80. Avista is engaged in Washington State in the business of supplying utility services and natural gas to the public for compensation.
- 36 (3) Avista filed a petition on April 5, 2006, requesting an order authorizing a natural gas decoupling mechanism that would defer certain costs and revenues in order to potentially recover fixed costs unrelated to consumption.
- 37 (4) The Commission entered a Final Order Approving Decoupling Pilot Program on February 1, 2007. This Order, in adopting a multiparty Settlement Agreement with conditions, required Avista to collaborate with all other interested parties to develop and file a draft evaluation plan of the decoupling mechanism no later than December 31, 2007.
- 38 (5) Avista did not collaborate with interested parties to develop a draft evaluation plan during 2007. Avista failed to file a draft evaluation plan by December 31, 2007, or to file a motion to extend time for submitting a draft plan.
- 39 (6) The delay in developing or filing a draft evaluation plan does not appear to have irreparably harmed the substantive value of such a plan at this time.
- 40 (7) Avista’s delay in developing an evaluation plan has imposed burdens and costs upon other parties and the Commission.
- 41 (8) Avista has agreed to bear the reasonable costs of the evaluation without recovery in rates.
- 42 (9) An evaluation of Avista’s partial decoupling pilot program remains important to determining the value of decoupling mechanisms for regulated utilities and consumers in Washington, regardless of whether Avista seeks to continue the program after the three-year pilot period expires.

- 43 (10) Avista has agreed to file a draft evaluation plan by April 30, 2008, 120 days after the date required in Order 04.

CONCLUSIONS OF LAW

44 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law incorporating by reference pertinent portions of the preceding detailed conclusions:

- 45 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, this proceeding. *RCW Title 80.*
- 46 (2) Avista failed to comply with the requirements of Order 04 and is in breach of its Settlement Agreement.
- 47 (3) Failure to comply with Commission Order 04 violates RCW 80.04.380 and subjects the Company to penalty of up to \$1,000 per day or a total of \$100,000 for the (100) days between December 31, 2007, and April 10, 2008.
- 48 (4) The facts in this case and the context of Avista's other failures to comply with Commission rules and orders warrants a penalty in the amount of \$50,000.
- 49 (5) The Commission should retain jurisdiction over the subject matter of and the parties to this proceeding to effectuate the terms of this Order. *RCW Title 80.*

ORDER

50 THE COMMISSION ORDERS THAT

- 51 (1) Avista must pay a cumulative penalty of \$50,000 for the days it has failed to comply with the terms of Order 04, from December 31, 2007, through April 10, 2008.
- 52 (2) Avista must file a draft evaluation plan that has been developed through a collaborative process with interested parties by April 30, 2008. Any party wishing to object to the draft evaluation plan must file its objections or comments no later May 9, 2008.

- 53 (3) Avista must file a final evaluation report of its pilot decoupling mechanism project no later than March 31, 2009.
- 54 (4) Avista may not request to extend the term of or modify its decoupling mechanism until April 30, 2009. The pilot decoupling project shall not be extended beyond its expiration date of June 30, 2009, unless the Commission takes affirmative action in that regard.

Dated at Olympia, Washington, and effective April 11, 2008.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

MARK H. SIDRAN, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.

RFP Attachment B
Evaluation Plan

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.

RFP Attachment C
Memorandum of Understanding

MEMORANDUM OF UNDERSTANDING
Regarding the Evaluation of Avista's Decoupling Pilot Program
April 25, 2008

I. PARTIES

This MEMORANDUM OF UNDERSTANDING (MOU) is hereby made and entered into by and between Avista Corporation, the Staff of the Washington Utilities and Transportation Commission (Commission Staff), the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel), the Northwest Industrial Gas Users (NWIGU), The Energy Project, and The Northwest Energy Coalition (NWECC), hereafter, the Parties.

II. BACKGROUND AND PURPOSE

On February 1, 2007, the Washington Utilities and Transportation Commission (Commission) entered Order 04 in Docket No. UG-060518, approving a settlement agreement (Settlement) among all parties in which the parties agreed to implement a pilot decoupling program (Mechanism). In the Settlement, at page 10, Paragraph J, the parties agreed that Avista, Commission Staff, and other interested parties "...will develop, through a collaborative process, a draft Evaluation Plan to be filed with the Commission no later than December 31, 2007." The parties further agreed that the Company may file a request to continue the Mechanism, on or before March 31, 2009. That filing would include an Evaluation of the Mechanism and any proposed modifications. In the Order, at page 10, Paragraph 33, approving the Settlement, the Commission stated it "will carefully evaluate the Mechanism, and will only consider an extension upon a convincing demonstration that the Mechanism has enhanced Avista's conservation efforts in a cost-effective manner."

Avista failed to file an Evaluation Plan by December 31, 2007, as required by the Commission's Order 04. On April 11, 2008, the Commission issued Order 05, requiring Avista to file an Evaluation Plan by April 30, 2008, adopting a schedule for the evaluation agreed to at the March 24, 2008 hearing, and addressing other matters.

The purpose of this MOU is to establish the guidelines for how the draft Evaluation Plan (Plan) will be disseminated to qualified bidders, and the terms of interaction between the Parties and the Evaluator. The Parties agree to the descriptions, conditions and documents of the items noted below:

- A. Description of Stakeholder Advisory Group (Advisory Group)
- B. Draft Evaluation Plan
- C. Timeline for Selection of Evaluator
- D. Distribution of RFP
- E. Selection of an Evaluator
- F. Communication between the Evaluator, Avista, and the Advisory Group
- G. Delivery of Evaluation Results
- H. Failure to Agree
- I. No Waiver

III. IT IS AGREED AS FOLLOWS:

A. Description of Stakeholder Advisory Group - One representative from each Party will serve on the Advisory Group. The Parties may identify additional staff to receive email or other communications related to the Advisory Group. The Advisory Group will provide oversight and guidance related to the evaluation of the Mechanism throughout the entire

process, both before and after the completion of the Plan – i.e., preparing the Plan, selecting an Evaluator, and addressing questions or issues that arise during the course of the evaluation.

B. Draft Evaluation Plan - The Parties agree that the Plan will be filed on or before April 30, 2008, and will be designed with the goal of allowing the Commission to fully examine the Mechanism. This MOU, as well as a Request for Proposals (RFP) will also be filed as attachments to the Plan filed with the Commission.

It is understood that the Plan is critical to the success of the overall evaluation of the Mechanism. It is also agreed that the evaluation of the Mechanism must be conducted independent from influence from any Party. As such, the Parties agree to abide by the process and terms outlined in this MOU for soliciting evaluators, evaluation of proposals, selection and retention of an Evaluator, and communicating with the Evaluator once selected.

C. Timeline for Selection of Evaluator - The timeline for the evaluation process is set forth in Section B of the Plan, as adopted by the Commission (Docket No. UG-060518, Order 05, ¶ 31).

D. Distribution of RFP - The RFP will be distributed by the Advisory Group as follows, according to the timeline set forth in the Plan:

1. Advisory Group identified firms.
2. The Association of Energy Services Professionals (AESP).
3. The Northwest Energy Efficiency Council.

4. Any other firms, associations, organizations or entities suggested by Advisory Group members.

E. Selection of an Evaluator

The Parties agree to work together in good faith according to the timeline set forth in Section B of the Plan to select an Evaluator.

1. Responding to Bidder Inquiries

As set forth in Section 10.0 of the RFP, potential bidders may submit written inquiries regarding the RFP to the Advisory Group by sending an email to: decoupling@avistacorp.com. The Parties agree to the following terms to receive, review, and provide responses to such inquiries:

- a. Avista will create an email account on behalf of the Advisory Group to receive such inquiries. Such inquiries will then be immediately sent to the individual(s) designated by each Party to receive Advisory Group emails.
- b. No later than 2 business days after the Advisory Group members receive such inquiries, each member may provide any input or recommendations for a response to the bidder's inquiry to the Advisory Group.
- c. Avista will provide a final response to the bidder's inquiry, incorporating edits or recommendations from the Advisory Group, by posting its response to the website referenced in Section 10.0 of the RFP.
- d. A log will be kept of all emails from Advisory Group members regarding bidder inquiries, including responses posted at the website referenced in Section 10.0 of the RFP.

- e. There shall be no bilateral communications between any member of the Advisory Group and any potential bidder upon execution of this MOU related in any manner to the Evaluation Plan, the Mechanism, or the RFP. Any communications with a potential bidder related to the foregoing shall be according to the terms described herein.

F. Communications between the Evaluator, Avista, and the Advisory Group

Once an Evaluator is chosen, the Advisory Group and Evaluator agree to communicate with one another according to the process and terms set forth below:

- 1. All questions related to the evaluation, by the Evaluator or any member of the Advisory Group, will be handled as follows:
 - a. Off-site Communications:
 - (i) All questions or data requests from the Evaluator or from any member of the Advisory Group, are to be submitted in writing, and distributed immediately and simultaneously via e-mail to Advisory Group members.
 - (ii) All responses to questions or data requests by members of the Advisory Group and the Evaluator are to be provided in writing, and served concurrently via e-mail to the evaluator and Advisory Group.
 - (iii) The Evaluator will maintain a log of questions asked, the responses provided, and the source thereof. The log will record whether answers are by consensus or by Avista decision.
 - (iv) No informal interviews with the Evaluator are permitted. For formal interviews, an agenda will be circulated in advance, with notice of place and time and a dial-in line for interested parties. Best efforts will be made to schedule interviews to accommodate participation by Advisory Group members. The Evaluator will prepare a summary of the interview and circulate to the Advisory Group in draft form for any edits/corrections. The

Evaluator will then prepare and circulate a Final Summary to the Advisory Group.

b. On-site Communications - Any site visits by the Evaluator to Avista's offices shall be handled as follows:

(i.) Site visits by the Evaluator to Avista's offices will be pre-arranged with an agenda circulated in advance, with notice of place and time, using best efforts to accommodate participation by the Advisory Group if requested. A separately designated conference room will be used for purposes of all communications between the Evaluator and Avista with an open conference bridge line available for any member of the Advisory Group to participate. A recording will be made of all conversations. Any documents exchanged during the site visit will be identified in an email that will be sent to all members of the Advisory Group shortly thereafter, and Avista will provide copies of any such documents upon request of the Advisory Group.

c. The Evaluator's draft and final reports shall contain references to source materials for data cited, including data request responses, and meeting notes.

d. Information will only be provided by Avista and Advisory Group members using the procedures noted above.

2. Reasonable costs of the Evaluator's work (not to exceed \$100,000) to be paid for by Avista, without recovery in rates.

G. Delivery of Evaluation Results - The schedule for delivery of the preliminary and final reports, and the timing for any potential extension or modification of the Mechanism, are set forth in Section B of the Plan.

H. Failure to Agree

If there is a failure to agree among the Advisory Group on issues that come before it, after best efforts to reach consensus, Avista will make the final decision, except where a Commission decision is provided for. The issue, lack of consensus, and final Avista decision will be reflected in a separate log which will be maintained by Avista.

I. No Waiver

By executing this MOU, no Party is waiving the right to make any argument with respect to the merits of the decoupling pilot, the implementation of the Plan, or potential harm to the evaluation caused by Avista's delay in filing the draft Plan.

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: 

By: _____

Date: 4/28/08

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: *Greg Prater*

Date: _____

Date: *April 28, 2008*

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

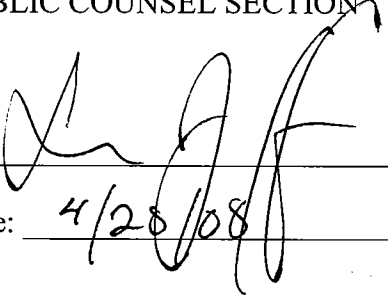
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OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By:  _____

By: _____

Date: 4/28/08 _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final - April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: Nancy E. Heindl

Date: _____

Date: 4/28/08

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By:  _____

By: _____

Date: 4/29/08 _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: Paula E. Pyron

Date: _____

Date: April 28, 2008

EVALUATOR:

Name: _____

By: _____

Date: _____

RFP Attachment D
Contract

CONSULTING SERVICES AGREEMENT

THIS AGREEMENT is entered into by and between Avista Corporation, a corporation organized under the laws of the State of Washington (hereinafter referred to as “Avista”) and [REDACTED] (hereinafter referred to as “Consultant”), sometimes hereinafter referred to individually as a “Party,” and collectively as the “Parties.”

RECITAL

WHEREAS, Avista is seeking a suitable independent third-party to perform an independent evaluation of Avista’s “Decoupling Mechanism” (the “Decoupling Evaluation”), referred to herein as (“Services”); and

WHEREAS, Avista desires to retain the services of qualified professionals to provide the Services described herein; and

WHEREAS, Consultant desires to provide the required Services in return for equitable compensation;

THEREFORE, in consideration of the premises, the sufficiency whereof is acknowledged by each of the Parties, it is agreed as follows:

Section 1 Scope of Services or Work

- 1.1 Avista hereby retains Consultant, and Consultant agrees to complete the Decoupling Evaluation described in the “Evaluation Plan for Avista Natural Gas Decoupling Mechanism” document attached hereto and incorporated herein as “Exhibit A”, and as further governed by the “Memorandum Of Understanding Regarding the Evaluation of Avista’s Decoupling Pilot Program” incorporated herein as “Exhibit B”, and the “Request for Proposals”, incorporated herein as “Exhibit C”.
- 1.2 As required, Avista’s Authorized Representative identified in Section 4 below, may request additions or modifications to the “Scope of Work” for the Services applicable under this Agreement, in accordance with the Memorandum of Understanding (“Exhibit B”) and the Evaluation Plan (“Exhibit A”). Such additions or changes shall be requested by written Work Authorizations or Change Orders, mutually agreeable to the Parties. Executed Work Authorizations and Change Orders shall be incorporated into this Agreement, by this reference, upon execution by both Parties.

Section 2 Term of Agreement

- 2.1 This Agreement shall become effective when executed by both Parties and remain in effect until June 30, 2009, or until all required Services have been performed or Work has been completed and accepted by Avista, unless terminated at an earlier date as provided for under this Agreement.

Section 3 Compensation

- 3.1 In return for the satisfactory performance of the Decoupling Evaluation Services identified in Section 1.1 above, Avista shall pay Consultant an amount of [REDACTED] Thousand Dollars (\$,000.00), upon completion of the work to be performed.

Section 4 Avista’s Representative

- 4.1 Avista’s Authorized Representative shall have the authority to bind Avista in all matters in connection with the Consultant’s performance under this Agreement requiring Avista’s approval, acceptance, authorization or notice. Avista’s authorized representative shall act in conformance

with the Memorandum of Understanding (“Exhibit B”) and the Request for Proposals (“Exhibit C”).

4.2 Avista’s Authorized Representative for the purposes of this Agreement is Pat Ehrbar.

Section 5 Notices to the Parties

5.1 All operational, day-to-day notices, demands, requests and other communications required to perform the Services of this agreement are governed by and in accordance with the Memorandum of Understanding (“Exhibit B”).

5.2 All contractual notices, demands, requests and other communications required or permitted under this Agreement shall be in writing and personally delivered to the other Party, or sent by facsimile or electronic mail, or sent by mail, postage prepaid, or delivered by a recognized commercial courier, addressed as set forth below. Such notice or communication shall be deemed to have been given as of the date so personally delivered, and if mailed or sent by facsimile, upon receipt thereof.

5.3 Notices to Avista:

Invoices, Legal and Project/Technical Notices: Attention Pat Ehrbar, MSC-29
Legal, Contractual, Insurance Notices: Attention Contract Services, MSC-33

At the following address:

Avista Corporation
P.O. Box 3727
Spokane, WA 99220-3727

5.4 Notices to Consultant:

xxx, Inc.
PO Box xxx
xxx, OR 97212
Attention: xxxx

5.5 Either Party may change its address by providing written notice to the other as provided herein.

Section 6 Insurance Requirements

Consultant and its Subcontractors of any tier performing work under this Agreement shall, prior to commencing work, secure and for the duration of the Agreement, continuously carry with insurers acceptable to Avista (insurer’s A.M. Best rating of A- VIII or better) the minimum insurance coverage identified below, subject to the requirements given in the General Conditions of this Agreement:

6.1 Commercial General Liability insurance with a minimum single limit of \$1,000,000. Such coverage shall include:

6.1.1 Bodily Injury and Property Damage Liability,

6.1.2 Contractual Liability,

6.1.3 Products and Completed Operations to extend for a minimum of two years past acceptance or termination of the work.

6.2 Business Automobile Liability insurance with a minimum single limit of \$1,000,000 for bodily injury and property damage with respect to Consultant’s vehicles whether hired or non-owned, assigned to, or used in the performance of any work.

- 6.3 Such insurance coverage requirements may be met by any combination of the specified insurance type and any excess or umbrella policy coverage, provided that the excess or umbrella policy has the same coverage as the underlying specified insurance type required herein, to achieve the appropriate minimum requirements.

Section 7 Other Provisions

- 7.1 **Agreement.** This Agreement and attached Exhibits contains the entire understanding between the Parties on the subject matter hereof. Any representation, promise, modification, or amendment to this Agreement or to the attached exhibits shall be consistent with said Agreement and Exhibits, and shall be adopted in accordance with the Memorandum of Understanding (“Exhibit B”) and the Evaluation Plan (“Exhibit A”), and except as provided herein, shall not be binding upon either Party unless reduced to writing and signed on behalf of Avista and the Contractor by their duly authorized representatives.
- 7.2 **Amendments and Change Orders.** Amendments and Change Orders to this Agreement and Work Authorization documents may be executed in any number of counterparts, each of which, when executed and delivered, shall be an original, but all such counterparts shall constitute one and the same instrument. As used herein, the term "counterparts" shall include full copies of such instruments signed and delivered by facsimile transmission or electronic mail, as well as photocopies of such facsimile transmissions or electronic mail.
- 7.3 **Assignment.** Neither party to this Agreement shall transfer, sublet or assign any rights under or interest in this Agreement (including but not limited to monies that are due or monies that may be due) without the prior written consent of the other party.
- 7.4 **No Waiver.** The failure of Avista to insist upon or enforce strict performance by Consultant of any of the provisions of this Agreement or to exercise any rights under this Agreement shall not be construed as a waiver or relinquishment to any extent of its right to assert or rely upon any such Provisions or rights in that or any other instance; rather, the same shall be and remain in full force and effect.
- 7.5 **Independence.** Avista and Consultant are independent of each other and nothing in this Agreement is intended, or shall be deemed, to create a relationship of partners or joint venturers, or any other association for profit between them.
- 7.6 **Headings.** Article and Section headings are for convenience and shall not be given effect in interpretation of this Agreement.
- 7.7 **Severability.** The invalidity or unenforceability of any provision of this Agreement shall not affect the other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted. The headings of sections of this Agreement are for convenience of reference only and are not intended to restrict, affect or be of any weight in the interpretation or construction of the provisions of such section.
- 7.8 **Jurisdiction and Venue.** Consultant shall not commence or prosecute any suit, proceeding or claim to enforce the provisions of this Agreement, to recover damages for breach of or default in this Agreement, or otherwise arising under or by reason of this Agreement, other than in the courts of the State of Washington or the District Court of the United States, Eastern Division, State of Washington. Consultant hereby irrevocably consents to the jurisdiction of the courts of the State of

Washington with venue laid in Spokane County and of the District Court of the United States, Eastern Division, State of Washington.

7.9 **Governing Law.** This Agreement shall be interpreted, construed and enforced in all respects in accordance with the laws of the State of Washington without giving effect to its principles of conflicts of law.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorized representatives on the date(s) set forth below.

AGREED TO BY:

Avista Corporation

(Signature)

(Printed Name)

(Title)

(Date)

ACCEPTED BY:

xxxx

(Signature)

(Printed Name)

(Title)

(Date)

Contract Exhibit A
Evaluation Plan

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.

Contract Exhibit B
Memorandum of Understanding

MEMORANDUM OF UNDERSTANDING
Regarding the Evaluation of Avista's Decoupling Pilot Program
April 25, 2008

I. PARTIES

This MEMORANDUM OF UNDERSTANDING (MOU) is hereby made and entered into by and between Avista Corporation, the Staff of the Washington Utilities and Transportation Commission (Commission Staff), the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel), the Northwest Industrial Gas Users (NWIGU), The Energy Project, and The Northwest Energy Coalition (NWECC), hereafter, the Parties.

II. BACKGROUND AND PURPOSE

On February 1, 2007, the Washington Utilities and Transportation Commission (Commission) entered Order 04 in Docket No. UG-060518, approving a settlement agreement (Settlement) among all parties in which the parties agreed to implement a pilot decoupling program (Mechanism). In the Settlement, at page 10, Paragraph J, the parties agreed that Avista, Commission Staff, and other interested parties "...will develop, through a collaborative process, a draft Evaluation Plan to be filed with the Commission no later than December 31, 2007." The parties further agreed that the Company may file a request to continue the Mechanism, on or before March 31, 2009. That filing would include an Evaluation of the Mechanism and any proposed modifications. In the Order, at page 10, Paragraph 33, approving the Settlement, the Commission stated it "will carefully evaluate the Mechanism, and will only consider an extension upon a convincing demonstration that the Mechanism has enhanced Avista's conservation efforts in a cost-effective manner."

Avista failed to file an Evaluation Plan by December 31, 2007, as required by the Commission's Order 04. On April 11, 2008, the Commission issued Order 05, requiring Avista to file an Evaluation Plan by April 30, 2008, adopting a schedule for the evaluation agreed to at the March 24, 2008 hearing, and addressing other matters.

The purpose of this MOU is to establish the guidelines for how the draft Evaluation Plan (Plan) will be disseminated to qualified bidders, and the terms of interaction between the Parties and the Evaluator. The Parties agree to the descriptions, conditions and documents of the items noted below:

- A. Description of Stakeholder Advisory Group (Advisory Group)
- B. Draft Evaluation Plan
- C. Timeline for Selection of Evaluator
- D. Distribution of RFP
- E. Selection of an Evaluator
- F. Communication between the Evaluator, Avista, and the Advisory Group
- G. Delivery of Evaluation Results
- H. Failure to Agree
- I. No Waiver

III. IT IS AGREED AS FOLLOWS:

A. Description of Stakeholder Advisory Group - One representative from each Party will serve on the Advisory Group. The Parties may identify additional staff to receive email or other communications related to the Advisory Group. The Advisory Group will provide oversight and guidance related to the evaluation of the Mechanism throughout the entire

process, both before and after the completion of the Plan – i.e., preparing the Plan, selecting an Evaluator, and addressing questions or issues that arise during the course of the evaluation.

B. Draft Evaluation Plan - The Parties agree that the Plan will be filed on or before April 30, 2008, and will be designed with the goal of allowing the Commission to fully examine the Mechanism. This MOU, as well as a Request for Proposals (RFP) will also be filed as attachments to the Plan filed with the Commission.

It is understood that the Plan is critical to the success of the overall evaluation of the Mechanism. It is also agreed that the evaluation of the Mechanism must be conducted independent from influence from any Party. As such, the Parties agree to abide by the process and terms outlined in this MOU for soliciting evaluators, evaluation of proposals, selection and retention of an Evaluator, and communicating with the Evaluator once selected.

C. Timeline for Selection of Evaluator - The timeline for the evaluation process is set forth in Section B of the Plan, as adopted by the Commission (Docket No. UG-060518, Order 05, ¶ 31).

D. Distribution of RFP - The RFP will be distributed by the Advisory Group as follows, according to the timeline set forth in the Plan:

1. Advisory Group identified firms.
2. The Association of Energy Services Professionals (AESP).
3. The Northwest Energy Efficiency Council.

4. Any other firms, associations, organizations or entities suggested by Advisory Group members.

E. Selection of an Evaluator

The Parties agree to work together in good faith according to the timeline set forth in Section B of the Plan to select an Evaluator.

1. Responding to Bidder Inquiries

As set forth in Section 10.0 of the RFP, potential bidders may submit written inquiries regarding the RFP to the Advisory Group by sending an email to: decoupling@avistacorp.com. The Parties agree to the following terms to receive, review, and provide responses to such inquiries:

- a. Avista will create an email account on behalf of the Advisory Group to receive such inquiries. Such inquiries will then be immediately sent to the individual(s) designated by each Party to receive Advisory Group emails.
- b. No later than 2 business days after the Advisory Group members receive such inquiries, each member may provide any input or recommendations for a response to the bidder's inquiry to the Advisory Group.
- c. Avista will provide a final response to the bidder's inquiry, incorporating edits or recommendations from the Advisory Group, by posting its response to the website referenced in Section 10.0 of the RFP.
- d. A log will be kept of all emails from Advisory Group members regarding bidder inquiries, including responses posted at the website referenced in Section 10.0 of the RFP.

- e. There shall be no bilateral communications between any member of the Advisory Group and any potential bidder upon execution of this MOU related in any manner to the Evaluation Plan, the Mechanism, or the RFP. Any communications with a potential bidder related to the foregoing shall be according to the terms described herein.

F. Communications between the Evaluator, Avista, and the Advisory Group

Once an Evaluator is chosen, the Advisory Group and Evaluator agree to communicate with one another according to the process and terms set forth below:

- 1. All questions related to the evaluation, by the Evaluator or any member of the Advisory Group, will be handled as follows:
 - a. Off-site Communications:
 - (i) All questions or data requests from the Evaluator or from any member of the Advisory Group, are to be submitted in writing, and distributed immediately and simultaneously via e-mail to Advisory Group members.
 - (ii) All responses to questions or data requests by members of the Advisory Group and the Evaluator are to be provided in writing, and served concurrently via e-mail to the evaluator and Advisory Group.
 - (iii) The Evaluator will maintain a log of questions asked, the responses provided, and the source thereof. The log will record whether answers are by consensus or by Avista decision.
 - (iv) No informal interviews with the Evaluator are permitted. For formal interviews, an agenda will be circulated in advance, with notice of place and time and a dial-in line for interested parties. Best efforts will be made to schedule interviews to accommodate participation by Advisory Group members. The Evaluator will prepare a summary of the interview and circulate to the Advisory Group in draft form for any edits/corrections. The

Evaluator will then prepare and circulate a Final Summary to the Advisory Group.

b. On-site Communications - Any site visits by the Evaluator to Avista's offices shall be handled as follows:

(i.) Site visits by the Evaluator to Avista's offices will be pre-arranged with an agenda circulated in advance, with notice of place and time, using best efforts to accommodate participation by the Advisory Group if requested. A separately designated conference room will be used for purposes of all communications between the Evaluator and Avista with an open conference bridge line available for any member of the Advisory Group to participate. A recording will be made of all conversations. Any documents exchanged during the site visit will be identified in an email that will be sent to all members of the Advisory Group shortly thereafter, and Avista will provide copies of any such documents upon request of the Advisory Group.

c. The Evaluator's draft and final reports shall contain references to source materials for data cited, including data request responses, and meeting notes.

d. Information will only be provided by Avista and Advisory Group members using the procedures noted above.

2. Reasonable costs of the Evaluator's work (not to exceed \$100,000) to be paid for by Avista, without recovery in rates.

G. Delivery of Evaluation Results - The schedule for delivery of the preliminary and final reports, and the timing for any potential extension or modification of the Mechanism, are set forth in Section B of the Plan.

H. Failure to Agree

If there is a failure to agree among the Advisory Group on issues that come before it, after best efforts to reach consensus, Avista will make the final decision, except where a Commission decision is provided for. The issue, lack of consensus, and final Avista decision will be reflected in a separate log which will be maintained by Avista.

I. No Waiver

By executing this MOU, no Party is waiving the right to make any argument with respect to the merits of the decoupling pilot, the implementation of the Plan, or potential harm to the evaluation caused by Avista's delay in filing the draft Plan.

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: 

By: _____

Date: 4/28/08

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: *Greg Prater*

Date: _____

Date: *April 28, 2008*

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

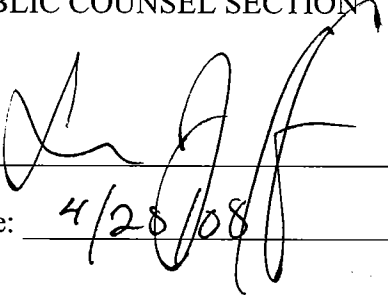
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Date: _____

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OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By:  _____

By: _____

Date: 4/28/08 _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final - April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: Nancy E. Heindl

Date: _____

Date: 4/28/08

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: _____

Date: _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By:  _____

By: _____

Date: 4/29/08 _____

Date: _____

EVALUATOR:

Name: _____

By: _____

Date: _____

Final – April 25, 2008

This MOU is entered into by each Party on the date entered below such Party's signature.

AVISTA CORPORATION

STAFF OF THE WASHINGTON
UTILITIES AND TRANSPORTATION
COMMISSION

By: _____

By: _____

Date: _____

Date: _____

OFFICE OF THE ATTORNEY GENERAL
PUBLIC COUNSEL SECTION

THE NORTHWEST ENERGY
COALITION

By: _____

By: _____

Date: _____

Date: _____

THE ENERGY PROJECT

NORTHWEST INDUSTRIAL GAS
USERS

By: _____

By: Paula E. Pyron

Date: _____

Date: April 28, 2008

EVALUATOR:

Name: _____

By: _____

Date: _____

Contract Exhibit C
Request for Proposals

REQUEST FOR PROPOSALS
Independent Third-Party Evaluation
of Avista's Natural Gas Decoupling Pilot

Scope of Work/ Proposal Instructions

1.0 Introduction and Background

On February 1, 2007, the Washington Utilities and Transportation Commission (Commission) issued a Final Order granting Avista Utilities' (Avista) request for approval of a natural gas decoupling mechanism pilot program, subject to certain conditions, in Docket UG-060518. Avista's Pilot Decoupling Mechanism began on January 1, 2007 and is in place for two and a half years. Under the terms of the Commission's order, Avista is responsible for the delivery of an evaluation of the decoupling pilot. The Commission's Order and the Settlement Agreement, as well as the Commission's First Supplemental Order of April 11, 2008, extending the deadline for filing the draft evaluation plan, are provided as Attachment A.

The Pilot Decoupling mechanism provides Avista with the opportunity to recover lost margins associated with a decline in natural gas usage per customer through an accounting deferral mechanism. The proposed mechanism does not track changes in margin related to variations in customer natural gas usage caused by weather. Rates will be adjusted annually at the same time as the Purchased Gas Adjustment (PGA), and will be limited to no more than a 2% annual rate increase. The Mechanism is applicable to Avista's Schedule 101 customers, which is predominantly residential customers but includes some small commercial customers as well.

An Evaluation Plan has been developed as part of a collaborative process, pursuant to the Settlement Agreement. The Evaluation Plan (Plan) is provided as Attachment B.

2.0 Purpose of this RFP

Avista has issued this RFP to seek a qualified independent evaluation firm or person to complete an objective, independent evaluation of the two and a half year natural gas decoupling pilot as further detailed in the Plan attached as Attachment B. The evaluator will complete the evaluation at the direction of a Stakeholder Advisory Group (Advisory Group), as explained further in Section 3.0.

3.0 Stakeholder Advisory Group

The selected Evaluator will conduct the evaluation under the direction and oversight of the Advisory Group. The Advisory Group will consist of a representative from each of the following parties: Avista, the Energy Project, the Public Counsel Section of the Washington Attorney General's Office, the Northwest Energy Coalition, the Northwest Industrial Gas Users and the staff of the Washington Utilities and Transportation Commission. The Memorandum of Understanding (MOU) provided as Attachment C to the RFP, describes how the Advisory Group will operate and interface with the Evaluator. Upon selection as the Evaluator, the successful bidder will sign the MOU.

4.0 Qualification Requirements of Potential Bidders

The Advisory Group is seeking a qualified, independent evaluator. To this end, firms or persons submitting a proposal, including any subcontractors, shall meet the following qualifications:

- a. An ability to demonstrate relevant experience.
- b. The preferred bidder will have no significant previous working history with Avista, either directly or as a subcontractor. Potential bidders are asked to describe the firm's previous working history with Avista, either directly or as a subcontractor, and to provide copies of all reports, studies, or any other documents provided to Avista.
- c. No prior advocacy position taken with respect to decoupling by the firm itself (or any subcontractors), either in favor or against.
- d. An ability to analyze energy consumption and utility accounting data and methodologies, as well as DSM data.

5.0 Information to Submit in a Proposal to Respond to this RFP

Firms or persons submitting a proposal shall provide the following information:

- a. Cover page with the following summary information:
 - Name of Person or Firm
 - Address
 - Point of contact for Proposal, including e-mail and telephone number
 - Total Cost of Proposal
 - List of any subcontractors and their addresses.
- b. Project Narrative – limited to 25 pages, doubled spaced, 12 point font. This narrative should address the approach contemplated for the evaluation of the decoupling pilot within the guidelines established in the Plan attached hereto as Attachment B. The narrative should also address items (c) through (f) below.
- c. Proposed budget and budget narrative.
- d. A description of the ability to meet the proposed timeline for project completion, including submitting Preliminary and Final Evaluation reports, as well as a proposed timeline of key activities culminating in project completion.
- e. Description of the extent to which the firm meets the key qualifications described above in Section 4.0. Bidders are asked to describe the firm's previous working history with Avista, either directly or as a subcontractor, and to provide copies of all reports, studies, or any other documents provided to Avista. In addition, bidders and any subcontractors are asked to verify and indicate that they have not taken any advocacy position on decoupling, by the firm itself, or any firm employees, either in favor or against. Bidders and any subcontractors are asked to disclose any past experience related to decoupling, including any reports, studies, statements, presentations, analyses, or recommendations.
- f. Description of any experience conducting work on behalf of multiple stakeholders and the firm or person's approach to conducting work under such circumstances.
- g. Staff who would work on the proposal, including lead author(s), and description of their qualifications.
- h. Description of relevant work experience for organizations (minimum 3). Please provide sample reports.
- i. List of any associations or memberships, and the date you became a member.
- j. List and describe any communications related to the Decoupling Mechanism and/or its evaluation that any member of the firm (or its subcontractors) has had with any representatives of the Advisory Group prior to submission of a bid. Please identify the approximate date of such communications, the persons involved, and a description of the communication.
- k. Any relevant attachments, including but not limited to items (g) through (j) above, as well as any documents regarding past experience related to decoupling or any work performed for Avista, as described in response to item (e).

5.1 Pricing

Only fixed cost Proposals inclusive of all expenses will be considered.

6.0 Data Availability

The Evaluator will utilize the following data:

- a. Data will be provided by Avista to the Evaluator and the Advisory Group including but not limited to accounting, sales volumes, margin revenues, and energy efficiency data.
- b. Demand Side Management (DSM) Verification data for 2006, 2007, and 2008 regarding verified, achieved DSM savings from Avista's company-sponsored DSM programs. This data is provided by a separate, independent third-party in the form of a final report. The 2006 DSM Verification report is complete, and the 2007 report is expected to be completed by August, 2008. The final report regarding DSM Verification for 2008 is anticipated on or before February 28, 2009. Avista will provide the Evaluator and the Advisory Group with the Final DSM Verification reports for 2006, 2007, and 2008.
- c. Additional data to determine the impact of the Pilot Mechanism on Avista's low income customers, including but not limited to Census Data.

The Evaluation Plan, included as Attachment B, provides a more detailed description of the type and range of data to be analyzed.

7.0 Independent Nature of the Evaluation

The evaluator selected as a result of this RFP process will perform the evaluation at the direction of the Advisory Group as explained further in Section 3.0 above. Nothing within the selection or contracting procedures contained within this process shall compromise this independence.

8.0 Timeline

The timeline for the RFP process, selection of the evaluator and completion of the Evaluation Plan is set forth in the Evaluation Plan, provided as Attachment B.

9.0 Submittal of Proposal

Please submit one (1) copy of your Proposal to the e-mail address listed in Section 10.0 below for distribution to the Advisory Group. Please submit six (6) copies of your written Proposal via certified mail to:

Avista Corporation
Attn: Pat Ehrbar
1411 East Mission
P. O. Box 3727
Spokane, WA 99220-3727

The written Proposal for the services identified under this RFP must be received on or before **5:00 p.m. on Tuesday, July 15th, 2008**, (the "Due Date") and clearly marked "**Response to RFP No. R-35701**".

No oral or telephoned Proposals will be considered. Proposals sent by e-mail before the deadline will be accepted for evaluation; however, hard copies of such Proposals must be received by mail or delivery, no later than three days after the due date.

It is the responsibility of the Bidder to see that its Proposal is received by the date stated herein. Any Proposal received after the stated Due Date will not be considered. Hard copies of Proposals previously sent by facsimile or e-mail must be identical to the original submittals or they will not be considered.

10.0 Inquiries

Bidders may submit inquiries regarding any aspect of this RFP, in writing, to the Advisory Group at the following email address: decoupling@avistacorp.com. All questions will be logged and responded to by Avista with input from the Advisory Group. All Bidder Inquiries and Responses will be provided in writing and posted at the following website (www.avistautilities.com/decoupling) and thus available to all potential bidders. Interested Bidders may ask questions at any time prior to July 8, 2008.

11.0 Proposal Requirements

The written Proposal shall fully address the Evaluation Plan attached as Attachment B and all items described in Section 5 above. Failure to meet this requirement may result in disqualification. The successful bidder will be expected to enter into a contract that is substantially the same as the sample contract included in the RFP documents marked as Attachment D. The successful bidder will also sign the Memorandum of Understanding, provided as Attachment C.

12.0 Proposal Acceptance

The Proposal shall include a statement that it will remain valid for acceptance for a period of sixty (60) days following the closing time stated in Section 9.0 herein.

13.0 Modifications or Withdrawal of Proposal

13.1 By Bidder

A Bidder may modify or withdraw its Proposal by written request, provided that the request is received by Avista at the address and prior to the time specified in Section 9.0 above. Following withdrawal of its Proposal, a Bidder may submit a new Proposal, provided that such new Proposal is received by Avista at the address and prior to the time specified in Section 9.0.

13.2 By the Advisory Group

The Advisory Group may modify any provision of the RFP at any time prior to the time specified in Section 9.0 above, for the submission of Proposal. Subsequent to the issuance of a bid, any changes to the scope of work will be the subject of an addendum.

14.0 Award or Rejection of Proposal

14.1 Confidentiality

All Proposals will be opened privately by the Advisory Group. A bidder must clearly designate which portions, if any, of its Proposal are confidential, and Avista will use its best efforts to protect the same from public disclosure prior to the award of the bid. Thereafter, the terms and conditions of the winning bid may be made public.

14.2 Process for Selection and Basis of Any Award

The Advisory Group and Avista will compare all Proposals against all other proposals submitted under this RFP. The contract(s), if awarded by Avista with agreement of the Advisory Group, will be awarded on the basis of Proposals received and after consideration of Bidder's ability to provide the required services, complete the project, quality of personnel, extent and quality of relevant

experience, price and any other factors deemed pertinent by the Advisory Group. If there is a dispute between Avista and Advisory Group members regarding the selection of an evaluator, these parties may seek formal input from the Commission. If there is no consensus reached on the selection of the evaluator, Avista will select the evaluator based on additional input, if any, received from the Commission, or as otherwise directed by the Commission.

14.3 Rights

Subject to section 14.2, the Advisory Group reserves the right to reject any or all Proposals, and to award multiple contracts, at its sole discretion.

14.4 Proposal Evaluation and Pre-award Interviews

The Advisory Group will review proposals and may conduct interviews with candidates. In the event a pre-award interview with the Bidder's key team members is required, the interviews will be scheduled in Seattle or Olympia. They will be held at either the office of the Commission or the Office of the Washington Attorney General.

14.5 Pre-award Expenses

All expenses incurred by the Bidder to prepare a Proposal and participate in required pre-bid and pre-award meetings, visits and the interviews shall be borne by the Bidder.

15.0 Contract Execution

15.1 Documentation

Prior to execution of the contract, the Bidder to whom the contract is awarded (the "Successful Bidder") must deliver to Avista certificates of insurance and any other documents required by the RFP or proposed Agreement.

15.2 Preparation and Endorsement

If requested by Avista, the Successful Bidder must assist and cooperate with Avista in preparing the formal contract. Avista's standard contract format and terms and conditions for the type of work or services described in this solicitation are provided herein as RFP Attachment D. Within ten (10) working days after presentation of the formal contract, the successful bidder must duly execute the same and return it for execution by Avista. The failure of the successful bidder to duly execute and return the contract, together with certificates of insurance and any other required documents, will constitute a breach of contract by such bidder and entitle Avista, in addition to all other rights and remedies of Avista, to award the contract to any other bidder.

16.0 About Avista and the Advisory Group Members

Avista is an energy company involved in the generation, transmission and distribution of energy as well as other energy-related businesses, providing service to 330,000 electric and 287,000 natural gas customers in Washington, Idaho and Oregon. Avista's stock is traded under the ticker symbol "AVA." For more information about Avista, please visit www.avistacorp.com.

Avista Utilities is regulated by the Washington Utilities and Transportation Commission (www.utc.wa.gov). Commission Staff operate independently of Commissioners in litigated matters. The Public Counsel section of the Attorney General's Office represents the interests of residential and small commercial customers in matters before the Commission (www.atg.wa.gov/utilities.aspx). The Energy Project represents low-income customers and community action agencies before the Commission. The Northwest Energy Coalition is an alliance of organizations promoting, among other things, renewable

energy and conservation in the Pacific Northwest. The Northwest Industrial Gas Users (NWIGU) represents the interests of industrial natural gas customers in matters before the UTC.

END OF PROPOSAL INSTRUCTIONS