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December 31, 2008

Dave Danner
Executive Director
Washington Utilities and Transportation Commission
PO Box 47250
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

Dear Mr. Danner:

Attached for filing with the Commission is an electronic copy of the Company's proposed revisions to the following tariff sheets, WN U-28 and WN U-29:

Seventh Revision Sheet 91
Ninth Revision Sheet 191

Canceling Sixth Revision Sheet 91
Canceling Eighth Revision Sheet 191

This filing requests approval of an increase to Schedules 91 and 191 rates, "Public Purposes Rider Adjustment," also known as the "energy efficiency tariff riders." Schedules 91 and 191 are designed to recover the costs incurred by the Company associated with providing electric and natural gas energy efficiency services to customers. Now in its fourteenth year, the energy efficiency tariff riders were the country's first distribution charge to fund demand side management (DSM) and are now replicated in many other states. The proposed increase in Schedules 91 and 191 rates are necessary to continue to fund ongoing electric and natural gas efficiency programs consistent with Avista's most recent electric and natural gas Integrated Resource Plans (IRPs) and to amortize a deficiency balance within the electric and natural gas efficiency tariff riders resulting from the Company's response to higher than expected customer demand for services. The proposed increase in revenues for DSM will not increase or decrease the earnings of the Company.

The Company's energy efficiency targets are established in the process of developing the Electric and Natural Gas IRPs. The electric IRP efficiency goal for Washington and Idaho in 2008 was 53.0 million kWhs. The results of Avista's energy efficiency programs continue to exceed targets. Through November, Avista's 2008 year-to-date energy efficiency savings amount is 72.7 million kWhs (approximately 8.3 aMW) or 137% of the Company's annual target. Over 138 aMW of cumulative savings have been achieved through Avista's energy efficiency efforts in the past thirty years; over 110 aMW of DSM is currently in place on the Company's system. By comparison, Avista estimated total retail load for 2008 is 1,098 aMW, therefore the total DSM energy savings represent a meaningful reduction to the retail load that Avista would otherwise serve. The 2008 natural gas savings targets for Washington and Idaho is 1.425 million therms. Over 1.75 million therms have been saved through November which is 123% of the 2008 target. In 2007, the Company exceeded its efficiency savings goal of 47.5 million kilowatt hours (5.4 aMW) by 13% and exceeded its natural gas efficiency targets of 1.06 million therms by 41%.

Customers continue to look to the Company's DSM programs for assistance in responding to increased retail electric and natural gas prices. Existing and planned programmatic expenditures are exceeding tariff rider revenues. As of the close of November 2008, Avista's electric DSM tariff rider balance for Washington is a negative \$5,498,678 and the natural gas DSM tariff rider balance for Washington is a negative \$2,475,712 (past expenditures have exceeded tariff rider revenues). The proposed tariff rider increase is estimated to eliminate this current balance by the end of 2010 and to fund estimated future expenditures. The proposed increase in the DSM surcharge is approximately 1.68% of present electric rates and 0.95% of present natural gas rates. The Limited Income Rate Assistance Program (LIRAP) surcharge is also incorporated into the Schedule 91 and 191 surcharge and will remain at the level established in Docket Nos. UE-080416 and UG-080417. The total proposed surcharge (DSM and LIRAP) under Schedules 91 and 191 will be approximately 5.58% of present electric rates and 3.39% of natural gas rates.

Additional drivers that have added to increases in the tariff rider balances include:

- 1) increased demand for demand-side management programs;
- 2) Avista has seen increasing avoided costs which leads to a higher number of cost-effective energy efficiency programs;
- 3) higher level of energy efficiency acquisition identified in the IRP leads to increased dollars per unit as higher cost measures are selected on the supply curve; and
- 4) RCW 19.285 ("Initiative 937") establishes a floor on future electric DSM acquisition plans. (Historically, Avista's acquisition has exceeded this floor).

All Schedule 91 and 191 DSM funds will remain within the electric and natural gas efficiency programs either offered by the Company directly or through designated contractors, or as part of cooperative regional electric and natural gas efficiency programs. The Company will continually assess the demand for services and program financial balances and propose revisions to Schedules 91 and 191 as necessary. Schedule 91 and 191 funds support DSM programs described in Schedules 90 and 190. These programs include but are not limited to the following measures:

- Appliance measures
- Compressed air measures
- HVAC measures
- Industrial measures
- Lighting measures
- Maintenance measures
- Motors measures
- Renewable Technologies
- Northwest Energy Efficiency Alliance participation
- Shell measures
- Sustainable Building measures

The Company's programs are based on providing a financial incentive, or "rebate," for cost-effective efficiency measures installed by customers with a simple payback of greater than one year. This includes over 300 measures that are packaged into over 30 programs for customer convenience.

Avista has long encouraged the direct-use of natural gas to its electric customers. The Company is continuing this effort with residential rebates for the conversion of electric to natural gas space and water heat loads as well as a broad program for any non-residential electric to natural gas conversions meeting specified criteria for relative British Thermal Unit (BTU) efficiency. The cost-effective potential for these measures have been incorporated into Avista's Integrated Resource Planning effort and are contained within the identified acquisition goal. Avista's residential programs include high efficiency equipment, electric to natural gas conversions, Compact Fluorescent Lights (CFLs), "second" refrigerator recycling, weatherization, rooftop dampers as well as providing educational assistance through various community events.

For non-residential customers, in addition to prescriptive programs, Avista offers "site specific" programs. Site-specific programs are customized to the customer premise. The site specific offering provides incentives on any cost-effective commercial and industrial energy efficiency measure with a simple financial payback exceeding one year. This is implemented through site analyses, customized diagnoses, and incentives determined for savings generated specific to customers' premise or process. Commercial and industrial programs available to Avista customers include site specific, Energy Smart commercial refrigeration, lighting and controls, commercial food service equipment, AirCare Plus (Heating Ventilation Air Conditioning (HVAC) maintenance), premium efficiency motors, power management for personal computer (PC) networks, LEED certification, commercial HVAC variable frequency drives (VFDs), refrigerated warehouses, vending machine controllers, demand controlled ventilation, side-stream filtration, steam trap replacement and repair, multifamily development, LED traffic signals, electric to natural gas water heater conversions, and commercial clothes washers.

In addition to Avista's prescriptive and site-specific programs, the Company funds and participates in the activities of the Northwest Energy Efficiency Alliance (NEEA). NEEA focuses on using a regional approach to obtain electric efficiency through the transformation of markets for efficiency measures and services. An example of NEEA-sponsored programs that benefits Avista customers is decreasing the cost of CFLs and high-efficiency appliances by working through manufacturers. For some measures a large-scale, cross-utility approach is the most cost-effective means to achieve energy efficiency savings. This approach seems particularly effective for markets composed of large numbers of smaller usage homogeneous consumers, such as the residential and small commercial markets. The results from NEEA programs are reported in March of the following year. Historically, Avista has received approximately 1.5 aMW of savings in its service territory from NEEA programs. For 2007, Avista's portion of the regional savings amounted to 2.0 aMW or almost 18 million kWh.

The Company has provided \$1.5 million for low-income weatherization in 2008 in Washington and Idaho. Effective January 1, 2009, in Order No. 8 in Docket Nos. UE-080416 and UG-080417, approximately \$1.2 million was to be directed to Washington electric and natural gas low-income customers. This program is administered by the six local community action agencies in our eastern Washington service territory. The low-income weatherization portfolio represents 8% of our total

energy efficiency budget. The Company also provides a Low Income Rate Assistance Program (LIRAP) for bill-paying assistance.

These programs are supported by 19.4 full-time equivalents (FTE) spread over 34 staff. (This does not include Company support from the Contact Center, Corporate Communications, Accounting and other direct and indirect support.) The 2008 total DSM budget was over \$18 million.

Of the Company's revenues collected under Schedules 91 and 191 during this year, 73.7% were paid out to customers in direct incentives pursuant to the cost-effectiveness tests described below. This does not include additional benefits such as technical analyses and education provided to customers by the Company's DSM engineering staff.

The Company has regularly convened a stakeholder's forum known as the External Energy Efficiency Board (Triple E). These meetings have included customer representatives, Commission staff members, and individuals from the environmental communities. These stakeholder meetings review the Company's program offerings as well as the underlying cost-effectiveness tests and results. The programs have been cost-effective from both a Total Resource Cost (TRC) and Utility Cost Test (UCT) perspective. These tests, and the cost-effectiveness levels were reviewed as part of the Company's most recent general rate case in Docket Nos. UE-080416 and UG-080417 and were found to be prudent. For the most recent reporting period, the TRC benefit-to-cost ratio was 2.24 for the overall electric DSM program portfolio, with a net TRC benefit to customers of over \$24 million in 2007. The UCT benefit to cost ratio is cost-effective with a net UCT benefit of over \$23 million. The natural gas DSM programs were cost-effective with a 1.06 TRC benefit/cost ratio. The UCT benefit to cost ratio is cost-effective with a net benefit of over \$7 million. The increased funding requested herein will continue to be subject to the existing cost-effectiveness tests.

In summary, installing energy efficiency measures is a primary action customers can take to respond to a period of increasing energy prices facing the Pacific Northwest and the country as a whole. Avista's energy efficiency programs are being used by customers at unprecedented levels. Customer participation continues to exceed current funding. The Company's request trues-up its electric and natural gas tariff riders to a level to meet customer demand and reduce existing negative balances, and to provide funding for future energy efficiency programs. Energy efficiency remains the lowest cost new resource and all customers benefit by its acquisition.

The estimated annual revenue change associated with this filing is approximately \$6.97 million for electric and \$2.41 million for natural gas, or an increase of 1.68% and 0.95% respectively. Pursuant to WAC 480-100-195(2), enclosed is a "Notice of Tariff Change" which will be posted in all Company offices coincident with the date of this filing. Also enclosed are a copy of the workpaper supporting this filing.

As part of the Settlement Agreement approved by the Commission in Docket No. UE-070804, the Company is to provide an annual report regarding the status of the tariff rider balances and address plans to modify the tariff rider rates accordingly. This filing is responsive to this requirement.

Schedule 91 and 191 Revisions

December 31, 2008

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Please direct any questions on this matter to Bruce Folsom at (509) 495-8706 or myself at (509) 495-4975.

Sincerely,

A handwritten signature in cursive script that reads "Linda Gervais".

Linda Gervais

Manager, Regulatory Policy

Avista Utilities

linda.gervais@avistacorp.com

Enclosures