Avista Corp.
1411 East Mission P.O. Box 3727
Spokane. Washington 99220-0500
Telephone 509-489-0500
Toll Free 800-727-9170

November 1, 2010

VIA: Electronic Mail

David Danner
Executive Secretary and Secretary
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:

Third Revision Sheet 90A	Canceling Second Revision Sheet 90A
Second Revision Sheet 190A	Canceling First Revision Sheet 190A

The purpose of this filing is to revise the incentive rates, and some associated terms and conditions, offered to customers under Avista Tariff "Schedule 90" (Electric Energy Efficiency Programs) and Avista Tariff "Schedule 190" (Natural Gas Energy Efficiency Programs) who elect to install demand side management (DSM) measures. These programs are funded from Schedule 91 and Schedule 191 (Energy Efficiency Rider Adjustment) revenues.

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

Avista's energy efficiency programs provide a wide range of conservation programs and education for residential, commercial, industrial and low income customers. Programs fall into standard offer (or "prescriptive") and customized (or "site-specific") classifications. Prescriptive programs offer cash incentives for standardized products, such as weatherization measures and high efficiency appliances. These programs are primarily directed towards residential and small commercial customers. Site-specific programs have provided cash incentives to commercial and industrial customers for any cost-effective energy savings measure with a simple payback greater than one year. Simple payback is defined as the capital cost of the energy saving portion of the project divided by the energy savings per year based on current energy rates. These site-specific programs require customized services for commercial and industrial customers because many applications need to be tailored to the unique characteristics of customers' premises and processes. The Company's 2010 DSM Business Plan provides details about Avista's energy efficiency programs and was previously filed with the Commission in Docket No. UE-100176.

The proposed revisions to Schedule 90 are as follows:

Section 3 - Measures

Some customers have been choosing to pursue a series of projects identified by the Company as being uneconomic under the Total Resource Cost (TRC) test. These customers pursued their projects predominately with their own funds in spite of significantly long payback periods. Per the current tariff incentive structure, the Company has been paying incentives on these types of projects as they have been cost-effective under the Program Administrator Cost Test (PACT and previously known as the Utility Cost Test). The proposed revisions to the incentive tiers will reduce incentive pay-outs to zero for longer payback projects and would prevent these types of projects from negatively impacting the TRC ratio of the entire portfolio.

To illustrate this point, the impact to the TRC of a minor incentive payment to a customer (say $1,000) under current Standard Practice Tests, would have Avista incorporating one hundred percent of the customer's non-energy project costs (which can be hundreds of thousands of dollars) into Avista's cost-effectiveness analysis. In a situation such as this, this type of project could negatively impact the entire portfolio's TRC ratio, making it less than one and thereby not cost-effective under the TRC test.

Section 4.1 - Funding

In regard to incentives for the Company's Schedule 63 "Net Metering Option Schedule," language has been added to provide that all net metering projects should be cost-effective under the TRC test and must meet the conditions outlined in Section 4.1 of Schedule 90 in order to receive an incentive. If these projects have a long simple payback, Schedule 90 incentives will not be applicable.

Section 4.1 - Funding (Electric Efficiency)

The proposed tariff revisions limit incentives for non-lighting measures to those with a simple pay-back of less than 13 years. Because lighting measures typically have a shorter simple payback than other electric efficiency measures, incentives for lighting measures would be capped at those with a simple pay-back of less than 8 years. Simple paybacks of greater than 8 and 13 years for lighting and non-lighting measures respectively, will no longer be incented for the reasons expressed above.

Section 4.1 - Funding (Fuel-Conversions)

For the same reasons as stated above, and to be consistent with the electric efficiency incentive levels, the fuel-efficiency incentive levels have been adjusted so that projects with a simple payback, based on current energy rates, of greater than 13 years would not be incented under Schedule 90.

The proposed incentive level guidelines to be applied by the Company for electric efficiency and fuel-conversion measure(s) are based upon the simple payback of the measure prior to the application of an incentive and, further, are based upon standardized measure cost(s). The proposed incentives are as follows:

Measures	**Simple Pay-Back Period**	**Incentive Level (cents per first year kWh saved)**
Electric Efficiency	1 to under 2 years	8 cents
	2 to under 4 years	12 cents
	4 to under 6 years	16 cents
	6 to under 8 years	20 cents
	6 to under 13 years*	20 cents
	Over 8 years **	0 cents
	13 years and Over	0 cents
Fuel-Conversion	1 to under 2 years	1 cents
	2 to under 4 years	3 cents
	4 to under 6 years	5 cents
	6 to under 13 years	7 cents
	13 years and Over	0 cents

* *Applicable to non-lighting measures*
** *Applicable to lighting measures*

The proposed revisions to Schedule 190 are as follows:

Section 4.1 - Funding

The proposed revisions to Schedule 190 incentive levels would have the effect of not incentivizing natural gas efficiency measures with a simple payback period of greater than 13 years. Again, the Company believes that the projects with significantly longer periods of payback, that are not TRC cost-effective, should not be incented and therefore not included in the Company cost-effectiveness analysis.

The proposed incentive level guidelines to be applied by the Company for natural gas efficiency measure(s) are based upon the simple payback of the measure prior to the application of an incentive, and based upon standardized measure cost(s). The proposed incentives are as follows:

Measures	Simple Pay-Back Period	Incentive Level (dollars/first year therms saved)
Natural Gas Efficiency	1 to under 2 years	2.00
	2 to under 4 years	2.50
	4 to under 6 years	3.00
	6 to under 13 years	3.50
	13 years and Over	0.00

Avista has notified its External Energy Efficiency (Triple E) Board of these proposed changes. The Company respectfully requests that the revisions become effective January 1, 2011**.**

<u>Customer Notification</u>

Avista has customers at various stages in the "pipeline" from scoping/studying the project, to contracting, construction, as they progress towards project completion. The Company does not want to inadvertently impact customers who may already be in the pipeline based on the current incentive tiers. In the past, Avista has provided a transition plan for these customers. The Company is recommending that customers who have projects that have been studied from January 1, 2008 to present and have contracted their project by December 31, 2010 and complete their projects by December 31, 2011, that the Company would continue to incent their project under the current incentive tiers in place at the time these customers began the process. Longer completion dates will be permitted to customers if the approval and construction time of these projects warrant such an extension subject to a written policy guiding this transition. In addition, all of the customers identified above will be mailed notice of the revised Schedules 90 and 190. 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.

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

Sincerely,

<u>/s/Linda Gervais</u>

Linda Gervais
Manager, Regulatory Policy
State and Federal Regulation
Avista Utilities
509-495-4975
linda.gervais@avistacorp.com

Enclosures