BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)) AVISTA Corporation dba Avista Utilities)) For an Order Continuing a Natural) Gas Decoupling Mechanism With) Associated Accounting Entries) __________________________________)	DOCKET NO. UG-09____ PETITION OF AVISTA CORPORATION

I. PETITIONER

1 In accordance with WAC 480-09-420, the name and address of Petitioner, Avista Corporation ("Avista Corp." "Avista," or "Company"), is as shown below. Please direct all correspondence related to this Petition as follows:

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II. SUMMARY

2 Pursuant to WAC 480-09-420, Avista Corp. hereby requests that the Commission issue an order approving this petition and authorizing Avista to 1) continue the existing natural gas Decoupling Mechanism (hereafter "Mechanism or "Decoupling Mechanism"), and associated accounting entries on an interim basis while the Mechanism is being reviewed for possible adoption on a permanent basis, and 2) adopt Avista's proposed Decoupling Mechanism, with one minor modification, on a permanent basis. As noted on Page 10 of Order No. 4 in UG-

060518, the Commission stated that "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." The Company's Decoupling Mechanism, as demonstrated in its pilot program, has achieved its intended results in that the Company has substantially increased its natural gas DSM efforts and achieved substantial results, and in a cost effective manner. The Company's success in its DSM programs and customer education efforts have caused customers to reduce their energy usage. The Mechanism has allowed the Company to recover a greater portion of its fixed (natural gas distribution) costs through relatively small rate adjustments between general rate filings. These fixed costs were previously approved for recovery by the Commission, and because of the reduced energy use by customers, the Company would not have recovered these costs absent the Mechanism.

3 Additionally, the Mechanism is consistent with current national energy policy that supports mechanisms that provide for further promotion of energy efficiency. The Mechanism provides the Company with the opportunity to recover its fixed costs of providing service to customers, and, at the same time, aggressively promote its DSM programs and energy efficiency message to customers. Customers directly benefit from extensive DSM programs and education to help them manage their energy bill, and Avista will recover a greater portion of its fixed costs of providing service that was previously approved in its prior general rate case for recovery by the Commission.

III. THE CONTINUED NEED FOR A NATURAL GAS DECOUPLING MECHANISM

4 As was noted in the Company's application in UG-060518, the volatility in the cost of natural gas makes consideration of a natural gas Decoupling Mechanism especially important.

The probability of continued volatile prices in the future, and the increased emphasis on energy efficiency, make it increasingly important to continue to focus on effective long-term efficiency and conservation measures. However, because the Company's current rate structure(s) provide recovery of the majority of Avista's fixed costs on a per-therm (sales volume) basis, energy efficiency and conservation objectives remain directly at odds with the recovery of the local distribution company's (LDC's) fixed costs of providing service. As shown in the independent Evaluation Report of the Decoupling Mechanism, decoupling breaks the link between the volume of therm sales and the recovery of fixed costs, and provides for an increased focus on energy efficiency and conservation. Increased conservation not only benefits the individual customers participating in DSM measures through reduced bills, but it also reduces the long-term demand for natural gas which will help to reduce natural gas prices for all customers.

5 Avista has had a natural gas Demand-Side Management (DSM) tariff rider and program in place since the mid-1990's and has worked closely with other stakeholders on DSM policy and programs. Although Avista has been among the leaders in the Northwest in implementing and supporting DSM programs, the Decoupling Mechanism allows the Company to provide a consistent message to customers regarding conservation, through programs such as "Every Little Bit".

6 As noted earlier, the majority of Avista's fixed costs of providing natural gas service are recovered through a rate per therm for each therm sold. Ideally, from the Company's financial perspective, the fixed costs of providing service would be recovered through a fixed charge each month, since the facilities and support services must be available to serve customers irrespective of how much energy they use. However, that fixed charge would need to be approximately $20 per month in order to recover the fixed costs of providing gas

distribution service. Avista presently has a monthly customer (fixed) charge of \$5.75 per month, and the remainder of the fixed costs are recovered on a per therm basis. A substantial increase in the customer charge, however, would require a substantial decrease in the usage charge, which would not encourage additional conservation. Because of this and other issues surrounding higher customer charges, decoupling is a preferable alternative to a \$20 customer charge and can be implemented without altering existing rate structures.

7 The rates established in a general rate proceeding are designed to provide full recovery of the costs of providing service to customers. When the majority of fixed costs are recovered through sales volumes, and sales volumes are lower than expected, the recovery of fixed costs falls short of the level authorized by the Commission. The Company believes that the Decoupling Mechanism, which separates the recovery of fixed costs from sales volumes, is consistent with the ratemaking objective of authorizing rates that are designed to provide the opportunity to recover the fixed costs of providing service, while at the same time aggressively pursuing reduced customer usage through energy efficiency measures and customer education.

8 Finally, the Mechanism does not significantly affect the Company's business risk going forward. Therefore, as with the Pilot, an adjustment to the Company's authorized Return on Equity (ROE) is not warranted. The Company's proposed mechanism captures only the change in residential customers' usage resulting from natural gas conservation, energy efficiency and price elasticity. It does not capture: 1) changes in large customer usage often resulting from changes in business or economic conditions, or 2) changes in customer usage resulting from abnormal weather. These changes in customer usage that are not included in the Company's mechanism can be more substantial and affect the Company's business risk going forward. Furthermore, as noted above, the Decoupling Mechanism simply provides recovery of fixed costs that were previously approved by the Commission in a prior general rate case for

recovery from customers. To the extent those fixed costs increase, or escalate, over time, the Mechanism does not provide recovery of that change in costs. The Company continues to bear the risk of changes in those costs between general rate cases. Additionally, as will be described later, the mechanism includes an "earnings-test" - a provision that will not allow the Company to implement a decoupling rate adjustment if its earnings exceed its authorized rate of return.

IV. BACKGROUND ON AVISTA'S DECOUPLING PILOT PROGRAM

9 The Company filed a Petition, dated April 4, 2006, requesting the Commission to approve a proposed Natural Gas Decoupling Mechanism (Docket UG-060518). On October 27, 2006, the Company, WUTC Staff, the Northwest Energy Coalition (NWEC), and the Northwest Industrial Gas Users (NWIGU) reached a settlement agreement. On February 1, 2007, the Commission approved, with conditions, the settlement agreement and authorized the Company to implement a Decoupling Mechanism pilot program. The main features of this pilot Decoupling Mechanism included the following:

- **Term**: Recording of deferrals began on January 1, 2007 and will end on June 30, 2009. The period for recovery or rebate of deferral balances began on November 1, 2007 and will end on October 31, 2010, resulting in 2 ½ years of deferrals and 3 years of recoveries. Consequently, the first year of recoveries (November 2007 to October 2008) applied to six months of deferrals (January 2007 to June 2007). The remaining two years of recoveries (November to October) applied to a full year of deferrals (July to June).

- **Application**: It applied only to schedule 101 (residential and small commercial customers).

- **New Customer Adjustment**: It removed the usage associated with new customers added since the corresponding month of the test year.

- **The Deferral Amount**: It deferred 90% of the margin (fixed cost) difference, either positive or negative, for later recovery (or rebate) subject to:
  - *An earnings test* – Avista could not earn more than its authorized rate of return.

- *A demand side management (DSM) test* – recovery based on Avista achieving specific conservation targets.

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

- *Carryover* – Any funds not deferred due to the "earnings" and/or the "DSM" test were not carried over to the next period.
- *Interest* - Interest was not recorded on deferrals until such time as the deferrals were approved for recovery by the Commission.

- **Review of DSM Savings**: The Company retained an independent third party to audit the results of DSM savings reported for decoupling purposes.

- **Annual Rate Changes**: The Mechanism limited annual rate increases due to the Mechanism to 2% annually. These rate adjustments were coincident with the annual PGA filings.

- **Decoupling Evaluation:** Prior to filing a request to continue the Mechanism beyond its initial term, the Company must evaluate its results.

10 In compliance with Order No. 5 in Docket UG-060518 dated April 11, 2008, the Company filed with the Commission an Evaluation Plan (Plan) which was developed in a collaborative, which included Avista, Commission Staff, Public Counsel, Northwest Industrial Gas Users, The Northwest Energy Coalition, and The Energy Project. In addition, Avista filed a Memorandum of Understanding (MOU) which was a mutually agreed upon understanding between the parties which established the guidelines for how the Evaluation Plan would be disseminated to qualified bidders, and the terms of interaction between the parties and the Evaluator.

11 Once the Plan was developed, it was integrated into a Request for Proposals (RFP), and was sent to 51 potential candidates, all of whom were invited to bid. The potential candidates were suggested by the members of the Advisory Group[1]. In addition, the RFP was sent to The Association of Energy Services Professionals and The Northwest Energy Efficiency Council, who distributed the RFP to their membership.

12 On September 5, 2008, the Company notified the Commission that it had selected the consulting firm Titus, with WeatherWise as their subcontractor, to conduct the evaluation of the Decoupling Mechanism. Titus met all of the guidelines set forth within the RFP as developed by the parties. Although the Evaluation Plan and the evaluator selection parameters were agreed upon by the parties, Public Counsel and The Energy Project neither endorsed nor opposed the selection of Titus.

13 On March 31, 2009, the Company filed with the Commission the "Evaluation of Avista Natural Gas Decoupling Mechanism Pilot", and related exhibits, which was prepared by the consulting firm Titus. These documents were filed under Docket UG-060518.

V. REQUEST TO CONTINUE THE CURRENT MECHANISM ON AN INTERIM BASIS

14 As noted in Order No. 5 in UG-060518 at para. 54, "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." Therefore, as discussed by Company witness Mr. Brian Hirschkorn, the Company's first request is to continue the Mechanism on an interim basis while the Company's proposal to continue the Mechanism on a permanent basis is considered. The Company does not propose to make any changes to the Mechanism in the interim. Further, should the request for a permanent Mechanism be ultimately denied, the Company

[1] The Advisory Group, consisting of one member from each of the parties in Docket UG-060518, provided oversight and guidance related to the evaluation of the Mechanism throughout the entire process, both before and after the completion of the Plan – e.g.., preparing the Plan, selecting an Evaluator, and addressing questions or issues that arose during the course of the evaluation.

would reverse any deferrals recorded during the interim period and customers would not be affected.

VI. REQUEST TO MAKE PERMANENT THE DECOUPLING MECHANISM, WITH ONE MODIFICATION

15 As will be discussed by Company witnesses Mr. Jon Powell and Mr. Hirschkorn, the Decoupling Mechanism pilot was a success. In short, the Evaluation Plan shows that the Company has substantially increased its natural gas DSM efforts and results during the term of the pilot, and the Mechanism has allowed the Company to recover a substantial portion of its fixed (natural gas distribution) costs through relatively small rate adjustments between general rate filings. However, the Evaluation Plan also noted a few items that should be addressed if the Mechanism were to be continued.

A. Customer Migration (101/111 issues)

16 As will be discussed by witness Hirschkorn, the Company is proposing to adjust actual monthly customer usage to remove the net affect of customers switching between schedules 101 and 111 during the month. As customers are served under these schedules based on their average monthly usage, they may switch between these schedules if their monthly usage changes significantly. As Schedule 101 customers and their usage is included under the Mechanism and Schedule 111 customers are not, customer switching between rate schedules can affect the amount of the deferrals. While this amount represents only a small fraction of the total deferred amount (roughly 5%) during 2007-2008, it is appropriate to make the adjustment to the Mechanism going forward.

B. DSM Measurement and Verification

17 As will be discussed by witness Powell, the Evaluation Plan noted that "no independent field measurements were taken nor were post-project bill analysis performed" in the independent third party verification of DSM savings. While the Company believes these additional measures were not needed, nevertheless, Avista is in the process of developing a revised measurement and verification strategy for review in the fall 2009 Triple-E board meeting, and potential incorporation into the 2010 DSM Business Plan. Further, the Company will continue to retain an independent firm to verify the Company's DSM savings as part of the proposed Decoupling Mechanism. Finally, the Company is undertaking a review and revision of record keeping and reporting processes to address the concerns noted in the Evaluation Report.

VII. COMPANY'S REQUEST

18 Continuation of the volatility in the cost of natural gas and increasing emphasis on energy efficiency make continuation of a natural gas Decoupling Mechanism especially important. The Mechanism removes the disincentive related to fully promoting energy efficiency, and provides the Company with the opportunity to recover the fixed costs of providing natural gas service. By removing this disincentive, the Company is able to offer an extensive array of DSM programs and education that provide benefits to its customers through helping them better manage their energy bills.

19 The Company respectfully requests that the Commission make two determinations: The first would allow for the continuation of the existing pilot program (and recording of deferrals) with no changes to the Mechanism, until such time as Avista's request for a permanent continuation of the Mechanism can be addressed. Deferrals during this interim period would be subject to refund should the Commission not ultimately approve the

Decoupling Mechanism on a permanent basis. The second requested form of relief would ultimately serve to approve the Company's request authorizing Avista to continue the natural gas Decoupling Mechanism on a permanent basis, with one proposed change identified.

DATED this 30th day of April 2009

By: Kelly Norwood
Kelly Norwood
Vice President, Avista Corp.