Exhibit No. __(BJH-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UG-09_____

DIRECT TESTIMONY OF

BRIAN J. HIRSCHKORN

REPRESENTING AVISTA CORPORATION

Q. Please state your name, business address and present position with Avista Corporation?

A. My name is Brian J. Hirschkorn and my business address is 1411 East Mission Avenue, Spokane, Washington. I am presently assigned to the State and Federal Regulation Department as Manager of Pricing.

Q. Would you briefly describe your duties?

A. My primary areas of responsibility include electric and gas rate design, customer usage and revenue analysis, and tariff administration.

Q. Would you briefly describe your educational background?

A. I am a 1978 graduate of Washington State University with Bachelor degrees in Business Administration and Accounting.

Q. Have you previously testified before the Commission?

A. Yes. I have previously testified before this Commission in numerous rate proceedings as a revenue and rate design witness.

Q. What is the scope of your testimony?

A. My testimony will describe:

1. The Company's proposals regarding continuation of the Natural Gas Decoupling Mechanism (Mechanism);
2. The process of developing the Evaluation Plan of the pilot Decoupling Mechanism, as well as choosing the independent Evaluator. I will also provide brief comments regarding the Evaluation Report filed with the Commission on March 31, 2009;

3. The general results of the Mechanism related to deferrals and rate adjustments, the one minor proposed change to the Mechanism going forward, and the general results of the Company's natural gas DSM efforts and programs during the pilot term of the Mechanism. Company witness Jon Powell's testimony provides additional information regarding the Company's DSM programs and results; and
4. The terms and conditions of the Mechanism during the pilot period.

Q. Are you sponsoring any exhibits that accompany your testimony?

A. Yes. I am sponsoring Exhibit No. __(BJH-2), which is a copy of the Decoupling Evaluation Report, which was prepared by the consulting firm Titus. It should be noted that the Exhibits referenced in the Evaluation Report are voluminous, and therefore are being provided in the workpapers that accompanied this filing. I am also sponsoring Exhibit No. __(BJH-3), which includes a summary of the monthly deferral calculations from January 2007 through March 2009. The summary is attached as a hard-copy, and details are provided electronically. Finally, I am sponsoring Exhibit No. __(BJH-4), which is a copy of the quarterly Decoupling report for the quarter ending 12/31/08. The summary is attached as a hard-copy, and details are provided electronically.

Q. Could you please describe the Company's proposals with regard to its natural gas decoupling mechanism (Mechanism)?

A. Yes. Through this filing the Company proposes that:

1. The Commission allow the Company to continue recording monthly deferrals under the Mechanism beyond June 2009, until the Commission completes its

evaluation of the pilot Mechanism, and the Company's proposal for a Decoupling Mechanism on a permanent basis.

2. The Commission approve continuation of the Mechanism on a permanent basis, with the minor modification proposed by Avista.
3. The Commission's examination and evaluation of the Mechanism be incorporated with the Company's present general rate filing, Docket UG-090135, under the procedural schedule established by the Commission in Order No. 2.

Q. What is the basis for the Company's request to continue recording deferrals during the evaluation period?

A. In Commission Order 05 in Docket UG-060518, the Commission stated: "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.*" The Company respectfully requests that the Commission take this affirmative action, by issuing an order prior to the end of June (2009), allowing the Company to continue recording deferrals during this evaluation period. The Company believes good cause exists for the Commission to ultimately approve continuation of the Mechanism and, if that is the case, continuity of the Mechanism is important as the Company continues its extensive programmatic DSM measures and customer education related to energy efficiency.

Q. What if the Commission does <u>not</u> approve continuation of the Mechanism following its review of the pilot mechanism?

A. The Company would reverse any deferrals recorded after June 30, 2009 and customers would not be adversely affected.

Q. Is the Company proposing any changes to the calculation of the deferrals that would be recorded during the evaluation period?

A. No. The deferrals would be calculated and recorded exactly as approved by the Commission in Order 04 in Docket UG-060518 and as set forth in the Company's natural gas Rate Schedule 159 – Natural Gas Decoupling Rate Adjustment.

Q. Why does the Company believe that the Commission should ultimately approve continuation of the Mechanism?

A. The Mechanism has achieved its intended results: 1) The Company has substantially increased its natural gas DSM efforts and results during the term of the pilot, and 2) 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. Additionally, the Mechanism is consistent with current national energy policy that supports utility incentives and mechanisms that provide for further promotion of energy efficiency.

Q. Why does the company believe that continuation of the Mechanism is in the public interest?

A. As was noted in the Company's original application for the Mechanism in UG-060518, the volatility in the cost of natural gas make 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. 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. This increased conservation has not only benefited the individual customers participating in those measures through reduced bills, but has also reduced the long-term demand for natural gas which will help to reduce natural gas prices for all customers.

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 a Company 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.

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.

Q. Please provide an overview of the process of developing the Evaluation Plan and the selection of an Evaluator.

A. The Company filed an Evaluation Plan with the Commission on April 29, 2008. The Evaluation Plan was developed through a collaborative effort with representatives of 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 signed by members of the Advisory Group[1] which set forth the guidelines for dissemination of the Request for Proposals (RFP) to qualified bidders and the terms of interaction between the Advisory Group and the potential Evaluator.

The Plan was integrated into an RFP and was sent to 51 potential bidders suggested by members of the Advisory Group. Additionally, the RFP was sent to The Association of Energy Services Professionals and The Northwest Energy Efficiency Council, who distributed the RFP to their members.

Noteworthy requirements within the RFP included:

a. No significant previous working history with Avista;

---

[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.

b. No prior advocacy position (for or against) taken with respect to decoupling;

c. The ability of the Evaluator to 1) demonstrate relevant experience, 2) analyze energy consumption and utility accounting data and methodologies and 3) analyze DSM data.

Q. How many bids did the Company receive in response to the RFP?

A. The Company received only one bid, which was from the consulting firm Titus.

Q. Did Titus meet all of the requirements set forth in the RFP?

A. Yes. Titus met all of the requirements. The members of the Advisory Group supported the selection of Titus as the Evaluator with the exception of Public Counsel and The Energy Project. They neither endorsed nor opposed the selection.

Q. Were there any areas of disagreement among the members of the Advisory Group with regard to the scope of the Evaluation?

A. There was one area of significant disagreement among the members regarding the scope. Within Titus' proposal, they offered to conduct an *additional* verification of the Company's DSM results/savings. In compliance with Order 04 in Docket No. UG-060518 dated February 1, 2007, the Company retained an independent third party to verify/audit the Company's annual claimed/reported DSM savings. The Evaluation Plan, developed and supported by all parties, called for the Evaluator only to review and comment on the results of the annual DSM verification. Given the breadth of requirements in the Evaluation Plan, the Company believed that Titus' time would best be served analyzing and reporting the information required in the Evaluation Plan, as opposed to auditing information which had already been audited by an independent party. While Titus had a number of suggestions to improve the Company's DSM reporting and verification, they stated on page 5 of the Evaluation Report that "The assumptions made, methods used and results of the (DSM verification) report appear reasonable."

Q. Was the evaluation conducted by Titus a thorough review and analysis of the results of the Mechanism?

A. Yes. The evaluation was very thorough and comprehensive as evident from the Evaluation Report. Titus performed the Evaluation between October 2008 and March 2009. During that time, Titus conducted a two-day site-visit at Avista, submitted nearly one hundred data requests, and held nine conference calls with the Advisory Group. The Evaluation Report provides the findings resulting from this extensive review and analysis of 1) the Company's DSM programs and results through 2008, and 2) the results associated with the mechanics (deferrals and rate adjustments) of the Mechanism itself. The Report is attached as Exhibit No. __(BJH-2).

Q. Could you please summarize the deferred amounts and the rate adjustments for the applicable periods during the term of the Mechanism?

A. Yes. As deferrals under the pilot term continue through June 2009, the deferrals for the July 2008 – June 2009 period reflect actual monthly deferrals through March 2009 and the estimated rate adjustment based on that deferred amount. Each rate adjustment noted below is incremental.

Deferral Period	**Deferral Amount**	**Rate Increase Effective Nov. 1**		
		% Increase	Cents per Therm	Mo. Bill Increase
Jan '07-June '07	$305,677	0.20%	0.27	$0.19
July '07-June '08	$678,014	0.30%	0.33	$0.23
July '08-Mar '09	$1,028,568	0.30%	0.31	$0.22

Q. Do you believe that the Mechanism, and corresponding rate adjustments, has resulted in a disincentive for customers to conserve?

A. No. On page 6 of Order 04, paragraph 18, the Commission discusses the issue of sending appropriate price signals to customers regarding conservation. The Order states: "...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." While there are many factors that affect customers' energy usage, it appears that the Mechanism has not created a disincentive for customers to conserve. In fact, it appears that just the opposite may be true. During the pilot term of the Mechanism, the Company has provided additional information to customers regarding available DSM programs, as well as other ways they can reduce their energy usage. During that time, there has been an increase in the number of (Schedule 101) customers taking advantage of the Company's programs and incentives, and the documented energy savings increased substantially over prior years. Further, as shown in the table above, the rate adjustments associated with the Mechanism have been relatively small and do not appear to have created a disincentive for customers to conserve.

Q. Did the Company increase its natural gas DSM programs and results during the pilot term of the Mechanism?

A. Yes. The Company substantially "ramped-up" its natural gas DSM programs and efforts during the pilot term of the Mechanism. Documented, or "claimed" therm savings resulting from the Company's DSM programs increased significantly, especially for residential and small commercial (Schedule 101) customers. Additionally, in 2007 the Company launched a sweeping media campaign and special website encouraging customers to use energy efficiently. The "Every Little Bit" website provides extensive information to customers regarding the Company's DSM programs and rebates, as well as low-cost/no-cost steps customers can take to reduce their energy use. Company witness Powell discusses the Company's natural gas DSM programs and results in more detail in his testimony.

Q. Could you please quantify this increase in claimed gas DSM therm savings during the pilot term of the Mechanism?

A. Yes. Page 3 of the Evaluation Report shows summary information regarding the Company's claimed savings from 2004 through 2008. Table 3 shows total Washington gas DSM savings have increased by 61% from 2004-05 to 2007-08 (Mechanism pilot period). Table 4 shows that therm savings for Schedule 101 customers (residential and small commercial) has increased by 205%, or tripled, over that same period.

Q. Did the Company's audited DSM results meet or exceed its annual DSM goal as required by the "DSM Test"?

A. As shown in Table 2 on page 5 of the Report, the Company's verified DSM results fell just short (99%) of its annual IRP goal for 2006. As a result, the Company reduced the amount of fixed costs to be recovered in the annual rate adjustment filing from 90% to 80%, as required by the DSM Test. However, in 2007 and 2008 the verified savings were 137% of the goal, with total verified savings nearly doubling from 2006 to 2008.

Q. On page 8 of Commission Order 04, paragraph 26, the Commission stated: "... 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." Is there information related to this in the Evaluation Report?

A. Yes. Table 1 on page 2 of the Report shows a comparison of the deferrals recorded under the Mechanism (90% of lost margin due to the reduction in Schedule 101 customer usage) compared to the lost margin resulting from the Company's programmatic DSM measures. During 2007 and 2008, the first-year lost margin resulting from DSM measured savings for Schedule 101 customers was 16% of the decoupling deferrals associated with the reduction in usage by all Schedule 101 customers during that period.

Q. What conclusion do you draw from this information?

A. Customers are reducing their natural gas usage in ways other than through direct participation in the Company's DSM incentive programs. As previously mentioned, the Company has ramped-up its energy efficiency message to customers through the Every Little Bit program, and these results reflect, at least in part, the success of that program. The objective of programmatic DSM measures, customer education, and price signals to customers is to encourage customers to use less of a limited commodity – in this case natural gas. Because retail rates are designed to recover fixed costs based on the volume of sales, the Decoupling Mechanism appropriately provides recovery of fixed costs related to the decline in customer usage, whether from programmatic DSM measures, education, price signals, or other factors. The fixed costs recovered by the Company through the Decoupling Mechanism are fixed cost amounts that have been previously reviewed and approved to be recovered through base rates. Therefore, decoupling provides a "win-win" for customers and the Company in that the customer is better able to manage their energy bill, and the Company is allowed recovery of the fixed cost of providing service.

Q. Does the Evaluation Report provide relevant information related to the Company's limited-income customers?

A. Yes. Section K of the Report, beginning on page 76, provides comprehensive information related to the Mechanism and the Company's limited-income customers. Mr. Powell's testimony also discusses the Company's limited-income DSM program and areas of emphasis in the future.

Q. Were any problems with the design of the Mechanism identified during the term of the pilot program that are in need of correction?

A. All but one administrative issue have been resolved. The unresolved issue is the (net) effect on the decoupling deferrals of customers switching between rate schedules 101 and 111. 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. When the pilot Mechanism was implemented, it appeared that the net effect of customers switching between these schedules would not have a significant effect on the potential deferral(s). Based on an analysis performed for the Evaluation Report, the net effect of customers switching between these schedules resulted in an additional $74,000 of deferrals recorded over the 2007-2008 period. This amount represented approximately 5% of the total deferrals recorded over the two-year period[2]. While this amount represents only a small fraction of the total deferred amount, it is appropriate to make an adjustment to the mechanics of the Mechanism going forward.

Q. What is the Company's proposal to address the schedule switching issue?

A. If the Commission approves continuation of the Mechanism on a permanent basis, the Company would adjust actual monthly customer usage to remove the net effect of customers switching between schedules during the month. Each month, the Company runs a "rate schedule comparison" report which calculates the customer's bill (at present rates) for the past twelve months under Schedule 101 and Schedule 111. If the customer's bill would be reduced by 5% or more if they were on the "other" schedule, the customer is notified and switched, with the date of schedule change noted in the report. The Company can utilize this report to make the appropriate adjustment to actual customer usage for the month.

Q. Is this the only change the Company proposes to make should the Commission approve continuation of the Mechanism?

A. Yes.

Q. With that one change in mind, would you please explain the mechanics of the <u>current</u> Decoupling Mechanism?

A. Yes. The following is a description of the Mechanism:

<u>Application of the Mechanism</u>: The Mechanism applies only to customers under the Company's natural gas Schedule-101, which includes residential and small commercial customers.

---

[2] It is important to note that the Mechanism is designed to provide recovery on 90% of the fixed costs related to the decline in customer usage (not 100%) and therefore this 5% difference, even apart from it being a small amount, would not have resulted in an over-recovery of fixed costs by Avista.

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) is determined and compared with the weather-corrected therm sales for the corresponding month from the Company's most recent test year (Base Therm Sales) in its last general rate case.

Adjustment for New Customer Usage: Prior to weather-correcting actual therm sales for the month, an adjustment is 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 increase Current Therm Sales as compared to the Base Therm Sales. The actual usage for new customers is subtracted from the total current month usage.

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

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 is 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.

Over/Under-Recovery of Fixed-Costs Resulting From Usage Differences: The difference in usage is then multiplied by the approved margin rate (for fixed-cost recovery) 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.

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

Effect of General Rate Cases: The Base Therm Sales and margins resulting from the most recent Commission approved general rate filing is used in the Monthly Revenue Deferral Calculation for each month.. The weather adjustment approved in the most recent filing is used for determining the Base Therm Sales and Current Therm Sales. The authorized rate of return in that filing is used for the prospective application of the earnings test, as set forth below in "Application of Earnings Test".

Rate Adjustments Coincident with Annual PGA: The monthly deferred revenue is accumulated for the twelve-month period ending June of each year. Rate adjustments associated with the Mechanism are implemented coincident with the Company's annual PGA rate adjustment, to amortize the deferred balance over a twelve-month period, subject to the "earnings" and "DSM" tests described below. The Company accumulates the deferred revenue for each July-June period, and files a request on or about September 1 to implement the appropriate rate adjustment coincident with the annual PGA.

Deferred Revenue Recovery Subject to Earnings and DSM Tests: The level of deferred revenue recovery is 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" is 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 the most recently authorized rate of return, the amount of the proposed surcharge (amount transferred to the balancing account) is reduced to bring the rate of return down to the Commission-authorized level. If removing the entire deferred revenue amount from the Commission-basis results does not reduce the rate of return to the authorized level, no surcharge is implemented.

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) set forth a natural gas (Washington & Idaho) target savings level of 1,062,000 therms for each of the calendar years 2006 and 2007. This target savings level for each year was used for determining the level of the 2007 and 2008 surcharges; the target savings level included in the Company's 2008 IRP (1,425,070 therms) will be used for the 2009 rate adjustment. The following table shows the level of the margin (fixed costs) to be deferred and recovered based on the actual gas DSM savings compared to the pre-established IRP target:

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

If less than 70% of the target savings are achieved, the surcharge amount is zero. DSM savings achieved between 70% and 100% of the target results in the corresponding surcharge level shown in the above table.

Independent Third Party Review of DSM Savings: The Company retains an independent third party to audit the results of DSM savings reported for decoupling purposes. The scope of the audit(s) 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. During the pilot period, the first $35,000 of the cost of each years audit was funded through DSM tariff rider funds. Going forward, the Company proposes that the full cost of the audit be funded through the DSM tariff rider.

Annual Two Percent (2%) Rate Change Limitation: After applying the "earnings" and "DSM" tests, the amount of the rate increase resulting from the adjustment is 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 time). The incremental surcharge (percentage) increase is 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 is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental surcharge exceeds a 2% rate increase, only a 2% increase is implemented and any excess deferred revenue remains in the deferred revenue account and could be recovered the following year, subject to the 2% limitation.

Annual Decoupling Rate Adjustment Filing: On or about September 1, the Company files a proposed decoupling surcharge (or rebate) based on the amount of deferred revenue recorded for the prior July – June period. The results of the "earnings", "DSM" and "2%" tests are included with the filing and used to determine the amount of the rate adjustment. A proposed tariff is included in those filings. The Company files its Commission-Basis Earnings report (for the prior year) by April 30th and the DSM verification report is filed in advance of the decoupling filing.

The proposed tariff reflects a rate adjustment that recovers the appropriate deferred revenue amount over a twelve-month period implemented coincident with the Company's annual PGA. The deferred revenue amount approved for recovery or rebate is transferred to a balancing account and the revenue surcharged or rebated during the period reduces 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, is added to the new revenue deferrals to determine the amount of the proposed surcharge for the following year. Interest is accrued on the deferral balance only after that balance is approved for recovery/amortization by the Commission.

Accounting and Quarterly Reporting for the Mechanism: The Company records the deferred revenue in account 186 – Miscellaneous Deferred Debits. The amount approved for recovery is transferred into a 182.3 - Regulatory Asset account for amortization of the surcharge revenue received. On the income statement, the Company records both the deferred revenue and the amortization of the deferred revenue through Account 407 - Regulatory Debits and Credits, in separate sub-accounts. The Company files a quarterly report with the Commission showing pertinent information regarding the Mechanism. This report includes 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. A copy of the report for the quarter ending 12/31/08 is attached as Exhibit No. ____(BJH-4) for informational purposes.

Q. In Order No. 4 in Docket UE-050684 dated April 17, 2006, the Commission on Page 42 outlined a number of items that PacifiCorp should include, at a minimum, if they were to seek a Decoupling Mechanism. Has the Company reviewed these items, and if so, how has it addressed these items in this request?

A. Yes, the Company has reviewed the items set forth in this Order. Below is the list of the items as well as a brief description as to how these items have been addressed:

Item #1 - The scope of risk to be covered by the mechanism – conservation, weather, or both.

As mentioned earlier in my testimony, the Mechanism captures the effect of changes in customer usage due to conservation and price elasticity, but does not remove the risk associated with weather, i.e., the Mechanism normalizes customer usage for the effects of abnormal weather.

Item #2 - The scope of fixed costs included

The Mechanism allows the company to recover only the level of fixed gas distribution costs (revenue less gas costs) approved by the Commission in the Company's last general rate filing.

Item #3 - The customer classes to be included and whether the baseline would be on an individual or class basis

The Mechanism applies only to residential and small commercial customers served under the Company's natural gas Schedule 101. The baseline usage is the total (monthly) weather-normalized usage for this Schedule from the most recent general rate case.

Item #4 - Complete detail of the accounting for and calculation of any true-up

The details for this item were discussed earlier in my testimony. Please also see Exhibit No. ____ (BJH-3) which is being provided as a sample which shows a summary of the monthly deferral calculations from January 2007 through March 2009, and Exhibit No. ____ (BJH-4) which includes a sample of a quarterly report to the Commission.

Item #5 - Rate of return implications

The Mechanism does not significantly affect the Company's business risk and, therefore, an adjustment to the Company's authorized Return on Equity (ROE) is not warranted. The Mechanism captures only the change in residential and small commercial 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 are generally more substantial and volatile than those that are included. Furthermore, 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, the Mechanism includes an "earnings-test" - a provision that limits any decoupling rate adjustment based on the Company's authorized rate of return.

Item #6 - Method of cost recovery

The Company files a proposed decoupling rate adjustment (surcharge or rebate) based on the amount of deferred revenue recorded for the prior July – June period. If approved by the Commission, the proposed rate adjustment goes into effect on November 1, coincident with the company's annual PGA, through tariff Schedule 159, "Natural Gas Decoupling Rate Adjustment". The revenue collected through the rate adjustment is used to amortize the deferral balance.

Item #7 - Design of pilot test period and evaluation of the mechanism before determining whether to make it permanent

This item is subject of this filing and the Commission's evaluation of the pilot Mechanism, together with the Evaluation Report, attached as Exhibit ______ (BJH-2).

Item #8 - Timing and calculation of rate adjustments

As noted in Item #6, the Company files an annual proposed rate adjustment to be effective on or about November 1. The level of the proposed rate adjustment is subject to the "DSM Test", the "Earnings Test" and an "Annual 2% Rate Change Limitation".

Item #9 - Impact of new customers on revenue recovery under the mechanism

As discussed earlier in my testimony, prior to weather-correcting actual therm sales for each month, an adjustment is made to remove the actual usage for new customers added since the corresponding month of the most recent test year.

Item #10 - Impact of the mechanism on low-income customers

As discussed in witness Powell's testimony, the current Mechanism has had an average bill impact of roughly $0.40 per month. At the same time, the Company has increased DSM expenditures for limited-income customers by 43% during the 2007 and 2008 decoupling period in comparison to the 2004 and 2005 pre-pilot period.

Item #11 - Identification of incremental conservation measures expected to be undertaken

As shown in witness Powell's testimony, the Company has not only expanded and enhanced its DSM programs, an annual independent verification of the Company's energy savings concluded that the Company achieved 99% of its goal in 2006 and 137% of the goal in both 2007 and 2008. As noted earlier, page 3 of the Evaluation Report shows summary information regarding the Company's claimed savings from 2004 through 2008. Table 3 shows total Washington gas DSM savings have increased by 61% from 2004-05 to 2007-08 (Mechanism pilot period). Table 4 shows that therm savings for Schedule 101 customers (residential and small commercial) has increased by 205%, or tripled, over that same period.

Item #12 - Development of a target for energy conservation to be achieved through this mechanism relative to the baseline conservation programs currently in rates and the Company's Integrated Resource Plan.

As mentioned earlier, the Company's 2006 Integrated Resource Plan (IRP) set forth a natural gas (Washington & Idaho) target savings level of 1,062,000 therms for each of the calendar years 2006 and 2007. This target savings level for each year was used for determining the level of the 2007 and 2008 surcharges (through the DSM Test); the target savings level included in the Company's 2008 IRP (1,425,070 therms) will be used for the 2009 surcharge. The Company would continue to use the IRP targets as part of the DSM test going forward.

Q. On page 10 of Order No. 04 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." Do you have any comments on this statement?

A. Yes. As shown in the Evaluation Report and Mr. Powell's testimony, the Company has substantially increased its DSM efforts and results in a cost-effective manner during the pilot period of the Mechanism. The Company exceeded its IRP DSM goal by 37% in both 2007 and 2008. Further, Washington gas DSM savings have increased by 61% from 2004-05 to 2007-08, and therm savings for Schedule 101 customers (residential and small commercial) has increased by 205%, or tripled, over that same period. During this time, the Company also launched its "Every Little Bit" program, a sweeping customer outreach program to promote conservation and energy efficiency. These results, together with the continuing need for extensive programmatic DSM measures and customer education on energy efficiency, warrant continuation of the Decoupling Mechanism on a permanent basis.

Q. Does this conclude your prefiled direct testimony?

A. Yes.