

Avista Corp.

1411 East Mission PO Box 3727
Spokane, Washington 99220-3727
Telephone 509-489-0500
Toll Free 800-727-9170



August 31, 2009

State of Washington
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive
Olympia, Washington 98504-8002

Attention: Mr. David Danner, Executive Director and Secretary

RE: WN U-29 – Natural Gas Service
Avista's Proposed Natural Gas Decoupling Rate Adjustment

Enclosed for filing with the Commission is a copy of the following proposed tariff sheets:

Fourth Revision Sheet 159 canceling Third Revision Sheet 159

This tariff sheet reflects the proposed Natural Gas Decoupling Rate Adjustment, filed in compliance with the Commission's Order No. 04 in Docket No. UG-060518. This Order approved a natural gas decoupling mechanism for Avista for a three-year pilot period, with this filing reflecting the deferral balance for the third year to be amortized over the period November 1, 2009 – October 31, 2010. The Company will continue to record deferrals under the Mechanism, which may or may not be subject to future recovery, in compliance with Order No. 07 in Docket UG-060518.

The decoupling mechanism allows the Company to: 1) defer 90% of the margin lost due to lower customer gas usage since the Company's last general case, and 2) file a tariff to recover up to the total deferred amount through a surcharge under the proposed tariff. The proposed tariff sheet reflects a surcharge of 0.563 cents per therm, which is a *decrease* of 0.030 cents per therm compared to the present decoupling rate adjustment of 0.593 cents per therm, or a decrease of 0.03% applicable to natural gas customers taking service under rate Schedule 101. This tariff sheet is proposed to become effective November 1, 2009, coincident with the proposed effective date of the Company's Purchased Gas Adjustment, which will be filed by mid-September.

The proposed surcharge rate of 0.563 cents per therm is designed to recover approximately \$722,000 from the Company's residential and small commercial natural gas customers served under rate Schedule 101. This amount is comprised of \$683,564, which is the recorded deferred revenue for the period July 2008 – June 2009 (90% of the lost margin), and associated interest and revenue-related expenses. The workpapers supporting the lost margin and deferred revenue are provided in Exhibit 1. If the

proposed surcharge is approved by the Commission, the deferred amount of \$683,564 will be transferred to a balancing account, and will begin accruing interest in November at the quarterly rate published by the FERC (3.25% effective July 1 / new rate will be effective October 1). The balance in the account will be reduced each month by the revenue collected under the tariff. Exhibit 2 shows the derivation of the proposed surcharge rate to recover the deferred balance of \$683,564 plus interest and revenue-related expenses, based on projected sales volumes for Schedule 101 customers during the surcharge/amortization period (Nov. '09 – Oct. '10).

Effective January 1, 2009, the Company had revised base rates and an updated test year (2007) as a result of Docket No. UG-080417, which affected the calculation of the monthly decoupling deferral from that date forward. These revisions are reflected in Exhibit 1 (monthly deferral calculation) as well as the present decoupling tariff.

Earnings Test

A condition of the rate adjustment is that the rate of return for the Company's Washington gas operations not exceed the level authorized by the Commission. This "test" is based on the Commission Basis Report filed by the Company each spring for the prior calendar year. If the Company's actual rate of return exceeds the authorized level, then the amount of the surcharge is reduced, as described on Schedule 159A of the proposed tariff. Attached as Exhibit 3 is the Company's Gas Commission Basis Report for 2008, filed with the Commission by letter dated April 29, 2009. As shown in the summary, the rate of return for 2008 (including restating adjustments) was 7.03%, which is less than the Company's authorized rate of return of 8.22% from UG-080417. Therefore, there is no adjustment to the deferred revenue as a result of the earnings test.

DSM Test

The DSM test is based on the Company's actual level of completed programmatic gas DSM savings (verified by independent audit) for the prior calendar year compared to its targeted level of savings set forth in its most recently acknowledged (2007) Integrated Resource Plan (IRP). That target level of annual DSM savings is 1,425,070 therms for calendar year 2008. For this filing, the actual level of verified savings for calendar year 2008 is compared to the target level. If the Company's actual level of DSM savings is less than the target, then the amount of the surcharge is reduced, as shown on Sheet 159A of the present tariff.

In order to verify the Company's reported level of DSM savings for decoupling, the Company retains an independent third party to verify the results. The Company retained the consulting firm of Research Into Action, Inc. to verify all three years of its DSM results during the pilot period. A summary of the audit results is provided in Exhibit 5, and the full report is provided as Attachment A. As shown on page 1 of Exhibit 5, the verified level of DSM savings for 2008 is 1,821,298 therms, which is 127.1% of the target level of 1,425,070 therms. Therefore, the full 90% of the lost margin for the July 2007 – June 2008 period is recoverable, as shown in the table on sheet 159A of the proposed tariff.

The decoupling rate adjustment is proposed to become effective November 1, 2008 simultaneous with the Company's proposed Purchase Gas Adjustment (PGA). Notice to customers regarding the proposed decoupling rate adjustment, as well as the proposed PGA adjustment, will be provided in a bill insert.

If you have any questions regarding this filing, please call Brian Hirschorn at 509-495-4723.

Sincerely,

A handwritten signature in cursive script that reads "Kelly O. Norwood". The signature is written in black ink and is positioned below the word "Sincerely,".

Kelly O. Norwood, Vice President
State & Federal Regulation

Enc.

CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that I have this day served the Avista Natural Gas Decoupling Rate Adjustment filing upon the parties listed below by mailing a copy thereof, postage prepaid.

David Danner
Executive Director & Secretary
Washington Utilities and Trans. Comm.
1300 S. Evergreen Park Dr. SW
Olympia, WA 98504-7250
ddanner@utc.wa.gov

Simon ffitch
Office of the Attorney General
Public Counsel Section
800 Fifth Avenue, Suite 2000
Seattle, WA 98104-3188
simonf@atg.wa.gov

Ms. Paula Pyron
Executive Director
Northwest Industrial Gas Users
4113 Wolfberry Court
Lake Oswego, OR 97035
ppyron@nwigu.org

Deborah Reynolds
Washington Utilities & Trans. Comm.
1300 S. Evergreen Park Dr. SW
Olympia, WA 98504-7250
dreynolds@utc.wa.gov

Chuck Eberdt
The Energy Project
1322 N. State St.
Bellingham, WA 98225
Chuck_Eberdt@opportunitycouncil.org

Nancy Hirsh
David S. Johnson
The Northwest Energy Coalition
811 1st Ave., Suite 305
Seattle, WA 98104
nancy@nwenergy.org

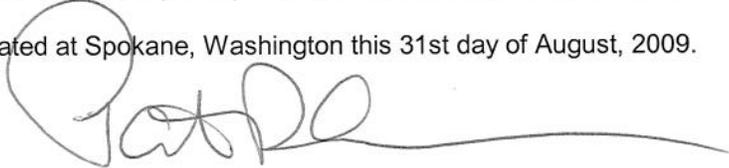
Ronald L. Roseman
Attorney At Law
2011 14th Avenue East
Seattle, WA 98112
ronaldroseman@comcast.net

Gregory J. Trautman
Washington Utilities & Trans. Comm.
1400 S. Evergreen Park Dr. SW
Olympia, WA 98504-0128
gtrautma@utc.wa.gov

Chad Stokes
Tommy Brooks
Cable Huston Benedict
Haagensen & Lloyd LLP
1001 SW Fifth Avenue, Ste 2000
Portland, OR 97204-1136
cstokes@cablehuston.com
tbrooks@cablehuston.com

I declare under penalty of perjury that the foregoing is true and correct.

Dated at Spokane, Washington this 31st day of August, 2009.



Patrick Ehrbar
State & Federal Regulation