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VIA – Electronic Mail

February 12, 2010

Dave Danner
Executive Director 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 filing of its proposed revisions to the following tariff sheet, WN U-29:

Tenth Revision Sheet 191

Canceling Ninth Revision Sheet 191

As part of the agreement approved by the Commission in Docket Nos. UE-082272 and UG-090052, Avista must file with the Commission on or before February 15th of each year, beginning 2010, to revise the Demand Side Management (DSM) portions of the Schedule 91 and 191 "Public Purposes Rider Adjustment," also known as the "energy efficiency tariff riders" to establish tariff riders that are sufficient to fund the following twelve months of DSM as well as amortize any tariff rider imbalance. The intent of this annual filing is to minimize any potential under or over collections. As part of this requirement, the Company must circulate drafts of any tariff revision, or concepts for consideration, affecting the Company's DSM portfolio to its Triple-E Board at least 30 days prior to filing a tariff revision with the Commission. The Company, on January 15th, 2010, provided via electronic mail a draft of its conceptual filing, Avista received one response from parties regarding the draft. Public Counsel sought clarification of the electric revenues depicted. This filing is responsive to the above referenced requirement.

Current projections indicate that the existing electric tariff rider Schedule 91 will lead to a positive balance of approximately \$600,000 dollars at the close of 2010 based upon the current revenue forecast and operating budget, which is relatively small in comparison to the expected 2010 electric DSM funding of approximately \$17 million. Avista is proposing to retain the existing tariff rider rate in anticipation of funding cost-effective electric efficiency investments that were not anticipated at the time of the completion of the business plan. In this filing, the Company requests approval of an increase to only Schedule 191 natural gas rates.

Now in its fifteenth year, the energy efficiency tariff riders were the country's first distribution charge to fund DSM and are now replicated in many other states. The proposed increase in 191 natural gas rates is necessary to continue to fund ongoing natural gas efficiency programs consistent with Avista's most recent natural gas Integrated Resource Plan (IRP) and to amortize a deficiency balance within the natural gas efficiency tariff rider 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 non-regional¹ efficiency goal for Washington and Idaho in 2009 was 57.2 million kWhs. The results of Avista's non-regional energy efficiency programs continue to exceed targets. For 2009, the energy efficiency savings amount is over 82 million kWhs (approximately 9.4 aMW) or 143% of the Company's annual target. Over 147 aMW of cumulative savings have been achieved through Avista's non-regional energy efficiency efforts in the past thirty three years; over 117 aMW of that non-regional DSM is currently in place on the Company's system. By comparison, Avista's estimated total retail load for 2010 is 1,035 aMW, therefore the total DSM energy savings represent a meaningful reduction to the retail load that Avista would otherwise serve. The 2009 natural gas savings targets for Washington and Idaho was 1.6 million therms. Over 2.0 million therms were saved in 2009.

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 January 2010, Avista's electric DSM tariff rider

¹ Non-regional represents Avista goals excluding NEEA

balance for Washington is a negative \$3,261,969 and the natural gas DSM tariff rider balance for Washington is a negative \$3,724,719 (past expenditures have exceeded tariff rider collections). The current Washington electric tariff rider and the proposed Washington natural gas tariff rider increase are estimated to eliminate these current balances by the end of 2010 and to fund estimated current year expenditures. The proposed increase in the Schedule 191 DSM surcharge is approximately 4.5% of present billed 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 090134, UG 090135 and UG 060518 (consolidated). The total proposed surcharge (DSM and LIRAP) under Schedules 191 will be nearly 10.4% of natural gas billed rates. This proposed rate will have an average monthly bill impact to residential customers using 70 therms of \$2.54.

Washington voters on November 7, 2006 approved Initiative Measure No. 937 ("I-937"), titled the Energy Independence Act ("Act"). The Act, now codified at chapter 19.285 RCW, concerns requirements for new electrical energy resources. This new law will require Avista to obtain 15 percent of its electricity from new renewable resources such as solar and wind by 2020 and to undertake all cost-effective energy conservation. As part of this compliance, Avista has chosen to use the Northwest Power & Conservation Council's Option #1 of the 6th Power Plan to establish the Company's acquisition target, adjusted to include electric-to-natural-gas fuel conversions. The resulting targets are greater than the Company's Integrated Resource Plan's energy efficiency targets for the same period. Avista intends to acquire 128,603 mWh's of energy efficiency for the first I-937 two-year compliance period.

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

- 1) increased customer 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; and
- 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.

All Schedules 91 and 191 DSM funds will remain within the electric and natural gas efficiency programs including the Evaluation, Measurement and Verification, reporting of programs, either offered by the Company directly or through designated contractors, or as part of cooperative regional electric and natural gas efficiency programs. Schedules 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 has 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, 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 2.1 aMW of savings in its service territory from NEEA programs.

The Company has provided \$1.9 million for low-income weatherization in 2009 in Washington and Idaho. This program is administered by the six local community action agencies in our eastern Washington service territory. The low-income weatherization portfolio represents 6.3% of our total energy efficiency budget not including utility support. The Company also provides a Low Income Rate Assistance Program (LIRAP) for bill-paying assistance.

Avista's DSM programs are supported by 21.5 full-time equivalents (FTE) spread over 44 staff. (This does not include Company support from the Contact Center, Corporate Communications, Accounting and other direct and indirect support.) The 2009 total DSM budget was over \$23.2 million.

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 Program Administrator Cost Test (PACT) (formally known as the Utility Cost Test (UCT) perspective². For 2008, the TRC benefit-to-cost ratio was 2.10 for the overall electric DSM program portfolio, with a net TRC benefit to customers of over \$29 million in 2008. The PACT benefit to cost ratio for electric programs is cost-effective with a net PACT benefit of over \$39 million. The PACT benefit to cost ratio for natural gas programs is cost-effective with a net benefit of over \$8.9 million for the same period. The natural gas DSM program portfolio is cost-effectiveness under both the TRC and PACT tests (but for one Idaho customer, the Company's TRC would be 1.16, with any number above 1.00 being cost effective for the most recent reporting period of 2008³). 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.

² The Total Resource Cost Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participants' and the utility's costs. The Program Administrator Cost Test measures the net costs of a demand-side management program as a resource option based on the costs incurred by the program administrator (including incentive costs) and excluding any net costs incurred by the participant. The benefits are similar to the TRC benefits. Costs are defined more narrowly.

³ This customer, based on their own initiatives, spent \$4.2 million on energy efficiency projects of which Avista contributed \$247,000. Avista's contribution of \$247,000 divided by the 104,000 therms of savings from these projects results in a \$2.36 per first year therm utility incentive investment, in comparison to an avoided cost value of approximately \$10 for a therm of the measure life associated with those projects. Apart from this customer, the TRC and UCT benefit cost ratios are 1.16 and 2.64 respectively. Therefore, except for the one customer, the natural gas DSM portfolio passes both the TRC and UCT tests.

Avista is in its 33rd year of providing energy efficiency services. Its current methodology for evaluation of savings was established in 1995. The Company has received findings of prudence for its energy efficiency expenditures, under this methodology, from both the Washington and Idaho Commission for every period requested through 2007.

Avista is in the process of enhancing its Evaluation, Measurement and Verification protocols. The Company circulated an EM&V draft plan for review by the Triple-E board in November, 2009. The Commission ordered, in Docket Nos. UE-090134, UG-090135 and UG-060518 (consolidated), Avista to initiate a collaborative to review EM&V issues and to provide a report to the Commission on or before September 1, 2010. That report will describe Avista's enhanced EM&V protocols.

As described in its draft plans, EM&V is intended to reflect all of the analyses necessary to supply information to stakeholders to adequately determine the prudence of Avista's DSM Programs. EM&V includes "impact," "process," "market," and "cost test" test analyses. These are described below (and taken as a whole are synonymous with other terms such as "Portfolio Evaluation" or "Program Evaluation.")

Impact Analysis – Impact analysis provides the documentation necessary to prove that the savings estimated within a particular program are equal to the savings realized by all of the customers participating in that program. Impact analysis subcomponents include:

- Measure Verification applies principles of the International Performance Measurement & Verification Protocol (IPMVP). Only a single measure may be verified using this technique or protocol. The verification of a statistically significant number of projects using IPMVP techniques is often extrapolated to verify and perform impact analysis on whole programs. The following parameters are necessary for the verification of a measure.
 - Process for calculating the savings;
 - Incremental cost of a measure;
 - Installation date;
 - Measure life;
 - Claimed savings;
 - Rate schedule for DFIC Calculation; and
 - Other

Process Analysis – Process analysis is the documentation of the continuous changes necessary to create, implement, modify and possibly terminate programs. The following items are included in process analysis.

- Contact information;
- Changes to programs over time;
- Rules for customer qualification;
- Project Cost data; and
- Other

Market Analysis – Market analysis determines the effect of the marketplace on customer implementation of energy efficiency including customer costs. This analysis is under development and will be included in the Company's EM&V collaborative with interested parties as previously discussed.

Cost Test Analysis – Cost test analysis combines several industry terms relative to the evaluation of energy efficiency cost-effectiveness including among others, Net to Gross analysis, Total Resource Cost (TRC) analysis, Free Riders or Free Drivers.

In conclusion, Avista requests no change to its tariff Schedule 91 for electric energy efficiency and respectfully requests the Commission approve the proposed rates and charges in Schedule 191. The estimated annual revenue change associated with this filing is approximately \$6.4 million for natural gas Schedule 191, or an increase of 4.5% of billed rates. The proposed rate will have an average monthly bill impact to residential customers using 70 therms of \$2.54.

Schedule 191 Revisions

February 12, 2010

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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 and the Company's "Media Release" to be distributed to the local media. Also enclosed are a copy of the workpapers supporting this filing.

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

Sincerely,



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Enclosures

cc: Triple E Board