

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



August 30, 2010

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 sheet:

**Sixth Revision Sheet 159 canceling Fifth Revision Sheet 159**

This tariff sheet reflects the proposed Natural Gas Decoupling Rate Adjustment, filed in compliance with the Commission's Order No. 10 in Docket No. UE-090134/UG-090135/UG-060518 (consolidated). This filing reflects the deferral balance for the period July 1, 2009 through June 30, 2010 which is to be amortized over the period November 1, 2010 through October 31, 2011.

The decoupling mechanism allows the Company to: 1) defer 45% of the margin lost due to lower customer natural 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 0.490 cents per therm, which is a *decrease* of 0.009 cents per therm compared to the present decoupling rate adjustment of 0.499 cents per therm, or a decrease of 0.01% applicable to natural gas customers taking service under rate Schedule 101. This tariff sheet is proposed to become effective November 1, 2010, coincident with the proposed effective date of the Company's Purchased Gas Adjustment (PGA), which will be filed by mid-September.

The proposed surcharge rate of 0.490 cents per therm is designed to recover approximately \$610,000 from the Company's residential and small commercial natural gas customers served under rate Schedule 101. This amount is comprised of \$577,061, which is the recorded deferred revenue for the period July 2009 – June 2010 (45% of the lost margin), as well as the 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 \$577,061 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, 2010, the new rate will be effective October 1, 2010). 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 \$577,061 plus interest and revenue-related expenses, based on projected sales volumes for Schedule 101 customers during the surcharge/amortization period (November 2010 through October 2011), the same projected sales volumes used in the Company's 2010 PGA.

#### Earnings Test

A condition of the rate adjustment is that the rate of return for the Company's Washington natural 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 Natural Gas Commission Basis Report for 2009, filed with the Commission by letter dated April 29, 2010. As shown in the summary, the rate of return for 2009 (including restating adjustments) was 6.35%, which is less than the Company's authorized rate of return of 8.25% from UG-090135. 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 (Washington jurisdiction) is 1,043,087 therms for calendar year 2009 (as noted in Sheet 159B of the present tariff). For this filing, the actual level of verified savings for calendar year 2009 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, the Company retained Ecotope, an independent third party energy efficiency consulting firm, to verify the Company's 2009 natural gas DSM results. Their report is provided as Exhibit 4. In order to have a truly independent verification process, Avista provided unfettered access to utility and customer information (with appropriate safeguards around the use of confidential customer information). The Company did not specify or encourage any particular methodology, aggregation or disaggregation of data, or provide any analysis that would influence the study results. Further, Avista did not specify or edit the content of the final report beyond a request that the report contain the total Washington portfolio verified natural gas savings.

As shown on page 23 of Exhibit 4, the verified level of DSM savings (Washington jurisdiction) for 2009 was 1,198,715 therms, which is 114.9% of the target level of 1,043,087 therms (Washington jurisdiction). Therefore, the full 45% of the lost margin for the July 2009 – June 2010 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, 2010 simultaneous with the Company's annual PGA rate change. Notice to customers regarding the proposed decoupling rate adjustment, as well as the proposed PGA adjustment, will be provided in a bill insert, when the Company makes its PGA filing.

If you have any questions regarding this filing, please call me at 509-495-8620.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick Ehrbar", with a long horizontal line extending to the right.

Patrick Ehrbar  
Manager, Rates & Tariffs

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](mailto: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](mailto:simonf@atg.wa.gov)

Ms. Paula Pyron  
Executive Director  
Northwest Industrial Gas Users  
4113 Wolfberry Court  
Lake Oswego, OR 97035  
[ppyron@nwigu.org](mailto:ppyron@nwigu.org)

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

Chuck Eberdt  
The Energy Project  
1322 N. State St.  
Bellingham, WA 98225  
[Chuck\\_Eberdt@opportunitycouncil.org](mailto:Chuck_Eberdt@opportunitycouncil.org)

Nancy Hirsh  
The Northwest Energy Coalition  
811 1<sup>st</sup> Ave., Suite 305  
Seattle, WA 98104  
[nancy@nwenergy.org](mailto:nancy@nwenergy.org)

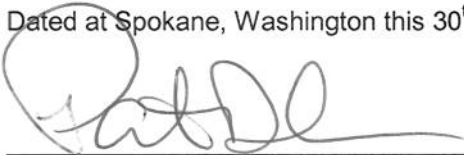
Ronald L. Roseman  
Attorney At Law  
2011 14<sup>th</sup> Avenue East  
Seattle, WA 98112  
[ronaldroseman@comcast.net](mailto:ronaldroseman@comcast.net)

Gregory J. Trautman  
Washington Utilities & Trans. Comm.  
1400 S. Evergreen Park Dr. SW  
Olympia, WA 98504-0128  
[gtrautma@utc.wa.gov](mailto: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](mailto:cstokes@cablehuston.com)  
[tbrooks@cablehuston.com](mailto:tbrooks@cablehuston.com)

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

Dated at Spokane, Washington this 30<sup>th</sup> day of August, 2010.



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Patrick Ehrbar  
State & Federal Regulation