



**Avista Corp.**

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***VIA – Electronic Mail***

June 29, 2012

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 Avista Corporation's dba Avista Utilities ("Avista or the Company") filing of its proposed revisions to the following tariff sheet, WN U-29:

Second Revision Sheet 190	Canceling	First Revision Sheet 190
Third Revision Sheet 190A	Canceling	Second Revision Sheet 190A
Second Revision Sheet 190B	Canceling	First Revision Sheet 190B
	Canceling	First Revision Sheet 190C

Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, respectfully proposes revisions to Schedule 190, "Natural Gas Efficiency Programs." The purpose of this tariff revision is to suspend the Company's natural gas demand-side management (DSM) programs due to new natural gas avoided costs that have been released as part of Avista's Integrated Resource Plan (IRP) process.

### **Background**

The changing natural gas supply picture and resultant lower prices have resulted in the decline of natural gas avoided costs. While this is good news for consumers of natural gas, these lower avoided costs add new challenges to offering a comprehensive natural gas DSM portfolio.

Avista identified last fall, as part of its annual DSM Business Planning process, filed November 1, 2011, the need to monitor natural gas avoided costs to optimize, and maintain the cost-effectiveness of its natural gas DSM portfolio. This optimization was further analyzed and discussed in a report entitled "Review of Prospects and Strategies for the 2012 Avista Regular Income Natural Gas DSM Portfolio," filed with the Commission on February 29, 2012. The analysis was based on a natural gas avoided cost that was expected to be 25% lower than the existing avoided costs. Further, this analysis concluded that a smaller menu of natural gas programs could and would be fielded later in 2012. This however, changed with the release of avoided natural gas costs that are now approximately 50% lower than the existing avoided costs. The effect of these lower avoided costs is to render the natural gas energy efficiency portfolio programs to not be cost-effective going forward. Avista's natural gas IRP is scheduled for release on August 31, 2012; standard practice is to re-file avoided costs thereafter. However, given that the Company is aware of the lower avoided costs, we are opting to immediately begin the phase- out of these programs, subject to existing contractual and outstanding offers of service.

### **Cost Test Analysis**

Avista has scrutinized several scenarios in an attempt to ascertain if any reasonable calculation of the DSM portfolio or modifications to the avoided cost would yield a portfolio that is cost-effective under the Total Resource Cost (TRC) test. The major scenarios included:

- The addition of a carbon cost adder for 2013-2019 (in addition to the carbon cost that is incorporated into the avoided cost itself for 2020 and beyond);
- The inclusion of a natural gas distribution capacity cost value;
- The use of an interpretation of the TRC test on a gross (including all program participants) rather than a net (based upon those participants who adopted the measure due utility intervention) basis;
- Various alternative categorizations of net-to-gross ratios and realization rates by program; and
- Different means of allocating non-incentive utility costs across programs.

None of the scenarios tested above resulted in a portfolio that was projected to be cost-effective under the TRC. Generally, the most optimistic scenarios led to benefit-to-cost ratios in the low 0.70 range.

The Company remains committed to a continual re-evaluation of the prospects for the natural gas DSM portfolio. Should natural gas costs, technologies or delivery methods change in such a manner to allow for cost-effective opportunities in the future, the Company will move to return all or portions of the natural gas DSM portfolio to the Company's overall energy-efficiency strategy.

### **Proposed Transition of Programs**

Regarding the procedure for suspending these programs, Avista has outstanding contractual obligations and existing rebate offers in the marketplace. The accompanying proposed tariff revision addresses the three natural gas DSM portfolios as follows:

#### **Site Specific Programs:**

Avista will honor all terms and conditions of contracts and agreements that are fully executed prior to September 1, 2012. Natural gas energy efficiency projects, known to Avista prior to September 1, 2012, but without fully executed contracts, will be honored if Avista has already conducted an analysis of a proposed natural gas energy efficiency measure. If the Company has not already conducted an analysis of a proposed natural gas energy efficiency measure, customers seeking incentive funding must submit an overview of the proposed natural gas energy efficiency project to the Company in writing or via email by September 1, 2012. Projects must have material documentation by October 15, 2012 and an energy efficiency agreement must be signed by January 15, 2013.

#### **Residential and Non-Residential Prescriptive Rebate Programs:**

Qualifying customers in the Company's Residential and Non-Residential Prescriptive Rebate Programs must send to Avista all required rebate forms and other required documentation postmarked by November 1, 2012 to be eligible for payment. Any requests postmarked after November 1, 2012 will be denied payment.

#### **Limited Income Programs:**

All existing 2012 Community Action Partnership contracts with natural gas incentives will be honored. No additional natural gas measures will be funded effective January 1, 2013.

**Conclusion**

While low natural gas avoided costs causes natural gas DSM programs to no longer be cost-effective, lower natural gas avoided costs causes the direct use of natural gas to be more cost-effective. Thus, Avista will propose, in a future electric efficiency filing, that incentives for conversion of end-use equipment from electricity to natural gas be increased. This would have multiple customer benefits, including efficiency of fuel use, support of the trade ally network, and keeping the efficiency message in the marketplace.

The Company requests a revision to Schedule 190 to suspend natural gas demand-side management (DSM) programs due to new natural gas avoided costs that have been released as part of Avista's Integrated Resource Plan (IRP) process and effective for service rendered on and after September 1, 2012.

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. Also enclosed is a copy of the workpapers supporting this filing.

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

Sincerely,

*/s/Linda Gervais/*

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Enclosures