

**BEFORE THE WASHINGTON STATE UTILITIES AND TRANSPORTATION
COMMISSION**

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)	DOCKET NO. UE-091983
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In the Matter of Avista’s Ten-year)	
Achievable Conservation Potential and)	COMPLIANCE REPORTING OF
Biennial Conservation Target Report in)	AVISTA CORPORATION
Compliance with RCW 19.285 and WAC)	
480-109)	
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In compliance with WAC 480-109-010, Avista Corporation (hereinafter "Avista," the "Utility," or "Company"), respectfully submits this Ten-year Achievable Conservation Potential and Biennial Conservation Target Report (“Conservation Resource Report”) in the above-captioned matter. The term “conservation” will be used interchangeably with energy efficiency and demand-side management (“DSM”) throughout this filing.

I. BACKGROUND

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. Large utility companies are required to obtain 15 percent of their electricity from new renewable resources such as solar and wind by 2020 and to undertake cost-effective energy conservation. The new law provides that the Commission “may adopt rules to ensure the proper implementation and enforcement of this chapter as it applies to investor-owned utilities.” *RCW 19.285.080.*

On November 27, 2007, the Commission filed with the Office of the Code Reviser an Order Adopting Rules Permanently in WAC 480-109, related to Electric Companies—Acquisition of Minimum Quantities of Conservation and Renewable Energy as Required by the Energy Independence Act (Chapter 19.285 RCW). The effective date for the adoption of the rules was December 28, 2007.

The conservation provisions of RCW 19.285 became effective on January 1, 2010 and WAC 480-109-010 requires the filing of this Conservation Resource Report on or before January 31, 2010. (References to I-937 and WAC 480-109 are used interchangeably in this filing.)

II. INTRODUCTION

This filing describes public involvement efforts by Avista in developing its targets, how the Company establishes its ten-year achievable conservation potential and biennial conservation target, what measures will qualify towards that target, how acquisition will be measured, and how Avista will work with stakeholders during the initial (2010-2011) compliance period, as well as the Company's expectations for future compliance periods.

Avista has chosen to use the Northwest Power Planning 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 as described in this filing in 2010 and 2011, the first I-937 two-year

compliance period. Avista's projection of the acquisition over a ten-year period, assuming that this same option is selected in future compliance periods, is 873,302 mWh's.

III. PROCESS AND PUBLIC INVOLVEMENT

Avista's energy efficiency targets have historically been determined through its Integrated Resource Planning ("IRP") process, pursuant to WAC 480-100-238. Substantial public involvement opportunity was presented to interested parties as the IRP process convened six meetings of the Technical Advisory Committee (TAC) in 2008 and 2009. The Company's Integrated Resource Plan was filed with the Commission on August 31, 2009. Chapter 3 of the IRP describes Avista's analysis of conservation potential under then-current protocols.

The Northwest Power and Conservation Council ("Council") convened several meetings of its Conservation Resource Advisory Committee ("CRAC") to describe how the Council staff was determining the regional conservation targets for inclusion in the Council's 6th Power Plan. Significant public involvement, between April and August of 2009, was provided given the attention to increases in proposed energy efficiency targets.

In July, Avista discussed with Commission Staff the public involvement components of WAC 480-109. The Company and Commission Staff agreed to move up the External Energy Efficiency Board (Triple E) meeting from November to September, for the purpose of accelerating the Company's Compliance Plan, and to provide opportunity for public involvement, per the requirements of WAC 480-109. (The Triple E is Avista's stakeholder

advisory committee for its energy efficiency planning and programs¹.) Commission Staff suggested broadening the notification list to include the Company's IRP Technical Advisory Committee² and others, which the Company did. Avista consulted with Commission Staff regarding the type of notification (e.g., newspaper notice, etc.) for the planned September Triple E meeting and followed Commission Staff suggestions regarding e-mail notification to specific interested party lists and posting the meeting notice to the Company's website.

On September 4th, 2009 the Commission Staff hosted a Conservation Potential Methodology Meeting that included jurisdictional electric utilities and interested parties. Commission Staff provided an overview of the "Energy Conservation Requirements of the Energy Independence Act." The Northwest Power and Conservation Council Staff presented the 6th Power Plan draft targets, the public involvement process leading to these targets, and the "Utility Target Calculator" for determination of any utility's share of the Council Staff's proposed regional targets.

Commission Staff participated in Avista's September 30, 2009 I-937 Compliance Plan meeting. The Company later inquired of Commission Staff regarding the need for more meetings, and Commission Staff suggested that Avista continue the process that had been implemented, specifically to request e-mail responses to a draft Compliance Plan and to keep responses for purposes of appending them to the Company's compliance filing.

¹Triple E is Avista's non-binding oversight and technical advisory group for energy efficiency. The Triple E is currently composed of twenty organizations including Commission staffs, customer representatives, and stakeholders with an interest in energy efficiency service delivery.

² Technical Advisory Committee (TAC) includes Commission staffs, customers, academics, government agencies, consultants, utilities and other interested parties.

On November 11, 2009, Avista distributed to the Triple E and TAC members a draft compliance filing via electronic mail reiterating that "...public involvement is essential to this process and consequently, seeking input as an interested stakeholder." Avista received comments from parties and hosted a conference call on December 16, 2009. The Company's Evaluation, Measurement and Verification (EM&V) draft plan was distributed to the Triple E on November 24, 2009 with a follow up progress report on December 29, 2009 in response to a Staff inquiry.

On December 31, 2009, the Company provided its "Informal Compliance with WAC 480-109-010(1)" projecting Avista's cumulative ten-year electric conservation potential in the state of Washington and two-year targets. Presentations from Avista's meetings and responses to the draft compliance plan, the EM&V draft, and the informal filing are provided in Attachment A.

IV. CONSERVATION PROGRAMS

Avista's energy efficiency programs provide a wide range of conservation programs and education for residential, commercial, industrial and low income customers. Programs fall into standard offer (or "prescriptive") and customized (or "site-specific") classifications. Prescriptive programs offer cash incentives for standardized products, such as weatherization measures and high efficiency appliances. These programs are primarily directed towards residential and small commercial customers. Site-specific programs provide cash incentives to commercial and industrial customers for any cost-effective energy savings measure with a simple payback greater than one year. These site-specific programs require customized services for commercial and industrial customers because many applications need to be tailored to the unique characteristics of customers' premises and processes. Provided as Attachment B is the Company's 2010 DSM

Business Plan, a 207 page document that provides substantial details about Avista's energy efficiency programs.

Avista has used the results of its IRP process to establish a budget for conservation measures, determine the size and skill sets necessary for future conservation operations, and identify general target markets for programs. The results of the IRP analysis establish baseline goals for continued development and enhancement of Avista's conservation programs and an operational conservation business plan however, for purposes of this compliance period, Avista is using the Council's 6th Power Plan. The near-term conservation business planning is summarized by portfolio in the following sections (excepting regional programs which will be described later in Section V):

Residential Portfolio

Avista's residential programs include high efficiency equipment, compact fluorescent lights (CFLs), "second" refrigerator recycling, weatherization, rooftop dampers as well as providing educational assistance through various community events. Additionally, 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. A review of residential program concepts and their sensitivity to key assumptions included in the IRP process indicate that more detailed assumptions based upon actual program plans and target markets may improve the cost-effectiveness of many of the residential concepts. Thus, all concepts with Total

Resource Cost (TRC) benefit-to-cost ratios of 0.75 or better are evaluated as part of the business planning process. See additional details in Attachment B, beginning at page 93.

Limited Income Residential Portfolio

Avista is committed to maintaining stable funding and maintaining program flexibility for limited income conservation programs. There are six local community action partner (CAP) agencies—five in Washington—that the Company funds for the delivery of limited income weatherization and energy efficiency programs. CAP funding is currently set at \$1,482,000 million per year for the State of Washington. Limited income programs include insulation and ENERGY STAR® approved windows, doors and refrigerators, space and water heating upgrades, and electric to natural gas space and water heating conversions. CAP agencies can offer other cost-effective programs with Avista's approval. These programs require periodic updates because of changes in fuel focus and target measures.

Non-Residential Portfolio

All electric-efficiency measures with a simple payback exceeding one year automatically qualify for Avista's non-residential portfolio. The Business Plan provides Avista's account executives, program managers and end-use engineers with guidance regarding potentially cost-effective target markets. However, the unique and specific characteristics of a customer's facility override any high-level program prioritization. More details related to the site-specific conservation are provided in Attachment B starting on page 88.

Avista does not have a sizable agricultural (or “pumping”) load relative to other utilities. Therefore, energy efficiency projects directed towards this market segment are included as program offerings under the site-specific options available to commercial and industrial customers.

V. ESTABLISHING THE CONSERVATION TARGET

WAC 480-109 permits the utility to establish electric energy efficiency acquisition targets based upon either the most recent Northwest Power and Conservation Council power plan or its most recent integrated resource plan (IRP), provided that the methodology used in that IRP is consistent with the Council’s power plan methodology.³

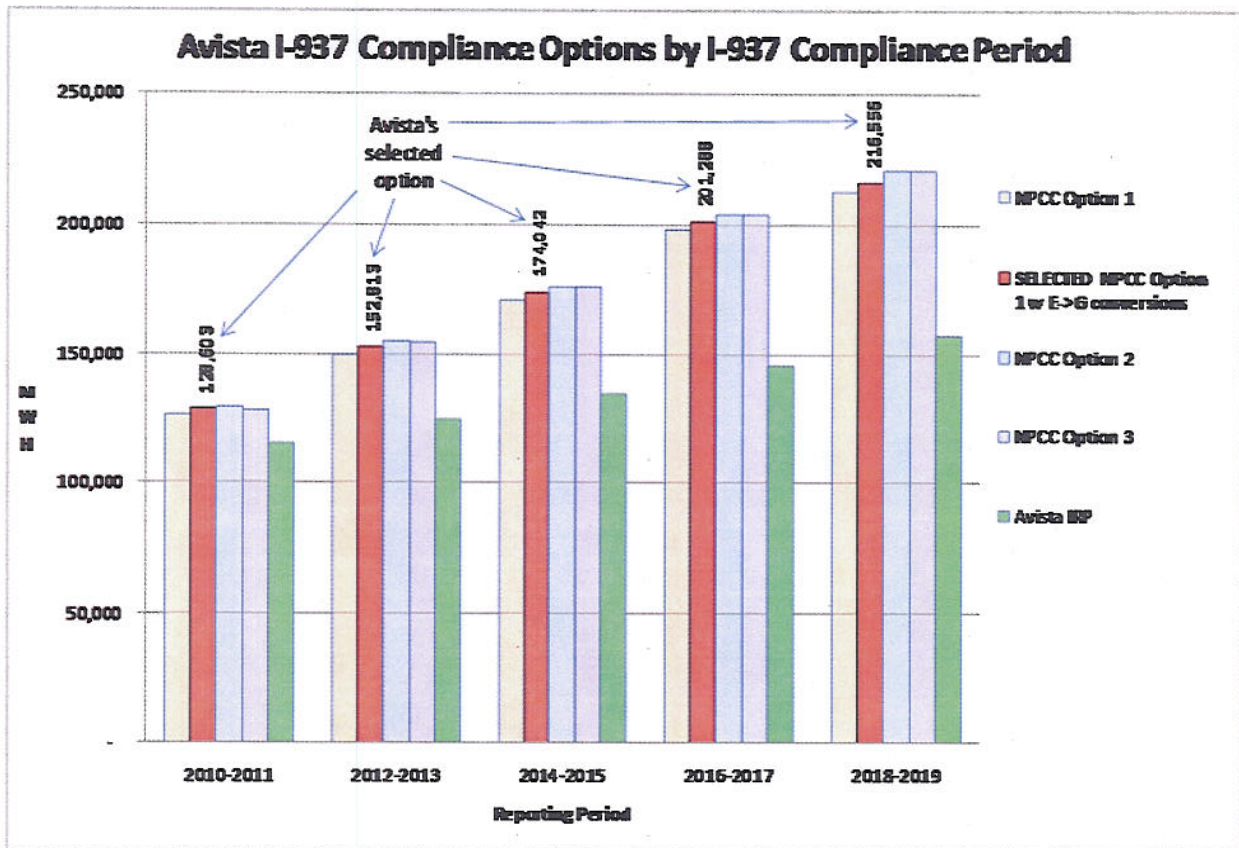
The 6th Power Plan establishes three options for determining the target of a particular utility and jurisdiction. The options are distinguished by the degree of market segment disaggregation (i.e., energy efficiency measures available to specific customer type) contained within the estimate. Option #1 is the least disaggregated and contains an acquisition target for the entire utility and jurisdiction, option #2 disaggregates the acquisition into four market segments and option #3 disaggregates acquisition into five market segments.

Avista has chosen to use option #1 of the 6th Power Plan to reflect its specific share of the regional target, based upon overall acquisition without regard to segment. The Company will

³ While RCW 19.285 states the most recent Council Power Plan is to be used, Avista understands that the Washington Legislature must initiate legislation to specifically validate the most recent plan’s targets for proper effect of law. Avista further understands that the proposed 6th Power Plan is scheduled for adoption by the Council at its scheduled Feb. 9-11, 2010 meeting. Avista anticipates that the DSM targets contained in the 6th Power Plan will be adopted in the near future and, therefore, uses these targets as if adopted. Thus, Avista considers that this will be resolved by the time the Commission addresses the Company’s filing herein.

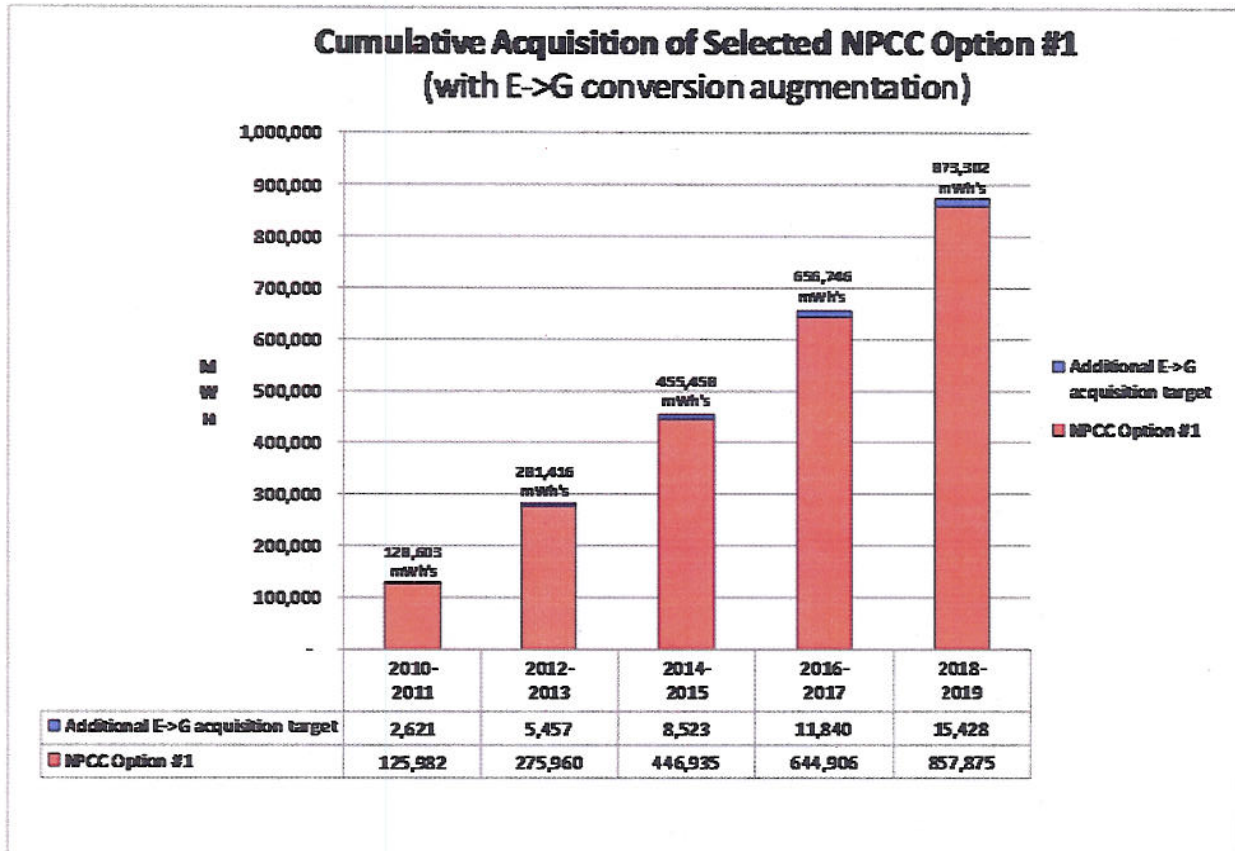
provide a financial rebate to commercial and industrial customers through site-specific programs for any electric energy saving measure with a simple financial payback of one-year or over, pursuant to Tariff Schedule 90. For purposes of the IRP, Avista does attempt to identify efficiency opportunities to develop an estimate of future cost-effectiveness and acquirable potential. However, a significant quantity of acquisition results from measures that are extremely unique and therefore not amenable to generic analysis or from measures that could be reasonably anticipated during the IRP process. Consequently, Avista performs an estimate of the future acquisition of these measures primarily based upon historical acquisition with modifications for customer load growth, price elasticity and other expected events that would improve this estimate. Acquirable potential for the site-specific program, and all other programs, are derived from results driven by program planners and technical staff based upon the specific characteristics of that program and expected market conditions. While historically Avista has used its IRP targets for conservation acquisition, due in part to the difficulty in estimating savings from site-specific measures, the Company has chosen to use its share of the Council's targets be for the 2010-2011 biennial period.

The table below shows that Avista's elected targets based on option #1, under the Council's 6th Power Plan, exceeds those of the Company's IRP targets.



The Northwest Power Act, establishing the requirement for the Council’s power plan process, contains a specific definition of “conservation” that excludes electric-to-natural gas conversions. However, these conversions are eligible for incentives under Avista’s electric efficiency programs, and these measures are often the most cost-effective alternative for both the customer and the utility. However, the WUTC has authorized the inclusion of these conversions within Avista’s electric-efficiency programs since 1992. The conversion of appropriate end-uses is often the most cost-effective alternative for both the customer and the utility and are eligible for incentives under the Company’s Schedule 90 DSM tariff. For purposes of consistency with the intent of the legislation, the tariffs authorizing Avista’s DSM programs and WUTC policy regarding the utility role in encouraging the appropriate fuel choice, we believe that the inclusion of resources acquired through electric-to-natural gas conversions should be contained within the I-937 target and be considered an eligible measure. Consequently, Avista has chosen to increase

the NPCC option #1 target in the amount of the acquisition incorporated into our corporate budget submittal. By increasing the target by the amount of acquisition expected from these programs during 2010-2011 we also are proposing that these conversions will become an eligible measure for meeting that target.



Based upon the selection of this option, it is Avista's intent to acquire 128,603 mWh's of energy efficiency qualifying under our proposal in the first 2010-2011 I-937 compliance period. Avista's projection of the acquisition over a ten-year period, assuming that this same option is selected in future compliance periods, is 873,302 mWh's. This acquisition will include traditional local electric efficiency measures, as well as electric to natural gas conversions, quantifiable behavioral efficiencies, distribution system efficiencies on both the customer and

utility side of the meter, quantifiable adoption of efficiency measures contained within the scope of the 6th Power Plan beyond utility program intervention and Avista's share of acquisition achieved by the Northwest Energy Efficiency Alliance (NEEA).⁴ Only Washington jurisdictional acquisition will be credited towards achieving the I-937 target. Avista is not committing to any predetermined allocation of the target acquisition across customer segments or efficiency technologies.

For this first compliance period, Avista is electing to establish a target based upon a single acquisition target rather than a range of target acquisition. It is also our intent to treat the acquisition target in the 2nd (2012-2013) compliance period and beyond as a cumulative target. The cumulative 2010-2013 acquisition target applied to the second (2012-2013) I-937 compliance period would include all acquisition achieved in 2010-2011 or acquisition for which penalties, if any, have been paid during that period. This approach better aligns utility and shareholder interest by eliminating the tendency to limit acquisition in excess of a compliance period in order to preserve market potential in subsequent compliance periods. RCW 19.285 provides only for penalties but no "rewards." Avista currently has no ratemaking incentive mechanism to provide for rewards to recognize DSM acquisition in excess of targets.

⁴ Quantifiable adoption of efficiency measures contained within the scope of the 6th Power Plan beyond utility program intervention means the documented installation of cost-effective electric-efficiency measures.

VI. QUALIFYING CONSERVATION MEASURES

Acquisition from all conservation measures qualifying under the Northwest Power Act plus electric to natural gas conversion acquisition will qualify towards meeting the conservation target. This includes measures that may not have been identified during the prior Power Plan due to insufficient information or analysis, and measures that were evaluated and may not have been cost-effective at the time they were evaluated for the Power Plan. The American Recovery and Reinvestment Act (“ARRA” and also known as “economic stimulus”) has provided funding to Avista for some aspects of energy efficiency programs, to customers for use on energy efficiency projects, and to potential community partners who may expand energy efficiency opportunities. Energy efficiency measures from ARRA-supported projects are included as qualifying measures.

This Conservation Resource Report presumes that no significant structural changes to DSM acquisition, beyond the Company’s control, will occur during the compliance period that would affect target determination. If changes occur that would materially affect Avista’s DSM targets, the Company will file appropriate amendments and will be reflected in the Biennial Reports.

If, during the course of any two year compliance period, energy codes or federal manufacturing standards are revised, the baseline for purposes of measuring conservation acquisition will be based upon the codes and standards in effect at the beginning of that compliance period. In subsequent compliance periods the acquisition target will be modified to account for the higher code or standard and an adjustment will be made to the measurement of acquisition applicable

towards that target. This convention prevents providing utilities with an incentive to oppose cost-effective codes and standards in order to enhance their acquisition relative to the conservation target.

Avista will claim a share of acquisition resulting from its investment and involvement in the Northwest Energy Efficiency Alliance (NEEA) based upon the best available disaggregation of savings for Avista's Washington jurisdiction.

Distribution Efficiency

Avista's distribution engineering staff has developed a process to evaluate the quantity and type of losses across its existing distribution infrastructure. As part of the process, Avista approximated losses across the following components of each distribution feeder: conductors, transformers, secondary districts and Voltage Amps Reactive (VAR) compensation. In order to rank each feeder as a possible efficiency project, an economic analysis was performed to determine opportunity and priority.

Recognizing the challenge in approximating energy savings for specific load varying feeders, the Avista distribution engineering staff developed a program to improve the measurement of power flow across the feeders. Currently, the measurement of load is limited to drag meters or Supervisory Control and Data Acquisition (SCADA) points located back at the substation bus. The measurement program referred to as "Distribution Reliability Energy Efficiency" (DREE) identified meters and communication infrastructure necessary to measure voltage and current at

points along the length of a feeder. The DREE program approach will provide calibration for the engineering models used to approximate energy savings.

Avista has been selected to receive grant awards in each of the Smart Grid categories “Smart Grid Investment Grant” (SGIG) and “Smart Grid Demonstration Project” (SGDP) funded by the American Reinvestment and Recovery Act (ARRA). Prior to these grant awards, Avista had evaluated a set of feeder upgrade programs independent of, but not exclusive of, smart grid concepts as previously discussed. With the opportunity afforded by the grant funding, elements of the feeder upgrade program combined with smart grid concepts were deemed appropriate. Both smart grid projects have energy efficiency targets identified.

In addition to specific efficiency programs, Avista revised existing distribution standards that were based on a life-cycle cost model versus an initial first cost model. The life-cycle cost model takes into consideration the cost of energy loss over the life of the equipment. As a result of the revised standards, distribution infrastructure which requires rebuilding or replacement as part of normal business practices will utilize more efficient equipment. The incremental energy savings resulting from the replacement of old equipment with new equipment will be counted towards conservation targets.

VII. MEASUREMENT OF ACQUISITION

Avista is in its 30th 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.

Revisions to reported annual savings may occur due to the results of these EM&V protocols. These modifications of savings will be documented with supporting analyses and may yield increases or decreases in final reported savings.

VIII. ONGOING PUBLIC INVOLVEMENT REGARDING TARGETS

The status of target achievement and associated updates will be provided to interested parties in several ways over the compliance period, beginning with planning. Several meetings with the Triple E will be held in 2010 specific to evaluation, measurement and verification protocols described in Section VII.

Avista provides an annual DSM Business Plan, provided herein as Attachment B. This process guides the business operations for the following year. The annual plan is publicly distributed to the Triple-E Board. Included in the plan are details regarding budget, labor, programs, outreach, measurement and evaluation and other details necessary to achieving the conservation target. Additionally, the Triple E meets twice a year, providing for ongoing review of Avista's DSM activities. Currently, the Company provides monthly tariff rider balances, quarterly reports, and provides periodic newsletters with programmatic and statistical updates.

Avista augmented its 2010 DSM Business Plan with an assessment of distribution efficiency improvements planned or contemplated in the following year.

Issues that may be addressed for future compliance periods will be solicited from interested parties through the Company's Triple E Board. For example, based on experience gained in this process, the segmentation of site-specific market penetration for use in the Company's next IRP may be further pursued. Further, while not an issue until 2015, better alignment of the Company's IRP with the Council's planning for future power plans would increase the

quantification of each. The Company's DSM planning, as part of its current IRP, was several months ahead of the Council's DSM planning for its 6th Power Plan. Therefore, there was not much opportunity for the two planning efforts to converge as has occurred in past planning cycles.

IX. CONCLUSION

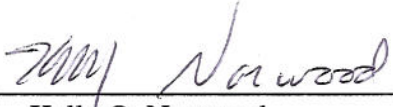
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All distribution efficiency programs which are implemented to replace existing infrastructure will qualify towards meeting the conservation target. In addition to infrastructure upgrades, smart grid related programs will also qualify towards conservation targets.

Avista will provide updates to the Triple-E Board regarding its progress towards meeting the I-937 conservation goal and any significant issues arising regarding acquisition, measurement or planning that may affect compliance. This will include as part of the Company's current DSM quarterly report, an estimate of qualifying DSM and distribution efficiency acquisition within each compliance period in comparison to estimated progress towards the acquisition target.

RESPECTFULLY SUBMITTED this 29th day of January, 2010.

AVISTA CORPORATION

By: 

Kelly O. Norwood
Vice President, State and Federal Regulation