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VIA – Electronic Mail

May 25, 2011

Dave Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
PO Box 47250
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Avista Docket No. UG-110790 "Revised" Filing

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 "Revised" proposed revisions to the following tariff sheet, WN U-29:

Revised Thirteenth Revision Sheet 191 Canceling Thirteenth Revision Sheet 191

Avista is revising its filing in the above referenced Docket to correct a cell reference error in Avista's work papers discovered during a conference call on May 9, 2011 with the Company, Commission Staff and Public Counsel. The error reflects an increase in the original filing made on April 29, 2011 of $1,343,579 to the natural gas revenue requirement calculation.

As part of the conditions approved by the Commission in Docket No. UE-100176, Order 01 at Paragraph 67, Avista must file with the Commission on or before May 1st of each year, beginning 2011, with an effective date of July 1st, to revise the Demand Side Management (DSM) portions of Schedules 91 and 191 "Public Purposes Rider Adjustment," also known as the "energy efficiency tariff riders." The purpose of this condition is to establish tariff riders that are sufficient to fund the following twelve months of DSM as well as amortize any tariff rider imbalance, thus minimizing the potential for under- or over-collections and provide opportunities for review of previous years expenses. In this filing, Avista proposes to reduce billed rates by 2.0% through proposed revisions in Schedule 191. No changes are proposed to Schedule 91.

While the proposed tariff revisions relate only to natural gas energy efficiency services, this advice letter describes both electric and natural gas conservation programs. This is to be responsive to Paragraph 67. Schedules 91 and 191 fund DSM programs described in the Company's 2011 Business Plan provided in Docket Nos. UE-101769 and UG-101770. All Schedule 91 and 191 DSM revenue is applied only to the provision of electric and natural gas efficiency service including programs offered by the Company directly, through designated contractors, or as part of regional electric and natural gas efficiency programs as well as evaluation, measurement and verification (EM&V). These programs include but are not limited to the following:

- Appliance measures
- Compressed air measures
- HVAC measures
- Industrial measures
- Lighting measures
- Maintenance measures
- Motors measures
- 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 with a simple payback of greater than one year and up to thirteen years. This includes over 300 measures that are packaged into over 30 programs for customer convenience as described in the Company's 2011 Business Plan filed November 1, 2010 in Docket UE-101769 and UG-101770.

The Company provided approximately $1.5 million for low-income weatherization in 2010 in Washington. This program is administered by the six local community action agencies in our eastern Washington service territory. The Company also provides a Low Income Rate Assistance Program (LIRAP) for bill-paying assistance.

In 2010, approximately 34 people spread over 23 Full Time Equivalents (FTE) delivered energy efficiency programs and measures resulting in electric savings of 68,911 MWh (or 105% of the IRP goal) and natural gas savings of 1.9 million therms (or 85% of the IRP goal). Approximately 77% of the energy efficiency budget was provided to participating customers as rebates (residential) and financial incentives (commercial and industrial). This does not include additional benefits such as site audits and technical analyses provided to customers by the Company's DSM engineering staff.

The aggregated Tariff Riders (Washington and Idaho, electric and natural gas) have been returned to a "zero balance". Because customer demand for our energy efficiency services has outstripped our tariff rider funding, at the beginning of 2010 the tariff riders were underfunded by $11.9 million (i.e., the Company had "pre-funded" energy efficiency services in advance of receiving tariff rider funding). In the past year, increases to the tariff riders have allowed for adequate revenue to fund current energy efficiency operations and to reduce the underfunded balance. (For example, $33.3 million was collected through the tariff riders to fund energy efficiency programs and reduce the underfunded balances in 2010 and, of this, $24.8 million was expended for the operation of energy efficiency programs with the remainder used to work down the negative tariff rider balances.)

Since the beginning of Avista's tariff riders in 1995, Avista has sought a finding of prudence on prior period energy efficiency expenditures at the time of a general rate case proceeding. As we transition to annual true-ups for Schedules 91 and 191, Avista requests that review of energy efficiency costs occur during these annual filings, except for cost-effectiveness. There are several reasons for this transition. In 1994, due to anticipated changes in Federal energy policy relating to interstate transmission grid operations, electric restructuring was contemplated to occur throughout the country. Utilities began to systematically zero-out conservation programs because the then-current accounting treatment was perceived to burden power supply costs when compared to third-party energy marketers. Avista's response was to propose the concept of the DSM tariff rider, also known as a "Non By-Passable System Benefit Charge" to fund energy efficiency. Proposed as a two-year pilot, the UTC was the first Commission in the country to approve such a mechanism. In the course of processing this filing, the Company agreed to several clauses—in an interest to reduce contentious issues associated with a then-novel concept—including waiving the Company's right to argue retroactive ratemaking and agreeing to ongoing general rate case prudence reviews.

Current analyses of DSM is much greater than almost two decades ago. As required by Paragraph 62 of the Commission's Order 01 in Docket No. UE-100176, 3-6% of Avista's DSM budget is to go to evaluation, measurement and evaluation (EM&V). Avista has engaged The Cadmus Group to perform independent evaluation at a cost approaching $1 million. Avista's request for Commission review of 2010 energy efficiency expenses is consistent with Commission treatment of its other utilities. Per the Commission Order referenced above, at paragraph 64 (8)(h), cost-effectiveness will be reviewed during the evaluation of the two-year report.

The proposed reduction in Schedule 191 rates are primarily driven by the recovery of prior natural gas energy efficiency expenditures. Schedule 191 had been increased due to the negative (or under-funded) balances from prior periods when customer demand for DSM outpaced tariff rider revenue recovery. As previously described, the tariff riders are now back in balance. Secondarily, program modifications have reduced some of the incentive levels, thus requiring lesser Schedule 191 rates.

Schedule 91 had been increased in previous years to meet increased demand for energy efficiency services and to reduce the under-funded balances from prior periods. Previous analyses, as part of our stakeholder involvement discussions, suggested that a decrease in Schedule 91 rates may be warranted at this time as the under-funded balances have since been recovered. However, no changes are proposed to Schedule 91 at this time due to expected program expenditures over the next twelve months projected to meet goals associated with the conservation portion of "I-937", also known as WAC 480-109, "Acquisition of minimum quantities of conservation and renewable energy as required by the Energy Independence Act (chapter 19.285 RCW)." Avista is on target to achieve its stated targets as described in Docket No. UE-100176. However, this estimation is prior to realization rates (or actual energy saved compared to estimated amounts) after third-party evaluation. Thus, to provide for a margin of error in the event that third party evaluations show that "realization rates" are less than expected and to assure compliance with Avista's stated targets, the Company will launch a compact fluorescent program later this year. Per Commission's Order 01 in Docket No. UE-100176 at paragraph 64 (8)(f), Avista will be filing its 2012-2013 Biennial Conservation Plan on or before November 1st, 2011 and these new targets (with Schedule 91 revenue impacts) will be included in Avista's May 1st 2012 Schedule 91 and 191 filing.

Avista has enhanced its Evaluation, Measurement and Verification protocols. 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 (Avista's EM&V Framework) and together with a companion document filed November 1, 2010 (the 2011 EM&V Plan) provides a comprehensive approach to evaluation of Avista's DSM programs. These documents are intended to reflect all of the analyses necessary to supply information to stakeholders to adequately determine the prudence of Avista's DSM Programs.

The Company has regularly convened a stakeholder meetings to gain input from 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. Stakeholder involvement has grown in the past year, partly due to the Company's EM&V Collaborative held in 2010 and partly due to increased attention on the conservation "I-937" targets. The Company continues to appreciate the time and input provided by Avista's stakeholders.

In conclusion, Avista requests no change to its tariff Schedule 91 for electric energy efficiency and respectfully requests the Commission approve the proposed reduction in rates and charges in Schedule 191. Accordingly, review of the prudence and cost-effectiveness of expenditures will take place within Docket No. 100176 as explained above, and not be included in a general rate case. The estimated annual revenue change associated with this filing is approximately a decrease of $3.1 million for natural gas Schedule 191, or a decrease of 2.0% of billed rates. The proposed rate decrease will have an average monthly bill impact to residential customers using 67 therms of $1.11 reduction to their bill.

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 corrected 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

cc: Advisory Group
Technical Committee