AVISTA CORPORATION
dba Avista Utilities

SCHEDULE 159
NATURAL GAS DECOUPLING RATE ADJUSTMENT

PURPOSE:
This Schedule is a pilot program to allow the Company to recover the costs associated with providing Natural Gas distribution service as authorized by the Commission in the Company's last general rate filing.

APPLICABLE:
To Natural Gas Customers served under General Service Schedule 101.

MONTHLY RATE:
$0.___ per therm

The monthly rate set forth above reflects the recovery of lost margin recorded by the Company during the prior year for Schedule 101 as described in more detail below.

SPECIAL TERMS AND CONDITIONS:
This Schedule is a three-year pilot program, effective November 1, 2007 and will expire on October 31, 2010. On or before March 31, 2009, the Company may file a request to extend the term of this tariff beyond the expiration date.

Monthly Revenue Deferral Calculation

Following the end of each month, beginning January 2007, the Company will compute a deferred revenue amount to be recorded in a special deferred revenue account. This deferred revenue amount can be either a debit or a credit and will be determined as follows:

(1) The difference in weather-corrected therm sales for the current month (Current Therm Sales) and the weather-corrected therm sales for the corresponding month (June to June) of 2004 (Base Therm Sales) will be calculated for Schedule 101. The usage for new customers added since 2004 will first be subtracted from Current Therm Sales. Base Therm Sales is then subtracted from Current Therm Sales. The methodology used to weather-correct therm sales will be the methodology approved or accepted by the Commission in the Company's most recent general rate filing.
(2) The difference in usage determined in (1) will be multiplied by $0.23696 per therm, which represents the margin (rate less gas costs) under Schedule 101. (3)
(3) If the result calculated under (2) is a negative amount, 90% of that amount will be recorded as a debit to the deferred revenue account, representing a potential
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surcharge. If the result is a positive amount, 90% of that amount will be recorded as a credit to the deferred revenue account, representing a potential rebate.

(4) Interest will be accrued on the deferred revenue balance at the quarterly rate published by the FERC.

Note: If the Company files a natural gas general rate filing and the Commission issues its Order in that filing prior to June 30, 2009, the Base Therm Sales and margin resulting from that filing will be used in the Monthly Revenue Deferral Calculation for the remaining months of the pilot term.

Annual Decoupling Filing

On or before September 1st each year during the pilot term of this Schedule, the Company will file a request with the Commission to surcharge or rebate the amount accumulated in the deferred revenue account for the prior July through June period, with the exception of the request filed in 2007 which would include only the deferred revenue recorded in January – June 2007. The amount of deferred revenue that the Company can request to surcharge is subject to limitation based on the two “tests” described in (1) and (2) below. The tests will be calculated independently and the test resulting in the lowest surcharge amount will be used. Any deferred revenue that cannot be recovered through a surcharge as a result of the tests will be carried over and used to offset deferred revenue that would otherwise be recorded during the following year.

(1) Earnings Test
The Company cannot request to implement a surcharge amount that would cause it to exceed its most recent authorized rate of return. The Company will use the rate of return determined in its filed natural gas Commission-basis report for the most recent calendar year. If the rate of return from that report exceeds the authorized rate of return, the amount of the deferred revenue to be surcharged will be reduced by an amount that would reduce the rate of return to the authorized level.

(2) Demand Side Management (DSM) Test
The amount of deferred revenue that the Company can recover/surcharge under this Schedule is also subject to the amount of gas conservation savings achieved through Company-sponsored DSM programs during the prior calendar year. An annual DSM target will be established each year based on the Company’s annual natural gas DSM goal set forth in its most recent Integrated Resource Plan. The amount of “lost margin” (as determined in (3) under Monthly Revenue Deferral

Calculation, prior to the application of 90%) that the Company can recover through a surcharge, will be based on the following table:

Actual vs Target DSM Savings	Surcharge vs Lost Margin
< 70%	0%
≥ 70% and < 80%	60%
≥ 80% and < 90%	70%
≥ 90% and < 100%	80%
≥100%	90% (amount deferred)

2% Annual Rate Increase Limitation

Following the application of the Earnings and DSM tests described above, the amount of the incremental proposed rate adjustment under this Schedule cannot reflect more than a 2% rate increase (cumulative of 6% over the pilot term). This will be determined by dividing the incremental annual revenue to be collected (proposed surcharge revenue less present surcharge revenue) under this Schedule by the total "normalized" revenue for Schedule 101 for the most recent July – June period. Normalized revenue is determined by multiplying the weather-corrected usage for the period by the present rates in effect. If the incremental amount of the proposed surcharge exceeds 2%, only a 2% incremental rate increase will be proposed and any remaining deferred revenue will be carried over to the following year.

After determining the amount of deferred revenue that can be recovered through a surcharge (or refunded through a rebate), the proposed rate under this Schedule will be determined by dividing the deferred revenue to be recovered by the estimated therms sales for Schedule 101 during the twelve month recovery period. The deferred revenue amount to be recovered will be transferred to a Decoupling Balancing Account and the actual revenue received under this Schedule will be applied to the Account to reduce (amortize) the balance.