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October 12, 2012

VIA: Electronic Mail

David Danner
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Avista Utilities Response in Docket No. UG-121207

Dear Mr. Danner,

On July 26, 2012, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to consider the need for guidance in planning and implementing natural gas conservation programs. The Commission issued a notice and is seeking written comments from interested persons on issues related to natural gas conservation.

On July 31, 2012, the Commission issued a notice of opportunity to file written comments and reply comments and notice of a workshop to be held Friday, October 19, 2012.

In order to facilitate a clear understanding of the methodologies for determining the conservation natural gas avoided costs, the Commission, on October 3, 2012, issued a Notice of Opportunity to File Avoided Costs Methodology, Total Resource Cost Test Methodology and the Utility Cost Test Methodology.

On October 5, 2012, the Commission issued a notice rescheduling the stakeholder workshop to November 16, 2012.

The avoided costs developed in the natural gas Integrated Resource Plan (IRP) are produced within the SENDOUT model. The model calculates this by including the forecasted commodity costs and any variable costs to deliver that commodity to our customers. This would include variable interstate pipeline charges (i.e. fuel and volumetric pipeline rates). The results of the SENDOUT calculated avoided costs are in Appendix 6.4 of the 2012 Natural Gas IRP. Provided as Attachment A is an excel spreadsheet of those results. These avoided costs are then provided to our Demand Side Management (DSM) operations group for additional analysis.

Provide as Attachment B is the Company's working Excel spreadsheet that was created to evaluate the viability of a prospective natural gas portfolio under its new (lower) avoided costs. This spreadsheet was developed for the February 2012 re-optimization of the natural gas portfolio, was updated in May 2012 when the first tentative natural gas avoided costs became known and has been further modified in discussions with Commission Staff from June 2012 to the present.

The spreadsheet contains summary data regarding portfolio performance under the most favorable realistic scenario. The 'Portfolio' worksheet contains four boxed tables with the Total Resource Cost (TRC) (in the top two boxed tables) calculated under two differing approaches to estimating non-incentive utility cost. The bottom two boxes contain both a calculation of both the TRC and Utility Cost Test (UCT). All calculations are made on a net basis, however this can be modified to a gross calculation by changing the column containing the net-to-gross ratio to 100%.

The calculations contained within this spreadsheet use a weighted average cost of capital discount rate for both the UCT and TRC test. This has been the Company's practice for many

years. This model also augments the avoided cost developed as part of the natural gas IRP process and augments it with (a) a small incremental distribution capacity avoided cost and (b) a 10% preference for DSM resources.

The Company is prepared to assist in the completion of a matrix summarizing the key components in the calculation and use of avoided cost, cost-effectiveness and discount rate. A summary document of this sort may facilitate the completion of a high-level overview of methodologies.

Please direct any questions regarding the avoided cost calculations to Kelly Irvin at 509-495-4335 or kelly.irvine@avistacorp.com and any questions regarding information in the DSM spreadsheet to Jon Powell at 509-495-4147 or by email at jon.powell@avistacorp.com.

Sincerely,

/s/Linda Gervais/

Linda Gervais
Manager, Regulatory Policy
Avista Utilities
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Attachments