Exhibit No. ___(BWF-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-08_____

DOCKET NO. UG-08_____

DIRECT TESTIMONY OF

BRUCE W. FOLSOM

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Bruce Folsom. I am employed by Avista as the Senior Manager of Demand Side Management (DSM). My business address is East 1411 Mission Avenue, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I graduated from the University of Washington in 1979 with Bachelor of Arts and Bachelor of Science degrees. I received a Masters in Business Administration degree from Seattle University in 1984.

I joined the Company in 1993 in the State and Federal Regulation Department. My duties included work associated with tariff revisions and regulatory aspects of integrated resource planning, demand side management, competitive bidding, and emerging issues. In 2002, I was named the Manager of Regulatory Compliance which added responsibilities such as implementing the Federal Energy Regulatory Commission's major changes to its Standards of Conduct rule. I began my current position in September of 2006. Prior to joining Avista, I was employed by the Washington Utilities and Transportation Commission beginning in 1984, and then served as the Electric Program Manager from 1990 to February, 1993. From 1979 to 1983, I was the Pacific Northwest Regional Director of what is now the Environmental Careers Organization, a national, private, not-for-profit organization.

Q. Have you previously testified before this Commission?

A. Yes. I have testified before this Commission in over 20 dockets.

Q. What is the scope of your testimony in this proceeding?

A. I provide an overview of the Company's DSM programs and recent results. I also provide documentation showing that Avista's expenditures for electric and natural gas energy efficiency programs have been prudently incurred.

Q. Are you sponsoring any exhibits to be introduced in this proceeding?

A. Yes. I am sponsoring Exhibit No. ___(BWF-2) prepared under my supervision and direction. Exhibit No.___(BWF-2) documents the results and cost-effectiveness of Avista's DSM programs.

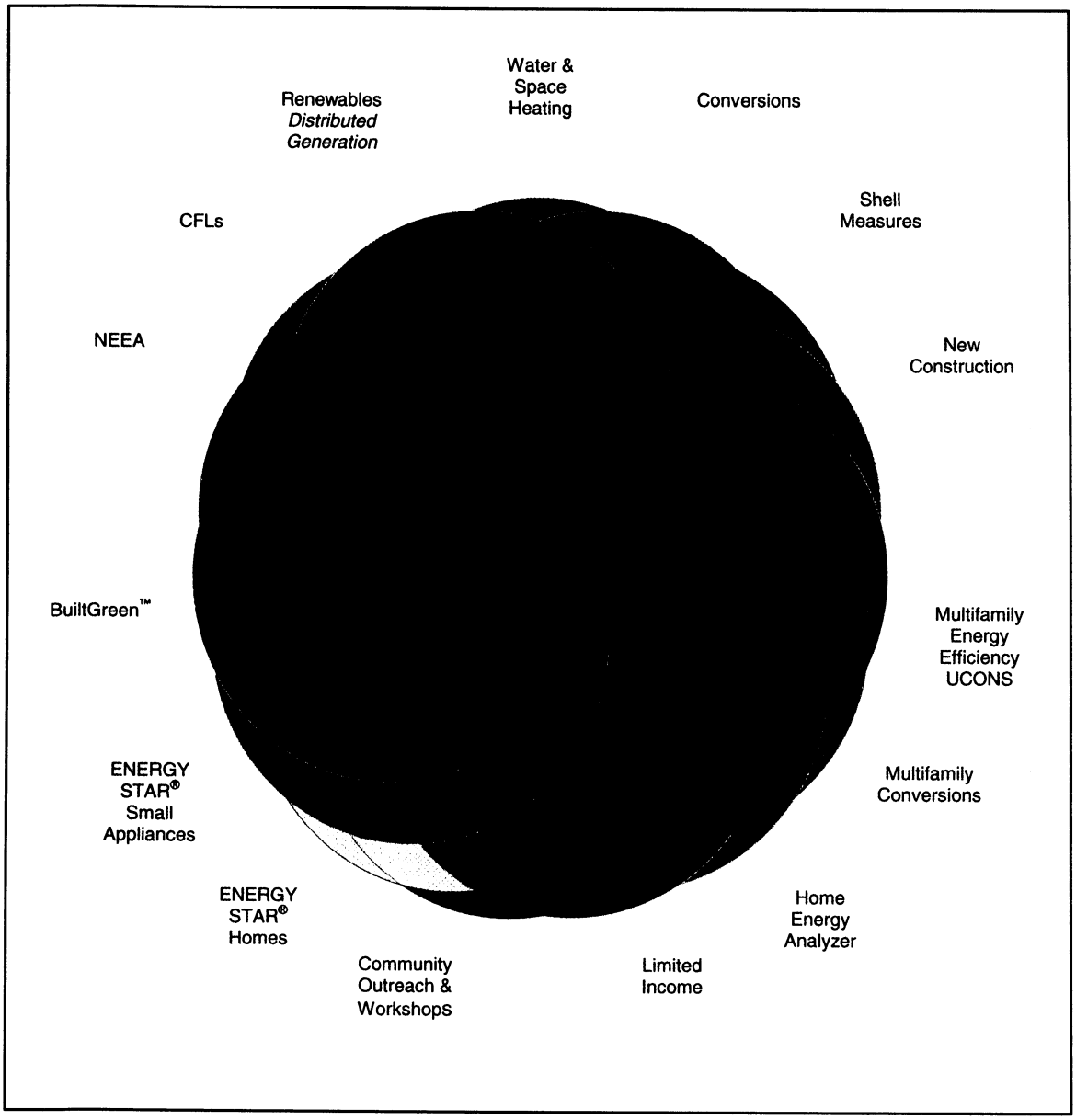
II. DSM PROGRAMS AND 2007 RESULTS

Q. Would you please provide a brief overview of Avista's DSM programs?

A. Yes. Avista will provide a financial incentive, or "rebate," for any cost-effective efficiency measure installed by customers with a simple pay-back of greater than one year. This includes over 300 measures that are packaged into over 30 programs for customer convenience.

The following illustration depicts Avista's residential program offerings:

Illustration 1:

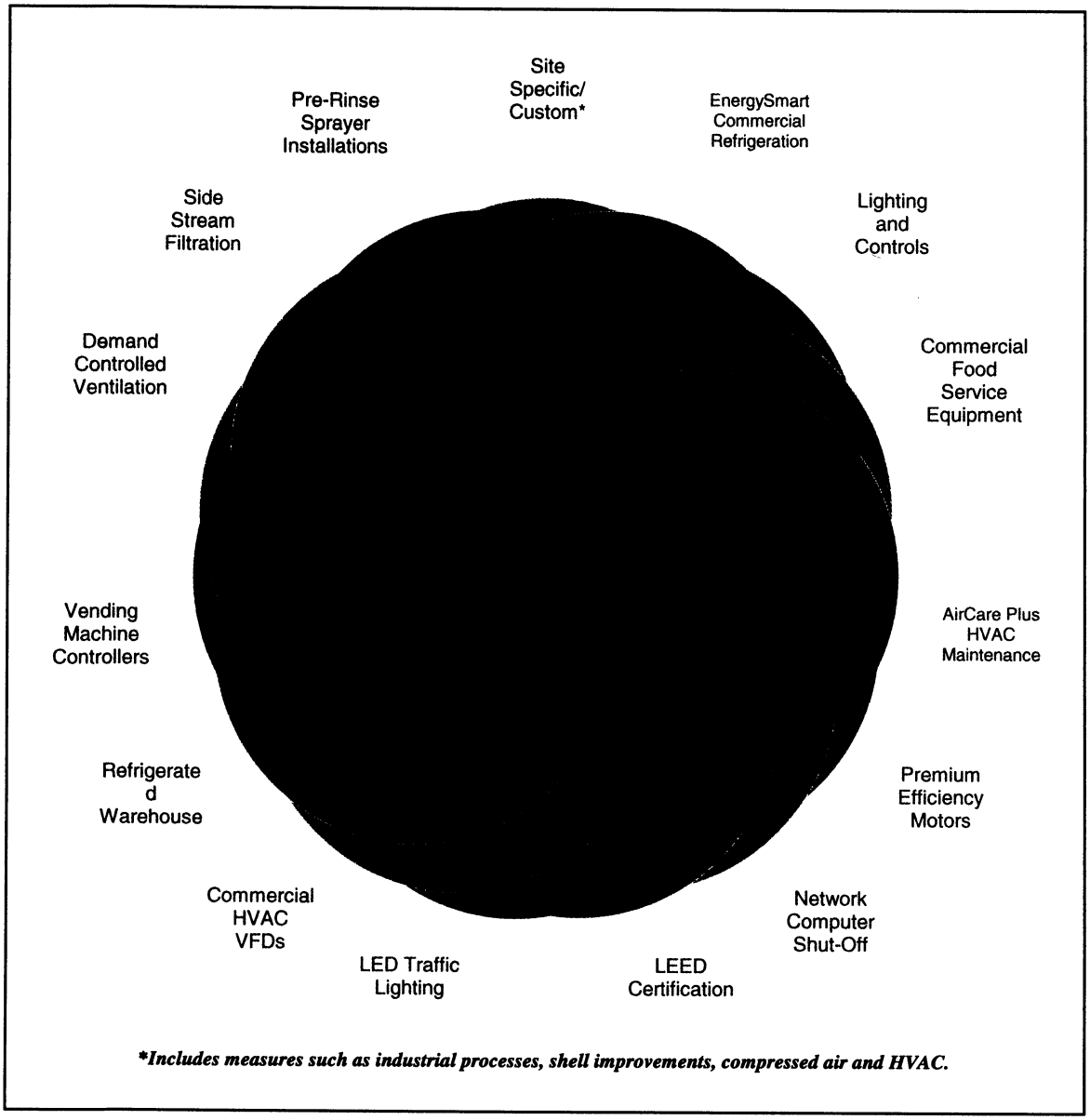


The residential programs shown above are standard offerings or what we call "prescriptive programs." These represent a menu of rebates on selected measures (e.g., lighting, weatherization, appliances, etc.).

For commercial customers, in addition to prescriptive programs, Avista offers "site specific" programs. Site-specific programs are customized to the customer premise. The site specific offering provides incentives on any cost-effective commercial and industrial energy

efficiency measure. This is implemented through site analyses, customized diagnoses, and incentives determined for savings generated specific to customers' premise or process. The following illustration shows the programs available to Avista's commercial and industrial customers.

Illustration 2



These programs are supported by twenty three full-time equivalents (FTE) spread over 34 staff. (This does not include Company support from the Contact Center, Corporate Communications, Accounting and other direct and indirect support.) The 2007 DSM budget was over $12 million.

Of the Company's revenues collected under Schedules 91 (electric tariff rider) and 191 (natural gas tariff rider) during this time period, 72.3% was paid out to customers in direct incentives pursuant to the cost-effectiveness tests described below. This does not include additional benefits such as technical analyses provided to customers by the Company's DSM engineering staff.

Q. What were the Company's energy efficiency targets and results for 2007?

A. The Company's energy efficiency targets are established in the process of developing the Electric and Natural Gas Integrated Resource Plans (IRPs). The electric IRP efficiency goal for Washington and Idaho in 2007 was 47.5 million kwhs. The achieved savings amount was 53.7 million kwhs or 113% of the annual target. This is approximately 6 aMW. Over 130 aMW of cumulative savings have been achieved through Avista's energy efficiency efforts in the past thirty years; 103 aMW of DSM is currently in place on the Company's system.

The savings targets contained in the natural gas IRP for Washington and Idaho for 2007 was 1.062 million therms. Over 1.5 million therms were saved which is 141% of the 2007 target.

Q. Do the 2007 results reflect Avista's participation in regional energy efficiency efforts?

A. No. In addition to Avista's prescriptive and site-specific programs, the Company funds and participates in the activities of the Northwest Energy Efficiency Alliance (NEEA).

NEEA focuses on using a regional approach to obtain electric efficiency through the transformation of markets for efficiency measures and services. An example of NEEA-sponsored programs that benefits Avista customers is decreasing the cost of compact fluorescent light bulbs (CFLs) and high-efficiency appliances by working through manufacturers. For some measures a large-scale, cross-utility approach is the most cost-effective means to achieve energy efficiency savings. This approach seems particularly effective for markets composed of large numbers of smaller usage consumers, such as the residential and small commercial markets.

The results from NEEA programs are reported in March following the previous year. Historically, Avista has received approximately 1 to 1½ aMW of savings in its service territory from NEEA programs.

Q. What programs do you offer to low-income customers?

A. The Company has budgeted $1.5 million to low-income weatherization in 2008 in Washington and Idaho. Of this amount, $1.2 million will be directed to Washington electric and natural gas low-income customers. This program is administered by the five local community action agencies in our eastern Washington service territory.

The low-income weatherization portfolio represents 8% of our total energy efficiency budget. The savings from the low-income programs are less than 4% of total savings. (This is because the average low income weatherization incentive was $2,500, provided to 450 customers while the regular income residential weatherization incentives averaged $270 provided to approximately 3,600 customers.)

As Mr. Kopczynski explains in his testimony, the Company has proposed an increase in LIRAP funding at a level equal to the percentage of rate changes resulting from this case. Avista

is not recommending an increase to low-income weatherization funding. We believe the combination of low-income weatherization and LIRAP bill-paying assistance, together with other customer support programs, represent an appropriate level of program funding.

Q. Has the Company expanded its efficiency efforts?

A. Yes, in 2006 the leadership of Avista requested that all efficiency acquisition options—on the customer side of the meter as well as on the Company's side—be re-examined. The Company's recent Integrated Resource Plans showed a need for a large baseload generated facility in the next ten years. Thus, we are examining all sustainable, cost-effective efficiencies including demand response to reduce load during peak periods and efficiency enhancements to transmission and distribution facilities.

III. PRUDENCE OF INCURRED DSM COSTS

Q. Would you please explain the Company's request for a finding of prudence in this case?

A. Yes. The Company's electric energy efficiency revenues are collected under the Schedule 91 tariff rider, and its electric programs are offered through Schedule 90. Natural gas energy conservation is funded by revenues collected through Schedule 191 and programs are offered under Schedule 190.

The Commission's approval of the Energy Efficiency Tariff Rider in Docket Nos. UE-941377 and UG-941378 requires that the Company demonstrate the prudence of the Company's energy efficiency expenditures at the time of a general rate case. In Docket Nos. UE-070804 and UG-070805, the electric energy and natural gas efficiency expenditures through December 31, 2006 were reviewed for prudence.

In this case, the Company is requesting a finding that electric and natural gas efficiency expenses from January 1, 2007 through December 31, 2007 were prudently incurred.

Q. Would you please summarize the Company's energy efficiency-related programs for the period January 2007 through December 2007?

A. Yes. The Company's tariff riders under Schedules 91 (electric) and 191 (gas) are system benefit charges to fund energy efficiency. In 2007, the electric energy efficiency tariff rider was equal to approximately 1.50%, or approximately $4.6 million, of retail base rates to all rate classes. (As part of the Settlement Agreement approved by the Commission in Docket No. UE-070804, the electric tariff rider was increased effective January 1, 2008.) The natural gas tariff rider was approximately 1.7%, or $2.3 million, in 2007.

In 2007, 53.6 million kWh and 1.5 million therms of energy savings were obtained. Page 1 of Exhibit No. __(BWF-2) details the energy savings by regular and low-income portfolios for both electric and natural gas DSM programs.

Q. Has there been ongoing review of the Company's programs?

A. Yes. The Company has regularly convened a stakeholders forum known as the External Energy Efficiency Board. These meetings have included 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.

Q. Have the Company's DSM programs been cost-effective?

A. Yes. The programs have been cost-effective from both a Total Resource Cost (TRC) and Utility Cost Test (UCT) perspective. Page 2 of Exhibit No.__(BWF-2) shows that the

TRC benefit-to-cost ratio of 2.24 for the overall electric DSM program portfolio is cost-effective, with a net TRC benefit to customers of over $24 million. The UCT benefit to cost ratio is cost-effective with a net UCT benefit of over $23 million. The levelized TRC and UCT cost is 4.0 cents and 1.6 cents per kWh, respectively, for a weighted average measure life of 15.44 years. The comparable electric avoided cost is about 33.3 cents per kWh. The electric DSM programs were also cost-effective under the Participant Test.

Page 3 of Exhibit No. __(BWF-2) illustrates that the natural gas DSM program portfolio is cost-effective under both the TRC and UCT tests. The natural gas DSM programs are cost-effective with a 1.06 TRC benefit/cost ratio. The UCT benefit to cost ratio is cost-effective with a net benefit of over $7 million. The levelized TRC and UCT cost is 92.9 cents and 26.1 cents per therm, respectively, for a weighted average measure life of 19.54 years. The comparable levelized avoided cost per annual therm is approximately 62.5 cents and 68.9 cents per winter therm using the most recent natural gas avoided costs. The levelized avoided cost calculations reflect only the avoided cost value of the natural gas savings of the project. The full TRC benefit is composed not only of this natural gas avoided cost value, but also the electric avoided cost and non-energy benefits associated with the portfolio. The levelized TRC cost calculations do reflect the entire costs of the project. The natural gas DSM portfolio passes the Participant Test.

Q. Please summarize the Company's conclusions.

A. The Company's expenditures of tariff rider revenues have been reasonable and prudent. During the time period that the Company is requesting a finding of prudence, a portfolio of over 30 programs covering all customer classes have been offered with a total

savings of over 53.6 million kWhs and 1.5 million therms in 2007 at cost-effectiveness levels described above.

The Tariff Rider and programs have been very successful. Participating customers have benefited through lower bills. Non-participating customers have benefited from the Company having acquired lower cost resources as well as maintaining the energy efficiency message and infrastructure for the benefit of our service territory.

Pursuant to prior Commission authorization of Schedules 91 and 191, Avista respectfully requests that the Commission issue a finding of prudence for energy efficiency expenditures from January 1, 2007 through December 31, 2007.

Q. Does that complete your pre-filed direct testimony?

A. Yes, it does.