BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

DOCKET NO. UE-99
DOCKET NO. UG-99

DIRECT TESTIMONY OF BRUCE W. FOLSOM
REPRESENTING AVISTA CORPORATION

Exhibit T-34

Q. Please state your name, business address, and present position with the Avista Corporation?

A. My name is Bruce W. Folsom. My business address is East 1411 Mission Avenue, Spokane, Washington. I am employed by the Avista Corporation (Avista or Company) as a Rate Accountant.

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 have completed several rate making and regulatory courses and seminars.

From 1979 through 1983, I was the Pacific Northwest Regional Director of what is now the Environmental Careers Organization, a national, private, non-profit organization. In 1984, I was employed by the Washington Utilities and Transportation Commission, serving as Electric Program Manager from 1990 to February, 1993. I joined the Company's Rates and Tariff Administration section in 1993, which is part of Avista's External Relations Department.

Q. What are your responsibilities at Avista?

A. My duties include coordinating multi-department teams responsive to customer issues and regulatory initiatives, representing the Company on emerging issues, and preparing tariffs and regulatory applications.

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. My testimony and exhibits in this proceeding will 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 Nos. 35 and 36, as previously marked for identification, which were prepared under my supervision and direction.

Q. Would you please explain how energy efficiency-related expenditures impact this case?

A. Yes. The Commission approval in Docket Nos. UE-941377 and UG-941378, reiterated in Docket No. UE-960467, requires that the Company demonstrate the prudence of the Company's energy efficiency programs and expenditures at the time of a general rate case. The Company's electric energy efficiency revenues are collected under the Schedule 91 tariff rider, and its electric programs are offered through Schedule 90. During 1995 and 1996, natural gas energy conservation was funded by revenues collected through Schedule 191 and into 1997 was provided through programs offered under Schedule 190. Natural gas programs were extended into 1997 to use, as available, unspent tariff rider revenue from 1996.

Q. Would you briefly describe the tariff rider?

A. As the Commission is aware, the Company's tariff riders under Schedules 91 and 191 were North America's first non-bypassable distribution charge to fund energy efficiency. The electric tariff rider is a 1.54% surcharge to all rate classes, with the exception of pre-existing special contracts. The natural gas tariff rider was initially established as a 0.52% surcharge. In 1997, the natural gas tariff rider was reduced to no

charge because the avoided cost of gas was too low to bring in energy efficiency savings at an acceptable cost-effectiveness level. The natural gas tariff rider, Schedule 191, remained in the Company's rate schedules at a 0 cents per therm level as a placeholder in the event that increases in gas prices would allow natural gas energy efficiency to be cost-effective.

The tariff riders and the corresponding energy efficiency programs, have been very successful. Over 72 million kWh and 1.125 million therms have been saved through programs associated with the riders. The states of Oregon, California and Montana have since adopted similar electric distributions charge as state law.

Exhibit No. 35 provides the kilowatt hours and therms saved by program. This exhibit also shows the amount of Washington jurisdictional revenue collected under Schedules 91 and 191 and related expenditures incurred under Schedules 90 and 190. Exhibit No. 36 summarizes the cost-effectiveness methodology used to determine the prudence of the programs.

Q. Please summarize the Company's conclusions regarding energy efficiency expenditures.

A. The Company's expenditures of tariff rider revenue have been reasonable and prudent. Eighteen electric programs covering all customer classes have been offered with a total savings of over 72 million kWhs. The utility cost per saved kilowatt hour has averaged 1.33 cents per kWh on a 20 year levelized basis. Avista's electric avoided costs during this similar period has averaged 2.7 cents per kWh, levelized.

Six natural gas programs saved over 1.125 million therms at a utility cost of 6.97 cents/therm levelized over 20 years. The Company's avoided cost of natural gas during this similar period was 34.55 cents/therm, levelized

From a qualitative perspective, the tariff rider and programs have been very successful. The Company has demonstrated that meaningful conservation programs can be sustained in a more competitive electric industry environment. The fact that the tariff rider has been copied elsewhere (such as California, Oregon, and Montana) validates this point. Participating customers have benefited through lower bills. Non-participating customers have benefited from the Company acquiring low cost resources as well as maintaining the energy efficiency message through a consistent promotion of conservation awareness and infrastructure for the benefit of our service territory.

Q. How are the energy efficiency programs organized?

A. The programs are organized around an expertise-based technical assistance program portfolio. This is a shift from the past focus on grant-dispensing. This approach focuses on educating the customer about the benefits of energy efficiency, providing a third party review, and outlining potential savings of the project.

Since the early 1990's, the Company's energy efficiency programs have been at the leading edge of program delivery. These programs have received national recognition. For example, the IRT Results Center stated in 1996: "[Avista's] Distribution Charge, formally known by its regulators as 'the DSM Tariff Rider', is the most sophisticated model of its kind and a powerful harbinger of what may become the future predominant energy efficiency services funding mechanism in a competitive utility environment."

Q. What customer classes can benefit from these programs?

A. The Company's programs are delivered across the full customer spectrum. Virtually all customers have had the opportunity to participate and many have directly benefited from the program offerings. All customers have indirectly benefited through

enhanced cost-efficiencies of both the public and private sectors as a result of this portfolio.

For example, educational institutions such as public school districts, Washington State University and Gonzaga University have saved significant energy and resource costs. Furthermore, Washington customers in several strategic and highly competitive industries such as mining have cost-effectively implemented energy efficiency projects. These customers, as primary industries, benefit the region providing employment and other economic support.

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

A. Yes. The Company has regularly convened a stakeholders forum, now the External Energy Efficiency Board and previously known as the DSM Opportunities Group. These meetings have included customer representatives, Commission staff members, Public Counsel, the environmental community, and other interested parties. Each program as well as the underlying cost-effectiveness tests and results have been reviewed at these stakeholder meetings.

Q. Mr. Folsom, the natural gas tariff rider was "zeroed out" in 1997 due to lower natural gas avoided costs. Do you contemplate increasing the natural gas tariff rider in the future?

A. Avista's natural gas integrated resource plan (IRP) is scheduled to be submitted to the Commission in February, 2000. At that time, the Company will reevaluate the viability of offering natural gas energy efficiency programs to all customer classes based on the gas avoided costs.

Q. Would you please summarize your testimony.

A. Yes. Avista's energy efficiency tariff riders were North America's first

distribution charges for energy efficiency; since its inception in 1995, the electric tariff rider has been copied elsewhere in legislation. Since 1995, Avista's energy efficiency programs have saved over 72 million kilowatt hours and 1.125 million therms at expenditures below the avoided cost of electricity and natural gas, respectively. Pursuant to prior Commission authorization of Schedules 91 and 191, Avista has demonstrated the prudence of energy efficiency expenditures from January 1, 1995 through December 31, 1998.

Q. Does that conclude your direct testimony?

A. Yes, it does.