DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: CECELIA A. GASSNER

DATE: OCTOBER 25, 2006

SUBJECT: AVISTA'S APPLICATION TO INCREASE THE COMPANY'S ENERGY EFFICIENCY TARIFF SCHEDULE 191, CASE NO. AVU-G-06-4

On September 14, 2006, Avista Corporation dba Avista Utilities filed its Application to increase the Company's Energy Efficiency Tariff Schedule 191. Schedule 191 is designed to recover the costs incurred by the Company associated with providing natural gas efficiency services to customers. The Company requested Modified Procedure and an effective date of the new tariff of October 13, 2006. On October 4, 2006, the Commission issued a Notice of Application, Notice of Modified Procedure and Suspension of Effective Date. Order No. 30145. In that Order, the Commission solicited comments from interested persons. The only comments submitted were filed by the Commission Staff.

THE APPLICATION

According to Avista's Application, the proposed increase in the Schedule 191 rate is necessary to continue to fund ongoing natural gas-efficiency programs as set forth in Avista's more recent Integrated Resource Plan for natural gas service and to amortize a deficiency balance within the natural gas Demand Side Management (DSM) tariff rider resulting from the Company's response to customer demand for the services that was higher than expected. The Company asserts that the proposed increase will not result in a change in profits for the Company.

Avista states that the existing and planned expenses for the DSM programs are far exceeding revenues. The tariff rider for DSM programs has not changed since 2001. Avista states that as of the close of August 2006, its natural gas DSM tariff rider balance for Idaho is negative \$1.5 million. The proposed tariff rider increase is estimated to erase this liability balance by the end of the second quarter of 2008.

The Application states that the proposed increase is a 1.4% increase, as expressed as a percentage of present gas revenue. The proposed rates will result in a 1.75% total charge for DSM.

Avista states that all Schedule 191 funds will remain within the natural gas efficiency rider programs. Avista will continually assess demand for the services and program financial balances and propose revisions to Schedule 191 as needed. The Company states that the programs are cost-effective and that the additional funding will expand the availability of the programs. The Company provided a copy of its customer notice and press release announcing the proposed tariff change.

STAFF COMMENTS

Accounting Issues

Staff reviewed the Company's Application, completed an audit of the accounting treatment of the DSM expenditures from 2001 to present, and reviewed the Company's DSM budget for the coming years. The annual revenue received from Idaho customers under the present DSM tariff rider, currently set at 0.5% of retail rates, is approximately \$296,268, while the Company has currently budgeted approximately \$720,000 in Idaho for DSM expenditures in 2007. The proposed tariff rider will generate approximately \$1,439,121 in additional Idaho revenue for the Company. The additional revenue will be used to recover a deferral balance estimated to reach approximately \$1.25 million by end of 2006, at which time, the Company plans to further increase its DSM expenditures to the level provided by the rider.

Demand Side Management Program

Activities

Expansion of Avista's DSM program as described in the 2006-2008 IRP will include all identified measures that are cost effective and those measures which may not have passed a cost effectiveness test, but which a customer or Avista engineer believe to have significant potential net value in energy savings. A total of 27 different measures were identified in the IRP as accepted for development in the Company's Washington/Idaho service territories, based on either a preliminary evaluation or as evaluated by the computer model used by the Company for selecting resources appropriate to meet the demand of its customers (see Table 6.7 of the IRP).

These measures total 1,062,000 first-year therms savings. This is more than a four-fold increase over the Company's prior DSM goal.

Revenue Use

In addition to direct design and installation of DSM measures with residential, commercial and industrial customers, the program includes significant incentives paid to customers. These incentives take the form of cash rebates for items such as weatherization, high efficiency hot water heaters, thermostats, and high efficiency furnaces. The use of Idaho-derived DSM rider revenues is split as follows (numbers are rounded):

Incentives	79%
Labor	15%
Expenses	7%

Priorities

While each measure pursued must be cost effective, Avista looks at individual categories within each measure to determine priorities. By working with customers and engineering, Avista determines which categories and sub-categories have the highest potential. For example, maintenance of steam traps for customers who make steam from natural gas boilers has been determined to have potential as a highly cost effective program. Within this sub-category, customers with the largest combination of steam output and hours of operation have been determined to be priority targets.

Results

In 2001 Avista set a goal of annually achieving DSM results that save a minimum of 240,000 first-year therms within its combined Washington and Idaho service territory. The Company has met or exceeded that goal in each of the five years prior to 2006. These measures total 1,062,000 first-year therms savings. This is more than a four-fold increase over the Company's prior DSM goal.

DSM Rider Tariff Determination

The Company proposes to change not only the rate of the rider adjustment, Schedule 191, but to also change how that rate is defined. In 2001, the rider was set equivalent to 0.50% of the retail rates, but it is tariffed and billed in cents per therm increments. The Company proposes to describe the rider as only a fixed rate per therm that may change when an application is filed by the Company and approved by the Commission.

Proposed DSM Rider Rates

The rider adjustment proposed by the Company is an increase from $0.00426 per therm to $0.02063 per therm for residential rates (Schedule No. 101). Changes in other tariff schedules are similar to the Schedule 101 change. All of the proposed rider changes are presented below.

	Present	Proposed
Schedule No. 101	$0.00426/therm	$0.02063/therm
Schedule No. 111 & 112	$0.00373	$0.01827
Schedule No. 121 & 122	$0.00354	$0.01739
Schedule No. 131 & 132	$0.00294	$0.01523

The proposed tariff is calculated to pay for the increased costs associated with the increased scope and effort of the Energy Efficiency program going forward, and to recover the costs of recent past DSM efforts that have been insufficiently funded by the existing rider. The proposed Idaho portion of DSM expenditures, starting January 1, 2007, is $720,095 annually and the amount for recovery of past Idaho expenses is $1,242,805, as estimated to exist by December 31, 2006. The Company expects the tariff to recover the accrued past costs by about July 2008. By that time, Staff expects that the Company will have re-evaluated the rider amount vis-à-vis its DSM expenditure levels and will file to change the rider rate as needed to accommodate and manage its customers' participation in its cost effective DSM programs going forward.

This large (400%) increase in the rider will fund a 300% (and growing) increase in DSM activities. The direct and primary beneficiaries of these expenditures will be the DSM program participants whose natural gas bills will decrease soon after their participation. However, even non-participants will indirectly benefit from an increasing level of DSM due to its effects on the infrastructure necessary to deliver natural gas and on the wholesale price of natural gas. The DSM rate increase is less than the decrease requested in the Company's PGA Application, Case No. AVU-G-06-3, that still results in a net overall decrease to customers of approximately two percent.

Staff recommended approving the energy efficiency rider adjustment rates and the determination of those rates as requested in the Company's Application. Staff also recommended that the Commission Order contain language encouraging all customers to participate in Avista's DSM programs. Lastly, Staff recommended that the Commission Order explicitly state that approval of the tariff rider changes is not a determination of either the reasonableness or the prudence of Avista's DSM program or expenditures. The Company did not request such determination in this Application and the Staff did not evaluate such.

COMMISSION DECISION

Does the Commission desire to approve the proposed Energy Efficiency Rider Adjustment? Does the Commission desire to do anything else with respect to this matter?

Cecelia A. Gassner

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