BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS TARIFF SCHEDULES 91 AND 191 – ENERGY EFFICIENCY PUBLIC PURPOSE RIDER ADJUSTMENTS	**CASE NOS. AVU-E-09-06** **AVU-G-09-04** **ORDER NO. 30918**

On June 30, 2009, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of an increase to tariff Schedules 91 and 191 rates, Energy Efficiency Public Purpose Rider Adjustment. Schedules 91 and 191 are designed to recover the costs incurred by the Company associated with providing electric and natural gas energy efficiency services to customers. The proposed increase in Schedules 91 and 191 rates, the Company contends, is necessary to continue to fund ongoing electric and natural gas efficiency programs consistent with the Company's most recent electric and natural gas integrated resource plans (IRPs). It will also serve to amortize a deficiency balance within the electric and natural gas efficiency tariff riders resulting from the Company's response to higher than expected customer demand for services. Also included in the Company's filing are proposed procedural modifications to reduce the likelihood of significant positive or negative balances in the future.

To coincide with other rate changes occurring on August 1, 2009, the Commission by Interlocutory Order No. 30870 authorized the proposed increases in Schedules 91 and 191 Energy Efficiency Public Purpose Rider Adjustments for an August 1, 2009, effective date and established a procedural schedule for investigation and comments. The Commission in this Order finds the proposed changes to Schedule 91 and 191 rates reasonable and approves continuation of the previously authorized increases.

Electric Schedule 91

The proposed net increase above rates authorized for an August 1, 2009, effective date by service schedule for electric customers is as follows:

Residential Service-Schedule 1	2.73%
General Service-Schedules 11 & 12	2.73%
Large General Service-Schedules 21 & 22	2.73%

Extra Large General Service-Schedule 25	2.73%
Potlatch-Schedule 25P	2.73%
Pumping Service-Schedules 31 & 32	2.73%

The proposed 2.73% increase in the existing efficiency tariff is equivalent to a $1.77 a month increase for a residential customer using an average 1,000 kilowatt hours per month.

Natural Gas Schedule 191

The proposed net increase above rates authorized for an August 1, 2009, effective date by service schedule for natural gas customers is as follows:

General Service-Firm-Schedule 101	
(Residential & Small Commercial)	1.01%
Large General Service Firm-Schedules 111 & 112	1.01%
Interruptible Service-Schedules 131 & 132	1.01%

The proposed 1.01% increase in the existing energy efficiency tariff for natural gas customers is equivalent to a $0.90 per month increase for residential customers using 65 therms per month.

As reflected in the Company's Application, customers continue to look to Avista's DSM programs for assistance in responding to increased retail electric and natural gas prices. Existing and planned programmatic expenditures are exceeding tariff rider revenues. As of the close of May 2009, Avista's electric DSM tariff rider balance for Idaho is a negative $2,361,178 and the natural gas DSM tariff rider balance for Idaho is a negative $1,036,753. The proposed tariff rider increase is estimated to eliminate this current negative balance by the end of 2010 and to fund estimated future expenditures. The proposed increase in the DSM surcharge is approximately 2.73% at present electric rates and 1.01% at present natural gas rates.

Schedules 91 and 191 funds support DSM programs described in Schedules 90 and 190. These programs include but are not limited to the following measures:

- Appliance Measures
- Compressed Air Measures
- HVAC Measures
- Industrial Measures
- Lighting Measures

- Maintenance Measures
- Motors Measures
- Renewable Technologies
- Northwest Energy Efficiency Alliance Participation
- Shell Measures
- Sustainable Building Measures

The Company's DSM programs are based on providing financial incentives, or "rebates," for cost-effective efficiency measures installed by customers with a simple payback of greater than one year. This includes more than 300 measures that are packaged into more than 30 programs for customer convenience.

Avista has long encouraged the direct use of natural gas by its electric customers. The Company is continuing this effort with residential rebates for the conversion of electric-to-natural-gas space and water heating loads as well as a broad program for any non-residential electric-to-natural-gas conversions meeting specified criteria for relative British Thermal Unit (BTU) efficiency. The cost-effective potential for these measures has been incorporated into Avista's IRP effort and is contained within the identified acquisition goal. Avista's residential programs include high efficiency equipment, electric-to-natural-gas conversions, compact florescent lights (CFLs), "second" refrigerator recycling, weatherization and rooftop dampers, as well as providing educational assistance through various community events.

For non-residential 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 commercial and industrial energy efficiency measures with a simple financial payback exceeding one year. This is implemented through site analysis, customized diagnosis, and incentives determined for savings generated by the customers' premise or process. Commercial and industrial programs available to Avista customers include:

- Energy Smart Commercial Refrigeration
- Lighting and Controls
- Commercial Food Service Equipment
- Building Retro-commissioning

- Premium Efficiency Motors
- Power Management for Personal Computer (PC) Networks
- LEED Certification, Commercial HVAC Variable Frequency Drives (VFDs)
- Refrigerated Warehouses
- Vending Machine Controllers
- Demand Controlled Ventilation
- Side-stream Filtration
- Steam Trap Replacement and Repair
- Multi-family Development
- LED Traffic Signals
- Electric-to-Natural-Gas Water Heater Conversions
- Commercial Clothes Washers

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 benefit Avista customers is decreasing the cost of 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 is particularly effective for markets composed of large numbers of smaller usage homogenous consumers, such as the residential and small commercial markets. The results from NEEA programs are reported in March of the following year. For 2008, Avista's portion of the regional savings from NEEA programs amounted to 2.1 aMW or more than 18 million kWh.

Effective October 1, 2008, in Order No. 30647 in Docket Nos. AVU-E-08-01 and AVU-G-08-01, $465,000 was directed to Idaho electric and natural gas low-income customers and $25,000 was provided to Idaho Consumer Assistance Program (CAP) agencies for the purpose of underwriting agency personnel assisting in low-income outreach and conservation education. The low-income weatherization portfolio represents approximately 8% of the Company's total energy efficiency budget.

Avista also actively participated in the energy affordability workshops in Case No. GNR-U-08-01. In that case, workshop participants are exploring ways to address energy affordability and the difficulties some customers experience in paying their energy bills. Avista supports the Commission's Order No. 30724 in that case and favors legislation that would allow utilities to propose "programs, policies and rates" that may assist low-income customers in their efforts to pay energy bills. The Commission specifically identified Avista's Low Income Rate Assistance Program (LIRAP), as a means to provide funds to help low-income residents in Washington and Oregon pay their energy bills. The LIRAP program (if implemented in Idaho) would allow Avista to collect, through a small monthly charge to all customers, additional dollars that would be directed to customers least able to pay their energy bills. The local community action agencies that are already in place would administer these dollars. The Company is committed to working with the Commission Staff and interested parties to support this legislation in 2010.

Stakeholder Enrollments/Revised Procedures

The Company has regularly convened a stakeholders' forum known as the External Energy Efficiency Board (Triple E). 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. The programs have been cost-effective from both a Total Resource Cost (TRC) and Program Administrator Cost Test (PACT) (formally known as the Utility Cost Test) (UCT)) perspective. The increased funding requested in the Company's filing will continue to be subject to the cost-effectiveness test prescribed by the Commission.

To reduce the likelihood of significant positive or negative balances in the future, Avista proposes that a schedule be established for the revision of the DSM components of Schedules 91 and 191. Avista proposes to file on or before February 15th of each year to revise the DSM portions of the Schedule 91 and 191 tariff rider mechanisms to establish tariff riders that are sufficient to fund the following twelve months of DSM as well as amortizing any tariff rider imbalance. It is understood that discussions with interested parties may, from time to time, lead to modifications of this process in the event that the projected change to the tariff rider is very small or when changes to the period of time that an imbalance is to be recovered are deemed appropriate.

Further, Avista commits to circulate drafts of any tariff revision affecting the Company's DSM portfolio to its Triple E board at least 30 days prior to filing said revision. Avista also proposes to provide the Triple E board with a quarterly report on the Schedule 91 and 191 tariff rider balances. Triple E board members will receive an e-mail alert if either of these balances exceeds 20% of the forecasted annual revenue, either positive or negative, at any month-end. Avista has not and does not currently earn any interest upon any positive (customer owes shareholder) balance in the tariff rider. Avista will complete and circulate an analysis of the results in the prior calendar year to the board by March 31st of each year.

The protocols described above, the Company contends, will manage the balances of the tariff rider mechanism and ensure that sufficient funding is available for the completion of programmatic measures. The reasons that the tariff rider balances have been negative are because Avista has acquired, and will continue to acquire, cost-effective energy-efficiency resources as an important component of its overall resource portfolio. This includes meeting customer demand for energy efficiency financial rebates in advance of tariff rider recovery.

On July 31, 2009, the Commission issued Notice of the Company's Application and Interlocutory Order No. 30870 authorizing implementation of the proposed increases to tariff Schedules 91 and 191 for an effective date of August 1, 2009. The Commission also on said date issued Notice of Modified Procedure and established a comment deadline of August 28, 2009.

Comments were filed by Commission Staff and 18 of the Company's customers.

Public Comments

Of the 18 customers submitting written comments, 17 express opposition to the proposed increase and 1 recommends implementation of a program to remotely control the use of air conditioners during times of peak demand.

A wide range of concerns were expressed as to why the Commission should disallow an increase to the Energy Efficiency Tariff Riders with the most mentioned concerns being the poor state of the economy and recent rate increases granted to the Company. Of 17 customers in opposition, 10 referenced either the current state of the economy, unemployment or financial challenges with paying utility bills. Eight customers cited the Company's recent general rate increase and questioned the need for another increase. Five comments were made about

Company executive pay and profits. Concerns about the future viability of small businesses were also mentioned.

Commission Staff

Staff audited Avista's energy efficiency expenditures from January 1, 2008 through May 31, 2009, and verified the reported balance on May 31, 2009, to be as follows:

	Electric	Natural Gas
January 1, 2008 Rider Balance	$ 384,396	$ (407,643)
Contributions	3,465,578	2,481,719
Interest	24,296	
Expenditures		
Residential Programs	2,052,941	1,031,663
Low Income Programs	352,990	201,000
Non-Residential Programs	2,925,832	1,592,643
Regional Programs	310,300	(98)
General Programs	593,383	285,607
May 31, 2009 Rider Balance	$(2,361,177)	$(1,036,740)

Staff recommends that the increases in Avista's Schedules 91 and 191, Energy Efficiency Public Purpose Rider Adjustment effective August 1, 2009, as authorized by Interlocutory Order No. 30870, remain in effect. Staff recommends that the Commission reject the Company's proposal to require annual reviews of Rider balances and adjustments and instead continue with the existing policy of allowing the Company to file proposed changes to Schedules 91 and 191 at the Company's discretion whenever it is necessary and appropriate to do so, either within or outside general rate case filings.

Staff recognizes that rate increases are especially unpopular during hard economic times. However, Staff states that cost-effective DSM, including energy efficiency programs and load management programs, is a significant resource that helps customers control their utility bills, reduces the need for higher cost supply-side resources, and increases system reliability.

The least costly electricity resource for Avista, Staff contends, is customers increasing the efficient use of their buildings, appliances, lights, irrigation systems, and industrial processes without utility intervention and administration. Staff believes the second least costly resource is when utilities or other entities prudently administer cost-effective programs that provide monetary incentives and educational opportunities for customers to increase their efficiencies. The most expensive resources, Staff notes, are additional generation, transmission and distribution facilities, regardless of whether the generation facilities are thermal, hydro, wind, solar or other alternatives.

Even though program administration creates additional costs, Staff contends that efficiency programs can be cost-effective to the extent that cash incentives and/or educational efforts result in customers improving their efficiencies beyond what they would do without such programs in amounts sufficient to cost-effectively recoup the administration costs. Post-implementation evaluations, Staff contends, should be completed to further improve the programs, to reassess all assumptions including baseline trends, and to show the actual cost-effectiveness achieved.

Staff expects that Avista's energy efficiency program costs will continue to be prudently incurred and that the programs will remain cost-effective. However, Staff believes that Avista's tariff Schedule 91 potentially over-emphasizes reliance upon the Total Resource Cost (TRC) cost-effectiveness test. Staff continues to favor broader cost-effectiveness analyses for utility DSM from the additional perspectives of all customers, program participants and non-participants. Although Avista currently performs such additional analyses, Staff is concerned about the Company's tariff language limitation to the TRC perspective. An additional concern of Staff is the tariff's emphasis on portfolio cost-effectiveness, which inappropriately suggests that cost-effectiveness for individual programs and measures is not important. Conceivably, Staff contends that there are some non-cost-effective measures for which it may be prudent for Avista to provide incentives if such measures can be shown to help sell cost-effective measures to customers; but the burden of proof is on the Company to show how the overall net benefit to customers is increased, rather than decreased.

All electric customer classes, Staff contends, are receiving benefits from the Company's electricity DSM programs. Staff has reviewed the Application's proposed funding level and supports continuation of the rate increase in Schedule 91, Energy Efficiency Rider, (i.e., from approximately 1.25% of base revenues to approximately 3.98% of base revenues, resulting in a 2.7% rate increase for all customer classes).

Staff notes that the primary economic differences between electric and gas resources are that wholesale gas costs are much less time-variant and consumption reductions by customers of individual utilities have less effect on wholesale prices. As a result of these differences, cost-effectiveness from the non-participant perspective is even more difficult. Nevertheless, Staff notes that Avista historically has achieved cost-effectiveness from the other major perspectives, i.e., TRC, UCT and participant, for its natural gas efficiency programs.

All natural gas customers, Staff contends, are receiving benefits from the Company's natural gas DSM programs. Staff has reviewed the Application's proposed funding level and supports continuation of the rate increases in Schedule 191, Energy Efficiency Rider, (i.e., from approximately 1.6% of base revenues to approximately 2.6% of base revenues, resulting in a 1% rate increase for all customer classes).

COMMISSION FINDINGS

The Commission has reviewed and considered the filings of record in Case Nos. AVU-E-09-06 and AVU-G-09-04, including the Application and comments and recommendations of customers and Commission Staff. We have also reviewed our prior Interlocutory Order No. 30870 authorizing the proposed increases in Schedules 91 and 191 for an August 1, 2009, effective date.

Energy efficiency measures and cost-effective demand-side management programs have long been utilized to reduce the need for higher cost, supply-side resources. While implementation of energy efficiency measures by customers without utility participation is the least costly electricity resource, the next is prudently administered cost-effective DSM programs, some providing monetary incentives to customers, others providing educational opportunities. It is this second set of measures that we address in the Company's gas and electric Energy Efficiency Public Purpose Rider tariffs. We authorize the funding. The Company provides the implementation. All customers benefit, participants and non-participants alike.

Reviewing Staff's audit results, we are satisfied that the Company has accrued deficit balances in both its Schedule 91 and 191 rider accounts. We find it reasonable to continue with the previously authorized and implemented increases to allow the Company to recover its prior expenditures and to provide continued funding for energy efficiency and DSM programs.

We expect the Company to follow through with post-implementation evaluation of its energy efficiency and DSM programs, to reassess initial assumptions and to demonstrate the cost-effectiveness of both the total portfolio and individual programs and prudence of expenditures.

We agree with Staff that a Commission-mandated filing by the Company of annual true-ups in Schedules 91 and 191 tariff rider balances is not required. Instead, filings with the Commission are left to the discretion of the Company.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Avista Corporation dba Avista Utilities, a combination electric and natural gas utility, pursuant to the authority granted by Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*.

O R D E R

In consideration of the foregoing and as more particularly described above, the Commission hereby authorizes continued implementation of the increases to the Company's tariff Schedules 91 (electric) and 191 (natural gas) Energy Efficiency Public Purpose Rider Adjustments previously approved in Interlocutory Order No. 30870 for an August 1, 2009, effective date.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 7th day of October 2009.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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