

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION TO INCREASE) CASE NO. AVU-G-06-04
THE COMPANY'S ENERGY EFFICIENCY)
TARIFF SCHEDULE 191) ORDER NO. 30167
)

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, a Notice of Modified Procedure, and a request for any comments by interested persons to be filed by October 24, 2006. Order No. 30145. The only comments submitted were filed by Commission Staff. The Commission also suspended the effective date for the proposed tariff. *Id.*

BACKGROUND

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 asserted that the proposed increase will not result in a change in profits for the Company.

Avista stated that the existing and planned expenses for the DSM programs are far exceeding revenues. The tariff rider for DSM programs had not changed since 2001. Avista stated 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 stated 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 further stated 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 stated 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 and 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. These measures total 1,062,000 first-year therms savings, 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 divided with 79% applied to incentives, 15% to labor, and 7% to expenses.

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.

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 has proposed 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.

Staff Recommendations

Staff recommended approval of the energy efficiency tariff rider rates and determination of those rates as requested in the Company's Application, and that the Commission Order contain language encouraging all customers to participate in Avista's DSM programs. Staff further requested clarification that the Company did not request that the DSM program and activities be reviewed for their prudence, and that the Staff makes no recommendation regarding whether the Company's DSM program expenses are prudent.

FINDINGS OF FACT

The Commission finds that the proposed rates for Avista's energy efficiency rider adjustment, Tariff Schedule 191, are just and reasonable. These rates will provide needed funding for the Company's prior and current DSM activities and will allow the Company to investigate further improvements to its program. We expect that once the Company has received the monies to cover its current deferral balance that it will come before the Commission with a proposed tariff to cover the costs of its DSM activities on a going-forward basis. The Commission wishes to commend the Company for meeting and exceeding the goals of its DSM program and encourages Avista's customers to take advantage of the opportunities presented by the Company to conserve natural gas resources. However, the Commission does not make any finding or determination regarding the reasonableness or prudence of any of the Company's individual DSM activities or expenses.

CONCLUSIONS OF LAW

The Commission has jurisdiction over Avista, a natural gas utility, and the issues raised in Case No. AVU-G-06-04 pursuant to the jurisdiction granted under Title 61, *Idaho Code*, §§ 61-117, 61-129, 61-307, and 61-623, and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

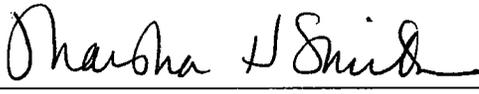
IT IS HEREBY ORDERED that Avista Corporation dba Avista Utilities be authorized to adjust its Idaho rates and charges in the manner requested in its Application and as reflected in the tariff schedules submitted in Case No. AVU-G-06-4 to be effective on November 1, 2006.

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 31st
day of October 2006.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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