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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION REQUESTING) CASE NO. AVU-G-11-3
APPROVAL TO DECREASE ITS ENERGY)
EFFICIENCY PUBLIC PURPOSE RIDER) COMMENTS OF THE
SCHEDULE 191.) COMMISSION STAFF
_____)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 32278 on June 28, 2011, submits the following comments.

BACKGROUND

On June 13, 2011, Avista Corporation filed an Application requesting approval of a decrease in its Energy Efficiency Rider for both electric and gas service, Schedules 91 and 191. On August 30, 2011, the Company filed a Motion to Withdraw Schedule 91 and Place Schedule 191 into effect on October 1, 2011. The Motion proposes to reduce billed natural gas rates by 4.2 percent though proposed revisions in Schedule 191.

The funds collected by the Energy Efficiency Rider are used to maintain and operate demand-side management (DSM) programs for the Company's natural gas customers. The

Company estimates that in 2010 the energy efficiency programs resulted in natural gas savings of 1.9 million therms. Application, p. 2.

Avista's natural gas programs for residential customers include incentives for high efficiency gas furnaces, gas water heaters, windows, insulation for walls, floors, ceilings, and attics, fireplace dampers, and Energy Star homes. The Company also funds educational assistance through community events. Commercial and industrial natural gas customers may qualify for incentives by participating in programs which incent high efficiency commercial clothes washers, gas steam cookers, variable frequency drives (VFDs) in HVAC applications, steamtrap replacement and repair, shell measures, and natural gas space and water heating (as opposed to the electric default) in new constructions multi-family development projects. In addition to prescriptive programs, commercial and industrial customers may apply for incentives for installing any site-specific, or customized, measures with a simple financial payback between one and thirteen years (eight years for lighting measures).

The Application states that at its current level, the revenue produced by the Energy Efficiency Rider exceeds the requirements necessary to fund the DSM programs during the next 12 months. At the beginning of 2010 the gas tariff rider was underfunded by \$1.6 million. In the past year, increases to the tariff rider have provided for adequate revenue to both fund current energy efficient operations and to eliminate the unfunded balance. At the end of April 2011, Avista's Idaho natural gas DSM tariff rider balance was \$897,808 (Company owes ratepayer). Application, p. 2. Accordingly, Avista proposes that the rider tariff, Schedule 191, be decreased 4.2 percent of billed rates, resulting in a decrease of \$2.9 million in collected rider funds. Avista proposes that the new rates be effective October 1, 2011.

The following table shows the current and rates proposed by Avista by class for Schedule 191.

Schedule 191: Current Rates and Avista's Proposed Rates

	<u>Current</u>	<u>Proposed by Avista</u>
Schedule 101 (General Service)	\$0.05762 per therm	\$0.01939 per therm
Schedules 111 & 112 (Large General Service)	\$0.05038 per therm	\$0.00950 per therm
Schedules 131 & 132 (Interruptible Service)	\$0.04020 per therm	\$0.00860 per therm

STAFF REVIEW

Staff is concerned that the decrease requested by the Company does not leave sufficient funding for annual DSM expenses beyond the first year. The current natural gas DSM rider surcharge generates approximately \$4.1 million annually, and the Company expects to spend approximately \$2.2 million on natural gas DSM programs during the twelve months ending June 30, 2012. As of June 30, 2011 the Company had a surplus in the natural gas DSM tariff rider account (Company owes ratepayers) of \$969,585. The proposed tariff rider reduction would generate approximately \$1.25 million in annual revenue, which, when added to surplus, sufficiently funds the next year of planned natural gas DSM expenditures. Once the surplus balance has been spent however, the proposed Schedule 191 tariff rates will not be sufficient to fund the existing level of natural gas DSM programs. If program expenses remain flat, the Company will have to increase the natural gas DSM tariff rider after twelve months or scale down its existing programs to avoid a deferral balance in the DSM rider account.

Staff does not support scaling back cost-effective energy efficiency programs. The Commission has ordered investor-owned utilities in Idaho to pursue all cost-effective demand-side management. Therefore, Staff recommends that the Commission approve a rate reduction of 3.5 percent rather than the requested 4.2 percent. This reduction will still provide \$1.7 million in annual revenue and approximately \$4.4 million over two years for gas DSM programs when combined with the \$969,585 surplus in the rider account. On an annual basis, this generates \$2.2 million, which is the Company's current funding level for its gas DSM programs.

In addition to the current rates and the rates proposed by Avista, the table below shows the rates proposed by Staff which would maintain current gas DSM funding levels for two years.

Schedule 191: Current Rates, Avista Proposed Rates, and Staff Proposed Rates

	<u>Current</u>	<u>Proposed by Avista</u>	<u>Proposed by Staff</u>
Schedule 101 (General Service)	\$0.05762 per therm	\$0.01939 per therm	\$0.02697 per therm
Schedules 111 & 112 (Large General Service)	\$0.05038 per therm	\$0.00950 per therm	\$0.01321 per therm
Schedules 131 & 132 (Interruptible Service)	\$0.04020 per therm	\$0.00860 per therm	\$0.01197 per therm

The Company states that the purpose of this filing is to establish a tariff rider that is sufficient to fund the following twelve months of DSM as well as amortize any tariff rider imbalance, thus minimizing the amount of future under or over-collections. The Company further states that it intends to file periodically to revise Schedules 91 and 191. While Staff understands the Company's desire to maintain a DSM rider balance close to zero, Staff is concerned with the potential for rate adjustments that may decrease one year, only to increase the following year. Annual DSM tariff rider changes are burdensome and disorienting to customers, especially when compounded by annual PGA changes. Staff's recommendation to reduce the tariff rider by 3.5 percent rather than 4.2 percent will prevent this situation by providing two years of gas DSM program funding. After two years, the Company can either apply to the Commission to increase the rider amount or show why reduced natural gas DSM funding is warranted.

If the Commission approves the Stipulation recommended by Staff and the Company in Avista's general rate case (AVU-G-11-01) and Staff's recommendation in this case, rates for each customer class will change as follows:

Natural Gas Increase Percentage by Schedule

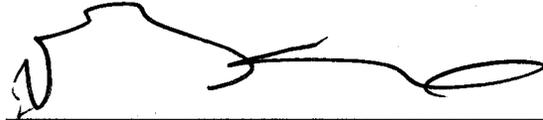
Rate Schedule	Increase in Base Rates	Net Increase in Billing Rates*
General Service Schedule 101	1.6%	0.3%
Large General Service Schedule 111/112	1.6%	-1.3%
Interruptible Sales Service Schedule 131/132	1.6%	-10.2%
Transportation Service Schedule 146	1.6%	3.0%
Overall	1.6%	-.1%

*Net Increase includes the effects of the proposed changes in Schedule 150/155 (PGA), Schedule 19, (Energy Efficiency Rider), Schedule 199 (Deferred State Income Tax) and the General Rate Increase, all effective on October 1, 2011 if approved.

STAFF RECOMMENDATIONS

Staff recommends that the Commission approve a 3.5 percent decrease to the Company's annual revenue from Schedule 191 Energy Efficiency Public Purpose Rider and order the Company to file new tariffs reflecting a 3.5 percent rider reduction effective October 1, 2011.

Respectfully submitted this 22nd day of September 2011.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Stacey Donohue
Donn English

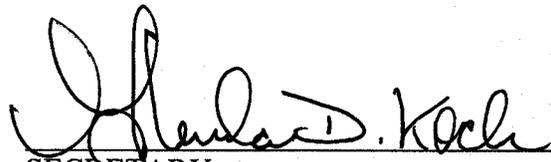
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **22ND** DAY OF SEPTEMBER 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. AVU-G-11-03, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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