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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. AVU-E-10-01
OF AVISTA CORPORATION FOR THE)	CASE NO. AVU-G-10-01
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR ELECTRIC AND)	
NATURAL GAS SERVICE TO ELECTRIC)	DIRECT TESTIMONY
AND NATURAL GAS CUSTOMERS IN THE)	OF
STATE OF IDAHO)	BRUCE W. FOLSOM
)	

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business
3 address.

4 A. My name is Bruce Folsom. I am employed by
5 Avista as the Senior Manager of Demand Side Management
6 (DSM). My business address is East 1411 Mission Avenue,
7 Spokane, Washington.

8 Q. Would you please describe your education and
9 business experience?

10 A. I graduated from the University of Washington in
11 1979 with Bachelor of Arts and Bachelor of Science
12 degrees. I received a Masters in Business Administration
13 degree from Seattle University in 1984.

14 I joined the Company in 1993 in the State and
15 Federal Regulation Department. My duties included work
16 associated with tariff revisions and regulatory aspects of
17 integrated resource planning, demand side management,
18 competitive bidding, and emerging issues. In 2002, I was
19 named the Manager of Regulatory Compliance which added
20 responsibilities such as implementing the Federal Energy
21 Regulatory Commission's major changes to its Standards of
22 Conduct rule. I began my current position in September of
23 2006. Prior to joining Avista, I was employed by the

1 Washington Utilities and Transportation Commission
2 beginning in 1984, and then served as the Electric Program
3 Manager from 1990 to February, 1993. From 1979 to 1983, I
4 was the Pacific Northwest Regional Director of the
5 Environmental Careers Organization, a national, private,
6 not-for-profit organization.

7 Q. What is the scope of your testimony in this
8 proceeding?

9 A. I provide an overview of the Company's DSM
10 programs and recent results. I also request a finding
11 that Avista's expenditures for electric and natural gas
12 energy efficiency programs have been prudently incurred
13 for calendar years 2008 and 2009.

14 Q. Are you sponsoring any exhibits to be introduced
15 in this proceeding?

16 A. Yes. I am sponsoring Exhibit No.15 prepared
17 under my direction. Exhibit No.15 documents the results
18 and cost-effectiveness of Avista's DSM programs.

19

20 **II. DSM PROGRAMS AND CURRENT PERIOD RESULTS**

21 Q. Would you please provide a brief overview of
22 Avista's DSM programs?

1 A. Yes. Beginning in 1978 Avista has historically
2 had a significant and consistent commitment to energy
3 efficiency, spurring many innovations. For example,
4 Avista initiated a large electric-to-natural-gas
5 conversion program in the early 1990s. In the mid-1990s,
6 while the electric industry was pulling back from offering
7 energy efficiency services in expectation of retail
8 electric competition, Avista pioneered the Energy
9 Efficiency Tariff Rider. Now in its sixteenth year, the
10 tariff rider was the country's first distribution charge
11 to fund DSM. The tariff rider is an "expensed" ratemaking
12 pass-through mechanism (providing no additional earnings
13 either through capitalization, shared-benefit incentives
14 or fixed cost recovery) dedicated to funding customer
15 facility and process energy efficiency improvements. The
16 energy efficiency portion of Schedule 91 currently has a
17 billed rate of approximately 3.98% of revenue for electric
18 service and the Schedule 191 energy efficiency rate is
19 4.19% of revenue for natural gas. Avista has a proposal
20 pending with the IPUC to increase the Schedule 191 rate.

21 The Company's approach to energy efficiency is based
22 on two key principles. The first is to pursue all cost-
23 effective kilowatt hours and therms by offering financial

1 incentives for most energy saving measures with a simple
2 financial payback of over one year. The second key
3 principle is to use the most effective "mechanism" to
4 deliver energy efficiency services to customers. These
5 mechanisms are varied and include 1) prescriptive programs
6 (or "standard offers" such as high efficiency appliance
7 rebates), 2) site-specific or "customized" analyses at
8 customer premises, 3) "market transformational," or
9 regional, efforts with other utilities, 4) low-income
10 weatherization services through local Community Action
11 Agencies, 5) low-cost/no-cost advice through a multi-
12 channel communication effort, and 6) support for cost-
13 effective appliance standards and building codes. These
14 will be described later in my testimony.

15 The Company's offerings include 475 measures that are
16 packaged into over 36 programs for customer convenience.
17 As part of Avista's planning efforts, over 3,000 measures
18 are considered and then examined for cost-effectiveness.
19 The Company's comprehensive energy efficiency outreach,
20 the "Every Little Bit" communications campaign, received
21 several national honors in 2009. This comprehensive
22 communication approach helps customers reorient their
23 thinking about energy efficiency.

1 The Company's programs are delivered across a full
2 customer spectrum. Virtually all customers have had the
3 opportunity to participate and a great many have directly
4 benefited from the program offerings. As will be
5 described later in my testimony, all customers have
6 indirectly benefited through enhanced cost-efficiencies as
7 a result of this portfolio approach.

8 **Q. Would you please provide an overview of the**
9 **specific energy efficiency programs offered to residential**
10 **customers?**

11 A. Yes. Avista offers the following residential
12 programs:

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1 **Illustration No. 1:**

2 **RESIDENTIAL**

3 High Efficiency Furnace/Boiler
4 High Efficiency Heat Pump
5 High Efficiency Variable Speed Motor
6 High Efficiency Tank Water Heater
7 Space Heat Conversion (Direct Use of Natural Gas)
8 Water Heat Conversion (Direct Use of Natural Gas)
9 Heat Pump "Conversion" (Electric Efficiency Upgrade)
10 Ceiling, Attic, Floor, Wall Insulation
11 High Efficiency Windows
12 Fireplace Damper
13 BuiltGreen™ (New Construction Energy Star®)
14 Something for Everyone
15 Energy Star® Appliances
16 CFL (and CFL Recycling) Promotions
17 "Second" Refrigerator/Freezer Recycling Program
18 "Geographic Saturation"
19 Community Events and Workshops
20 Low-cost/no-cost information
21 Direct Use of Nat Gas: Multi-Family Housing
22 Conversion
23 Regional Market Transformation (NEEA)
24 On-line Home Audits
25 Ductless Heat Pump
26 Energy Star® Homes
27 Distributed Generation (net-metering)

28
29 **LIMITED INCOME RESIDENTIAL**

30 Limited Income Weatherization with Community Action
31 Programs

32 (Note: All residential programs above are also
33 available)
34

35
36 The residential programs shown above are standard
37 offerings or what we call "prescriptive programs." These
38 involve a menu of rebates on selected measures (e.g.,
39 lighting, weatherization, appliances, etc.).

1 Q. And what do you offer for your commercial and
2 industrial customers?

3 A. For commercial customers, in addition to
4 prescriptive programs, Avista offers "site-specific"
5 programs. Site-specific programs are customized to the
6 customer's premises. The site-specific offering provides
7 incentives on any cost-effective commercial and industrial
8 energy efficiency measure. This is implemented through
9 site analyses, customized diagnoses, and incentives
10 determined for savings generated specific to the
11 customer's premises or process. The following
12 illustration shows the programs available to Avista's
13 commercial and industrial customers.

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1 **Illustration 2:**

2 **NON-RESIDENTIAL (COMMERCIAL & INDUSTRIAL)**

3 Site-Specific

4 (Note: Incentives offered for most measures with > 1
5 year payback)

6 EnergySmart Program

7 LEED Certification Incentives

8 Power Management for PC Networks

9 Premium Efficiency Motors

10 Food Service Equipment

11 LED Traffic Signals

12 Refrigerated Warehouse

13 Commercial HVAC Variable Frequency Drives

14 Retro-Commissioning

15 Clothes Washers

16 Side Steam Filtration

17 Demand Controlled Ventilation

18 Vending Machine Controllers

19 Lighting and Controls

20 Electric to Natural Gas Water Heater Conversion

21 Steam Trap Replacement

22 Green Motors Initiative

23

24

25 **Q. Would you briefly discuss the Company's staffing**
26 **requirements and budget/actual expenditures?**

27 **A. Yes.** These programs are supported by twenty-
28 three full-time equivalents (FTE) spread over 40 staff
29 members. This does not include Company support from the
30 Contact Center, Corporate Communications, Accounting and
31 other direct and indirect support. The 2009 DSM budget
32 (system, or Idaho and Washington, electric and natural
33 gas) was over \$23 million, representing an increase of \$5

1 million over 2008. Expenditures in 2009 were approximately
2 \$27 million and exceeded budget to meet customer demand.
3 Of the revenues collected under Schedules 91 (electric
4 tariff rider) and 191 (natural gas tariff rider) in 2009,
5 73.8% was paid out to customers in direct incentives
6 pursuant to the cost-effectiveness tests described below.
7 This does not include additional benefits such as site
8 audits and technical analyses provided to customers by the
9 Company's DSM engineering staff.

10 **Q. What were the Company's energy efficiency**
11 **targets and results for 2009?**

12 A. The Company's energy efficiency targets are
13 established in the process of developing the Electric and
14 Natural Gas Integrated Resource Plans (IRPs). These
15 targets are revisited and adjusted to take into account
16 new programs as part of our ongoing business planning
17 process.

18 The results of Avista's energy efficiency programs
19 continue to exceed the targets established as part of the
20 IRP process. Local electric efficiency savings for 2009
21 were 80.8 million kWhs (approximately 9.2 aMW) or 141% of
22 the Company's annual IRP target. "Local" results do not
23 include those delivered by the Northwest Energy Efficiency

1 Alliance (NEEA) which are generally reported in the second
2 quarter every year and have ranged between 1 and 2 aMW for
3 Avista's share.

4 Over 147 aMW of cumulative savings have been achieved
5 through Avista's energy efficiency efforts in the past
6 three decades; over 111 aMW of DSM is currently in place
7 on the Company's system, or the equivalent of two Kettle
8 Falls Generating Stations. By comparison, Avista's 2009
9 total electric retail load was approximately 1,100 aMW.
10 The 2009 natural gas IRP savings targets for Idaho and
11 Washington were 1.58 million therms. Over 2 million
12 therms were saved in 2009, which is 128% of the 2009
13 annual target.

14 **Q. Please briefly explain Avista's participation in**
15 **the NEEA regional energy efficiency efforts.**

16 A. As I mentioned earlier, in addition to Avista's
17 prescriptive and site-specific programs, the Company funds
18 and participates in the activities of the Northwest Energy
19 Efficiency Alliance. NEEA focuses on using a regional
20 approach to obtain electric efficiency through the
21 transformation of markets for efficiency measures and
22 services. An example of NEEA-sponsored programs that
23 benefit Avista customers are efforts to decrease the cost

1 of compact fluorescent light bulbs (CFLs) and high-
2 efficiency appliances by working through manufacturers.
3 For some measures, a large-scale, cross-utility approach
4 is the most cost-effective means to achieve energy
5 efficiency savings. This approach seems particularly
6 effective for markets composed of large numbers of smaller
7 usage consumers, such as the residential and small
8 commercial markets.

9 The results from NEEA programs for 2009 have not been
10 finalized as of the date of the submittal of this
11 testimony. The preliminary estimate of Avista's portion
12 of NEEA's 2009 results is approximately 1.1 aMW of savings
13 which is approximately 40% lower than 2008. This was due
14 to lower CFL sales than estimated.

15 **Q. How do you inform your customers about your DSM**
16 **programs?**

17 A. In 2006, Avista comprehensively reviewed the
18 content and delivery process of our energy efficiency
19 programs. An area identified for improvement was customer
20 outreach. Our market research showed that customers
21 thought they were doing what they could for energy
22 efficiency, that it was too expensive, and/or that "it
23 didn't matter." These findings led to our

1 "EveryLittleBit" outreach campaign which is a multi-year,
2 multi-channel effort to educate customers about the
3 benefits of energy efficiency and to lead customers to our
4 financial incentives and low-cost/no-cost "tips."

5 Our focus on the residential side is to increase
6 customer understanding of our programs and how our
7 programs can help customers reduce their bills. We do this
8 through bill inserts and communications to bring customers
9 to our website with a "call-to-action" to use our
10 financial rebates and follow our no-cost/low-cost
11 suggestions.

12 We have equally beneficial programs for commercial
13 and industrial customers. Illustration No. 3 below depicts
14 a 2009 enhancement to our website, www.EveryLittleBit.com.
15 This is an interactive tool to engage commercial customers
16 and allows customers to quickly view programs that they
17 can use, by "clicking on" a particular type of facility.
18 A similar tool, "The House of Rebates," is available for
19 residential customers.

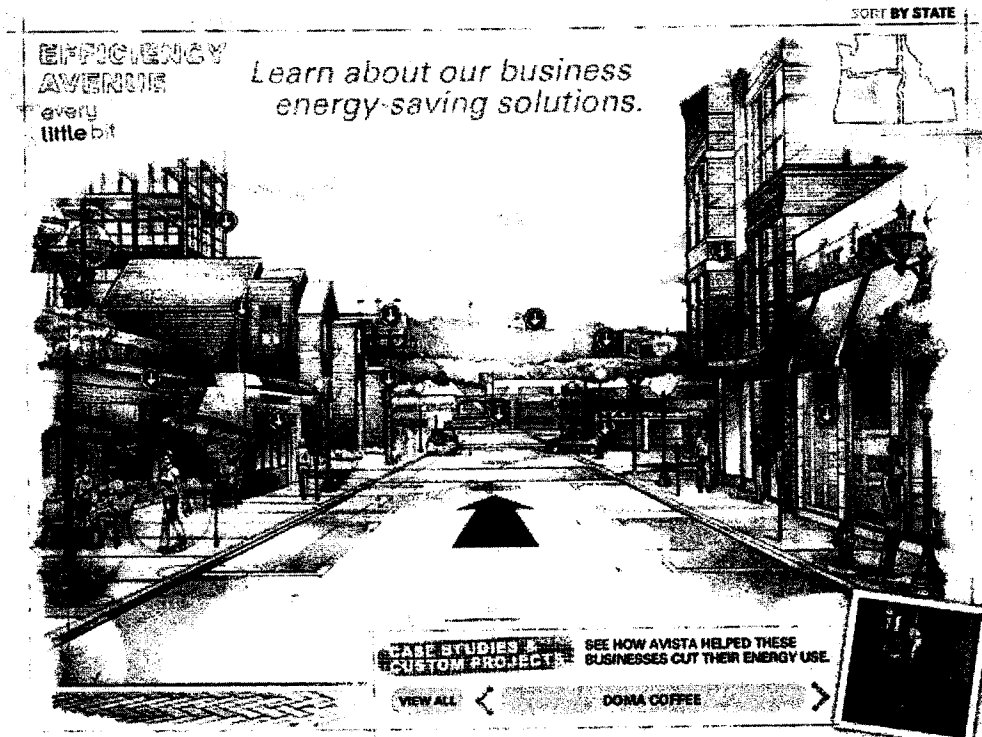
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Illustration No. 3:



Avista's EveryLittleBit campaign has been well-recognized nationally. E-Source awarded Avista top honors for the "best web-site" in 2009. Utility Communicators International provided the Company with 10 awards in 2009, related to the EveryLittleBit campaign, as a best-in-class initiative. Customer response has been similarly positive, as described later in my testimony.

Q. How does Avista evaluate the success of its energy efficiency programs?

1 A. Given the increased interest in evaluation of
2 energy efficiency results, I will address Avista's recent
3 protocols and current plans for enhanced evaluation and
4 future expectations. Avista uses several metrics for
5 evaluating its energy efficiency programs. The primary
6 measures for evaluation have been target achievement and
7 cost-effectiveness. The latter has been the foundation
8 for Commission review since the establishment of the
9 tariff rider mechanisms in 1995. Based on these reviews,
10 Avista has received findings of prudence from the Idaho
11 Commission and the Washington Commission every year from
12 1995 through 2007. More specifically, the review standard
13 has applied a combination of industry standards known as
14 the Total Resource Cost (TRC) test and the Program
15 Administrator Cost Test (PACT) (formally known as the
16 Utility Cost Test (UCT)).¹

17 In 2009, stakeholders in both Idaho and Washington
18 requested more detailed analyses on a prospective basis.
19 This interest stems from several perspectives, including:

¹ The Total Resource Cost Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participants' and the utility's costs. The Program Administrator Cost Test measures the net costs of a demand-side management program as a resource option based on the costs incurred by the program administrator (including incentive costs) and excluding any net costs incurred by the participant. The benefits are similar to the TRC benefits. Costs are defined more narrowly.

1 1) a recent "Memorandum of Understanding (MOU) for
2 Prudency Determination of DSM (Demand Side Management)
3 Expenditures" filed with the Idaho Public Utilities
4 Commission, 2) compliance with Washington's Renewable
5 Portfolio Standards (RCW Chapter 19.285 and WAC Chapter
6 480-109) relative to establishing electric savings
7 acquisition targets and verification procedures, and 3)
8 Avista's recently concluded general rate case, relative to
9 natural gas decoupling in Washington, in which the
10 Washington Commission ordered the Company and interested
11 parties to participate in a collaborative to examine
12 specified evaluation, measurement and verification (EM&V)
13 and low-income issues.

14 Avista aspires to best-practices in all aspects of
15 its energy efficiency efforts, providing transparent and
16 accessible documentation of its energy efficiency
17 evaluations to interested parties. The collaborative (for
18 EM&V and low-income issues) is underway with a final
19 report scheduled to be filed with the WUTC on or before
20 September 1, 2010. The discussion with interested
21 stakeholders on these issues in a unified and structured
22 approach will facilitate a thorough and efficient review
23 of key issues.

1 Without getting ahead of the discussion that will
2 occur in the collaborative, Avista expects that its EM&V
3 efforts will be ramped up in several areas discussed
4 below. These areas will be modified by the collaborative
5 as appropriate. As described in the draft plans, EM&V is
6 intended to reflect all of the analyses necessary to
7 supply information to stakeholders to adequately determine
8 the prudence of Avista's DSM Programs. EM&V includes
9 "impact," "process," "market," and "cost test" analyses.
10 These are described below (and taken as a whole are
11 synonymous with other terms such as "Portfolio Evaluation"
12 or "Program Evaluation").

13 Impact Analysis - Impact analysis provides the
14 documentation necessary to prove that the savings
15 estimated within a particular program are equal to
16 the savings realized by all of the customers
17 participating in that program. Impact analysis
18 subcomponents include:

- 19 ▪ Measure Verification applies principles of
20 the International Performance Measurement &
21 Verification Protocol (IPMVP). Only a
22 single measure may be verified using this
23 technique or protocol. The verification of
24 a statistically significant number of
25 projects using IPMVP techniques is often
26 extrapolated to verify and perform impact
27 analysis on whole programs. The following
28 are parameters included for the
29 verification of a measure.

- Process for calculating the savings;
- Incremental cost of a measure;
- Installation date;
- Measure life;
- Claimed savings;
- Rate schedule for Duel Fuel Incentive Calculator (DFIC) Calculation; and
- Other

Process Analysis - Process analysis is the documentation of the continuous changes necessary to create, implement, modify and possibly terminate programs. The following items are included in process analysis.

- Contact information;
- Changes to programs over time;
- Rules for customer qualification;
- Project cost data; and
- Other

Market Analysis - Market analysis determines the effect of the marketplace on customer implementation of energy efficiency including customer costs.

Cost Test Analysis - Cost test analysis combines several industry terms relative to the evaluation of energy efficiency cost-effectiveness, including among others: Net-to-Gross analysis, Total Resource Cost (TRC) analysis, and Free Riders or Free Drivers.

Depending on the outcome of the collaborative, revisions to reported annual savings may occur due to the

1 results of these EM&V protocols. These modifications of
2 savings will be documented with supporting analyses and
3 may yield increases or decreases in future reported
4 savings.

5 **Q. What is the status of the tariff rider balance?**

6 A. The current tariff rider balance - both Idaho
7 and Washington, electric and natural gas - is a negative
8 \$9,557,925 (i.e., dollars expended exceed dollars
9 collected through the tariff riders). By jurisdiction and
10 fuel, the negative rider balances are, as of February
11 2010: (\$2,008,944) - Idaho electric; (\$1,238,294) - Idaho
12 natural gas; (\$2,653,751) - Washington electric; and
13 (\$3,656,937) - Washington natural gas.

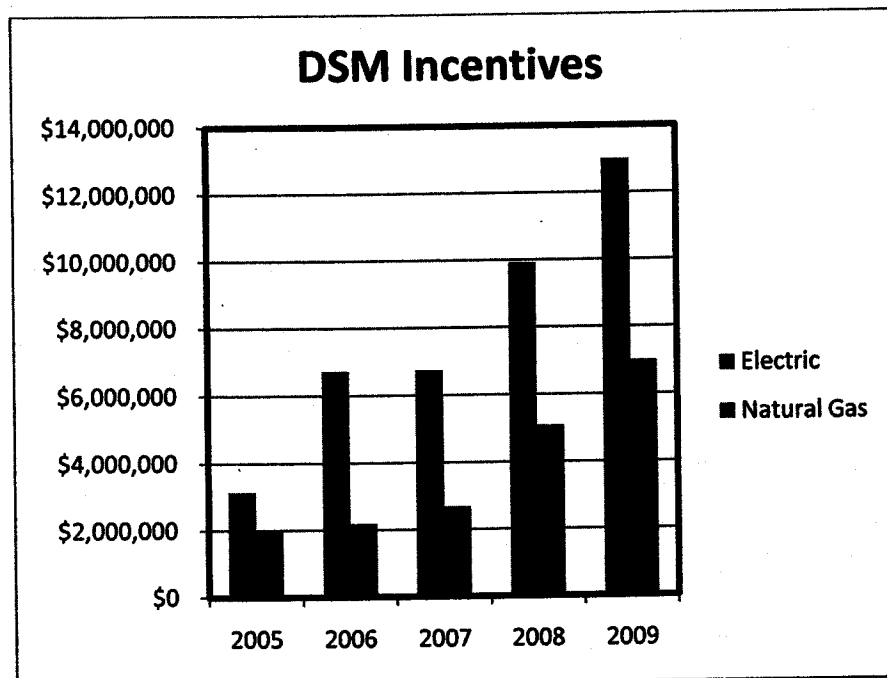
14 **Q. What are the causes of these negative balances?**

15 A. There are several reasons for these negative
16 balances. First, the Company does not "cap" its energy
17 efficiency efforts based on available revenue. Avista is
18 committed to meeting customer demand for energy efficiency
19 services in advance of revenue recovery. Second, the
20 Company has leveraged the high level of public interest in
21 "green" technologies to enhance the acquisition of cost-
22 effective energy-efficiency measures. Third, periods of
23 increased energy costs have heightened customers'

1 awareness of the benefits of energy efficiency. Simply
2 stated, energy efficiency is one way for customers to have
3 more control over their energy bill. Fourth, outreach
4 works. Our EveryLittleBit campaign has resonated with
5 customers. These leveraging opportunities and the customer
6 response to the Company's efficiency programs have
7 exceeded our expectations.

8 The following shows the three-fold increase in
9 rebates in the past five years:

10 **Illustration No. 4:**



11

12

13 Q. What is the Company's plan to address these
14 balances?

1 A. Schedules 91 and 191 are true-up mechanisms that
2 are reviewed annually and revised, as appropriate, to
3 reflect expenditures to fund energy efficiency programs.
4 On the electric side, projected Schedule 91 revenues (at
5 the current rates) are expected to provide for the 2010
6 energy efficiency budget and to reduce the negative
7 electric rider balance by year-end 2010. There may be new
8 programs that will be launched, or continued customer
9 demand exceeding forecasts that will prevent returning the
10 tariff rider balance to near zero, but this would be
11 addressed in the January 2011 review period.

12 The largest negative balances are on the natural gas
13 side. Despite an increase to the natural gas tariff rider
14 rates in 2009, the natural gas tariff rider balances are
15 not decreasing due to strong customer demand for natural
16 gas efficiency measures. On February 12, 2010, Avista
17 filed a tariff rider revision to Schedule 191 in Idaho to
18 reduce the natural gas tariff rider balance. The Schedule
19 191 rate will, in turn, be reviewed again in 2011 and
20 revised to reflect the anticipated decrease in the natural
21 gas rider balance.

22 **Q. What kind of external oversight does the Company**
23 **have regarding DSM?**

1 A. The Company has had an energy efficiency
2 advisory committee in some form since 1992. The current
3 stakeholder panel, the External Energy Efficiency (Triple
4 E) Board, was established as a non-binding oversight group
5 in 1999 to provide for improved opportunities for
6 communication, input and oversight of Avista's DSM
7 portfolios. Avista currently facilitates meetings of the
8 board twice per year, provides a full analysis of the
9 results of DSM operations on an annual or more frequent
10 basis, discusses (with appropriate concern for customer
11 confidentiality) large projects, and provides the Triple E
12 with a quarterly update of DSM activities. Additionally,
13 the Triple E Board can initiate additional meetings of the
14 board at their own request. Board membership has included
15 representatives from regulatory, governmental,
16 environmental, nationally recognized energy-efficiency
17 experts, customer advocates for limited income and
18 industrial segments as well as end-use customer
19 participants.

20 **Q. Does the Company propose to increase its low-**
21 **income weatherization funding as part of this filing?**

22 A. Yes. The Company proposes to increase its low-
23 income weatherization funding for electric and natural gas

1 service by a percentage amount equal to the percentage
2 rate increase granted in this case for residential
3 customers. The additional funding would be provided
4 through the DSM tariff riders, Schedules 91 and 191.

5 Low-income weatherization and appropriate levels of
6 funding are also part of the Company's recently formed
7 collaborative with a report due to the Washington
8 Commission on or before September 1, 2010: "In a
9 collaborative with the Parties, Avista is to 'explore' new
10 approaches to low-income conservation, identify barriers
11 to its development, and address the Energy Project's
12 concerns." This may affect future proposed levels of low-
13 income weatherization funding in both Idaho and
14 Washington.

15

16 **III. PRUDENCE OF INCURRED DSM COSTS**

17 **Q. Would you please explain the Company's request**
18 **for a finding of prudence in this case?**

19 **A. Yes.** When the Commission approved the Company's
20 energy efficiency programs in 1995, Avista committed to
21 demonstrating the prudence of program expenditures in
22 future general rate cases. In the Company's 2007 general
23 electric and natural gas rate cases (Case Nos. AVU-E-08-01

1 and AVU-G-08-01), the Commission issued a finding that
2 electric and natural gas expenditures through December 31,
3 2007 were prudently incurred. At this time, the Company
4 requests that the Commission issue a finding that electric
5 and natural gas energy efficiency expenditures from
6 January 1, 2008 through December 31, 2009 were prudently
7 incurred.

8 **Q. Would you please summarize the Company's energy**
9 **efficiency-related savings for this time period?**

10 A. Yes. As shown in Exhibit No. 15 from January 1,
11 2008 through December 31, 2009, over 155 million kWh and
12 3.9 million therms of energy savings were obtained system-
13 wide. Page 1 and 2 of Exhibit No. 15 detail the energy
14 savings by regular and low-income portfolios for both
15 electric and natural gas DSM programs.

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

18 A. Yes, as previously discussed, the Company has
19 regularly convened a stakeholders forum known as the
20 External Energy Efficiency Board. These meetings have
21 included customer representatives, Commission staff
22 members, and individuals from the environmental
23 communities. These stakeholder meetings review the

1 Company's program offerings as well as the underlying
2 cost-effectiveness tests and results.

3 **Q. Have the Company's DSM programs been cost-**
4 **effective?**

5 A. Yes. The electric programs have been cost-
6 effective from both a Total Resource Cost (TRC) and
7 Program Administrator Cost Test (PACT) perspective. Page
8 3 and 4 of Exhibit No. 15 shows that the 2008 and 2009 TRC
9 benefit-to-cost ratio of 2.10 and 2.31 respectively, for
10 the overall electric DSM program portfolio is cost-
11 effective, with a net TRC benefit to customers of over
12 \$83.7 million. The 2008 and 2009 PACT benefit-to-cost
13 ratio is cost-effective with a net PACT benefit of over
14 \$117 million. The levelized TRC and PACT cost is 5.3
15 cents (4.5 cents for 2008) and 1.9 cents per kWh (2.2
16 cents for 2008), respectively. The overall portfolio of
17 measures has a weighted average measure life of 16.9 years
18 for 2009 and 12.2 years for 2008. The comparable levelized
19 electric avoided cost for a measure of this life using a
20 flat loadshape is 9.8 cents per kWh for 2008 and 11.8
21 cents per kWh for 2009.

1 Page 5 and 6 of Exhibit No. 15 illustrate the natural
2 gas DSM program portfolio cost-effectiveness under both
3 the TRC and PACT tests. The Company's 2008 and 2009 TRC
4 ratios were 0.86 and 1.27 respectively. The 2008 and 2009
5 PACT benefit cost ratios are 2.35 and 4.20 respectively.
6 Therefore, the natural gas DSM portfolio passes the PACT
7 test in 2008 and both the TRC and PACT tests in 2009. The
8 2008 TRC is lower than 1.0 due to one commercial customer
9 in the state of Idaho who chose to pursue a series of
10 projects identified by the Company as being uneconomic.
11 This customer pursued the project predominately with their
12 own funds. The customer did receive a relatively small
13 incentive per Schedule 190 based upon the actual therm
14 savings achieved through the project. The natural gas TRC
15 for 2008, excluding this one customer, was 1.04.

16 **Q. Please summarize the Company's conclusions.**

17 A. The Company's expenditure of tariff rider
18 revenue has been reasonable and prudent. A portfolio of
19 programs covering all customer classes has been offered
20 with a total savings of over 155 million kWhs and 3.9
21 million therms during January 1, 2008 through December 31,
22 2009. A levelized utility cost-per-saved kilowatt hour of
23 less than 2.2 cents per kWh has been achieved. The

1 levelized avoided costs based on a flat loadshape during
2 this similar period was 9.8 and 11.8 cents per kWh for
3 2008 and 2009, respectively. The levelized utility cost
4 of less than 40.9 cents per saved therm compares to 79.5
5 cents per annual therm and 81.0 cents per winter therm for
6 the same period.

7 The Tariff Rider and energy efficiency programs have
8 been very successful. Participating customers have
9 benefited through lower bills. Non-participating
10 customers have benefited from the Company having acquired
11 lower cost resources in the form of DSM, as well as
12 maintaining the energy efficiency message and
13 infrastructure for the benefit of our service territory.

14 In closing, Avista respectfully requests that the
15 Commission issue a finding of prudence for energy
16 efficiency expenditures from January 1, 2008 through
17 December 31, 2009.

18 Q. Does that complete your pre-filed direct
19 testimony?

20 A. Yes, it does.

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STATE OF IDAHO)	BRUCE W. FOLSOM

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

Avista Utilities
Summary of Demand-Side Management Energy Savings and Levelized Costs
January 1, 2008 through December 31, 2008

	Regular income portfolio		Limited income portfolio	
	kWh savings	Therm savings	kWh savings	Therm savings
Electric DSM programs	73,009,915	(100,172)	1,851,245	910
Gas DSM programs	1,376,547	1,785,623	4,147	102,438
Total	74,386,462	1,685,451	1,855,392	103,348

	Total portfolio	
	kWh savings	Therm savings
Electric DSM programs	74,861,160	(99,262)
Gas DSM programs	1,380,694	1,888,061
Total	76,241,854	1,788,799

Note: Electric savings derived from gas DSM programs include the impact of electric to natural gas conversions as well as interactive savings resulting from natural gas DSM projects. Therm savings derived from electric DSM projects recognize interactive impacts of electric DSM measures.

DSM Program Portfolio Levelized Cost Calculations

Electric DSM Program Portfolio

Total Resource Cost (TRC)	\$ 26,723,986
Weighted average measure life	12.2
Discount rate	7.08%
kWh energy savings	74,861,160
TRC levelized cost	\$ 0.045
(PACT) cost	\$ 13,291,081
Weighted average measure life	12.2
Discount rate	7.08%
kWh energy savings	74,861,160
pact levelized cost	\$ 0.022
Comparative electric levelized avoided cost for a flat loadshape	\$ 0.098

Natural Gas DSM Program Portfolio

Total Resource Cost (TRC)	\$ 19,014,283
Weighted average measure life	13.6
Discount rate	7.08%
Therms energy savings	1,888,061
TRC levelized cost	\$ 1.177
(PACT) cost	\$ 6,607,775
Weighted average measure life	13.6
Discount rate	7.08%
Therms energy savings	1,888,061
pact levelized cost	\$ 0.409
Comparative natural gas levelized annual avoided cost	\$0.795
Comparative natural gas levelized winter avoided cost	\$0.810

Avista Utilities
Summary of Demand-Side Management Energy Savings and Levelized Costs
January 1, 2009 through December 31, 2009

	Regular income portfolio		Limited income portfolio	
	kWh savings	Therm savings	kWh savings	Therm savings
Electric DSM programs	77,693,931	(149,478)	3,136,077	1,155
Gas DSM programs	1,718,917	1,922,561	495	95,251
Total	79,412,848	1,773,083	3,136,572	96,406

	Total portfolio	
	kWh savings	Therm savings
Electric DSM programs	80,830,008	(148,323)
Gas DSM programs	1,719,412	2,017,812
Total	82,549,420	1,869,489

Note: Electric savings derived from gas DSM programs include the impact of electric to natural gas conversions as well as interactive savings resulting from natural gas DSM projects. Therm savings derived from electric DSM projects recognize interactive impacts of electric DSM measures.

DSM Program Portfolio Levelized Cost Calculations

Electric DSM Program Portfolio

Total Resource Cost (TRC) \$ 41,554,730
Weighted average measure life 16.9
Discount rate 7.08%
kWh energy savings 80,830,008
TRC levelized cost \$ 0.053

(PACT) cost \$ 14,656,926
Weighted average measure life 16.9
Discount rate 7.08%
kWh energy savings 80,830,008
pact levelized cost \$ 0.019

Comparative electric levelized
avoided cost for a flat loadshape \$ 0.118

Natural Gas DSM Program Portfolio

Total Resource Cost (TRC) \$ 26,879,320
Weighted average measure life 26.3
Discount rate 4.17%
Therms energy savings 2,017,812
TRC levelized cost \$ 0.844

(PACT) cost \$ 8,069,478
Weighted average measure life 26.3
Discount rate 4.17%
Therms energy savings 2,017,812
pact levelized cost \$ 0.253

Comparative natural gas levelized
annual avoided cost \$0.925

Comparative natural gas levelized
winter avoided cost \$0.944

Avista Utilities

Summary of Electric Demand-Side Management Cost-Effectiveness

January 1, 2008 through December 31, 2008

TOTAL RESOURCE COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Electric program electric avoided cost	\$ 50,820,676	\$	2,026,328	\$	\$ 52,847,004
Electric program gas avoided cost	\$ (551,338)	\$	8,606	\$	\$ (542,732)
Electric program non-energy benefits	\$ 3,796,344	\$	-	\$	\$ 3,796,344
TOTAL TRC BENEFITS	\$ 54,065,682	\$	2,034,934	\$	\$ 56,100,616
Electric program non-incentive Utility Cost	\$ 3,880,458	\$	15,001	\$	\$ 3,895,459
Electric program customer cost	\$ 22,167,951	\$	660,576	\$	\$ 22,828,527
TOTAL TRC COSTS	\$ 26,048,409	\$	675,577	\$	\$ 26,723,986
NET TRC BENEFITS	\$ 28,017,273	\$	1,359,357	\$	\$ 29,376,630
TRC BENEFIT / COST RATIO	2.08		3.01		2.10

PROGRAM ADMINISTRATOR COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Electric program electric avoided cost	\$ 50,820,676	\$	2,026,328	\$	\$ 52,847,004
Electric program gas avoided cost	\$ (551,338)	\$	8,606	\$	\$ (542,732)
TOTAL PACT BENEFITS	\$ 50,269,338	\$	2,034,934	\$	\$ 52,304,272
Electric program non-incentive utility cost	\$ 3,880,458	\$	15,001	\$	\$ 3,895,459
Electric program incentive utility cost	\$ 8,635,960	\$	759,662	\$	\$ 9,395,622
TOTAL PACT COSTS	\$ 12,516,418	\$	774,663	\$	\$ 13,291,081
NET PACT BENEFITS	\$ 37,752,920	\$	1,260,271	\$	\$ 39,013,191
PACT BENEFIT / COST RATIO	4.02		2.63		3.94

Avista Utilities
Summary of Electric Demand-Side Management Cost-Effectiveness
January 1, 2009 through December 31, 2009

TOTAL RESOURCE COST TEST	Regular income portfolio		Limited income portfolio	Overall portfolio
Electric program electric avoided cost	\$ 89,665,176	\$	5,058,238	\$ 94,723,414
Electric program gas avoided cost	\$ (1,242,608)	\$	13,726	\$ (1,228,882)
Electric program non-energy benefits	\$ 2,359,419	\$	57,353	\$ 2,416,772
TOTAL TRC BENEFITS	\$ 90,781,987	\$	5,129,317	\$ 95,911,304
Electric program non-incentive utility cost	\$ 4,443,392	\$	13,726	\$ 4,457,118
Electric program customer cost	\$ 36,286,445	\$	811,167	\$ 37,097,612
TOTAL TRC COSTS	\$ 40,729,837	\$	824,893	\$ 41,554,730
NET TRC BENEFITS	\$ 50,052,150	\$	4,304,424	\$ 54,356,574
TRC BENEFIT / COST RATIO	2.23		6.22	2.31
PROGRAM ADMINISTRATOR COST TEST	Regular income portfolio		Limited income portfolio	Overall portfolio
Electric program electric avoided cost	\$ 89,665,176	\$	5,058,238	\$ 94,723,414
Electric program gas avoided cost	\$ (1,242,608)	\$	13,726	\$ (1,228,882)
TOTAL PACT BENEFITS	\$ 88,422,568	\$	5,071,964	\$ 93,494,532
Electric program non-incentive Program Administrator	\$ 4,443,392	\$	13,726	\$ 4,457,118
Electric program incentive Program Administrator	\$ 10,213,534	\$	811,167	\$ 11,024,701
TOTAL PACT COSTS	\$ 14,656,926	\$	824,893	\$ 15,481,819
NET PACT BENEFITS	\$ 73,765,642	\$	4,247,071	\$ 78,012,713
PACT BENEFIT / COST RATIO	6.03		6.15	6.04

Avista Utilities
Summary of Gas Demand-Side Management Cost-Effectiveness
January 1, 2008 through December 31, 2008

TOTAL RESOURCE COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Gas program gas avoided cost	\$	12,788,576	\$	959,557	\$ 13,748,133
Gas program electric avoided cost	\$	1,795,233	\$	5,303	\$ 1,800,536
Gas program non-energy benefits	\$	814,663	\$	-	\$ 814,663
TOTAL TRC BENEFITS	\$	15,398,472	\$	964,860	\$ 16,363,332
Gas program non-incentive utility cost	\$	1,192,106	\$	11,579	\$ 1,203,685
Gas program customer cost	\$	17,244,124	\$	566,474	\$ 17,810,598
TOTAL TRC COSTS	\$	18,436,230	\$	578,053	\$ 19,014,283
NET TRC BENEFITS	\$	(3,037,758)	\$	386,807	\$ (2,650,951)
TRC BENEFIT / COST RATIO		0.84		1.67	0.86

PROGRAM ADMINISTRATOR COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Gas program gas avoided cost	\$	12,788,576	\$	959,557	\$ 13,748,133
Gas program electric avoided cost	\$	1,795,233	\$	5,303	\$ 1,800,536
TOTAL PACT BENEFITS	\$	14,583,809	\$	964,860	\$ 15,548,669
Gas program non-incentive utility cost	\$	1,192,106	\$	11,579	\$ 1,203,685
Gas program incentive utility cost	\$	4,752,645	\$	651,445	\$ 5,404,090
TOTAL PACT COSTS	\$	5,944,751	\$	663,024	\$ 6,607,775
NET PACT BENEFITS	\$	8,639,058	\$	301,836	\$ 8,940,894
PACT BENEFIT / COST RATIO		2.45		1.46	2.35

Avista Utilities
Summary of Gas Demand-Side Management Cost-Effectiveness
January 1, 2009 through December 31, 2009

TOTAL RESOURCE COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Gas program gas avoided cost	\$	26,961,465	\$	1,786,514	\$ 28,747,979
Gas program electric avoided cost	\$	5,166,457	\$	1,517	\$ 5,167,974
Gas program non-energy benefits	\$	126,896	\$	-	\$ 126,896
TOTAL TRC BENEFITS	\$	32,254,818	\$	1,788,031	\$ 34,042,849
Gas program non-incentive utility cost	\$	1,442,740	\$	162,726	\$ 1,605,466
Gas program customer cost	\$	24,649,562	\$	624,292	\$ 25,273,854
TOTAL TRC COSTS	\$	26,092,302	\$	787,018	\$ 26,879,320
NET TRC BENEFITS	\$	6,162,516	\$	1,001,013	\$ 7,163,529
TRC BENEFIT / COST RATIO		1.24		2.27	1.27

PROGRAM ADMINISTRATOR COST TEST	Regular income portfolio		Limited income portfolio		Overall portfolio
Gas program gas avoided cost	\$	26,961,465	\$	1,786,514	\$ 28,747,979
Gas program electric avoided cost	\$	5,166,457	\$	1,517	\$ 5,167,974
TOTAL PACT BENEFITS	\$	32,127,922	\$	1,788,031	\$ 33,915,953
Gas program non-incentive utility cost	\$	1,442,740	\$	162,726	\$ 1,605,466
Gas program incentive utility cost	\$	5,839,720	\$	624,292	\$ 6,464,012
TOTAL PACT COSTS	\$	7,282,460	\$	787,018	\$ 8,069,478
NET PACT BENEFITS	\$	24,845,462	\$	1,001,013	\$ 25,846,475
PACT BENEFIT / COST RATIO		4.41		2.27	4.20