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February 12, 2010

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
Statehouse Mail
W. 472 Washington Street
Boise, Idaho 83720

Application No. AVU-G-10-02

Dear Ms. Jewell:

Enclosed for filing with the Commission is an original and 7 copies of the Company's revised application requesting an increase to Schedule 191 rates, "Energy Efficiency Rider Adjustment," also known as the "energy efficiency tariff rider." Schedule 191 is designed to recover the costs incurred by the Company associated with providing natural gas energy efficiency services to customers.

Please direct any questions on this matter to Bruce Folsom, Director, Energy Efficiency at (509) 495-8706 or myself at (509) 495-4975.

Sincerely,

Linda Gervais
Manager, Regulatory Policy
State & Federal Regulation
Avista Corporation

Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF AVISTA CORPORATION FOR THE)
REQUEST TO INCREASE ITS ENERGY)
EFFICIENCY PUBLIC PURPOSE RIDER)
SCHEDULE 191)

CASE NO. AVU-G-10-02

APPLICATION OF AVISTA CORPORATION

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I. INTRODUCTION

Avista Corporation, doing business as Avista Utilities (hereinafter Avista or Company), at 1411 East Mission Avenue, Spokane, Washington, respectfully requests approval of an increase to Schedule 191 rates, "Energy Efficiency Rider Adjustment," also known as the "public purpose tariff rider."

Commission Order No. 30918 in Case Nos. AVU-E-09-06 and AVU-G-09-04, provides that Avista must file with the Commission on or before February 15th of each year, beginning 2010, to revise the Demand Side Management (DSM) portions of the Schedule 91 and 191 to establish tariff riders that are sufficient to fund the following twelve months of DSM as well as amortize any tariff rider imbalance. The intent of this annual filing is to minimize any potential under or over collections. As part of this requirement, the Company must circulate drafts of any tariff revision, or concepts for consideration, affecting the Company's DSM portfolio to its Triple-E Board at least 30 days prior to filing a tariff revision with the Commission. The Company, on January 15th, 2010, provided via electronic mail a draft of its conceptual filing, Avista received one response from parties regarding the draft. Washington State's Public Counsel sought clarification of the electric revenues depicted. This filing is responsive to the above referenced requirement.

Current projections indicate that the existing electric tariff rider Schedule 91 may lead to a small negative balance of approximately \$600,000 at the close of 2010 based upon the current budget. This number is minor relative to the potential variation in customer demand caused by weather and other factors beyond Avista's control. Therefore, Avista is proposing to retain the existing Schedule 91 tariff rider rate. The Company, in this filing requests approval of an increase to Schedule 191 natural gas rates.

1 Now in its fifteenth year, the energy efficiency tariff riders were the Country's first
2 distribution charge to fund DSM and are now replicated in many other states. The proposed
3 increase in Schedule 191 natural gas rates is necessary to continue to fund ongoing natural
4 gas efficiency programs consistent with Avista's most recent Natural Gas Integrated
5 Resource Plan (IRP). It will also serve to amortize a deficiency balance within the natural gas
6 efficiency tariff rider resulting from the Company's response to higher than expected
7 customer demand for services. The proposed increase in revenues for DSM will not increase
8 or decrease the earnings of the Company.

9
10 The Company requests that this filing be processed under the Commission's Modified
11 Procedure rules.

12 Communications in reference to this Application should be addressed to:

13 David J. Meyer, Esq.
14 Vice President and Chief Counsel for
15 Regulatory and Governmental Affairs
16 Avista Corporation
17 P.O. Box 3727
18 1411 E. Mission Avenue, MSC-13
19 Spokane, WA 99220-3727
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II. BACKGROUND

The Company's energy efficiency targets are established in the process of developing its electric and natural gas IRPs. The electric IRP non-regional¹ efficiency goal for Idaho and Washington in 2009 was 57.2 million kWhs. The results of Avista's non-regional energy efficiency programs continue to exceed targets. Avista's 2009 local energy efficiency savings were over 82 million kWhs (approximately 9.4 aMW) or 143% of the Company's IRP annual target. Over 147 aMW of cumulative savings have been achieved through Avista's energy efficiency efforts in the past thirty years; over 117 aMW of DSM is currently in place on the Company's system. By comparison, Avista's total retail load for 2010 will be approximately 1,035 aMW; therefore, the total DSM energy savings represent a meaningful reduction to the retail load that Avista would otherwise serve. The 2009 natural gas savings targets for Idaho and Washington was 1.6 million therms. Over 2.0 million therms were saved last year.

Avista's energy efficiency programs are supported by 21.5 full-time equivalents (FTE) spread over 44 staff. The 2009 total DSM budget was over \$23.2 million.

Customers continue to look to the Company'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 January 2010, Avista's electric DSM tariff rider balance for Idaho is a negative \$2,417,322 and the natural gas DSM tariff rider balance for Idaho is a negative \$1,375,435 (past expenditures have exceeded tariff rider collections). The current Idaho electric tariff rider and the proposed Idaho natural gas tariff rider increase are estimated to eliminate these current balances by the end of 2010 and to fund estimated current year expenditures. The proposed

¹ Non-regional represents Avista goals excluding NEEA
Application of Avista Corporation
Case No. AVU-G-10-02

1 increase in the DSM surcharge is approximately 2.61% of present natural gas billed rate.
2 This proposed rate will have an average monthly bill impact to residential customers using 66
3 therms of \$1.52.

4 Additional drivers that continue to add to increases in the tariff rider balances include:

- 5
- 6 ▪ increased customer demand for demand-side management programs;
- 7 ▪ increasing avoided costs which leads to a higher number of cost-effective
- 8 energy efficiency programs; and
- 9 ▪ higher level of energy efficiency acquisition identified in the IRP leads to
- 10 increased dollars per unit as higher cost measures are selected on the supply
- 11 curve.
- 12

13 All Schedules 91 and 191 DSM funds will remain within the electric and natural gas
14 efficiency programs including the Evaluation, Measurement and Verification, reporting of
15 programs, either offered by the Company directly or through designated contractors, or as
16 part of cooperative regional electric and natural gas efficiency programs. The Company will
17 continually assess the demand for services and program financial balances and propose
18 revisions to Schedules 91 and 191 as necessary. Schedules 91 and 191 funds support DSM
19 programs described in Schedules 90 and 190. These programs include but are not limited to
20 the following measures:

- 21 ▪ Appliance measures
- 22 ▪ Compressed air measures
- 23 ▪ HVAC measures
- 24 ▪ Industrial measures
- 25 ▪ Lighting measures
- 26 ▪ Maintenance measures
- 27 ▪ Motors measures
- 28 ▪ Renewable Technologies
- 29 ▪ Northwest Energy Efficiency Alliance participation
- 30 ▪ Shell measures
- 31 ▪ Sustainable Building measures
- 32

33 The Company's programs are based on providing a financial incentive, or "rebate,"
34 for cost-effective efficiency measures installed by customers with a simple payback of

1 greater than one year. This includes over 300 measures that are packaged into over 30
2 programs for customer convenience.

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

12 For non-residential customers, in addition to prescriptive programs, Avista offers
13 "site-specific" programs. Site-specific programs are customized to the customer premise.
14 The site-specific offering provides incentives on commercial and industrial energy efficiency
15 measure with a simple financial payback exceeding one year. This is implemented through
16 site analyses, customized diagnoses, and incentives determined for savings generated by the
17 customers' premise or process. Commercial and industrial programs available to Avista
18 customers include:

- 19 ■ Energy Smart commercial refrigeration
- 20 ■ lighting and controls
- 21 ■ commercial food service equipment
- 22 ■ building retro-commissioning
- 23 ■ premium efficiency motors
- 24 ■ power management for personal computer (PC) networks
- 25 ■ LEED certification, commercial HVAC variable frequency drives (VFDs)
- 26 ■ refrigerated warehouses
- 27 ■ vending machine controllers
- 28 ■ demand controlled ventilation
- 29 ■ side-stream filtration
- 30 ■ steam trap replacement and repair

- 1 ▪ multifamily development
- 2 ▪ LED traffic signals
- 3 ▪ electric to natural gas water heater conversions
- 4 ▪ commercial clothes washers

5

6 In addition to Avista's prescriptive and site-specific programs, the Company funds,

7 and participates in the activities of the Northwest Energy Efficiency Alliance (NEEA).

8 NEEA focuses on using a regional approach to obtain electric efficiency through the

9 transformation of markets for efficiency measures and services. An example of NEEA-

10 sponsored programs that benefit Avista customers is decreasing the cost of CFLs and high-

11 efficiency appliances by working through manufacturers. For some measures, a large-scale,

12 cross-utility approach is the most cost-effective means to achieve energy efficiency savings.

13 This approach is particularly effective for markets composed of large numbers of smaller

14 usage homogeneous consumers, such as the residential and small commercial markets. The

15 results from NEEA programs are reported in March of the following year. Historically,

16 Avista has received approximately 2.1 aMW of savings in its service territory from NEEA

17 programs.

18 The Company provided \$1.9 million for low-income weatherization in 2009 in Idaho

19 and Washington. Effective October 1, 2008, in Order No. 30647 in Case Nos. AVU-E-09-06

20 and AVU-G-09-04, \$465,000 was directed to Idaho electric and natural gas low-income

21 customers and \$25,000 was provided to Idaho (CAP) agencies for the purpose of

22 underwriting agency personnel assisting in low-income outreach and conservation education.

23 The low-income weatherization portfolio represents approximately 6.3% of our total energy

24 efficiency budget excluding utility support.

1 **III. EVALUATION, MEASUREMENT AND VERIFICATION**

2 Avista is in the process of enhancing its Evaluation, Measurement and Verification
3 (EM&V) protocols. The Company circulated an EM&V draft plan for review by the Triple-
4 E board in November, 2009. Avista fully committed to incorporate into its future DSM
5 activities the requirements embodied in the Memorandum of Understanding dated December
6 21, 2009. Avista plans to initiate a collaborative, beginning in March, 2010 to review
7 EM&V issues and will provide a report to the Commission on or before September 1, 2010.
8 That report will describe Avista's enhanced EM&V protocols.

9 As described in its draft plans, EM&V is intended to reflect all of the analyses
10 necessary to supply information to stakeholders to adequately determine the prudence of
11 Avista's DSM Programs. EM&V includes "impact," "process," "market," and "cost test"
12 test analyses. These are described below (and taken as a whole are synonymous with other
13 terms such as "Portfolio Evaluation" or "Program Evaluation.")

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

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

- Rate schedule for 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. This analysis is under development and will be included in the Company's EM&V collaborative with interested parties as previously discussed.

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, Free Riders or Free Drivers.

IV. STAKEHOLDER INVOLVEMENT

The Company has regularly convened a stakeholder's 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

1 Utility Cost Test (UCT)) perspective². For the most recent reporting period, the TRC
2 benefit-to-cost ratio was 2.10 for the overall electric DSM program portfolio, with a net TRC
3 benefit to customers of over \$29 million in 2008. The PACT benefit to cost ratio for electric
4 programs is cost-effective with a net PACT benefit of over \$39 million. The PACT benefit
5 to cost ratio for natural gas programs is cost-effective with a net benefit of over \$8.9 million
6 for the same period. The natural gas DSM program portfolio is cost-effectiveness under both
7 the TRC and PACT tests (but for one Idaho customer, the Company's TRC would be 1.16,
8 with any number above 1.00 being cost effective for the most recent reporting period of
9 2008³). The increased funding requested herein will continue to be subject to the existing
10 cost-effectiveness tests.

11 12 V. REQUEST FOR APPROVAL

13 In summary, installing energy efficiency measures is a direct action customers can
14 take to respond to a period of increasing energy prices facing the Pacific Northwest and the
15 Country as a whole. Avista's energy efficiency programs are being used by customers at
16 unprecedented levels. Customer participation continues to exceed current funding. The
17 Company's request trues-up its natural gas tariff rider to a level to meet customer demand
18 and reduce existing negative balances, while providing funding for future energy efficiency

² 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.

³ This customer, based on their own initiatives, spent \$4.2 million on energy efficiency projects of which Avista contributed \$247,000. Avista's contribution of \$247,000 divided by the 104,000 therms of savings from these projects results in a \$2.36 per first year therm utility incentive investment, in comparison to an avoided cost value of approximately \$10 for a therm of the measure life associated with those projects. Apart from this customer, the TRC and UCT benefit cost ratios are 1.16 and 2.64 respectively. Therefore, except for the one customer, the natural gas DSM portfolio passes both the TRC and UCT tests.

1 programs. Energy efficiency remains the lowest cost new resource and all customers benefit
2 by its acquisition.

3 The estimated annual revenue change associated with this filing is approximately \$1.6
4 million for natural gas. The total proposed surcharge under Schedule 191 will be
5 approximately 2.6% of billed rates. This proposed rate will have an average monthly bill
6 impact to residential customers using 66 therms of \$1.52.

7 8 VI. CUSTOMER NOTIFICATION

9 Notice to the public of the proposed rates and charges, pursuant to IDAPA
10 31.21.02.102, will be given simultaneously with the filing of the Application by posting a
11 notice at each of the Company's district offices in Idaho, and by a media release, both of
12 which are attached as Attachment A. Notice of proposed rates will also be given to all Idaho
13 customers by individual bill insert as required by rule. The proposed effective date is April 1,
14 2010.

15 16 VII. CONCLUSION

17
18 WHEREFORE Applicant respectfully requests the Commission issue its
19 Order finding the proposed rates and charges in Schedule 191 attached to this Application as
20 Attachment B to be fair, just, reasonable and nondiscriminatory, and effective for natural gas
21 service rendered on and after April 1, 2010, with this application being processed under
22 Modified Procedure.

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DATED at Spokane, Washington, this 12th day of February, 2010.

AVISTA CORPORATION



By _____

Kelly O. Norwood

Vice President, State and Federal Regulation