



Rob McKenna

ATTORNEY GENERAL OF WASHINGTON

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December 17, 2009

SENT VIA E-MAIL AND FIRST CLASS MAIL

David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: Docket Nos. UE-091859 and UG-091860

Dear Mr. Danner:

Public Counsel respectfully submits these comments in advance of the Commission's December 23, 2009 Open Meeting regarding PSE's energy efficiency tariff filings in the aforementioned dockets. We understand that Staff will recommend that the Commission allow the tariffs to take effect, and direct Staff to open an investigation of the program descriptions, budgets, cost-effectiveness, and evaluation plan documents filed by PSE as Appendices A, B, C, and D to the filing. Public Counsel supports this Staff recommendation. PSE's filing, with an estimated budget of over \$200 million for electric and natural gas energy efficiency programs for the 2010-2011 period, reflects substantially increased complexity, cost, and scope of the energy efficiency portfolio over the past eight years. Accordingly, we agree with Staff that it is appropriate to allow the tariffs to take effect so that the programs may continue, but additional investigation is necessary regarding the appendices referenced above. Such an investigation is particularly important prior to PSE's anticipated filing in February or March, 2010, to adjust the conservation tariff rider amounts.

These comments will address four major issues:

- PSE's proposed expansion of the Home Energy Report pilot program,
- the inclusion of numerous information-only conservation programs in this proposed budget,
- the amount of the overall budget, and
- additional concerns with the filing as reflected in the appendices of program descriptions, budgets, cost-effectiveness, and evaluation planning.

Home Energy Report Pilot

Public Counsel is specifically concerned about the budgeted amounts and estimated savings associated with the Home Energy Reports Pilot Program. This Pilot program was originally implemented by PSE in 2008, at a cost of just over \$500,000, and targeted almost 39,000

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residential homes in PSE's combined electric and gas service territory.¹ The program is administered by OPOWER (formerly Positive Energy Inc.), and provides selected customers with a report comparing their household usage to neighboring homes of similar size to encourage behavior change (e.g. turn off the lights when you leave the room, lower thermostat settings), as well as infrastructure improvements (e.g. insulation, appliances).

PSE's current filing anticipates spending over \$2.2 million on this pilot program (Appendix B). PSE has advised Public Counsel that this funding level will support an expansion of the pilot to reach 150,000 homes annually.² We believe it is premature to plan to spend these funds on an expansion of the pilot, and to estimate the level of savings shown on Appendix B for the 2010-2011 period, based on the information and data that PSE currently has been able to provide. Instead, PSE should focus on continuing to collect and examine the evaluation results for the original 39,000 customers participating in this pilot.

After receiving the draft tariff filing and appendices in early November, Public Counsel communicated to PSE that, in our view, it was premature to plan to expand this pilot program to additional customers, and to reflect estimated savings in Appendix B for this pilot. Upon request, PSE provided Public Counsel with a 10 page mid-year evaluation report of this pilot program.³ However, this internal PSE evaluation has raised additional questions for Public Counsel, and while PSE has provided responses to Public Counsel's initial questions, those responses have also generated additional questions that we would like to explore with PSE and the full CRAG.

Public Counsel realizes that the company has stated that it does not intend to claim the associated savings until 2011, and until it has the approval of the CRAG for the savings claim strategy. We also recognize that PSE indicates the amount of savings estimated for this program is likely to change once more analysis is available. But despite those caveats, the fact remains that PSE's projected budget and savings document, attached as Appendix B to the company's filing, reflects a significant increase in program expenditures and customer participation for this pilot.⁴ An expansion of a pilot prior to clear and conclusive findings is premature and not a prudent use of ratepayer funds. If this line item remains in PSE's energy efficiency programs budget for 2010 when the company files for an adjustment to the conservation tariff riders in early 2010, we would anticipate opposing such expenditures.

¹ PSE's initial contract with OPOWER was for \$500,000, but the company has also had additional administrative costs, and is conducting the evaluation internally.

² PSE's December 9, 2009 response to Public Counsel's November 25, 2009 questions, p. 8. We intend to seek clarification from PSE regarding the number of additional pilot participants, and whether participants will continue to be dual-fuel customers.

³ "Positive Energy Program Evaluation: A Mid-Year Program Review" August 2009. PSE provided this report to Public Counsel in an 11/20/09 email response to a series of questions from Public Counsel regarding PSE's Draft EES filing shared with the CRAG on November 2, 2009. Upon review, Public Counsel suggested on November 25 that the Company share this report with the full CRAG. As of the date of this letter, however, our understanding is that PSE has provided this report to Staff, but has not yet distributed it to the full CRAG.

⁴ Appendix B is attached to this letter as PC Attachment 1.

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Some of our concerns with this pilot are as described below. We have shared these concerns, as well as other questions, with PSE and the CRAG:

- *Double counting of energy savings.* PSE has stated that the Home Energy Reports “serve as a marketing tool for PSE’s energy efficiency rebates by providing information on PSE rebates and program offerings.”⁵ But at this time it is unclear how many of the pilot customers reduced usage due to behavioral changes (e.g. turning off lights in empty rooms), or because they have taken advantage of PSE’s rebate programs. PSE’s mid-year review did not include this in the analysis, but the company indicates they will examine this in the final report. Of course, to the extent pilot customers are reducing usage due to rebate-program participation, those savings would then inappropriately be counted twice.
- *Preliminary findings of statistical significance do not automatically mean the program should be pursued.* While PSE’s internal statistical analysis found a significant difference in the usage between the participant group and control group, the estimated reduced usage is quite small in comparison to the total household use during the 6-month period of analysis. For example, the participant group had an average total usage of 5866 kwh during the 6-month period (November 2008 to April 2009), and PSE estimates reduced usage of 80 kwh during that period, or 1.36 percent of total usage. The equivalent estimated savings figure for natural gas was less than 1 percent of household usage.⁶ We recognize that small savings across a large number of households can aggregate to sizeable savings, but this is a rather expensive program, and PSE does have several other information and marketing efforts related to behavior change and low cost energy efficiency efforts. In our view it is appropriate to further examine whether this is an appropriate and best use of ratepayer funds.
- *Cost effectiveness.* At this time we do not yet know whether this pilot program is cost-effective. The mid-year evaluation included only a short paragraph on cost-effectiveness, and noted that the program is cost-effective “if savings estimates continue at their current level for a full-year.”⁷ Extrapolating the savings estimates beyond the 6-month analysis period does not seem appropriate, particularly since the period included the entire winter heating season (November 2008 to April 2009). Appendix C to the PSE filing shows a TRC for this program of .45, well below the 1.0 threshold. PSE has advised that is due in part to the fact that it reflects two years of expenses, but only one year of estimated savings. PSE has recently provided additional, confidential cost-effectiveness

⁵ “Positive Energy Program Evaluation: A Mid-Year Program Review,” August 2009, p. 4.

⁶ Total average household usage data was provided by PSE in response to Public Counsel questions to PSE. PSE indicated that participants had average gas usage of 694 therms during the six month period, and estimated savings of 6.8 therms ($6.8 / 694 = .98$ percent). PSE’s December 9, 2009 response to Public Counsel’s November 25, 2009 questions, p. 3 and p. 8.

⁷ “Positive Energy Program Evaluation: A Mid-Year Program Review,” August 2009, p. 8.

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information to Public Counsel, which we are examining.

- *Third party evaluation.* Given the unique nature of the program, and that it represents a departure from PSE's energy efficiency programs over the past several years, in our view it would be more appropriate for an outside, independent third-party evaluation of the program.

For these reasons, we do not believe PSE should plan to expand the pilot program beyond the initial 39,000 customers until a thorough evaluation has been conducted, and all findings and reports are shared with the CRAG. A major ramp-up of a pilot, prior to definitive and conclusive results that the program should be pursued, is not a prudent use of ratepayer funds. In addition, Appendix B should not include any savings associated with this program, since the CRAG has not yet approved such treatment.

Information-Only Programs

In addition to the \$2.2 million allocated for the Home Energy Report program, Appendix B to the EES filing indicates the company is planning to spend significant dollars on information programs. These include:

- \$4.5 million for Residential Energy Efficiency Information
- \$825,000 for Commercial Energy Efficiency Information
- \$145,000 for the Community Efficiency Manager
- \$596,000 for Energy Efficient (Green) Communities
- \$1.5 million for Mainstreaming Green

Altogether, these five line items associated with the programs amount to almost \$7.6 million. Additionally, PSE has \$2 million budgeted for its Energy Education program, which also has a small conservation savings measure associated with it. When the Energy Education program and the Home Energy Reports program are considered in the total, they amount to \$11.8 million.

These are all programs that have been presented individually at CRAG meetings in the past, but which deserve a close look in a more comprehensive fashion, as a part of the Staff investigation and with the CRAG. These efforts come with noteworthy costs, and uncertain benefits. Additionally, many of these budget items have increased significantly compared with PSE's previous filing for 2008-2009.

Increased Size And Scope of Energy Efficiency Portfolio

As part of our comments we did want to reflect and call attention to the significant increases in the size and scope of the EES portfolio over the last several years. For illustrative purposes, on a stand-alone basis, the \$2.2 million budget forecast related to the Home Energy Report pilot

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program is not an insubstantial amount, yet, this is only about one percent of PSE's proposed two-year, \$200 million budget. This proposal is more than PSE's currently pending general rate increase request (\$183 million combined for electric and gas) and, according to Staff's calculation, would be 3.9 percent of PSE's electric revenue in 2010 and 1.3 percent of PSE's 2010 natural gas revenue.

Since 2002-2003, PSE's annually restated budget proposals have increased by 344 percent for electric programs and 543 percent for natural gas programs.⁸ The 12-month restated budget in 2002-2003 for electric programs was \$18,790,000 and \$2,592,000 for natural gas programs. These increases are so substantial that in PSE's most recent proposed budget for the 2010-2011 period, two separate line items for PSE's electric conservation programs—Residential Single Family Existing (\$21,250,500 annualized) and Commercial/Industrial Retrofit (\$24,000,000 annualized)—each individually exceed the annualized electric conservation budget for *all* electric programs in the 2002-2003 period. The same applies for line items in the 2009-2010 natural gas conservation budget.

It is not questioned that PSE has increased its conservation targets and savings in the time that these budgets have so dramatically increased. However, the Company's efforts and success in implementing conservation programs does not mean that this filing should not be subject to a thoughtful and careful review of how all aspects of how these considerable number of ratepayer dollars are being used. And, particularly at a time when ratepayers are facing more economic challenges than in years past, it is our responsibility to ensure that they are not paying for programs or line items that have not been closely vetted.

Additional Concerns with PSE's Appendices to the Filing

While our comments today have focused on select issues in more detail, such as the Home Energy Report pilot and PSE's information and marketing expenses, there are additional issues that Public Counsel intends to seek additional information and clarification from PSE, as part of the Staff investigation and/or CRAG review. The list below is not exhaustive, but highlights some of these issues:

- *Program evaluation budget reduced, information removed from Appendix D.* The two year budget for program evaluation is reduced from \$2.4 million in 2008-2009 to \$1.9 million in the proposed 2010-2011 budget. Additionally, Appendix D to the filing, which is the Energy Efficiency Services Evaluation Plan, contains considerably less information than it did in the 2008-2009 filing.

⁸ The first filing of this nature, per the requirements of the Conservation Settlement Agreement in Docket Nos. UE-011570 and UG-011571, was only for 16 months of programs between September 2002 and December 2003. In January 2004, PSE's first full two year budget took effect. Therefore, for the sake of this comparison, it is necessary to restate the numbers on an annual basis. Please see Attachment 2 to these comments, which is a spreadsheet created by Public Counsel with a comparison of the as-filed (not actual) budget numbers.

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- *Gas conversion reflects electric savings but no increase in gas usage.* The budget for fuel conversion (electric to gas) is proposed at almost \$4.5 million. This is a sizeable program, and PSE has estimated electric savings, but no corresponding increases in gas consumption.
- *Possible need for review of all marketing-related efforts.* There are numerous programs that are aimed at marketing PSE's conservation programs, however, our understanding is that each program has built into its budget specific marketing costs. There are also several references to programs aimed at market research, evaluation, and transformation. These programs, how and whether they overlap, and their budgets should be carefully considered.
- *NEEA Funding has increased substantially.* In addition to the company specific market-research, there is a considerable increase to PSE's contribution to the Northwest Energy Efficiency Alliance (NEEA), which, among other things, focuses heavily on market transformation and research. In 2008-2009 PSE's contribution to NEEA was budgeted at \$4.2 million. For 2010-2011, it has more than doubled to \$9.25 million. We further understand that NEEA's organizational structure and oversight has recently changed, but do not yet know whether this will impact NEEA's focus or policies in any way.

Conclusion

Public Counsel believes a more thorough analysis and investigation of PSE's appendices to the filing are in order. We therefore support Staff's recommendation that the Commission allow the tariffs to take effect, and direct Staff to open an investigation of the program descriptions, budgets, cost-effectiveness, and evaluation plan documents filed by PSE as Appendices A, B, C, and D to the filing. PSE's conservation programs are simply not of the same size and scope as they were when the current method for evaluating this filing was crafted in the 2002 settlement, which did not contemplate the complexities associated with a conservation program of this magnitude. We look forward to working with the Company, Staff, and the CRAG to review this filing further through the Staff investigation and with the CRAG.

Stefanie Johnson will participate in the December 23rd, 2009, Open Meeting to address this matter for Public Counsel, either in person or via the conference bridge.

Sincerely,



Stefanie Johnson, Regulatory Analyst
Public Counsel

cc: Deborah Reynolds (e-mail)
Mike Parvinen (e-mail)
Anne Solwick (e-mail)
Cal Shirley, PSE (e-mail)
Dan Anderson, PSE (e-mail)

PSE EES Filings--Historical since 2002 Settlement Agreement

	2002-2003		2004-2005		2006-2007		2008-2009**		2010-2011	
	16 mos	1 year restated	2 year	1 year restated	2 year	1 year restated	2 year	1 year restated	2 year	1 year restated
Electric	\$ 25,053,759	\$ 18,790,319	\$ 44,257,000	\$ 22,128,500	\$ 59,079,000	\$ 29,539,500	\$ 119,500,000	\$ 59,750,000	\$ 166,810,000	\$ 83,405,000
Gas	\$ 3,455,441	\$ 2,591,581	\$ 9,106,000	\$ 4,553,000	\$ 12,202,000	\$ 6,101,000	\$ 25,268,000	\$ 12,634,000	\$ 33,350,000	\$ 16,675,000
Total	\$ 28,509,200	\$ 21,381,900	\$ 53,363,000	\$ 26,681,500	\$ 71,281,000	\$ 35,640,500	\$ 145,368,000	\$ 72,684,000	\$ 200,160,000	\$ 100,080,000

% increase over previous period**	Electric	18%		33%		102%	40%
	Gas	76%		34%		107%	32%

% increase since 2002-2003**	Electric	18%		57%		218%	344%
	Gas	76%		135%		388%	543%

Note: Restated amounts for all budget cycles after 2002-2003 were calculated by dividing the two year budget total by two (X/2). PSE's 2002-2003 budget only included 16 months from September 2002-December 2003. To calculate the 1 year restated amount for 2002-2003, the budget amount (x) was divided by 16, then multiplied by 12. [(X/16)*12]

*PSE's 2008-2009 budget included \$600,000 in shareholder contribution that was not allocated specifically to the electric or Gas budget
 **12 month restated amounts

Sources: UTC Staff Open Meeting Memo, Agenda Date: August 28, 2002, Docket Nos. UE-020997, UG-020998 and UE-021010;
 UTC Staff Open Meeting Memo, Agenda Date: December 10, 2003, Docket Nos. UE-031768 and UG-031769;
 PSE 2006-2007 EES Filing, Appendix B;
 PSE 2008-2009 EES Filing, Appendix B;
 PSE 2010-2011 EES Filing, Appendix B.