

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of Puget Sound Energy  
2014-2015 Biennial Conservation Report**

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**DOCKET UE-132043**

**In the Matter of Avista Corporation 2014-  
2015 Biennial Conservation Report**

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**DOCKET UE-132045**

**In the Matter of Pacific Power and Light  
Company 2014-2015 Biennial  
Conservation Report**

**DOCKET UE-132047**

**COMMISSION STAFF COMMENTS REGARDING  
ELECTRIC UTILITY CONSERVATION ACHIEVEMENTS UNDER  
THE ENERGY INDEPENDENCE ACT,  
RCW 19.285 and WAC 480-109  
(2014-2015 BIENNIAL CONSERVATION REPORTS)**

**JULY 21, 2016**

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## Executive Summary

In 2006, Washington voters approved Initiative 937, also known as the Energy Independence Act (EIA). Now codified in RCW 19.285 and Chapter 480-109 WAC, “qualifying” electric utilities — those with at least 25,000 customers in Washington — are mandated to set and meet energy conservation targets.<sup>1</sup> On December 19, 2013, the Washington Utilities and Transportation Commission (Commission) approved the 2014-2023 achievable conservation potential and 2014-2015 biennial conservation target, subject to conditions, for Puget Sound Energy (PSE) in docket UE-132043, Avista Corporation (Avista) in docket UE-132045, and Pacific Power and Light Company (Pacific Power) in docket UE-132047.

On May 31 and June 1, 2015, PSE, Avista, and Pacific Power timely filed their respective Biennial Conservation Reports (BCRs or Reports), regarding their 2014-2015 conservation targets with the Commission as required by law.<sup>2</sup> As detailed in Table 1 below, each utility achieved cost-effective conservation savings beyond their target.

**Table 1: Summary of Reported 2014-2015 Cost-Effective Savings**

	Base UTC Biennial Conservation Target (MWh) <sup>3</sup>	Reported Biennial Conservation Savings (MWh)	Reported Portfolio-Level Cost-effectiveness (TRC) <sup>4</sup>
PSE	485,770 <sup>5</sup>	552,596	1.6
Avista	65,131 <sup>6</sup>	70,693	1.7
Pacific Power	74,703	98,881	1.7

<sup>1</sup> RCW 19.285.030(19) (definition of “qualifying utility”); RCW 19.285.040(1)(b) (biennial conservation targets).

<sup>2</sup> RCW 19.285.070; WAC 480-109-120; initial orders in dockets UE-132043, UE-132045, and UE-132047.

<sup>3</sup> See dockets UE-132043, Order 01 ¶ 26; UE-132045, Order 01 ¶ 28; UE-132047, Order 01 ¶ 26. This target does not include any additional decoupling incremental conservation target commitments or excluded programs i.e. NEEA.

<sup>4</sup> WAC 480-109-100(10)(b) allows low-income conservation to be excluded from portfolio-level cost-effectiveness calculations. PSE and Avista include low-income in its calculations. Pacific Power excludes low-income from its calculations.

<sup>5</sup> Including decoupling, PSE’s target is 510,056 MWh.

<sup>6</sup> Including decoupling, Avista’s target is 68,388 MWh. Note that there is some discrepancy in the target reported by Avista and the target identified by Staff. In docket UE-140188, Order 05 ¶ 26 Avista’s target is 64,956 MWh plus 3,248 MWh for decoupling for a total target of 68,204 MWh. However, in docket UE-132045, Order 01 ¶ 28 and Order 02 ¶ 28 the approved target is 65,131 MWh. Under either target Avista meets its decoupling commitment. This discrepancy should be addressed in Avista’s petition on excess savings in docket UE-140188.

These are the first Reports to be filed since the Commission adopted new rules for EIA compliance in March 2015.<sup>7</sup> While these rules largely codified existing Commission conditions, notable changes to the reporting requirements in WAC 480-109-120(4) include the reporting of the portfolio-level cost-effectiveness of the actual electricity savings from conservation, an independent third-party evaluation of portfolio-level biennial conservation savings achievement, and a summary of the steps taken to adaptively manage conservation programs throughout the preceding two years.

The 2014-2015 BCRs are also the first opportunity for the utilities to claim excess conservation savings in accordance with the passage of HB 1643. RCW 19.285.040(1)(c)(i) allows that,

*beginning on January 1, 2014, cost-effective conservation achieved by a qualifying utility in excess of its biennial acquisition target may be used to help meet the immediately subsequent two biennial acquisition targets, such that no more than twenty percent of any biennial target may be met with excess conservation savings.*

The statute specifically addresses a utility's target, but does not consider any additional commitments the companies may have with the Commission. Both PSE and Avista currently have decoupling commitments that require them to achieve conservation five percent above that target.<sup>8</sup> Pacific Power has a pending request for decoupling treatment and may have a similar commitment in future biennia.<sup>9</sup>

Companies also achieve conservation savings from areas that are excluded from the Company-specific target, such as market transformation programs and pilots. The commission has relied on its standard practice for review and approval of investor-owned utility conservation targets, only holding companies responsible for the programs they directly implement.<sup>10</sup> The question of what constitutes excess savings and to which targets it can be applied will be examined in further detail in the next section.

Staff's review of the BCRs has focused on evaluating whether the companies met the reporting requirements outlined in RCW 19.285.070, WAC 480-109-040, the conditions set forth in the Order 01 in each respective docket, and whether the Company correctly reported its savings for the biennium.

In these comments, Staff will summarize each report, highlight key pieces of information, and identify lingering issues. Staff will also discuss some recent and anticipated changes in the rules, policies, and technologies affecting energy conservation in Washington. After reviewing amendments to the reports and the comments filed by other parties in this matter, Staff intends to present its final recommendations and proposed conditions for approval at the Commission's August 12, 2016, Recessed Open Meeting.

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<sup>7</sup> See Docket UE-131723, General Order R-578 (March 13, 2015). The new rule is codified in WAC 480-109.

<sup>8</sup> *In the Matter of the Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated with the Mechanisms*, Docket UE-121697, Order 07 (June 25, 2013) ¶ 108; *WUTC vs. Avista Corporation d/b/a Avista Utilities*, Docket UE-140188, Order 05 (November 25, 2014) ¶ 26.

<sup>9</sup> See docket UE-152253.

<sup>10</sup> RCW 19.285.040(f). NEEA has been excluded because the NEEA board has members from utilities outside the Commission's jurisdiction, whether in Washington or without.

## Focus Issues and Prudency

The ongoing conservation planning, reporting, and reviewing process developed for each utility's portfolio is effectively a prudency review. Throughout a biennial cycle, Staff ensures prudency related to conservation by reviewing several elements, including the proper establishment of conservation potential, whether programs are cost effective, reliable, and feasible, whether all reasonable measures were pursued, if appropriate public and stakeholder involvement was included in the process (advisory group review), and verification that programs were administered efficiently.

Details about individual Company programs will be discussed in following sections. This section provides a discussion of the areas of focus and common issues identified during Staff's review of each utility's BCR, including but not limited to:

- Treatment of Excess Savings.
- Single Large Facility Savings.
- Reporting of NEEA Savings to Commerce.
- Unit Energy Savings Values.
- Adaptive Management.
- Pilot Programs.
- Fuel Conversions.

### *Treatment of Excess Savings*

The 2014-2015 BCR is the first opportunity for the utilities to claim excess conservation savings in accordance with the passage of HB 1643.<sup>11</sup> A summary of the excess savings achieved from the 2014-2015 biennium, using the current approach to target calculation, is presented in Table 2. As in past biennia, it is important that the Commission identify the amount of savings achieved during the previous biennium, which should enable the identification of excess savings available for use in the future. However, because the amendment to the statute did not contemplate the Commission's standard practice of excluding certain elements, calculating excess savings poses two critical questions that the Commission must consider before settling on an appropriate method.

- Can excess savings be applied towards a Company's decoupling commitment?
- Should savings from the Northwest Energy Efficiency Alliance (NEEA) and other excluded programs be considered excess savings?

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<sup>11</sup> RCW 19.285.040(c)(i) "Except as provided in (c)(ii) and (iii) of this subsection, beginning on January 1, 2014, cost-effective conservation achieved by a qualifying utility in excess of its biennial acquisition target may be used to help meet the immediately subsequent two biennial acquisition targets, such that no more than twenty percent of any biennial target may be met with excess conservation savings."

**Table 2: 2014-2015 Excess Savings Achieved (MWh)**

	Biennial Conservation Target (Based on Commission Order)	Overall UTC Target (with Decoupling Commitment, without NEEA)	Full Target	Utility Program Savings	Total Utility Savings (including NEEA and Pilots)	Excess Savings
PSE	558,301 <sup>12</sup>	513,690	582,589	552,596	663,122	80,533
Avista	76,261 <sup>13</sup>	68,388	79,518	70,693	101,356	2,571
Pacific Power	89,016 <sup>14</sup>	74,703	89,016	98,881	111,160	22,144

Excess Savings and Decoupling Commitments: the Commission’s rule specifically addresses the utilities’ biennial conservation targets, but does not consider any additional conservation commitments the companies may have with the Commission. Staff does not think this particular issue was contemplated by the legislature, nor has the Commission had an opportunity to establish a position.

Currently, both PSE and Avista have agreed to decoupling commitments to achieve an additional five percent of conservation above the Company’s biennial conservation target.<sup>15</sup> In Pacific Power’s most current rate case, the Company has requested a decoupling mechanism which, based on the PSE and Avista models, will likely result in an additional conservation decoupling commitment if the decoupling mechanism is approved.<sup>16</sup>

To avoid double counting, Staff maintains that utilities may apply each verified MWh of conservation acquired in excess of the target to meet biennial conservation requirements related to either the decoupling target or to a target shortfall in one of the subsequent two biennia, but that utilities may not use the same MWh of conservation to comply with multiple targets.

There is some question as to whether the excess savings may be used towards meeting the additional conservation decoupling commitment with the Commission. Staff believes that excess savings may be used to meet decoupling commitment shortfalls in future biennia. A decoupling

<sup>12</sup> See docket UE-132043, Order 01 ¶ 5; the full Biennial Conservation Target includes the savings from End-Use Efficiency Measures (551,880), and Existing Home Energy Reports (6,421). No potential savings have been excluded.

<sup>13</sup> See docket UE-132045, Order 01 ¶ 5 and ¶ 9; the full Biennial Conservation Target includes the savings from End-Use Efficiency Measures (67,137), Distribution Efficiency (2,061), Generation Efficiency (163), and Home Energy Reports (6,900). No potential savings have been excluded.

<sup>14</sup> See docket UE-132047, Order 01 ¶ 5; the full Biennial Conservation Target includes the savings from End-Use Efficiency Measures (89,016). No potential savings have been excluded.

<sup>15</sup> *In the Matter of the Petition of Puget Sound Energy, Inc. and Northwest Energy Coalition For an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated with the Mechanisms*, Docket UE-121697, Order 07 (June 25, 2013) ¶ 108; *WUTC vs. Avista Corporation d/b/a Avista Utilities*, Docket UE-140188, Order 05 (November 25, 2014) ¶ 26.

<sup>16</sup> See docket UE-152253.

commitment asks a utility to go above-and-beyond its achievable biennial potential to realize future savings now, and Staff believes that the Company should not be penalized if it falls short in a future biennium because of its prior success. Additionally, while the legislature did not appear to consider decoupling, the passage of HB 1643 indicates general approval that excess conservation should be available to mitigate any future shortfalls that occur despite the pursuit of all available conservation.

Staff's suggested method for calculating excess savings is detailed in Attachment 1. The target approved by the Commission in the utility's Biennial Conservation Plans (its Base UTC Target) remains the penalizable amount under the EIA. The Overall UTC Target would include the addition to the Base UTC Target of any decoupling commitment, which is penalizable under the Commission's orders.

In order to achieve clear guidance from the Commission about implementation of this new law, Staff recommends that each Company file a petition with the Commission in its respective decoupling docket. The petition should further request clarification that any penalty for missing a decoupling commitment would be calculated in the companies' respective Biennial Conservation Plan (BCP) dockets.

Excess Savings and Excluded Savings: NEEA savings are currently held separate from target setting and reporting under the Commission's standard practice of only holding the utility accountable for programs it directly controls. Staff has not considered these savings to be excess. This is because when a utility foregoes the risk of an EIA penalty due to a NEEA shortfall, it should also forego the benefit of using NEEA savings to meet its target, current or future. This would hold true for other programs withheld from the target setting process. However, this practice removes benefits that have already been purchased by ratepayers, because the costs associated with NEEA are recovered from customers through the conservation cost recovery tariffs. Further, it artificially lowers the companies' achievement reported on a statewide basis.

For the purposes of calculating excess savings, each utility could report a target that includes all potential savings, as well as any decoupling commitment (Full Target). This target could then be compared with an achieved savings amount that includes all savings achieved by the utility, no matter the path to achievement (Total Savings Achieved). Detailed calculations are contained in Attachment 1. Staff points out that this approach is quite different from our past practice and welcomes stakeholder feedback moving forward.

### *Single Large Facility Savings*

Single large facility conservation savings are treated separately than other cost-effective conservation under the law.<sup>17</sup> Beginning in January 2014, single large-facility conservation savings in excess of a utility's biennial target can be used to meet up to five percent of

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<sup>17</sup>RCW 19.285.040(c)(i); WAC 480-109-160(28) defines "Single large facility conservation savings" as cost-effective conservation savings achieved in a single biennial period at the premises of a single customer of a utility whose recent annual electricity consumption prior to the conservation savings exceeded five average megawatts.



subsequent target shortfalls, in addition to the twenty percent that can be met with standard excess savings.<sup>18</sup> No utility is separately reporting these large facility savings at this time.

Of all the facilities that may potentially qualify under single large facility savings, there are approximately twenty in PSE's service territory (seven of the twenty are currently not included in the conservation rider), seven in Avista's service territory, and one in Pacific Power's service territory. These facilities represent at least 105 aMW of total consumption. The savings potential at these facilities is unknown, but conceivably significant.

Staff encourages utilities to pursue these potential savings, and recommends that any program engagement with a potentially qualifying single large-facility customer be discussed with the utility's advisory group early in the process. In addition, Staff requests that with its next business plan update each utility include an analysis of the savings potential of large facilities in its service territory.

When single large facility savings are achieved, they must be clearly reported as "single large facility savings." When excess savings are earned at the end of a biennium, the utility should classify the quantity of single large facility savings that will be used to meet the target and how much will be held for future shortfalls.

### *Reporting NEEA Savings to Commerce*

All three utilities fund and actively collaborate with NEEA, a regional market transformation organization. NEEA continues to improve the cost-effectiveness of companies' overall portfolios by leveraging regional market power and creating economies of scale to achieve co-created energy efficiency savings.<sup>19</sup>

PSE, Avista, and Pacific Power collaborated to develop a consistent approach for the treatment of NEEA savings beginning in the 2014-2015 biennium.<sup>20</sup> As a result of that collaboration, the companies agreed to fund NEEA and report the amount of savings achieved to the Commission separately from the biennial conservation target. NEEA savings are neither used when utilities are setting their target nor applied toward meeting their target.

In addition to BCRs filed with the Commission, utilities must concurrently submit conservation reports to the Washington Department of Commerce (Commerce).<sup>21</sup> The form provided for these reports is unclear as to where investor-owned utilities should report NEEA savings. As a result, utilities were inconsistent with including or excluding NEEA savings in the Achievement field of the Commerce Energy Independence Act (I-937) Report Workbook.

Each utility provided an appropriate and thorough narrative on the way they fit their more complicated target-setting and reporting processes into the Commerce form. However, Staff requests that the utilities work with Staff to determine a uniform approach to completing the form and update the Commerce filings before Staff recommends issuing orders in these dockets. Staff suggests that the investor-owned utilities should remain consistent with the public utilities

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<sup>18</sup> WAC 480-109-100(3)(c)(ii).

<sup>19</sup> Formerly known as net market effects.

<sup>20</sup> See Dockets UE-100170, UE-100176, and UE-100177 Joint Proposal for Consistent Approach to Northwest Energy Efficiency Alliance (NEEA) Claimed Conservation Savings (October 31, 2012).

<sup>21</sup> WAC 480-109-120(3)(c)

in the Commerce reports. This means that companies would report a full target, without any excluded potential, and the total savings achieved from all sources. The target approved by the Commission, as well as any decoupling commitment, should be detailed in the notes of the report.

### *Unit Energy Savings Values*

The Commission has directed the utilities to use the unit energy savings (UES) values that the Northwest Power and Conservation Council's Regional Technical Forum (RTF) calculates for each measure, where they exist and are appropriate, unless the utility has more appropriate data that specifically reflects its service territory. However, the utilities vary in how frequently they update their assumptions to reflect current RTF practice. Pacific Power and Avista update every other year when preparing their next biennial target; this allows the utilities to use the same value when setting their target and measuring whether it was met ("locked UES"). PSE voluntarily updates UES values every year ("floating UES").

Staff has previously recognized that floating UES values may increase a Company's risk of not meeting its target.<sup>22</sup> Indeed, Staff has recommended utilities be allowed to claim savings using locked UES values under the agreement that, in the 2014-2015 BCRs, utilities that use locked values would present savings using both locked and floating UES values. Such a presentation would enable Staff and the Commission to evaluate the actual risk associated with requiring annual updates to UES values. Pacific Power was the only Company to provide such an analysis in its 2014-2015 BCR.<sup>23</sup> Out of the total savings Pacific Power claimed toward the Biennial Conservation target, 3.3 percent came from using the floating UES values. This amount would not affect whether Pacific Power met its target.

Although Avista failed to provide the Commission with an analysis of reported savings using locked versus floating UES values, the need for such an analysis has been eliminated. In the target-setting process for the 2016-2017 BCP, Avista agreed to update its UES values annually. If a company voluntarily agrees to update UES values annually, Staff will not object. Staff interprets such a position by a company to mean that it has assessed the actual risk to be low, and that annual updates to UES values promote effective portfolio management. As a result, a company would then focus on the most efficient measures while culling those that are beginning to perform poorly with respect to baseline equipment.

Staff finds that while using floating UES values does impose some risk of the utility not meeting its target, this risk is small and can be mitigated through active portfolio management. In addition, the new provision to use excess savings from previous biennium to meet shortfalls

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<sup>22</sup> Most commonly, UES values degrade over time as the result of continuous improvement of the baseline efficiency of installed equipment. Consequently, annual updates of UES values will typically disadvantage companies because the UES values used for claiming savings would be less than the UES value used for setting the biennial targets.

<sup>23</sup> PSE was not expected to present such an analysis as the Company already voluntarily updates its UES values annually. Pacific Power's savings analysis replicated PSE's method of updating UES values once during the biennial period, effective January 1<sup>st</sup> of the second year based on updated information available by October 1<sup>st</sup> of the first year.

provides a layer of insurance for any utility that has been proactively updating UES values. Staff recommends that by the 2018-2019 biennium, every utility update their UES values at least once a year..

### *Adaptive Management*

One of the key indicators that a Company is actively “pursu[ing] all conservation that is cost-effective, reliable and feasible”<sup>24</sup> is the extent to which each Company is adaptively managing conservation programs and portfolios. This should include continuing cost-effective programs, discontinuing programs that have been shown to no longer be cost-effective, and exploring potential new programs or technologies. Accordingly, and as required by rule,<sup>25</sup> each Company was obligated to include a summary in its BCR of the steps taken to adaptively manage conservation programs throughout the preceding two years.<sup>26</sup>

PSE summarized that it added new measures, adjusted incentives according to key market drivers, improved internal and customer-facing operational efficiencies, streamlined rebate and grant application processes, provided customers with actionable information, and maximized customer outreach in the 2014-2015 biennium. Two tables are included in its Report that highlight particular initiatives from the 2014 and 2015 program years with references to details contained in the Company’s annual conservation reports.

In Avista’s BCR, the adaptive management summary highlights a department reorganization that occurred early in the biennium. Avista identifies a number of pilot programs and new technologies that it adopted during the biennium or ruled out as likely not cost-effective. In 2015, Avista began a small business audit and direct-install program to overcome barriers in reaching these customers. Additionally, Avista has identified the growth in the marijuana industry as a potential source of savings and has taken steps to actively engage with producers.

Pacific Power did not include a summary of its adaptive management in its initial BCR filing. Staff has discussed this oversight with the utility, which has agreed to file a revised BCR shortly. Even without the summary, Staff has been able to identify instances of adaptive management at Pacific Power over the biennium, such as discontinuing the refrigerator recycling program when it was no longer cost-effective and actively working with the program vendor to expand its home energy reporting program.

Demonstrating appropriate adaptive management is crucial to demonstrating prudence in conservation programs. Staff suggests that the summary of the steps taken to adaptively manage programs deserves greater prominence in all three future BCRs, ideally including both the general process of adaptive management within a program and specific examples that highlight how well the process is working.

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<sup>24</sup> WAC 480-109-100(1)(a)

<sup>25</sup> WAC 480-109-120(4)(vi)

<sup>26</sup> WAC 480-109-100(1)(iv) “Continuously review and update as appropriate the conservation portfolio to adapt to changing market conditions and developing technologies, and assess the potential of such technologies for implementation in its service territory.”

### *Pilot Programs*

Order 01 of each utility's respective conservation docket authorized it to spend up to 10 percent of its conservation program budget on educational and pilot programs "whose savings impact has not yet been measured."<sup>27</sup> The language in the new rules is stronger, requiring that utilities "must implement pilot projects when appropriate and expected to produce cost-effective savings within the current or immediately subsequent biennium."<sup>28</sup>

In the 2014-2015 biennium, none of the utilities had notable pilot programs. Staff is disappointed in the percent of the conservation budget reported as allocated to pilot programs in this biennium, with no utility reaching even one percent. In addition, a significant portion of this limited budget went toward programs that were expansions of existing programs and, as such, were only tenuously categorized as pilot programs.

Staff expects to see the utilities, in cooperation with their advisory groups, meaningfully expand their pilot offerings during the 2016-2017 biennium.

### Fuel Conversions

PSE included electric to natural gas water heater and furnace savings in both its BCP target and as part of its savings claimed in its BCR. PSE only provides incentives when a customer converts to high-efficiency appliances.

Avista provides incentives when a customer converts to standard or high efficiency natural gas appliances and thus excludes fuel conversions from both its BCP and BCR. The method of calculating these savings has been approved by each utility's respective advisory groups.

Staff does not have any recommendations regarding fuel conversions at this time but simply wishes to call attention to the varying ways the utilities are handling fuel conversions.

## Company Reports and Achievements

### *Puget Sound Energy (Docket UE-132043)*

#### Conservation Target and Achievement

In Order 01 of UE-132043, the Commission approved a 2014-2015 biennial conservation target of 485,770 megawatt-hours (MWh) for PSE. The Company reports that it exceeded this target, achieving 552,596 MWh. The Company spent about \$190 million, which is less than two percent more than the \$188 million budget the Commission approved. When including NEEA and pilot programs, the Company's total conservation achievement increases to 663,123 MWh. The total portfolio cost-effectiveness is 1.6.<sup>29</sup> A summary of PSE's reported savings and expenses follows:

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<sup>27</sup> See dockets UE-132043, Order 01 Attachment A ¶ 7; UE-132045, Order 01 Attachment A ¶ 7; UE-132047, Order 01 Attachment A ¶ 7.

<sup>28</sup> WAC 480-109-100(1)(c).

<sup>29</sup> Under the Northwest Power and Conservation Council method, a portfolio is considered cost-effective when the benefit-to-cost ratio, using the Total Resource Cost (TRC) test, is greater than one.

**Table 3: Summary of PSE's 2014-2015 Conservation Achievements<sup>30</sup>**

	Target <sup>31</sup>	Actual	Actual/Target Percentage
Savings (MWh)	485,770 MWh	552,596 MWh	114%
Savings (average MW)	55.5 aMW	63.1 aMW	
Expenditures	\$187,646,000	\$190,098,000	101%

The following table breaks down PSE's conservation achievement by program or sector, providing a comparison of the cost-effectiveness of the programs within the various sectors. Staff is impressed by the low-income conservation cost-effectiveness ratio of 1.1, an outlier among the companies.

**Table 4: PSE's 2014-2015 Conservation Achievements by Program**

Program	Anticipated Savings (MWh)	Actual Savings (MWh)	Budget	Expenditures	TRC
Residential	260,790	282,555	\$85,520,500	\$93,558,362	1.6 <sup>32</sup>
Commercial and Industrial	243,130	265,039	\$68,415,000	\$67,039,006	1.6
Distribution system	6,200	1,495	\$0	\$0	-
Low Income	3,140	3,505	\$6,198,000	\$6,336,329	1.1
Pilots	35,330	18,897	\$2,870,000	\$1,627,149	1.9
NEEA	72,530	91,630	\$10,521,000	\$7,137,633	3.9

<sup>30</sup> Excluding NEEA savings and savings from pilots.

<sup>31</sup> When including the 5% decoupling commitment, PSE's 2014-2015 biennial target is 513,690. *WUTC vs. Puget Sound Energy*, Docket UE-132043, Order 03 (September 11, 2014) ¶ 22.

<sup>32</sup> PSE includes low-income programs in its Residential Program reporting.

Third Party Verification

PSE contracted with SBW Consulting, Inc. (SBW) to review the Company’s conservation programs and verify its claimed savings in the Biennial Electric Conservation Achievement Review. Evergreen Economics, Inc. assisted as a subcontractor. Generally, SBW found that PSE has employed solid practices in tracking and measuring the achievements of its conservation programs.

SBW found that the Company accurately reflected PSE-listed savings, selected and used the correct UES values, and appropriately responded to recommendations from the previous consultant review. SBW and the Company quickly resolved the few minor issues that were identified.<sup>33</sup> It is Staff’s opinion that both SBW and the Company performed professionally, and competently worked through issues and problems that developed during the course of the biennium.

Reporting Requirements

Staff has not identified any instances where PSE failed to meet the reporting requirements laid out in Order 01 of docket UE-132043, RCW 19.285.070, and WAC 480-109-120(4).

*Avista (Docket UE-132045)*

Conservation Target and Achievement

In Order 01 of UE-132045, the Commission approved a 2014-2015 biennial conservation target of 64,956 MWh for Avista. The Company reports that it exceeded this target, achieving 70,693 MWh. The Company spent about \$23 million, which is four percent more than the \$22 million budget the Commission approved. When including NEEA savings, the Company’s total conservation achievement increases to 101,356 MWh. The total portfolio cost-effectiveness is 1.5. The following table provides a summary of Avista’s reported savings and expenses:

**Table 5: Summary of Avista’s 2014-2015 Conservation Achievements<sup>34</sup>**

	Target <sup>35</sup>	Actual	Actual/ Target Percentage
Savings (MWh)	64,956	70,693	109%
Savings (average MW)	7.42	8.07	
Expenditures	\$22,107,759	\$23,076,191	104%

<sup>33</sup> PSE 2014-2015 BECAR Final Report page ES-3.

<sup>34</sup> Excluding NEEA savings.

<sup>35</sup> When including the 5% decoupling commitment, Avista’s 2014-2015 biennial target is 68,204. *WUTC vs. Avista Corporation d/b/a Avista Utilities*, Docket UE-140188, Order 05 (November 25, 2014) ¶ 26.

The following table breaks down Avista's conservation achievement by program or sector, providing a comparison of cost-effectiveness between the various elements of the program.

**Table 6: Avista's's 2014-2015 Conservation Achievements by Program**

Program	Anticipated Savings (MWh)	Actual Savings (MWh)	Budget	Expenditures	TRC <sup>36</sup>
Residential (not including Low Income)	32,045	41,794	\$6,548,519	\$7,500,853	1.0
Low Income	2,989	1,488	\$4,011,742	\$3,044,737	0.9
Commercial and Industrial	41,375	35,330	\$7,775,657	\$9,764,893	2.4
Distribution	2,061	1,513	-	\$1,619,300	-
Generation Facilities	163	249	-	\$282,074	-
Pilots	1,410	29	\$253,700	\$ 4,891	0.9
NEEA	29,000	30,397	\$2,848,650	\$2,760,816	-

### Third Party Verification

Avista contracted with Nexant to review the Company's conservation programs and verify its claimed savings. Although Nexant discovered that the realization rate of some measures was not always consistent with expectations (with some measures underperforming relative to expectations and others over-performing), on balance Nexant found that the performance of Avista's portfolio was consistent with expected savings. Unverified savings for the biennium derived from locked UES values was 70,693 MWh, while evaluated, verified savings (with adjusted UES values) was 70,961 MWh. Staff accepts the values derived from the locked UES values, consistent with the Commission's order.

Although Nexant uncovered no serious infirmities during the review of Avista's conservation programs over the biennium, Staff wishes to raise two issues specific to Avista: 1) confusion over the appropriate UES values used for claiming savings; and, 2) the Opower interruption.

<sup>36</sup> Cost-effectiveness was not provided for every program.

### Confusion over the appropriate UES values used for claiming savings

In its BCR, Avista requested permission to claim only the savings reported by third party evaluator, Nexant, toward its target. In other words, Avista requested to abandon its position with regard to using locked UES values for reporting savings this biennium. In abandoning that position (which is memorialized in multiple documents entered into the record during the target-setting process)<sup>37</sup>, however, Avista does not propose to supplant the locked UES values with updated UES values provided by the Council's Regional Technical Forum (RTF), or other UES values updated using data specific to Avista's service territory and vetted through the Advisory Group process. Rather, Avista proposes to disregard all UES values previously identified by the RTF and previously vetted by the Advisory Group in favor of a single consultant's evaluation of Avista's portfolio.

As a result of discussions with Staff subsequent to the filing of its BCR, Avista has agreed to claim savings for this biennium consistent with its prior request to use locked UES values. Additionally, Avista has agreed, voluntarily, to claim savings using annually updated UES values for future biennia. As such, there is no issue with Avista's claimed savings that requires additional Commission intervention at this time.

As part of the annual update to its 2016-2017 BCP, Staff recommends the Commission direct Avista to review the legal framework within which it operates its conservation programs, including those Commission orders and associated conditions lists further clarifying this framework. Avista must provide a presentation on this subject to its board, and include such documentation in the annual update. It would be helpful if the board's response is also provided.

### Opower Interruption

Between February and August, 2015, an error associated with the launch of Avista's new customer care and billing system caused a six-month lapse in customers receiving Home Energy Reports from Opower. This issue has been discussed in great detail (and largely resolved) elsewhere, and so Staff will not belabor the issue here, except to note: 1) savings have been properly reported in Avista's BCR; and, 2) the program continues to generate substantial savings.

As Nexant describes in its evaluation report, savings did not significantly decline during or after the lapse. Further, to the extent that savings were impacted by the lapse in report mailings, a decline in savings would be captured in the billing analysis and would be netted out of total savings. Importantly, the lapse happened in the second year of the biennium. This means that savings are reported for 2014 and *net* savings are reported for the second year. Accordingly, if savings had decreased in 2015, the net savings (relative to 2014) would have been negative and overall savings claimed for EIA compliance would also have been reduced. Staff is not concerned with the Opower savings Avista is claiming in its BCR, nor is it concerned that the six-month lapse will have serious negative impacts on the program going forward.

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<sup>37</sup> For example, see docket UE-132045, Biennial Conservation Plan of Avista Corporation, Appendix C – Fixed UES List for 2014-2015.



Reporting Requirements

Staff has not identified any instance where Avista failed to meet the reporting requirements laid out in Order 01 of docket UE-132045, RCW 19.285.070, and WAC 480-109-120(4).

*Pacific Power & Light Company (Docket UE-132047)*

Conservation Target and Achievement

In Order 01 of UE-132047, the Commission approved a 2014-2015 biennial conservation target of 74,703 megawatt-hours (MWh) for Pacific Power. The Company reports that it exceeded this target, achieving 98,881 MWh. The Company spent about \$20.8 million, which is about three percent more than the \$20.2 million budget the Commission approved. When including NEEA savings, the values increase to total conservation savings of 111,160 MWh and expenditures of \$22,888,355. The total portfolio cost-effectiveness, including NEEA, is 1.7. A summary of Pacific Power's reported savings and expenses follows:

**Table 7: Summary of Pacific Power's 2014-2015 Conservation Achievements<sup>38</sup>**

	Target	Actual	Actual/Target Percentage
<b>Savings (MWh)</b>	74,703	98,881	132%
<b>Savings (average MW)</b>	8.528	11.288	
<b>Expenditures</b>	\$20,242,600	\$20,829,232	103%

As demonstrated in the following table, Pacific Power's performance at the program or sector level kept close to the planned level of both budget and savings. The major exception to this is in the agricultural sector, where the Company spent six times more than planned but achieved eight times the savings.

<sup>38</sup> Excluding NEEA savings and savings from pilots.

**Table 8: Pacific Power’s 2014-2015 Conservation Achievements by Program**

Program	Anticipated Savings (MWh)	Actual Savings (MWh)	Budget	Expenditures	TRC <sup>39</sup>
Residential (not including Low Income)	43,199	44,553	\$5,647,963	\$5,778,955	2.2
Commercial	23,799	24,493	\$5,208,810	\$6,028,463	1.7
Industrial	25,467	27,173	\$5,617,240	\$5,185,203	
Agricultural	291	2,331	\$63,533	\$390,775	
Production system	16	2	\$2,947	\$3,357	5.5
Low Income <sup>40</sup>	330	330	\$1,800,000	\$1,557,035	0.7
Pilots <sup>41</sup>	-	-	\$119,000	\$119,690	-
NEEA	14,313	12,277	\$2,131,177	\$2,059,123	-

Pacific Power’s refrigerator recycling program, known as “See ya later, refrigerator,” ended sooner than anticipated when the Company was notified by the program administrator that they had gone out of business. While the utility had been planning to cancel the program at the beginning of 2016, this November 2015 abrupt halt impacted 29 Washington customers. After notifying the DSM Advisory Group, Pacific Power engaged a provider through an expedited process. This provider began providing outreach to customers who had scheduled pick-ups that had been cancelled in January 2016.

Staff commends Pacific Power for its prompt response to this challenging situation. It appears that all appropriate steps were taken to ensure customer satisfaction in an expiring program.

<sup>39</sup> Program level cost-effectiveness values for the 2014-2015 biennium provided via email by Kaley McNay on July 18, 2016.

<sup>40</sup> The TRC of 0.7 for Pacific Power’s low income program is for 2015 only. In 2014, the low income program had a TRC of 1.1.

<sup>41</sup> The savings impact from Pacific Power’s only pilot program “Be wattsmart, Begin at Home” was not measured or reported. This program provides energy efficiency education in schools and the impact would be difficult to measure.

### Third Party Verification

Pacific Power contracted with SBW to review the Company's conservation programs and verify its claimed savings. DNV GL assisted as a subcontractor. Generally, SBW found that Pacific Power has employed solid practices in tracking and measuring the achievements of its conservation programs.

Following previous recommendations, the consultant reviewed the Company's new, web-based system for tracking its conservation programs, DSM Central (DSMC). SBW found that, overall, Pacific Power's tracking and reporting procedures are in line with best practices, aided by DSMC.

During an onsite inspection, SBW observed that operation hours on a lighting measure were incorrect. An always-on value (8,064 hours) had been applied when the affected light fixtures were actually in use only 10 hours per day 5 days per week. The correction of operating hours for this project resulted in reduced claimed savings of 13,639 kWh. This example reinforces support for onsite evaluations as an important component of program reviews.

While SBW states that it is "not critical to confirming proper measure implementation or assessing program cost-effectiveness," Staff deems the recommendation that Pacific Power consider assigning a measure-life to all active measures to be sound and encourages its implementation.

### Reporting Requirements

These are the first BCRs to be filed since the Commission adopted new rules for EIA enforcement.<sup>42</sup> Pacific Power included a "2014-2015 Plan Condition Requirements and Compliance" checklist in Appendix 1 of their BCR detailing their compliance with Order 01 and WAC 480-109, but the March 2015 updates to the rule were not included in this list. While most of the changes to the rule were previously incorporated in Pacific Power's conditions list to Order 01, one was not.

The only reporting requirement that Staff finds missing from the BCR is a summary of the steps taken to adaptively manage conservation programs throughout the preceding two years. Through participation in the DSM Advisory Group, Staff has witnessed the Company adaptively manage the program and is confident that, at least to some degree, adaptive management is occurring. For example, Pacific Power expanded the Home Energy Reports program in mid 2014, and changed the focus of its lighting program from CFLs to LEDs. However, to be in compliance with the reporting requirements, Pacific Power must file this summary with the Commission. Staff has requested this section be filed in an update to the BCR, but has yet to receive the summary. No order should be issued until this deficiency has been corrected.

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<sup>42</sup> See Docket UE-131723, General Order R-578 (March 13, 2015). The new rule is codified in WAC 480-109.

## Issues for Further Consideration

### *Quantified Health Benefits of Emission Reduction*

The EIA requires the inclusion of quantifiable environmental costs and benefits when calculating cost-effective conservation.<sup>43</sup> The Commission has made clear that it prefers a properly balanced total resource cost test.<sup>44</sup> As such, when a benefit is identified as quantifiable, it should be included in a utility's calculations of cost-effective conservation.

Specifically, Staff believes that the health benefits of reduced particulate matter emissions (PM<sub>2.5</sub>) are a quantifiable benefit of energy efficiency measures. Reduction of these particulate emissions occur in two ways. Particulate emissions are reduced when a specific measure reduces reliance on a customer's use of combustion technology, e.g., wood stove heat or an oil/gas fired-furnace or boiler. In addition, because energy efficiency measures reduce load, particulate emissions are simultaneously reduced from the system of utility-scale combustion-based electric generators.

In its December 18, 2015, comments on the Northwest Power and Conservation Council's (Council) Draft Seventh Power Plan, the Commission identified the health benefits of reduced emissions as proven and stated that including the financial health benefits of reduced PM<sub>2.5</sub> emissions is called for by the EIA.<sup>45</sup>

Staff encourages the utilities to work together with Staff to begin including these quantifiable benefits in future conservation calculations at both the measure and system levels.

### *Other Upcoming Issues*

The energy efficiency industry, like the energy industry in general, is rapidly evolving. In addition to changing technologies, evolving policy trends, and innovations in energy efficiency, the Council released its 7th Power Plan on February 10, 2016. Utilities are required by statute to follow methodologies consistent with the Council's most recent plan.<sup>46</sup> Staff has also identified some further issues that should be kept in mind going forward. These include, but are not limited to: adaptive management, real-time monitoring, treatment of non-traditional conservation, and equity in energy efficiency programs.

Adaptive Management: First, Staff reiterates the importance of adaptive management in the quest to pursue all cost-effective energy efficiency. Staff expects, and the law requires, that utilities continuously review market conditions, research emerging technologies, and implement promising pilot programs. Companies must explore new programs and technologies through a variety of mechanisms, including pilots and participation in research projects and organizations.

Real-time Monitoring: Due to technological and software improvements, it is possible for utilities to reduce measure and savings evaluation costs, and possibly improve the accuracy of its

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<sup>43</sup> RCW 19.285.030(6). Cost-effectiveness is defined at RCW 80.52.030 and include system costs and quantifiable environmental costs and benefits.

<sup>44</sup> UG-121207, Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs.

<sup>45</sup> Commission comment for the Draft 7<sup>th</sup> Power Plan, December 18, 2015, available at <https://www.nwcouncil.org/energy/powerplan/7/draftplan/comments/view?id=1862>.

<sup>46</sup> RCW 19.285.040

efficiency savings. Through billing analysis, sub-metering and sensors, and advanced metering infrastructure, utilities can gain access to near real-time impact of both measure and contractor performance.

Staff encourages each utility to begin exploring a pilot for real-time monitoring and evaluation. A good first step is to bring the issue forward to the advisory groups, and identify the challenges and opportunities within the energy efficiency programs.

Solar applications: While not traditional energy efficiency measures, some “direct application renewables” are considered in the Council’s 7th Power Plan as potential conservation resources.<sup>47</sup> Solar water heaters are directly included in the residential conservation supply curves, and the Plan further considers distributed solar photovoltaics (PV). The Council finds that “when deployed as a rooftop application, it (PV) typically reduces site electricity consumption more than it adds to grid generation, thus making it appear much like a conservation measure.”<sup>48</sup>

Treating PV as a conservation resource may be in conflict with the Commission’s definition of conservation as “*any reduction in electric power consumption* resulting from increases in the efficiency of energy use, production, or distribution.”<sup>49</sup> Staff believes this is an issue that requires further consideration by the Commission before utilities implement the methodology.

Equal Access to Conservation: The issue of equity in energy efficiency programs is about more than fairness. If certain populations are being consistently underserved, then potential savings are being left on the table. Staff encourages utilities to identify and pursue portions of the population their programs may not be sufficiently serving.

## Summary

Staff will review stakeholder comments and provide a recommendation as to whether the Commission should:

1. Accept that PSE, Avista, and Pacific Power complied with the conditions of their respective orders (Order 01 in Docket UE-132043, Order 01 in Docket UE-132045, and Order 01 in Docket UE-132047),
2. Are in compliance with the reporting requirements of WAC 480-109-120 and RCW 19.285.070 in their biennial conservation reports, and
3. Issue an order finding that the companies met their biennial conservation targets at the August 12, 2016, recessed open meeting.

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<sup>47</sup> Seventh Northwest Power Plan, Northwest Power and Conservation Council, Chapter 12 pg. 52 (Feb. 2016), available at <http://www.nwcouncil.org/energy/powerplan/7/plan/>.

<sup>48</sup> Seventh Northwest Power Plan, Northwest Power and Conservation Council, Chapter 12 pg. 52 (Feb. 2016), available at <http://www.nwcouncil.org/energy/powerplan/7/plan/>.

<sup>49</sup> *In the Matter of Petition of Puget Sound Energy, Inc., for a Declaratory Order on the Meaning of “Conservation” in Chapter 19.285 RCW*, Docket U-121165, Order 01 ¶ 12.

## Attachment: Recommended Treatment of Excess Conservation

### Glossary for Excess Conservation Examples

**Biennial Conservation Target** All available conservation that is cost-effective, reliable, and feasible. No less than the pro rata share of the ten year potential, at least 20%.

**Excluded Potential** Potential savings which are speculative in nature and excluded from Base UTC Target i.e. NEEA or pilot programs.

**Base UTC Target** The Energy Independence Act biennial conservation plan (BCP) energy savings targets approved by the UTC. Generally, the Biennial Conservation Target minus any excluded potential.

**Decoupling Commitment** Additional percent of Base UTC Target required per Commission order. Currently 5% for PSE and Avista.

**Overall UTC Target** Base UTC Target plus Decoupling Commitment.

**Full Target** Biennial Conservation Target plus decoupling commitment. This is the "Target" reported to Commerce.

**Utility Program Savings Achieved** Energy Efficiency savings resulting from Utility Programs.

**Single Large Facility Savings Achieved** Energy Efficiency savings as defined in WAC 480-109-060(26).

**Total Utility Savings Achieved** Utility Program Savings Achieved plus Single Large Facility Savings Achieved.  
**NEEA and Other Savings Achieved** Any savings that result from programs excluded in the Base UTC Target calculation.

**Total Savings Achieved** Total Utility Savings Achieved plus NEEA and Other Savings Achieved.

**Excess Savings Earned** Total Savings Achieved minus the Full Target.

Example Excess Conservation Calculations (MWh)

<p><b>Biennial Conservation Target</b>                  All available conservation that is cost-effective, reliable, and feasible. No less than the pro rata share of the ten year potential, at least 20%.</p>	<p><b>Excluded Potential</b>                  NEEA, pilots. (Potential savings which are speculative in nature are excluded from eligibility for penalty under the Commission's standard practice.)</p>	<p><b>Base UTC Target</b>                  The Energy Independence Act biennial conservation plan (BCP) energy savings targets approved by the UTC.</p>	<p><b>Decoupling Commitment</b>                  Additional percent of Base UTC Target required per Commission order.</p>	<p><b>Full Target</b>                  Biennial Conservation Target plus decoupling commitment. This is the "Target" reported to Commerce.</p>
<p>A</p>	<p>B</p>	<p>A - B = C</p>	<p>5% of C = D</p>	<p>A + D = E</p>
<p>1,000</p>	<p>50</p>	<p>950</p>	<p>48</p>	<p>1,048</p>
<p><b>Utility Program Savings Achieved</b></p>	<p><b>Single Large Facility Savings Achieved</b></p>	<p><b>Total Utility Savings Achieved</b></p>	<p><b>NEEA and Other Savings Achieved</b></p>	<p><b>Total Savings Achieved</b></p>
<p>(i)</p>	<p>(ii)</p>	<p>(i) + (ii) = X</p>	<p>Y</p>	<p>X + Y = Z</p>
<p>950</p>	<p>0</p>	<p>950</p>	<p>100</p>	<p>1,050</p>
<p><b>UTC Target Achieved Test</b>                  IF X &gt; C "Achieved"</p>		<p><b>Decoupling Commitment Achieved Test</b>                  IF X &gt; D + C "Achieved"</p>		<p><b>Excess Savings Earned</b>                  Z - E</p>
<p><b>Target Achieved</b></p>		<p><b>Decoupling Commitment Shortfall</b></p>		<p><b>3</b></p>







Pacific Power Excess Conservation Calculations (MWh)

<p><b>Biennial Conservation Target</b>                  All available conservation that is cost-effective, reliable, and feasible. No less than the pro rata share of the ten year potential, at least 20%.</p> <p style="text-align: right;"><b>A</b> 89,016</p>	<p><b>Excluded Potential</b>                  NEEA, pilots. (Potential savings which are speculative in nature are excluded from eligibility for penalty under the Commission's standard practice.)</p> <p style="text-align: right;"><b>B</b> 14,313</p>	<p><b>Base UTC Target</b>                  The Energy Independence Act biennial conservation plan (BCP) energy savings targets approved by the UTC.</p> <p style="text-align: right;"><b>A - B = C</b> 74,703</p>	<p><b>Decoupling Commitment</b>                  Additional percent of Base UTC Target required per Commission order.</p> <p style="text-align: right;">no decoupling (D) 0</p>	<p><b>Full Target</b>                  Biennial Conservation Target plus decoupling commitment. This is the "Target" reported to Commerce.</p> <p style="text-align: right;"><b>A + D = E</b> 89,016</p>
<p><b>Utility Program Savings Achieved</b></p> <p style="text-align: right;"><b>(i)</b> 98,881</p>	<p><b>Single Large Facility Savings Achieved</b></p> <p style="text-align: right;"><b>(ii)</b></p>	<p><b>Total Utility Savings Achieved</b></p> <p style="text-align: right;"><b>(i) + (ii) = X</b> 98,881</p>	<p><b>NEEA and Other Savings Achieved</b></p> <p style="text-align: right;">Y 12,279</p>	<p><b>Total Savings Achieved</b></p> <p style="text-align: right;"><b>X + Y = Z</b> 111,160</p>
<p><b>UTC Target Achieved Test</b>                  IF X &gt; C "Achieved"</p> <p style="text-align: right;"><b>Target Achieved</b></p>		<p><b>Decoupling Commitment Achieved Test</b>                  IF X &gt; D + C "Achieved"</p> <p style="text-align: right;"><b>Decoupling Commitment Achieved</b></p>		<p><b>Excess Savings Earned</b></p> <p style="text-align: right;"><b>Z - E</b> 22,144</p>