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VIA: Electronic Mail

Steven V. King
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S. W.
P.O. Box 47250
Olympia, Washington 98504-7250

Re: Comments of Avista Utilities – Docket No. UG-121207

Dear Mr. King,

On July 26, 2012, the Washington Utilities and Transportation Commission (Commission) filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to consider the need to provide guidance to jurisdictional natural gas companies in planning and implementing natural gas conservation programs.

On July 31, 2012, the Commission issued a notice of opportunity to file written comments and reply comments and a stakeholder workshop was held on November 16, 2012.

On March 22, 2013, the Commission issued a notice of opportunity to file written comments prior to issuing a policy statement to guide the development, cost-effectiveness evaluation, and potential stopping and restarting of natural gas conservation programs.

Avista welcomes the opportunity to provide comments in the above-cited docket. As provided in the Company's initial filing, the changing natural gas supply picture and resultant lower prices resulted in the decline of natural gas avoided costs. While this is good news for consumers of natural gas, these lower avoided costs added new challenges to offering a comprehensive natural gas DSM portfolio. With the timing of the Company's Natural Gas Integrated Resource Planning (IRP) process during relatively low market prices, and identification of reduced avoided costs, Avista proposed revisions to its natural gas energy efficiency tariffs that would, if adopted as filed, suspend all incentives and direct marketing of natural gas efficiency.[1] As with the Company's previous experience of suspending natural gas programs in 1997, Avista would reinstitute natural gas programs if and when natural gas avoided costs increase to a level sufficient to field a cost-effective portfolio.

Avista wishes to be clear that it values energy efficiency as a means for customers to manage their energy bills. That being said, Avista has consistently communicated that the natural gas DSM portfolio is much more challenging to offer in a traditional cost-effective manner than the electric portfolio. Natural gas appliances are less customer interfacing by nature (i.e. water heater), the technological progress has been less rapid, and the participant economics are less attractive. Under those circumstances, meeting Avista's commitment to offer only Total Resource Cost (TRC) cost-effective measures and programs is, and always has been, difficult to achieve. We appreciate the Commission's guidance on balancing public interest issues in the face of lowered commodity costs. This docket is beneficial to the Company and its customers as Avista looks forward to implementing Commission policy in this regard.

At its April 11, 2013 Open Meeting, the Commission will discuss this docket and will allow time for stakeholders to provide feedback on the following issues and ideas:

1. Should the Commission continue to use the Total Resource Cost (TRC), or switch to using the Utility Cost Test (UCT), to evaluate the cost-effectiveness of the portfolio of natural gas conservation programs?

[1] Additionally, Avista's unique natural gas infrastructure (i.e., location of pipelines) and operational attributes further distinguishes its avoided costs from those of other Washington-jurisdictional local distribution companies.

Avista Response:
Avista's two primary principles for evaluating cost-effectiveness are achievability and cost-recovery. Achievability is in the context of applying cost-effectiveness tests that allow for providing a portfolio of programs that benefit customers. Cost-recovery is used from the perspective of having tests that allow for the recovery of conservation expenses.

Avista regularly reports its program results applying the following tests:

- Total Resource Cost (TRC) Test: Based upon the perspective of all ratepayers of a specific utility and seeking to minimize the cost to all customers (including both customer and utility costs) of delivering end-use services.
- Utility Cost Test (UCT): Based on the perspective of the utility and seeking to minimize the utility-only cost of serving customers.
- Participant Test: Based upon the perspective of an individual participant in the utility program and seeking to maximize all values accruing to the participant.
- Non-Participant Test, also known as the Rate Impact Measure (RIM): Based on the perspective of the non-participant transmitted through changes in the retail rate to the non-participating customer as a result of the adoption of a measure or the utility offering a program. The Non-Participant or RIM Test is also termed the "No Losers Test".

Avista envisions four possible means of continuing natural gas energy efficiency, each allowing for achievability and cost recovery.

Option #1: A modified TRC test. A modified TRC test would apply a quantitative adder that recognizes greater non-energy benefits. For meeting the principles of achievability and cost recovery, the required adder would need to be approximately 75% to 90% greater than that currently included in Avista's analysis and reporting.

Option #2: Apply the industry-standard UCT: A traditional application of the UCT would direct the Company towards taking action to minimize the utility cost to serve the

customer population through the installation of efficiency measures without regard to the customer cost of these measures.[2] Participation is, of course, voluntary and a knowledgeable customer would likely screen out their adoption of many measures not in their self-interest. Nevertheless, a sole focus upon the UCT test would lead to a misalignment of Company and customer interests in regards to the adoption of efficiency measures. This misalignment of objectives between the customer and utility has the potential to create confusion that could act to the detriment of the intended public policy. The Commission may wish to recognize other metrics (per Option #3, following) focused upon the perspective of the participating customer to address this issue.

Option #3: A bounded UCT. Should the Commission desire to apply the gross UCT as an alternative to the net TRC test for purposes of establishing demand-side resource portfolio expectations, the Company recommends the following:

> The success of the Company's demand-side management efforts will generally be judged by the quantity of resource acquisition achieved through a portfolio that passes the gross utility cost test (UCT), with consideration given to all elements of participant economics.

Option #4: A temporary exemption to cost-effectiveness tests. This would have the effect of providing regulatory actions based on a determination that energy efficiency is in the public interest, and that it is appropriate to make an exception to the application of the traditional cost-effectiveness tests for some period of time. Certain RCWs and WACs would be foundational for this (e.g., RCW 80.28.024 "Legislative Finding").

In summary, we believe Option #3 would provide a reasonable balance for meeting the principles of achievability and cost-recovery. Under this option, Avista would re-file its suspended Schedule 190 (natural gas energy efficiency tariff) in a manner that would allow for the majority of its existing natural gas energy efficiency programs to be continued, with the potential for some reduced incentives.

[2] The UCT includes only the utility costs and not those costs borne by customers.

2. What criteria should be met before stopping a portfolio of programs?

Avista Response:

The Commission's *Notice of Opportunity to File Written Comments* [Service Date March 22, 2013] outlines five criteria to be analyzed and documented prior to discontinuing conservation programs. By way of explanation, Avista as part of its proposed tariff revisions to suspend its natural gas energy efficiency program performed three of the identified criteria.

Avista communicated with other utilities, consulted with its advisory group, and discussed a restart plan. Avista did not issue an RFP nor request the discontinuation through its annual conservation plan. However, Avista's 2012 DSM Annual Plan, filed November 1, 2011, described the potential for decreased natural gas avoided costs, thereby potentially reducing Avista's conservation potential. This was supplemented by a February 29, 2012 45-page study on the programmatic effects of reduced avoided costs. Avista elected to file its proposed revisions in advance of these two actions because the "prudence standard" is based on "what did a utility manager know and when did she or he know it." To have waited until the Company's November 1 annual business plan filing would have delayed action, leaving open the concern that the utility "should have acted sooner."[3]

3. Accounting for program start and stop costs in the cost effectiveness test.

Avista Response:

An accounting of program costs can begin with three primary entities: the utilities' conservation infrastructure (e.g., human resources and supporting systems), trade allies (e.g., vendors, contractors, and other organizations helping to provide end-use efficiency

[3] Avista's 2012 Natural Gas Integrated Resource Plan (IRP), filed August 31, 2012, included the expectation of a precipitous decline in commodity avoided costs. This had the effect of rendering the Company's overall efficiency portfolio, and most individual measures, to be cost-ineffective, as determined by the Total Resource Cost (TRC) test. On an annual system-basis, Avista calculated a potential of $1.6 million in costs exceeding benefits. Some of Avista's external stakeholders in the Company's IRP Technical Advisory Committee process, and that of Avista's Energy Efficiency Advisory Group, have been focused on these avoided cost analyses since late 2011. When the natural gas avoided costs were released in mid-2012, Avista filed to suspend its natural gas efficiency programs.

services), and customers. A dual-fuel utility has minimal start-stop costs with the first two categories. For example, suspending natural gas programs is not an instantaneous event. Existing contracts are managed (e.g., payments, ongoing customer service, verification, and measurement), pending offers are honored and acted upon, communications from customers are fielded, and technical advice provided (e.g., by the DSM engineering team when analyzing commercial customers' electric savings potential and that of other fuels). Anticipating a reduction in its natural gas program offerings—and "right-sizing" staffing given other program changes, both increases and decreases—Avista has, at this time, a 2.5 FTE reduction in DSM staffing from year-end 2012.

Regarding trade allies, Avista has continued to work with our valued partners to assure continued electric efficiency programs. And lower natural gas avoided costs increase the customer value in switching from electric end-use equipment to natural gas appliances which should increase trade allies' business opportunities.

Avista has sought to manage communications with trade allies and customers in several fashions. First, we continue to encourage customers to use energy wisely. Second, we've focused on letting customers and trade allies know what the "price signals" (i.e., lower avoided costs) portend.

The Company has been providing meaningful energy efficiency programs for customers for over three decades; all costs associated with operating energy efficiency programs are captured in cost-effectiveness tests. Avista believes the costs of starting and stopping natural gas conservation programs for dual-fuel utilities is minimal.

4. Market transformation programs / Northwest Energy Efficiency Alliance (NEEA).

Avista Response:

Avista is one of the original organizers of the effort to study the potential for natural gas market transformation programs through NEEA. Avista continues to advocate for initiatives such as this. Depending upon the cost-effectiveness tests described above, and

how they are applied going forward, it could have an effect on natural gas market transformation.

5. Apply the savings-to-investment ratio test for low-income programs.

Avista Response:

Avista understands that the low-income DSM program serves public policy objectives beyond that of mere resource acquisition. It is also recognized that this program, offered in cooperation with Community Action Agencies, is unique in that there is the opportunity for an individual assessment of each home to include an analysis of the costs and benefits of the energy-efficiency options as measured through standardized calculations, comparing the energy savings to the total investment.

Under these circumstances, the Company believes that the Community Action Agencies should retain the flexibility to utilize their annually contracted funds for either electric or natural gas efficiency based upon their individual assessment of the home.

Conclusion

Avista appreciates the opportunity to submit these comments and looks forward to the discussion at the April 11, 2013 open meeting related to these issues. If you have any questions regarding this information, please contact Bruce Folsom at 509-495-8706 or by email at bruce.folsom@avistacorp.com or myself at 509-495-4975.

Sincerely,

/s/Linda Gervais//

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