



June 27, 2011

VIA: Electronic Mail

David Danner
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 Nos. UG-110790 and UE-100176

Dear Mr. Danner,

This response is provided in reply to Public Counsel's comments in the above-cited dockets. Generally Avista does not submit reply comments in advance of an Open Meeting, however the Company wants to be clear about the issues, and their foundation, present in these dockets.

As required by Order No. 01 in Docket No. UE-100176 at paragraph 64, on April 29, 2011 Avista filed proposed revisions to our natural gas DSM tariff rider (Schedule 191) and stated that no change would be proposed to our electric DSM tariff rider (Schedule 91).¹ For Schedule 191, the Company proposed an overall (i.e., total billed rate) reduction of 2.9%. On May 25, 2011, the Company filed a substitute cover letter and tariff page² that proposed an overall rate reduction of 2.0%. The background for this reduction has been well-chronicled within this docket. The Company did not propose to file Schedule 91, our electric DSM tariff rider, because we project that this rate can reasonably be expected to provide adequate revenue for twelve months of electric DSM operations.³ We understand that no party is contesting approval of the reduction to Schedule 191 or disagrees with our recommendation (not before the Commission at this time for action) that Schedule 91 remain unchanged.

¹ In Docket No. UE-100176 the Commission approved with conditions (together informally referred to as "the Ten Conditions") Avista's 2010-2011 Biennial Conservation Plan establishing targets for the current 24 month period in response to WAC 480-109 (also known as "I-937", codified as RCW 19.285).

² The revised filing corrected a revenue requirement calculation.

³ At the time of this filing, Avista understood that this was to be a true-up, to occur every twelve months. Thus our projections were based on a forward 12 month period. In a separate docket (UE-110001), the Washington Conservation Working Group, ongoing discussion indicates that this understanding may be modified to a different period. Any change in the period should have no effect on this filing because of the anticipated future true-up under any circumstances. Avista notes this simply to illustrate the calculated period supporting this filing.

Avista's reply comments are directed to two issues raised by Public Counsel: Avista's Compact Fluorescent Lamp (CFL) program and records management issues regarding our overall energy efficiency operations. Neither of these issues require Commission action at this time, as discussed below. Nonetheless, Avista suggests options for resolution of each issue.

The Compact Fluorescent Lamp Program

Procedural Options for the CFL Program

As has been the Commission's practice since 1995, Avista has the burden to demonstrate cost-effectiveness (or costs and benefits or "prudence") of prior period expenditures. Thus, specific DSM programs haven't come before the Commission for review and/or approval. Between 1995 and 2009, Avista's programs were found to be prudent by the Washington and Idaho Commissions, generally with no identified issues of concern. National attention has been directed to Avista's DSM programs as embodying "best practices".

This procedure was modified in Docket No. UE-100176. As required by paragraph 63 of Order No. 01, Avista filed its updated 2011 DSM Business Plan. The update to the 2011 DSM Business Plan in this matter outlined modifications to several programs. As part of this business plan update, the CFL program is before the Commission at this time. Avista understood that these updates were to be informational and, at the Commission's discretion, could be identified for action. If this understanding is correct, then the Commission has options as to how to process the CFL program. One option is to take no action and to follow past practices in which Avista has the burden of demonstrating costs and benefits at a later time (i.e., to be filed on June 1, 2012, with verified results, reporting on its 2010-2011 target achievement as required by paragraph 64 of Order No. 01 in Docket No. UE-100176).

Alternatively, because this issue has been highly scrutinized at this time, Avista recommends that the Commission approve the CFL program, including the 32 kWh/bulb deemed savings amount. Avista specifically requests that Public Counsel's recommendations regarding the CFL program not be accepted. Support for this alternative approach is described below.

Context for the CFL Program

Avista wants to assure compliance with WAC 480-109 pursuant to which Avista stated, and the Commission approved, its 2010-2011 conservation targets.⁴ Our 2011 DSM Business Plan, filed with the Commission on November 1st, 2010, illustrated how contemplated operations would achieve these targets. Included at pages 78 to 86 of the Business Plan ("Issues Identified for 2011 Management Focus") was a discussion of contingency plans to assure ultimate achievement of our goals if unanticipated events were to occur. A stated contingency was a mailed distribution of compact fluorescent lamps (CFLs) to residential customers during 2011 as a cost-effective means of achieving the Company's biennial target. The attractiveness of the

⁴ See Footnote 1.

CFL measure as a contingency program was based upon the high cost-effectiveness, scalable nature of the distribution options and certainty of the energy savings.

Unanticipated events did occur. In September and November, 2010, we filed an Evaluation, Measurement and Verification (EM&V) Framework and 2011 EM&V Plan, respectively.⁵ As the EM&V plan is being implemented, primarily through a third-party evaluator, The Cadmus Group, preliminary results indicate that our expected 2010-2011 programmatic savings will be less than expected. Thus, because we know we will have a variance (although unknown as to how much at this time) in 2010-2011 results, we have opted for a large-scale roll-out of CFLs.

On its face, this is a “make-sense” program regardless of any connection to target achievements for “I-937.” This program is highly cost-effective independent of “I-937” as defined by its benefits exceeding the costs by a large factor. Avista has historically been “light” on CFL distribution by regional standards. We’ve achieved our targets predominantly through other programs. That a large percentage of our 2011 annual portfolio may come from lighting should be taken into this historical context.

Avista has had the benefit of researching best practices for program delivery mechanisms of this type. For example, pre-notification is important (Avista is using nine different customer communication venues for this), an opt-out provision should be employed (as Avista has done), delivery should be to specifically-named customers and addresses (Avista is mailing to accounts of record, using the US Postal Service with a staged delivery schedule so as to not overwhelm carriers), lists should be culled (which we have done) so as to not ship units out of state or to vacation homes, to name a few.

Support for Claimed Savings of 32 kWh/bulb for the CFL Program

We consider the review and analysis performed by Staff and Public Counsel on this program to be significant. Many issues were examined. The one remaining issue according to Public Counsel in their comments is that Avista is planning on applying a unit energy savings of 32 kWh per bulb.⁶

Avista’s Commission-approved efficiency acquisition target is based upon meeting the goals established within the Northwest Power and Conservation Council’s (NPCC) 6th Power Plan. As such, it is the intent of Avista to claim energy savings for well-defined measures that are consistent with the foundation upon which that target was built. CFLs were an integral component of the 6th Power Plan leading to Avista’s stated targets. The efficiency measure category within the 6th Power Plan which most closely matches all of Avista’s CFL programs (the contingency program as well as other retail and physical distributions) is based upon a weighted average of 32 annual kWhs per unit

⁵ These resulted from our 2010 EM&V Collaborative consisting of several meetings and well-attended by stakeholders. These filings, and the Collaborative, were responsive to Order No. 10 in Docket Nos. UE-090134, UG-090135 & UG-060518 (consolidated).

Avista has obtained and duplicated the NPCC analysis that led to the 32 kWh per unit savings level. Although Avista's mix of wattages within the CFL contingency program would lead to a 38 kWh per unit savings, the Company believes it more appropriate to claim 32 kWh per unit simply given our desire for symmetry between the assumptions contributing to the establishment of the acquisition target and those used for purposes of measuring acquisition.

The NPCC analysis modifies the annual energy savings for lamp installation and removal rates. These studies incorporate the factors applicable to delivered CFLs including installation rate, removal, burnout, and breakage described in Public Counsel's comments at pages 4 and 5. Shrinkage is incorporated within the delivery definition subject to external third-party evaluation. Delays in the installation of the CFLs as customers wait to replace the next failed bulb in the home do not impact the annual savings of the CFL upon installation. The NPCC analysis also incorporates the 'take-back' often associated with efficiency measures, the inherent tendency of customers to use more of an end-use once efficiency makes the end-use service less costly. While Avista believes that energy savings for purposes of meeting efficiency acquisition targets should be based upon fixed and normal operating conditions, to remove the take-back assumption from the calculation and apply a higher per unit energy saving per CFL would compromise the desired symmetry between the assumptions incorporated into the target and those used for measurement of acquisition. Consequently, Avista believes that the 32 kWh per unit foundation laid within the 6th Power Plan is the most appropriate estimate of energy savings for purposes of meeting Avista's acquisition target.

Of perhaps most importance, implementing a state law should be done consistently, pursuant to regional and state standards. Inland Power & Light is a public utility contiguous to Avista. Inland is distributing 12 CFLs to customers with an opt-in option for 10 more. Thus, on a per customer basis, Inland's program is of a magnitude of 50% to 83% larger than Avista's. Inland shares the same media market (and benefits from Avista's energy efficiency messaging) and Inland customers have similar access to "big box" stores (e.g., Home Depot, Lowe's, Wal-Mart) as well as smaller stores as do Avista customers. Many Inland customers have a Spokane address.

In regards to the final determination of the energy savings attributable to any and all of Avista's CFL distributions, the Company's program plan contains provisions for the collection of information to be used for future EM&V as well as a preliminary outline of EM&V to be carried out by the Company's independent third-party evaluation contractor. It has been and remains Avista's contention that there is need for symmetry between the methodology used in the establishment of the acquisition target and the measurement of the target itself. The Company will task our independent third-party evaluator to review the legitimacy of applying the unit energy savings inherent in the development of the 6th Power Plan. Should these independent evaluators conclude that such an application is unsupported, Avista will claim an acquisition credit based upon the results of the impact evaluation.

For these reasons, we recommend that the Commission approve our CFL program as filed.

Records Management and Reporting

Public Counsel expresses concern about multiple issues in what can be categorized as “records management and reporting.” Public Counsel denotes these as described by the following headers (and referenced by the page number they occur in their comments):

Page 7: “Avista’s Tracking of DSM Expenditures”

Page 7: “Allocation of DSM Labor and Administrative Expenditures”

Page 8: “10% Limitation for Programs without Measured Savings”

Page 9: “Need for Enhanced Controls in Avista’s Tracking and Processing of Non-residential Rebates”

Page 9: “Avista’s Tracking and Processing of Residential Rebates”

Page 10: “Fuel Conversion – Need for Reporting of Interactive Effects”

Page 10: “Inclusion of Savings from Prior Periods in 2010 Annual Report”

All but one of these sections is conditioned with language such as “having the *potential* for...” or *increased costs* would *likely* occur, or is based on *one or a few records*.⁷ [Emphasis added] Avista believes that the appearance of potential problems contained in Public Counsel’s four pages of comments on this topic is not commensurate with actual performance of Avista’s operations.

Rather, Public Counsel’s comments suggest that their auditing practices, their apparent position on materiality, and the cost and benefit implications to customers of suggested “improvements” need to be addressed so that there is alignment with the respective understanding of Avista and other parties. For example, despite scrutiny of Avista’s DSM programs in Washington and Idaho, only Public Counsel has raised these questions. Generally Accepted Accounting Principles for review of books and records, as well as standards for auditing, include random sampling per statistical protocols and appropriate extrapolation of results to arrive at meaningful findings. Materiality is also a standard underlying such analyses.

We are concerned about Public Counsel’s suppositions. We hope that these issues can be appropriately addressed as part of our approach to stakeholder input. Our Advisory Group continues to evolve to meet current needs. In January of this year Avista reconfigured the External Energy Efficiency (“Triple E”) Board into a policy-based Advisory Group to provide input on our Washington “Ten Conditions” and Idaho DSM issues and a Technical Committee to provide a “deeper dive” for those experts in DSM analyses. In addition, we are pursuing a customer-based approach for customers to provide programmatic feedback. This reconfiguration was done to be responsive to the Ten Conditions (requiring advisory group meetings “at least once per quarter”) and associated issues.

Avista is committed to having best-in-class procedures, and does not believe the issues are of the magnitude suggested or stated by Public Counsel in its comments, and would welcome the opportunity to demonstrate this to Public Counsel on an ongoing basis by providing full and

⁶ The exception is “Fuel Conversion – Need for Reporting of Interactive Effects”.

immediate access to our books, records, and data management systems (i.e., our vault and archives housing paper records and our electronic data bases) on-site in Spokane.

We appreciate Public Counsel's increasing understanding of our systems and how we've been processing our work over the years, and performing its first on-site DSM audit in recent memory. We look forward to improving a joint understanding of our records and record management with Public Counsel.

In conclusion, Avista recommends that:

- 1) The Commission allow the proposed revisions to Schedule 191 to go into effect as filed;
- 2) No action is necessary regarding no proposed changes to Schedule 91;
- 3) The Commission approve Avista's CFL plan, as filed, or alternatively take no action; and
- 4) Recognize that no action is required regarding Public Counsel's comments regarding record management.

Again, the Company appreciates the opportunity to comment. If you have any questions regarding these issues, please contact me at 509-495-8706 or Linda Gervais, Manager, Regulatory Policy at 509-495-4975.

Sincerely,

/Bruce Folsom/

Senior Manager – Demand Side Management

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