

Exhibit No. ____ (CE-1T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UG-060518

DIRECT TESTIMONY OF

CHARLES EBERDT

ON BEHALF OF THE ENERGY PROJECT

I. BACKGROUND AND QUALIFICATIONS

I. Background and Qualifications

Q. PLEASE STATE YOUR NAME, ADDRESS AND EMPLOYMENT.

A. My name is Charles Eberdt. I am the director of The Energy Project, 1701 Ellis St., Bellingham, WA 98225.

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I have an M.A.T. from Harvard University. Since 1993, I have been working with all agencies that provide energy assistance and energy efficiency services to low-income households in Washington. Prior to that I supervised training on energy efficient construction for building code officials and builders for the Washington State Energy Office and provided other public education on energy efficiency. I am a Board member of the National Center for Appropriate Technology and A World Institute for a Sustainable Humanity (A W.I.S.H.). I have participated in several proceedings before this Commission over the last thirteen years, including recent rate cases by PSE, Avista, PacifiCorp, and Cascade Natural Gas. My personal interaction with this utility dates back to working with them on the language to rewrite the statute that allows investor owned utilities to fund energy assistance programs based in rates, which was a critical improvement for low-income households in Washington.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying for The Energy Project, an intervener in this proceeding on behalf of the community action agencies that provide low-income energy efficiency and bill payment assistance in the utility's service territory.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will point out some concerns I have about the Avista's decoupling mechanism and the impact it will have on residential, particularly low-income, customers.

Q. Are you opposed to decoupling in general?

A. I would not characterize my position as opposed to decoupling per se, but I am very leery of it because I think there could be some significant unintended consequences. I think this Commission raised some very important issues regarding decoupling in the final order of the recent PacifiCorp case by listing items of detailed information that need to be addressed in decoupling proposals.¹

Q. The Energy Project had the opportunity to weigh in on decoupling in three other rate cases in the last year, but did not. Why not?

A. Essentially, being involved in rate cases is for us a question of balancing our investment of time and money against what benefits we think can be gained for the low-income customers in the utility's service territory. Since our resources are particularly limited we have to prioritize our efforts. In those other cases, other issues took precedence. Avista's proposal, however, seems to us the clearest, cleanest proposal to be put forth. As such it probably has the best chance of going forward. For this reason, we believe it is extremely important that it be the best possible mechanism and not inadvertently harm customers.

¹ Order No. 4 (Final Order), UE-050684 (Section II.C., p. 41).

Q. What are the concerns you have about this proposal?

A. It seems to me there are a few mismatches, for lack of a better term. First, I am concerned that the biggest reason offered to justify the mechanism is to support energy conservation. I understand the arguments about the utility's disincentive to support conservation when a loss of sales reduces their revenue. Public Counsel, however, makes a valid point that the remuneration that the utility gets from the proposed mechanism goes far beyond compensation for their losses due to utility-sponsored conservation. It would include reduced consumption caused by customer-sponsored conservation or from consumers' responses to prices or weather. I don't think customers should have to pay for these latter items. I am not aware that the utility has not been able to recover adequate revenue to cover its fixed costs recently, if ever. I'm confident that the Commission would permit recovery if investments are prudent.

Q. How else do you see a mismatch?

A. If this mechanism is to recover revenues the company loses because of conservation, then it should include those customers who receive the bulk of the company's DSM budget. The Company's 2007 budget only spends 26-30% of the budget on residential conservation, while collecting 60% of its budget from residential customers. At the same time, commercial and industrial customers use 54-58% of the DSM budget while only paying in about 40%.² Furthermore, nearly 73% of the commercial load is used by just under 15% of the commercial

² Energy Project Data Requests No. 3 and 4.

customers who are on Schedule 111.³ I would assume the company's conservation efforts follow load to a great extent, but these customers are not part of the experiment.

Q. Do you believe each class should get out of the budget what they put in?

A. No, not entirely. I believe the more conservation the utility gets, the better off all customers should be. I don't object to residential customers paying more into the conservation pot. What I object to is paying for it twice, which is the way the mechanism seems to me to work. I think that is the way many customers will see it as well. They commit an effort to conserve, but get told they not only have to pay for their efforts, they have to pay the utility as well. On the one hand we are telling them to conserve, on the other we are sending them a message not to.

Q. How else do you see a mismatch?

A. There are two items in the Pacific Corp order mentioned above that I think this proposal misses. One of these is the idea that, if decoupling matters to energy conservation, there should be some incremental increase in the energy conservation as a result. This mechanism will recover deferred funds in 2007 based on the energy conservation accomplishments of 2006. Those accomplishments will be done; they can't be increased. The Company is currently only 12% short of their goal with two months left in the year.⁴ I'll be very surprised if they don't surpass their goal. Furthermore, I don't see a proposal to increase their targets. That will have to wait until the next IRP. Then, perhaps this experiment should wait to start when those targets are set. If we are going to

³ Public Counsel Data Request No. 48.

⁴ Public Counsel Data Request No. 45.

reward the Company for accomplishing a goal, let's make it a goal they must strive to achieve.

Q. Don't you think this mechanism will spur the utility to achieve more conservation?

A. I think it can, and it might inadvertently even as it is constructed, but I think that depends very much on the target levels that are set and when a certain level of incentive kicks in. One drawback of this mechanism is that it doesn't encourage the utility to go beyond their goal. Once they get 100% of the conservation goal, they get all the deferral they can get. If the level of remuneration is really as disproportionate as Public Counsel has suggested, then who is to say getting 60% of the margin difference won't be enough compensation for the utility? Meanwhile, they are only achieving 70-80% of their conservation goal. In this regard, establishing an incentive plan more along the lines of that Puget Sound Energy has may be a more appropriate mechanism to inspire the utility's conservation efforts.

Q. It sounds like you believe the utility's conservation targets should be higher. Is there anything else that points you in this direction?

A. Yes. Again referring to Public Counsel's Data Request No. 45 we see that residential and low-income investments are performing well above the targeted levels. This suggests to me that these targets can be raised and reinforces for me the notion that the overall budget allocation should be reapportioned more equitably.

Q. Earlier you said the proposed mechanism fell short in regard to two items in the Pacific Corp order from UE-050684. You have covered the notion of incremental conservation as a result of the mechanism. What is the other?

A. The Commission specifically identifies the impact on low-income customers as being a concern. I can't tell you how much the Energy Project appreciates this, as we have observed conservation proponents in other parts of the country completely overlooking it. This proposal will punish the bulk of low-income customers. Avista recently increased their low-income efficiency budget, and we are very grateful for that. However, the bulk of low-income customers still are not able to participate in the energy efficiency program, because 1) there is only enough funds to help a small percentage per year, 2) they may not be aware of the program or think they don't deserve to take part, or 3) they are renters whose landlord will not participate in the program. These people only have one recourse when the bill gets too high because the weather turns cold or prices rise. They turn down the thermostat. In their case, then, they get to live in the cold and maybe the dark, and still pay more for it. It may be that the penalty on an individual household is not that large, because it isn't clear to me what the magnitude of the bill impact will be if the reduction in consumption is very large. Regardless, it is still an additional charge those households have to pay with money they don't have, and in aggregate it will be substantial. Frankly, given the economics of the times, I think many non low-income households also have trouble coming up with funds to invest in energy efficiency.

Q. In conclusion, what are your recommendations?

A. First, I suggest the Commission look very closely at whether the compensation the utility gets from this mechanism is commensurate with the goal of inspiring more energy conservation, both at the utility and among customers themselves, and compare that to the benefits a properly constructed incentive plan might achieve. Second, I think there should be both an increase in the overall level of conservation targets and some reallocation of funds to the areas where the utility's performance outpaces their current investment,. In particular, until just recently, I think the natural gas residential sector has been more or less neglected by utilities in Washington, with the exception of appliance rebates. More aggressively pursuing the residential market would also improve equity among the various customers sectors by investing more funds in the customers who provide most of the funding for energy efficiency.

Q. Is there anything else you would like to add? Is this Q and A necessary?

A. Yes, I would like to say that I found Avista very responsive during the course of this case. I think their conservation department is very capable and creative. I am willing and look forward to working with them on a mechanism that does encourage greater investment in energy efficiency without harming low-income customers while at the same time holding the utility harmless, at the very least, and at best rewards them for being a leader in the public interest on this topic.