Agenda Date:	June 30, 2011
Item Numbers:	A4, A5
Dockets:	**UG-110790** **UE-100176**
Company:	Avista Corporation
Staff:	EJ Keating, Regulatory Analyst Rick Applegate, Regulatory Analyst Deborah Reynolds, Regulatory Analyst Roger Kouchi, Consumer Protection Staff

Recommendation

1. Take no action, allowing Avista Corporation's (Avista or company) proposed natural gas energy efficiency tariff rider revision to Schedule 191 filed in Docket UG-110790, to become effective July 1, 2011, by operation of law.
2. Take no action on the modification to Avista's 2011 Annual DSM Business Plan in Docket UE-100176 thus acknowledging the revision per paragraph 63(d) of Order 01.

Background

The commission requires companies to file energy efficiency planning documents that outline specific programs the company will implement.[1] These plans cover one or two years. Following the plan filing, the commission has allowed the companies to seek rate recovery of energy efficiency expenses and has further required companies to report on energy efficiency achievements. See Attachment 1 – Avista Timeline of Filings.

Avista is currently operating its energy efficiency programs under conditions approved by the commission pursuant to RCW 19.285 and WAC 480-109.[2] The company's biennial 2010-2011 electric conservation target is 128,603 MWh with at least 125,982 MWh of non-fuel-conversion resources.[3] The 2010 natural gas target is 1,385,606 therms, and the 2011 natural gas target is 1,639,317 therms.[4] Both the electric and natural gas targets are based on the company's assessment of the conservation potential in its service area. For 2011, the company has budgeted $15 million for electric conservation and $5.4 million for natural gas conservation.

Scope

The tariff revision filed by Avista in Docket UG-110790 is the cost recovery filing in which Avista files rates to recover energy efficiency expenses. The company uses a tariff "rider" mechanism designed to match future revenue with budgeted expenditures. To ensure appropriate recovery, the mechanism includes a true-up feature that reconciles the previous periods' actual expenditures and collections.

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[1] See Docket UE-100176 for Avista's biennial conservation plan and annual update.
[2] *Wash. Utilities & Transp. Comm'n v. Avista Corp.,* Docket UE-100176, Order 01, (May 13, 2010). [Order 01] Avista agreed to apply the conditions from Docket UE-100176 to its natural gas energy efficiency programs during the filing of its natural gas rider in Docket UG-100254.
[3] Docket UE-100176, Order 01, ¶ 53.
[4] See Avista Presentation on Natural Gas Integrated Resource Plan, Docket UG-090015, April 29, 2010.

Staff audited the financial data Avista presented in this filing. Staff also ensured the proposed rates incorporate accepted budgets and approved loads.[5] Staff's audit also verified company compliance with prior commission orders on energy efficiency issues. As a result of its audit, staff is reasonably assured the financial information reported by the company is accurate.

In December, 2010, under Docket UE-100176, Avista filed its annual conservation plan (DSM Business Plan). Per the commission's Order 01 in that docket, paragraph 63, section 7(a): "Modifications to the programs must be filed with the commission as revisions to tariffs or as revisions to Avista's DSM Business Plan as appropriate." Staff reviewed the Updated Business Plan in a manner consistent with staff's review of the company's December, 2010, DSM Business Plan.[6]

Discussion

Docket UG-110790 - Cost Recovery

Avista funds its energy efficiency programs through two special tariff riders, Schedule 91 (electric) and Schedule 191 (natural gas). The energy efficiency tariff riders support a range of Demand Side Management (DSM) programs, from rebates for the installation of residential high efficiency furnaces to complex site-specific industrial energy efficiency improvements.

On April 29, 2011, Avista filed proposed revisions to its tariff sheet, WN U-29 Natural Gas Schedule 191-Public Purposes Rider Adjustment –WA, to become effective July 1, 2011. On May 25, 2011, the company filed a substitute cover letter and tariff page.[7]

Under the revised filing, Avista proposes to leave Electric Schedule 91 rates unchanged. Avista anticipates that collections under the existing rates will sufficiently fund budgeted electric (DSM) programs and the CFL Direct Mail program recently filed, from July 1, 2011, through June 30, 2012, without leaving the company a substantial deficit in its balancing account. As of April 30, 2011, Avista had an over-recovery[8] in this account of $2,547,434 .The over-recovery balance accrues interest at a 10 percent rate and has resulted in $46,000 in accumulated interest.

Also under the revised filings, Avista seeks to reduce its Natural Gas Schedule 191 collections. The revised rate change is intended to fund energy efficiency expenditures from July 1, 2011, through June 30, 2012, and to collect the under-recovered amount of approximately $660,000 as of March 31, 2011.

The impact of the proposal is an annual gas revenue decrease of approximately $3.0 million, or a decrease of 2.0 percent of billed gas rates. The proposed rate will decrease the average monthly bill for a natural gas residential customer using 67 therms per month by $1.11.

Natural Gas Service	Schedule	Existing Rate	Proposed Rate
Residential Service	Schedule 101	$0.05135	$.03475
Commercial Service	Schedules 111 & 112	$0.04939	$.02801

[5] Budgets are reviewed and accepted during Biennial Conservation Plan and Annual Conservation Plan filings in November of each year. Loads used in forecasting rates are from the most recently completed general rate case.
[6] See staff memo, December 30, 2010, Docket UE-100176.
[7] The filing corrected the revenue requirement calculation.
[8] An over recovery does not mean an inappropriate collection. DSM rider balances will fluctuate from month to month.

Industrial Service	Schedules 121 & 122	$0.04675	$.02788
Contract Services	Schedules 131 & 132	$0.04298	$.02656

Staff's Audit

Staff reviewed the company's expenditures, budgets, processes and information systems. Prior to and during an onsite visit, staff requested and received the line item detail of selected monthly numbers for specific categories.

For gas, staff examined labor/payroll, evaluation, measurement and verification (EM&V) consulting, advertising and memberships, as well as incentives for efficient washing machines, dishwashers, high efficiency furnaces, high efficiency water heaters, tankless water heaters, floor, ceiling, attic and wall insulation, replacement windows, Energy Star doors and windows, and HVAC heating. Of the company's $5,536,231 in actual expenditures for 2010, staff reviewed $1,979,970 or 36 percent of total spending. In addition, staff reviewed 74 percent of total spending for the first three months of 2011.

For electric, staff examined labor/payroll, EM&V consulting, advertising and memberships, NEEA dues, and CFL programs, as well as incentives for efficient washing machines, dishwashers, high efficiency furnaces, high efficiency water heaters, floor, ceiling, attic and wall insulation, replacement windows, Energy Star doors and windows, HVAC heating, prescriptive lighting, prescriptive refrigeration, and LEED certification. Of the company's $12,516,103 in 2010 electric expenditures, staff reviewed $4,230,025 or 34 percent of total spending .In addition, staff reviewed 94 percent for the first three months of 2011 electric.

After reviewing the transaction detail related to these amounts, staff reviewed source documents for specific transactions, including journal entries, vouchers, invoices, receipts and accounts payable check reports. Staff reviewed $594,469 and $3,434,448 in source documents for 2010 gas and electric expenditures respectively. Staff also examined source documents for 2011. Any and all questions from Staff regarding expenditures reviewed were answered satisfactorily through explanation or further documentation provided by the company.

Staff also reviewed the variances between budgeted and actual expenditures. Staff noted that the percentage of total DSM expenditures paid out in the form of customer incentives for gas programs was approximately 80 percent and for electric programs, approximately 75 percent. It would appear that Avista is controlling their operating expenses, and in turn leaving more dollars available for customer incentives.

Budgeted and actual expenditure comparison for calendar year 2010

Electric	Budgeted	Actual	Over/(Under) Budget
Direct Customer Incentives	7,656,119	8,874,257	1,218,138
Non-Labor Non-Incentives	2,969,609	3,503,676	534,067
Labor	1,759,623	138,171	-1,621,452
Total	**12,385,350**	**12,516,103**	**130,753**
Gas	Budgeted	Actual	Over/(Under) Budget
Direct Customer Incentives	4,356,615	4,401,211	44,596
Non-Labor Non-Incentives	504,818	1,068,874	564,056
Labor	374,770	66,146	(308,624)
Total	**5,236,203**	**5,536,231**	**300,028**

In addition to reviewing select expenditure detail, staff examined Avista's processes related to the handling of DSM transactions, which included the examination of select forms, procedures, and the two information systems responsible for DSM tracking. Staff also sought to verify that Avista had made appropriate improvements to these processes in response to concerns raised by third-party evaluators. Since the filing of Avista's Revised DSM business plan on December 21, 2010, Avista has received an Impact Evaluation of Select 2008 Avista Residential and Low Income Demand-Side Management Programs (2008 Impact Evaluation) from Ecotope, Inc. and Demand Side Management Programs Observations and Recommendations (Moss Adams Recommendations) report from Moss Adams LLC.

The 2008 Impact Evaluation found that Avista's residential windows and weatherization programs had disappointing realization rates for program measures and highlighted quality control concerns. Avista has responded to these concerns by discontinuing its residential windows program, eliminating do-it-yourself weatherization, requiring increased documentation of weatherization projects, and intervening in some instances with particular contractors.

The Moss Adams Recommendations identified several process concerns and a single error in a rebate amount, which given the review's sample size of 105 transactions fell within the American Institute of Certified Public Accountants Audit Sampling Guide standard of 90 percent confidence that the expected error rate is within 5 percent of 1.75 percent. The process concerns raised in the review included:

- The process requires manual and labor-intensive work so it is susceptible to error.
- Projects would remain uncompleted because of a lack of review and monitoring.
- System controls for nonresidential rebates do not prevent projects from closing and reopening in later periods causing a risk of double counting.
- Program access is not limited to ensure proper segregation of duties.

While Avista did not appear to have near-term plans to replace either of its DSM information systems allowing it to automate what are currently manual processes, staff found Avista had made other process improvements in response to the report. Managers now routinely review reports of open projects to verify that they either move towards completion or are closed. Also, a special report has been developed that will identify and facilitate removal of double counted transactions. Staff does not have concerns with the issues related to program access because all user interactions with the system are tracked.

Staff did not confirm the reported cost effectiveness for the electric and natural gas portfolios because the verified savings are not yet available. In December 2010, during staff's review of the company's annual business plan[9], staff reviewed the proposed cost effectiveness analysis. Staff will review the backward looking cost-effectiveness of the portfolio when the company files its biennial report in June of 2012.

<u>Dues, Memberships, and Sponsorships</u>

Public Counsel requested a list of all memberships, sponsorships, and dues paid by Avista using electric and natural gas DSM funds. Avista responded with a list identifying total expenditures of approximately $2.2 million paid to 11 organizations. Staff follow-up data requests inquired about the extent to which the organizations engaged in lobbying activities, had costs disallowed in

[9]Page 3 of staff memo to UE-101769 and UG-101770.

prior rate cases, and offered conservation-related benefits to ratepayers. The company stated that the Consortium for Energy Efficiency Inc. (CEE), Northwest Energy Coalition (NWEC) and Electric Power Research Institute (EPRI) contributed less than 1.0 percent to lobbying activities in 2010. The company is no longer a member of NWEC and has elected to designate 100 percent of their membership in CEE to go toward programmatic expenditures. Since the last general rate case, EPRI is now being appropriately expensed based on billed DSM activities.

ISSUES

Staff has concerns about the lack of detail in Avista's initial and revised filings. The spreadsheets the company submitted in connection with the filings lacked formulas and underlying supporting detail needed by staff to properly assess the filing. Staff has provided *Attachment 2 – Conservation Rider Filing Support* in a spreadsheet format to address these concerns and expects Avista to use a format similar to this in its next cost recovery filing.

Customer Comments

WAC 480-90-193 requires the utility to post its tariff for public inspection and review for rate decreases. Avista indicated that it intends to inform its customers of the rate decrease with a bill message on the first bill following the effective date of the tariff revision. The commission received no customer comments.

Docket UE-100176 - Modified Business Plan

On June 16, 2011, the company filed a modification to its 2011 Annual DSM Business Plan.[10] The Modified Plan describes a number of program adjustments, and proposes spending an additional $4.7 million on the Washington portion of a CFL Direct Mail program to ensure that it meets its conservation targets. This increases the Washington electric conservation budget from $15 million to $19.7 million, or 31 percent.

Initial indications from Avista's Demand Side Management 2010 Annual Report (Annual Report) show that the company achieved unverified electrical system savings of 68,911 MWh and 1.9 million therms of natural gas savings through its DSM activities. [11] Avista has contracted for third-party EM&V from Cadmus as promised in its EM&V Framework.[12] Partial results from the Cadmus report should be available in mid-2011, and the company will file the final verified results for the 2010-2011 biennium in June, 2012. As part of this work, Cadmus has prepared a draft Technical Reference Manual (TRM) that is expected to significantly affect the savings Avista can claim for the 2010-2011 biennium. The initial results of the TRM suggest an approximate 68 percent realization rate be applied to Avista's projected biennial savings estimate, causing Avista to fall short of its target by 23,261 MWh, or about 18 percent.

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[10] "Modifications to the programs must be filed with the commission as revisions to tariffs or as revisions to Avista's DSM Business Plan, as appropriate." Docket UE-100176, Order 01, Par. 63, section 7(a) (May 13, 2010).

[11] Using the unverified savings from the annual report, it appears that the company is likely to deliver cost-effective programs since its Total Resource Cost (TRC) ratios and Program Administrator (PAC) ratios of 2.3 and 4.9, respectively, for its electric portfolio and 1.6 and 3.5, respectively, for its natural gas portfolio. These results will be affected by the verified savings.

[12] Dockets UE-090134, UG-090135, and UG-060518, cons., Order 10, Par. 305. Compliance document filed September 1, 2010.

In staff's memo of December 2010,[13] staff mentioned a possible need for the company to file such a plan update. Under the modified plan, Avista will distribute an unsolicited box of eight mixed wattage CFLs to its residential and small business customers. In its analysis, Avista relies on an assumption that the savings of each residential bulb is 32 kWh. Post-project impact evaluation will determine the savings for commercial applications. In total, Avista expects that the eight bulb program will cost approximately $4.7 million and result in 57,600 MWh in first year savings for the Washington/Idaho system. Assuming a five year measure life and a project discount rate equal to the company's cost of capital, these estimates result in a TRC ratio of 4.2 for the program, which is highly cost-effective.

Although eight bulbs are more than the best-practice recommendation[14] of five or fewer bulbs, in this case, the company has justified its approach, and staff finds the proposal reasonable. The company has provided its advertising and outreach materials, and provided cost-effectiveness analysis scenarios that contemplated a variety of outcomes identifying the tipping points to maintaining a cost-effective program.

Staff is comfortable with the unit energy savings estimate of 32 kWh per bulb, which is the Northwest Power and Conservation Council's unit energy savings estimate, because the program's EM&V will provide a realization rate. For example, the company will collect information around returns and failed delivery. A representative sample of customers will be surveyed about whether they received the box of bulbs, and the statistical result of the survey will be applied to the total population of bulbs purchased.

Because staff believes that this first biennium under the Energy Independence Act (Initiative 937) has led to some significant improvements in the accuracy of the data underlying Avista's conservation programs and that Avista has responded to these changes appropriately, staff accepts the proposed CFL direct mail program. However, staff expects future planning documents to provide considerably more detail about how the company plans to address any shortfalls during the biennium. In addition, staff expects that future contingency plans would focus on broader and deeper program delivery rather than a single large effort at the end of the biennium. Lastly, such large-scale changes in the company's filed budget so late in the biennium should not be repeated.

Conclusion

1. Take no action, allowing Avista Corporation's (Avista or company) proposed natural gas energy efficiency tariff rider revision to Schedule 191 filed in Docket UG-110790, to become effective July 1, 2011, by operation of law.
2. Take no action on the modification to Avista's 2011 Annual DSM Business Plan in Docket UE-100176 thus acknowledging the revision per paragraph 63(d) of Order 01.

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[13] Dockets UE-100176, UE-101769 and UG-101770, Staff Memo, December 30, 2010.
[14] Peters, Jane S. Ph.D., Dulane Moran and Marti Frank. *Final Report Lighting Program Assessment: Residential Direct Distribution.* Funded by Bonneville Power Administration. June 15, 2010.