



Bob Ferguson

## ATTORNEY GENERAL OF WASHINGTON

Utilities and Transportation Division

1400 S Evergreen Park Drive SW • PO Box 40128 • Olympia WA 98504-0128 • (360) 664-1183

*Via Electronic and United States Mail*

June 30, 2014

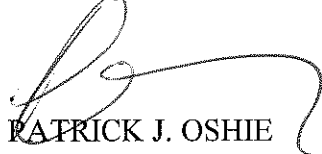
Steven V. King, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Dr. S.W.  
P.O. Box 47250  
Olympia, Washington 98504-7250

RE: *Puget Sound Energy: Report concerning its progress in meeting its conservation target during the preceding biennium*  
Docket UE-111881

Dear Mr. King:

Enclosed for filing in the above-referenced docket are the original and two copies of the Comments of Commission Staff.

Sincerely,



PATRICK J. OSHIE  
Assistant Attorney General

PJO:klg  
Enclosures  
cc: Parties

**COMMISSION STAFF COMMENTS REGARDING  
PUGET SOUND ENERGY'S  
2012-2013 BIENNIAL CONSERVATION REPORT  
JUNE 30, 2014**

**DOCKET UE-111881**

**Background**

On May 30, 2014, Puget Sound Energy (PSE or company) filed its 2012-2013 Biennial Conservation Report with the Washington Utilities and Transportation Commission (Commission), as required by Order 01 in this docket.

Throughout the 2012-2013 biennium, Commission staff (staff) met regularly with PSE's Conservation Resources Advisory Group (CRAG). This allowed staff to conduct an ongoing review of the company's progress toward meeting its biennial target and review proposed program changes before they were filed.

Staff's review of PSE's Biennial Conservation Report focused on evaluating whether the company met the reporting requirements outlined in RCW 19.285.070 and WAC 480-109-040 and whether the company correctly reported savings for the biennium.

These comments summarize PSE's report, highlight key programmatic developments, and identify any lingering issues. They also discuss recent and anticipated changes in the rules and policies affecting energy conservation. Staff will review the comments filed by other parties and make a recommendation at the Commission's July 25, 2014, open meeting on whether the Commission should issue an order accepting the report and finding that PSE met its biennial conservation target.

**PSE's Biennial Conservation Report**

In Order 01 of this docket, the commission approved a 2012-2013 biennial conservation target of 666,000 megawatt-hours (MWh) for PSE. The company reports that it exceeded the target by 4.8 percent, achieving 698,137 MWh. The company spent approximately \$189 million over the biennium, or 99.8 percent of the budget approved by the Commission. Table 1 provides a summary of PSE's reported savings and expenditures.

**Table 1: Summary of PSE's 2012-2013 Conservation Achievements**

	<b>Target</b>	<b>Reported</b>	<b>Percent of target</b>
<b>Savings (MWh)</b>	666,000	698,137	104.8%
<b>Savings (average MW)</b>	76.0	79.7	
<b>Expenditures</b>	\$189,662,000	\$189,274,000	99.8%

Using the Total Resource Cost Test, as modified by the Northwest Power and Conservation Council's (Council), PSE reported a cost-effectiveness ratio of 1.84 for its 2012-13 portfolio.

PSE's achievement of its target reflects the broad range of measures and delivery methods included in PSE's conservation portfolio. While lighting, especially newer LEDs, contributed to a significant proportion of PSE's achievement in 2012-13, PSE's suite of efforts to capture savings across the residential, commercial and industrial sectors enabled the company to meet its target.

It is important to note that PSE's approach to claiming savings from the Northwest Energy Efficiency Alliance (NEEA) toward its biennial target differed from that of the Avista Corporation (Avista) and Pacific Power & Light Company (PacifiCorp). Prior to the establishment of the 2012-13 target, NEEA provided a forecast of expected savings to PSE. With agreement from the CRAG, PSE planned to claim 75% of that forecast toward the target. The intent behind this was to limit PSE's risk if NEEA did not deliver the expected savings, and to limit PSE's windfall if NEEA greatly exceeded the expected savings. This provided PSE with certainty about the savings that were outside of their direct control. PSE's 2012-13 target and Biennial Conservation Report reflect this approach, with PSE claiming 38,800 MWh of savings from NEEA toward its target. Had PSE claimed the full amount of savings PSE achieved through NEEA toward the target, PSE's NEEA savings would have been 123,254 MWh, which would have put the company 17 percent above its target.

The third party evaluation conducted by SBW found that “[o]verall, the portfolio savings claim is well-documented and carefully verified.”<sup>1</sup> Although SBW did not find any significant issues with PSE's approach to measuring and verifying savings, the reviewer did recommend adjustments to the unit energy savings (UES) values for two programs<sup>2</sup>, resulting in a downward savings adjustment of 4,244 MWh, or about 0.6 percent of the reported savings. PSE accepted these recommendations, and reflected these adjustments in the Biennial Conservation Report.

The 2012 and 2013 savings from PSE's Home Energy Reports (HER) program, administered by Opower, were independently evaluated by DNV-GL. This ex-post evaluation found that savings for 2012 should be adjusted upward by 1,460 MWh and savings for 2013 should be adjusted by 41 MWh. These adjustments reflect improved understanding of the savings rates for the various segments of customers participating in the program. The savings claimed by PSE in the Biennial Conservation Report reflect the adjustments recommended by both SBW and DNV-GL.

## Discussion

Staff appreciates PSE's efforts to manage such a large and diverse conservation portfolio, as well as the rigor PSE applies to ensuring the accuracy of their savings. The fact that SBW recommended adjustments of less than one percent of PSE's reported savings speaks to the

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<sup>1</sup> Docket UE-111881, Puget Sound Energy's 2012-13 Biennial Electric Conservation Achievement, Attachment 5, p ES-5.

<sup>2</sup> The two programs affected by SBW's recommended adjustment were the Residential Retail Lighting and Space Heat programs.

quality of PSE's internal tracking, verification, and management processes. Staff also appreciates the open and proactive manner in which PSE's Energy Efficiency staff engages with the CRAG. Throughout the biennium, PSE staff brought potentially contentious issues to the CRAG with the aim of resolving disagreements before making filings or presentations to the Commission. Although staff is generally satisfied with PSE's conservation program, the following issues merit some further discussion.

### *Decoupling*

Although PSE exceeded its biennial conservation target under the Energy Independence Act (EIA), PSE is also subject to an additional conservation commitment under its decoupling mechanism in Docket UE-121697. The Commission's order authorizing the decoupling mechanism states, "The Company will accelerate its acquisition of cost-effective electric efficiency resources to achieve 105 percent of the targets set by the Commission."<sup>3</sup> At the June 6, 2014, CRAG meeting, Staff raised concerns that PSE had only exceeded its biennial target by 4.8 percent, failing to meet its decoupling target.

PSE's biennial conservation performance raises issues affecting the implementation of the penalty mandates set forth in Order 07. For example, the Order does not speak to treatment of the commitment when applied to partial biennia or the procedure(s) for resolving compliance matters. Implementation issues such as these may be resolved in PSE's Petition for a Declaratory Order in Docket UE-141357. Any recommendation on penalties would await the Commission's anticipated declaratory order.

### *Conservation Voltage Reduction*

As described in PSE's 2013 Annual Report of Biennial Energy Conservation Achievements, at the beginning of the biennium, PSE identified cost-effective savings from conservation voltage reduction (CVR), and initially proposed to implement CVR at 12 substations.<sup>4</sup> As approved by the Commission, PSE's tariff Schedule 292-A specifies that expenditures related to CVR should not be recovered through PSE's conservation rider, Schedule 120, and instead should be recovered through general rates. As a result, PSE scaled back its CVR efforts to three substations, two of which were completed within the biennium. Staff is disappointed that PSE as a company has not provided sufficient funding for cost-effective conservation from CVR, especially in light of the additional conservation commitment of the decoupling mechanism. Had PSE funded the initial level of CVR, it is likely that PSE would have exceeded the additional five percent decoupling commitment, thereby avoiding the issue of whether a penalty should be issued.

### *Third party evaluation recommendations*

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<sup>3</sup> Docket UE-121697, Order 07, ¶ 108.

<sup>4</sup> Docket UE-111881, Puget Sound Energy's 2012-2013 Biennial Conservation Plan, page 46, filed October 28, 2011.

SBW made a number of recommendations for ways PSE can improve its conservation program in the future. These recommendations include updates to UES values or measure lives where new information has become available, adjustments to data tracking and verification processes, and improvements to the scoping of program evaluations. Staff would like PSE to provide the CRAG a summary of the company's actions to address SBW's recommendations.

### Conservation policy updates

Staff has been working to resolve a number of general issues that have been identified during the first three biennial cycles. Many of these issues are being addressed through an open rulemaking proceeding and other issues have been addressed through Commission orders or informal collaborations between staff, the utilities, and external stakeholders. This section summarizes these processes and their impact on this and future conservation filings.

#### *Energy Independence Act Rulemaking*

The Commission has opened a rulemaking procedure in Docket UE-131723 to update WAC 480-109, the Commission's rule implementing the Energy Independence Act (EIA). The proposed rule may address several issues raised by various parties since the biennial conservation cycle began in 2010.

Informal draft rule language was made available to parties on April 9, 2014, and discussed at the Commission's workshop with stakeholders on May 15, 2014. Staff is reviewing the comments received on the informal draft rule. The proposed rule will be filed later in 2014, and will be subject to additional comment and revision before being finalized. Following is a brief summary of the key conservation issues that staff expects will be addressed in the proposed rule:

- **Pursue all.** RCW 19.285.040(1) requires utilities to “pursue all available conservation that is cost-effective, reliable and feasible.” Staff's comments on the three regulated utilities' 2010-2011 biennial conservation reports identified a general process by which staff would interpret this broad language when evaluating whether a utility met the requirement.<sup>5</sup> The informal draft rule defined the term “pursue all” and further expounded on the process that staff has identified. Following the Commission's rulemaking workshop on May 15, 2014, staff has been working with stakeholders to resolve concerns around this language.
- **Conditions lists.** WAC 480-109-010(4)(c) allows the Commission to approve a utility's 10-year conservation potential and two-year conservation target subject to conditions. In the three planning cycles that have occurred since the EIA's conservation requirements went into effect, the Commission has crafted a number of standard conditions. The informal draft rule incorporated many conditions which were generally applicable to all three companies and widely accepted by the parties involved. Examples of this include the interim reports a utility is required to file and the role of conservation advisory groups.

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<sup>5</sup> *In the Matter of Evaluating Electric Utility Conservation Achievements Under the Energy Independence Act*; Dockets UE-100170, UE-100176, and UE-100177; Staff Comments, July 16, 2012, page 9.

- **Legislative changes.** The rule will also incorporate recent legislative changes that will affect future conservation filings. Chief among these changes is a law passed in the 2014 session that will allow utilities that exceed their target in a given biennium to “bank” the overage and apply it toward meeting up to 25 percent of the targets in the two succeeding biennia.

The full text of the informal draft rule is available in Docket UE-131723.<sup>6</sup>

### *NEEA*

In its memo on the utilities’ 2010-2011 Biennial Conservation Plans,<sup>7</sup> staff noted that the three utilities took different approaches in how they claimed savings from NEEA and that multiple stakeholders felt that a common approach was warranted. The Commission agreed and ordered the utilities to craft a uniform approach for treatment of NEEA savings.<sup>8</sup>

In response, the utilities proposed to remove NEEA savings from the targets for the 2014-15 biennium.<sup>9</sup> Utilities would continue to fund NEEA and report the amount of savings they received from doing so, but would not reflect those savings when setting their target or apply them toward meeting their target. The Commission accepted this approach and allowed the utilities to begin using it in the 2014-15 biennium. Staff will continue to monitor this approach, and if performance declines, expects to make recommendations for changing the approach at the December, 2014, open meeting review of annual conservation plan updates.

### *UES values/baselines*

Another issue that staff identified in its memo on the utilities’ 2010-2011 Biennial Conservation Reports related to how frequently utilities update the assumed savings values for their conservation measures. The Commission directed the utilities to use the UES values that the Council’s Regional Technical Forum (RTF) calculates for each measure, where they exist and are appropriate.<sup>10</sup> However, the utilities vary in how frequently they update their assumptions to reflect current RTF practice. PacifiCorp 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 they met it. PSE voluntarily updates UES values every year.

Staff recognizes that PSE’s approach may increase a company’s risk of not meeting its target. In an effort to quantify this risk, staff has arranged for PacifiCorp and Avista to report at the end of the 2014-15 biennium the difference between using the same UES values for the entire biennium

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<sup>6</sup> *Notice of Opportunity to File Written Comments*, Docket UE-131723, April 9, 2014.

<sup>7</sup> Dockets UE-100170, UE-100176, and UE-100177; Open Meeting Memo, Aug. 9, 2012, Attachment A.

<sup>8</sup> See *In the Matter of Puget Sound Energy’s 2010-2011 Biennial Conservation Target Under RCW 19.285.040*, Docket UE-100177, Order 07 ¶ 29.

<sup>9</sup> See *Joint Proposal for Consistent Approach to Northwest Energy Efficiency Alliance Claimed Conservation Savings*, Docket UE-100177, Oct. 31, 2012.

<sup>10</sup> See *In the Matter of Puget Sound Energy’s Report Identifying its 2014-2023 Ten-Year Achievable Electric Conservation Potential and Its 2014-2015 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-132043, Order 01, Attachment A, condition 6(c).

and updating them annually. Staff may use this information to formulate a recommendation on how companies should treat UES values in the future.

### *Opower*

Staff comments on the biennial conservation plans filed for the 2014-15 biennium identified inconsistencies in how the companies measure savings from the home energy reports programs they run through Opower.<sup>11</sup> All three companies contract with Opower for the program, but each measures savings differently.

The main difference in approaches is in the measure life – how long the behavioral changes created by the reports are assumed to last before residents return to their old habits and utilities need to “repurchase” the savings with additional reports. PSE and Avista use two-year measure lives, which means that the reports in the first year create savings that last into the second year, so only a fraction of the second-year savings are treated as new savings for the program. PacifiCorp, on the other hand, assumes a one-year measure life, which means that the company assumes that all the savings in a given year are the result of that year’s reports alone. The practical impact of these differences is that on a per-household basis, PacifiCorp claims a much higher level of savings from its Home Energy Reports program than Avista and PSE.

Staff stated in the comments on the 2014-15 biennial conservation plans that it would work with the utilities during the biennium to devise a “reasonable and consistent approach.”<sup>12</sup> Staff met with the utilities, external stakeholders, and a representative from Opower on May 22, 2014, to discuss this matter. The meeting provided valuable insight into current industry practice and the benefits and drawbacks of different approaches to measuring savings from behavioral programs. Staff continues to explore the matter.

### **Conclusion**

Staff will review stakeholder comments and provide a recommendation as to whether the commission should accept PSE’s biennial conservation report and issue an order finding that the company met its biennial conservation target at the July 25, 2014, recessed open meeting.

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<sup>11</sup> *UTC Staff Comments Regarding Electric Utility Reports on Ten-Year Achievable Conservation Potential and Biennial Conservation Targets*; Dockets UE-132043, UE-132045, and UE-132047; pages 15-17.

<sup>12</sup> *Id.*, page 17.