

Public Comments Submitted by Jon Powell
2018 / 2019 Avista Utilities Biennial Conservation Report (BCR)
Docket UE-171091 and UG-171090

Introduction

Avista Utilities has submitted their Biennial Conservation Report (BCR) as UE-171091 and UG-171090 for the period of January 1st 2018 through December 31st 2019 as required per Washington Administrative Code (WAC) 480-109-120. This is the biennial opportunity for the Commission to review the accomplishments of the past and establish an informed path for the future based upon the findings of the required independent evaluation, measurement and verification process. My comments will outline troubling deficiencies in the independence of the evaluation process and asymmetries between the methodologies used to establish the conservation acquisition target versus the methodologies employed to ascertain if that target has been successfully achieved.

Though these comments are submitted as a member of the public, they are informed by thirty years in the energy-efficiency field including eleven years on the Northwest Energy Efficiency Alliance Board of Directors (with six years on the Executive Committee and six years chairing the Cost-Effectiveness Committee), over twenty years of experience in integrated resource planning and leadership roles in the delivery of utility energy efficiency portfolios and of the evaluation, measurement and verification of utility energy efficiency portfolios.

Assessing the Energy Efficiency Portfolio Evaluation Process

The findings of the biennial evaluation process are the foundation upon which the Commission, the Company, external stakeholders and other interested parties build their understanding of the performance of the energy efficiency portfolio. To meet these needs evaluations must be performed in a competent and unbiased manner. If an evaluation falls short of this standard the future management of the portfolio will be based upon a distorted view of portfolio

characteristics and the regulatory treatment of utility successes or failures will be based upon an inaccurate perspective of portfolio performance.

It has long been recognized that it is necessary for the evaluation process and the evaluators themselves to be independent of those who are being evaluated in order to minimize both intentional and unintentional bias in the final work product. Independence is necessary to prevent, to the extent possible, the tendency for those who are being evaluated to influence the outcome of the evaluation for nefarious purposes as well as to simply provide for a fresh perspective upon program and portfolio performance. For this reason evaluations should not be constrained or guided by those who are being evaluated. Otherwise there is the considerable risk that the evaluation will simply be a regurgitation of pre-existing conclusions of the portfolio delivery staff to the detriment of the objective of an unbiased holistic evaluation.

Clearly independence is regarded as a critical element in an evaluation. As such it is an established requirement within the BCR process per WAC 480-109-110 calling for “An independent third-party evaluation ...”. Unfortunately the operational reality of the current BCR process is that the evaluation process is far from independent.

The existing process calls for the utility to (a) select the consultant to perform the evaluation through an RFP process which, though nominally transparent, grants the utility the full authority to manage the RFP and select their own evaluator, (b) exercise full authority to manage and direct the evaluation, (c) act as the source and gatekeeper of the data necessary to complete the evaluation and (d) fund the evaluation, including the opportunity to restrict or redirect funding for specific aspects of the evaluation.

There are innumerable ways in which a utility could use the discretion permitted under this process to generate an outcome more favorable to their interests than would otherwise occur. Consultants, all consultants, have an inborn instinct to please their client, which under the current approach to portfolio evaluation are the very organizational units they are evaluating.

Some consultants are more malleable than others and a utility concerned about their performance is likely to tip the scales in favor of selecting a consultant that is inclined to look favorably upon their performance and present the results in a more positive tone.

The evaluator has an immense degree of discretion in performing the evaluation. They may turn a blind eye towards the exclusion of selected data “outliers” in utility reported data, they establish the criteria for stratified samples, they select the criteria for random independent post-verification and so forth. When that evaluator is not sufficiently independent there is ample opportunity for the utility to influence the evaluator to apply these discretionary opportunities in a manner which will reflect favorably upon the performance of their utility client.

For example, the Commission set forth a condition incorporated in the approval of the Biennial Conservation Plan that “The independent third-party reviewer shall be selected through an RFP process and is intended to ... Validate the adequacy of Avista’s savings verification process, controls and procedures”. Yet Avista’s selected third-party evaluator reported (on page 39 of the BCR) that “With approval from Avista, Cadmus ceased performing a fourth impact activity – verification surveys ...”. Nevertheless Avista reported (within Appendix H, titled “Avista BCP Conditions Compliance Record”) that the condition was met in the 2nd quarter of 2019, well before the end of the biennial performance period, as a result of the “impact evaluation”. A meaningfully independent evaluator would be very unlikely to propose or consent to the termination of independent verification surveys, especially when it is a condition established by the Commission within the BCP and most certainly they would not commit to doing so prior to the completion of the biennium’s performance period as this would communicate to the utility that an element of their future work would not be subject to independent review.

Omission of this Commission ordered component of the evaluation leaves the evaluator inordinately dependent on evaluating only what performance indicators the utility chooses to present to the evaluator. Consequently verification of the installation, quality of installation,

customer related costs and other project characteristics are largely self-reported by Avista. This brings into question not only the veracity of their conservation acquisition claims but also the cost-effectiveness calculations, given that typically 70% of the costs associated with the Total Resource Cost test is customer incremental project cost that has not been adequately independently verified.

Beyond foregoing important aspects of an independent evaluation, an evaluator can simply omit mention of program characteristics that would reflect poorly upon the utility. Notably the evaluation of Avista's Multi-family Market Transformation Program failed to indicate that this "market transformation" program has been in the field for twelve years without a defined path towards an exit strategy, a well-recognized and required characteristic distinguishing market transformation programs from ongoing resource acquisition programs subject to different regulatory guidance for incentives. The program has offered enhanced incentives, funded by electric ratepayers through Avista's Schedule 91, that favorably impact the Company's natural gas marketing strategy based upon the representation of the program as a market transformation effort while having none of the industry recognized characteristics of a market transformation program. This is a glaring inconsistency that should have been recognized and noted as part of an independent evaluation.

I would like to think that these are the only two manifestations related to the less than fully independent relationship between Avista and their third-party evaluator. However these are simply two illustrations that were apparent from a brief perusal of publically available documents.

External consultants are already facing an immense uphill battle in completing an accurate, honest and comprehensive evaluation by virtue of the fact that they are not embedded within the utility. Lacking an inside knowledge of the day-to-day detailed operations of that specific utility's programs and processes they are unable to identify many of the key issues that an embedded independent evaluator would be familiar with. To layer upon this handicap a

system allowing for utility staff to have substantial tools that can be used to manipulate the direction and tone of the evaluation creates a process that will likely result in a compromised and biased evaluation that is not representative of utility performance. As such the evaluation is of limited use in informing decisions regarding the prudence and performance of an energy efficiency portfolio.

Fundamentally and bluntly stated, an evaluation that is not as independent as is humanly possible is not a useful evaluation. Independence is the gold standard of evaluation and without it the evaluation exercise is severely compromised. The current process fails to meet this necessary standard.

Defining a Superior Approach to Evaluating Utility Performance

Discussions shortly after the passage of the 2006 Initiative 937 briefly included consideration of a coordinated and independent Washington Utilities and Transportation Commission (WUTC) Staff managed and utility funded evaluation of all three Washington electric investor-owned utilities. That discussion was not well received by the utilities to be evaluated and was quickly and quietly terminated. The publically stated objection to this approach was based upon opposition to the WUTC Staff management of utility funds which would eventually be before the Commission for a finding of regulatory prudence.

Events since that time provide ample reason to reconsider a WUTC Staff directed independent statewide approach to portfolio evaluation. The grounds for reconsideration is not only related to the value of a more independent evaluation for all of the previously outlined reasons, but also to provide the opportunity for (a) meaningful and extremely valuable cross-utility comparisons using consistent analytical methodologies and (b) the opportunity for substantial economies of scale leading to significant cost-savings for customers in an area that is becoming progressively more complicated and costly.

The current decentralized and uncoordinated utility controlled approach to evaluation creates unnecessary challenges in any attempt to assess the success of differing implementation strategies or comparative performance among utilities. Differences in data reporting and analytical methodologies render it difficult bordering upon impossible to make these inter-utility comparisons, thus compromising the ability to learn from experience. The ability to make comparative assessments of strategies would be an extremely valuable tool for advancing statewide utility performance. Washington has the opportunity to create a laboratory for the improvement of utility performance by establishing a statewide coordinated and independent evaluation process.

The collective evaluation expense for Washington utilities reflects both the increased scale and diversity of utility energy efficiency programs and the complexity of the evaluation process itself. Though a competent evaluation is of inestimable value the evaluation cost is also a burden on portfolio cost-effectiveness. The upward trend in utility evaluation cost also reduces the quantity of efficiency resources that meet the necessary cost-effectiveness criteria for acquisition. A statewide coordinated effort would bring economies of scale to this process that would dramatically reduce the cost of evaluation, thereby improving the cost-effectiveness of efficiency programs and increasing the quantity of efficiency resources that can be cost-effectively acquired.

Conclusions Regarding the Evaluation Process

This is an appropriate time for the Commission to initiate a fully public discussion of alternative approaches to the biennial evaluation of investor-owned utility energy efficiency portfolios with the objective of improving the structure of the evaluation of 2022-2023 efficiency programs and the BCR process consistent with the objectives stated within WAC 480-109-120. Presently there are four completed biennial evaluations and one evaluation currently before the Commission each applying the same approach characterized by a lack of both independence and inter-utility coordination. This is an opportune time to pause and reflect upon what can be learned from this history. I firmly believe that a WUTC Staff managed statewide independent

and coordinated evaluation process would move Washington towards a state-of-the-art delivery of energy efficiency programs while simultaneously realizing significant cost savings for utility ratepayers.

Asymmetric Treatment of the Acquisition Goal and Measurement of Acquisition Achievement

Prior to each biennia the Company establishes a conservation acquisition target for the upcoming period which is informed by the conservation potential assessment (CPA) and an integrated resource planning (IRP) process. This process includes participation by invited external parties through the IRP Technical Advisory Committee as well those who the Company has chosen to include in their Conservation Advisory Group.

In order for the target setting and target achievement process to be meaningful it is necessary for there to be consistency between the two processes. A consistent methodology leads to an “apples to apples” comparison while methodological inconsistencies create an “apples to oranges” situation. Unfortunately key inconsistencies exist as a result of the methodologies employed within Avista’s BCR.

Avista has tested a large number of identifiable prescriptive programs against all other supply and demand-side alternatives and has established a conservation acquisition target based upon those that are accepted by the resource planning model. After adjusting for Commission accepted modifications regarding fuel-efficiency programs, regional market transformation, informational programs and so forth, this ultimately establishes the biennial acquisition target and accompanying budget. But once this target is established there is no reference back to the extensive analysis performed in the CPA and IRP processes as far as the measurement of the acquisition target is concerned. Consequently conservation measures deemed to be cost-effective and incorporated into the conservation target can be neglected while other measures that may have not been tested or tested and failed may be pursued in their place.

This inconsistency between the establishment of the target and the measurement of acquisition to meet the target manifests itself in several ways:

- Funding incorporated into utility budgets with the stated intent to pursue measures identified as cost-effective in the CPA, IRP and BCP processes can be fully or partially diverted to other measures. For example, there are significant indications that funding for and focus upon accepted and cost-effective residential energy efficiency measures has been diverted towards programs that are more supportive of the Company's natural gas marketing objectives and incentive-granting programs targeted towards high-profile industrial and institutional customers. The energy acquisition resulting from these budgetary diversions has been credited towards achieving the utility's acquisition target despite their inconsistency with the process for establishing that target.
- Conservation programs which were either specifically rejected or omitted from evaluation in the resource planning process can be fielded despite their unfavorable or untested status. Even if the actual result of the program is incrementally cost-ineffective including an unbiased and appropriate sharing of joint costs within the portfolio (which unfortunately can be omitted or easily manipulated), their lack of incremental cost-effectiveness can be concealed within the cost-effectiveness of the overall portfolio. Yet the energy acquisition from programs which are meaningfully cost-ineffective can nevertheless be credited towards the acquisition target.
- The resource planning models are adept at selecting or rejecting individual defined resources with load shapes and costs that can be fully characterized. This is achievable for prescriptive programs involving the installation of efficiency measures with known load shape characteristics and costs, but they are less than useful in testing non-prescriptive programs involving custom projects such as Avista's non-residential site-specific program (traditionally their largest single program in terms of acquisition). Consequently it is easy to manually apply a low estimate of acquisition in the establishment of the target with confidence that the actual acquisition will exceed that programmatic target. In 2018-2019 Avista exceeded the site-specific acquisition target by 4,424 mWh's. This alone amounts to 51% of the 8,717 mWh's of acquisition in

excess of the target achieved by Avista prior to any adjustments for decoupling. Given that the site-specific program systematically, biennium after biennium, exceeds the amount of acquisition incorporated into the target setting process, it is cause to question if this consistency is the result of manipulation.

Appropriate Public Policy Remedies

The Commission can, within this docket, establish and enforce protocols which will improve the consistency between the establishment of the acquisition target and the measurement of acquisition eligible to be credited towards that target. These protocols could include:

- Permitting only the acquisition resulting from measures which (a) were identified as cost-effective and accepted within the resource planning process and used to establish the acquisition target and budget or (b) are retrospectively cost-effective as a result of an independent evaluation, including a full and reasonable allocation of portfolio joint costs utilizing a transparent methodology. Acquisition resulting from programs not meeting these criteria should not be credited towards achieving the utility's acquisition target.
- The utility should be required to identify budgetary variances, with appropriate allocation of portfolio joint costs to all programs, as part of the BCR process. Acquisition from programs whose actual funding exceeded that contained within the BCP budget and were subsequently determined to have yielded significant corporate goodwill or marketing benefits should be reduced proportionately to their budgetary variance before being credited towards the acquisition target. The expenditures themselves should remain recoverable if all other elements of regulatory prudence are met.
- Acquisition from non-prescriptive (e.g. non-residential site-specific) programs manually incorporated within the acquisition target due to the inability to fully characterize their load and cost characteristics should be limited to the quantity of acquisition included within the establishment of the acquisition target for that program. Acquisition beyond that level should not apply towards the achievement of the acquisition target but should be incorporated within the portfolio cost-effectiveness calculations. The utility costs

associated with any portion of the excluded acquisition should remain recoverable if they are found to be prudent.

These first steps towards improving the consistency between the establishment of the acquisition target and the achievement of that target will reduce the dysfunctional gamesmanship that utilities engage in to secure corporate benefits from ratepayer funded energy efficiency programs.