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WASH. UT. & TP. COMM

December 14, 2006

RONALD L. ROSEMAN
ATTORNEY
2011 14TH AVE. EAST
SEATTLE, WA. 98112
ronaldroseman@comcast.net

Via US Mail and email

Ms. Carole Washburn
Executive Secretary
Washington Utilities & Transportation
Commission
P. O. Box 47250
1300 S. Evergreen Park Drive, S.W.
Olympia, WA 98504-7250

**Re: In the Matter of AVISTA Corporation
Docket Number and UG-060518**

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Dear Ms. Washburn:

Enclosed for filing please find the original and eight (8) copies of the pre hearing brief on behalf of the Energy Project in the above-captioned matter.

Very truly yours,



Ronald L. Roseman

cc: Service List (via email and U.S. Mail)

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of The Petition of
AVISTA CORPORATION, D/B/A/
AVISTA UTILITIES,

For an Order Authorizing
Implementation of a Natural Gas
Decoupling Mechanism and to Record
Accounting Entries
Associated with the Mechanism

) Docket No. UG-060518
)
) PRE-HEARING BRIEF OF
) The ENERGY PROJECT

STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

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I. INTRODUCTION

A decoupling mechanism appears to be a worthy goal that would advance energy efficiency. Energy efficiency is supported by The Energy Project as well as the Company, environmentalist and all parties in this case. This Commission has also stated that “we favor utility efforts that accomplish cost-effective conservation through reducing utility cost and allowing consumers to manage their bills. *A well designed decoupling mechanism* (emphasis added) may support the Company’s increased investment in energy efficiency and promote our state’s goal of furthering energy efficiency.”¹ But like PacifiCorp, Avista has failed to provide the Commission with the evidence to approve a decoupling proposal.

**II. AVISTA MUST ANSWER THE COMMISSION’S QUESTIONS
ABOUT DECOUPLING BEFORE THE DECOUPLING
MECHANISM MAY BE APPROVED**

As recently as April 2006, the Commission has outlined information that “at a minimum”² should be provided in order for the Commission to approve a decoupling

¹ PacifiCorp, UE-050684, Order No.04 at page 41.

² *Id.* at page 41-42.

mechanism. Puget Sound Energy, in its current rate case, says of its decoupling proposal that it “complies with the elements that the Commission has stated it expects to see in a decoupling mechanism.”³ Avista has failed to address many of the information needs identified by the Commission. Avista and the settling parties in this case appear to believe they can pick and choose among those guidance points. We disagree and believe that the Commission’s guidance provides a valuable yardstick for evaluating how far any decoupling mechanism goes and whether it is in the public interest.

The Energy Project recognizes that Public Counsel has raised many substantial questions in addition to the Commission’s questions that should be answered and weighed in the Commission’s ultimate decision as to whether to allow decoupling.

The elements in the Commission’s PacifiCorp order that The Energy Project especially believes Avista needs to address are “the Company’s failure to commit to incremental conservation measures as a counterbalance to its potential reduction in risk, rate of return implications, and impact of the mechanism on low-income customers.”⁴ We will discuss the need for incremental conservation and the impacts on low-income households below.

III. INCREMENTAL CONSERVATION IS ESSENTIAL

The settling parties assert that the question of incremental conservation need not be addressed in this case because this company is already doing an excellent job in its energy efficiency work. Nevertheless, The Energy Project believes that the question of incremental conservation is central to approval of a decoupling mechanism. So, it would seem, does the Commission, since it is the subject of not one, but two of the points the

³ See Initial Brief of PSE UE-060266 and UG-060267 at page 34.

⁴ PacifiCorp, UE-050684, Order No.04 at page 41-42.

Commission made in its guidance to PacifiCorp. The Commission would like to see incremental conservation identified, and wants to see specific targets achieved through the decoupling mechanism “relative to the baseline conservation programs currently in rates *and the Company’s Integrated Resource Plan.*”⁵

This final point cannot be emphasized enough. The lack of incremental conservation provided through this mechanism is significant because without it the mechanism simply pays the company more for efforts that are already being accomplished in 2006 and that are already in the Company’s (and the public’s) best interest. The current level of energy efficiency efforts the Company is undertaking is the result of its Integrated Resource Plan, which subscribes to a least cost planning approach. In this respect, it comprises the best business plan for the Company to follow. It was developed in an environment where there was no assumption the Company would recover the fixed cost component of the saved therms. In that sense, paying the Company again for efforts that are already underway and in its best interest represents a windfall. This was, in fact, a situation that Staff objected to in the PacifiCorp proposal:

Staff opposes the joint proposal because it fails to: ... 3) Identify or commit to any new demand-side management benefit for ratepayers to compensate for shifting the risk of conservation to them.⁶

The Energy Project believes, however, it is important to maintain consistency in these matters.

At the very least, the Commission should require some increase in the energy efficiency efforts aimed at the customer classes who are paying for the decoupling experiment. The residential class supplies 61% of the funds collected to finance the

⁵ *Id.* at page 42 (emphasis added).

⁶ PacifiCorp UE-050684, Order No.04 at page 40.

energy efficiency for commercial, industrial and residential customers.⁷ Yet, only 29% of the energy efficiency budget is directed to this class.⁸ Meanwhile, commercial and industrial customers who are not participating in this experiment receive 60% of the funds collected from the three rate classes.⁹ Clearly conservation should be targeted to the class that is paying for decoupling.

IV. IMPACTS ON LOW-INCOME HOUSEHOLD ARE IGNORED

The Commission's guidance also specifically points to concerns about the impacts the decoupling mechanism will have on low-income households. The fact is that low-income households do not have discretionary funds to spend on energy efficiency measures. Too often, their homes need considerable amounts of other repair work as well. The result is that low-income households have little recourse in the face of cold weather or high bills but to cut back on their usage. This contributes to the reduced consumption for which the mechanism would remunerate the Company. Part of that remuneration will appear on the bills of low-income customers. In this way, low-income customers get to suffer poorer living standards and yet pay for the privilege. This phenomenon has nothing to do with weather normalization. It is one of the consumption reducing mechanisms for which the Company would receive gratuitous reimbursement.

V. NOT AN EITHER/OR PROPOSITION

The settling parties suggest that the only alternative to a decoupling mechanism is to raise the basic monthly rate substantially and that the decoupling charge is preferable. We certainly agree that increasing the basic monthly rate to \$15, \$20, or higher is not

⁷ Avista's response to Data Request EP No. 2.

⁸ Avista's response to Data Request EP No. 3.

⁹ Avista's response to Data Request EP No. 3.

desirable and we recognize that it is a deterrent to customer sponsored energy efficiency investment. However, if the basic charge is increased solely to the extent necessary to cover the fixed costs that are left uncovered due to energy efficiency, we assume that the rate impact will be the same as from the decoupling mechanism. This is not to say that we prefer an increase to the basic charge, but rather that we do not see how the decoupling mechanism is any less of a deterrent to customer-sponsored conservation if the two mechanisms are gauged to recover the same amount of funds.

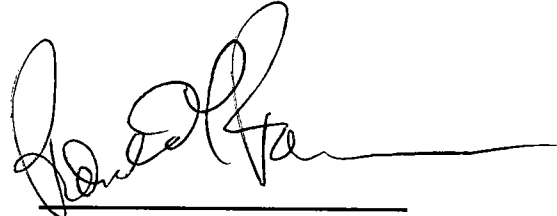
Finally, we reject the oversimplification that there are only two alternatives to recovering fixed costs—an increased basic charge or a decoupling mechanism. There is at least one other mechanism – the way companies have been recovering these costs for years, as a part of the volumetric rate. Recovering the fixed costs in the volumetric rates also has the positive attribute of making those who use more gas pay for more of the system. This is as it should be. The decoupling mechanism does not just ignore that, but counteracts it by spreading the cost across all customers equally so that someone who uses a small amount of therms will actually pay the same decoupling charge as someone who consumes a large number of therms, a further inequity for low-income households since they tend to consume less.

VI. CONCLUSION

For the reasons discussed in this brief, The Energy Project believes Avista's petition for an order authorizing a decoupling mechanism should be denied. If there is to be consistency of reason and analysis of the appropriateness and design of a decoupling mechanism in this state, *all* requests for approval of decoupling should at a minimum

provide detailed information specified by the guidelines the Commission established in the PacifiCorp order.

Dated this 14th day of December, 2006.

A handwritten signature in black ink, appearing to read 'Ronald L. Roseman', written over a horizontal line.

Ronald L. Roseman
Attorney for The Energy Project