Exh. AML-1T
Docket Nos. UE-190334, UG-190335, UE-190222
Witness: Amanda Levin

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. AVISTA CORPORATION d/b/a AVISTA UTILITIES, Respondent.	DOCKET NOS. UE-190334, UG-190335, UE-190222 (*Consolidated)*

RESPONSE TESTIMONY OF

AMANDA LEVIN

ON BEHALF OF

NW ENERGY COALITION

October 3, 2019

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Amanda Levin. I am a Policy Analyst for the Natural Resources Defense Council (NRDC). My business address is 1152 15th Street NW, Suite 300, Washington, DC, 20005.

Q. Please describe your background and experience.

A. My professional and educational background is provided in the attached Exhibit No. AML-2. Briefly though, in my current position at the NRDC, I focus on analysis and advocacy around energy, energy efficiency, renewables integration, decarbonization, and wholesale market reform. As part of my job, I serve as an expert witness for NRDC and partner organizations in front of state utility commissions, legislatures, and federal agencies on issues related to utility regulation and rate design.

I have submitted testimony or served as an expert witness in front of the Washington Utilities and Transportation Commission, Idaho Public Utilities Commission, Montana Public Service Commission, New Mexico Public Regulation Commission, and New Jersey Board of Public Utilities. I have previously testified on issues related to utility disincentives to pursue energy efficiency, including mechanisms to address these disincentives, such as decoupling and more limited lost revenue adjustment mechanisms.

My research on electric restructuring, alternative utility business model design, and industrial energy efficiency program design has also been published in a variety of academic press and journals.

Q. On whose behalf are you appearing in this proceeding?

A. I am testifying as a witness for the NW Energy Coalition (NWEC).

Q. Please summarize and explain how your testimony organized.

A. My testimony will respond to and support the continuation of Avista's decoupling mechanism. My testimony will first provide the public policy rationale and discuss recent developments and analysis that demonstrate the efficacy of decoupling across the country and in Avista's territory, specifically (Section II). From this, I summarize the modifications proposed by Avista to its decoupling mechanism and provide detail on Avista's proposed modifications that I support (Section III). I then address concerns with a few of the proposed modifications and put forth alternative modifications to the decoupling mechanism that I recommend the Commission approve instead (Section IV).

Q. Are there any other witnesses testifying on behalf of NWEC?

A. Yes. Both Wendy Gerlitz and Amy Wheeless are testifying on behalf of NWEC as well.

II. THE NEED FOR AND BENEFITS OF DECOUPLING

Q. Why are mechanisms such as a decoupling mechanism necessary in order for a utility to fully promote demand-side measures, like energy efficiency?

A. Under traditional cost-of-service ratemaking, a utility would see a reduction in recovery of authorized fixed costs if it were to pursue energy efficiency, which creates a large disincentive for utilities to invest in and support customer adoption of energy efficiency measures. This is called the "throughput incentive,"[1] where traditional "cost-of-service" regulation motivates a utility to increase sales and resist efforts that would decrease sales. Under traditional ratemaking, a utility recovers

[1] As an example, Addressing the Throughput Incentive and Digging into Decoupling, Richard Sedano's *Presentation on behalf of RAP,* Mar. 3, 2016 (available at http://www.puc.state.pa.us/General/pdf/EnBanc/ARM_EnB_030316-RAP_PPT.pdf).

much of its authorized costs, including those that are fixed in the shorter period–like capital investments–through the energy (kWh) charge. If sales decrease, a utility's profit and actual return on equity (ROE) decreases, and if sales increase, profit and ROE increases above authorized levels.

Q. Are these existing perverse incentives limited to energy efficiency?

A. No. In the last few years, a number of customer-sided technologies have become more affordable and widespread. Like energy efficiency investments, a utility also has a disincentive under a traditional "cost-of-service" approach to promote or help customers invest in these newer, "behind-the-meter" clean technologies such as distributed generation (DG).

Much like energy efficiency investments, DG–most notably rooftop solar–can also significantly reduce a utility's sales. DG has become a much more common and desirable customer option over the last few years, thanks to technology cost declines and utility, state, and federal incentives to boost local renewable development.[2] In 2018, the number of net metering customers in Avista's Washington territory grew by over 60% (from 493 customers in January to 805 customers in December), with cumulative net metering capacity growing from 3.6 megawatts (MW) to 6.2 MW during the same time frame.[3] As of June 2019, there

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[2] U.S. Energy Information Administration (EIA), Form 861M (formerly EIA-826) detailed data (available at https://www.eia.gov/electricity/data/eia861m/).

[3] *Id.*

are now 902 net metering customers representing 7.0 MW of net metered capacity in Avista's Washington territory.[4]

Under a cost-of-service regime, each kWh of distributed solar that is used by a home is a kWh sale lost. Mechanisms that address the "throughput incentive" historically associated with energy efficiency, like a decoupling mechanism, can also address a utility's disincentive to promote or help customers invest in DG. Several decoupled utilities (including those in Washington state) have explicitly noted that decoupling mechanisms have allowed them to be more amenable to and accepting of the growing number of DG applications and installations in their territories.[5] As noted by Company witness Ehrbar, "decoupling positively affects how Avista views the proliferation of distributed generation on our system…with decoupling, the Company has been supportive of customer choice towards distributed generation resources as a clean low cost generation resource that can provide benefits to Avista's system."[6]

Q. How would increased electrification of vehicles and building heating interact with a decoupling mechanism?

A. Recently, some have suggested that "recoupling" (linking utility revenues to the total volume of electricity sold) is needed to encourage utilities to aggressively pursue transportation and building electrification, which is increasingly looked at by local and

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4 *Id*.

5 *See* the Direct Testimony of Alice K. Jackson, Submitted July 13 in Proceeding 16A-0546E, in front of the Colorado Public Utilities Commission; *WUTC v. PSE*, WUTC Docket UE-170033/170034, Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. JAP-29 (Puget Sound Energy's Three Years of Decoupling).

6 *See* Ehrbar, Exh. PDE-1T at 12.

state actors as a cost-effective way to reduce carbon emissions. However, "recoupling" is not a necessary or wise step.

Even with decoupling, utilities have strong incentives to pursue electrification. NRDC conducted an informal survey of utilities across the nation and found no correlation between "decoupling" and a utility's actions in pursuing investments that advance beneficial electrification.[7] This is because all utilities (regardless of whether they are vertically integrated, restructured, or decoupled) have an opportunity to earn a return on capital investments that accelerate beneficial electrification. In fact, decoupled utilities are leading the charge to electrify the transportation sector, and they're not doing it just because it's good for the world. Those capital investments present a real earnings opportunity.

And for consumers, decoupling plus electrification results in greater consumer benefits. Electrification puts upward pressure on sales–and if electrification-driven sales result in actual revenue exceeding allowed revenue, customers would see a refund through a decoupling mechanism. Thus, electrification with decoupling still provides utilities with the incentive to pursue aggressive electrification of our homes and vehicles but ensures that customers will not overpay as we electrify our systems. This interaction between decoupling and electrification has one last benefit for consumers: by breaking the link between profit and sales, utilities will be more encouraged to

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[7] Max Baumhefner, *Are Efficiency and Electrification Policies in Conflict*, Mar. 29, 2018 (available at https://www.nrdc.org/experts/max-baumhefner/are-efficiency-and-electrification-policies-conflict).

pursue the most efficient forms of transportation and building electrification (e.g., heat pumps, rather than less efficient forms of electric heating).

Q. Please summarize the current status of decoupling in the United States.

A. As of September 2019, 17 states and Washington D.C. have at least one investor-owned electric utility with an active revenue decoupling mechanism.[8] In the West, this includes most investor-owned utilities in California, Oregon, Washington, Colorado, and Idaho. Most recently, Dayton Power & Light, in Ohio, received approval to implement a revenue decoupling mechanism at the end of September 2018.[9] Commission action on decoupling is expected in the next year or currently in front of state regulators in Indiana, Montana, New Hampshire, New Mexico, New Jersey, and Pennsylvania.

In total, 42 investor-owned electric utilities are now decoupled. Decoupled electric utilities now serve 41% of all customers receiving service from investor-owned utilities, up from a little less than 25% five years ago. In total, these decoupled electric utilities serve 42 million electric customers (i.e., accounts) and represent around $84 billion in revenue and 806 tera-watt hours of annual demand.[10] Over 30 public power utilities are also decoupled, including the Los Angeles Department of Water and Power

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[8] This number reflects only states with non-expired decoupling mechanisms. States include CA, CO, CT, HI, ID, ME, MD, MA, MN, NY, OH, OR, RI, VT, WA, and DC, as well as IL and NM (where the commission is required to approve decoupling petitions under recent laws).

[9] *See* Order and Opinion in Public Utility Commission of Ohio Case No. 15-1830-EL-AIR (Sept. 26, 2018) (available at https://dis.puc.state.oh.us/DocumentRecord.aspx?DocID=e386cb1b-6490-4a32-af86-750db063ec5c).

[10] NRDC calculation derived from Form EIA-861 data; reflects 2017 figures.

and Long Island Power Authority, representing about 18% of public power customers and revenue.[11]

More broadly, 106 investor-owned gas and electric utilities are now decoupled, spanning 33 states. New Hampshire became the latest state to institute decoupling, approving a new gas decoupling mechanism for Liberty Utilities in April 2018.[12] New Hampshire also approved a settlement that will allow the state's electric utilities to transition from their current Lost Revenue Adjustment Mechanisms to decoupling mechanisms in 2020.[13]

In the state of Washington, Avista, Puget Sound Energy (PSE), and Pacific Power have received approval for decoupling. Both Avista and PSE have completed and submitted third-party evaluations of their decoupling mechanism pilots.

The PSE decoupling mechanism was subject to two evaluations and reviewed the impacts of the decoupling rider on consumers, low-income consumers specifically (defined as bill-assisted consumers), and conservation program

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[11] NRDC calculation derived from Form EIA-861 data; reflects 2017 figures. Decoupled public power utilities pulled from EIA's accounting in Form EIA-861.

[12] *Liberty Utilities Request for Change in Rates*, N.H. Pub. Utilities Comm'n Docket No. DG 17-048, Order No. 26,122 (Apr. 27, 2018) (available at https://www.puc.nh.gov/regulatory/Docketbk/2017/17-048.html).

[13] *Energy Efficiency Resource Standard*, N.H. Pub. Utilities Comm'n Docket No.15-137, Order No. 25,932 (Aug. 2, 2016) (available at https://www.puc.nh.gov/Regulatory/Orders/2016orders/25932e.pdf)

performance.[14] PSE received approval to continue its decoupling mechanism in December of 2017.[15]

As part of this current docket, Avista submitted a third-party evaluation of its own decoupling mechanism (see Exh. PDE-2), which asks similar questions as the PSE evaluations did.

Q. Please summarize the findings of Avista's decoupling mechanism evaluation.

A. Overall, the evaluation found that "Avista's decoupling is working well within the specific window of time examined."[16] This conclusion was based on an extensive review of the actual operation of the mechanism and its impacts on customer bills, conservation, organizational environment and priorities, and service quality.

The impact of decoupling on customer bills was small, with no meaningful difference between the bill impacts on either low-income or non-low-income customers.[17] At the same time, customers saw other bill benefits: the evaluation noted that both bill assistance funding and conservation achievement had increased substantially since the approval of decoupling.[18] For example, since 2015, the company has greatly exceeded both its I-937 electricity conservation target and the 5% adder

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[14] *See WUTC v. PSE*, WUTC Docket UE-170033/170034, Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. JAP-29 Three Years of Decoupling) (Jan. 13, 2017); *In re Petition of Puget Sound Energy and NW Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and To Record Accounting Entries Associated With the Mechanisms,* WUTC Docket UE-121697, Second Year Evaluation of PSE's electric and gas decoupling mechanisms (June 7, 2016).

[15] *See* WUTC Docket UE-170033/170034, Order 8 (Dec. 05, 2017).

[16] Ehrbar, Exh. PDE-2 at 11.

[17] Ehrbar, Exh. PDE-2 at 114, 124.

[18] Ehrbar, Exh. PDE-2 at 141.

approved with the initial decoupling mechanism. In 2016–2017, the utility acquired 183% of its I-937 target.[19] While the evaluation notes that decoupling, in and of itself, is not a driver for energy efficiency, the evaluators do find that "decoupling was an important factor facilitating Conservation Achievement."[20]

The evaluation also examined the question of potential adverse impacts to company operations, service, and customer satisfaction. It concluded that there was no indication that decoupling had any adverse effect the utility's cost control, operational efficiency, and service quality.[21] They also found no evidence that decoupling resulted in perverse price signals that weakened customer participation in conservation activities and programs.

Q. Is this consistent with past evaluations of other decoupling mechanisms?

A. Yes. Pertinent findings from PSE's audits included:

- The third-party evaluators confirmed the decoupling mechanism has worked as intended.
- The size of decoupling adjustments was small – small enough to not noticeably impact customer incentives to conserve energy.
- There was no significant difference in decoupling impacts for low-income residential consumers and non-bill assisted residential consumers.
- The third-party evaluator did not find any conclusive evidence to suggest that the decoupling mechanism has any adverse effects, building off the earlier

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[19] Ehrbar, Exh. PDE-2 at 175.
[20] Ehrbar, Exh. PDE-2 at 182.
[21] Ehrbar, Exh. PDE-2 at 201.

finding that "decoupling for the [first] two years studied is, in a word, harmless."[22]

- The evaluators found no evidence of adverse impacts on customer service or on the utility's incentives to control costs or on operational efficiency. In fact, PSE's annual average increase in operations and maintenance costs has declined when compared to the historical growth rate.[23]
- Decoupling has helped support "an organizational reality in which it is ok for staff to exceed savings goals and in which DSM and renewable energy are included in a positive organizational outlook."[24]
- Overall, the evaluators concluded "decoupling is without a downside."[25]

III. AVISTA'S PROPOSED DECOUPLING MECHANISM

Q. Please summarize the modifications Avista is proposing to its decoupling mechanism.

A. Company witness Patrick D. Ehrbar noted six proposed changes in his testimony:

1. Extend the current decoupling mechanism through March 31, 2025;

2. Modify the treatment of new customers (defined as new hookups after the test year) so that the decoupled revenue-per-customer for new customers excludes fixed transmission and production costs;

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22 *See* WUTC Docket UE-121697, Second Year Evaluation of PSE's electric and gas decoupling mechanisms, at 110.

23 *See WUTC v. PSE*, WUTC Docket UE-170033/170034, Direct Testimony and Exhibits of Jon A. Piliaris, Exhibit No. JAP-29 at 21 (Puget Sound Energy's Third-Year Decoupling Report).

24 *Id.* at 25.

25 *See* WUTC Docket UE-121697, Second Year Evaluation of PSE's electric and gas decoupling mechanisms at 8.

3. Change the effective date of annual tariff revisions to August 1st (coinciding with the Company's annual DSM rate adjustments);

4. Implement an additional "annual true-up" to the deferral calculation;

5. Change the natural gas quarterly reporting requirement to 60 days to match the electric reporting requirement;

6. Approve a natural gas conservation target of 5% (beyond the savings identified in the company's long-term plan) with penalties.

Q. Do you support the first proposed change?

A. Yes. I support the continuation and extension of the Company's decoupling mechanism. I believe that the findings of the third-party evaluation of the mechanism warrant the extension of the mechanism. The mechanism has worked as intended and the company's efficiency performance over the last few years has vastly improved and in most years, greatly exceeded, the targets set.

Q. Do you support the second proposed change?

A. Yes. Avista's proposed adjustment to revenue-per-customer for new customers will ensure that the utility is not allowed to over-collect fixed costs related to new customers in its decoupling mechanism between rate cases. I believe it sufficiently addresses concerns raised historically about the potential for "double recovery" of costs under a revenue-per-customer approach that covers distribution, transmission, and production-related fixed costs. As noted by Witness Ehrbar, "the utility does not need to incrementally construct new generation and transmission resources to serve new customers. … Avista does not otherwise incrementally expand its portion of the

Jackson Prairie Natural Gas Storage Facility every time it connects a new natural gas customer."[26]

The company proposes to exclude these fixed production and transmission costs for new customers until the next general rate case. This will result in the approved annual "revenue-per-customer" for new customers being $430.09 for residential and $2,310.63 for non-residential schedules, as compared to $785.66 and $4,634.81, respectively, for existing hookups.[27] This will reduce the authorized decoupled revenue per new customer by 45% for residential and by 50% for non-residential classes, as compared to if they were treated the same as an existing customer. This modification should make the decoupling mechanism fairer for customers, limiting the authorized fixed cost recovery for new customers between rate cases to the likely fixed costs actually imposed by the addition of new customers.

Q. Do you support the third proposed change?

A. I support this proposed adjustment. The third-party evaluators recommended a similar change to the tariff effective date, "if practical."[28] Avista's proposal to move to August 1st, to coincide with the Company's annual DSM filings, is reasonable.

Q. Do you support the fourth proposed change?

A. I do not oppose this proposed adjustment.

Q. Do you support the fifth proposed change?

A. I do not oppose this proposed adjustment.

Q. Do you support the sixth proposed change?

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[26] *See* Ehrbar, Exh. PDE-1T at 24-25.
[27] *See* Exh. AML-3 (Attachment B of Response to Staff Data Request No. 089).
[28] *See* Ehrbar, Exh. PDE-2 at 223, Section 10.

A. No, I do not support this proposed change. I detail an alternative in the next section.

IV. NWEC'S RECOMMENED MODIFICATIONS

Q. Do you have any recommendations related to the Company's filed decoupling proposal?

A. Yes. I propose three adjustments and modifications to the Company's filing.

Q. Please summarize your recommendations.

A. I recommend that the Commission act on a few recommendations included in the third-party evaluation of Avista's decoupling mechanism that were not included in the company's filing. First, the Commission should require Avista use a 20-year moving average for weather in the next rate case. Second, the Commission should require Avista to increase its spending on low-income conservation programs. Avista has noted in Data Responses to NWEC that "Avista would be supportive of increasing low income weatherization funding to take into account issues such as inflation."

In addition, I recommend changing the Company's proposed 5% conservation target for natural gas to a combined electric and gas conservation target of 10%. The company would still be required to achieve a minimum of 5% of savings on the electric side (consistent with Avista's current electric conservation adder), but could meet the other 5% through either electric or gas conservation programs, depending on what is most cost-effective.

Q. Would you please explain your first recommendation?

A. Yes. Low-income households in Avista's territory have distinctly higher usage than non-low-income households.[29] The average low-income customer uses 6% more

[29] *See* Ehrbar, Exh. PDE-1T at 19.

electricity, even though they tend to live in much smaller homes. Per square foot, a low-income customer uses 40% more electricity than a non-low-income customer on average.[30] Low-income households–even though they live in smaller homes and have much smaller disposable incomes–paid $127 and $152 more annually on electricity in 2016 and 2017, respectively, than the entire residential class on average.[31]

This contributes to very stark differences in energy burdens in Avista's territory. In Spokane County, for example, a household making the median area income (MAI) or more spends just 1% of income on electricity (and another 1% on gas) on average.[32] A household making between 30 and 60% of the MAI spends 4% of their income on electricity (and another 1% on gas).[33] Finally, a household making below 30% of the MAI spends 10% of their income on electricity every month (and another 3% on gas and 1% on oil/other fuels for heat) on average.[34] Thus, the lowest earners in Spokane County spend 7 times more of their income on energy (and 10 times as much on electricity alone) as those making the median income in the county.

While all the drivers behind this distressing discrepancy have not been identified, the Commission should work to address issues related to energy affordability in this docket. I recommend that the Commission increase low-income funding to $3 million a year, an increase of about $650,000 from proposed levels.

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30 *See* Ehrbar, Exh. PDE-1 at 19.
31 *See* Ehrbar, Exh. PDE-2 at 118, Section 3.
32 U.S. Department of Energy, Low-Income Energy Affordability Data (LEAD) Tool, (Accessed September 30, 2019) (available at https://www.energy.gov/eere/slsc/maps/lead-tool).
33 *Id.*
34 *Id.*

Low-income homes in Avista's territory use much more electricity per square foot and spend much more of their income on energy to heat, cool, and power their homes. Increasing funding for low-income efficiency programs would allow Avista to serve more low-income households every year and help narrow the consumption and spending gap between low-income and non-low-income households in their territory.

Q. Would you please explain your second recommendation?

A. The third-party evaluation completed for the Avista decoupling mechanism included a list of recommendations.[35] Avista incorporated a number of these recommendations into its proposal, but a few of the recommendations have not been included in the initial filing. One recommendation included in the Evaluation was to consider redefining "normal weather" by moving from a 30-year average to a 20-year average. The evaluators also recommended maintaining a 15 and 10-year moving average to see how those average behave empirically. This recommendation is designed to improve the forecasting of expected sales by reflecting the warming trend that has been seen in recent decades.

Weather is an important factor influencing actual usage-per-customer and is the one of two main drivers–along with energy efficiency–impacting usage per customer in Avista's decoupled classes. This is especially true on the natural gas side of Avista's operations. As shown in the evaluation, weather over the three years studied (2015 to 2017) was, on average, warmer than "normal" (30-year) average weather.[36] Continuously warmer than average or planned for winter weather can result in

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35 *See* Ehrbar, Exh. PDE-2 at 223, Section 10.
36 Ehrbar, Exh. PDE-2 at 95-96.

perpetual under recovery of fixed costs for Avista's gas side: anticipated sales are higher than actual due to expectations of more heating degree days, and thus the price per therm (total allowed revenue to be recovered via volumetric sales/anticipated volumetric sales) is set too low in a rate case. When actual sales are lower due to warmer (than "normal") winter weather, the utility would see an under recovery of authorized revenue and customers would see a surcharge via the decoupling mechanism the next year to address this shortfall. However, decoupling surcharges are capped at three percent annually: in fact, the decoupling adjustment on the residential gas schedule was limited by this cap two out of three years studied. This could result in cost recovery issues if the Company continues to see lower-than-expected sales resulting in persistent deferrals that cannot be recovered in a timely manner through the decoupling mechanism.

Redefining "normal" weather to reflect a more recent timeframe, such as 20 years, could help address the potential issues related to the over-forecasting of sales (and under-recovery of fixed costs) by focusing more on the recent, warmer (and warming) weather trends and improving the accuracy of normalized sales forecasts. I recommend that the Commission require that Avista use a 20-year moving average in the next rate case. Avista could also maintain a 30-, 15-, and 10-year moving average to understand the impacts and implications of these different averages.

Q. Would you please explain your third recommendation?

A. Natural gas customers are currently subjected to several risks associated with the cost and feasibility of gas service. First, natural gas prices are notoriously volatile, and

though prices have been low in recent years, there is no guarantee that prices will remain low over an extended period of time.[37]

Relatedly, growing national and international concerns about climate change are driving increasing public policy efforts to price greenhouse gas (GHG) or carbon emissions from fossil fuels, electrify both new and existing buildings, and, even, a growing effort to ban new gas hookups.[38] This raises concerns about locking in a commitment to increase or accelerate natural gas energy efficiency acquisition, which often commits customers to natural gas equipment and infrastructure for long periods of time. A natural gas furnace usually lasts between 15 to 20 years; the average life of a natural gas water heater is 8 to 12 years.

Increasingly, it will be important for customers to evaluate GHG or carbon prices associated with natural gas appliances as well as other price and availability risks, against comparable costs and risks of electric appliances. Based on this foresight, it seems ill advised to lock Avista into a 5% target for natural gas energy efficiency, and seems more appropriate to establish an additional 5% goal that can be met either through natural gas or electric energy efficiency acquisition. In this way, pursuing energy efficiency becomes less about incenting the most efficient gas water/space

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[37] Tsvetana Paraskova, *Extreme Volatility In U.S. Natural Gas Market Is Here To Stay*, Jan. 17, 2019 (available at https://oilprice.com/Energy/Gas-Prices/Extreme-Volatility-In-US-Natural-Gas-Market-Is-Here-To-Stay.html).

[38] *See* Phil McKenna, Following Berkeley's Natural Gas Ban, More California Cities Look to All-Electric Future, July 23, 2019 (available at https://insideclimatenews.org/news/23072019/berkeley-natural-gas-ban-california-cities-incentive-all-electric-building-construction-future).

heater or the most efficient electric water/space heater, but instead about incenting the most efficient (and clean) way to heat.

Q. Is NWEC proposing that Avista stop investing in cost effective natural gas conservation?

A. No. At this time NWEC continues to support Avista's achieving its natural gas conservation goals, and efficient building envelope measures will always make sense. Our concern is that at some point in the future, there will likely come a time where the benefits of electric options for customers far outweigh those of natural gas. And in some cases, it may already be cost-effective to convert to electric options. NWEC's proposal of a combined target of 10% would provide more flexibility for Avista to procure the most cost-effective end-use equipment and measures, no matter the fuel, in the future given policies and prices.

Q. How would this combined electric and gas conservation target of 5% be applied?

A. NWEC is suggesting the percentages for electric and gas savings would be additive. Avista would still be required to meet the 5% adder on the electric side. However, for this additional 5% target, the company could meet this savings target with either gas or electric conservation. In other words, Avista would still need to meet at least half of this total 10% adder from electricity programs, but the other half could be met from either gas or electricity savings.

To comply, Avista would record the percentage savings above the respective electricity and natural gas target. These percentages would be added together – and must be equal to or exceed 10% (again, with a minimum savings percentage of 5% from electric to reflect the existing 5% adder on the electric side). For example, if they

exceeded the electric targets by 7% and the gas targets by 3% (equaling 10%), they have complied with this adder requirement.

V. CONCLUSION

Q. Does this conclude your testimony?

A. Yes.