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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: *Avista Corporation d/b/a Avista Utilities: Prudence of natural gas demand side
management program expenditures during the prior two years*
Docket UG-141215

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
AVISTA CORPORATION dba AVISTA UTILITIES'
2012-2013 NATURAL GAS DEMAND SIDE MANAGEMENT PROGRAM
EXPENDITURES REVIEW**

JUNE 30, 2014

DOCKET UG-141215

Background

Pursuant to Order 05 of consolidated Dockets UE-110876 and UG-110877, Avista Corporation (Avista) is required to file with the Washington Utilities and Transportation Commission (Commission) every two years, testimony and supporting evidence to demonstrate the prudence of its natural gas demand side management (DSM) expenditures during the preceding biennium.

On July 22, 2011, Avista, the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel), and the Commission's regulatory staff entered into a Memorandum of Understanding (MOU) regarding the appropriate forum for review of the prudence of Avista's Demand Side Management (DSM) programs and expenditures. The parties to the MOU filed joint motions in Docket UE-100176 and consolidated Dockets UE-110876 and UG-110877, asking the Commission to clarify the process for reviewing the prudence of Avista's DSM programs and expenditures by adopting the procedure described in the MOU. On August 18, 2011, the Commission granted the joint motion in consolidated Dockets UE-110876 and UG-110877, Avista's then-pending general rate case, and effectively found it moot in Docket UE-100176.¹ The Commission ordered that Avista's DSM programs and expenditures would be reviewed for prudence in a future docket, rather than in UE-110876 and UG-110877, the pending general rate case. As a result, Avista is now requesting a finding of prudence in this docket.²

Although evaluation of natural gas programs is not required under the Energy Independence Act, RCW 19.285 (EIA), Order 05 directed that the natural gas DSM prudence filing be included with Avista's June 1, 2012, EIA filing, and every two years after. Parties may recommend changes to the process after 2014, based on substantial change in circumstances. Like its electric program, Avista's natural gas DSM program is funded through the company's DSM Tariff Rider. Because natural gas programs are not reviewed under the EIA, however, Staff limited its review to the overall prudence of the expenditures related to the Company's gas DSM portfolio.

¹ *WUTC v. Avista Corporation*, Dockets UE-110876/UG-110877, Order 05 (Aug. 18, 2011). The Commission noted in footnote 2 of its order that its ruling effectively rendered the parallel motion in Docket UE-100176 moot.

² See Docket UG-141215, Notice of Opportunity to Comment on the Prudence of Avista Corporation's Natural Gas Demand Side Management Program Expenditures during the Prior Two Years (June 6, 2014).

Prudency

Staff desires to provide consistency in its review of DSM prudency and outlines the following proposed approach to assessing prudence for conservation activities.

The company must demonstrate that it evaluated its conservation needs and requirements, and that reasonable decisions were made in terms of programs selected, portfolio costs, and overall management of the programs selected. Four general factors that the Commission has consistently considered in previous determinations of prudence for utilities include:

1. The need for the resource. The utility must determine what resources are necessary. Once needs have been identified, the company must decide how to meet the need in a cost-effective manner. In the case of conservation, the utility must show that the options selected to meet conservation requirements were chosen based on a cost effective and reasonable approach.
2. Evaluation of alternatives. The utility must analyze alternatives available based on current information. Factors to be considered include utility costs, impacts to the ratepayer, and ability to effectively deliver the alternative.
3. Communication with and involvement of the company's board of directors. For conservation programs, the advisory groups have been developed to substitute for the board of directors. The utility should inform its advisory group about the conservation programs selected and their cost of delivery.
4. Adequate documentation. The company must keep adequate detailed records that allow the Commission to evaluate the company's decision making process. The Commission should be able to follow the utility's decision making process, understand the factors the utility considered, and determine the fashion in which the utility valued the factors.

Prudency specifically related to conservation consists of several elements, including the proper establishment of conservation potential, whether programs are cost effective, reliable, and feasible, whether all reasonable measures were pursued, if appropriate public and stakeholder involvement was included in the process (advisory group review), and verification that programs were administered efficiently.

The cost effectiveness and feasibility of a portfolio is typically measured in terms of a benefit-to-cost ratio. As part of the filings, the companies must show a positive ratio of this metric to establish the cost effectiveness of their programs. The companies must file adequately detailed evidence that include cost effectiveness analyses of their proposed conservation programs. Demonstration of involvement from appropriate customer groups, external experts, and other stakeholders must be provided by the companies to demonstrate the prudency of their conservation programs. The formation and coordination of energy efficiency advisory groups is a typical vehicle used by the companies to meet this need. Verification of efficient administration of programs relies mainly on evaluation, measurement and verification (EM&V) processes. EM&V frameworks are established, and then implemented by a third party to verify the biennial savings of each individual company's portfolio. EM&V results and findings will highlight necessary adjustments of the program design or implementation.

As part of the review process for each of the company’s conservation filings, Staff believes the company’s conservation portfolio will generally be prudent if all of the following elements have been properly implemented by the company:

1. The company properly established its conservation potential, pursuant to its most current Integrated Resource Plan.
2. The conservation programs that the company implemented are cost effective, reliable, and feasible, determined using methodology consistent with the Northwest Power and Conservation Council.
3. The company pursued all available cost-effective, reliable and feasible conservation based on the knowledge it had at the time it filed its Integrated Resource Plan (IRP).
4. The company provided adequate opportunity for stakeholder involvement, and implemented appropriate recommendations from stakeholders.
5. The company used a third party to conduct an EM&V review, and incorporated the findings of that review into its portfolio.

Rather than evaluate conservation programs for a “finding of prudence,” Staff again recommends that the ongoing review process that has developed for each utility’s portfolio is effectively a prudence review. The conservation planning and reporting process involves several elements throughout a biennial cycle. Aspects of prudence are evaluated at several points in time through the biennium, and a “finding of prudence” is not necessary.

Analysis of the Information Submitted by the Company

Conservation Target

Avista based its natural gas efficiency savings goals on two IRP(s), filed under Dockets UG-090015 and UG-121421. The IRP(s) set Avista’s efficiency savings target at 1,742,366 therms for 2012, and 892,000 therms for 2013.

Conservation Results

Avista achieved 46 percent of its two-year IRP goal, saving 1,218,496 therms in the 2012-2013 biennium. The gas portfolio realization rate for the biennium was 97 percent. The table below summarizes the company’s results.

| Reported 2012-2013 Biennial Conservation Results | |
|---|------------------|
| Biennial Conservation Target From Company IRP(s) | 2,634,366 therms |
| Reported Savings | 1,218,496 therms |
| Percent of Target Achieved | 46% |

As part of its prudency filing, Avista presented information related to the cost effectiveness of its gas DSM portfolio. At the directive of the Commission's Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs in Docket UG-121207, Avista primarily uses the Program Administrator Cost (PAC) test, also known as the Utility Cost Test, to evaluate cost effectiveness. The PAC test is a benefit-to-cost test from the perspective of minimizing the utility cost of delivering energy services. The PAC ratio was 1.0. The company also reports the Total Resource Cost (TRC), a benefit-to-cost test designed to capture all of the program's costs and benefits, regardless of who pays for them. The TRC ratio was 0.3.

With relatively low natural gas prices, Avista is understandably struggling to find enough cost-effective conservation to meet its IRP targets. Staff is pleased that Avista is working with the Northwest Energy Efficiency Alliance and other regional natural gas utilities to develop a natural gas market transformation organization, which can pursue savings that may not be cost-effective for a single utility. Staff also encourages the company to continue to work with its stakeholders to quantify additional non-energy benefits.

Third Party Verification

Avista retained the Cadmus Group to serve as a third party independent evaluator of its 2012 and 2013 gas DSM programs as part of its effort to meet the requirements for EM&V of its programs. Cadmus evaluated three separate sectors as part of the review: residential, non-residential, and low income. Reporting by Cadmus included assessments of both the impact of Avista's gas DSM portfolio, and an evaluation of the process of the individual programs.

The impact evaluations verified Avista's reported savings, analyzed the program results, and provided recommendations and key findings. In general, Cadmus found the programs to be efficiently run with small areas for improvement. For example, Cadmus recommends that the company update its 2011 estimate of unit energy savings for high-efficiency natural gas furnaces by performing a billing analysis. The process evaluation recommendations for gas are much the same as the electric; primarily that the company should continue its efforts to define and document program processes. This was a recommendation in 2012 and again in 2014. Staff is aware that Avista is currently undergoing a reorganization of the DSM program and expects that the new team will update staff in the coming weeks. A list of recommendations from Cadmus can be found in the direct testimony of M. Sami Khawaja.³ Staff withholds opinion on the specifics of the recommendations but expects the company to address them with its advisory group in the coming months.

Stakeholder Involvement

Stakeholder involvement is a critical aspect of the effective design and delivery of DSM programs. During the 2012-2013 biennium, Avista hosted 12 meetings and webinars on the company's DSM programs that were attended by stakeholders, as well as presenting DSM information during parts of three IRP meetings. Furthermore, the company kept stakeholders

³ See Exhibit No. ___ (MSK-1); page 10.

updated on DSM activities through regular communication via group email updates and conference calls.

Interested Parties' Response

Staff recognizes that interested parties may provide additional comments regarding this determination. Staff will evaluate and consider comments and input from outside parties following their incorporation into this docket.

Staff Position

Rather than evaluate conservation programs for a “finding of prudence,” Staff recommends that the ongoing review process that has developed for each utility’s portfolio be deemed to be an effective prudence review. The conservation planning and reporting process involves several elements throughout a biennial cycle. Aspects of prudence will be evaluated at several points in time through the biennium, and a “finding of prudence” at a particular point in time is no longer necessary. Staff believes this is the best approach to conservation programs, which do not lend themselves easily to a review at a single point in time. Staff proposes discontinuing the requirement for a finding of prudence at a particular time for gas conservation programs, and asks Avista to begin developing a joint petition to be filed in consolidated Dockets UE-110876 and UG-110877.

However, if the Commission elects to require a “snapshot” prudence finding as part of the ongoing prudence review process, Staff suggests that staff and the companies be directed to work together to design a timeline of filings that would allow an appropriate amount of time for the review of a request for a snapshot prudence finding.

Conclusion

Staff will review the comments of other stakeholders and provide a recommendation as to whether the Commission should accept Avista’s biennial conservation report and issue an order finding that the company demonstrated the prudence of its natural gas demand side management expenditures during the preceding biennium at the July 25, 2014, recessed open meeting.

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