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Washington Utilities and Transportation Commission
PO Box 47250
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March 5, 2010

RE: NW Energy Coalition Comments on Docket No. UE-100177, Puget Sound Energy's Proposed 2010-2011 Conservation Target to Meet I-937

The NW Energy Coalition respectfully submits the following comments regarding Puget Sound Energy's ("PSE") proposed 2010-2011 biennial conservation target filed in accordance with RCW 19.285.040(1). We also plan to attend the Commission Open Meeting on March 11.

After providing context for treating energy efficiency as a priority resource, we discuss PSE's proposed biennial target in relation to its Integrated Resource Plan ("IRP") analysis of conservation potential and to the Northwest Power and Conservation Council's ("Council") regional plan. We recommend the Commission find PSE's energy efficiency target insufficient to meet the requirements of I-937.

Finally, we suggest the Commission consider additional opportunities for engaging members of the public and other interested stakeholders in future I-937 target-setting discussions. We recommend the Commission consider consolidating future annual budget and savings target filings with PSE's I-937 conservation filing.

Washington State and the Region Prioritize Efficiency for Meeting Energy Demand

The 1980 Pacific Northwest Electric Power Planning and Conservation Act sets important precedent for the region by prioritizing energy efficiency above all other resources.[1] Washington also has a long history of prioritizing energy efficiency as a resource.[2] State law further finds that energy efficiency is the cleanest, cheapest and most abundant source of energy available. In addition to saving money for consumers and utilities, the law recognizes that efficiency reduces our carbon footprint and protects electricity consumers in times of energy shortage. Pursuit of energy efficiency fosters retention and further development of the clean energy sector in Washington, including green jobs.[3]

[1] 16 U.S.C. § 839b(e)(1).
[2] See for example RCW 19.27A.015, Findings, 1990 c 2, § 1; RCW 43.21F.015; RCW 19.27A.130, Finding, 2009 c 423.
[3] See for example RCW 28B.20.298, § 1; RCW 19.27A.015, Findings, 1990 c 2, § 1; RCW 82.04.4493, Findings, Intent, 2008 c 284 § 1; RCW 80.04.250, Findings, 1991 c 122 § 1; RCW 70.260.010 Finding, Intent, 2009 c 379.

Washington law specifically directs all state agencies to foster efficient energy use.[4] Further,

> …all state agencies are directed to employ their existing authorities and responsibilities to:
> (a) Work with local organizations and energy companies to facilitate the development and implementation of workable renewable energy and energy efficiency projects;
> (b) Actively promote policies that support energy efficiency and renewable energy development;
> (c) Encourage utilities and customer groups to invest in new renewables and products and services that promote energy efficiency; and
> (d) Assist in the development of stronger markets for renewables and products and services that promote energy efficiency.…[5]

The Legislature also recently provided policy direction to electric and natural gas utilities to pursue energy efficiency:

> It is the intent of the legislature that financial and technical assistance programs be expanded to direct municipal, state, and federal funds, as well as electric and natural gas utility funding toward greater achievement of energy efficiency improvements. To this end, the legislature establishes a policy goal of assisting in weatherizing twenty thousand homes and businesses in the state in each of the next five years. ...[6]

In 2006, the state's voters approved Initiative 937, which was codified into law as the Energy Independence Act[7] ("Clean Energy Act"). The Clean Energy Act declares, as state policy, "*increasing energy conservation* and the use of appropriately sited renewable facilities builds on the strong foundation of low-cost hydroelectric generation in Washington state and will promote energy independence in the state and the Pacific Northwest region."[8] This declaration of state policy combined with the conservation acquisition standard established in RCW 19.285.040(1) confirm the important role that energy efficiency holds for Washington and for the region.

[4] See for example RCW 43.21F.010; RCW 39.35.010, Findings, c 214 § 14 (2); RCW 43.19.668.
[5] RCW 28B.20.298 (2).
[6] RCW 70.260.010 Finding, Intent, 2009 c 379 (2).
[7] Chapter RCW 19.285 *et seq*.
[8] RCW 19.285.020 (emphasis added).

The Commission Has Affirmed Energy Efficiency as a Priority Resource

The Commission has repeatedly affirmed energy efficiency as a priority resource for meeting electric and natural gas demand:

- "… the Commission has independently treated conservation as a priority resource, and we reaffirm that policy in this order."[9]
- "… [P]romoting energy conservation is a goal that [the Commission] strongly supports."[10]
- "It is difficult to overstate the importance of conservation measures, as reflected in these statutes and rules, and in our policies."[11]
- Conservation is one of our cornerstone missions. Consequently, we encourage and support efficiency programs as one of the key objectives in our ratemaking. We have long recognized that conservation is, under almost all circumstances, the least cost energy resource available to a utility and its ratepayers.[12]

Energy Efficiency is the Dominant Resource in the Northwest Power and Conservation Council's Sixth Power Plan

The Northwest Power and Conservation Council adopted the region's Sixth Power Plan on February 10, 2010. The Plan emphasizes the essential role of conservation in meeting electricity demand, and as already recognized by this Commission, the fundamental point that achieving significant conservation will remain a critically important goal for utilities in this region, including Washington, into the indefinite future.[13]

> The dominant new resource in the Sixth Power Plan resource strategy is improved efficiency of electricity use, or conservation. The attractiveness of improved efficiency is due to its relatively low cost and the absence of major sources of risk. Conservation costs half of alternative generating resources and lacks the risk associated with volatile fuel prices and potential carbon policies. It also has short lead time and is available in small increments both of which reduce risk. Therefore, improved efficiency reduces both the cost and risk of the resource strategy.[14]

It is important to note that sources of achievable potential savings in the Sixth Plan are about 50 percent higher than in the Council's Fifth Power Plan adopted in December 2004. The new assessment is higher because the Council identified new sources of savings in areas not addressed in the Fifth Plan and because savings potential has increased

[9] Docket U-090222, Order 01, issued 9/14/09, para. 18.
[10] Dockets UE-090134, UG-090135, and UG-060518 (consolidated), Order 10, issued 12/22/09, para. 237.
[11] Id., para 239
[12] Id., para 289.
[13] Id., para 239.
[14] Northwest Power and Conservation Council's Sixth Power Plan, Pre-Publication Version 2-10-10, p. 10-4.

significantly in the residential sector due to technology improvements and in the industrial sector as a result of a more detailed conservation assessment.[15]

Puget Sound Energy's Proposed Biennial Target Is Insufficient Based on the Law and the Rules for Implementing I-937

In this Docket, PSE proposes to meet its I-937 obligation for 2010-2011 by acquiring 42.2 aMW of conservation, or slightly less than 20% of its proposed 10-year potential of 213.7 aMW.[16] PSE based its conservation potential assessment and proposed biennial target on its share of the conservation potential identified not in the Council's Sixth Power Plan, but in the Fifth Plan.[17]

However, PSE's IRP shows substantially more conservation available to PSE over the next ten years, and recognizes that "cost-effective DSR [demand-side resources] is the only way to reduce cost and risk."[18] Using methodologies consistent with the Council[19], PSE's 2009 IRP identifies 427.9 aMW available at the customer meter level over the next ten years and a potential 2010-2011 biennial target of 90.3 aMW.[20] This 10-year potential and the subsequent 2-year target are each more than double what PSE is proposing to acquire to meet its 937 obligation. Yet I-937 requires electric utilities to "pursue all available conservation that is cost-effective, reliable, and feasible."[21]

I-937 also requires qualifying utilities to identify their 10-year conservation potential by January 1, 2010.[22] On December 31, 2009, PSE notified its Conservation Resources Advisory Group (CRAG) that it had assessed its ten-year conservation potential at 427.9 aMW and projected a biennial target range of 69.4 aMW - 90.3 aMW at the customer meter level, very similar to the range the Company had provided to its IRP Advisory Group (IRPAG) earlier that month.[23] This is important because the law requires each qualifying utility to "establish and make publicly available a biennial acquisition target for cost-effective conservation *consistent with its identification of achievable opportunities in (a) of this subsection*, and meet that target during the subsequent two-

[15] Id., p. 4-1. The Fifth Plan estimated achievable conservation at approximately 3,900 average megawatts at a cost up to $120 per megawatt-hour, while the Sixth Plan estimates achievable conservation at 5,860 average megawatts at an equivalent levelized life-cycle cost.
[16] Docket UE-100177, Report Identifying PSE's Ten-Year Achievable Conservation Potential and Biennial Conservation Target for 2010 and 2011, filed 1/29/2010. A strict "pro rata share" of PSE's proposed 1,871,908 MWh 10-year potential would be 374,381.6 MWh or 42.7 aMW.
[17] Id.
[18] PSE's 2009 Integrated Resource Plan, p. 5-51.
[19] RCW 19.285.040(1)(a) requires electric utilities, in assessing their 10-year conservation potential, to "[use] methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council in its most recently published regional power plan"
[20] Docket UE-091986, "WAC 480-109 potential target FINAL 12/31/09", filed 12/31/09.
[21] RCW 19.285.040(1).
[22] RCW 19.285.040(1)(a).
[23] Docket UE-091986, "E-mail 12-31-2009" from Andrew W. Hemstreet to PSE's CRAG, dated 12/31/2009. The e-mail distributed to the CRAG contrasted PSE's proposed biennial range with what PSE's share would be of the Council's Fifth Plan, but did not indicate any leaning of the Company towards use of the Fifth Plan.

year period."[24] PSE's proposed use of its share of conservation from the Fifth Plan is not consistent with its December 31 notice, which projected a ten-year potential of approximately 428 aMW.

On January 25, 2010, PSE e-mailed the CRAG and IRPAG with a notice of a meeting scheduled for January 27 to discuss its plan to file its I-937 target based on its share of the Fifth Power Plan. That e-mail and PSE's subsequent filing with the Commission varied dramatically from the course PSE had been on (i.e., its IRP analysis), as evidenced by prior discussions with the CRAG and IRPAG.

We recognize that the Commission's current rules allow a utility's 10-year conservation potential to be "derived from and reasonably consistent with one of two sources" – the utility's IRP or its share of the Council's "current power plan targets for the state of Washington."[25] At the time PSE filed its proposed conservation targets at the end of January, the Council was on the verge of adopting its new Sixth Plan – and in fact did adopt that Plan in early February. And Council staff had provided a draft of the conservation target calculator to Washington's investor-owned utilities, Commission staff, and other stakeholders months ago following the I-937 workshop hosted by Commission staff on September 3, 2009.[26]

If PSE's 2010-2011 target will be based on its share of currently assessed regional conservation potential, it should be derived from the current Sixth Plan not the out-of-date Fifth Plan. The Council's Conservation Calculator reflecting the Sixth Plan shows that PSE's share of the region's conservation potential is 59.86 aMW under Option 2. And because the Council's Plan does not include an assessment of efficiency improvements in energy production (though its methodologies can be used to develop such an assessment),[27] that target should be adjusted upwards by 0.8 aMW to account for that efficiency potential.[28]

Ultimately, though, we agree with the Council that a utility's share of the regional conservation assessment generally should be used as a benchmark rather than a specific target unless no current rigorous potential assessment exists for an individual utility.

> The purpose of this calculator is to provide utilities with a simple means to compute "their share" of the Northwest Power and Conservation Council 6th Plan's regional conservation target. This calculator is intended to provide utilities with an "approximation" of the level of conservation they should target in order to be consistent with the Council's regional goals. The Council does not formally

[24] RCW 19.285.040(1)(b) (emphasis added).
[25] WAC 480-109-010(1).
[26] E-mail from Tom Eckman, Northwest Power and Conservation Council's Manager of Conservation Resources, titled "Re: Conservation Potential Methodology Meeting", sent Sept. 8, 2009.
[27] RCW 19.285.030(4) defines conservation as "any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution," and RCW 19.285.040(1) requires qualifying utilities to "pursue all available conservation that is cost-effective, reliable, and feasible."
[28] Docket UE-091986, "WAC 480-109 potential target FINAL 12/31/09", filed 12/31/09, p. 6. We note here also that the Fifth Plan includes no assessment of production or distribution efficiency.

> assign individual utility targets in its planning process. Individual utility conservation goals are best established through utility integrated resource planning processes which can better account for local conditions and legal requirements. Nevertheless, the results of this calculator can be used as rough guidance for utility conservation program planning until such time as a utility completes its own integrated resource plan or other similar process.[29]

PSE has been a leader in the region over the past several years in acquiring energy efficiency, and has rightly recognized the risk and cost reduction benefits that accrue to its customers from having a strong conservation program. As discussed above, the Legislature, the Commission, and the Council all recognize energy efficiency as the priority resource for meeting energy demand. The intent of I-937 is to ensure qualifying electric utilities acquire all achievable cost-effective conservation. According to its own IRP, the basis for PSE's December notice of its 10-year conservation potential, PSE's proposed biennial target is less than half of its identified conservation potential for 2010-2011. And its target does not even reflect its share of the current regional Power Plan. We therefore recommend the Commission find PSE's proposed target insufficient to meet the requirements of I-937.

Stakeholder Involvement and Timing of Conservation Filings May Require Additional Direction from the Commission

The Commission rules emphasize, "Participation by the commission staff and the public in the development of the ten-year conservation potential and the two-year conservation target is essential."[30] PSE utilized its IRPAG and CRAG for feedback during the development of its conservation potential assessment, but then in late January, the Company significantly changed the path it was on, proposing a target less than half of what it had been discussing with its advisory groups. The Coalition was surprised and disappointed by that shift, especially when stakeholder feedback no longer appeared to be considered meaningful to the process.

On a related note, while the IRPAG and CRAG include several experts, they typically do not include members of the public or other entities who may be interested in the utility's efforts with regard to I-937. Preparation for the 2010-2011 biennium has been a learning experience for all stakeholders, and we believe the types of stakeholders PSE involved was sufficient for this period. We encourage the Company and the Commission to consider additional possibilities for outreach to non-traditional stakeholders in future biennia.

We also take this opportunity to suggest the Commission consider consolidation of each utility's conservation filings into a single Docket, at least in every even-numbered year. The requirements in I-937 for a utility to assess its 10-year conservation potential and establish a biennial target based on its pro rata share of that potential were intended to

[29] Introduction, Northwest Power and Conservation Council's Sixth Plan Conservation Target Calculator, last revised 1/14/2010.
[30] WAC 480-109-010(3)(a).

effectively replace rather than be additional to the utility's annual conservation filings for approval of budgets and savings targets. We believe having multiple filings, especially (as in this case) when the filings have different proposed savings targets,[31] is unnecessarily confusing and inefficient. To be consistent with the requirements in I-937[32], those consolidated filings should be submitted to the Commission in January of each even-numbered year.

Conclusion

In accordance with our discussion above, we recommend the Commission find that PSE's proposed conservation target does not meet the requirements of I-937 and the Commission's rules. At a minimum, PSE's target should reflect its share of the Council's Sixth Power Plan conservation potential assessment, adjusted upwards to account for estimated efficiency gains in energy production. Preferably, PSE's target should be in line with its most recent IRP, as expected by stakeholders during the utility's target development process in 2009. Such a target would be far more consistent with state policy prioritizing energy efficiency.

Finally, we urge the Commission to examine the reasons for, and consequences of, PSE's decision to propose a biennial target that is less than half of the target suggested by its IRP. This proposed target seems out of character for a Company that has, in recent years, wholeheartedly embraced the importance of energy efficiency for its portfolio and its customers.

We appreciate the Commission's consideration of these comments.

Sincerely,

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NW Energy Coalition

[31] See Docket UE-100382. On March 4, 2010, PSE filed proposed revisions to its Schedule 120: Electricity Conservation Service Rider. In that filing, PSE proposes a baseline acquisition target of 71.0 aMW for 2010 and 2011. According to PSE's cover letter, "This is the same target level underlying the electric and natural [gas] conservation program tariffs filed in Docket Nos. UE-091859 and UG-091860 on November 30,2009, and approved by the Commission at the December 23, 2009 Open Meeting." This proposed 2-year target is substantially greater than the 42.2 aMW biennial target proposed by PSE for compliance with I-937.

[32] RCW 19.285.040(1).