

**STAFF COMMENTS EVALUATING ELECTRIC UTILITY CONSERVATION REPORTS
UNDER THE ENERGY INDEPENDENCE ACT, RCW 19.285 (I-937)**

DOCKET UE-100170 (PACIFICORP)

DOCKET UE-100176 (AVISTA)

DOCKET UE-100177 (PSE)

I. Introduction

By the end of January 2010, all regulated electric utilities were required to file with the Commission their 10-year conservation potential and 2-year conservation targets in order to pursue all achievable cost-effective conservation. However, the companies, in aggregate, failed to address in any meaningful way how they were going to pursue all cost-effective achievable conservation which is the fundamental requirement of the law.¹ The 10-year achievable conservation potential and 2-year acquisition conservation target values submitted by the companies reflect a business-as-usual conservation approach, as if I-937 did not establish a higher expectation of conservation performance.

Staff does not interpret this situation as a failure, but rather as a signal of underlying conditions and economic issues that need to be addressed to make the intent of I-937 a reality in this state. Fundamentally, this is an issue of aligning ratepayer and stockholder interests in a balanced manner to comply with the requirements and intent of the Energy Independence Act regarding conservation programs.

Staff's comments will provide:

- An analysis of the reports submitted by the companies.
- An analysis of issues common to all three company filings.
- A recommendation to set all three 10-year achievable conservation potential and 2-year acquisition conservation target reports for hearing, adjudicative proceeding or other process, with a recommended list of issues to be resolved through that process.
- A recommendation to establish a Washington Conservation Collaborative, to address issues that are either not well-suited to the adjudicative process, or not well-enough developed for an adjudicative proceeding. This may include consideration of a proposal creating a consistent but limited conservation incentive or removal of disincentives for all companies to remedy the underlying economic barriers. Appendix E contains a draft charge for this proposed collaborative that shows the intent and initial direction that such a group might be authorized to fulfill.

¹ Appendix A provides a summary table of the overarching statutory context and specific legal requirements for this submittal.

Development of Company Conservation Metrics

In order to evaluate the biennial conservation targets submitted by the regulated electric utilities, the Commission must be provided adequate information and supporting documentation. This certainly includes examination of the prorated calculation from the 10-year achievable cost-effective conservation potential using the most currently available analysis, but also the underlying assumptions used by each utility specific to their existing and planned programs and service area which must be consistent with the methodology used by the Pacific Northwest electric power and conservation planning council (Council).² In turn, the Council methodology is not a simple set of calculations, but rather, is a system of techniques for energy conservation planning, implementation, and verified measurement that uses the most current information available.

Ideally, to support the conservation metrics (conservation potential and targets) required in the Energy Independence Act of 2006, there would have been a coordinated and methodical planning effort by each utility during the past three years leading up to January 2010. Unfortunately, this did not occur. And this need was not clearly communicated by Commission staff to the utilities.

The companies did not appear to begin planning in earnest for compliance with this 2006 law until late 2009. Commission staff encouraged companies to devote significant efforts to the implications of I-937 at advisory group meetings and later called a meeting in September 2009 with Commission staff due to an apparent lack of progress being made by the companies. At the September 2009 meeting, staff asked the companies what changes the new law would require in their program implementation. The response from the utilities at that meeting was that they expected to continue their present practices unchanged.

To be fair, all parties were quite busy with various rate cases and other pressing issues in the months leading up to the start date of the new requirements. Nonetheless, it is clear that not as much thought had gone into the implications of implementing the new law ahead of time as would have been optimal. Staff is taking this comment opportunity to provide the Commission with recommendations as well as propose a path forward for consideration by all interested parties.

Review of the Law and its Application

Initiative 937 memorializes the fact that conservation portfolios have matured from experimental and niche programs to mainstream resource acquisitions. The regulated electric utility conservation target filings represent the first step in leveraging that reality. Much work is required of all parties in the coming months and years to standardize and adjust to this new standard of integrating aggressive conservation as the least expensive reliable energy resource. In recognition of this change, Commission staff has reviewed the law and our understanding of its reasonable application.

RCW 19.285.040(1)(a) requires that each regulated utility must “identify its achievable cost-effective conservation potential through 2019...” “...using methodologies consistent with those used by the

² As required by 19.285.040(1)(a), each company must develop their 10-year conservation potential with methodologies consistent with the “most recently published” Council (also known as the Northwest Power and Conservation Council) plan. The Council’s methodology is attached as Appendix B.

Pacific Northwest electric power and conservation planning Council in its most recently published regional power plan.” In applying the Council’s methodologies, the regulated utilities will typically supplement an existing analysis that maintains symmetry between generating and conservation resources. Adjustments may include evaluation of other available technologies, modified supply curves, service area conservation potential assessment studies, market penetration estimates, measurement and verification of their programs, and their unique program implementation choices. Consequently, meeting the intent of this part of the statute requires more than just a number.

According to Council staff, the Council’s methodologies have not changed since the 2005 publication of the Fifth Regional Power Plan. However, because the region continues to learn about conservation programs and new conservation technology measures continue to emerge, the inputs to the Council’s Sixth Plan are different from the Fifth Plan and, therefore, yield different results. Consequently, any utility that bases its conservation potential or targets on the Council Plan will need to supplement those values to reflect the most up-to-date state of knowledge regarding measures as well as make necessary adjustments for company specific programs, demographics, and other service area specific information.

Program Details and Cost-Effectiveness Standard

Staff believes each company should file enough information to allow the Commission to make a determination concerning its 10-year conservation potential and 2-year targets. RCW 19.285.040(1)(e) states that “the Commission may rely on its standard practice for review and approval of investor-owned utility conservation targets.” The Commission’s standard practice for review and approval of conservation targets prior to I-937 required the filing of program details including:

- Tariffs with additional detailed program descriptions.³
- Measures, incentives and eligibility requirements.
- Detailed program budgets.
- Cost-effectiveness standards.
- Projected program cost-effectiveness.
- Evaluation plans.
- Annual and quarterly progress reports.⁴
- Cost-recovery tariffs.

The Commission’s review and approval of previous conservation targets relied on conservation potential assessments filed in utility integrated resource plans required by WAC 480-100-238.⁵ The Commission has also addressed the inclusion of education-only programs, pilot and research projects, performance

³ For example, PSE filed its targets for 2010-2011 on November 30, 2009, in Docket UE-091859. This filing was required by the Conservation Settlement terms approved in Dockets UE-011570 and UG-011571, consolidated. Specific features are outlined in Appendix C.

⁴ Annual and semi-annual reports and cost recovery tariffs are required for all companies. See Dockets UE-082272 (Avista), UE-001457 (PacifiCorp), and UE-970686 (PSE).

⁵ See individual integrated resource plans. Dockets UE-081613 (Avista), UE-080826 (PacifiCorp), and UE-080949 (PSE).

incentives and penalties, and equity between customer groups.⁶ Therefore, providing sufficient detail to allow the Commission to come to a conclusion concerning the conservation targets is a necessary component of complying with RCW 19.285. Staff believes reliance on standard practice is in the public interest because it shows continuity with existing conditions imposed by the Commission in past orders, as we move into the future as envisioned by the drafters of the Energy Independence Act.

RCW 19.285.040(1)(d) states that “the Commission may determine if a conservation program implemented by an investor-owned utility is cost-effective based on the Commission’s policies and practice.” This has not been consistently established across the electric utilities. We need to identify the cost-effectiveness standard we wish to apply across all companies at this time so that we can fairly evaluate the results of the conservation programs in 2012. This was not established with the work performed before the filings, nor in the 30 day comment period. Staff believes a Washington Conservation Collaborative should be established to create this uniform policy as soon as possible. Although it would be ideal to have the standard in place before approving conservation metrics, staff believes it would be acceptable to approve the metrics in these dockets before the completion of the Collaborative’s work on this issue.

⁶ See Appendix C for additional order citations.

II. Analysis of Reports Submitted by the Companies

Each company provided values for their 10-year conservation potential as well as biennial targets with differing levels of analysis and unique strategies. The rule calls for use of the Council methodology and the option to 1) use the Council's current plan targets, or 2) the most recent company IRP, as the basis for deriving company conservation potential and targets.⁷ However, there are significant differences between the conservation assumptions and values used in the companies' IRPs and the Council's conservation values. For example, IRP conservation planning looks only at known existing measures whereas the Council methodology also includes projected estimates of conservation for known but emerging and other future technology measures that can be reasonably estimated and quantified. This is due to the different requirements found in the federal law under which the Council operates versus the Washington IRP laws. These varying requirements result in technical differences. For instance, the Council excludes direct use of gas as an electric conservation measure. Compounding this, service area differences are sometimes not accounted for in as much detail by the Council as they would be by the utility.

These historic, technical, and legal differences make it necessary for any company relying on their IRP for their conservation targets to reconcile the methods and assumptions to the Council. In the case where a company relies on the Council calculator as a starting point, there is a need to supplement that value with direct-use of gas programs, actual agricultural pumping, and measures that are implemented by the company that do not match well the Council menu of conservation measures.

Puget Sound Energy – Docket UE-100177

PSE had worked with Commission staff and interested parties to develop their 10-year and 2-year conservation metrics based on their most recent IRP and their current thinking on what was achievable by the company using their best estimates and most current information. Over the months leading up to the January 31, 2010, report deadline, PSE held a number of meetings with stakeholders to discuss their approach to these metrics. This is in keeping with the requirement that "participation by the Commission staff and the public in the development of the 10-year conservation potential and 2-year conservation target is essential."⁸

On December 31, 2009, PSE sent their "FINAL"⁹ conservation potential and targets to their conservation advisory group. This was based on their May 2009 IRP and the subsequent consultative process with the conservation advisory group in 2009. In that e-mail, PSE indicated their plan to submit a 69.4 aMW to 90.3 aMW target range for conservation resources for the 2010-2011 biennium at the customer meter (74.0 aMW to 96.1 aMW at the generator) and a 10-year conservation potential of 427.9 aMW at the customer meter level (455.5 aMW at the generator). The December 2009 metrics appeared

⁷ WAC 480-109-010(1)(b).

⁸ WAC 480-109-010(3)(a).

⁹ Bill Hopkins of PSE Energy Efficiency Services e-mail of 12/31/2009 with attachment entitled "WAC 480-109 Potential Target FINAL 12-30-09.pdf"

to be based on the most current knowledge of best practices and known program performance history by the company which would provide a progressive conservation portfolio to their customers.

In a surprising change of direction, on the evening of January 25, 2010, PSE staff sent a message informing the conservation advisory group that PSE was unilaterally switching its direction from using their IRP as the basis of their conservation metrics to the Council's Fifth Plan conservation calculator, and that there was to be a meeting to discuss this the afternoon of January 27, 2010, just ahead of the deadline to file those metrics with the Commission on January 29, 2010. There had been no discussion of this as a possible target setting method for PSE with Commission staff or the conservation advisory group prior to the January 25, 2010, e-mail. This PSE decision resulted in a dramatically reduced 2-year target and 10-year conservation potential. The impact of this shift is shown in the following table.

Conservation Metric	Dec. 31, 2009	Jan. 29, 2010	Change
10-Yr. Potential	427.9 aMW	219.3 aMW	- 49%
2-Yr. Acquisition Target	79.85 aMW (mid-range)	42.7 aMW	- 47%

PSE used the Northwest Power and Conservation Council's Fifth Plan conservation calculator in their submittal with very little narrative and no analytical support. The rule requires that the 10-year conservation potential "must be derived from and reasonably consistent with¹⁰" the most recent company IRP or the company's share of the Council's current plan targets for the state of Washington. The company did not perform any analysis to "derive" their targets from the current Council plan. The version of the calculator used by PSE was based on programs and input assumptions identified in the Council's Fifth Plan adopted in 2005, and no effort was made to bring those outdated results up to date. Based on the content of the Draft Sixth Plan, an updated calculator was made available in September 2009 reflecting the most current input assumptions for cost-effective, reliable and feasible measures. The Council adopted the Sixth Plan on February 10, 2010,¹¹ less than two weeks after the reporting deadline for the 2010-2011 biennial targets were due to be submitted.

The company's 10-year conservation potential and 2-year conservation target filed on January 29, 2010, does not meet the spirit or letter of the law for the following reasons:

1. The company did not provide meaningful involvement in developing the targets submitted. This is evidenced by the last minute change of methods to establish the targets and a rushed meeting scheduled two days before the submittal deadline. This violates the public and staff involvement requirements at WAC 480-109-010(3)(a).
2. The company's submittal lacked any adjustment to update the Council's Fifth Plan targets to be reflective of current methods included in the publically available draft Sixth

¹⁰ WAC 480-109-010(1)(b)

¹¹ See, <http://www.nwCouncil.org/library/releases/2010/0210.htm>

Dockets UE-100170 (PacifiCorp), UE-100176 (Avista), UE-100177 (PSE)

Plan calculator or the PSE service area. This violates the requirement for the companies to establish their targets “derived from” the most current information.

3. The company’s submittal lacked the identification of “all achievable conservation opportunities” as required by WAC 480-109-010(2)(a).
4. The company’s submittal failed to provide a 2-year target that reflects pursuit of all cost-effective achievable conservation as required by RCW 19.285.040(1).
5. The company’s submittal failed to provide program details and reporting/filing requirements that the Commission routinely relies on to review and approve conservation targets per RCW 19.285.040(1)(e).

Staff believes the PSE conservation report filing of January 29, 2010, is both incomplete as well as substantially inconsistent with the spirit and letter of the law, and could be rejected. However, in the interest of expeditious treatment we recommend the Commission set the report for hearing, adjudicative proceeding or other process.¹²

Issues recommended for determination by adjudicative proceeding

Suggested PSE Compliance Schedule: PSE must, by March 31, 2010, submit a complete conservation report including a 10-year conservation potential, the biennial conservation target, and supporting documentation, that is consistent with the current Council’s methodologies and corrects all defects cited above. Staff expects that the filing will be substantially consistent with its December 31, 2009, email to its advisory group. Staff suggests that comments on PSE’s new March 31, 2010, filing be submitted by staff and the public by April 30, 2010.

In addition, PSE has operated its conservation programs under guidance from a number of different Commission orders. Staff recommends that the Commission bring this material forward in its final order in Docket UE-100177, particularly the cost-effectiveness standard from Docket UE-920630, reporting requirements and accounting guidelines from Docket UE-970686, and program details from the settlement terms in Docket UE-011570. A general description of these program details is included as Appendix C. Excerpts from specific orders are included as Appendix D.

Issues recommended for determination by the Washington Conservation Collaborative

Staff believes there may be issues specific to PSE’s new filing that may be appropriate for consideration by the Washington Conservation Collaborative, and will address those issues in its April 30, 2010, comments. In addition, there are issues associated with the implementation of I-937 that are common to all three electric utilities, shown later in these comments, that are also recommended to be addressed through the Washington Conservation Collaborative.

¹² WAC 480-109-010(4)(b)

Avista Corporation – Docket UE-100176

Avista began drafting its I-937 report in early November following a company sponsored public meeting of September 30, 2009, where the I-937 requirements and Avista's approach to satisfying the same was discussed.¹³ As with the other companies, staff believes future filings should incorporate a longer lead time for the planning and target setting process.

Avista chose to derive their 10-year conservation potential and biennial conservation acquisition target from the Council's draft Sixth Plan calculator. The Council's calculator estimates conservation values which are higher than the estimates included in the recently completed 2009 IRP¹⁴ for the first target biennium of 2010-2011.

Avista derived their conservation potential and target from the Council's calculator by adjusting for utility specific estimates. The major adjustment is the direct-use of gas which is not included in the Council calculator. The company's target captures savings from distribution efficiency, regional market transformation savings, and other quantifiable conservation savings specific to the Avista service territory in Washington.

The difference between the biennial conservation acquisition target and the same two years from the 2009 Avista IRP is shown in the following table. The additional details of this calculation were provided in an e-mail from Jon Powell of Avista and are included as Appendix F.

Conservation Metric	2009 IRP	I-937 submittal	Change
2-Yr. Acquisition Target	13.2 aMW	14.7 aMW	+ 11 %

Issues needing additional scrutiny

Staff is pleased with the level of specific program detail included in Avista's filing. In addition, Avista addressed an appropriately broad range of future issues in its filing. However, Staff is unable to recommend approval at this time because Staff did not have time in the 30-day comment period to pose its questions. Time for additional scrutiny is necessary to clarify a number of issues. Staff recommends deferring a decision on setting Avista's filing for hearing, adjudicative proceeding, or other process until the April 15, 2010, open meeting. Staff will work with the company and other interested parties, and if resolution can be achieved, Avista will revise its filing, and staff will make a recommendation at that open meeting.

Staff is concerned about the inclusion of savings from fuel switching because there is some history of Avista investing significant effort and achieving disproportionate amounts of conservation from this

¹³ E-mail from Linda Gervais (Avista, Regulatory Policy Manager) November 11, 2009.

¹⁴ Avista's 2009 IRP shows conservation targets combining Washington and Idaho. Avista provided a work paper showing the breakdown between the two states.

single measure. Staff believes that the following table may be an appropriate balance for Avista's conservation savings acquisition.¹⁵ Avista should provide workpapers supporting the table.

Conservation Metric	Base Savings	Electric to Gas Acquisition	Total Savings
10-Yr. Potential	857,875 MWh	15,428 MWh	873,302 MWh
2-Yr. Acquisition Target	125,982 MWh	2,621 MWh	128,603 MWh

On page 8, the company refers to its pumping load. The company did not provide any support for excluding pumping load from its conservation potential, which could have been included by using the Council calculator's option three. Staff did not have enough information to evaluate whether this was appropriate. Avista should provide workpapers to support their claim.

On page 12, the company appears to propose counting cumulative savings instead of first-year savings in future years. Staff does not believe this is appropriate. Companies have historically reported first-year savings and staff believes this should continue. Staff recommends that Avista report only first-year savings.

On page 15, the company discusses its methodology for counting distribution efficiency savings. Staff did not have enough information to determine whether this proposal was consistent with the Council's methodology.

On pages 18 and 19, the company discusses how it will continue its public involvement. Staff appreciates the company's commitment to public involvement. However, to streamline the information received from all companies, staff recommends that the company comply with the staff-recommended filing schedule shown in the discussion of coordinated conservation filings within section III of this document.

Historically, Avista has voluntarily proposed most of the guidelines under which it has operated its conservation programs. This filing is the first time Avista has filed the majority of its program details in a docket that will be approved by an order. Staff recommends that the Commission affirmatively consolidate these guidelines in its final order in Docket UE-100177. This may include material from the guidelines under which PSE has operated, particularly the cost-effectiveness standard from Docket UE-920630, reporting requirements and accounting guidelines from Docket UE-970686, and program details from the settlement terms in Docket UE-011570. A general description of these program details is included as Appendix C. Excerpts from specific orders are included as Appendix D.

Issues recommended for determination by the Washington Conservation Collaborative

Staff believes some of the broader issues raised by the company should be discussed in a wider forum before a conclusion is reached. Staff recommends the following issues be referred to the Washington Conservation Collaborative for further scrutiny.

¹⁵ Avista's Initial Filing, Docket UE-100176, page 11, January 29, 2010.

On page 5, and again on pages 16 and 17, the company discusses its evaluation improvement efforts. Staff believes these evaluation protocols should be reviewed in the staff-proposed Washington Conservation Collaborative, and when complete, should be filed with the Commission for approval.

On page 11, the company states that it intends to acquire savings from quantifiable behavioral efficiencies among other things. While staff supports the expansion of conservation efforts, staff believes these types of efforts should be carefully designed, including an evaluation plan, and vetted by a group of experts. Avista's report does not address how these efforts would be designed. Staff recommends that the Commission require Avista to rely on the staff-proposed Washington Conservation Collaborative to review the design of these efforts, and seek approval through filing a tariff.

On page 13, the company discusses how it will address changes in codes and standards. Staff did not have enough information to evaluate the company's proposal. Staff believes responding to changes in codes and standards is an issue that should be discussed with all the regulated electric utilities in the staff-proposed Washington Conservation Collaborative, and the results should be filed with the Commission for approval.

On page 14, the company discusses regional market transformation efforts and says it will use the best available disaggregation methodology. Avista should provide workpapers to support their proposal. If the company is referring to disaggregation between its Washington and Idaho programs, Staff believes that is all that is needed. If however, the company is referring to the disaggregation of Northwest Energy Efficiency Alliance savings, Staff believes this issue should be discussed in the staff-proposed Washington Conservation Collaborative, and the results should be filed with the Commission for approval.

The Commission's order in Docket UE-991606 contained the following language:

If the energy efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the company, not its customers, manages the energy efficiency program expenditures.

Staff believes this language is inconsistent with RCW 19.285 which requires companies to pursue all cost-effective conservation. Staff believes the Commission's order in this docket should state that companies may overspend their budgets by a reasonable amount if cost-effective conservation savings are the result. Staff believes the issue of collection of interest on rider fund balances should be deferred to the Washington Conservation Collaborative for discussion, and the results should be filed with the Commission for approval.

Pacific Power & Light Company, d/b/a PacifiCorp – Docket UE-100170

PacifiCorp began its public involvement process via e-mail in August, 2009. The company continued with a meeting on October 15, 2009, shared a draft report December 10, 2009, and issued its initial estimate of its 10-year conservation potential on December 31, 2009. The company worked closely with the advisory group and incorporated input along the way. The company's conservation report was filed on January 29, 2010. As with the other companies, staff believes future filings should incorporate a longer lead time for the planning and target setting process.

PacifiCorp chose to begin its analysis of its 10-year conservation potential and biennial conservation targets using its 2007 Assessment of Long-Term System-Wide Potential for Demand-Side and Other Supplemental Resources. The company applied an 85% achievability ratio to the results of its conservation potential assessment and evaluated the economic potential in its integrated resource plan modeling.¹⁶ The company made a number of adjustments to get to the 10-year conservation potential and biennial conservation targets filed in this docket in an attempt to rectify the underlying analysis from the IRP, which is not consistent with the Council's methodology. For example, the cost-effectiveness of retrofit conservation measures was compared to short-term market prices of energy. This comparison is not consistent with Council methodology. Conservation is a long-term investment with fixed and variable costs whereas market energy prices tend to be more reflective of variable costs. Conservation measures should be compared to long-term energy avoided costs. The possible magnitude of this issue is illustrated by the difference between the results of the Council's Sixth Plan analysis and the company's proposed conservation values shown in the table below.

Conservation Metric	Share of Council's Sixth Plan	I-937 submittal	Change
10-Yr. Potential	106 aMW	49.2 aMW	- 54 %
2-Yr. Acquisition Target	13.4 aMW	8.8 aMW	- 34 %

Issues recommended for determination by adjudicative proceeding

Staff suspects the company's 10-year conservation potential and biennial conservation targets may not be consistent with the Council's methodology, and needs time for additional scrutiny. Staff recommends the filing be set for hearing or other adjudicative proceeding.

The company has typically filed program details in individual program filings. Staff proposes that the Commission's order in this docket recognize the materials in Dockets UE-061297, UE-050319, UE-040608, and UE-010826 as the program details needed for this filing. Although the company filed budgets with these filings, they are out-of-date. The company should submit a detailed budget for the 2010 program year as soon as possible. In addition, the company should begin filing program details as described in staff's recommendations shown in the discussion of coordinated conservation filings within section III of this document.

PacifiCorp has operated its conservation programs under guidance from orders in Docket UE-001457. Staff recommends that the Commission affirmatively consolidate these guidelines in its final order in Docket UE-100170. This may include material from the guidelines under which PSE has operated, particularly the cost-effectiveness standard from Docket UE-920630, reporting requirements and accounting guidelines from Docket UE-970686, and program details from the settlement terms in Docket UE-011570. A general description of these program details is included as Appendix C. Excerpts from specific orders are included as Appendix D.

¹⁶ PacifiCorp agreed to update its conservation potential assessment in its Settlement Agreement in Docket UE-051090. Its IRP is available under Docket UE-080826.

Issues recommended for determination by the Washington Conservation Collaborative

An additional explanation for the difference between the results of the company's analysis and the Council's Sixth Plan may be a net-to-gross adjustment mentioned in footnote six on page four of the company's filing. If there is a net-to-gross adjustment included, the company should provide workpapers supporting its calculations. The inclusion of a net-to-gross adjustment should be referred to the Washington Conservation Collaborative because it may not be consistent with the Council's methodology.

The Commission's orders in Docket UE-001457 enabling the tariff and requiring annual and semi-annual reporting of PacifiCorp should be carried forward into this docket except for the following language:

If the energy efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the company, not its customers, manages the energy efficiency program expenditures.

This language was quoted from an Avista general rate case order in Docket UE-991606 (citation in the order was incorrect.) Staff believes it is inconsistent with the spirit of RCW 19.285 which requires companies to pursue all cost-effective conservation. Staff believes the Commission's order in this docket should state that companies may overspend their budgets by a reasonable amount if cost-effective conservation savings are the result. Staff believes the issue of collection of interest on rider fund balances should be deferred to the Washington Conservation Collaborative for discussion, and the results should be filed with the Commission for approval.

Staff recommends Pacific Power & Light Company's filing in Docket UE-100170 should be set for hearing, adjudicative proceeding, or other process to allow for further scrutiny of the company's 10-year conservation potential and 2-year target.

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III. Issues Common to all I-937 Filings

There are certain issues that are common to all three company filings. First, the companies have not addressed how they will demonstrate that they are pursuing all cost-effective conservation. Second, the companies have not addressed how they will coordinate the filings they already make with the newly required filings under I-937.

Coordination of related conservation filings

Each of the companies is currently on its own schedule regarding the filing of program details, progress reports, and cost recovery tariffs. There is considerable confusion regarding the various dockets filed by the companies at this time. For example, Avista has or will make 5 related filings concerning its conservation programs around the same time. It filed its proposed conservation potential under WAC 480-109-010(1) on December 31, 2009, which was docketed as UE-091983, followed by its January 29, 2010, conservation potential report, which was docketed as UE-100176. In addition, on January 19, 2010, it filed a quarterly report on the tariff rider balance under Docket UE-082272, and on February 12, 2010, it filed its annual review of its electric true-up filing as part of its natural gas conservation filing in UG-100254. Finally, the company will share its annual report on the cost-effectiveness of its acquisition by March 31, 2010, with its advisory group. Staff believes these filings should be synchronized with the RCW 19.285.040 filing requirements.

Staff proposes the following reporting schedule for Dockets UE-100176 (Avista Corporation), UE-100170 (Pacific Power & Light Company d/b/a PacifiCorp) and UE-100177 (Puget Sound Energy).

1. File six-month report on conservation acquisition, comparing budget to actual kilowatt-hour and dollar activity, by August 15, 2010.
2. File work plan for 2011 by December 1, 2010.
3. File 2010 annual report on conservation acquisition, including an evaluation of cost-effectiveness and comparing budgets to actuals, by March 1, 2011.
4. File revisions to cost recovery tariff by May 1, 2011, with requested effective date of July 1, 2011.
5. File six-month report on conservation acquisition, comparing budget to actual kilowatt-hour and dollar activity, by August 15, 2011.
6. File 2011 annual report on conservation acquisition, including an evaluation of cost-effectiveness, by March 1, 2012.
7. File two-year report on conservation program achievement by June 1, 2012.

Staff proposes the following schedule for the 10-year conservation potential and biennial target filings required in 2012, which will be issued new docket numbers in December 2011.

1. Complete 10-year conservation potential analysis by July 1, 2011 (on or before January 1, 2012).
2. Work with Advisory Group between July and November 2011 to set targets, including necessary revisions to program details as described on page xx of Staff's comments.
3. File revised program details (see above list) by December 1, 2011, requesting effective date of January 1, 2012.

4. File revisions to cost recovery tariff by May 1, 2012, with requested effective date of July 1, 2012.
5. File six-month report on conservation acquisition, comparing budget to actual kilowatt-hour and dollar activity, by August 15, 2012.
6. File work plan for 2013 by December 1, 2012.
7. File annual report on conservation acquisition, including an evaluation of cost-effectiveness and comparing budget to actual kilowatt-hour and dollar activity,, by June 1, 2013.
8. File revisions to cost recovery tariff by May 1, 2013, with requested effective date of July 1, 2013.
9. File six-month report on conservation acquisition, comparing budget to actual kilowatt-hour and dollar activity, by August 15, 2013.
10. File annual report on conservation acquisition, including an evaluation of cost-effectiveness, by March 1, 2014.
11. File revisions to cost recovery tariff by May 1, 2014 with requested effective date of July 1, 2014.
12. File annual report on conservation acquisition, including an evaluation of cost-effectiveness and comparing budget to actual kilowatt-hour and dollar activity,, by June 1, 2014.

Demonstration of pursuing all achievable cost-effective conservation – the new prudence standard

In the reports submitted, none of the utilities have fully addressed the changes embodied in I-937, which requires them to pursue all cost-effective, achievable conservation.¹⁷ Instead, the reports are focused on the details of calculating their 10-year conservation potential and biennial conservation acquisition targets. The company submittals devote neither analysis nor narrative to demonstrate how their programs will be enhanced or changed to pursue all achievable cost-effective conservation.

The conservation targets that the Commission is responsible for considering are not simply numbers. This is clearly stated in the rule that requires that “The biennial conservation target must identify all achievable conservation opportunities.¹⁸” This reflects the fact that the statute establishes a higher standard; the regulated utilities must “pursue all” of those achievable conservation measures and programs. Currently, all regulated utilities put economic brakes or chokes on the pursuit of all cost-effective conservation. This is performed by limiting amounts of rebates, imposing eligibility requirements, and other restrictive methods which effectively reduce the level of conservation actually achieved.

Under the extended Total Resource Cost test, as used by the Commission, and the I-937 requirement for the utilities to pursue all cost effective conservation, the prudence test for conservation has changed. Before I-937 the utilities needed to show that they were not spending more than necessary to induce a meaningful number of customers to accept a conservation measure or package. This created the need for an economic brake or choke on the achievement of cost-effective conservation. Under I-937 the new

¹⁷ “Each qualifying utility shall pursue all available conservation that is cost-effective, reliable, and feasible.” [RCW 19.285.040(1)]

¹⁸ WAC 48-109-010(2)(a).

prudence test for utility conservation incentives is to show that as much conservation as possible was induced by the incentives provided by the utility to their customers or contractors. Investments in continued cost-effective market transformation will still be needed in addition to company programs. This changed prudence test applies not just to financial incentives but any other implementing actions of the utilities that may thwart the pursuit of all achievable cost-effective conservation. Essentially, if it is cheaper than the avoided cost for energy acquisition, as much as possible should be purchased by the utility without unnecessary restrictions.

While the biennial targets provide a minimum level of expected performance by each utility, the statute calls for a maximum effort to pursue the acquisition of as much cost-effective conservation as reliable and feasible. This will require a higher level of conservation investment and effort by all utilities. And the recent conservation tariffs show that the utilities are ramping up to a higher level. The question is, “How fast and in what way can this program increase be aggressively pursued to meet the intent of the statute while not running the risk of being found imprudent?” Utilities need to have a comfort level and increased certainty of prudent actions as they move forward. Therefore, as this ramping up occurs there is a need to have a “level playing field” regarding standard methods, best practices, sharing of research findings, and common evaluation, measurement and verification of program impacts and processes which is vetted by all parties. On the other side of the coin, the Commission has historically avoided any advance approval of rates or tariffs that are not clearly known and measureable. This is also a best practice and needs to be considered as we move forward into implementation of I-937.

In practice, the Council’s Regional Technical Forum’s (RTF) deemed measures have not been disallowed by the Commission. And this has likely encouraged the regulated companies to seek inclusion of new measures into the stable of RTF-approved measures. There is no parallel consistency for regulated utilities in how to perform market research, evaluate custom measures or other savings nor any broadly adopted methods or standard for evaluation, measurement, and verification for savings. There is room for the Commission to work collaboratively with interested parties to provide a framework for programs that can be researched, developed, and implemented using prescribed standards, methods and techniques. Developing this framework will provide a basis for a favorable prudence finding. While not providing advance rate or tariff setting per se, a practical conservation practices framework could at least partially eliminate the vast ambiguity and clear uncertainty on how to methodically approach the prudence question that now exists.

Leveling the playing field and increasing efforts for evaluation, measurement and verification

The electric IOUs have previously worked from the perspective of evaluating whether measures and programs are cost-effective in order to achieve “meaningful program penetration,” a subjective standard. The Energy Independence Act raises the bar by requiring that utilities pursue “all cost-effective” achievable conservation and establishing enforceable goals. This is a more aggressive approach to the implementation of conservation programs, but retains the prudence requirement to be cost-effective. With the more aggressive standard, to pursue all cost-effective conservation, coupled with biennial and 10-year metrics, a higher level of investment in conservation programs is required. There is also a coincident need for proportionally more rigorous accountability to provide evidence of prudence.

Conservation efforts were once considered minor, pilot-scale and experimental. Now the ability to deliver conservation resources has been proven and I-937 signals the need to move to a higher level of implementation. It is anticipated that conservation resources will displace the need for multiple utility-scale generating resources for Washington customers in the foreseeable future. One of the key components of accountability is an enhanced level of evaluation of measures, programs, and entire portfolios dedicated to demand side management initiatives.

Evaluation programs¹⁹ are useful for at least the following purposes:

- “1) assuring public dollars are being responsibly spent;
- 2) apportioning dollars and efforts between alternative strategies; and
- 3) identifying the appropriate time for exit strategies (or program revisions).”²⁰

In a 2009 research study of energy efficiency programs in North America, the level of evaluation budgets range from about 1.6% to 3.1% outside of California and at 7.6% for evaluation of programs in California.²¹ In 2006, California concluded a significant effort to define protocols of evaluation which could likely be leveraged for use in Washington.

Because the Council’s Regional Technical Forum performs evaluation of most of the residential measures region-wide, there is not a need for a rigorous evaluation of those measures. However, the evaluation of other measures has not been uniformly pursued by all of the regulated utilities in Washington. The burden of pursuing all cost-effective conservation implies the need for an enhanced level of investment in evaluation to show prudence across the board. Consequently, it may be reasonable to expect regulated utilities to have a commitment of 4% to 6% of the conservation portfolio budget devoted to evaluation activities in the I-937 conservation program era. If the Commission were to adopt an acceptable range of evaluation for conservation portfolios, it would limit the spending on these efforts while coincidentally allowing the utilities to spend the funds necessary to show prudence (cost-effectiveness) of their conservation efforts. This would provide more certainty and thereby reduce the cost recovery risk to utilities for implementing the necessary enhanced evaluation (pre- and post-implementation) as the conservation programs become more fully-developed.

Companies have been inconsistent in their independent assessment of program impacts and process. It is necessary establish a standard for routine and systematic independent evaluation.

¹⁹ The term “evaluation programs” or “evaluation” is used here to indicate the pre-implementation and post-implementation evaluation of measures, programs and portfolios including the required baseline assessments, market studies, surveys, and other analytical and engineering methods to satisfactorily evaluate, measure and verify conservation and energy efficiency savings.

²⁰ Skumatz, Lisa A., Khawaja, M. Sami, and Colby, Jane; Lessons Learned and Next Steps in Energy Efficiency Measurement and Attribution: Energy Savings, Net to Gross, Non-Energy Benefits, and Persistence of Energy Efficiency Behavior, California Institute for Energy and Environment and CA Public Utilities Commission, Draft of November 2009, p.17.

²¹ Id. p.33.

In October and December 2009, Avista issued draft protocols for the evaluation, measurement and verification of program impacts and processes.²² PSE is nearing completion of an evaluation of the effectiveness of their conservation incentive mechanism. PacifiCorp routinely hires consultants to perform independent evaluation of all programs in varying schedules. The Council is preparing to hire a consultant to evaluate and compare best practices for evaluation, measurement and verification of conservation in the Northwest, examination of abbreviated evaluations for selected measures, and review of existing deemed savings. This good work will provide a stepping stone to establishment of acceptable best practices that is coordinated across all regulated Washington electric utilities.

Staff proposes that this issue be sent to the Washington Conservation Collaborative for further discussion with recommendations for action returned to the Commission whenever appropriate.

Establishment of a Collaborative for I-937 Conservation

Washington Conservation Collaborative

Staff believes that there is a need to develop a conservation collaborative as the implementation of I-937 progresses. This is needed for the following reasons:

- All regulated electric utilities have committed to substantial increases to their energy efficiency budgets as represented in their most recently submitted IRPs, and additional ongoing scrutiny of these quickly expanding programs by all stakeholders is needed to match this increased investment.
- All regulated electric utilities have separate independent advisory groups for energy conservation which largely serve the same purpose, that is, to provide input on the conservation goals and program details of the companies. There is significant overlapping membership among the three advisory groups. Many of the advisory group issues are similar or are regional and can be more efficiently managed in a coordinated body.
- Evaluation, Measurement and Verification (EM&V) methods and protocol are currently not coordinated between companies. As higher levels of investments are made, a higher level of EM&V is required. Development of statewide standard protocols and methods in a collaborative setting with all regulated utilities is necessary to ensure a level playing field.
- Custom conservation and energy efficiency measures are implemented by all utilities. However, there is no commonly accepted method or protocol in the state for consistency of documenting these measures. A collaborative could recommend a suite of methods for the development of consistent protocol for custom measures. The collaborative could also provide a sounding board and peer review of approaches to estimating energy savings from custom measures.

²² UE-100176, Attachment A, (document self-identified as "ATTACHMENT A DOCKET NO. UE-091983") pp. 98-148.

Dockets UE-100170 (PacifiCorp), UE-100176 (Avista), UE-100177 (PSE)

- The RTF has been an excellent source of information for regional conservation measure savings. A collaborative should review and recommend adoption of RTF standards and practices where appropriate for Washington.
- Although the cost-effectiveness test most often used in Washington is the Total Resource Cost test with the addition of quantifiable non-energy benefits, it would be good to clearly define which tests are to be used by all companies and exactly how those tests are calculated.
- Two of the three regulated companies have advisory groups that include stakeholders that are not in Washington state and may influence program actions not related to the needs and mandates in-state. A collaborative focused just on the needs and coordinating issues of importance to Washington stakeholders would be more efficient.

There are immediate as well as ongoing and long-term needs that can be well-served through the productive use of a collaborative. Examples of tasks for the Washington Conservation Collaborative might include the following;

Washington Conservation Collaborative Example Tasks	Immediate	Ongoing or long-term
Review expanding programs that satisfy I-937		√
Coordinate methods of consistent savings accounting	√	√
Sounding board for proposed biennial targets		√
Create and maintain a uniform protocol for EM&V for determining non-deemed energy savings	√	√

If the Commission accepts the recommendation to create the Washington Conservation Collaborative, Staff will develop a work plan, scope, and funding proposals through 2012.

IV. Broader Issues to be Considered by the Washington Conservation Collaborative

The following broad issues affect all the regulated utilities and need to be resolved over time to realize the intent of I-937. Staff believes that these issues are best addressed by an ongoing collaborative forum on conservation which we are calling the Washington Conservation Collaborative.

Higher levels of investment in conservation require increased oversight and systematic consistent verification of results.

I-937 requires a higher level of investment in cost-effective conservation. What was once some 10s of millions of dollars per year is now planned to be in the 100s of millions of dollars per year in the first two years of the I-937 era. This increased magnitude of investment calls for a higher level of evaluation, measurement and verification of impacts and processes related to conservation programs and portfolios using consistent methods and assumptions.

Removing economic throttles to achievement of all cost effective conservation is required

As companies are now subject to the I-937 requirements, they must pursue all achievable cost-effective conservation. Because the companies have not yet chosen to address the issue of programmatic economic throttles on the implementation of their conservation programs, there needs to be additional and consistent scrutiny that reflects the required examination of appropriate incentives and inducements provided to customers statewide. For example the ability to increase or decrease conservation by changing the level of incentives was shown recently in PSE's response to a November 25, 2009, question from Public Counsel. In their answer to Public Counsel's letter PSE stated that "We have learned that a reduction in the incentive amount multiplier will reduce costs but also reduce customer participation and the resulting savings acquisition."²³

There is a point at which the final part of market transformation requires the imposition of new codes and standards. However, there needs to be more work performed for most measures to ascertain when incentives are no longer effective as well as to determine the level of incentives which maximize the uptake of a conservation measure or a package of conservation measures. Under I-937 any program implementation method that in any way limits incentives for measures or packages that are otherwise known to be cost-effective needs to be well-justified.

Providing greater certainty of a prudence finding for conservation expenditures

Companies have been hesitant to embrace the pursuit of all cost-effective conservation due to uncertainty regarding future prudence determination and subsequent cost recovery. Providing a forum to develop standard protocols for evaluation, measurement and verification and cost-effectiveness can provide a higher level of certainty that the increased expenditures will be approved as prudent.

²³ PSE response to Public Counsel tariff filing questions, 12/9/2009, p.16.

Allowance of Return on Equity for Conservation and Energy Efficiency

In considering conservation or energy efficiency programs the commission is explicitly allowed to provide a return on investment to regulated electric companies and incentives to achieve conservation above the targets RCW 80.28.260(2) and RCW 19.285.060(4).

As the proportion of investments in energy conservation and energy efficiency becomes a significant proportion of company energy acquisition budgets and these investments increasingly delay or avoid the need for traditional capital investments in generating facilities, it makes sense to consider providing a reasonable rate of return on these investments. This would provide the incentive to companies to achieve high levels of conservation. While some make the point that companies should not make profit on conservation that is required of them by law, there is also a principle of allowing companies to make a reasonable rate of return on their investments.

In addition, if an opportunity to earn profits on conservation programs is not allowed, a relatively higher level of staff effort would be required to assure prudence and provide a counter-weight to the disincentive from reduced overall company profits. In this case a lack of return on investment for conservation or energy efficiency creates a conflict of interest for the companies between the legal conservation mandate and the internal requirement to maintain an overall return on investment. The allowance of limited but reasonable profits aligns the intent of the law with the interests of the company and reduces the level of increased oversight by staff. The fact that the law requires all such investments to be achievable and cost-effective provides cost pressure relief benefits to all customers and, when verified, provides evidence of prudence.

Traditionally a reasonable rate of return has been most reliably available to electric utilities through the capitalization of generating resources. As these capital investment opportunities are reduced or displaced by conservation there should be a reasonable accommodation to allow the companies to continue to make reasonable profits. However, it is also important to maintain limits on these investments, how the investments are made and provide sufficient oversight and financial controls.

Staff proposes that this issue be sent to the Washington Conservation Collaborative for further discussion with recommendations for action returned to the Commission.

Appendices

Appendix A – Summary of Statutes & Rules

Appendix B – Council Methodology

Appendix C – Past Commission Practice

Appendix D – Relevant Orders

Appendix E – Collaborative Charge

Appendix F – Avista's Target vs 2009 IRP

Appendix A – Summary of Statutes & Rules

Appendix A

The overarching context for the conservation projections and targets is that “Each qualifying utility shall pursue all available conservation that is cost-effective, reliable, and feasible.” [RCW 19.285.040(1)]

10-year Conservation Potential and Biennial Conservation Acquisition Targets

Beginning January 2010 (and every two years thereafter) each utility shall:

- Project its cumulative achievable cost-effective 10-year conservation potential which is:
 - Cost-effective,
 - Reliable,
 - Feasible, and
 - Derived from and consistent with either:
 - Most recent Integrated Resource Plan (IRP) and information from the subsequent resource acquisition process. Utilities must use methods consistent with the NW Power & Conservation Council and may alter the Council methodology with full documentation of the rationale for any modifications that better fit the attributes and characteristics of its service territory, **OR**
 - The proportionate share of the utility’s Washington State savings developed as a percentage of its retail sales from the Council current power plan (the Council “calculator”)
- Establish and make public a biennial acquisition target for cost-effective conservation consistent with the 10-year conservation potential.
The biennial acquisition target must be no lower than the pro-rata 2-year share of the 10-year cost-effective conservation potential.

<i>Reference</i>
RCW 19.285.040(1)(a),(b)
RCW 19.285.040(1)(a)
RCW 19.285.040(1)
RCW 19.285.040(1)
RCW 19.285.040(1)
WAC 480-109-010(1)(b)
WAC 480-109-010(1)(b)(i)
WAC 480-109-010(1)(b)(ii)
RCW 19.285.040(1)(b) and WAC 480-109-010(2)(b)

<u>Reference</u>
WAC 480-109-010((2)(c)
WAC 480-109-010((2)(a)
WAC 480-109-010(2)(b)
WAC 480-109-010(3)
WAC 480-109-010(3)(a)
WAC 480-109-010(3)(b)
WAC 480-109-010(3)(c)
WAC 480-109-010(3)(c)

- The biennial acquisition target may be a range.
- The biennial target must identify all achievable conservation opportunities
- The Utility must fully document how it prorated its 10-year cumulative conservation potential to determine the minimum level of its biennial conservation target.
- File with the Commission a report identifying its 10-year achievable conservation potential and biennial acquisition conservation target and must include:
 - An outline of the extent of public and Commission staff participation in the development of the conservation metrics (this participation is considered “essential”)
 - Identification of whether the Council’s plan or the utility’s IRP and acquisition process were the source of it conservation potential and how this was prorated to create the biennial acquisition target
 - If the IRP and related information is used to determine the 10-year conservation potential, the report must describe the:
 - Technologies,
 - Data collection
 - Processes,
 - Procedures, and
 - Assumptions used by the utility for the calculations.
 - Describe and provide supporting documentation for any changes in assumptions or methodologies used to develop its conservation metrics that differ from the utility’s most recent IRP or from the Council’s plan.

Commission prerogatives in evaluating targets and implementation of conservation programs

- May determine if a conservation program implemented is cost-effective based on the Commission’s policies and practice.
 - Utilities must show that they are in fact pursuing “**all available conservation that is cost-effective, reliable, and feasible.**” This would include demonstrating that there are no artificial “economic throttles” being applied during the implementation of conservation programs that are unduly slowing implementation or causing lost opportunities in opposition to pursuing “all....”
- May rely on its standard practice for review and approval of utility conservation targets.
 - See Appendix C for dockets and topics of adopted practices and policies by the Commission.

<i>Reference</i>
RCW 19.285.040(1)(d)
Commission Policy/Practice
RCW 19.285.040(1)(e)
Commission Policy/Practice

Report review and approval process

- Companies file report identifying their achievable conservation potential and biennial acquisition conservation target and supporting documentation
- 30 days from filing – comments due from interested parties and Commission staff to Commission on the conservation metrics (10-yr. potential and 2-yr. targets)
- Commissioners review written comments and decide whether to hear oral comments at an Open Meeting.
- If Commissioners determine that additional review is needed, they establish a judicial proceeding or other process to fully consider appropriate revisions to the conservation metrics filing.
- At conclusion of the Commission review the Commissioners will approve, approve with conditions or reject the utility metrics (10-yr. potential and 2yr. targets)
- No processes defined beyond this in rule

WAC 480-109-010(3)
WAC 480-109-010(4)
WAC 480-109-010(4)(a)
WAC 480-109-010(4)(b)
WAC 480-109-010(4)(c)

Issues:

1. An order will need to set the timeline and deliverables beyond the process outlined in the rule
2. The companies will be responsible for meeting any final targets from January 2010 through December 2011 although the targets may not be approved by the Commission until after any adjudicative processes have been completed, sometime later in 2010.

Docket numbers assigned to companies' Conservation reports were:

	12/30/2009	1/29/2010
	<u>Informal Filing</u>	<u>Required Filing</u>
PacifiCorp	UE-091982	UE-100170
Avista	UE-091983	UE-100176
PSE	UE-091986	UE-100177

Appendix B – Council Methodology

**The Northwest Power & Conservation Council's
Methodology for Determining Achievable Conservation
Potential.**

Appendix B

The Northwest Power and Conservation Council's Methodology for Determining Achievable Conservation Potential - Outline of Major Elements

1) Resource Definitions

- i) Technical Potential
- ii) Economic Potential
- iii) Achievable Potential

(1) Non-lost opportunity resources ("schedulable")

(2) Lost opportunity resources

2) Technical Resource Potential Assessment

a) Review wide array of energy efficiency technologies and practices across all sectors and major end uses

b) Methodology

i) Technically feasibility savings = Number of applicable units * incremental savings/applicable unit

ii) "Applicable" Units accounts for

(a) Fuel saturations (e.g. electric vs. gas DHW)

(b) Building characteristics (single family vs. mobile homes, basement/non-basement, etc.)

(c) System saturations, (e.g., heat pump vs. zonal, central AC vs. window AC)

(d) Current measure saturations

(e) New and existing units

(f) Measure life (stock turnover cycle)

(g) Measure substitutions (e.g., duct sealing of homes with forced-air resistance furnaces vs. conversion of homes to heat pumps with sealed ducts)

iii) "Incremental" Savings/applicable unit accounts for

(a) Expected kW and kWh savings shaped by time-of-day, day of week and month of year

(b) Savings over baseline efficiency

- (i) Baseline set by codes/standards or current practices
- (ii) Not always equivalent to savings over “current use” (e.g., new refrigerator savings are measured as “increment above current federal standards, not the refrigerator being replaced)
- (c) Climate - heating, cooling degree days and solar availability
- (d) Measure interactions (e.g. lighting and HVAC, duct sealing and heat pump performance, heat pump conversion and weatherization savings)

3) Economic Potential - Ranking Based on Resource Valuation

- a) Total Resource Cost (TRC) is the criterion for economic screening - TRC includes all cost and benefits of measure, regardless of who pays for or receives them.
 - i) TRC B/C Ratio \geq 1.0
 - ii) Levelized cost of conserved energy (CCE) \leq levelized avoided cost for the load shape of the savings may substitute for TRC if “CCE” is adjusted to account for “non-kWh” benefits, including deferred T&D, non-energy benefits, environmental benefits and Act’s 10% conservation credit
- b) Methodology
 - i) Energy and capacity value (i.e., benefit) of savings based on avoided cost of future wholesale market purchases (forward price curves)
 - ii) Energy and capacity value accounts for shape of savings (i.e., uses time and seasonally differentiated avoided costs and measure savings)
 - iii) Uncertainties in future market prices are accounted for by performing valuation under wide range of future market price scenario during Integrated Resource Planning process (See 4.1)

- c) Costs Inputs (Resource Cost Elements)
 - i) Full incremental measure costs (material and labor)
 - ii) Applicable on-going O&M expenses (plus or minus)
 - iii) Applicable periodic O&M expenses (plus or minus)
 - iv) Utility administrative costs (program planning, marketing, delivery, on-going administration, evaluation)
 - d) Benefit Inputs (Resource Value Elements)
 - i) Direct energy savings
 - ii) Direct capacity savings
 - iii) Avoided T&D losses
 - iv) Deferral value of transmission and distribution system expansion (if applicable)
 - v) Non-energy benefits (e.g. water savings)
 - vi) Environmental externalities
 - e) Discounted Presented Value Inputs
 - i) Rate = After-tax average cost of capital weighted for project participants (real or nominal)
 - ii) Term = Project life, generally equivalent to life of resources added during planning period
 - iii) Money is discounted, not energy savings
- 4) Achievable Potential
- a) Annual acquisition targets established through Integrated Resource Acquisition Planning (IRP) process (i.e., portfolio modeling)
 - b) Conservation competes against all other resource options in portfolio analysis
 - i) Conservation resource supply curves separated into
 - (1) Discretionary (non-lost opportunity)
 - (2) Lost-opportunity
 - (3) Annual achievable potential constrained by historic “ramp rates” for discretionary and lost-opportunity resources
 - (a) Maximum ramp up/ramp down rate for discretionary is 3x prior year for discretionary, with upper limit of 85% over 20 year planning period

- (b) Ramp rate for lost-opportunity is 15% in first year, growing to 85% in twelfth year
 - (c) Achievable potentials may vary by type of measure, customer sector, and program design (e.g., measures subject to federal standards can have 100% “achievable” potential)
- c) Revise Technical, Economic and Achievable Potential based on changes in market conditions (e.g., revised codes or standards), program accomplishments, evaluations and experience
- i) All programs should incorporate Measurement and Verification (M&V) plans that at a minimum track administrative and measure costs and savings.
 - ii) Use International Performance Measurement and Verification Protocols (IPMVP) as a guide

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Appendix C – Past Commission Practices

Past Commission Practices and Policies Regarding Conservation Programs.

Appendix C

Past Commission Practices and Policy regarding Conservation Programs

The Conservation Settlement terms from Docket UE-011570[1] and others provides elements of a model comprehensively organizing a cost-effective conservation program that leverages existing efforts of the NWPCC's Regional Technical Forum (RTF) as well as the knowledge and experience of the Company.

Existing UTC Energy Conservation Practices and Policy		Similar Docket Features		
Conservation Program Feature	Description	PSE	PacifiCorp	Avista
Specific Annual Conservation Targets	Average Megawatts (aMW) and Millions of Therms per year	UE-011570	UE-001457	UE-081613
Advisory Group Members, Roles, and Responsibility	<p>Includes stakeholders. Responsible for Reviewing and Advising on:</p> <ul style="list-style-type: none"> • data, analysis, modification of evaluation and measurement of savings, • guidance to company regarding methodology inputs and calculations for updating cost-effectiveness, • data values used to update supply curves, • need for tariff modifications or mid-course corrections, • appropriateness and plan for: <ul style="list-style-type: none"> o marketing energy efficiency programs, o level of incentives to customers for measures and services • issues related to limited income energy efficiency programs • program achievement results to compare to annual targets • draft tariffs for at least 2 month review prior to filing • any member may call a meeting of the Advisory Group 	UE-011570	UE-991832	UE-981126
Conservation Potential Assessment	Develop commercial, industrial and residential sectors conservation supply curves. Update curves at least every five years. Report resultant changes to commission in tariffs due to changes in conservation potential assessment.	UE-011570	UE-051090	UE-081613
Conservation Targets and Budgets	Adjust and report targets and program budget to commission annually.	UE-011570	UE-001457	UE-082272

<p>Avoided Cost Calculations – Electric Conservation</p>	<p>Specifying what factors or components need to be considered when periodically calculating avoided costs by which cost-effectiveness of conservation will be measured against. Such as:</p> <ul style="list-style-type: none"> • forecast or production cost modeling methods • transmission and distribution avoided line loss % benefit • transmission benefit in \$/kW-yr. • distribution benefit in \$/kW-yr. • 10% environmental adder or other avoid cost factors (\$15/ton) • Production capacity cost in \$/kW-yr. • RTF findings end use load factors <p>Avoided costs are established in conjunction with the Advisory Group.</p>	<p>UE-011570</p>	<p>UE-080826</p>	<p>UE-081613</p>	
<p>Avoided Costs – Natural Gas</p>	<p>Use components similar to electric avoided costs</p>	<p>UE-011570</p>	<p>n/a</p>	<p>UE-090015</p>	
<p>Establish Indicators that trigger consideration of adjusting cost-effectiveness or savings targets</p>	<p>Company will consult with the Advisory Group to consider adjusting cost-effectiveness levels or annual savings targets when an established indicator threshold or condition has been reached or exceeded. For instance market prices for energy vary >30% from assumption in the forecast model input value.</p>	<p>UE-011570</p>	<p>UE-080826</p>	<p>UE-081613</p>	
<p>Approved Strategies for selecting and evaluating energy conservation savings</p>	<ul style="list-style-type: none"> • Regional Technical Forum’s “deemed” savings lists for electricity measures, • Advisory Group review and adoption of evaluation protocol for energy efficiency programs. 	<p>UE-011570</p>	<p>UE-001457</p>	<p>UE-981126</p>	
<p>“Information Only” conservation efforts</p>	<p>Zero quantifiable savings unless other approved with full support of the Advisory Group. Company may spend up to 10% of budget by sector spend on cost-effective measures and programs.</p>	<p>UE-011570</p>	<p>UE-001457</p>	<p>UE-981126</p>	
<p>Incentives</p>	<p>Company shall offer incentives for cost-effective measures in order to achieve meaningful program penetration. Incentives may be directed to consumers, retailers, designers, installers, etc., as appropriate for measures that save energy. Company shall work with the Advisory Group to establish meaningful penetration levels.</p>	<p>UE-011570</p>	<p>UE-001457</p>	<p>UE-981126</p>	
<p>All Sectors Included</p>	<p>Company shall offer a mix of tariff-based programs that ensures it is serving each customer sector including programs targeted to the limited-income subset of residential customers. Modifications to this commitment may be made with full Advisory Group support.</p>	<p>UE-011570</p>	<p>UE-001457</p>	<p>UE-981126</p>	

Use of Tariff funds for EE and fuel switching only	Tariff-rider funds shall only be used on programs and their associated administrative costs that result in energy savings through energy efficiency investments or fuel switching. This may include reasonable administration costs for net metering.	UE-011570	UE-001457	UE-941377 and UG-941378	
Required Reports, Calculations	Achievement of annual targets for savings from cost-effective electricity conservation programs and from cost-effective natural gas programs shall be reported.	UE-011570	UE-001457	UE-082272 and UG-090052	
Semi-annual reports	Company is required to submit semi-annual reports on the progress of electricity conservation programs within 45 days of the end of the second and fourth quarters.	UE-970686 2nd Supp order	UE-001457	UE-082272 and UG-090052	
Penalties	Achievement of annual targets for savings from cost-effective electricity conservation programs and from cost-effective natural gas programs shall be subject to a penalty mechanism. If the Company achieves its average annual savings goals, as determined with the Advisory Group, during a two-year period, then no penalty will be applied for that two-year period. otherwise a penalty is assessed according to a schedule.	UE-011570	n/a	n/a	
Customer notification of performance	The Company shall provide biennial notification in a Conservation Report Card to its customers regarding the Company's performance related to its annual savings targets. The report shall be: a) Distributed as a conspicuous stand-alone document accompanying a customer's bill or in a separate mailing and posted to company's website. b) Distributed to customers only after adequate consultation with Staff and the Advisory Group. c) Be distributed no later than 90 days after the filing of the Annual Conservation report and every two years thereafter. d) Contain the following information, at a minimum: 1) A brief description of the purpose of the report. 2) A brief description of the benchmarks and an indication of whether the Company met the benchmarks in each year. 3) Total amount of penalty at risk and the total amount of penalties imposed for the current reporting period.	UE-011570	n/a	n/a	

	The report also may contain reference to the company's ongoing energy efficiency programs, including encouragement for customers to participate.				
Fuel Switching Line Extensions	The company may adopt line extension policies that are designed to encourage (and particularly not discourage) builders, developers, and end-use customers to select a heating fuel that is most resource efficient and adopt construction practices that exceed current energy codes.	UE-011570	n/a		
Self-directed Industrial Programs	Self-directed programs for very large industrial customers available. Each very large industrial customer can self-direct and/or participate in programs offered directly by the company up to a total dollar cap equal to the annual efficiency funding level for that customer minus 17.5% of that amount. The 17.5% represents payments for market transformation (10%) and for administration (7.5%).	UE-011570	UE-001457	UE-981126	
Outreach on Programs	The company shall establish a strategy and proposed implementation budget for informing participants about program opportunities in the relevant and strategic market channels for each of its energy efficiency programs. The company shall share these strategies and budgets with the Advisory Group for review and comments.	UE-011570	UE-001457	UE-981126	
Cost Effectiveness Test	Total Resource Cost test	UE-920630			
Natural Gas Recovery	Company can defer all outside costs and all incremental administrative costs directly associated with planning, developing, promoting or administering the programs.	UG-950288	n/a	UG-941378	
AFUCE	Company will be allowed to accrue an allowance for funds used to conserve energy (AFUCE) calculated monthly without compounding. The AFUCE rate will be based on the Company's authorized rate of return net of federal income tax.	UG-950288	n/a	n/a	
Low Income incentive	Company will be allowed to apply a 2% equity "kicker" on those costs which the company can show are directly associated with providing measures to senior citizens and low-income participants. Only the costs under the low-income weatherization pilot program meet this test.	UG-950288	n/a	n/a	
Lost Margins	Company will be allowed to defer 50% of the demonstrated program term savings times the tailblock price of the effected rate schedule as representative of lost margins. The Company will book lost margins on pilot programs only prospective to demonstrated savings. No AFUCE on lost margins. Recording of lost margins is suspended three years from each program tariff sunset date.	UG-950288	n/a	n/a	

Annual filing	Annually, March 1, the Company will file an annual tracker to recover the subsequent calendar year costs associated with programs.	UG-950288	n/a	UG-090052
Account to be charged	Company will charge FERC Account 908 based on actual recoveries and reduce the Miscellaneous Deferred Debit account, where the program charges are deferred.	UG-950288	n/a	
Allocation	Company will apportion annual tariff tracker 85% to firm sales rate schedules and 15% to interruptible sales, respectively.	UG-950288	n/a	n/a
Scope of Expenditures Defined by Tariff	The expenditures authorized for deferral would be those incurred in accordance with Company's tariff.	UE-970686	UE-001457	UE-941377
Recovery Through an Electric Tariff Rider	Electric conservation expenditures would be recovered through an electric tariff rider. This tariff schedule would impose a surcharge applied to each kWh of electricity sales under each of Company's electricity sales tariffs. Excluding wholesale sales.	UE-970686	UE-001457	UE-941377
Concurrent Recovery in Rates	The rates set forth in such rider would be calculated to recover the conservation expenditures which are projected to be incurred for each program year.	UE-970686	UE-001457	UE-941377
Subsequent True-Up to Actuals	Company will submit a filing annually on or before March 1, to be effective April 1, adjusting the tariff rider to reflect the actual amounts spent during the previous calendar year and any variance between actual expenditures during the program year and expected revenue collections during the recovery period. At the time of the March 1 filing, actual revenue collections through January would be known. Revenue collections for the remaining two months of the recovery period--February and March--would be estimated, and subject to true-up at the time of the subsequent adjustment to the tariff rider.	UE-970686		UE-082272
No Allowance for Funds Used to Conserve Energy	Because the rider would provide for concurrent recovery of conservation expenditures in rates, no allowance for funds used to conserve energy, or AFUCE, would be necessary.	UE-970686		n/a
Recovery on a Peak Credit Basis for Each Customer Class	The rate set forth in the tariff rider is designed to recover the authorized electric conservation expenditures on a peak credit basis for each rate class over the recovery period. The portion allocable to the ARCO special contract load--for which recovery is not provided--is calculated based on an equal percentage methodology.	UE-970686		n/a

Interest on Balances	Funds collected through the System Benefits Charge and funds expended on energy efficiency will be accounted for in a balancing account. It will accrue interest at an annual rate of 8.8% on positive balances only, i.e., on excess collections over expenditures.		UE-001457	UE-991606 and UG-991607	
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Appendix D – Relevant Orders

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Avista relevant orders.....	1
PacifiCorp relevant orders.....	21
PSE relevant orders.....	35

Avista Relevant Orders

Docket Number	Page	Component	Content
UE-920352 & UG-920354	2	Letter	Establishing accounting treatment.
UE-941377 & UG-941378	11	Staff Memo	Company proposal to establish electric and gas tariff riders, allowed to go into effect.
UE-981126	14	Staff Memo	Company proposal to eliminate advisory group, allowed to go into effect.
UE-991606 & UG-991607	16	3 rd Supplemental Order (pg. 112)	Interest only accrues on positive balances.
UE-082272 & UG-090052	18	Staff Memo	Company allowed to file quarterly reports, establish true up, require annual filings to go into effect.

SERVICE DATE

MAY 21 1992

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the matter of the application of)	
THE WASHINGTON WATER POWER COMPANY)	DOCKET NO. UE-920351-T
)	DOCKET NO. UE-920352-P
)	DOCKET NO. UG-920353-T
for approval of new gas and electric)	DOCKET NO. UG-920354-P
tariffs and related accounting)	
treatment for the implementation of)	
new and revised energy efficiency)	ORDER APPROVING TARIFF
programs for residential, commercial)	REVISIONS, NEW TARIFFS,
and industrial customers.)	AND AUTHORIZING CERTAIN
.)	ACCOUNTING TREATMENT

On April 1, 1992, The Washington Water Power Company ("WWP" or "company") filed the following matters with the Commission.

- * Docket No. UE-920351-T is a tariff filing designed to revise the company electric tariff schedules 60, 65, and 91 to update electric avoided costs and add some additional demand side management (DSM) measures, and to add new Schedule 90, Fuel Efficiency Program.
- * Docket No. UE-920352-P is a petition for an accounting order to approve a 2% equity premium on DSM investments. The company also sought approval to set up an Electric Lost Margin Deferral Account and to set aside lost margin amounts not being directly recovered through the fuel efficiency program.
- * Docket No. UG-920353-T is a tariff filing designed to add to the company's gas tariff new Schedule 190, Demand Side Management.
- * Docket No. UG-920354-P is a petition for an accounting order approving treatments similar to those already accorded electric DSM investments, and a 2% equity premium on gas DSM investments.

These filings were in substitution of an original filing made with the Commission on February 3, 1992, and later withdrawn by the company in March 1992. Following the original filing, the Commission Staff held a series of discussions with the company to resolve concerns about the scope of the demand side management ("DSM") program proposed by WWP. These discussions resulted in the substitute filings which are the subject of this order.

The matters appeared on the agenda of the Commission's regularly-scheduled open meeting of April 8, 1992. At the open meeting, Public Counsel expressed concerns with the program. The Commission urged all interested persons and the company to work together to resolve concerns with the company's DSM program.

The WWP program calls for conversion of electric homes to high efficiency gas furnaces and water heaters. It is the only electric DSM fuel switching program in the region. It also contains the only gas DSM weatherization program in the state.

The Commission held a special open meeting in Spokane on April 30, 1992, to discuss further with interested persons the proper scope of the DSM program and the particulars of the tariff filings and accounting petitions, and to solicit public comment on the program. At the meeting, all parties agreed that the program represented by the filings and petitions should "sunset" at the end of 1994. The Commission voted to accept the tariff filings and authorized the electric lost margin deferral mechanism and the accounting treatment for gas conservation investment, except for the electric and gas incentive mechanism (2% equity "kicker") component of the accounting petitions. The accounting treatment authorized by this order is confirmed by letter attached to this order.

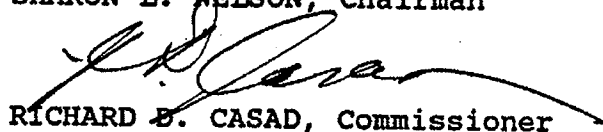
ORDER

IT IS ORDERED That the tariff revisions to Schedule 60, 65, and 91, and new tariff Schedules 90 and 190, be allowed to take effect by operation of law on May 5, 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD B. CASAD, Commissioner

Commissioner A. J. Pardini - I respectfully dissent. I believe that the desire to achieve such laudable goals as energy conservation and demand side management as well as our attempt to assist low income residents has led the Commission and the Commission Staff to a hasty conclusion that would not bear the scrutiny of a full investigation.

In its simplest form, the company proposes to embark on a vigorous campaign to convince certain of its customers, who currently use electricity as an energy source for space heating and water heating, to convert to natural gas for these purposes. The result is that scarce electrical energy to meet future growth will be replaced by more plentiful natural gas. This will temporarily relieve the company of any need to build new resources.

In addition, the common good may be served by postponing such construction and avoiding the environmental risks of new electricity generating plants.

The cost of gas is at present cheaper than the cost of electricity. The conversion process will be enhanced by the fact that the company will offer grants of up to \$650 for water heaters and up to \$2700 (\$2900 for low income customers) for both water and space heaters. These amounts are called grants but are, in fact, small construction projects to be added back to rate base, along with the expenses of researching, organizing, and implementing the program. The company will recover these grants and expenses on them from all electric ratepayers. If the program stopped here, I would find it acceptable and worthwhile. But it continues.

As part of the program, those customers accepting the grant are required to enter into a contract with the company to share the savings they gain from the lower energy costs of gas versus electricity. Water heater grant customers agree to pay \$48 a year for the next five years.

Water and space heating customers who accept grants agree to share with the company \$228 per year or \$1140 over five years; space heating only customers share \$180 per year or \$900 over five years. These amounts are paid to the company even though the company has the opportunity to make a profit margin on the gas sales and even though the company receives a return of and a return on its outlay for the amounts of the grants and all the expenses associated with research, organization, and implementation of the program. This "lost margin" will not be recovered from customers who meet low income criteria, but grants to these customers will be added to the amounts capitalized.

The company suggests that because conservation of electricity occurs, it will suffer a revenue loss because the electrical energy that is saved can only be resold at a short-term firm rate which is below the retail rate. The difference between the two is what the company calls its "lost margin" and argues that it should get this "lost margin" as well as its newly acquired gas sales margins.

The company offered no evidence other than its anecdotal statements that saved electrical energy could only be sold at secondary market rates. Conversely, it stated that its supplies of electrical energy were in balance and perhaps slightly deficit of demand -- hence the need for the conversion program. The very nature of the program allows for the recovery of electrical energy in many small bites. Bear in mind that each conversion may be offset by construction of a new residence somewhere in the service territory that does not have natural gas available or by a manufactured housing unit space heated by electricity.

These units, combined with growth in commercial and industrial usage, will offset most of the fuel switching savings resulting in the very high probability that conserved electricity will be sold at retail and not at wholesale prices as the company alleges.

For the past two years the company has operated at slightly above its authorized rate of return. From information supplied by the company, it appears that the rate of return for 1990 and 1991 on a normalized basis was 10.70 percent and 11.06 percent, respectively, compared with an authorized rate of return of 10.67 percent for the period. The actual rates of return for the same periods, respectively, were 12.73 percent and 11.68 percent. The company does not plan to file a rate case until the end of 1994, apparently satisfied that current rates offer a fair return.

In order for demand side management to be effective, there is no question that the program should provide a profitable course of action for the company to pursue. Conservation programs reward the company by allowing it to eliminate any risk in the construction of new plants -- a goal that the company is very much desirous of achieving. Granting the lost margin is a bonanza far in excess of a reasonable incentive to a company which has a monopoly franchise.

Perhaps the company would have been awarded its lost margin in a full hearing. If it had, however, it would have at least proven that there was lost revenue. The present record indicates nothing but a mere statement by the company that they could only sell this power at wholesale prices -- with no proof to back that assertion. A full and complete hearing on this aspect of the demand side management program could have cleared the air on that issue. Instead, the company chose to interweave the different parts of their demand side management program into an almost inseparable package allowing the Commission little choice.

This dissent may be viewed as an exercise in futility. Nonetheless, I hope it may serve as a reminder in ensuing proceedings that full accountability should be demanded before consideration of any incentives is allowed. This company has a monopoly franchise. With that franchise is the obligation to serve. A competitive marketplace would not allow the company to obtain both "new margins" on gas sales and "lost margins" on electricity sales. Consideration should be given before any of the amounts deferred are included in rates to reducing the amounts of the grants that are allowed to be capitalized if the lost margins do not materialize, but instead result in excess earnings.

Lastly, I must note that the Commission has embarked on the establishment of different rate schedules for customers based on waiver of the requirement for lost margin payments for low

income recipients. I find this an extraordinary reach for the Commission without legislative authority and without a standard guideline that is effected on a statewide basis.



A. J. PARDINI, Commissioner



Sharon L. Nelson, Chairman
Richard D. Casad, Commissioner
A. J. "Bud" Pardini, Commissioner

STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 9022 • Olympia, Washington 98504-9022 • (206) 753-6423 • (SCAN) 234-6423

May 21, 1992

Mr. Jon E. Eliassen, Vice President &
Chief Financial Officer
The Washington Water Power Company
P. O. Box 3727
Spokane, Washington 99220

Subject: Washington Water Power accounting petitions
Docket Numbers UE-920352(P) and UG-920354(P)

Dear Mr. Eliassen:

The Washington Utilities and Transportation Commission, in its special open meeting in Spokane on April 30, 1992, authorized the electric lost margin deferral and the accounting treatments for gas conservation investment proposed by the company in its filing in Docket Numbers UE-920352(P) and UG-920354(P), as clarified and/or modified by the company's letters dated April 6, 1992, and April 27, 1992 (copies attached).

The accounting treatment approved herein will be subject to review in subsequent rate proceedings. As indicated in the company's April 17, 1992 letter, item 6, the authorization contained in this letter is for booking purposes and does not constitute pre-approval of recovery of such costs in subsequent rate proceedings. As with other adjustments, the company bears the burden of proving the fairness, justness and reasonableness of these costs in such proceedings.

The Commission took no action on the petition for a gas and electric incentive mechanism, in the form of an additional two percent return on conservation investment. The company has agreed to defer this request to a future date.

This letter summarizes the specific accounting procedures requested by the company and approved by the Commission.

A. Electric Lost Margin Deferral:

1. The company is allowed to record monthly as a debit to Account 186, Miscellaneous Debits, and a credit to Account 908, Customer Assistance Expenses, all lost margin amounts arising from its implementation of conservation programs other than the Fuel Efficiency program, including the amounts that would otherwise be charged to low income participants in the Fuel Efficiency program. These amounts are the "lost margin amounts".
2. The monthly lost margin amounts are to be calculated by multiplying the appropriate lost margin rates reflected on page 1 of Exhibit 3 (that accompanies the company's filing) and the appropriate demand rates found in the company's approved tariff Schedules 11 and 21 by the amounts of KWH and demand savings previously estimated and used in the determination of electric avoided costs, grant levels, etc. for participants in electric conservation Schedules 60, 65, 67, and 91, as well as for the low-income participants in Schedule 90.
3. An allowance for funds used to conserve energy (AFUCE) is allowed to be accrued monthly on the deferred lost margin amounts, using the same rate as that approved for other demand side management (DSM) investments, and to be recorded by debiting Account 186, Miscellaneous Deferred Debits, and crediting Account 432, Allowance For Borrowed Funds Used During Construction. However, the deferred lost margin should be considered part of total DSM investment and, thus, this AFUCE accrual is subject to the restrictions set forth in the Commission letter dated October 18, 1989.
4. Amortization of the lost margin and related AFUCE amounts will be accomplished by debiting Account 908 and crediting Account 186, using the same amortization rates as those approved for the investment in the related conservation programs.

Lost margin amounts associated with the company's DSM programs, and the AFUCE accrued thereon, will receive the same accounting treatment as that allowed to the company's actual investment in these programs. On March 14, 1991, the company was allowed to change its accounting methodology for its investment in DSM in order to follow the Commission's approved methodology as used by Puget Sound Power and Light Company, prior to the adoption of the Periodic Rate Adjustment Mechanism. The accounting treatment is consistent with Water Power's request contained in its February 7, 1991 Petition and

as confirmed by the company's representative at the Commission's March 13, 1991 open meeting. This methodology requires that the Commission set an amortization level during a rate proceeding, which is to be used as the required level for annual amortization until the level is reset in a later proceeding.

5. The Federal income tax effects of deferred lost margin amounts will be normalized and recorded as debits to Account 410.10, Provision For Deferred Income Taxes, and as credits to Account 282, Accumulated Deferred Income Taxes - Other Property.
6. Work orders, sub-accounts, and location numbers will be used, as appropriate, to insure proper identification of the lost margin amounts.

B. Accounting Treatment of Gas Conservation Investment:

The company will be allowed to account for its investment in gas conservation similarly to its current accounting applicable to its electric conservation expenditures, as outlined in the Commission's letters dated October 18, 1989, and March 14, 1991. Specifically:

1. The company is allowed to defer all direct, administrative, and general costs associated with new gas conservation programs approved by the Commission, and to delay the amortization of these costs until its next gas general rate case. The deferred costs will be charged to Account 186, Miscellaneous Deferred Debits.
2. The company is allowed to defer in Account 186 all research, development, and administrative costs directly associated with the planning, development, and administration of new gas conservation programs. However, only those costs leading to programs subsequently approved by the Commission will be capitalized as part of the programs' authorized costs. The rest shall be written off to expense.
3. The company is allowed to accrue AFUCE on its approved gas conservation investment not yet included in rates. AFUCE is calculated monthly, but is only compounded annually. The AFUCE rate is the company's most recently approved rate of return for gas operations, net of the income tax effect of interest. As with the accrual of AFUCE on electric conservation investment, AFUCE will only be accrued when total unamortized gas conservation investment exceeds the investment included in the most recent gas rate setting proceeding or other docket as determined by this Commission. Currently this base investment is zero.

Docket Numbers UE-920352(P) and UG-920354(P)
May 21, 1992
Page 4

4. At the time of the company's next gas rate case, deferred gas conservation investment and accrued AFUCE previously recorded in Account 186, if approved by the Commission, will be amortized to Account 908, Customer Assistance Expenses, over the expected lives of the related DSM measures, not to exceed 30 years. The conservation amortization level will be set in a rate proceeding and the company shall amortize that amount each year until the amount is reset in a following rate proceeding.

Any questions concerning this letter should be directed to the attention of Ken Elgin, Assistant Director, Energy Section, telephone (206)586-4510.

Sincerely,



Paul Curl
Secretary

Attachments

Agenda Date: December 14, 1994

Item Number:

Docket: UE-941375 and UE-941377

Company Name: Washington Water Power

Post-It* Fax Note		7671	Date	12/13	# of pages	3
To	BRUCE FOLSON		From	DEBORAH STEPHENS		
Co./Dept.	WWP		Co.	WUTC		
Phone #			Phone #			
Fax #			Fax #			

Staff: Deborah Stephens, Utilities Rate Research Specialist
Roland Martin, Revenue Requirements Specialist

Recommendation:

Permit the revisions filed in Dockets UE-941375 and UE-941377 to become effective January 1, 1995, as filed.

Discussion:

Purpose:

The purpose of these filings is to revise Washington Water Power's (WWP/Company) Schedule 90, the Company's demand-side management (DSM) tariffs, and to create a special tariff (Schedule 91) which is designed as a separate charge to customers to provide funding for the DSM programs. The programs in Schedule 90 replace the Company's existing DSM tariffs, the majority of which are scheduled to "sunset" at the end of this year. The proposed programs consist of a continuation of selected existing programs and several market transformation efforts. The DSM programs in this tariff filing are being requested by the Company at a time when it contends to have no impending short-term need for these resources. The proposed "DSM tariff rider" provides for current expense treatment of DSM program expenditures, rather than traditional ratebase/amortization treatment, therefore lowering the cost of DSM to customers and avoiding the build-up of a regulatory asset by the Company.

The proposed programs include three experimental market transformation programs: a Resource Conservation Manager (RCM) program, a commercial/industrial trade ally program, and a commercial/industrial building commissioning program. The RCM program targets improved operations and maintenance within public schools. The salaries of two resource conservation managers, hired from among existing school personnel staff, will be guaranteed with the expectation that bill savings from reduced energy consumption will more than offset program costs, based on similar programs which have been run in Oregon. The trade ally program is designed to identify and implement DSM projects that are cost-effective but have not occurred because of identifiable market barriers. The building commissioning program is a process of assuring that all building facility systems perform interactively at the highest efficiency level in accordance with the owner's operational needs. These market transformation programs are consistent with a regional direction of acquiring the DSM resource at a lower cost to ratepayers.

Process:

Several discussions pertaining to issues of this filing were held by the Demand-Side Issues Group (DIG), which was established in 1992 to discuss the Company's DSM efforts. Members of the DIG discussed but did not reach consensus on an appropriate level of DSM. Several members of the DIG expressed concerns regarding the Company's resource decisions which have ultimately impacted the

level of DSM. It is Staff's understanding that the DIG was never intended to be a forum for determining the Company's resource needs. Due to a lack of consensus on the appropriate level of DSM acquisition, the design and implementation of the programs proposed in this filing were not discussed within the DIG process. However, following the filing of these tariffs, Staff held a meeting to discuss the concerns of DIG members related to program design. The Company amended its tariffs based on that meeting, in order to address the concerns of DIG members who participated in Staff's meeting.

Staff's investigation of the Company's funding mechanism proposal included analysis and evaluation from an economic, policy, financial, and revenue requirement standpoint. Based on the results of Staff's investigation, concerns were addressed, discussions ensued, negotiations took place, and Staff and the Company ultimately reached a mutual agreement. It is Staff's understanding that other negotiations between the Company and several DIG members occurred but did not result in a settlement.

Considerations and Recommendations:

Staff recognizes that this filing represents a considerable ramp-down of DSM acquisition from Water Power's current level. In light of its assertion of resource balance, the Company has based its decision to offer these programs on the following objectives: the promotion of energy efficiency, the desire to maintain resource diversity, the ability to address the timing of resource needs, the interest in promoting market transformation efforts, and the creation of improved customer service. Staff finds these objectives and the proposed DSM programs to be reasonable in the face of a potentially changing electric industry environment.

Staff believes that both the magnitude of DSM acquisition and the Company's supply-side resource acquisition decisions are determinations that should be left to the Company's management, and should be examined and evaluated for prudence in a general rate proceeding. Staff takes its guidance most recently from Commission orders in Docket UE-930616, Commission Order Dismissing Complaint of SESCO, Inc., which provides the following: "Thus, the Commission has determined that it will allow utility management to determine, in the first instance, what resources it should build or purchase. The Commission, under current practice, reviews those decisions in a general rate proceeding."

The Company views its proposed DSM tariff rider as a measured response to industry changes which, among other things, does not require a general rate case to implement. However, if approved, the rider will increase customers' rates by approximately 1.5%. On average, residential customers' bills will increase by approximately 81 cents. The lack of an "earnings test" by the Company to support its proposal caused major concerns to Staff. Staff performed a review of the Company's most recent "Commission basis" results of operations. Based on the results of Staff's analysis of the Company's earnings level, Staff concluded that the incremental revenue from the tariff rider to fund the DSM programs falls within a reasonable range which may be subjected to litigation, depending on the extremity of each party's assumptions regarding fair cost of capital, capital structure, and cost of service elements.

With this traditional ratemaking parameter in mind, Staff considered the following factors and concluded that a recommendation of the revenue increase proposed by Water Power is in the public interest:

- a) The revenue increase will not yield additional earnings to the Company, because the funds generated will be used exclusively for DSM acquisition.

- b) Granting the rider is consistent with the provisions of RCW 80.28.260 which directs the Commission to consider granting the Company protection from a reduction in short-term earnings that may be a direct result of energy efficiency programs.
- c) With the rider, the company expenses rather than defers its DSM expenditures which will avoid the build-up of a regulatory asset on the utility's books and the complexities associated with deferred accounting and AFUCE.
- d) The Company has agreed to accelerate the amortization of DSM expenditures currently on its books, beginning on January 1, 1995, which will lower the cost of this DSM to ratepayers and simultaneously address the emerging issue of regulatory assets.
- e) Other benefits and considerations as stated in the Company's filing.

By recommending that the Commission approve the Company's proposed DSM tariff rider for a two-year period, Staff does not make any determinations regarding the future treatment of expenditures which are incurred to acquire demand-side resources in order to meet resource needs. Nor should any party construe the Commission's acceptance of the experimental rider as an indication of any preference or policy determination regarding the appropriate method for acquiring conservation or the associated rate-making treatment of conservation expenditures.

In conclusion, Staff has considered the concerns of the other interested parties in this proceeding and believes that Commission policy dictates that resource acquisition be determined by the Company. Staff also believes that the proposed tariff rider offers a reasonable alternative to ratebase treatment of DSM expenditures. Therefore, Staff believes the proposed revisions are reasonable and recommends the Commission permit the filings in Dockets UE-941375 and UE-941377 to become effective January 1, 1995.



SEP 23 11:02

STATE OF WASHINGTON
DEPARTMENT OF COMMUNITY, TRADE AND ECONOMIC DEVELOPMENT
ENERGY POLICY

925 Plum Street SE, Bldg. 4 • P.O. Box 43173 • Olympia, Washington 98504-3173 • (360) 956-2096 • FAX (360) 956-2180

September 23, 1998

Carole Washburn
Executive Secretary
Washington Utilities & Transportation Commission
PO Box 47250
Olympia, WA 98504-7250

SUBJECT: Docket No. UE-981126 – Electric Energy Efficiency Programs and Tariff Rider

Dear Ms. Washburn:

As a stakeholder in Washington Water Power's (Company) Demand Side Opportunities Group and as a representative of the Energy Policy Group at the Department of Community, Trade and Economic Development, I would like to indicate our support for the Company's current filing modifying Schedules 90 and 91. I would also like to take this opportunity to share with the Commission some comments on the Company's current energy efficiency programs, their process, and the forward looking nature of their current filing.

The Company currently has a useful mix of programs that they offer their customers. I believe the opportunity exists to design a modified program mix that more aggressively captures energy efficiency savings. The Company's proposals to create the Triple E Board and bring in some national expertise to assist with this task are strong indicators that they are prepared to make such modifications.

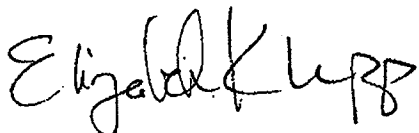
Staff at the Company have been consistently responsive to stakeholders' concerns and requests throughout the review of their current program mix and development of their current filing. It reflects well on the Company and its employees that they are presenting a proposal to secure ongoing funding for energy efficiency and low-income weatherization programs more than a year before their current programs expire.



Carole Washburn
September 23, 1998
Page 2 of 2

This filing displays a much-needed commitment to public purposes at a time of flux in this industry. CTED has publicly supported a tariff rider type mechanism such as the Company's as one way to obtain funds for public purpose programs and we support their use of it in this filing. I am encouraged that the Company is willing to link the future magnitude of their tariff rider with a market indicator such as the availability of potential energy efficiency resources. I look forward to having the Triple E Board and the Company conduct that analysis in the year 2000.

Sincerely,

A handwritten signature in black ink that reads "Elizabeth Klumpp". The signature is written in a cursive, flowing style.

Elizabeth C. Klumpp
Energy Policy Specialist

cc: Thomas Dukich, WWP
Bruce Folsom, WWP
Doug Kilpatrick, UTC

KD\Active\Policy\EK\09Ltrs.doc

SERVICE DATE

SEP 29 2000

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION,

Respondent.

.....)

DOCKET NO. UE-991606

DOCKET NO. UG-991607

THIRD SUPPLEMENTAL ORDER

Synopsis: The Commission orders an overall gas rate increase of \$1,672,000, or 2.1 percent.

The Commission orders an overall electric temporary rate decrease of \$3,406,000, or 1.4 percent.

The Commission orders further proceedings to determine any appropriate power cost adjustments.

The Commission orders a bill credit of \$19,869,296 million to reflect the ratepayers' portion of gain on sale of the Centralia coal plant facility.

3. *Electric Tariff Rider*

422 The Company proposes to maintain the level of the electric demand side management (DSM) tariff rider at 1.54 percent of retail revenues. The Commission finds this acceptable. However, if the balance in the tariff rider fund is not reduced to a reasonable level¹⁵ by mid-year 2001, the Company must file a rider rate adjustment that more closely matches its actual DSM program expenditures. If the energy efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the Company, not its customers, manages the energy efficiency program expenditures.

H. *Natural Gas Rate Spread*

423 Commission Staff, Public Counsel, and NWIGU sponsored joint testimony on gas rate spread, agreeing that any increase in natural gas rates should be spread among classes (other than schedules 131 and 148) on an equal percentage of margin basis. All customer classes fall within a narrow range with respect to revenue versus average rate of return. Avista agrees with the joint rate spread proposal. *Avista Brief, 101*. We accept the joint proposal.

I. *Natural Gas Rate Design*

424 There are two areas of disagreement on natural gas rate design: 1) The level of the monthly charge, and 2) rate structures for transportation customers.

1. *Gas - Monthly Customer Charge*

425 Avista proposes increasing the residential basic monthly charge from \$4 to \$5 a month, which would recover the cost of meters, meter reading, billing, and service lines (i.e., the line that connects a customer's house to the gas main). The Company claims this would recover less than 20 percent of gas service costs. Commission Staff advocates changing the customer charge by the same percentage as the overall

¹⁵ Defined by Commission Staff as approximately one to one and one-half months' revenues from the tariff rider, or a balance under \$450,000.

January 26, 2009

SENT VIA E-MAIL AND FIRST CLASS MAIL

David Danner
Executive Director
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: Avista's Tariff Filing to Increase Electric and Natural Gas DSM Tariff Rider Levels
Docket Nos. UE-082272 and UG-090052

Dear Mr. Danner:

Public Counsel submits this letter in advance of the Commission's January 29, 2009, Open Meeting with regard to Avista's proposals to increase its electric and natural gas demand side management (DSM) tariff riders. Public Counsel supports the Staff recommendation to allow the tariffs to take effect, in light of the commitments Avista has agreed to in the attachment to the replacement cover letter filed by the Company on January 23, 2009.

While Public Counsel strongly supports utility efforts to achieve cost-effective DSM and commends Avista for its efforts to accomplish this, we are concerned about the large size of the negative DSM tariff rider balances. Avista's proposal to nearly double its DSM tariff rider revenues is driven in large part by the need to devote a substantial amount of the additional revenues to pay down the negative balances.

Since 2005, the negative DSM tariff rider balances have continued to grow, in both the Washington electric and natural gas accounts. At the end of 2008, the balance in the Washington electric DSM tariff rider had reached negative \$5.9 million and the Washington natural gas DSM tariff rider had reached negative \$2.79 million according to the Company. In comparison, year-to-date total DSM tariff rider revenues at the end of 2008 were \$9.1 million for electric and \$2.9 million for natural gas.

Avista has proposed to increase the rate for Washington residential customers on the electric tariff rider to \$.00317 per kWh, which represents a 70 percent increase from the current rate of \$.00186 per kWh. The proposed natural gas DSM tariff rider rate for Washington residential and small commercial customers is \$.03344 per therm, which represents an 82 percent increase from

To: David Danner
Re: Docket Nos. UE-082272 and UG-090052
January 26, 2009
Page 2

the current rate of \$.01837 per therm. Avista estimates the DSM rider level increases will generate an additional \$6.97 million in Washington electric revenues and \$2.41 million in Washington gas revenues annually. With these increases, Avista's total annual Washington DSM revenues are estimated to be \$17 million for electric and \$5.4 million for natural gas. The Company estimates that the proposed tariff rider rate increases will eliminate the negative balances by the end of 2010, as well as fund estimated future DSM expenditures.

Public Counsel is concerned at the size of the increase to the electric and natural gas tariff riders and that a significant portion of the increased revenue will go to paying down the negative tariff rider balances rather than funding current programs. More than 40 percent of the electric rider increase and almost 60 percent of the gas rider increase will pay down the negative tariff rider balances over the next two years. We understand that in a given year perfect symmetry will not always exist between the proposed budget and actual expenditures, but earlier and more regular review of tariff rider imbalances and appropriate revisions to the rider levels could have prevented the DSM tariff rider balances from growing quite so large.

In light of our concerns regarding this matter, Public Counsel issued written questions to the Company and conferred with Avista and Commission Staff to discuss possible steps to improve the process of monitoring the tariff rider balance. We are hopeful that the commitments Avista has agreed to will reduce the likelihood of such large negative balances after 2010. Below we highlight our understanding of these commitments.

- 1. Annual February 15 Filing.** Public Counsel believes an annual date certain filing to revise the DSM portions of the Schedule 91 and 191 tariff rider mechanisms will provide the Company an opportunity to make annual adjustments to rider rates as necessary, based on budget projections for the coming year, and should serve to minimize any potential under or over collections.
- 2. Quarterly Tariff Rider Balance Reports.** Avista will file quarterly reports on the Schedule 91 and 191 tariff rider balances with the Commission and the External Energy Efficiency Board (Triple E). The reports will track the Company's progress toward eliminating the negative balances by year end of 2010.
- 3. Draft Tariff Revisions and Expenditure Alerts to the Triple E Board.** Avista also commits to share with the Triple E Board draft tariff revisions affecting the Company's DSM portfolio at least 30 days prior to filing such a revision with the Commission. In addition, Avista will send an e-mail alert and action plan to the Triple E if monthly projections indicate that the Company will spend more than 120 percent or less than 80 percent of its annual energy efficiency budgets for either Washington or Idaho electric or natural gas DSM. These commitments are similar to requirements that PSE has in place with its Conservation Resource Advisory Group.

To: David Danner
Re: Docket Nos. UE-082272 and UG-090052
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Page 3

In conclusion, Public Counsel strongly supports Avista's efforts to achieve cost-effective DSM, and we are hopeful that the commitments agreed to by Avista will reduce the likelihood of such large negative DSM account balances going forward. We also note that the prudence of Avista's 2008 DSM expenditures will be reviewed in the rate case Avista filed last week. Lea Daeschel and Mary Kimball will attend the January 29, 2009 Open Meeting to address this matter for Public Counsel.

Sincerely,

Simon J. ffitc
Senior Assistant Attorney General

cc: Anne Solwick (E-mail)
Deborah Reynolds (E-mail)
Bruce Folsom (E-mail)
Linda Gervais (E-mail)

PacifiCorp Relevant Orders

Docket Number	Page	Component	Content
UE-991832	22	3 rd Supplemental Order	Comprehensive Stipulation, Appendix B, pg 5.
UE-001457	25	Order	Implementing UE-991832 compliance filing.
UE-001457	30	1 st Supplemental Order	Removed expiration date.
UE-051090	33	Order 07	Settlement requiring updated conservation potential assessment.

proceeding, the Company, in its sole and complete discretion, may take actions in response to such Joint Report; provided, however, that such actions will not affect the rates established pursuant to this Stipulation.

b. **Standard.** The standards applied by the Commission to measure prudence are generally as follows:

[W]hat would a reasonable board of directors and company management have decided given what they know or reasonably should have known to be true at the time they made a decision. This test applies both to the question of need and the appropriateness of the expenditures. (Cause No. U-83-54, Fourth Supplemental Order, p.p. 32-33)

Each of the IOUs bears the burden of demonstrating the prudence of new resource acquisitions to the Commission. A demonstration of prudence includes a showing that (1) the selection of each resource was necessary and reasonable, (2) the costs of acquisition were appropriate based upon what a reasonable board of directors and company management decided given what they knew or reasonably should have known to be true at the time the decision was made, and (3) the costs were regularly evaluated. (*Notice of Termination of Notice of Inquiry*, Docket No. UE-940932, April 1998)

Nothing in this Stipulation prevents any Party from asserting any other consistent and applicable Commission precedent. The Company will be required to make an affirmative showing in the direct testimony and exhibits of its next general rate proceeding demonstrating the prudence of those resources acquired since its previous general rate case (Cause No. U-86-02) which it proposes to include in rates in such proceeding.

7. System Benefits Charge

Within fifteen (15) days after a Commission order accepting this Stipulation (or such later date upon agreement of all Parties), the Company will submit in a separate tariff filing its proposal for a System Benefits Charge. The proposal will provide for recovery of the Company's DSM expenditures in Washington. The filing will address the recovery of investments in energy efficiency, including low-income weatherization and regional market transformation, and will not include recovery of the above-market costs of new renewable resources, which the Company is not precluded from seeking to include within the System Benefits Charge in a subsequent filing.⁶ By July 14, 2000 (or such later date upon agreement of all Parties), the Company will convene interested stakeholders to discuss the specific characteristics of the System Benefits Charge filing, including but not limited to program

⁶ Nothing in this Stipulation addresses the recovery by the Company, through the System Benefits Charge or otherwise, of the costs associated with its commitment to renewable resources in Appendix A; Section III.A of stipulation "(Merger Stipulation)" accepted by the Commission in its Fifth Supplemental Order in Docket No. UE-981627, the PacifiCorp/ScottishPower merger proceeding.

design, program implementation, initial program allocation among customer classes, and level of expenditures and savings. The Parties agree that if a System Benefits Charge is approved by the Commission to become effective earlier than January 1, 2001, the revenues to be collected under such Charge may be deferred for recovery to commence with the first rate change on January 1, 2001. Any deferral balance shall accrue interest at 8.80% until recovered through the System Benefits Charge.

8. Service Quality

The Merger Stipulation includes service quality provisions that are effective for 5 years following the approval of the merger. These provisions include performance standards for network reliability and customer service, as well as customer service guarantees. The customer service guarantees, as set forth in Section I.C. of Appendix A to the Merger Stipulation, shall continue for the duration of the Rate Plan Period. With respect to network reliability and customer service performance standards,⁷ the Company shall continue to report its performance with respect to such standards through the end of the Rate Plan Period.⁸

9. Regulatory Actions During Rate Plan Period

The moratorium on general rate filings during the Rate Plan Period does not preclude the Company from requesting, or the Commission from approving, tariff or rate changes for the following purposes:

- a. Impact of governmental or legislative actions, such as changes in Federal tax rates or changes in environmental laws or regulations;
- b. Tariff filing pursuant to Section 7 of this Stipulation to implement a System Benefits Charge;
- c. Tariff filing pursuant to Section 14 of this Stipulation to implement low-income assistance programs;
- d. Impact of changes in transmission costs due to implementation of a regional transmission organization, or RTO, (including action on motion of the Commission or any Party in the case of a cost decrease);
- e. Revenue-neutral filings to implement intra-class cost of service changes or redesign of intra-class electric rates as necessary to accommodate market conditions; and
- f. Ongoing regulatory activities, such as: New service offerings; pursuing special contracts tailored to meet individual customer needs; participation in Commission notices of inquiry, or NOIs, on electric industry issues, including the opportunity to seek related rule or tariff changes; and tariff changes

⁷ Sections I.A and I.B of Appendix A to the Merger Stipulation.

⁸ Any penalty payments required under the Merger Stipulation with respect to network reliability and customer service performance standards shall be in accordance with the time periods established in the Merger Stipulation.

Agenda Date: October 25, 2000
Item Number: 2A

Docket: UE-001457
Company Name: PacifiCorp, dba Pacific Power & Light

Staff: Joelle Steward, Policy Research Specialist, Energy
Graciela Etchart, Rate Research Specialist, Energy
Roland Martin, Regulatory Consultant, Energy

Recommendation:

Permit the tariff revisions for Schedules 115, 116 and 125 to become effective October 26, 2000, and if PacifiCorp agrees to a sunset date of December 31, 2002, permit the tariff revision of Schedule 191 to become effective January 1, 2001. Also issue an order that 1) authorizes deferral of DSM expenditures incurred after October 26, 2000, for collection through the System Benefits Charge, and 2) requires interest accrual on a positive balance at 8.8% and denies request for interest accrual on a negative balance.

Background:

The purpose of this filing is to establish a new collection mechanism for PacifiCorp ("Company") to fund demand side management (DSM) programs through a System Benefits Charge (SBC), as well as to introduce two new DSM programs (Schedules 115 and 116) and make enhancements to an on-going DSM program (Schedule 125, Energy FinAnswer). The programs in this filing are expected to achieve annual energy savings of 1.56 aMW.¹

The Company originally proposed the SBC in its recent general rate case in Docket UE-991832. The Stipulation by the parties in that case, which was subsequently approved by the Commission in the Third Supplemental Order, allowed for the Company to submit in a separate tariff filing its proposal for a SBC.

The Stipulation required the Company to convene interested stakeholders to discuss characteristics of the SBC filing. The first meeting of the interested stakeholders occurred on July 18, 2000. In attendance were representatives from the Company, Commission Staff, Public Counsel, NW Energy Coalition, the Energy Project, Industrial Customers of NW Utilities, the Northwest Energy Efficiency Council, Yakima OIC, Department of Community, Trade and Economic Development and Avista. The Company then prepared a draft filing based on the discussions and recommendations from the stakeholders, which was submitted for all parties' review and comment. There was a follow-up meeting of the parties on September 19, 2000, to address stakeholder comments and concerns prior to filing.

¹ This savings target is slightly greater than the target set in the Company's current resource plan, RRAMP 5, which was filed in December 1997. RRAMP 5 set a target high of 1.04 aMW for 1998 and 1999 in the Washington service area. No target was set beyond 1999 in expectation of a future plan. RRAMP 5 sought to maintain a sufficient amount of DSM activity that would maintain current programs and help minimize constraints when a ramp-up would be required.

It is the Company's intention that this stakeholder group will be convened on an on-going basis for overall review of the Company's DSM programs. The Company has also agreed to file semi-annual reports with the Commission on SBC collections, expenditures and on-going program efforts.

Discussion

There are five components of this filing: the SBC as a funding mechanism, two new programs, enhancements to the FinAnswer program, and a request for authorization to defer for recovery through the SBC, energy efficiency expenditures incurred after September 1, 2000.

Schedule 191, System Benefits Charge

This is a volumetric surcharge on customers' bills that will fund the Company's DSM efforts on an on-going basis through a balancing account. This is the same mechanism that Avista and PSE use to fund their DSM programs. The Company has proposed surcharges that will collect approximately \$2.8 million in 2001. This amounts to 1.6% of expected revenue from residential, commercial and industrial customers not under a special contract. Public street lighting customers will be charged an overall rate of 0.07 cents/kWh. The increase on an average residential customer's monthly bill will be \$1.03.

This SBC will be used to fund the programs included in this filing as well as the Company's existing commitments for low-income weatherization (Schedule 114) and the Northwest Energy Efficiency Alliance. Given that the Company's proposed programs are only serving commercial and industrial customers, and collections from residential customers represent 45% of the total SBC, the Company is including a placeholder of \$250,000 to develop, market and implement a residential program in the first year. The Company anticipates that the annual budget for the proposed programs and on-going commitments needed to achieve the targeted energy savings will be on the order of \$4.1 million.²

To arrive at this level of spending and customer participation, the Company recognizes that a ramp up period is appropriate in order to avoid overcollecting. The Commission's experience with the other electric utilities attests to this fact. Therefore, the Company is proposing to establish the SBC at \$2.8 million for the first 14 months (October 26, 2000 through December 31, 2001). This amount was derived from the program managers' professional judgment and experience with managing similar programs in Oregon. Adjustments will be made as more is learned about the true economic potential and customer participation in PacifiCorp's Washington service area; although adjustments are not expected to occur more than once a year and will coincide, to the greatest extent possible, with the current rate plan changes.

Carrying Charge. Staff believes that the balancing account that will account for funds collected by the SBC and funds expended on the DSM programs and commitments should accrue interest at an annual rate of 8.8% on a positive balance, i.e. excess of collections over program expenditures. The Company has requested that interest accrue on *any* balance, including a

² I have attached the Company's proposed budget, which was referenced on page 5 of the cover letter but was inadvertently left out of the filing.

negative balance. Staff considers this request unacceptable in light of the Commission's recent finding in the Avista rate case, Docket UE-001606, which states:

If the efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the Company, not its customers, manages the energy efficiency program expenditures. *Third Supplemental Order, page 112.*

The Company and other stakeholders are concerned that this finding conveys a signal to the Company that will result in a less than vigorous pursuit of the conservation potential in the Company's service area, due to a concern over exceeding their budget and assuming the risk of undercollection. Staff contends that 1) the risk to the Company is uncertain and minimal, and 2) the Company has set the budget and its target using its program managers' professional judgment, therefore, this risk should have been incorporated into that decision-making process. In no way should this risk undermine the Company's efforts to achieve the savings they have targeted. Furthermore, the Company always has the ability to seek to adjust the SBC and provide compelling arguments in its favor to the Commission. The purpose of this funding mechanism is to enable the Company timely recovery of its DSM costs, not to build-up a balance—positive or negative. Requiring the Company to bear the risk of undercollection creates the proper incentive for the Company to plan and budget their programs properly and to seek regulatory approval when program expansion, and ensuing increase in ratepayer burden, is necessary. Therefore, Staff recommends that the Commission apply its decision in the Avista case and affirm that PacifiCorp may not collect interest on a negative balance.

Sunset Date. Staff is also recommending the establishment of a sunset date for Schedule 191 be set for December 31, 2002. The intention of the sunset, from Staff's perspective, is to provide the Commission and the stakeholders an open door to address the Company's efforts as well as to induce the Company to refile the SBC at a level appropriate to its expenditures and to account for any outstanding balance. The burden will be on the Company to refile the SBC.

New Programs, Schedules 115 and 116—Commercial & Industrial Small Retrofit and Commercial & Industrial Lighting Retrofit

The Company is offering two new programs in this filing. First, Schedule 115 (C&I Small Retrofit) provides incentives for adopting energy efficient measures in retrofits, including lighting, and is applicable to commercial and industrial facilities under 20,000 square feet. The program provides prescriptive funding for proven technologies, such as programmable thermostats and light-emitting diode (LED) traffic signals, and slightly higher incentive levels for emerging technologies to encourage market penetration. The incentive levels for this program and the new program under Schedule 116, are based on the avoided costs under PacifiCorp's current resource plan—RRAMP 5. This program was developed to provide a streamlined offering for the smaller facilities, without some of the more burdensome requirements of Schedule 125. The Company has determined that a fully ramped up program under Schedule 115 has the market potential to produce annual savings of 0.25 aMW.

The other new program, Schedule 116 (C&I Lighting Retrofit), is applicable to commercial and industrial facilities over 20,000 square feet and provides incentives for lighting retrofits. This program was developed to provide a streamlined offering to the larger facilities that are only interested in lighting retrofits. The applicable facilities that wish to adopt more comprehensive energy efficiency technologies may receive incentives under Schedule 125. The Company expects that a fully ramped up program under Schedule 116 has the market potential to produce annual savings of 0.30 aMW.

The Company has conducted cost-effectiveness analyses of these new programs and has designed both to be cost-effective under the Total Resource Cost test, the Utility Cost test and the Participant Cost test. The Company will continue its practice of conducting yearly evaluations of its programs and requires verification of installation of measures before the incentive is paid. The Company has also included marketing plans in the work papers for this filing.

Enhancements to Energy FinAnswer, Schedule 125

The Company has operated the Energy FinAnswer program in Washington for many years. Traditionally, the program has provided attractive financing for commercial and industrial companies to adopt energy efficient technologies. Financing will continue to remain an option; however, the current filing adds an incentive payment option that is expected to be more attractive to customers. The incentive payment level is based on the RRAMP 5 avoided costs. The Company also makes a few minor administrative changes to the program, which are described in the cover letter. The Company has determined that a fully ramped up program has the market potential to produce annual savings of 1.01 aMW. As with Schedules 115 and 116, the Company has prepared a cost-effectiveness analysis for this enhanced program and finds that it passes the Total Resource Cost test, the Utility Cost test, and the Participant Cost test.

Deferred Accounting Order

In the cover letter for this filing, the Company requests authorization to defer energy efficiency expenditures incurred after September 1, 2000, for collection through the SBC. If the Commission approves the SBC and DSM programs, as recommended, Staff recommends that a deferred accounting order be issued for recovery of DSM expenditures incurred after October 26, 2000, rather than September 1, 2000. The Company is agreeable to this deferral period change. The deferral allows for synchronization of expenditures with collections on a calendar year basis. This deferral was provided for in the Stipulation in the rate case, which states:

The Parties agree that if a System Benefits Charge is approved by the Commission to become effective earlier than January 1, 2001, the revenues to be collected under such Charge may be deferred for recovery to commence with the first rate change on January 1, 2001. Any deferral balance shall accrue interest at 8.80% until recovered through the System Benefits Charge. *Stipulation, page 6.*

Recommendation

The Commission should permit the tariff revisions for Schedules 115, 116 and 125 to become effective October 26, 2000, and if PacifiCorp agrees to a sunset date of December 31, 2002, permit the tariff revision of Schedule 191 to become effective January 1, 2001. Staff also recommends that the Commission issue an order that 1) authorizes deferral of DSM expenditures incurred after October 26, 2000, for collection through the System Benefits Charge, and 2) requires interest accrual on a positive balance at 8.8% and denies request for interest accrual on a negative balance.

ATTACHMENT

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of)	
)	
PACIFICORP d/b/a PACIFIC)	
POWER & LIGHT COMPANY,	)	DOCKET NO. UE-001457
)	
)	
For Authorization to Defer Energy	)	FIRST SUPPLEMENTAL ORDER
Efficiency Expenditures for	)	MODIFYING ACCOUNTING
Collection Through a System	)	ORDER
Benefits Charge.)	

.....

BACKGROUND

1 On November 8, 2002, PacifiCorp d/b/a Pacific Power & Light Company, (PacifiCorp or Company) filed with the Washington Utilities and Transportation Commission a tariff change in Docket UE-021480, which requires a modification to the Accounting Order in Docket UE-001457, which states that "Unless otherwise changed by Order, Schedule 191 shall expire on December 31, 2002." The tariff change, among other things, removes the December 31, 2002, termination date of Schedule 191, System Benefits Charge Adjustment (SBC), to allow for the continuation of the SBC beyond December 31, 2002. As stated in the Accounting Order, the expiration of the SBC was established to induce the Company to refile the SBC at a level appropriate to its expenditures and to account for any outstanding balance. We find that the Company has acted accordingly and therefore the termination date shall be removed.

FINDINGS AND CONCLUSIONS

2 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, rules, regulations, practices, accounts, securities, and transfers of public service rules, regulations, practices, accounts, securities, and

transfers of public service companies, including electric companies. RCW 80.01.040; Chapter 80.04 RCW and Chapter 80.28 RCW.

- 3 (2) PacifiCorp is an electric company and is a public service company subject to the jurisdiction of the Commission.
- 4 (3) Staff has reviewed the request in Docket UE-021480, including related workpapers. Staff believes the proposed modification to the Accounting Order requested by PacifiCorp is reasonable and should be approved.
- 5 (4) This matter was brought before the Commission at its regularly scheduled meeting on December 11, 2002.

ORDER

THE COMMISSION ORDERS:

- 6 (1) PacifiCorp d/b/a Pacific Power & Light Company's request to modify the Accounting Order in this docket is approved.
- 7 (2) The Order shall in no way affect the authority of this Commission over rates, services, accounts, evaluations, estimates, or determination of costs on any matters whatsoever that may come before it, nor shall anything herein be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 8 (3) Nothing in this Order is intended to modify any other provision of the Accounting Order.

- 9 (4) The Commission retains jurisdiction over the subject matter and PacifiCorp d/b/a Pacific Power & Light Company to effectuate the provisions of this Order.

The Commissioners, having determined this Order to be consistent with the public interest, directed the Secretary to enter this Order.

DATED at Olympia, Washington, and effective this 11th day of December, 2002.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

CAROLE J. WASHBURN, Secretary

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application of)

MIDAMERICAN ENERGY HOLDINGS)
COMPANY AND PACIFICORP DBA)
PACIFIC POWER & LIGHT COMPANY)

For an Order Authorizing Proposed)
Transaction)

Docket No. UE-051090

STIPULATION

STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

06 JAN 23 AM 11:45

RECEIVED
RECORDS MANAGEMENT

I. PARTIES

1. This Stipulation is entered into by and among MidAmerican Energy Holdings Company ("MEHC") and PacifiCorp d/b/a Pacific Power & Light Company ("PacifiCorp") (jointly "Applicants") and Staff of the Washington Utilities and Transportation Commission ("Staff"),¹ the Public Counsel Section of the Office of the Attorney General ("Public Counsel"), Industrial Customers of Northwest Utilities ("ICNU"), and the Energy Project (together "the Parties" and individually "Party") for the purpose of resolving all issues in this proceeding.

II. RECITALS

2. On July 15, 2005, Applicants filed a joint Application for an order authorizing a proposed transaction ("Transaction") whereby MEHC would acquire all of the outstanding common stock of PacifiCorp and PacifiCorp would thereafter become an indirect wholly owned subsidiary of MEHC. On August 16, 2005, Applicants submitted a revised Application reflecting the impact of the enactment of the Energy Policy Act of 2005, including the repeal of the Public Utility Holding Company Act of 1935.²

¹ In formal proceedings, such as this, Staff is an independent party. The three member panel of Commissioners is not a party to this Stipulation. The Commissioners must review, consider and decide whether this Stipulation should be adopted by the Commission.

² The Revised Application was submitted pursuant to a Motion for Leave to file revised pages.

emissions rate of PacifiCorp's coal-fueled generation fleet. MEHC represents that the investments to which MEHC is committing are expected to result in a decrease in the SO₂ emissions rates of more than 50%, a decrease in the NO_x emissions rates of more than 40%, a reduction in the mercury emissions rates of almost 40%, and no increase expected in the CO₂ emissions rate.

- 44) a) MEHC and PacifiCorp commit to conducting a company-defined third-party market potential study of additional DSM and energy efficiency opportunities within PacifiCorp's service areas. The objective of the study will be to identify opportunities not yet identified by the company and, if and where possible, to recommend programs or actions to pursue those opportunities found to be cost-effective. The study will focus on opportunities for deliverable DSM and energy efficiency resources rather than technical potentials that may not be attainable through DSM and energy efficiency efforts. On-site solar and combined heat and power programs may be considered in the study. During the three-month period following the close of the transaction, MEHC and PacifiCorp will consult with DSM advisory groups and other interested parties to define the proper scope of the study. The findings of the study will be reported back to DSM advisory groups, commission staffs, and other interested stakeholders and will be used by the Company in helping to direct ongoing DSM and energy efficiency efforts. The study will be completed within fifteen months after the closing on the transaction, and MEHC shareholders will absorb the first \$1 million of the costs of the study.
- b) PacifiCorp further commits to meeting its portion of the NWPPC's energy efficiency targets for Oregon, Washington and Idaho, as long as the targets can be achieved in a manner deemed cost-effective by the affected states.
- c) In addition, MEHC and PacifiCorp commit that PacifiCorp and MEC will annually collaborate to identify any incremental programs that might be cost-effective for PacifiCorp customers. The Commission will be notified of any additional cost-effective programs that are identified.
- 45) MEHC and PacifiCorp commit to continue customer service guarantees and performance standards as established in each jurisdiction, provided that MEHC and PacifiCorp reserve the right to request modifications of the guarantees and standards after March 31, 2008, and the right to request termination (as well as modification) of one or more guarantees or standards after 2011. The guarantees and standards will not be eliminated or modified without Commission approval.
- 46) MEHC has significant experience in assisting its communities with economic development efforts. MEHC plans to continue PacifiCorp's existing economic

PSE Relevant Orders:

Docket Number	Page	Component	Content
UE-920630	36	1 st Supplemental Order	Establishes TRC as cost effectiveness test. Rejects us of UC.
UG-950288	39	Letter	Granting accounting petition to establish gas tracker.
UE-970686	41	Order	Granting accounting petition to establish electric rider.
UE-970686	47	2 nd Supplemental Order	Requiring semi-annual reporting.
UE-011570 & UG-011571	49	12 th Supplemental Order	Approving and adopting settlement stipulation, Exhibit F – Settlement 6/20/2002.

SERVICE DATE
SEP 24 1992

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,)	
)	
Complainant,	)	DOCKET NO. UE-920630
)	
v.	)	FIRST SUPPLEMENTAL ORDER
)	
PUGET SOUND POWER & LIGHT COMPANY.	)	REJECTING TARIFF FILING; AUTHORIZING REFILEING
)	
Respondent.)	
.....)	

PROCEEDINGS: On June 1, 1992, Puget Sound Power & Light Company filed tariff sheets for the Periodic Rate Adjustment Mechanism (PRAM) covering the 12-month period October 1, 1992, through September 30, 1993. The filings were made pursuant to the Commission's order in Docket Nos. UE-901183-T and UE-901184-P. The tariff filings would increase rates by \$97,369,432. On rebuttal the company revised its request to an increase of \$92,244,568.

The Commission suspended the tariff revisions pending hearings on the justness and reasonableness of the rates requested in the filings.

HEARINGS: The Commission held hearings on July 2, August 4, 5, 26, 27, 28, and September 9, 10, 11, and 18, 1992. The hearings were held before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A.J. Pardini, and Administrative Law Judge Lisa A. Anderl of the Office of Administrative Hearings. The Commission gave proper notice to all interested parties.

APPEARANCES: Puget Sound Power & Light Company (Puget or company) was represented by James M. Van Nostrand and Steven C. Marshall, attorneys, Bellevue. The Staff of the Washington Utilities and Transportation Commission (Commission Staff) was represented by Donald T. Trotter, Steven W. Smith and Robert D. Cedarbaum, assistant attorneys general, Olympia. The public was represented by Charles F. Adams, assistant attorney general, public counsel section, Seattle. Intervenor Bonneville Power Administration (BPA) was represented by Susan B. Millar, attorney, Portland, Oregon. Intervenor Washington Industrial Committee for Fair Utility Rates (WICFUR) was represented by Peter J. Richardson, attorney, Boise, Idaho. Intervenor Building Owners and Managers Association of Seattle and King County (BOMA) was represented by Art Butler, attorney, Seattle. Intervenor

3. Conservation cost effectiveness test

Public Counsel witness Dr. Glenn Blackmon proposed an adjustment to disallow the cost of conservation resources which were in excess of the company's avoided cost. Dr. Blackmon argued that three of the company's conservation programs were not cost-effective and that the company calculated cost effectiveness incorrectly by failing to include customer and BPA contributions when calculating cost. Dr. Blackmon conceded that his analysis does not include an assessment of non-energy benefits (aesthetic improvements, etc.) that customers receive from their conservation investment. The Commission Staff agrees with the company's use of the utility cost test and its calculation. Both the company and Commission Staff argue that the company's tariff authorizes use of this test.

The company's integrated resource plan and the testimony of company witness David Moskovitz in the incentive proceeding⁴ indicated to the Commission that the company would use the total resource test to determine the proper level of spending for conservation resources. This test considers the resources contributed by all sources in determining whether the cost of conservation is appropriate. The company tariff defines the cost effectiveness test as follows:

Cost effective measures and modifications shall be those that do not cost, including the Company's administrative costs, more per kilowatt hour of energy savings than the company's full avoided cost . . .

By definition, cost effective measures are those that do not cost in total⁵ more than the company's avoided cost. Only cost effective measures are authorized by the tariff. In defining how the cost of cost effective measures and modifications shall be shared by the customer and the company, the tariff provides that:

The Company will pay the difference between the full cost of the measures and the Customer's portion of such costs, provided that in no case will the Company's proportional payment exceed its full avoided costs. Any costs of measures and modifications in excess of the full avoided costs shall be paid by the Customer.

The final sentence of the tariff provision regarding payment is in conflict with the tariff's cost effectiveness test. It cannot

⁴Docket UE-910689.

⁵In Puget's case, the contribution of the company, its customers and BPA would have to be considered.

be reconciled with the other provisions and will be treated as surplusage.

Because of the confusion shared by the company and the Commission Staff regarding the meaning of the tariff, the Commission will not approve the adjustment proposed by Dr. Blackmon to disallow \$7.5 million dollars of conservation investment. The Commission will, however, apply this test prospectively. Unless and until a different measure is approved, the cost effectiveness of conservation programs should be calculated on a total resource cost basis, as defined above.⁶

B. Accrual and Recovery of Deferred Revenue

Several issues have arisen in this proceeding regarding booking and recovery of deferred revenues.⁷ The question of how the company should book monthly accruals is generally referred to as the shaping issue. There was also a question about the proper method of determining the amount to be collected in succeeding PRAM filings. In this regard, the Commission Staff proposed a 12-month estimated true-up, while the company proposed a seven-month actual true-up. Finally, parties raised the issue of whether the deferrals should be amortized over a period of years or included in a single year as proposed by the company.

1. Shaping

The shaping issue has been argued by the company, Commission Staff, and Public Counsel. In response to bench request 12, each of these parties indicated that in the long run each of the shaping methods will produce the same revenue requirement. However, the parties agreed that shaping does have real consequences.⁸

⁶The company should include, as part of any tariff filing for new conservation programs, a demonstration that the program meets the total resource cost test.

⁷A PRAM proceeding determines an annual revenue requirement based on projections of future loads and costs. As actual results replace the projections, the company determines an actual revenue requirement, which is booked as revenue. The difference between this revenue and the amount billed to the customers for that period is deferred as either an asset (when the company under collects) or as a liability (when the company over collects). The deferred amount is included in the next PRAM for collection or refund.

⁸Shaping will affect the timing of recovery, particularly if a seven-month true-up is adopted. Shaping affects the spread of revenue requirement between base and resource, thus affecting rate



STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250
(206) 753-6423 • (SCAN) 234-6423 • TTY (206) 586-8203

Ref. No.: 6-0599

May 11, 1995

Mr. Ronald J. Amen, Director
Rates and Special Studies
Washington Natural Gas Company
815 Mercer Street Dexter 2
P.O. Box 1869
Seattle, Washington 98111

Subject: Washington Natural Gas Company accounting petition Docket UG-950288

Dear Mr. Amen:

The Washington Utilities and Transportation Commission, in its open meeting on May 10, 1995, authorized the accounting treatment for gas conservation investment agreed to between the Company, Staff, and Public Counsel as described in the petition in Docket UG-950288.

This letter summarizes the specific accounting procedures agreed to by the Company, Staff, and Public Counsel and approved by the Commission.

1. The Company will be allowed to defer all outside costs and all incremental administrative costs directly associated with planning, developing, promoting or administrating the programs.
2. The Company will be allowed to accrue an Allowance for Funds used to Conserve Energy (AFUCE) calculated monthly, without compounding. The AFUCE rate will be based on the Company's authorized rate of return net of federal income tax.
3. The Company will only be allowed to apply a 2% equity "kicker" on those costs which the Company can show are directly associated with providing the measures to senior citizens and low-income participants. Only the costs under the Low-Income Weatherization Pilot Program meet this test.
4. The Company will be allowed to defer 50% of the demonstrated program term savings times the tailblock price of the effected rate schedule as representative of lost margins. The Company will book lost margins on pilot programs only prospective to demonstrated

Mr. Ronald J. Amen
May 11, 1995
Page 2

savings and no AFUCE will accrue on deferred lost margins. The company will bear the burden of proof of demonstrating therm savings directly associated with the programs to be used in the calculation of lost margins.

The Company will suspend the recording of lost margins for these programs at any time that it earns or exceeds its authorized rate of return based on normalized results of operation. This demonstration will be predicated on the Company's most recent semi-annual report filed with the Commission in accordance with WAC 480-90-031. The Company will also cease recording lost margins for all program expenditures through the end of any test period for general ratemaking purposes or three years from each program tariff sunset date, whichever occurs first.

Tracker Recovery:

On an annual basis, beginning March 1, 1996, the Company will file an annual tracker to recover the subsequent calendar year costs associated with the pilot DSM programs. At the time the tracker commences, the Company will appropriately charge FERC Account No. 908 "Customer Assistance Expense" based on actual recoveries and reduce the "Miscellaneous Deferred Debit" account, where the program charges are deferred.

The Company will apportion the annual tariff tracker 85% to firm sales rate schedules and 15% to interruptible sales rate schedules, respectively. This relationship is reflective of the allocation of purchased gas for firm and interruptible sales service. The apportionment of DSM costs is consistent with the agreed upon methodology of Public Counsel, the Company, and Staff in the Petition for Reconsideration in Docket UG-940814 that is currently under consideration by the Commission. The respective allocation between firm and interruptible customers will be further allocated to each customer on a uniform volumetric basis within each group.

Any questions concerning this letter should be directed to the attention of Mike Parvinen, telephone (360) 586-0599.

Sincerely,



Steve McLellan
Executive Secretary

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of

PUGET SOUND ENERGY

For an Order (1) Authorizing Deferral of
Electricity Conservation Expenditures and
(2) Approving a Tariff Rider for Concurrent
Recovery in Electric Rates of Such Deferred
Electricity Conservation Expenditures

DOCKET NO. UE-970686

ORDER

On April 23, 1997, Puget Sound Energy ("the Company") submitted a petition requesting an accounting order which:

- (1) authorizes the deferral of expenditures incurred after December 31, 1996 in accordance with the Company's Schedule 83, Electricity Conservation Service, and
- (2) approves an electric tariff rider for concurrent recovery in rates of such deferred electricity conservation expenditures.

The Petition indicated that the mechanism proposed therein would be an interim measure. According to the Petition, a number of significant issues must be resolved through the collaborative process, including cost allocation issues, the determination of avoided costs, the scope of the Company's role in meeting the goals of the Regional Comprehensive Review, and the design of a long-term recovery mechanism. The Company intends that adoption of the recovery mechanism proposed in its filing would not have precedential effect on the discussion and resolution of these issues in the collaborative process. The Company intends to submit a filing which addresses these issues no later than August 1998.

This petition concerns the deferral and recovery of expenditures incurred by the Company after December 31, 1996 under its electricity conservation programs. Puget has been authorized to defer expenses associated with its energy conservation programs since 1978, when the Commission issued its Second Supplemental Order in Cause No. U-78-45. The relief requested by the Company would extend this authorization. With respect to the rate recovery of the expenses so deferred, however, the Company proposes a different method. Rather than amortizing these electric conservation costs in rates over a ten-year period--which Cause No. U-78-45 permitted the Company to do--the Company proposes to recover them in rates through an alternative recovery mechanism.

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The Stipulation we approved in the merger proceeding (Docket No. UE-960195) stated the following with respect to electric conservation expenditures after December 31, 1996:

Electric conservation expenditures after December 31, 1996 (including those expenditures resulting from PSE's commitment to conservation or public purposes funding under the Comprehensive Regional Review) will be subject to recovery through an alternative recovery mechanism to be proposed by PSE in a separate filing subsequent to merger approval.

(Stipulation, Section III.A.4.a, page 8) According to the Company, its April 23 Petition is the separate filing contemplated by the Stipulation.

It should be noted that the Company's petition relates to the recovery of costs incurred in connection only with the electricity conservation programs which PSE offers. Costs incurred with PSE's gas conservation programs are subject to the tracker currently in place pursuant to our order issued in Docket No. UG-950288, where we granted Washington Natural Gas Company ("WNG")¹ approval to defer its conservation expenditures and recover them under a tracker mechanism.

The essential elements which PSE proposes for rate recovery of costs incurred in connection with electricity conservation services are as follows:

Scope of Expenditures Defined by Tariff. The expenditures authorized for deferral would be those incurred in accordance with PSE's Schedule 83, the Electricity Conservation Service tariff. Contemporaneously with this filing, PSE submitted a revised Schedule 83 which, along with the accompanying program Schedules 200-203, 205-206 and 250-254, sets forth the conservation programs which PSE proposes to include within its electricity conservation service. A copy of the proposed Schedule 83, bearing a proposed effective date of May 24, 1997, was included as Attachment 1 with the Petition.

Recovery Through an Electric Tariff Rider. Electric conservation expenditures would be recovered through an electric tariff rider, Schedule 120. This tariff schedule would impose a surcharge applied to each kWh of electricity sales under each of PSE's

¹ Effective February 10, 1997, WNG was merged with Puget Sound Power & Light Company to form PSE.

electricity sales tariffs.² A copy of the proposed electric tariff rider was included with the Petition as Attachment 2.

Concurrent Recovery in Rates. The rates set forth in such rider would be calculated to recover the conservation expenditures which are projected to be incurred for each program year, subject to true-up during a subsequent twelve-month period based on actual conservation expenditures during the program years and the actual recoveries during the relevant recovery period. The initial program year is calendar year 1997. According to the Petition, the projected expenditures for electricity conservation service in accordance with Schedule 83 for calendar year 1997 is \$4.49 million. The proposed rates set forth in the electric tariff rider, Schedule 120, were designed to recover this amount in rates during the period following the effective date of the tariff through March 31, 1998.

Subsequent True-Up to Actuals. PSE will submit a filing on or before March 1, 1998 stating the actual amounts spent during calendar year 1997. The variance between actual expenditures during the program year (calendar year 1997) and expected revenue collections during the recovery period (May 1997 through March 1998),³ would be reflected in an adjustment to the tariff rider, Schedule 120, to be effective during the twelve month period commencing April 1, 1998.

No Allowance for Funds Used to Conserve Energy. Because the rider would provide for concurrent recovery of conservation expenditures in rates, no allowance for funds used to conserve energy, or AFUCE, would be necessary.

Recovery on a Peak Credit Basis for Each Customer Class. The rate set forth in the tariff rider, Schedule 120, is designed to recover the authorized electric conservation expenditures on a peak credit basis for each rate class over the recovery period. The portion allocable to the ARCO special contract load--for which recovery is not provided--is calculated based on an equal percentage methodology. The Company included Attachment 3 to the Petition to show how the conservation recovery amount was calculated.

² Excluding wholesale sales.

³ At the time of the March 1 filing, actual revenue collections through January would be known. Revenue collections for the remaining two months of the recovery period--February and March--would be estimated, and subject to true-up at the time of the subsequent adjustment to the tariff rider.

The Company's proposed treatment for deferral and recovery of expenditures incurred for electricity conservation programs through an electric tariff rider is a reasonable interim measure. As the Company notes in its Petition, a number of significant issues must be resolved through before a more permanent electric conservation program and cost recovery mechanism can be put in place. The Company has committed to making a filing which addresses these issues no later than August 1998. We look forward to reviewing that filing. In the interim, the request for deferral and recovery of electricity conservation costs proposed in the Company's petition is approved.

FINDINGS

THE COMMISSION FINDS:

1. Puget Sound Energy is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.
2. On April 23, 1997, the Company filed a Petition seeking an order authorizing the deferral of expenditures incurred after December 31, 1996 in accordance with the Company's Schedule 83, Electricity Conservation Service, and approving an electric tariff rider for recovery in rates of such deferred electricity conservation expenditures.
3. The proposed treatment for deferral and recovery of expenditures incurred for electricity conservation programs through an electric tariff rider is a reasonable interim measure and should be approved.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

1. Petitioner Puget Sound Energy is authorized to defer expenditures it incurred after December 31, 1996 pursuant to Schedule 83--Electricity Conservation Service.
2. Effective May 24, 1997, PSE shall implement an electric tariff rider, Schedule 120, for recovery of electricity conservation expenditures. The rate set forth in such Schedule 120 shall be designed to recover \$4.693 million,⁴ on a peak credit basis for each class, during the period May 24, 1997 through March 31, 1998.

⁴ The revenue requirement associated with \$4.49 million in expenditures.

3. The rate set forth Schedule 120 shall be subject to revision effective April 1, 1998 to reflect (a) PSE's projected expenditures under its Schedule 83, Electricity Conservation Service, for calendar year 1998, and (b) the variance between actual expenditures during calendar year 1997 and expected revenue collections for the recovery period ending as of March 31, 1998. For purposes of this filing such revenue collections shall be the actual revenue collections through January 1998. Revenue collections for the remaining two months of the recovery period--February and March 1998--would be estimated, and subject to true-up at the time of the subsequent adjustment to the tariff rider.

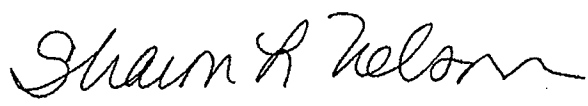
4. The rate set forth Schedule 120 shall be subject to revision effective April 1 of each year to reflect (a) PSE's projected expenditures under its Schedule 83, Electricity Conservation Service, for the then-current calendar year, and (b) the variance between actual electricity conservation expenditures for the previous calendar year and expected revenue collections under Schedule 120 during the 12-month recovery period ending March 31 of the then current year.⁵ Such filing shall be submitted not less than thirty (30) days prior to the April 1 proposed effective date.

5. The Commission retains jurisdiction to effectuate the provisions of this Order.


⁵ Revenue collections for the last two months of the recovery period--February and March--would be estimated, and subject to true-up at the time of the subsequent adjustment to the tariff rider.

DATED at Olympia, Washington, and effective this 16th day of May, 1997.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLIS, Commissioner

A. Stearns

SERVICE DATE

MAR 29 2000

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of	)	DOCKET NO. UE-970686
)	
PUGET SOUND ENERGY	)	SECOND SUPPLEMENTAL
	)	ORDER
For an Order (1) Authorizing Deferral of)	
Electricity Conservation Expenditures and (2)	)	REQUIRING REPORTING ON
Approving a Tariff Rider for Concurrent	)	PROGRAMS FUNDED BY
Recovery in Electric Rates of Such Deferred	)	THE TARIFF RIDER
Electricity Conservation Expenditures.	)	MECHANISM

On May 16, 1997, Puget Sound Energy's ("the Company") petition for an accounting order authorizing the establishment of a tariff rider for concurrent recovery in rates of deferred electricity conservation expenditures under the Company's Schedule 83, Electricity Conservation Service was granted by the Commission.

On March 1, 2000, the Company submitted an Annual Report of DSM Program Costs Recovered Through Electric Rider and Gas Tracker Mechanisms in Calendar Year 1999. This report detailed program delivery, expenditures and energy savings. In 1999, the Company achieved only 3.5 aMW of their targeted 5 aMW. Some programs achieved savings beyond their expectations, however, most programs delivered well under the Company's expectations.

The Commission would like to maintain an up-to-date working knowledge of the Company's success in continuing to deliver electricity conservation programs. To this end, the Commission believes it is useful for the Company to report this progress on at least a semi-annual basis. The Company should report semi-annually, within 45 days of the end of the second and fourth quarters, in order to keep the Commission so informed.

FINDINGS OF FACT

1. Puget Sound Energy, Inc., is engaged in the business of furnishing electric and gas service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.
2. By order of this Commission in Docket Number UE-970686, the Company was authorized to establish a tariff rider for concurrent recovery in rates of deferred electricity conservation expenditures under the Company's Schedule 83, Electricity Conservation Service.

3. WAC 480-100-031(8) provides that "Any additional data required by this Commission in the reporting requirements of electric utilities in annual reports will only be accomplished after due notice and order of this Commission."

ORDER

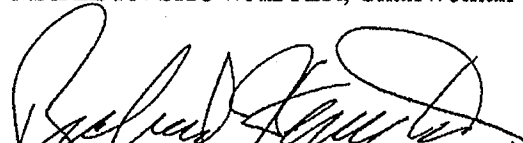
THE COMMISSION ORDERS:

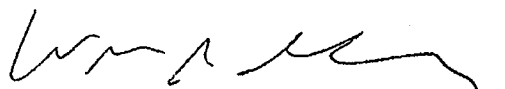
1. That Puget Sound Energy is required to submit semi-annual reports on the progress of electricity conservation programs delivered under Schedule 83, Electricity Conservation Service, within 45 days of the end of the second and fourth quarters, until such time as the tariffed services are no longer offered.
2. The Commission retains jurisdiction over the subject matter and Puget Sound Energy to effect the provisions of this order.

DATED at Olympia, Washington, and effective this 29th day of March 2000.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION


MARILYN SHOWALTER, Chairwoman


RICHARD HEMSTAD, Commissioner


WILLIAM R. GILLIS, Commissioner

**Exhibit F to
Settlement Stipulation**

***PSE GENERAL RATE CASE
DOCKET NOS. UE-011570 and UG-011571***

SETTLEMENT TERMS FOR CONSERVATION

A. Executing Parties

1. The following parties have participated in the Conservation collaborative in Docket Nos. UE-011570 and UG-011571, and have reached consensus on the terms of settlement with respect to conservation issues, as set forth in this Agreement: Puget Sound Energy, Inc. ("PSE" or the "Company"); the Staff of the Washington Utilities and Transportation Commission; the Public Counsel Section of the Attorney General's Office; Intervenor Industrial Customers of Northwest Utilities; Intervenor Northwest Industrial Gas Users; Intervenor Microsoft Corporation; Joint Intervenors the NW Energy Coalition and Natural Resources Defense Council ("NWEC/NRDC"), and Joint Intervenors the Multi-Service Center, Opportunity Council, and Energy Project ("Multi-Service Center"), (hereinafter referred to collectively as "Executing Parties").

B. Duration and Future Review

2. This Agreement establishes a conservation program with no sunset date. If the Commission approves this, then the conservation program developed through this Agreement shall be reviewed no later than October 2007. At that time any party may petition the Commission for modifications to the program. If a general rate case occurs prior to that time, any party may petition the Commission for modifications to the conservation program as part of the general rate case proceeding.

C. Target for Savings from Tariff Programs

3. The programs funded through PSE's tariff rider and natural gas tracker will be designed to achieve all savings that are not independently captured by consumer acquisition, that are cost-effective to the Company, and economically feasible for consumers, taking into account incentives provided by PSE.

4. PSE will target the development of programs to achieve at least 15 average megawatts of cost-effective electricity savings through energy efficiency

programs (at a cost currently estimated at \$17-21 million) during a 12-month period, beginning no later than September 1, 2002.

5. PSE will target the development of programs to achieve at least 2.1 million therms of natural gas savings through energy efficiency programs (at a cost currently estimated at \$2 million) in a 12-month period beginning no later than September 1, 2002.

6. In general each individual energy efficiency program shall be designed to be cost-effective. PSE will seek Commission approval of these programs in a filing to be made no later than August 1, 2002.

D. Establishment of a Formal Advisory Committee:

7. PSE shall establish an Advisory Committee that shall address, but not be limited to, the following issues:

- Review data values and analysis to update the Company's avoided costs,
- Review and recommend modifications to protocol for evaluation and measurement of savings from PSE energy efficiency programs with consideration given to data from the Regional Technical Forum,
- Provide guidance to PSE regarding methodology for updating its cost-effective conservation resource potential,
- Review the market assessments and the data values used in updating PSE's supply curves,
- Review cost-effectiveness inputs and calculations,
- Review needed tariff modifications and/or mid-course program corrections,
- Review appropriateness and plan for marketing efficiency programs,
- Review appropriateness and level of incentives for energy efficiency measures and services,
- Review issues related to limited income participation in energy efficiency programs.

8. The Committee shall meet at least twice each year to hear updates, review program modifications, or consider need for revisions. The Company shall provide program reports to the Committee and the Commission at least semi-annually. The

Company shall inform Advisory Committee members if projections indicate that the Company shall expend more than 120% or less than 80% of its annual conservation budgets.

9. PSE shall send draft tariff submittals and program changes to Advisory Committee members at least two months before any proposed effective date. PSE may seek approval in advance from the Advisory Committee to shorten this review period in special circumstances.

10. Committee members may call meetings at any time with sufficient notice for meeting attendance. PSE shall make arrangements to hold a meeting within 2 weeks from the date of the request.

11. Advisory Committee membership shall be established as follows. The Company shall extend an invitation to serve as an Advisory Committee member to a representative from at least each of the following organizations: WUTC staff, Attorney General Office of Public Counsel, NW Energy Coalition, Energy Project, Natural Resources Defense Council, Northwest Power Planning Council, Industrial Customers of Northwest Utilities, Northwest Industrial Gas Users, Washington State Department of Community, Trade and Economic Development Energy Policy Group, and the DOE Weatherization Assistance Program provider network. Additionally, the Company shall seek customer representatives from the residential, commercial, industrial, and institutional sectors to serve on the Advisory Committee. Other interested parties may attend Advisory Committee meetings as well, but will not be considered Advisory Committee members.

E. 2002-2003 Market Assessment and Development of Supply Curves

12. PSE shall complete by May 31, 2003 a market assessment of its commercial, industrial, and residential sectors in order to update its conservation supply curves. Completion of this market assessment may be delayed for circumstances beyond PSE's control. The outcome of this analysis shall inform adjustments to the current 12-month savings targets after September 2003. PSE shall update these market assessments and its supply curves five years after completion of the 2002-2003 analyses.

13. PSE shall report, no later than August 31, 2003, to the Commission on proposed changes to its conservation targets and tariff, unless the May 31, 2002 market assessment is delayed as provided above in paragraph 12.

14. Electric and gas conservation annual savings targets and budgets will be periodically adjusted as presented below in Tables A-1 and A-2.

Table A-1 PSE Electric Tariff Rider Savings Targets and Estimated Costs through 2007

Date	Savings Target	Estimated Budget
9/01/02 thru 12/31/03	20 aMW (15 aMW annual target, pro-rated for 16 months)	\$22.67 – 28 million (\$17-21 million annual budget pro-rated for 16 months)
1/01/04 thru 12/31/04	The annual savings target for future years shall be informed by the conservation supply curves, that PSE is expected to complete by 5/31/03, and future modifications to the avoided cost analysis for ratemaking purposes, with review from the Advisory Committee.	The annual savings target and the need for all programs to be cost-effective shall drive the future budget.
1/1/05 through 12/31/05	Same as above.	Same as above.
1/1/06 through 12/31/06	Same as above.	Same as above.
1/1/07 through 12/31/07	Same as above.	Same as above.

Table A-2 PSE Natural Gas Tracker Rider Savings and Estimated Costs through 2007

Date	Savings Target	Estimated Budget
9/1/02 through 12/31/03	2.8 million therms (2.1 million therms annual target pro-rated for 16 months)	\$2.7 million (\$2 million annual budget pro-rated for 16 months)
1/1/04 through 12/31/04	The annual savings target for future years shall be informed by the conservation supply curves, that PSE is expected to complete by 5/31/03, and future modifications to the avoided cost analysis for ratemaking purposes, with review from the Advisory Committee.	The annual savings target and the need for all programs to be cost-effective shall drive the future budget.

1/1/05 through 12/31/05	Same as above.	Same as above.
1/1/06 through 12/31/06	Same as above.	Same as above.
1/1/07 through 12/31/07	Same as above.	Same as above.

F. Avoided Cost Calculation

15. To determine which energy efficiency programs and measures through September 2003 are cost-effective, PSE shall rely on the following components and their stated values to calculate the Company's avoided cost:

- Use of Aurora to forecast power costs at Mid-Columbia,
- 6.5% benefit for avoiding transmission and distribution line losses,
- Transmission benefit of \$28.65 per kW-year, unless another value is determined to be appropriate for ratemaking purposes by the Commission or by the Advisory Committee,
- Distribution benefit of \$24.95 per kW-year, unless another value is determined to be appropriate for ratemaking purposes by the Commission or by the Advisory Committee,
- Continued use of 10% environmental adder to the total avoided cost unless a different methodology for recognizing environmental costs of energy systems is adopted by the Commission. Two proposals for the Commission to consider are adopting the Regional Technical Forum's (RTF) carbon offset benefit of \$15/ton (or 6 mills) or initiating a rulemaking to make its own determination on the issue of environmental externalities;
- Production capacity costs of \$8 per kW-year, or as determined by the Commission or the Advisory Committee, consistent with that used for other ratemaking purposes, and
- Use of Regional Technical Forum's end use load factors.

16. PSE shall develop, in conjunction with its August 2002 filing, avoided costs for natural gas efficiency programs, with review from the Advisory Committee, by analyzing similar components of system costs.

17. Post September 2003, as a result of analysis for ratemaking purposes, PSE may modify, after consultation with the Advisory Committee, the Company's calculation of avoided cost based upon the following: modification to one or more component values above, use of a forecasting tool or production cost model other than Aurora, establishment of load factors that are more specific to PSE's service territory than those of the RTF, or other information relevant to the calculation of avoided cost.

18. PSE shall establish indicators in consultation with the Advisory Committee that direct the Company and the Advisory Committee to convene to consider adjusting cost-effectiveness levels for programs or to consider adjusting annual savings targets. One such indicator may be the following: if market power prices in the Pacific Northwest vary from the prices forecasted by Aurora (or other forecasting tool that has replaced Aurora) by 30% for longer than 3 months.

G. Program Evaluation Criteria

19. PSE and the Advisory Committee shall rely on the following evaluation strategies to determine energy savings from programs:

- Regional Technical Forum's "deemed" savings lists for electricity measures, or
- Advisory Committee review and adoption of evaluation protocol for energy efficiency programs.

The Committee may revise this list in the future.

20. Information-only services shall be assigned no quantifiable energy savings value without full support of the Advisory Committee. PSE may expend up to 10% of its budget on information-only programs if its total mix of programs in that sector pass the cost-effectiveness test (Information-only services refers to those information services that are not associated with an active incentive program or include no on-site technical assistance or on-site delivery of school education programs.)

H. Program Design Principles

21. Budget Development: The annual budget for the first twelve months of the program will be built up from the bottom through the development of a mix of programs that deliver cost-effective savings in PSE's service territory. The budget for electricity and natural gas programs shall reflect implementation of a cost-effective portfolio of programs targeting acquisition of 15 aMW and 2.1 million therms of savings for the first year. After the first year, PSE's conservation targets for both natural gas and electric efficiency programs will be revised periodically and determined by the updated conservation supply curves, current avoided cost values, program

experience, and other relevant factors. These targets will direct development of the mix of cost-effective programs that will establish the budgets for efficiency programs and once that mix has been developed, the targets will be determined. The Company will submit these targets through annual filings for Commission approval.

22. Outreach on Programs: PSE shall establish a strategy and proposed implementation budget for informing participants about program opportunities in the relevant and strategic market channels for each of PSE's energy efficiency programs. For example, PSE will describe how to market its water heater program to plumbers, water heater retailers, builders, and homeowners. PSE shall share these strategies and budgets with the Advisory Committee for review and comments.

23. Incentives: PSE shall offer incentives for cost-effective measures in order to achieve meaningful program penetration. Incentives may be directed to consumers, retailers, designers, installers, etc., as appropriate for measures that save energy. PSE shall work with the Advisory Committee to establish meaningful penetration levels.

24. Sector mix: In each year, PSE shall offer a mix of tariff-based programs that ensures it is serving each customer sector (unless there are no cost-effective savings opportunities in a sector) including programs targeted to the limited-income subset of residential customers. Modifications to this commitment may be made with full Advisory Committee support.

25. Tariff-rider funds shall only be used on programs and their associated administrative costs that result in energy savings through energy efficiency investments or fuel switching. This may include reasonable administration costs for PSE's net metering program.

26. Schedule 449 customers are eligible for self-direction under existing Schedule 258 and participation in efficiency programs offered by PSE, except as stated in paragraph 27. Schedule 258 customers who are not on Schedule 449 will be eligible to participate in other programs offered directly by PSE. Non-449 Schedule 258 customers will share in paying NEEA/market transformation and administration costs consistent with all other non-449 customers.

27. Each Schedule 449 customer can self-direct and/or participate in programs offered directly by PSE up to a total dollar cap equal to the annual efficiency funding level for that 449 customer minus 17.5% of that amount. The 17.5% represents payments for market transformation (10%) and for administration (7.5%).

I. Near-Term Programs

28. PSE shall hold at least one meeting with its Advisory Committee members to develop program enhancements, augmentations and additions that can cost-effectively capture 15 aMW and 2.1 million therms of energy savings during a 12-month period starting no later than September 1, 2002. Specific program proposals below will be among those considered in the process. (Some of the residential programs may be funded from the BPA Conservation and Renewable Discount account.)

- Small-scale commercial HVAC enhanced services for rooftop air conditioning or heat pump units.
- New commercial construction program. Program description shall include: specifications, outreach strategies, projected savings, involvement by market players, etc. PSE's program for new commercial construction will achieve energy savings that are at least 10% above the State's non-residential energy code.
- Energy Star, or better, transformers, on the customer side of the meter, for commercial and industrial sites.
- New residential construction program for gas and electric heated homes.
- Compact fluorescent light bulbs: program to target installation of at least 2 compact fluorescent bulbs in at least 50% of PSE residential households.
- Compact fluorescent fixtures program.
- Revisions to Commercial and Industrial Retrofit and New Construction programs (Schedules 250 and 251).

J. Conservation & Renewable Discount

29. In addition to the proposed annual tariff rider goal, PSE shall proceed with a Conservation and Renewable Discount (C&RD) program, with an expected annual budget from BPA of approximately \$2.8-\$3 million, that targets the residential and small farm sectors for electricity efficiency programs and provides funding for renewable resource programs. PSE shall work with the Advisory Committee to finalize program offerings for the near-term by August 2002. PSE shall work with the Advisory Committee to update the C&RD programs as opportunities or need for modifications arise.

30. PSE shall establish an \$800,000 annual set-aside from the C&RD, in addition to tariff rider investments, for limited-income efficiency programs. Funds may be used for programs that assist in the construction of low-income housing that exceeds state energy codes, assist in the purchase of appliances that exceed federal standards, assist in the purchase of efficient Energy Star CFL fixtures or light bulbs, or may be distributed to the U.S. Department of Energy Low-Income Weatherization "sub-grantees" for low-income weatherization per BPA program guidelines. The annual budget may increase or decrease in future years according to demand.

31. PSE shall initiate work with the Advisory Committee and renewable energy stakeholders to design, establish and begin implementation of at least one renewable energy program including one that supports the local installation of renewable energy resources. The program(s) will include outreach to customers describing the costs and benefits of renewable energy systems and net metering. At least one program shall be implemented by May 2003. The initial 12-month budget for renewable energy programs will be \$250,000. Future budgets may increase or decrease based on demand.

32. PSE may offer energy efficiency programs to non-residential customers using C&RD funds only with full support of the Advisory Committee. PSE shall work with the Advisory Committee to identify C&RD programs, considering, but not restricted to, measures that have "deemed measure" eligibility as identified by the RTF.

33. The C&RD program shall support a program for electrically heated manufactured homes, built to regional energy efficiency levels, through 2006 unless there is no regional infrastructure supporting the reasonable implementation of the program or if the program becomes non cost-effective.

K. Low Income Energy Efficiency

34. PSE will target low-income energy efficiency program funding at \$2.3 million annually. Rider and tracker funded programs will be targeted at \$1.2 million annually with the savings attributed to the Company's annual savings target; and non-tracker/rider funded programs will be targeted at \$1.1 million. (PSE will make available \$800,000 in C&RD funds and \$300,000 in shareholder funds annually for the non-tracker/rider programs, unless otherwise modified by the Company.)

L. Cost Recovery and Allocation

35. The Company shall retain existing tracker and rider mechanisms going forward, subject to the Commission's Order in Docket No. UE-970686.

36. The Company shall continue to use the peak credit method of assigning the costs of its electric conservation programs to each rate schedule with one exception. The Schedule 449 customers will pay 0.045 cents per kWh toward the cost of the conservation program. This amount is based on a \$20 million dollar annual budget, and is scalable depending on whether the budget increases or decreases. This payment is separate from and in addition to payment for the existing "overhang" (undercollections from 2001 for conservation program costs) conservation payments by industrial customers. These payments will continue to be made on the previous existing terms, including rate spread. (See paragraph 37.)

37. Recovery of under-collections from 2001 shall be collected based on the continued allocation of conservation program costs implemented in Docket No. UE-020263 that went into effect in the spring of 2002.

38. Gas conservation program costs will be allocated in a manner consistent with the gas program in effect in May 2002. No gas conservation program costs shall be allocated for recovery from natural gas transportation customers. Natural gas program cost recovery allocations made to natural gas sales customers shall be made according to the peak credit (i.e., bridge) methodology that underlies Puget's recovery for surcharges for its conservation programs as approved in March 2002 in Docket No. UG-020264.

M. Conservation Report Card and Penalty for Not Achieving Annual Target

39. Achievement of annual targets for savings from cost-effective electricity conservation programs and from cost-effective natural gas programs, as established in Section D, shall be subject to a penalty mechanism. PSE shall compute, every two years, the total electricity savings captured through PSE electric efficiency programs during each two-year time period, and divide this total by two, to determine an average annual electricity savings achievement for that period. PSE shall compute, every two years, the total natural gas savings captured through PSE natural gas efficiency programs during each two-year time period, and divide this total by two, to determine an average annual natural gas savings achievement for that period. These computations shall determine whether the Company achieved each of the minimum savings targets, on average. If the Company achieves its average annual savings goals, as determined with the Advisory Committee, during a two-year period, then no penalty will be applied for that two-year period. If the average annual savings targets are not achieved during a two-year period then a penalty is assessed according to Paragraph 43; the penalty applies only to each individual year in which that year's actual annual target is not met.

40. Prior to the start date of the penalty period, the Company and Advisory Committee shall establish one method for assessing and tracking savings during the penalty period.

41. The following circumstance will be considered in assessing savings. In evaluating the conservation achievement, consideration will be given to large-scale, long duration efficiency projects where negotiations are in progress between PSE and the customer. If, in considering these projects, savings are attributed to one year for penalty assessment purposes, then the quantity of savings credited to the one year shall be deducted from actual savings in the following year regardless of whether the projects in question were finalized. A determination of failure or success in meeting the savings targets shall still be made in this circumstance.

42. The Company may seek mitigation before the Commission of the penalty for failure to meet the conservation savings target, if the Company can demonstrate that factors occurred, after the annual targets were established, beyond the Company's control that negatively impact customer participation in its programs such as a significant local economic recession or major natural disaster. The Company may address factors in its petition, including but not limited to the following: whether the Company is paying a penalty under the Equity Growth tracker.

43. The financial penalties for failure to achieve the annual conservation savings targets are as follows.

- Achieve savings that are 90 to 99% of the goal: \$200,000 penalty applies
- Achieve savings that are 75% to 89% of the goal: \$500,000 penalty applies
- Achieve savings that are less than 75% of the goal: \$750,000 penalty applies

44. The Company shall provide biennial notification in a Conservation Report Card to its customers regarding the Company's performance related to its annual savings targets. The report shall:

- a) Be distributed as a conspicuous stand-alone document accompanying a customer's bill or in a separate mailing and also posted to PSE's website.
- b) Be distributed to customers only after adequate consultation with Staff and the Advisory Committee.
- c) Be distributed no later than 90 days after the filing of the Annual Conservation report (currently due February 15), beginning in 2006 and every two years thereafter.

d) Contain the following information, at a minimum:

- 1) A brief description of the purpose of the report.
- 2) A brief description of the benchmarks and an indication of whether the Company met the benchmarks in each year.
- 3) Total amount of penalty at risk and the total amount of penalties imposed for the current reporting period.

The report also may contain reference to PSE's ongoing energy efficiency programs, including encouragement for customers to participate in those programs.

45. The penalty funds shall be used to fund one or more cost-effective energy efficiency programs for PSE's customers through a third party vendor. The Company shall initiate the RFP process within one month of the penalty being levied.

46. This penalty and reporting mechanism for achieving the Company's annual target for cost effective energy efficiency shall become effective for conservation programs beginning January 1, 2004. Therefore, the first period for which penalties may be assessed is the January 2004 through December 2005 time period.

N. Line Extension Policies that Promote Energy Efficiency and Fuel Efficiency

47. PSE may adopt line extension policies that are designed to encourage (and particularly not discourage) builders, developers, and end-use customers to select a heating fuel that is most resource efficient and adopt construction practices that exceed current energy codes.

O. Miscellaneous Provisions

48. **Binding on Parties:** The Executing Parties agree to support the terms and conditions of this Agreement, as described above. The Executing Parties understand that this Agreement is subject to Commission approval.

49. **Integrated Terms of Settlement:** The Executing Parties have negotiated this Agreement as an integrated document. Accordingly, the Executing Parties agree to recommend that the Commission adopt this Agreement in its entirety.

50. **Negotiated Agreement:** This Agreement represents a fully negotiated agreement. Each Executing Party has been afforded the opportunity, which it has exercised, to review the terms of the Agreement. Each Party has been afforded the opportunity, which it has exercised, to consult with legal counsel of its choice concerning such terms and their implications. The Agreement shall not be construed for

or against any Executing Party based on the principle that ambiguities are construed against the drafter.

51. **Execution:** This Agreement may be executed by the Executing Parties in several counterparts, through original and/or facsimile signature, and as executed shall constitute one agreement.

DATED this 3rd day of June, 2002.

PUGET SOUND ENERGY, INC.

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
STAFF**

By _____
Kimberly Harris
Vice President of Regulatory
Affairs

By _____
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**Appendix E – Draft Charge for
Washington Conservation Commission**

Appendix E

DRAFT Charge to the Washington Conservation Collaborative

In recognition of the need for consistent and coordinated energy efficiency and conservation program development and implementation, the Washington Utilities and Transportation Commission has created the Washington Conservation Collaborative (WCC) consisting of representatives from all three electric utilities, interested parties, and staff.

The WCC is to provide a statewide efficient forum to:

- Evaluate program implementation methods intended to pursue all achievable cost-effective electric conservation.
- Establish consistent protocols for measuring, evaluating, and verifying energy saved.
- Recommend adoption of cost-effective measures and programs including leveraging the work of the Northwest Power and Conservation Council's Regional Technical Forum (RTF) and other well-documented and credible sources.
- Advise companies on energy efficiency methods, protocol and measures consistent with the NW Power & Conservation Council methodology and the Washington Energy Independence Act.

The WCC will initially be formed of the members of each of the three electric companies and interested parties who are representing organizations and interests located in Washington State.

Within 4 months the WCC will report to the Commission with the following recommendations:

- Permanent voting and advisory membership.
- Organizational workplan through at least the end of 2012 (What topic areas will be covered and how will they be executed).
- Organizational structure (For example, whether there will be a master facilitator engaged, how industry experts will be incorporated, whether there is a need for workgroups and how decisions will be made).
- Recommendations for Commission adoption of statewide cost-effectiveness metrics for electric conservation.
- Recommendations for ongoing funding of the WCC activities.
- Recommendations for an independent conservation program audit function directed by UTC staff.

Appendix F – Avista’s Target vs. 2009 IRP

Appendix F – Avista’s Target vs. 2009 IRP

From: Powell, Jon [mailto:Jon.Powell@avistacorp.com]
Sent: Tuesday, March 02, 2010 1:06 PM
To: Nightingale, David (UTC)
Cc: Gervais, Linda
Subject: RE: Cross walk from IRP to WA I-937 filing

David:

Here’s a reconciliation of a calculation of Avista’s 2009 electric IRP vs. the I-937 target derived from the NPCC 6th Power Plan (with additions).

There are a lot of moving parts in these calculations, and Lori and I are constantly discovering (and rediscovering) how difficult it is to develop IRP, 6th Plan and I-937 numbers that are truly comparable. Here’s a short and undoubtedly incomplete list of the distinctions that we have to be careful to watch for:

- Washington vs. the Washington/Idaho “system”. Per our forecast of firm electric sales, about 61.8% of our electric system is in Washington.
- There are four parts should be included in the calculation of what we are proposing as a I-937 goal:
 - Local impact of electric-efficiency programs.
 - Fuel-efficiency (AKA “electric to natural gas conversion”). This is incorporated into Avista’s IRP as an “electric DSM” program but cannot, by virtue of the definition of “conservation” in the Northwest Power Act and the 6th Power Plan.
 - The regional impact (within Avista system or Avista Washington jurisdictions) of NEEA programs. Due to the doubling of funding, the lag in the impact of that funding, the gradual termination of credit for past CFL programs, the changes in funding share and the imposition of a new allocation and tracking methodology (currently under development) it is very difficult to predict 2010-2011 NEEA impact on Avista’s Washington service territory. Notably NEEA’s accounting does exclude the possibility of “double-counting” with local programs by excluding from their acquisition claim any resources incentivized through local programs.
 - Distribution efficiencies can be divided into the impact on the utility side of the meter (e.g. transformer efficiencies) and the impact on the customer side of the meter

(primarily due to improved voltage control). These are incorporated into the 6th Power Plan based largely upon the results of NEEA's "Distribution Efficiency Initiative" (or DEI). Avista's IRP does include distribution efficiencies, but at the time that the calculations were made there was a great deal of uncertainty over the quantity of cost-effective distribution efficiency and consequently it was generally not its own line item in the IRP document.

- We often confuse ourselves with stating 2010 vs. 2011 vs. 2010-2011 time periods.
- In addition to the 2009 electric IRP and the 6th Plan (with and without modifications to include fuel-efficiency acquisition) Avista also develops an operational "DSM Business Plan" every year that is more specific and leads to total budget, FTE, cost-effectiveness etc calculations. We've also occasionally found references to the 2007 electric IRP can confuse anyone following these issues (on occasion we need to reference a number out of a previously 'recognized' IRP, and the 2007 IRP does contain projections for 2010 and 2011).

Obviously this can all get pretty confusing pretty quickly.

Additionally I do want to note that there is a significant degree of uncertainty that are inherent in some of the calculations, particularly Avista's share of NEEA and distribution efficiency (utility and customer side of the meter) in 2010 and 2011.

With that background (and all of those caveats) out of the way, the reconciliation of the 128,603 mWh Avista proposed 2010-2011 'conservation' target for I-937 vs. a comparable the 115,228 2010-2011 Avista electric IRP goal is detailed in the attached spreadsheet. I've color-coded, included cell comments and provided explanations that I hope will be useful.

I'm generally available at 509-495-4047 if you have any questions (except for Wednesday March 3rd, when I will be in Portland reviewing the progress in developing the NEEA plan for allocating regional savings that I mentioned above).

Thanks.

Year	Type	WAID	WA	61.79% of Washington / Idaho attributable to the Washington Jurisdiction
Development of the I-937 goal that Avista has filed, all values stated are mWh. This was based on the NPCC 6th Power Plan modified to include fuel-efficiency.				
2010	local + regional + DE		59,991	Note that the 6th Power Plan includes all adoption of identified 'efficiency' measures whether they occur through local or regional intervention or natural adoption. The Plan also includes the impact of distribution engineering efficiencies upon the grid.
2011	local + regional + DE		65,990	The 6th Power Plan cannot include electric to natural gas conversions due to the definition of "conservation" in the Northwest Power Act. This addition is based upon these fuel-efficiency measures in Avista's planning.
2010	Fuel-Efficiency (E -> NG)		1,285	
2011	Fuel-Efficiency (E -> NG)		1,336	
			128,603	<-- The Avista I-937 goal for 2010-2011
The most comparable number from Avista's 2009 electric IRP. (Values are mWh)				
		WAID	WA	
2010	local	65,644	40,563	The impact of programmatic participation in Avista local programs.
2011	local	68,270	42,185	
2010	regional	25,754	15,914	Avista's estimated share of NEEA acquisition. This is based upon tentative estimates derived from historical precedent, Avista's previous 4.0% share vs. the allocation methodology currently under development and the 2010-2011 impact of doubling NEEA funding.
2011	regional	25,754	15,914	Avista includes fuel-efficiency measures within the IRP as "local" electric DSM programs.
2010	Fuel-Efficiency (E -> NG)		-	
2011	Fuel-Efficiency (E -> NG)		-	
2010	DE customer side of meter		329	The impact of distribution efficiency measures on the customer side of the meter. This impact was very tentative and not explicitly isolated in the 2009 electric IRP. This estimate was backed out of other workpapers.
2011	DE customer side of meter		329	
			115,233	<-- The detailed calculation of the Avista IRP goal comparable to the 6th Power Plan goal stated in the I-937 filing
			115,228	<-- The Avista IRP goal comparable to the 6th Power Plan goal stated in the I-937 filing
Key:				
				Green font indicates a number derived from Randy Barcus's electric forecast used in the 2009 electric IRP
				Blue font indicates a number derived from the workpapers supporting the development of the I-937 target
				Red indicates a number from the 2009 electric IRP
				Purple indicates a number developed from the workpapers associated with the 2009 electric IRP and I-937 filing
				DE = Distribution Engineering Efficiencies
				E-> NG = Electricity to Natural Gas