



Rob McKenna

ATTORNEY GENERAL OF WASHINGTON

800 Fifth Avenue #2000 • Seattle WA 98104-3188

July 6, 2012

SENT VIA E-MAIL & ABC LMI

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

**Re: Schedule 191—System Benefits Charge Adjustment
Docket No. UE-120700**

Dear Mr. Danner:

Public Counsel submits this letter in response to PacifiCorp's System Benefits Charge (SBC) Adjustment filing submitted on May 15, 2012.¹ These comments address Public Counsel's review of the proposed SBC rate adjustment filing as well as the Company's energy efficiency program results in 2011 as these results are directly related to the true-up component of the filing. While these comments do broadly address programmatic achievement and issues, they do not delve into all details surrounding energy efficiency measures, such as savings estimates, as these issues were very recently and comprehensively addressed in Public Counsel's comments on March 13, 2012, in PacifiCorp's 2012-2013 Biennial Conservation Plan in Docket UE-111880.

Public Counsel Recommendation

Public Counsel supports the Staff recommendation to allow the proposed tariffs to go into effect. However, we note for the record that we have concerns with PacifiCorp's Home Energy Report program proposed as a revision the Company's DSM business plan in Docket UE-111880. Given these concerns, we respectfully reserve the right to challenge the prudence of expenditures associated with this program and recommend a future disallowance of program costs.

A. Review of PacifiCorp's Proposed SBC Rate Adjustment.

PacifiCorp's filing proposes to increase the SBC collection rate from the authorized level of \$8.8 million annually to \$11.4 million annually. This represents an annual increase of \$2.6 million and would result in a .9 percent increase to the monthly bill of the average residential customer. This filing, if allowed to go into effect, would be a substantial rate increase for customers and merits a detailed level of review. In the course of reviewing this filing, Public Counsel submitted

¹ PacifiCorp filed a letter on June 19, 2012, which extended the requested effective date of the proposed tariff revisions from July 1, 2012 to July 13, 2012.

ATTORNEY GENERAL OF WASHINGTON

To: David Danner
Re: Docket No. UE-120700
July 6, 2012
Page 2

inquiries to PacifiCorp on a range of issues, including variances in forecasted program costs and actual expenditures, drivers behind program savings increases or decreases, and accounting detail for certain costs. The section below describes Public Counsel's review of the key drivers of cost increases reflected in this filing.

Drivers of Cost Increases

(1) 2011 Expenditures and True-Up.

During program year 2011, PacifiCorp spent \$9,096,661 on electric energy efficiency programs.² This is \$515,664 more than the amount budgeted for 2011 which was \$8,580,997.³ Beginning in June of 2011, PacifiCorp's SBC expenditures exceeded the SBC collected revenues. As stated in the Company's cover letter to this filing, as of April 30, 2012, the SBC deferred account balance was under-collected by approximately \$1.3 million. According to information provided by the Company, program costs began to exceed recovery due to increased customer participation in programs and expenditures related to program delivery.⁴ The Company also realized cost increases associated with DSM outreach and communication,⁵ program evaluation costs,⁶ and distribution and production efficiency potential costs.⁷ The expenditures associated with distribution efficiency potential realized in 2011 are particularly noteworthy. The Company forecasted it would spend \$220,000 on distribution efficiency in 2011 and actual expenditures were nearly double that amount at \$429,965. The Company states that this variance is due to increased project scope to cover three alternative investment levels as well as increased labor associated with the distribution efficiency initiative.⁸

(2) Forecast Expenditures.

Based on the biennial energy acquisition targets for 2012-2013, the Company has stated that the expenditures associated with the acquisition of conservation savings and production and distribution efficiency potential assessments, are expected to exceed the revenue currently collected through Schedule 191.

Production and Distribution Efficiency Potential Costs. Under the Energy Independence Act the Company is required to pursue all cost-effective conservation, including production and distribution efficiency. The 2012 cost for production and

² 2011 Annual Report on Conservation, Table 2, p. 9.

³ 2011 Annual Report on Conservation, Table 3, p. 11.

⁴ The Company realized an increase in overall energy efficiency savings of 20 percent in 2011 compared to 2010 and expenditures related to program delivery increased by 18% compared to 2010. See 2011 Annual Report on Conservation, p.10.

⁵ The Company spent \$278,233 on DSM outreach and communication. See 2011 Annual Report on Conservation, Table 2, p. 9.

⁶ The Company spent \$315,733 on third party program impact and process evaluation which represented 3.5% of the 2011 annual program expenditures. See 2011 Annual Report on Conservation, p. 10.

⁷ 2011 Distribution efficiency costs were nearly twice what was budgeted (\$220,000 budget, \$429,965 actual). See 2011 Annual Report on Conservation p. 11.

⁸ PacifiCorp's Response to Public Counsel Data Request 10, Docket UE-120700.

ATTORNEY GENERAL OF WASHINGTON

To: David Danner
Re: Docket No. UE-120700
July 6, 2012
Page 3

distribution efficiency studies represent \$996,000 or 36 percent of the proposed rate increase in this filing.⁹ Given the substantial portion of the increase related to production and distribution efficiency, Public Counsel reviewed these expenditures to ensure they were appropriate.

In its recent Order approving PacifiCorp's biennial conservation targets for 2012-2013, the Commission clarified that only distribution and production efficiency potential study costs are allowed to be recovered through the SBC rider. Other costs to implement distribution and production efficiency initiatives, such as operations and management-type costs, are to be recovered through the general rate case process or some other deferred accounting request.¹⁰ In order to confirm that only study costs were recovered through the SBC rider, Public Counsel requested that the Company provide monthly accounting detail and support for 2011 and 2012 to demonstrate that only production and distribution efficiency study costs were included in this filing. Public Counsel has reviewed this accounting detail and it appears that costs were recorded in the manner required by the Commission Order.

Evaluation Costs. Evaluation costs also represent a significant portion of the rate increase in this filing. Beginning in 2010, under the conditions approving the 2010-2011 biennial conservation target, PacifiCorp was required to increase their efforts in evaluation, measurement and verification (EM&V) and perform EM&V annually on a multi-year schedule such that all major programs were covered.¹¹ In its recently approved biennial conservation plan for 2012-2013 PacifiCorp is still required to spend a "reasonable" amount of its conservation budget on EM&V and perform EM&V annually on a two-year schedule so all major programs are reviewed.¹² The Company is also in the process developing a technical reference manual which will serve as a useful data base of program measures and unit energy savings and assumptions.¹³ PacifiCorp anticipates spending \$779,000 on evaluation in 2012 and \$475,000 on evaluation in 2013.¹⁴

B. Review of PacifiCorp's 2011 Conservation Programs and Results.

As required under Order 02 in Docket No. UE-100170, PacifiCorp filed its annual report on conservation acquisition on March 30, 2012. This report includes information on 2011 DSM performance and activity, compares the 2011 budget to actual expenditures, provides an overview of residential and non-residential program activity and changes, and discusses the status of the SBC balancing account as well as program cost-effectiveness for 2011. According

⁹ PacifiCorp's Response to Public Counsel Data Request 2, Docket UE-120700.

¹⁰ Order 01, Docket UE-111880, Condition 11(d).

¹¹ Order 02, Docket UE-100170, Condition 6(f).

¹² Order 01, Docket UE-111880, Condition 6(f).

¹³ Order 01, Docket UE-111880, Condition 6(h).

¹⁴ Demand-Side Management 2012-2013 Business Plan Washington, Revision 1, June 4, 2012.

ATTORNEY GENERAL OF WASHINGTON

To: David Danner
Re: Docket No. UE-120700
July 6, 2012
Page 4

to the report, PacifiCorp acquired 49,983,694 kWh in savings in 2011, which exceeded its forecasted results of 36,183,565 kWh by 38 percent.¹⁵ Approximately 32 percent of the savings were acquired through residential programs, 15 percent through commercial programs, 28 percent through industrial programs, and 25 percent through NEEA regional market transformation efforts. Total expenditures were \$9,096,661 for program year 2011 which exceeds the budgeted amount of \$8,580,997 by 6 percent. PacifiCorp reports that the overall portfolio was cost-effective with a TRC of 2.74 in 2011.¹⁶ Public Counsel commends the Company for its conservation program achievement in 2011. As mentioned previously, Public Counsel will not revisit issues surrounding saving estimates that were recently discussed in Public Counsel's comments filed in Docket UE-111880.¹⁷ However, in reviewing this filing in conjunction with the Company's Annual Conservation Report, there are two programs that warrant further discussion. These are addressed in the section below.

(1) Energy Education in Schools' Program.

Historically, PacifiCorp's Energy Education in School's program distributed energy education curriculum and energy savings kits to sixth grade students in the Company's Washington service territory. The energy savings kits included a CFL and other low-cost energy efficiency measures. Based on concerns surrounding the verification of reported savings for this program, the Company ceased reporting savings under this program beginning in June of 2011, and began offering the program on an education-only basis. However, due to increased challenges, including cost-effectiveness, the Company opted to cancel the program effective June 30, 2012. In light of the challenges presented Public Counsel supported this decision.¹⁸ Total expenditures for this program in 2011 were \$429,927 compared to the budgeted amount of \$450,000.

(2) Home Energy Reports (HER) Program.

On June 4, 2012, PacifiCorp filed revisions to its 2012-2013 DSM business plan, which included a proposed addition for a Home Energy Report program.¹⁹ Public Counsel has also filed comments in Docket UE-111880 recommending certain revisions to the program design and evaluation plan.²⁰ The Company had no expenditures associated with this program in 2011 but has factored in the costs associated with the program for 2012 and 2013 which are \$100,767 and \$132,120 respectively.²¹ Public Counsel wants to make clear, that while we support allowing the

¹⁵ 2011 Annual Report on Conservation, Table 3, p. 11.

¹⁶ 2011 Annual Report on Conservation, p. 4.

¹⁷ See Comments of Public Counsel, March 13, 2012, Docket UE-111880.

¹⁸ Because of the fundamental changes to the operation of the Energy Education in School's program that occurred in 2011, costs for the program were recorded under the "residential programs," reflecting the operation of the program during the 2010/2011 school year, and "additional expenditures," reflecting the operation of the program for the 2011/2012 school year. See 2011 Annual Conservation Report of PacifiCorp, Table 2, p.9.

¹⁹ 2012-2013 Biennial Conservation Plan, June 4 Revision, Docket UE-111880. Public Counsel is reviewing the Company's reported results in the Biennial Conservation Report filed in Docket UE-100170.

²⁰ Public Counsel's recommendation in Docket UE-111880 is that PacifiCorp should be required to file a revised Home Energy Report program plan that clarifies the program design, as well as the evaluation plan. The evaluation plan should conform to recent best practices recommendations by having an independent third-party conduct the random assignment, as well as other tasks, to avoid potential conflict of interests.

²¹ Public Counsel Data Request 1, Attachment 1, Docket UE-120700.

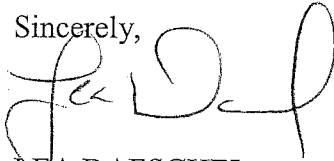
ATTORNEY GENERAL OF WASHINGTON

To: David Danner
Re: Docket No. UE-120700
July 6, 2012
Page 5

SBC rider to take effect, we do have significant concerns with the current proposal for the Home Energy Report program filed in Docket UE-111880. We are comfortable allowing the tariff to take effect, largely because the amount budgeted for HER in 2012 is less than 1 percent of the annual conservation budget. In the event that Public Counsel's concerns regarding the Home Energy Report program are not addressed, we reserve the right to challenge the prudence of those expenditures and recommend a disallowance.

Public Counsel appreciates the Commission's consideration of the issues raised in this letter. I will attend the Commission's July 12, 2012, Open Meeting to address any questions regarding these comments.

Sincerely,



LEA DAESCHEL
Policy Analyst
(206) 464-6380

cc: Mike Foisy (E-mail)
Chris McGuire (E-mail)
Deborah Reynolds (E-mail)
Beau Brown (E-mail)
William Griffith (E-mail)