

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

PUGET SOUND ENERGY, INC.

Respondent.

DOCKET UE-100177

JOINT NARRATIVE  
SUPPORTING SETTLEMENT  
AGREEMENT REGARDING  
CONDITIONS FOR APPROVAL  
UNDER WAC 480-109-010(4)(c)

**I. INTRODUCTION**

*I* Pursuant to WAC 480-109-010(4)(c), WAC 480-07-730(1), and WAC 480-07-740(2), all parties to this docket jointly request the Washington Utilities and Transportation Commission (“Commission”) to approve the Full Settlement in this docket, as set forth in the “Agreed Conditions for Approval of Puget Sound Energy, Inc.’s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285 Docket No. UE-100177 and Agreed Modifications to Electric Settlement Terms for Conservation in Docket No. UE-011570” (“Agreement”) filed with this Joint Narrative. Specifically, the parties request that the Commission:

- A. Approve Puget Sound Energy, Inc.’s (“PSE’s”) 2010-2019 achievable conservation potential of 3,748,773 megawatt-hours at the customer meter level, subject to the conditions embodied in the Agreement, and
- B. Approve PSE’s 2010-2011 biennial conservation target of 622,000 megawatt-hours

at the customer meter level, subject to the conditions embodied in the Agreement.

The parties request an effective date of September 24, 2010.<sup>1</sup>

2 In support of this request, all parties submit the joint narrative below.<sup>2</sup> Each party offers to present the following witnesses to testify in support of the Agreement and answer questions, should the Commission desire:<sup>3</sup>

Commission Staff: David Nightingale and Deborah Reynolds

PSE: Daniel J. Anderson and Grant H. Ringel

Public Counsel: Stefanie Johnson

NW Energy Coalition: Danielle Dixon

Industrial Customers of Northwest Utilities: Michael Early

3 The parties do not expect to file additional documents supporting the Agreement at this time, but they are willing to provide additional documents should the Commission desire.

## II. BACKGROUND

### A. Washington's Initiative 937

4 Washington voters approved Initiative 937, the Energy Independence Act, in the 2006 general election. Now codified in Chapter 19.285 of the Revised Code of Washington, it requires electric utilities with 25,000 or more customers to set and meet energy conservation targets, among other things.

5 Under RCW 19.285.040(1)(a) and (b), utilities are required to do the following:

- (1) Each qualifying utility shall pursue all available conservation that is cost-effective, reliable, and feasible.

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<sup>1</sup> See [WAC 480-07-740\(1\)\(b\)](#).

<sup>2</sup> See [WAC 480-07-740\(2\)\(a\)](#).

<sup>3</sup> See [WAC 480-07-740\(2\)\(b\)](#).

- (a) By January 1, 2010, using methodologies consistent with those used by the Pacific Northwest Electric Power and Conservation Planning Council in its most recently published regional power plan, each qualifying utility shall identify its achievable cost-effective conservation potential through 2019. At least every two years thereafter, the qualifying utility shall review and update this assessment for the subsequent ten-year period.
- (b) Beginning January 2010, each qualifying utility shall establish and make publicly available a biennial acquisition target for cost-effective conservation consistent with its identification of achievable opportunities in (a) of this subsection, and meet that target during the subsequent two-year period. At a minimum, each biennial target must be no lower than the qualifying utility's pro-rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period.

The Commission has authority to review and approve investor-owned utility conservation targets, and may impose conditions as part of an approval.<sup>4</sup>

6 Beginning in June 2012, investor-owned utilities must report to the Commission and the Washington Department of Commerce their progress in meeting their conservation targets.<sup>5</sup> A utility that fails to meet a biennial conservation target is subject to an administrative penalty.<sup>6</sup> The Commission is responsible for determining investor-owned utilities' compliance with RCW Chapter 19.285 and for assessing penalties for noncompliance.<sup>7</sup>

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<sup>4</sup> [RCW 19.285.040\(1\)\(e\)](#); [WAC 480-109-010\(4\)](#).

<sup>5</sup> [RCW 19.285.070\(1\)](#), [\(2\)](#).

<sup>6</sup> [RCW 19.285.060\(1\)](#).

<sup>7</sup> [RCW 19.285.060\(6\)](#); *see* [WAC 480-109-050](#).

**B. The Puget Sound Energy Conservation Stipulation of 2002 and its Relationship to RCW 19.285**

7 When the voters approved Initiative 937, Puget Sound Energy was already operating conservation programs established under a settlement agreement that the Commission approved in 2002 in Dockets UE-011570/UG-011571.<sup>8</sup> Commonly called the “Conservation Stipulation,”<sup>9</sup> the agreement established a Conservation Resource Advisory Group (“CRAG”)<sup>10</sup> to advise PSE on its electric and gas conservation programs.<sup>11</sup> Unlike RCW Chapter 19.285, the 2002 Conservation Stipulation applies to natural gas as well as electricity.

8 The 2002 Conservation Stipulation contains provisions that address some of the issues addressed in RCW Chapter 19.285, but it does not necessarily address them in the same way. For example, the 2002 Conservation Stipulation established electric and gas savings targets and set up a mechanism for assessing penalties if PSE failed to achieve the targets.<sup>12</sup>

9 The 2002 Conservation Stipulation also incorporated provisions from other Commission orders. For example, Paragraph 35 of the 2002 Conservation Stipulation provided that PSE “shall retain existing tracker and rider mechanisms going forward, subject

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<sup>8</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), [Twelfth Supp. Order](#) (June 20, 2002), [Settlement Stipulation Ex. F](#).

<sup>9</sup> For clarity in this document, the Conservation Stipulation is referred to as the 2002 Conservation Stipulation.

<sup>10</sup> The Puget Sound Energy CRAG established under the Conservation Stipulation is to be distinguished from the [Conservation Resources Advisory Committee \(“CRAC”\)](#) that the Northwest Power and Conservation Council (“Council”) chartered to advise it on matters related to the development of the Council’s Sixth Northwest Power Plan. See [16 U.S.C. § 839b\(c\)\(11\)](#). Though the two groups have similar acronyms, they are different entities. Footnote 63 in the Commission’s Order 04 inadvertently makes an incorrect committee reference.

<sup>11</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), [Twelfth Supp. Order](#) (June 20, 2002), [Settlement Stipulation Ex. F](#) Part D.

<sup>12</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571, [Twelfth Supp. Order](#) (June 20, 2002), [Settlement Stipulation Ex. F](#) Part M

to the Commission’s Order in Docket No. UE-970686.”<sup>13</sup> In Docket UE-970686, the Commission authorized PSE to defer electric conservation expenditures, to recover them through an electric tariff rider,<sup>14</sup> and to file reports.<sup>15</sup>

10 In 2007, the Commission approved a three-year pilot, incentive program for electric conservation, which modified the penalty mechanism.<sup>16</sup> The Commission observed that the “three-year time frame will permit whatever transition to the requirements of I-937 will be necessary in 2010.”<sup>17</sup>

11 As discussed below, the Agreement in this docket addresses the above issues and updates the 2002 Conservation Stipulation to be consistent with RCW 19.285 and Commission orders since 2002, while preserving the elements of the original agreement not in conflict with the new law.

### **C. Proceedings in Docket UE-100177**

12 On January 29, 2010, PSE filed a “Report Identifying PSE’s Ten-Year Achievable Conservation Potential and Biennial Conservation Target” under WAC 480-109-010(3) and RCW 19.285.040(1). PSE’s report came before the Commission at its regularly scheduled meeting on March 11, 2010. The Commission determined that it lacked sufficient information to determine whether the ten-year achievable conservation potential and

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<sup>13</sup> Puget Sound Energy’s natural gas tracker was established in Docket UG-950288. In that docket, the Commission authorized Puget Sound Energy’s predecessor to file an annual tracker to recover costs associated with natural gas conservation programs. *In re Washington Natural Gas Co.*, Docket No. UG-950288, [Letter](#) (May 11, 1995).

<sup>14</sup> *In re Puget Sound Energy*, Docket No. UE-970686, [Order](#) (May 16, 1997).

<sup>15</sup> *In re Puget Sound Energy*, Docket No. UE-970686, [Order](#) at Ordering ¶ 4 (May 16, 1997); *In re Puget Sound Energy*, Docket No. UE-970686, [Second Supp. Order](#) (March 29, 2000).

<sup>16</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-060266/UG-060267 (consolidated), [Order 08](#) (Jan. 5, 2007).

<sup>17</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Dockets UE-060266/UG-060267 (consolidated), [Order 08](#) ¶ 156 (Jan. 5, 2007). The three-year pilot has expired and PSE has not requested to continue it.

biennial target contained in the report should be approved, and commenced an adjudicative proceeding.<sup>18</sup> Commission Staff and Public Counsel appeared, and the NW Energy Coalition (NWECC) and the Industrial Customers of Northwest Utilities (ICNU) intervened. The parties identified legal issues and filed cross-motions for summary determination.

13 During the same period, the Commission reviewed the conservation targets of two other investor-owned electric utilities, Avista and PacifiCorp. The Commission approved Avista's ten-year potential and biennial target, subject to conditions, on May 13, 2010.<sup>19</sup> The Commission approved PacifiCorp's ten-year potential and biennial target, subject to conditions, on July 29, 2010.<sup>20</sup>

14 On June 4, 2010, the Commission ruled on the motions for summary determination in this docket, and directed PSE to revise its biennial conservation target and re-file its report under WAC 480-109-010(3) so that its biennial target is consistent with the projected potential identified on December 31, 2009.<sup>21</sup> On June 18, 2010, PSE filed a revised Report Identifying PSE's Ten-Year Achievable Conservation Potential and Biennial Conservation Target ("Revised Report"), along with supporting materials.<sup>22</sup> The Revised Report identified a ten-year achievable conservation potential of 3,748,773 megawatt-hours, and a 2010-2011 biennial conservation target of 622,000 megawatt-hours, both at the customer meter level, consistent with the projected potential identified in December 31, 2009. Staff, Public Counsel, and NWECC agreed that the Revised Report complied with the

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<sup>18</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-100177, [Order 01](#) (March 11, 2010). See RCW 19.285.040(1)(e) ("commission may rely on its standard practice for review and approval of investor-owned utility conservation targets").

<sup>19</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) (May 13, 2010).

<sup>20</sup> See *In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) (July 29, 2010).

<sup>21</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-100177, [Order 04](#) (June 4, 2010).

<sup>22</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-100177, [WAC-Required Report](#) (June 18, 2010).

Commission's June 4, 2010 order and recommended that the Commission approve the ten-year achievable conservation potential and biennial target identified in PSE's Revised Report with conditions. The Commission "envision[ed] that the parties will work collaboratively in developing any conditions they will recommend to the Commission."<sup>23</sup>

15 During July, August, and early September of 2010, the parties to this docket and members of the PSE CRAG<sup>24</sup> convened a series of meetings and conference calls in an attempt to reach agreement on proposed conditions to PSE's ten-year achievable conservation potential and biennial target and to revise the 2002 Conservation Stipulation so that it would be consistent with RCW Chapter 19.285 while preserving the provisions that apply to natural gas. Because gas and electricity are somewhat entangled in the 2002 Conservation Stipulation, this was no easy task. The parties believe the effort has succeeded, however, and now recommend approval of the Agreement.

### III. THE AGREEMENT

16 The parties to Docket UE-100177 are PSE, UTC Staff, Public Counsel, the NW Energy Coalition, and the Industrial Customers of Northwest Utilities. The Agreement now before the Commission in Docket UE-100177 is intended to replace the 2002 Conservation Stipulation as to electric conservation. The participants in the UE-100177 negotiations recognized the need to avoid disturbing the natural gas provisions in the 2002 Conservation Stipulation. For that reason, the Agreement modifies the electric Conservation Stipulation

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<sup>23</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-100177, [Notice of Status Conference](#) (July 23, 2010).

<sup>24</sup> Not all members of the Puget Sound Energy CRAG formally intervened in this docket (UE-100177). However, all CRAG members were invited to participate in the process referred to and NWIGU and Energy Project did so. NWIGU and Energy Project were also signatories to the original 2002 Conservation Stipulation, as were all the parties to UE-100177. Microsoft, also a signatory to the 2002 Conservation Stipulation, and the Northwest Energy Efficiency Council, a CRAG member but not a signatory, attended one of the negotiation sessions.

in Docket UE-011570 as it relates to electric conservation, but does not modify the Conservation Stipulation as it relates to natural gas conservation in Docket UG-011571. As stated in the first section of the Agreement, the Conservation Stipulation in UG-011571 remains in full force and effect with respect to natural gas issues. The Northwest Industrial Gas Users and the Energy Project have given permission to the parties in Docket UE-100177 to represent that they do not object to the Agreement.

**A. Elements of the 2002 Conservation Stipulation that are Carried Forward in the Agreement.**

17           **Duration and Future Review.** The 2002 Conservation Stipulation established a conservation program without a sunset date. The Agreement continues that model, while preserving all parties' right to request modifications and to comment on PSE's future filings.<sup>25</sup>

18           **Establishment of a Formal Advisory Committee.** The Agreement preserves the Conservation Resources Advisory Group (CRAG) created by the 2002 Conservation Stipulation.<sup>26</sup> As described in Section K (provision 20) of the Agreement, the Agreement updates the role of the CRAG under RCW Chapter 19.285.

19           **Cost Recovery and Allocation.** In Docket UE-970686, the Commission authorized PSE to implement an electric tariff rider for recovery of electricity conservation expenditures, and imposed reporting requirements.<sup>27</sup> The Agreement continues that practice and also provides for a CRAG review of cost allocation.

20           **Conservation Report Card.** The 2002 Conservation Stipulation required PSE to

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<sup>25</sup> The Agreement also provides for continuation of a PSE conservation program in the event that I-937 conservation targets are repealed.

<sup>26</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), Twelfth Supp. Order (June 20, 2002), [Settlement Stipulation Ex. F](#) Part D.

<sup>27</sup> *In re Puget Sound Energy*, Docket UE-970686, [Order](#) (May 16, 1997), [Second Supp. Order](#) (Mar. 29, 2000).



send a Conservation Report Card to its customers regarding its performance in meeting conservation targets. The Agreement continues that practice. The 2002 Conservation Stipulation penalties are superseded by the RCW 19.285 penalties. However, PSE agrees to reinstate a penalty provision in the event statutory penalties are repealed. PSE may also propose an incentive program at that time.

**B. Elements of the 2002 Conservation Stipulation that are Eliminated**

21 The Agreement deletes some elements of the 2002 Conservation Stipulation as obsolete because they concerned activities that were to occur before 2010. The Agreement deletes other elements of the 2002 Conservation Stipulation because they have been superseded by the enactment of RCW Chapter 19.285.

22 As noted above, Part M of the 2002 Conservation Stipulation established a penalty mechanism if PSE failed to meet conservation targets. The parties agree that the prior penalty mechanism should now be eliminated because RCW Chapter 19.285 establishes a different penalty mechanism.<sup>28</sup> With respect to natural gas, the penalty mechanism in Part M of the 2002 Conservation Stipulation will remain in effect.

23 With respect to electricity, the methodology for calculating conservation avoided cost that was established in Part F of the 2002 Conservation Stipulation has been replaced in the Agreement to reflect PSE’s agreement to rely on a calculation of avoided costs consistent with the Council<sup>29</sup> methodology and with the Energy Independence Act. With

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<sup>28</sup> [RCW 19.285.060\(1\)](#). In the event of repeal of the conservation targets requirement in I-937, the Agreement states that PSE will work with the CRAG to propose a new penalty mechanism and may also propose incentives.

<sup>29</sup> The “Pacific Northwest electric power and conservation planning council” (“Council”) is a regional multistate agency established under the Northwest Power Act, [16 U.S.C. §§ 839 – 839h](#). The Council prepares and adopts “a regional conservation and electric power plan” for the Pacific Northwest region south of Canada every five years. The Council adopted the Sixth Northwest Power Plan in February 2010. See [75 Fed. Reg. 23823](#) (May 4, 2010) (notice of adoption).

respect to natural gas, the avoided cost methodology in the 2002 Conservation Stipulation will remain in effect.

**C. Conditions for Approval of PSE’s Ten-Year Achievable Conservation Potential and Biennial Conservation Target**

24 As part of the Agreement, the parties have negotiated conditions for approval of Puget Sound Energy’s ten-year achievable conservation potential and biennial conservation target that are similar to those that the Commission has already adopted for Avista and PacifiCorp.<sup>30</sup> The parties’ statements in support of the Agreement including those conditions are described below.

**IV. STATEMENTS OF PARTIES’ VIEWS ABOUT WHY THE PROPOSED CONDITIONS SATISFY THEIR INTERESTS AND THE PUBLIC INTREST**

**A. Puget Sound Energy.**

25 PSE appreciates the hard work that stakeholders have contributed towards reaching a Settlement Agreement ("Agreement") that incorporates provisions of PSE's existing Conservation Settlement Stipulation, which was entered into by PSE and several parties in Dockets UE-011570 and UG-011571 (hereafter "2002 Settlement Stipulation"), as well as new conditions relating to the Energy Independence Act. PSE supports the Agreement as in the public interest. PSE requests the Commission approve the Agreement.

PSE's 2002 Settlement Terms For Conservation

26 Since 2002, PSE's electric and natural gas conservation programs have been governed by the 2002 Settlement Stipulation, which has served as a very useful framework for PSE's electric and natural gas conservation program. The Energy Independence Act has rendered some of the terms of the 2002 Settlement Stipulation obsolete as relates to electric

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<sup>30</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) ¶¶ 57-67 (May 13, 2010); *In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) ¶¶ 52-62 (July 29, 2010).

conservation. However, many of the terms of the 2002 Settlement Stipulation are not affected by the Energy Independence Act, and it was important to PSE to incorporate into one document the surviving terms of the 2002 Settlement Stipulation for electric conservation, and the conditions suggested by Commission Staff and other parties, and negotiated by the parties, in Docket UE-100177. Although it has taken some time to meld these documents into one single new settlement agreement for electric conservation, the effort has been worthwhile and should provide clarity on matters relating to electric conservation going forward. PSE's natural gas conservation program will continue to be governed by the 2002 Settlement Stipulation. PSE and the other stakeholders may, at a later date, attempt to merge the natural gas terms from the 2002 Settlement Stipulation and the electric conservation terms from the Agreement in this docket, but there was inadequate time to complete that task in the prescribed timeline for settlement in this docket.

27           Given that the Energy Independence Act has modified and superseded certain terms of PSE's 2002 Settlement Stipulation as relates to electric conservation, it will be necessary for the parties to seek amendment of the Commission order approving the Settlement Stipulation in Docket UE-011570. The parties intend to file such a motion within the next few weeks, asking the Commission to amend its order approving the settlement stipulation for electric conservation, and to order that the Agreement in this docket replaces the 2002 Settlement Stipulation as to PSE's electric conservation program.

PSE's Revised Report

28           Pursuant to the Commission's order on summary determination in this docket, PSE filed its Revised Report identifying its ten year conservation potential and biennial target. In its Revised Report, PSE demonstrated that its ten-year achievable conservation potential and

biennial conservation target were consistent with the Council's methodology. PSE appreciates the parties' support of PSE's Revised Report. No party objected to the Revised Report, the materials and methodology supporting the Revised Report, or the biennial target and conservation potential contained therein. PSE's Revised Report meets the requirements of WAC 480-109-010(3) and the Energy Independence Act.

Notable Conditions For PSE

29           The Settlement Agreement highlights the fact that the biennial conservation targets and ten-year achievable conservation potential need to be developed and considered within the provisions of both RCW 19.285 and WAC 480-109. The WAC provisions provide additional detail, supplementing the statute, and it is important to interpret PSE's responsibilities under the language of both the Commission's adopted rules as well as the Energy Independence Act. For example, WAC 480-109-010(1)(b)(i) allows PSE to alter the conservation council's methodologies to better fit the attributes and characteristics of its service territory, provided that PSE provides full documentation on the rationale for any modification.

30           PSE supports condition (6)(g) which allows for a one-time independent third-party evaluation of portfolio-level electric conservation savings. This condition automatically terminates after the final report is submitted. While PSE is concerned that this one-time event will add significant extra costs to the 2010-2011 biennium, and that these costs will need to be recovered in 2011, 2012 and possibly in 2013, PSE is hopeful that these significant costs will result in a meaningful report.

31           PSE supports condition (11)(c), which allows the CRAG members to review the conservation cost allocation methodology. PSE understands that some individual members

of the CRAG want to examine the conservation cost allocation methodology. Accordingly, PSE has recently provided each individual member of the CRAG an electronic copy of the electric Schedule 120 rate design workpapers, so individual CRAG members are now equipped to propose conservation cost allocation methodologies if they so desire. The review of the conservation cost allocation methodology will allow individual CRAG members to make new proposals on how the costs of conservation and associated costs are collected in the tariff rider.

32           One important aspect of this Settlement Agreement for PSE was the exclusion from the Settlement Agreement of references to WAC 197-37-070(6)(a), a Department of Commerce rule. That rule was not implemented nor accepted by the Commission; it was not intended to apply to investor-owned utilities in this state, and therefore that rule should not apply in any way to PSE or any other investor-owned utility. Moreover, it may not necessarily be an accurate summary of the Council's methodology over the course of time. Although the Commission has cited this rule in previous orders as useful, the Commission has also recognized that WAC 197-37-070(6)(a) does not bind the Commission or investor-owned utilities.

33           In condition (8), PSE has agreed to file certain documents in 2011, for the 2012 biennium, on a date prior to the date prescribed by the WAC for such filings. For example, PSE has agreed to file a report identifying its ten-year achievable potential and its biennial conservation target by November 1, 2011, even though the WAC allows a utility to file this report anytime on or before January 31, 2012. PSE's agreement to these expedited deadlines for the 2012 biennium in the Agreement is without prejudice to PSE's right to file reports for future biennium pursuant to the deadline contained in the relevant WAC and statutes.

**B. Washington Utilities and Transportation Commission Staff.**

34 Beginning in June 2012, investor-owned utilities must report to the Commission and the Washington Department of Commerce their progress in meeting their conservation targets under RCW Chapter 19.285.<sup>31</sup> A utility that fails to meet a biennial conservation target is subject to an administrative penalty.<sup>32</sup> The Commission is responsible for determining investor-owned utilities' compliance with RCW Chapter 19.285 and for assessing penalties for noncompliance.<sup>33</sup> Staff recommends approval of the Agreement because it contains conditions that will assist the Commission in carrying out that responsibility with respect to PSE.

35 The Commission has reviewed the conservation targets of Washington's two other investor-owned electric utilities, Avista and PacifiCorp. The Commission approved Avista's ten-year potential and biennial target, subject to conditions, on May 13, 2010.<sup>34</sup> The Commission approved PacifiCorp's ten-year potential and biennial target, subject to conditions, on July 29, 2010.<sup>35</sup> The Avista and PacifiCorp approvals were handled as action items on the Commission's Open Meeting agenda rather than through an adjudicative proceeding. The parties to this docket referred to the conditions in the Avista and PacifiCorp orders when developing the conditions in the Agreement.

36 **Section E—Avoided Cost Calculation.** The 2002 Conservation Stipulation established a methodology or process for determining cost-effectiveness that is not necessarily consistent with RCW Chapter 19.285. Staff believes the methodology for

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<sup>31</sup> [RCW 19.285.070\(1\), \(2\)](#).

<sup>32</sup> [RCW 19.285.060\(1\)](#).

<sup>33</sup> [RCW 19.285.060\(6\)](#); *see* [WAC 480-109-050](#).

<sup>34</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) (May 13, 2010).

<sup>35</sup> *See In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) (July 29, 2010).

calculating electric conservation avoided cost in Section F of the 2002 Conservation Stipulation has been superseded by RCW 19.285.040(1), which requires Puget Sound Energy to use “methodologies consistent with those used by the [Council]” to identify achievable cost-effective conservation. The Council’s methodology for determining achievable conservation potential includes avoided cost elements.<sup>36</sup> Section E of the Agreement replaces the avoided cost methodology in Section F of the Conservation Stipulation with an agreement that PSE shall rely on a methodology consistent with the Council’s.

37           **Section K Condition (2)—Company Retains Responsibility.** Under RCW 19.285.040(1)(a), electric utilities must use “methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council in its most recently published regional power plan” when the utilities identify achievable cost-effective conservation potential. Condition (2) recognizes Puget Sound Energy’s statutory obligation to use methodologies consistent with those of the Council. An outline of the major elements of the Council’s methodology is available on the Council’s website and is attached hereto as Staff Attachment A.<sup>37</sup> With the assistance of Council staff, the Washington Department of Commerce adopted rules to guide consumer-owned utilities, one of which outlines the methodology that the Council uses in its conservation planning.”<sup>38</sup> The Commission has set out the text of that rule, WAC 194-37-070(6), in its orders in Dockets UE-100176 and

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<sup>36</sup> An outline of major elements of the Council’s methodology is attached hereto as UTC Staff Attachment A. It is also available on the Council’s website at [http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology\\_outline%202\\_2\\_.pdf](http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%202_2_.pdf). See also [WAC 194-37-070\(6\)](http://www.wa.gov/energy/194-37-070(6)).

<sup>37</sup> The outline is available at [http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology\\_outline%202\\_2\\_.pdf](http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%202_2_.pdf).

<sup>38</sup> See Attachment A to “[Commission Staff Response to Puget Sound Energy’s Motion for Summary Determination](#),” filed April 19, 2010 in Docket UE-100177; [WAC 194-37-070](http://www.wa.gov/energy/194-37-070).

UE-100170 for Avista and PacifiCorp.<sup>39</sup> Staff recommends that the Commission do the same in its order approving Puget Sound Energy’s ten-year achievable conservation potential and biennial conservation target.

38           **Section K Condition (3)—Advisory Group.** The Commission’s rules recognize that “Participation by the commission staff and the public in the development of the ten-year conservation potential and the two-year conservation target is essential.”<sup>40</sup> Condition (3) establishes the roles of Puget Sound Energy’s advisory groups in the Company’s implementation of the conservation elements of Initiative 937.

39           **Section K Condition (4)—Annual Budgets and Energy Savings, and Condition (5)—Program Details.** Conditions (4) and (5) require Puget Sound Energy to file details about budgets and conservation programs with the Commission. The Commission is responsible for determining compliance with RCW Chapter 19.285, and Conditions (4) and (5) are designed to assist Staff in doing its job.<sup>41</sup>

40           **Section K Condition (6)—Approved Strategies for Selecting and Evaluating Energy Conservation Savings.** When it approved the Conservation Stipulation in 2002, the Commission stressed that “the evaluation of the Company’s conservation programs for actual performance ( . . . ) is a very important measure of the Company’s conservation efforts.”<sup>42</sup> That has become even more important now that the Commission is responsible

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<sup>39</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) ¶ 10 (May 13, 2010); *In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) ¶ 10 (July 29, 2010).

<sup>40</sup> [WAC 480-109-010\(3\)\(a\)](#).

<sup>41</sup> *See Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-100177, [Staff Comments](#) Evaluating Electric Utility Conservation Reports Under the Energy Independence Act, RCW 19.285 (I-937) at 3 (March 5, 2010); [RCW 19.285.060\(6\)](#).

<sup>42</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), [Twelfth Supp. Order](#) ¶ 37 (June 20, 2002).



for determining investor-owned utilities' compliance with RCW Chapter 19.285.<sup>43</sup> Condition (6) establishes criteria for evaluating the performance of PSE's electricity conservation programs. They are consistent with the criteria that the Commission has approved for Avista and PacifiCorp.<sup>44</sup>

41           Conditions (6)(b) and (c) refer to conservation estimates of the Council's Regional Technical Forum. The Council established the Regional Technical Forum as an advisory committee to develop standards to verify and evaluate conservation savings, and to track the Pacific Northwest region's progress toward meeting the conservation goals of the Council's regional power plans.<sup>45</sup> Because RCW 19.285.040(1) requires utilities to use methodologies consistent with those of the Council for identifying conservation potential, it is appropriate that utilities and regulators start with methodologies consistent with those of the Council for evaluating conservation achievement.

42           Condition (6)(g) provides for a one-time, independent third-party evaluation of portfolio-level electric energy savings reported by PSE for the 2010-2011 biennial period. At the end of that period, the Commission must determine whether PSE met its biennial conservation target.<sup>46</sup> Staff believes that a review by an independent, neutral third party will assist the Commission in making that determination, and may help the parties avoid conflict and litigation in 2012.

43           **Section K Condition (7)—Program Design Principles.** In general, Condition (7) retains provisions in the Program Design Principles section of the 2002 Conservation

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<sup>43</sup> [RCW 19.285.060\(6\)](#).

<sup>44</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) ¶ 62 (May 13, 2010); *In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) ¶ 57 (July 29, 2010).

<sup>45</sup> See [16 U.S.C. § 839b\(c\)\(12\)](#). The [charter](#) of the Regional Technical Forum is posted on the Council's website, <http://www.nwcouncil.org/energy/rtf/charter.htm>.

<sup>46</sup> [RCW 19.285.060\(6\)](#); [RCW 19.285.070](#); [WAC 480-109-040\(2\)\(c\)](#); see [RCW 19.285.040\(1\)\(b\)](#).

Stipulation, updated to conform to RCW Chapter 19.285.<sup>47</sup> As described in the comments that Staff submitted in this docket on March 5, 2010, Staff believes it is in the public interest to retain those elements of the 2002 Conservation Stipulation that are consistent with RCW Chapter 19.285.<sup>48</sup>

44           **Section K Condition (8)—Required Reports and Filings.** Initiative 937 and the Commission’s implementing rules impose reporting requirements on investor-owned utilities.<sup>49</sup> As described in the comments that Staff submitted in this docket on March 5, 2010, Staff believes utilities should undertake a coordinated and methodical planning effort to meet the statutory deadlines.<sup>50</sup> Condition (8) lays out a schedule of reports and information sharing to facilitate such coordinated planning and to assist Staff. Condition (8) also implements the suggestions in Paragraphs 104 and 138 of the Commission’s Order 04 in this docket. The information required in Condition (8) will assist the Commission in determining PSE’s compliance with RCW Chapter 19.285.

45           **Section K Condition (9)—Required Public Involvement in Preparation for the 2012-2013 Biennium.** The Commission has stated that “Participation by the commission staff and the public in the development of the ten-year conservation potential and the two-year conservation target is essential.”<sup>51</sup> Condition (9) establishes a plan for how Puget Sound Energy shall ensure that participation in 2011.

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<sup>47</sup> *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), Twelfth Supp. Order (June 20, 2002), [Settlement Stipulation Ex. F](#) Part H.

<sup>48</sup> *See Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-100177, [Staff Comments](#) Evaluating Electric Utility Conservation Reports Under the Energy Independence Act, RCW 19.285 (I-937) at 4 (March 5, 2010).

<sup>49</sup> [RCW 19.285.070](#); [WAC 480-109-010\(3\)](#); [WAC 480-109-040](#).

<sup>50</sup> *See Wash. Utils. & Transp. Comm’n v. Puget Sound Energy*, Docket UE-100177, [Staff Comments](#) Evaluating Electric Utility Conservation Reports Under the Energy Independence Act, RCW 19.285 (I-937) at 2 (March 5, 2010).

<sup>51</sup> [WAC 480-109-010\(3\)\(a\)](#).

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**Section K Condition (10)—Cost-Effectiveness Test is the Total Resource Cost (TRC) Test.** Under RCW 19.285.040(1), Puget Sound Energy must “pursue all available conservation that is cost-effective, reliable, and feasible.” To identify its “achievable cost-effective conservation potential,” PSE must use “methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council.”<sup>52</sup> Condition (10) recognizes the statutory obligation and describes how cost-effectiveness will be tested. The Commission is responsible for determining compliance with the statute,<sup>53</sup> and the information required in Condition (10) will help the Commission to do that.

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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.”<sup>54</sup> In Docket UE-920630, the Commission determined, for Puget Sound Energy’s predecessor, that “the cost effectiveness of [electric] conservation programs should be calculated on a total resource cost basis.”<sup>55</sup> Condition (10) continues and updates that practice by recognizing that the cost-effectiveness test to be used is now the total resource cost test as modified by the Council. Condition (10) contains the same cost-effectiveness standard that the Commission has already approved for Avista and PacifiCorp.<sup>56</sup>

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**Section K Condition (11)—Recovery Through an Electric Tariff Rider.** In Docket UE-970686, the Commission authorized Puget Sound Energy to implement an

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<sup>52</sup> [RCW 19.285.040\(1\)\(a\)](#). The Washington Department of Commerce has adopted rules to guide consumer-owned utilities’ compliance with Initiative 937. One of them, [WAC 194-37-070\(6\)](#), outlines the Council’s methodology.

<sup>53</sup> [RCW 19.285.060\(6\)](#).

<sup>54</sup> [RCW 19.285.040\(1\)\(d\)](#).

<sup>55</sup> *Wash. Utils & Transp. Comm’n v. Puget Sound Power & Light Co.*, Docket UE-920630, [First Supplemental Order](#) at 12 (Sept. 24, 1992).

<sup>56</sup> *In re Avista Corp.*, Docket UE-100176, [Order 01](#) ¶ 66 (May 13, 2010); *In re Pacific Power & Light Co.*, Docket UE-100170, [Order 02](#) ¶ 61 (July 29, 2010).

electric tariff rider for recovery of electricity conservation expenditures, and imposed reporting requirements.<sup>57</sup> Condition (11) continues that practice. Condition (11) also provides for a review of PSE's method of assigning costs and preserves the Commission's ability to modify it.

49 Condition (11)(b) provides that rider funds may be used as approved by the Commission. The Commission has approved use of the funds for net metering administration costs.<sup>58</sup> The Commission has also allowed use of the funds for small-scale renewable programs,<sup>59</sup> and demand response pilots.<sup>60</sup>

### **C. Public Counsel**

50 Public Counsel supports the Agreement because it adequately preserves essential components of the 2002 Conservation Stipulation and updates this longstanding successful framework to address the additional requirements of the Energy Independence Act (I-937). Additionally, since 2002, PSE's electric conservation programs have undergone considerable change. The Agreement updates the 2002 Conservation Stipulation to better address the increased complexity, size, and scope of PSE's programs.

#### **1. The 2002 Conservation Stipulation Has Been Preserved and Updated**

##### **a. The Significance of the 2002 Conservation Stipulation**

51 The 2002 Conservation Stipulation agreement was a landmark agreement in that it was the first agreement to establish a comprehensive framework and roadmap to prioritize

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<sup>57</sup> *In re Puget Sound Energy*, Docket UE-970686, [Order](#) (May 16, 1997), [Second Supp. Order](#) (Mar. 29, 2000).

<sup>58</sup> *In re Puget Sound Energy*, [Order](#), Docket UE-990016 (Feb. 10, 1999).

<sup>59</sup> Small-scale renewable programs were allowed via the [Schedule 248](#) tariff filing in Docket UE-071646, which was allowed to go into effect on September 12, 2007.

<sup>60</sup> Demand response pilots were allowed via the Schedule 249A tariff filing in [Docket UE-071106](#), which was allowed to go into effect on July 11, 2007.

cost-effective investments in conservation for a Washington investor-owned utility (IOU).<sup>61</sup> The 2002 Conservation Stipulation has proven to be effective, as PSE has successfully implemented conservation programs that have increased the conservation savings achieved by the Company over the past eight years. Since the time of the 2002 Conservation Stipulation, PSE has become the leader among Washington utilities in the design and implementation of conservation programs. In general, Public Counsel has found that PSE's conservation programs are well-run, executed in a professional manner, and have operated in accordance with the requirements of the 2002 Conservation Stipulation.

**b. The Conservation Stipulation in 2010**

52 Because PSE is the only Washington IOU with such a well-developed, clearly outlined, and longstanding framework for its conservation programs, the process of developing conditions related to I-937 was different for PSE than it was for the other investor-owned electric utilities. While there have been changes in the law, in conservation practices, and in social expectations for conservation since 2002, it was important to Public Counsel that the core elements of the original stipulation were retained in the process of developing conditions related to I-937.

53 The framework of the 2002 Conservation Stipulation provided a useful starting point for conditions that will help the Commission and stakeholders in their oversight of PSE's compliance with I-937 conservation achievement requirements. Combining and, in some places, updating the components of the 2002 Conservation Stipulation with conditions similar to what was approved for Avista and PacifiCorp was a complicated exercise.

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<sup>61</sup> In 2002, Liz Klumpp provided testimony on behalf of Public Counsel in support of the Conservation Stipulation, in which she stated, "Stakeholders want to empower the Company to prioritize cost-effective investments in energy efficiency." See [Direct Testimony of Elizabeth Klumpp](#), Docket Nos. UE-011570 and UG-011571, p. 3.

Through an intensive collaborative process, however, parties and members of the CRAG were able to agree on a unitary document that seeks to: (1) avoid confusion in the future by updating the components of the 2002 Conservation Stipulation that have been superseded by the new requirements and conditions associated with I-937;<sup>62</sup> and (2) expressly retain components of the 2002 Conservation Stipulation that are agreed to continue in effect.

54           Public Counsel believes that this was the best approach in that it created a conditions list similar to what was approved for the other IOUs (Section K of the Agreement), thereby allowing some consistency between the companies. At the same time, this approach recognized the unique achievements of the 2002 Conservation Stipulation and maintained important elements that Public Counsel did not want to see lost in the process of adopting I-937 related conditions. Public Counsel is pleased that this Agreement thus preserves PSE's ongoing commitment to maintain an electric conservation program, and that the commitment remains intact even if statutory conservation targets were to be repealed.

## **2. The I-937 Related Conditions Provide Additional Guidance**

55           As conservation programs and their significance expand, and the related cost burden borne by ratepayers grows, it has become increasingly important for the Commission and stakeholders, including Public Counsel, to have confidence that utility conservation programs are cost-effective and well-designed. The conditions included in Section K of the Agreement will allow the Commission and stakeholders to conduct a more thorough review of elements of the conservation programs, and also update the 2002 Conservation Stipulation with more detailed information regarding current practices. The Agreement also outlines in detail timelines and procedures for the programs, which have become increasingly complex, costly,

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<sup>62</sup> Outdated portions of the 2002 Conservation Stipulation have been removed as well, for example, items that set deadlines that have now passed.

and detailed over the past eight years.

56 In particular, several items included in the conditions in Section K of the Agreement address items that Public Counsel noted in filed comments in the Staff Investigation of PSE Electric and Natural Gas Conservation Programs and PSE's Schedule 120 tariff filing in March 2010.<sup>63</sup> These include:

- Paragraph 4, which requires the Company to provide a summary of its proposed budget, as well as spreadsheets with detail for programs and line items in the summary sheet. The budgetary information will include details of planned expenses and the associated projected energy savings of each.
- Paragraph 3(a)(i), which lays out a framework for developing a written framework for EM&V as implemented by PSE as well as modification of existing or development of new EM&V conservation protocols based on PSE's current approach.
- Paragraph 7(d), which reaffirms that behavior change services (aka information only programs) will not be assigned any quantifiable energy savings value without full support of the CRAG.

57 An additional component of the conditions section important to Public Counsel is the review of the current cost allocation methodology associated with the Electric Schedule 120 rates (Section 11(c)). The current cost allocation methodology was initially adopted in 1997 and was then incorporated in the 2002 Conservation Stipulation. However, because considerable changes have occurred in programs and budgets since 1997, Public Counsel believes it is important that stakeholders and the Commission take a closer look at how these

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<sup>63</sup> [Public Counsel Comments](#), March 19, 2010, Docket Nos. UE-100382, UG-100383, and U-091954.

costs and benefits are distributed among ratepayers. This review will be done through the CRAG. In this Agreement stakeholders have reserved the right to propose changes to the Commission regarding the cost allocation methodology if they believe that the current methodology is not adequate or unfairly burdens one class of customers.

### **3. Public Counsel Conclusion**

58 Overall, Public Counsel is pleased with how key elements of the 2002 Conservation Stipulation and framework were retained and updated through this process. Public Counsel compliments the stakeholders for taking on this complicated task in a limited period of time in a collaborative and productive manner. Public Counsel offers its full support for and recommends that the Commission approve the Agreement.

#### **D. NW Energy Coalition**

59 The NW Energy Coalition (“Coalition”) supports the Agreement submitted in this Docket and believes it is in the public interest when viewed as a complete package. The Coalition actively participated in the negotiations resulting in this Agreement.

60 The provisions in this Agreement have their basis in Exhibit F of the settlement agreement in PSE’s 2001/2002 general rate case, Docket Nos. UE-011570 and UG-011571, which resolved issues related to conservation. The Coalition was a party to that settlement. This Agreement modifies those provisions as needed to be current and to be consistent with the conservation standard in Initiative 937 (RCW 19.285). This Agreement also contains a set of conditions in section K, most of which are similar or identical to provisions contained within the I-937 conditions lists approved by the Commission for Avista (Docket No. UE-100176) and PacifiCorp (Docket No. UE-100170). Many of those conditions also originated at least conceptually in the 2001/2002 settlement agreement.



61           The Coalition does not intend to comment on each provision in the Agreement, but we have highlighted a few specific points.

62           First, we support provision 4 stating PSE's conservation program has no sunset date. In the unlikely event that the conservation standard in I-937 is significantly modified or repealed, we would expect PSE's conservation programs to remain active and strong and in the best interests of PSE's customers.

63           We support inclusion of language (contained in several provisions) reaffirming the statute's requirement that utilities shall use methodologies consistent with those used by the Northwest Power and Conservation Council when identifying achievable cost-effective conservation potential. That language was included in the law to help ensure consistency among the state's qualifying utilities in assessing their conservation potential. An outline of the major elements of the Council's methodology is outlined on its website, as referenced in the Agreement and included as an Attachment to Staff's statement.

64           Similarly, we support the language in provision 20(7)(c) that reflects the statute's requirement for qualifying utilities to achieve all available conservation that is cost-effective, reliable, and feasible. To help ensure that mandate is met, the Agreement states that incentive levels and implementation methods should not unnecessarily limit the acquisition of such conservation.

65           Evaluation, measurement and verification (EM&V) of PSE's conservation programs are a key aspect of this Agreement. As more emphasis is placed on utility delivery of energy efficiency and as conservation budgets increase, EM&V becomes even more critical to ensure savings are being achieved, ratepayer funds are being spent wisely, and the mandate for pursuit of all cost-effective conservation is being met. We believe evaluation

extends to all aspects of the conservation program, including cost allocation. Thus we are particularly interested in the CRAG's review of cost allocation methodology that will occur prior to PSE's electric Schedule 120 filing in 2011. The existing cost allocation methodology (i.e., the peak credit method) was approved by the Commission in 1997 (Docket UE-970686), but to the best of our knowledge has not been formally reviewed since that time, even though significant changes have occurred in the electric industry. The same methodology was adopted in the 2002 settlement agreement in Docket UE-011570. The 2002 settlement also included an exception to that cost allocation methodology for Schedule 449 customers, which has been carried forward into this Agreement. We expect the CRAG also will review that cost allocation method prior to the next Schedule 120 filing.

66 Finally, the Agreement appropriately reflects the current state of funding for PSE's low-income energy conservation programs, as well as related commitments made by the Company since the 2002 settlement agreement.

#### **E. Industrial Customers of Northwest Utilities**

67 ICNU's intent is to revise the 2002 Stipulation to the extent required by the conservation and energy efficiency provisions of the Energy Independence Act while preserving the remaining provisions of the 2002 Stipulation. To this end, the Revised Stipulation appropriately preserves and carries forward, among other provisions in the 2002 Stipulation, Section F, paragraphs 12 and 13, Section H, paragraph 15 and 16, and Section K, paragraph 11(c) which address cost allocation and cost recovery for Schedule 449 and other customers.

#### **V. PARTIES' RECOMMENDATIONS FOR ADDRESSING OTHER RELATED DOCKETS.**

68 Five prior Commission dockets are potentially affected by or related to the parties'

proposals for resolving Docket UE-100177:

Dockets UE-011570/UG-011571 (consolidated)

Docket UE-970686

Docket UG-950288

Docket U-072375

69           **Dockets UE-011570/UG-011571:** As described above, the Agreement is intended to replace the 2002 Conservation Stipulation that the Commission approved in Dockets UE-011570/UG-011571 with respect to electric conservation.<sup>64</sup> Some of the signatories to the 2002 Conservation Stipulation are not parties in Docket UE-100177.<sup>65</sup> A copy of the Agreement and Joint Narrative was provided to all 2002 Conservation Stipulation parties at the time of this filing. Within 10 business days, the parties in Docket UE-100177 intend to file a motion in Docket UE-011570, with notice to all signatories of the 2002 Conservation Stipulation, advising them of the proposed revision of the 2002 Conservation Stipulation, to amend the Commission's Twelfth Supplemental Order in UE-011570 to make it consistent with the Agreement in this docket. In addition, the Agreement contains some minor procedural provisions that may warrant updates to the 2002 Conservation Stipulation (as to gas) in Docket UG-011571. The parties will consult with affected parties in that docket and consider whether to file a motion in Docket UG-011571 to amend the Twelfth Supplemental Order with respect to the gas provisions of the 2002 Conservation Stipulation to reflect these procedural changes.

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<sup>64</sup> *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket Nos. UE-011570/UG-011571 (consolidated), [Twelfth Supp. Order](#) (June 20, 2002), [Settlement Stipulation Ex. F](#).

<sup>65</sup> Parties to the 2002 Conservation Stipulation who did not participate in the UE-100177 negotiations were Microsoft, Seattle Steam, Natural Resources Defense Council, Multi-Service Center and Opportunity Council. These parties have either received notice of negotiations or counsel have provided informal courtesies notice in advance of this filing.

70           **Docket UE-970686.** In Docket UE-970686, the Commission authorized PSE to implement an electric tariff rider for recovery of electricity conservation expenditures, and imposed reporting requirements.<sup>66</sup> Condition (11) in Section K of the Agreement continues that practice, but Condition (8)(d) would change the proposed effective date of the annual revisions to the tariff. Under Ordering Paragraph 4 of the Commission’s May 16, 1997 Order in Docket UE-970686, the requested effective date for annual revisions is April 1, while Condition (8)(d) in Section K of the Agreement would change it to May 1.<sup>67</sup> The parties expect to file a motion to modify the May 16, 1997 Order in Docket UE-970686 to make it consistent with the 2010 RCW 19.285 Agreement.

71           **Docket UG-950288.** By letter dated May 11, 1995 in Docket UG-950288, the Commission authorized PSE’s predecessor Washington Natural Gas to file an annual tracker to recover costs associated with natural gas conservation programs.<sup>68</sup> The letter provided that “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.” PSE customarily files annual revisions to the natural gas tracker together with the annual revisions to the electric tariff rider, as Schedule 120. The parties believe that the Agreement is consistent with the authorization in Docket UG-950288, and no changes in that docket are needed.

72           **Docket U-072375:** In Docket U-072375, the Commission approved and adopted a settlement stipulation that authorized Puget Holdings LLC to acquire Puget Energy, Inc.,

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<sup>66</sup> *In re Puget Sound Energy*, Docket UE-970686, [Order](#) (May 16, 1997), [Second Supp. Order](#) (Mar. 29, 2000).

<sup>67</sup> *In re Puget Sound Energy*, Docket UE-970686, [Order](#), Ordering ¶ 4 (May 16, 1997).

<sup>68</sup> *In re Washington Natural Gas Co.*, Docket No. UG-950288, [Letter](#) (May 11, 1995).

and its wholly-owned subsidiary Puget Sound Energy.<sup>69</sup> The Commission accepted 63 Transaction Commitments as part of its approval, with certain conditions.<sup>70</sup> Commitment 47 addresses energy efficiency improvements in distribution, transmission, and generation assets. Commitments 22 and 23 address low-income energy efficiency programs. The parties believe that the Agreement is consistent with those commitments, and that no changes in Docket U-072375 are needed.

## VI. CONCLUSION

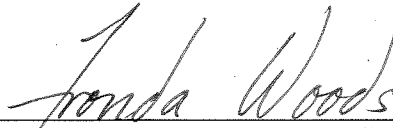
73 The 2010-2019 ten-year conservation potential and 2010-2011 biennial conservation target that PSE identified in its Revised Report are consistent with RCW Chapter 19.285, and should be approved subject to the Agreement and the conditions therein. The Agreement is consistent with RCW Chapter 19.285 and the public interest. It is appropriate for adoption. The Commission should approve the ten-year conservation potential and the biennial conservation target that PSE identified in its Revised Report, subject to the Agreement and the conditions therein.

DATED this 3<sup>rd</sup> day of September 2010.

Respectfully submitted,

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<sup>69</sup> *In re Puget Holdings LLC*, Docket U-072375, Order 08 Approving and Adopting Settlement Stipulation; Authorizing Transaction Subject to Conditions (Dec. 30, 2008).

<sup>70</sup> *In re Puget Holdings LLC*, Docket U-072375, Multiparty Settlement Stipulation (Dec. 30, 2008).

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## VI. CONCLUSION

73 The 2010-2019 ten-year conservation potential and 2010-2011 biennial conservation target that PSE identified in its Revised Report are consistent with RCW Chapter 19.285, and should be approved subject to the Agreement and the conditions therein. The Agreement is consistent with RCW Chapter 19.285 and the public interest. It is appropriate for adoption. The Commission should approve the ten-year conservation potential and the biennial conservation target that PSE identified in its Revised Report, subject to the Agreement and the conditions therein.

DATED this 3 day of September 2010.

Respectfully submitted,

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Attorney General of Washington

PERKINS COIE LLP

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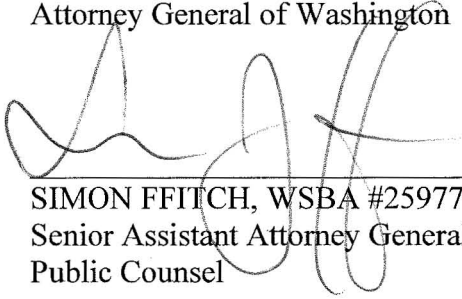
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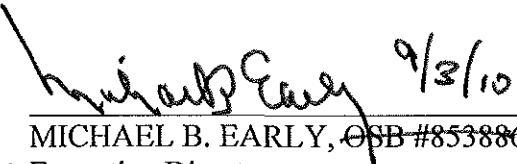
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 9/3/10  

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MICHAEL B. EARLY, OSB #853886  
As Executive Director

## UTC STAFF ATTACHMENT A

### **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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