COMMENTS SUMMARY

PURPA Rulemaking on Energy Independence And Security Act of 2007 (EISA)
Docket U-090222

Integrated Resource Planning.

EISA Section 532(a) (16) amends PURPA Section 111(d) to establish the following new Standard 16:

(16) INTEGRATED RESOURCE PLANNING—Each electric utility shall—
(A) integrate energy efficiency resources into utility, state and regional plans; and
(B) adopt policies establishing cost-effective energy efficiency as a priority resource.

Commission Questions	COMMENTS
PURPA 16(A)	The Commission received written comments addressing the Integrated Resource Planning (IRP) standard from Avista, PacifiCorp, Puget Sound Energy (PSE) and Public Counsel. The Commission did not request specific comments on PURPA Standard 16(A). Public Counsel indicated that they believe the Commission has already implemented the policies in PURPA Standard 16(A). Parker Holden of Olympia, Washington states that utility conservation in the generation, transmission and distribution systems has been neglected compared to the emphasis on customer conservation. He suggests several specific distribution service facilities and electric service configurations that may be more efficient than current equipment. No other commenters provided comments on PURPA Standard 16(A).
PURPA 16(B) Commission Questions	
1. Should the Commission, by rule, implement part B of PURPA Standard 16 establishing cost-effective energy efficiency as a priority resource?	Avista was the only entity to file comments in support of the adoption of PURPA Standard 16(B). PSE, PacifiCorp, and Public Counsel all oppose the adoption of energy efficiency as a priority resource. Avista states a priority resource should include the monetary cost of emission reduction or mitigation, the customer value of decreased portfolio volatility, and a valuation of reduced externality costs. PSE states the Commission should not adopt energy efficiency as a priority resource because the current IRP rule and the Commission's standard of review are sufficient. PacifiCorp argues that the current Commission's standards meet the priority resource definition and no change in policy is required. Public Counsel does not believe additional rulemaking is required and recommends against the adoption of energy efficiency as a priority resource.

Commission Questions	COMMENTS
2. What is a "priority resource"?	Avista provides a definition of energy efficiency as a "priority resource" that includes environmental externalities and the reduced portfolio volatility energy efficiency provides. Avista recognizes the difficulty in quantifying these unrecognized benefits and suggest that, if the values could not be calculated, the Commission could establish a deemed place holder value. Avista acknowledges that adding these two factors to the cost-effective test would be a change from the current cost-effectiveness tests. PacifiCorp interprets the term "priority resource" as a resource that is weighted equally to other resource choices. PSE interprets "priority resources" to mean energy efficiency programs that are part of the optimal mix of resources, balancing costs and risks. PSE states its definition includes the concept of cost effectiveness. Public Counsel agrees with the context stated by the Commission for its inquiry into the definition of energy efficiency as a priority resource. Public Counsel states a priority resource should be limited to the cost-effectiveness standard and any departure from that standard would result in rates that are not fair, just, and reasonable.
3. Does the term "priority resource" differ in affect from the requirement to pursue all cost-effective conservation? If so, how?	Avista states that not all public policy perspectives are currently incorporated in the cost-effectiveness test. The standard on energy efficiency is an opportunity to: (1) deem avoided cost adders to represent the value of difficult to quantify efficiency benefits, and (2) modify industry-standard cost-effectiveness calculations in such a ways as to lead to stacking of resources that best fit current public policy objectives. PacifiCorp believes that the meaning of cost-effective conservation and priority resources are congruent. Public Counsel distinguishes the two by citing to the lack of a priority resource definition in IRP rules.

Commission Question	COMMENTS
4. If establishing energy efficiency as a priority resource requires the acquisition of energy efficiency in aggregate that is above the cost effectiveness threshold, would its establishment as a priority resource conflict with any existing policy established in state law statute or regulation?	PSE opposes the adoption of the priority resource definition, suggesting the adoption may conflict with the cost-effective energy efficiency in RCW 19.285. PacifiCorp believes that any Commission requirement to acquire energy efficiency resources beyond the cost effectiveness or least cost threshold is a conflict with established policy. PacifiCorp cites WAC 480-100-238(1) and RCW 19.285.040(1). Public Counsel agrees that adopting a priority resource definition that does not meet cost-effectiveness standards would conflict with existing Commission policy. Avista on the other hand states that to the extent the definition of priority resources is representative of "legitimate resource cost and benefits," the designation of priority resources and cost-effective resources would be in full alignment.
5. If establishing energy efficiency as a priority resource does not mean pursuing additional energy efficiency above the cost effectiveness threshold, then how would it differ from current Commission regulation and policy?	PacifiCorp does not believe they differ. Avista considers the adoption of a rule as an opportunity to further define benefits to be incorporated into energy efficiency valuation. PSE states that current rule and law are sufficient. Public Counsel suggests that any definition of "priority resource" be tied to cost-effectiveness making it similar to the current definition and therefore requiring no additional action.

Rate design and modification to Promote Energy Efficiency Investments (electric)

EISA Section 532(a)(17) amends PURPA Section 111(d) to establish the following new Standard 17:

(17) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS.—
(A) IN GENERAL.—The rates allowed to be charged by any electric utility shall—
(i) align utility incentives with the delivery of cost-effective energy efficiency; and
(ii) promote energy efficiency investments.
(B) POLICY OPTIONS.—In complying with subparagraph (A), each State regulatory authority and each nonregulated utility shall consider—
(i) removing the throughput incentive and other regulatory and management disincentives to energy efficiency;
(ii) providing utility incentives for the successful management of energy efficiency programs;
(iii) including the impact on adoption of energy efficiency as 1 of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives;
(iv) adopting rate designs that encourage energy efficiency for each customer class;
(v) allowing timely recovery of energy efficiency- related costs; and
(vi) offering home energy audits, offering demand response programs, publicizing the financial and environmental benefits associated with making home energy efficiency improvements, and educating homeowners about all existing Federal and State incentives, including the availability of low-cost loans, that make energy efficiency improvements more affordable.''

Commission Questions	COMMENTS
PURPA 17	Avista, PacifiCorp, PSE and Public Counsel provided comments on the electric rate design standard. Public Counsel agrees with the Notice's review of the Commission's consideration of the rate design standard concluding that the Commission has considered both the general and specific policy options listed in parts A and B of PURPA Standard 17.

Commission Questions	COMMENTS
1. Are there modifications to current utility block electric rate designs that could promote conservation? How would such modifications be implemented in a rulemaking?	Avista states that current block rates provide appropriate price signals to customers using either electric heating or air-conditioning. PacifiCorp's comments do not support any change in block rates in this rulemaking but instead assert that rate structure changes should be done in a rate case where test period costs and loads can be reviewed. Public Counsel posits that a generalized rulemaking on rate design is not necessary or beneficial. Public Counsel explains that a generic rate block design would have different effects on different utilities and would have different effects in different regions of the state. Public Counsel states block rate design should be considered in the context of an individual utility rate case to ensure costs, benefits and impacts are properly considered. PSE allows that some modification of current utility block rates is possible to promote conservation but states that additional changes to block rates is an inferior way to promote conservation. Since higher tail block rates result in larger "net" revenue losses due to conservation, it would increase the disincentive for providing conservation. PSE asserts higher tail block rates would also make revenues more volatile. PSE concurs with PacifiCorp that modifications to utility block rate designs should only be made in a general rate case filing. PSE suggests that the Commission move away from block rates to promote conservation and instead proposes targeted programs and financial incentive mechanisms. PSE sets out seven separately discussed drawbacks for using block rates to promote conservation, summarized here: • Customers who use no more power than the first block rate have no increased incentive to conserve. • Block rates discriminate between customers in the same rate schedule so the justification for doing so must be on a cost basis only. Determining such a cost basis is very difficult. • Higher tail block rates work in opposition to the alignment of utility incentive to promote conservation because higher block rates result in greater lost revenues for the utility when the customer adopts conservation measures. • Increasing the tail block rate will make customers pay more during hot and cold spells and increase bill volatility. • Increased tail block rates increases the volatility of utility revenue possibly requiring an increased allowed return on equity that would result in an increase in costs to all customers. • The benefits of the increase in block rates hinge on the validity of the effect of price elasticity. Price elasticity is not yet understood well enough to support the use of increased tail block rates. • Other methods of promoting conservation that have a higher probability of working, such as targeted programs and financial incentive mechanisms, should be tried before attempting to adjust block rates.

Commission Questions	COMMENTS
2. What are the implications for utility conservation efforts if the incremental cost of power is higher than the cost of power embedded in rates? Under such circumstances, what, if any, incentives should be considered to encourage a utility to promote conservation between rate cases?	Avista states that if a utility's fixed costs are recovered through energy/volumetric charges, there is a financial disincentive to promote conservation unless the utility has a direct financial incentive to meet energy efficiency goals or a decoupling mechanism. PacifiCorp notes that, if retail rates are lower than the incremental cost of power, customers will get the wrong price signal and not pursue all cost-effective conservation. PacifiCorp suggests that, when setting energy charges, the cost of incremental energy should be considered. Public Counsel does not address the first part of the question but suggests that the bar for adopting any incentive mechanism is higher now than in past years. Public Counsel lists three factors for the higher bar: legal frameworks making acquisitions of energy efficiency mandatory, the need to meet customer demand and expectation, and the need to follow public policy trends. PSE states that regardless of the price relationship between the price of incremental power and embedded rates there is no effect on conservation because it should be implemented up to its cost effective limit.
3. If customers supply much of the investment in energy efficiency, even when they participate in and receive utility sponsored incentives, what additional incentive could be provided by the electric rate design?	Avista states that higher rates increase the cost-effectiveness of energy efficiency and that current block rates provide a price signal for customers. PacifiCorp states that electric rate designs with larger fixed charges and variable charges would send the right price signal to customers. PSE states that providing incentives through electric rate design is not appropriate. Public Counsel did not comment directly on this question.
4. Would an electric rate design with larger fixed charges reduce the customer incentive to conserve?	Avista states that larger fixed charges may reduce customers' incentive to conserve but only to the extent customers are knowledgeable about the rate structure. PacifiCorp states that larger fixed charges and variable charges would likely increase the customer's incentive to conserve. It would also reduce the utility's disincentive to promote energy efficiency with far less complexity than decoupling. Public Counsel believes allocating more costs to fixed charges reduces the price signal sent to ratepayers and therefore the incentive to conserve. PSE asserts that fixed charges might reduce the customer incentive to reduce consumption but argues that this may not lead to a decrease in cost-effective conservation depending on the underlying costs. PSE states that larger fixed costs would align utility incentives with the delivery of cost-effective energy efficiency. In addition, PSE states that such a rate design would help provide equitable rates for electric consumers in a simple and efficient method. PSE suggests language the Commission could use in any rule or conclusion of this inquiry supporting increases in the fixed charge.

Commission Questions	COMMENTS
5. To what extent will the penalties under Initiative 937 provide an incentive for utilities to achieve the energy efficiency goals established in Initiative 937?	Avista states that the avoidance of penalties under RCW 19.258 is an additional incentive for utilities to meet the requirements under that chapter. It notes, however, that the penalty is not an incentive to go beyond the cost-effective energy efficiency targets set out in RCW 19.258. PacifiCorp does not view the penalties as an incentive because the penalty is not an off ramp to compliance. PacifiCorp views the penalty level as the threshold where projects whose costs fall below the penalty are presumed to be prudent. Projects whose costs exceed the penalty would not automatically be deemed imprudent, rather the utility would have to make a stronger argument as to why the more expensive resource was necessary in order for the company to maintain its compliance with the law. PSE agrees that penalties under RCW 19.258 have the potential to be an incentive to meet energy efficiency goals. PSE adds the caveat that, if the penalties are recoverable in rates, then the penalties are essentially meaningless in terms of providing an incentive to the utility.

State Consideration of Smart Grid

Part A

(18) CONSIDERATION OF SMART GRID INVESTMENTS.—
(A) IN GENERAL.—Each State shall consider requiring that, prior to undertaking investments in nonadvanced grid technologies, an electric utility of the State demonstrate to the State that the electric utility considered an investment in a qualified smart grid system based on appropriate factors, including—
(i) total costs;
(ii) cost-effectiveness;
(iii) improved reliability;
(iv) security;
(v) system performance; and
(vi) societal benefit.

Commission Questions	COMMENTS
1. What constitutes a "qualified smart grid system?	Avista defines a qualified smart grid system as an "interrelated group of technologies and practices that enhance existing electrical systems, allowing for real time operational decisions making as well as optimization of system assets." PacifiCorp defines the minimum functions of a qualified smart grid system as having the four following functions: • The ability to develop, store, send and receive digital information concerning electricity use, costs, prices, time of use, or other relevant information to or from or by means of the electric utility system, through one or a combination of devices and technologies, • The ability to measure or monitor electricity use as a function of time of day, power quality characteristics such as voltage level, current, or cycles per second and report that information by digital means, • The ability to develop, store, send and receive digital information concerning electricity use, costs, prices, time of use, or other relevant information to or from a computer or other control device, • The ability to detect, prevent, communicate with regard to, respond to, or recover from system security threats, including cyber-security threats and terrorism, using digital information, media, and devices.

	PacifiCorp suggests the qualified system must be upgradeable to perform the following functions without significant changes to the existing infrastructure: • The ability to sense and localize disruptions or changes in power flows on the grid and communicate such information instantaneously and automatically for purposes of enabling automatic protective responses to sustain reliability and security of grid operations, • The ability of any appliance or machine to respond to such signals, measurements, or communications automatically or in a manner programmed by its owner or operator without independent human intervention, • The ability to use digital information to operate functionalities on the electric utility grid that were previously electro-mechanical or manual. • The ability to use digital controls to manage and modify electricity demand, enable congestion management, assist in voltage control, provide operating reserves, and provide frequency regulation. Public Counsel does not address this question directly. PSE offers the definition as "the application of digital technology to the infrastructure and communications networks of all three major components of the utility model: generation, transmission and distribution." PSE also provides a list of types and functions of smart grid systems. MicroPlanet Technologies Corp. (MicroPlanet) recommends the Commission take a flexible approach to the definition of smart grid that allows system components as well as entire smart grid systems to "qualify" and that allows the Commission to make the determination on case-by-case basis. MicroPlanet also provides six examples of its smart grid technologies and functions: • Energy conservation by dynamically managing incoming voltage. • Peak reduction through dynamically managing voltage to 114 volt (V). • Grid stability by using distributed regulation technology to maintain stable, optimum level of voltage. • Decrease system losses by minimizing the delivery voltage and saving on transformer core losses. • Flicker control by continuously regulating voltage with insulated gate bipolar transistors. • Low voltage mitigation • Phase balancing

Commission Question	COMMENTS
2. Are the technologies that constitute a "qualified smart grid system" commercially available? If so, how might adoption of today's smart grid technology affect adoption of future technology refinements?	Avista comments that qualification of smart grid system will most likely depend on the establishment of interoperability standards and whether the smart technology conforms to those standards. There is a risk that prior to or without interoperability standards some smart grid technology will become stranded. PacifiCorp states that "qualified smart grid systems" exist now but points out that without compatibility standards technologies adopted today could become technically obsolete. PSE observes that on a stand-alone basis the components exist but have not operated together as a system. PSE also observes that the establishment of interoperability standards will reduce the risk of investing in technology today that may evolve quickly. MicroPlanet states that its equipment is "qualified" and each component should be evaluated individually for its anticipated interoperability with future technology changes. Public Counsel does not comment directly on this question.
3. The IRP rule currently requires the lowest reasonable cost set of resources to be determined after a "detailed and consistent analysis of a wide range of commercially available sources." Does this requirement already encompass "qualified smart grid systems?	Avista states that some smart grid components and systems may not be used directly in conjunction with energy resources but should be evaluated anyway. PacifiCorp states that smart grid technologies are included in the IRP analysis to the extent that they are part of conservation and demand response programs. PSE does not believe the current IRP rules encompass all of the smart grid technologies. Smart grid technologies that are generation related are covered while system operation and customer service related aspects and "backbone" or enabling technologies are not covered by the IRP. PSE states that generation related smart grid technologies could be evaluated in the IRP while other aspects of smart grid could be evaluated in different ways. The two evaluations would culminate with an evaluation of a comprehensive assessment of a portfolio of smart grid applications. Public Counsel states all least cost resources should be considered. Public Counsel emphasizes that all technologies should demonstrate cost effectiveness. In particular, Public Counsel states that automated meter system (AMS) need to be considered in a cost-effectiveness analysis that includes the early retirement/replacement of older meters and other legacy systems, the cost associated with achieving load reduction and the elasticity of customers to reduce or shift usage. MicroPlanet believes the current rule should be interpreted to encompass smart grid systems and smart grid components that are commercially available. MicroPlanet states that the IRP rule must include a detailed review of smart grid components and systems; and treat as "commercially available" those smart grid measures that are reasonably expected to become commercially available over the planning period.

Commission Question	COMMENTS
4. What level of screening and analysis of smart grid investment would constitute a demonstration to the Commission?	Avista clarifies what it believes a smart grid demonstration project would be.[1] PacifiCorp states that a demonstration could be shown with a standard business case analysis. PSE states that the six factors in EISA Section 1307 subpart 18A would be sufficient. Public Counsel does not directly address this question.
5. Are the six factors listed an adequate set for reviewing smart grid investments? Should additional factors be included? If so, what additional factors? What, if any, rules should govern measurement and evaluation of these listed or additional factors?	Avista believes the six factor test is adequate. They add, however, that some components are not cost effective on their own but are when their "enabling" function in other smart grid system is included in the analysis. PacifiCorp states the six factors are adequate for the review of smart grid investment. PSE suggests three additions to the six factor test; assessment of cost recovery method, emerging interoperability standards and the long-term flexibility for future growth and technological advancement. PSE also notes that any test should recognize that the benefits of a smart grid system may take time inure to the utility and the consumer. Public Counsel suggests three additional factors: • Cost of smart grid technologies as compared to alternative resources • Costs associated with achieving load reduction • Impact on low income residential customers

[1] The notice of opportunity to comment was not clear in its meaning of "demonstration." The intent of the Commission was that demonstration meant "demonstration of prudency" not "demonstration project." The Commission appreciates the commenters proposals given this miscommunication.

Part B

(B) RATE RECOVERY.—Each State shall consider authorizing each electric utility of the State to recover from ratepayers any capital, operating expenditure, or other costs of the electric utility relating to the deployment of a qualified smart grid system, including a reasonable rate of return on the capital expenditures of the electric utility for the deployment of the qualified smart grid system.

Commission Question	COMMENTS
Part B	Avista did not provide comment on Part B. PacifiCorp states that rates structures that place more recovery of fixed costs in fixed charges will be necessary in order to provide utilities with a reasonable opportunity to recover the costs of smart grid. Smart grid is expected to reduce both peak and overall electric use. Rates that recover fixed cost in usage charges encourage the utility to promote more electric usage which is at odds with the benefits of the smart Grid. PSE comments that the standard allows a *separate* process as well as a *separate* reasonable rate of return for capital expenditures on *future* deployment of smart grid systems. PSE states that it interprets the federal standard as allowing for the authorization of the recovery of smart grid cost prior to its deployment. Public Counsel agrees with the notice that the Commission already has a method for allowing the recovery of prudently incurred cost and that no additional cost recovery policy is necessary. MicroPlanet encourages the Commission to provide an advance determination of whether a technology is a "qualified" smart grid technology. The Commission should also allow recovery of the cost of evaluating smart grid technologies including pilot projects.

Part C ''(C) OBSOLETE EQUIPMENT.—Each State shall consider authorizing any electric utility or other party of the State to deploy a qualified smart grid system to recover in a timely manner the remaining book-value costs of any equipment rendered obsolete by the deployment of the qualified smart grid system, based on the remaining depreciable life of the obsolete equipment.	
1. What constitutes a "qualified smart grid system?	The comments in response to this question were summarized under state consideration.
Commission Questions	**COMMENTS**
2. Is there a distinction between replacing existing equipment with a "system" versus the replacement of some existing equipment with individual components?	Avista argues for replacing components on a system basis even if not all the components are at their end of useful life because there are savings in maintenance and savings in not having to analyze each component's expected life. PacifiCorp says that their definition of the "minimum" smart grid system is distinguishable from component replacement in that the "minimum" system must allow for the future replacement of components as the technology becomes available. PSE states that whole system versus component replacement can be distinguished but both should be included in the definition of "qualified smart grid system." PSE points to automated switches as an example of individual components that will be replace individually but which will eventually make up a smart grid system. Public Counsel also distinguished between system replacement and component replacement and considers the difference one reason why a utility-by-utility approach should be used to examine smart grid. Public Counsel supports the use of demonstration projects to better understand the cost and implementation of smart grid. MicroPlanet sees no distinction between replacement of components and the system as a whole.

Commission Questions	COMMENTS
3. Are the technologies that constitute a "qualified smart grid system" commercially available? If so, how might adoption of today's smart grid technology affect adoption of future technology refinements?	The comments in response to this question were summarized under state consideration.
4. What constitutes "obsolete equipment"?	Avista states that there are two ways equipment can become obsolete. Equipment that is not able to perform at safe and reliable levels is obsolete or equipment can be economically obsolete. PacifiCorp states any removed equipment that does not have a secondary market that allows for recovery of the remaining book value of the asset should be considered obsolete. PSE distinguishes obsolete equipment as equipment that is not necessarily unable to perform its function but which has been superseded by more advanced technology. Public Counsel's definition includes "equipment that is no longer capable of performing at its planned or prior capabilities" as well as equipment that is no longer economical or technically compatible with current requirements. MicroPlanet does not take a view on this question.
5. Should a cost effectiveness test be applied to the equipment replacement before recovery of book-value costs are allowed?	Avista comments that smart grid program/process should not be encumbered with the potential of disallowances if the applications are justified in some form of policy (economic, operational, etc.). PacifiCorp states the current accounting practices should continue to be used for smart grid. PSE also agrees that current practice should be applied to obsolete equipment. Public Counsel states that all costs associated with the development of an AMS need to be considered in any cost-effectiveness test including the early retirement/replacement of existing meters as well as the retirement/replacement of other back-office equipment and customer billing and service reporting software systems. This cost should be compared to the benefits. MicroPlanet believes cost effectiveness tests should be applied to all utilities.
6. How would net salvage value be accounted for under this standard?	Avista states net salvage practices can follow current accounting methodologies employed in the utility's depreciation system. PacifiCorp comments that the current practices should continue. PSE also does not believe common practice should be changed. Public Counsel and MicroPlanet provide no comments on this issue.

Commission Questions	COMMENTS
7. How would this standard conform to used and useful standards?	Avista comments that anything short of current accounting and ratemaking treatment of utility assets will only discourage utilities from embarking on smart grid technology. PacifiCorp states that if assets which have been rendered obsolete have previously been allowed recovery in rates, the assets have already passed used and useful standards as determined by the Commission. PacifiCorp states it should be allowed full recovery of assets deemed by the Commission to have been prudently incurred. PSE states that the current practices in the IRP rule and the Commission's prudence standard discussed in Part B above are sufficient. Public Counsel did not comment on this question.

Smart Grid Information

(19) SMART GRID INFORMATION.—
(A) STANDARD.—All electricity purchasers shall be provided direct access, in written or electronic machine-readable form as appropriate, to information from their electricity provider as provided in subparagraph (B).
(B) INFORMATION.—Information provided under this section, to the extent practicable, shall include:
(i) PRICES.—Purchasers and other interested persons shall be provided with information on—
(I) time-based electricity prices in the wholesale
electricity market; and
(II) time-based electricity retail prices or rates
that are available to the purchasers.
(ii) USAGE.—Purchasers shall be provided with the number of electricity units, expressed in kwh, purchased by them.
(iii) INTERVALS AND PROJECTIONS.—Updates of information on prices and usage shall be offered on not less than a daily basis, shall include hourly price and use information, where available, and shall include a day-ahead projection of such price information to the extent available.
(iv) SOURCES.—Purchasers and other interested persons shall be provided annually with written information on the sources of the power provided by
the utility, to the extent it can be determined, by type of generation, including greenhouse gas emissions associated with each type of generation, for intervals during which such information is available on a cost-effective basis.
(C) ACCESS.—Purchasers shall be able to access their own information at any time through the Internet and on other means of communication elected by that utility

Commission Question	COMMENT
PURPA 19, Smart Grid Information	Avista provides no comment on this section. PacifiCorp agrees with the Commission in its assessment of current policies and practices and states that no additional policies or practice are necessary to meet this standard. PSE states that there are central wholesale electric markets in the Pacific Northwest and lists the Mid-C, California-Oregon Border, and Nevada-Oregon border as examples. Public Counsel agrees with the conclusions of the notice in this section and states that no additional policies or practices are needed in this area. MicroPlanet agrees that current law and utility practice adequately address the requirements of Standard 19. MicroPlanet adds that if retail time-of-pricing or time-based automatic demand reduction programs are implemented, additional information would have to be provided.

PURPA Standards for Natural Gas Utilities

Energy Efficiency

EISA Section 532(b) amends PURPA Section 303(b) to establish a new Standard 5:

(5) ENERGY EFFICIENCY.—Each natural gas utility shall—
(A) integrate energy efficiency resources into the plans and planning processes of the natural gas utility; and
(B) adopt policies that establish energy efficiency as a priority resource in the plans and planning processes of the natural gas utility.

Commission Questions	COMMENTS
PURPA 5	Public Counsel agrees with the conclusion in the notice that the Commission has already adopted PURPA Standard 5 and no further action is required.
1. Should the Commission, by rule, adopt Standard 5(B) establishing cost-effective energy efficiency as a priority resource?	Avista was the only entity to file comments in support of the adoption of PURPA Standard 5(B). PSE, PacifiCorp, and Public Counsel all oppose the adoption of energy efficiency as a priority resource. Cascade Natural Gas Corporation (Cascade) believes the Commission's current regulations and policy meets standard 5(b) and the cost-effectiveness standards should not be abandoned. Avista states that a priority resource should include the monetary cost of emission reduction or mitigation, the customer value of decreased portfolio volatility, and a valuation of reduced externality costs. PSE states the Commission should not adopt energy efficiency as a priority resource because the current IRP rule and the Commission's prudence standards are sufficient. Public Counsel also opposes the adoption of energy efficiency as a priority resource by the same reasoning provided in the electric section.
2. What is a "priority resource"?	Avista provided a definition of energy efficiency as a "priority resource" that included environmental externalities and the reduced volatility energy efficiency provides. Avista recognized the difficulty in quantifying these unrecognized benefits and suggested that, if the values could not be calculated, the Commission could establish a deemed place holder value. Avista acknowledges that adding these two factors to the cost-effective test would be a change from the current cost-effectiveness tests. PSE recommends against the adoption of energy efficiency as a priority resource.

Commission Questions	COMMENTS
3. Does the term "priority resource" differ in affect from the requirement to pursue all cost-effective conservation? If so, how?	Avista states that not all public policy perspectives are currently incorporated in the cost-effectiveness test. The standard on energy efficiency is an opportunity to: (1) deem avoided cost adders to represent the value of difficult to quantify efficiency benefits, and (2) modify industry-standard cost-effectiveness calculations in such a ways as to lead to stacking of resources that best fit current public policy objectives. PSE provides no comment. PacifiCorp believes that the meaning of cost-effective conservation and priority resources are congruent.
4. If establishing energy efficiency as a priority resource requires the acquisition of energy efficiency in aggregate that is above the cost-effectiveness threshold, would its establishment as a priority resource conflict with any state law?	PSE states that such a requirement would probably not conflict with state law but the rule adopted would have to make clear what level of energy efficiency is appropriate. Avista states that if the priority resource included legitimate resource costs and benefits it would be in full alignment with cost-effective methodologies.
5. If establishing energy efficient as a priority resource does not mean pursuing additional energy efficiency above the cost effectiveness threshold, then how would it differ from current Commission regulation and policy?	Avista argues that it would be an opportunity to define benefits to add to the efficiency resource valuation. PSE asserts that the Commission could show energy efficiency to be a priority resource by providing incentives to demand-side resource acquisition which would be aligned with the incentives mentioned in RCW 19.285.

Rate Design Modifications to Promote Energy Efficiency Investments

EISA Section 532(b) amends PURPA Section 303(b) to establish a new Standard 6:

> (6) RATE DESIGN MODIFICATIONS TO PROMOTE ENERGY EFFICIENCY INVESTMENTS.—
> (A) IN GENERAL.—The rates allowed to be charged by a natural gas utility shall align utility incentives with the deployment of cost-effective energy efficiency.
> (B) POLICY OPTIONS.—In complying with subparagraph (A), each State regulatory authority and each nonregulated utility shall consider—
> (i) separating fixed-cost revenue recovery from the volume of transportation or sales service provided to the customer;
> (ii) providing to utilities incentives for the successful management of energy efficiency programs, such as allowing utilities to retain a portion of the cost-
> reducing benefits accruing from the programs;
> (iii) promoting the impact on adoption of energy efficiency as 1 of the goals of retail rate design, recognizing that energy efficiency must be balanced with other objectives; and
> (iv) adopting rate designs that encourage energy efficiency for each customer class.

Commission Questions	COMMENTS
1. Are there any benefits from separating fixed-cost revenue recovery from the volume of transportation or sales service provided to customers that the Commission has not yet considered in either a rulemaking or in adjudication?	PSE states that there is great value in separating fixed cost revenue from the volume of sales: 1) it removes throughput incentives, 2) it creates rates that are more fair, 3) it creates stable bills, and 4) it generates revenues to the utility that have less variability. PSE states that what is new is the emphasis through federal law and proposes language in support of separating fixed cost revenue from the volume of gas transportation or sales service. Avista states decoupling removes the disincentive of the utility to fully promote energy efficiency and allows the utility an opportunity to recover the fixed costs authorized in rates. Public Counsel sees no valid justification for making a dramatic shift in the Commission's current rate design policy with respect to recovery of fixed costs. The alleged benefits and drawbacks have been considered, and the Commission will have the chance to consider them again in the current Avista and Cascade decoupling pilots as well as in the frequent rate cases before the Commission.

Commission Questions	COMMENTS
2. Are there any drawbacks of separating fixed-cost revenue recovery from the volume of sales service provided to customers that the Commission has not yet considered?	Avista states that the largest drawback is the lack of customer understanding of the decoupling mechanism. PSE states that some may consider the removal of the opportunity between rate cases to increase revenue by promoting sales to be a drawback.
3. What advantages are there in establishing by rule (rather than through case-by-case adjudications) an incentive for the utility to successfully manage energy efficiency that allows the utility to keep some portion of the "cost-reducing benefits" accruing from the programs?	PSE states that a reasonable incentive mechanism would share the total net savings between utility shareholders and ratepayers. Avista asserts that in a rulemaking all parties can comment on the cost-effective tests and their application. From a substantive standpoint, the adopted policy in a rulemaking can be consistent between all utilities. Cascade believes the Commission's policies should continue to allow natural gas decoupling mechanisms. Cascade believes such mechanisms allow the utilities to better assist their customers through the promotion of energy efficiency without the financial harm associated with under-recovery of fixed costs. Public Counsel does not support using a rulemaking to adopt incentives. Public Counsel points out the variation in cost profiles, risks, customer mixes, sales levels, and overall commitments and experience with energy efficiency programs between utilities. Public Counsel also cites back to the Commission's previous comments made in closing the rulemaking to review natural gas decoupling.
4. If the conservation measures near the total-resource-cost (TRC) threshold are the hardest to achieve and would provide the least amount of shared "cost-reducing benefits" to the utility, would the utility be less inclined to achieve conservation that was near the cost-effective threshold?	Avista states that the best policy would be to provide the largest incentive to the utility to pursue the most cost effective energy efficiency measures. PSE states that cost sharing would encourage the utility to acquire both the low-hanging fruit as well as reaching up the tree. Public Counsel did not provide comments on this question.

Commission Questions	COMMENTS
5. If the utility received some portions of the cost savings from energy efficiency, should that portion of cost be added to the TRC?	Avista states, in the interest of maintaining the integrity of the standardized TRC test as a standard for the evaluating of energy efficiency programs, the cost associated with performance-based ratemaking should not be included within the TRC test. PSE states it is committed to ensuring the portfolio of natural gas energy efficiency programs is in aggregate still cost effective after including any incentive payment earned in the program year. Cascade has concerns that adding the "cost-reducing benefits" to the TRC would prove counterproductive to the goals of achieving all cost-effective conservation. Public Counsel states that, if the Commission is considering developing an incentive-based mechanism that encourages energy efficiency, the mechanism should share cost savings between ratepayers and the utility. Public Counsel presents a sharing mechanism in its comments with deadbands and incentive and penalty bands.
6. Would such "cost-reducing benefits" to be shared be calculated on a measure-by-measure basis? If not, would such a sharing mechanism encourage the utility not to pursue a mix of measures that are, in sum, at the cost effective threshold?	Avista states that a sharing of benefits on a measure-by-measure basis would lead to the appropriate targeting of the most cost-effective measures. PSE states that the sharing of benefits should be on an aggregate total across a utility's entire energy efficiency program portfolio. Cascade believes that if such costs were to be included, it should be done in the context of a Utility Cost Test rather than a TRC analysis and would be included in the analysis of the Company's overall conservation program rather than on a measure-by-measure basis. Public Counsel recommends that any cost-reducing benefits be shared between ratepayers and utility shareholders and should be conducted on a measure-by-measure basis.
7. Could a practical rule be fashioned that states promoting energy efficiency is one of the goals of natural gas rate design while at the same time allowing actual rate designs to vary with each company's cost structure and needs?	Avista answers the question in the affirmative. PSE also answers in the affirmative and provides suggested language in its comments. Public Counsel does not agree that additional rulemaking is necessary at this time asserting that Commission's rate design objectives and priorities have been well established and do not need embellishment or clarification through a rulemaking.