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December 18, 2012

VIA ELECTRONIC FILING & ABC/LMI
David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
P. O. Box 47250
Olympia, WA 98504-7250

Re: **Avista Petition to Suspend Natural Gas DSM Programs**
Docket UG-121119

Dear Mr. Danner:

Public Counsel submits these comments in advance of the Commission's December 21, 2012 Open Meeting. We appreciate that the decision to temporarily suspend Avista's natural gas energy efficiency programs is not one to be taken lightly. We have reviewed the Company's proposal and analysis, and have discussed the proposal with Commission Staff and other stakeholders. Public Counsel supports Avista's tariff filing and recommend that it be allowed to take effect, with one exception. We understand Commission Staff will recommend that the low income weatherization programs be allowed to continue. In recognition of the broad consensus in the natural gas conservation programs rulemaking that such programs raise unique policy issues and have objectives beyond traditional energy efficiency programs, Public Counsel believes the exception for continuation of low income efficiency programs is reasonable.

Public Counsel Recommendation

Public Counsel supports Avista's tariff filing and we recommend that it be allowed to take effect, with one exception. We understand Commission Staff will recommend that the low income natural gas energy efficiency programs be allowed to continue. In recognition of the broad consensus in the natural gas conservation programs rulemaking that such programs raise unique policy issues and have objectives beyond traditional energy efficiency programs, Public Counsel believes that exception is reasonable.

Avista's Decision is Well-Supported

Avista's decision to propose that natural gas Demand-Side Management (DSM) programs be temporarily discontinued is not a hasty one on the Company's part. Avista first informed its Advisory Group and the Commission of the cost-effectiveness challenges of their natural gas portfolio in November, 2011, when the Company filed its annual DSM business plan for 2012.[1] Subsequently, Avista submitted a revised business plan for 2012 on February 29, 2012, providing further analysis of actions the Company could take to optimize the gas DSM portfolio, including the impact of a 25% reduction in avoided costs. In June 2012, Avista determined the Company's avoided cost would actually be 50% lower than prior levels and concluded that a cost-effective portfolio was unachievable.[2] Consequently, Avista filed on June 29, 2012, to temporarily suspend the natural gas DSM programs. The petition was initially considered at the Commission's September 27, 2012, Open Meeting.[3]

Cost-Effectiveness is a Cornerstone Principle

A cornerstone of energy efficiency policy and planning in Washington is that utility DSM programs should be cost-effective at the portfolio level. As an active participant in utility conservation advisory groups, we see evidence of the impact of this fundamental principle on utility actions on a regular basis. All utilities know they are expected to manage and modify their programs as necessary to ensure the portfolio is cost-effective. If Avista's petition is *not* granted, Public Counsel is concerned that would send a mixed message to industry regarding the Commission's expectations regarding cost-effective programs. Weakening the cost-effectiveness requirement may also be detrimental to public support for conservation.

The Total Resource Cost (TRC) Test is a Widely Accepted and Understood Standard

Avista's natural gas DSM program tariff, Schedule 190, specifically requires that the Company's programs be cost-effective under the TRC, on a portfolio-level basis. Thus, granting the petition is consistent with that tariff requirement. The TRC is used region-wide, and the largest utilities in Washington have advocated for continued reliance on the TRC as the most reasonable and practical cost test.[4] We reiterate comments Public Counsel filed in the natural gas rulemaking proceeding, that the TRC is the appropriate cost-effectiveness test because it considers utility *and* ratepayer costs for efficiency measures.[5]

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[1] Docket UE-100176, Avista 2012 DSM Business Plan, November 1, 2011. This plan identified a natural gas DSM portfolio that was projected to be cost-ineffective under the total resource cost (TRC) test.

[2] Docket UG-121119, Avista Response to Public Counsel Informal Data Request No. 9, August 23, 2012.

[3] The Commission has since received additional comments related to natural gas conservation programs in Docket UG-121207, and convened a workshop on November 16, 2012.

[4] *See, e.g,* Docket UG-121207, Reply Comments of PSE, October 5, 2012, pp. 6-7; Docket UG-121207, Comments of Avista Utilities, August 31, 2012, pp. 2-3.

[5] Docket UG-121207, Second Comments of Public Counsel, October 5, 2012, pp. 4-7.

Continuing Non-Cost Effective Programs has a Real Impact on Customers

Avista's natural gas programs in Washington have had budgets of about $4-5 million per year. This amount is similar to recent natural gas general rate increases for Avista in Washington. It is not appropriate to continue to spend these ratepayer funds on programs that are clearly not cost-effective. Avista has conducted extensive analysis of their programs for 2013, incorporating a 10% conservation adder and also performing sensitivity analyses for more optimistic scenarios. Avista has incontrovertibly concluded that their natural gas portfolio would clearly not be cost-effective for 2013. This is also reflected in the recent DSM business plan for 2013, which is an electric-only business plan.

Avista Gas DSM Does not Perform a Significant Hedging Function

We disagree with NWEC's recommendation that natural gas DSM programs should be retained, even though they are cost-ineffective, because of their role as "an important hedging mechanism against gas price volatility and a good investment for Avista and its customers."[6] The hedging argument is not compelling because gas DSM has been an extremely small portion of overall sales volumes, less than two-tenths of a percent.[7] Continuation of the gas programs would also put Avista in the awkward position of marketing incentive programs to individual ratepayers, despite the fact that the Company's analysis clearly shows it would not represent a "good investment" from the ratepayer's perspective.

Conservation will Still Occur

It is also worth noting that even if Avista's utility-sponsored gas efficiency programs are discontinued, conservation will still occur through other avenues. For example, new federal residential furnace standards are scheduled to take effect in May 2013, increasing efficiency standards in many states, including Washington, from 80% to 90%. This illustrates that conservation can still be acquired through other means, such as improvements to codes and standards.

Exception for Low Income Efficiency Programs

Public Counsel understands that Commission Staff intends to recommend that Avista's low income natural gas energy efficiency programs be allowed to continue. While the natural gas rulemaking proceeding has not concluded, there has been fairly broad consensus that programs

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[6] Docket UG-121119, Comments of Northwest Energy Coalition, September 21, 2012, p. 1.

[7] For example, in 2011 Avista reported verified natural gas energy efficiency savings of about 1.4 million therms, which represents about 0.14% of total therms delivered in 2011 of over 1 billion. Avista 2011 Annual Report (total therms delivered) and 2011 DSM Annual Report (verified DSM savings).

for limited income households are unique due to challenges associated with quantifying program benefits. These benefits include not only energy savings, but non-energy benefits such as a more comfortable and safer home, as well as reduced reliance on bill assistance and possibly reduced uncollectible expenses. The objectives of these programs are therefore broader than traditional energy efficiency acquisition, and raise policy issues that should be considered by the UTC. Public Counsel believes the Staff recommendation to continue low income natural gas energy efficiency programs in 2013 is reasonable.

Avista is committed to continuing to analyze this on a regular basis, and will provide updates to Commission Staff and the Advisory Group. The Company has also stated that when the analysis indicates the natural gas portfolio is cost-effective, Avista will be able to move swiftly to resume select cost-effective programs. This is facilitated by the continuation of the much larger electric portfolio of efficiency programs, the company's experienced staff, and ongoing relationships with trade allies.

I will attend the Commission's December 21, Open Meeting and will be available for any questions regarding these comments.

Sincerely,

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