Q: Please state your name and business address.

A: My name is Joelle Steward, my business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504-7250.

Q: Please describe your education and business experience.

A: I have a Bachelor of Arts degree in political science from the University of Oregon and a Masters in Public Affairs with a concentration in energy policy from the Humphrey Institute at the University of Minnesota. I have worked at the Commission since October, 1999.

Q: Please describe your duties with the Commission.

A: My title is Policy Research Specialist. My duties include research and analysis of electric industry issues, specifically those related to demand side management and other public purposes.

Q: What is the purpose of your testimony?

A: The purpose of my testimony is to describe Staff's review of the demand side management programs and the tariff rider operated by Avista Corporation d/b/a/ Avista Utilities (Avista or the Company).

Q: What are demand side management (DSM) programs?

A: DSM programs seek to affect the timing or amount of customer electricity use through the promotion of conservation and energy efficiency improvements. Avista's DSM programs are described in Electric Tariff Schedule 90 and, since 1995, have been financed by a tariff rider in Schedule 91. The tariff rider is a 1.54% surcharge to all rate classes, except pre-existing special contracts.

The Company has recently realigned its DSM program portfolio structure from individual programs to customer market segments. This shift allows the program managers to better address the special needs of market segments such as food service, manufacturing, and retail sectors that have common characteristics and energy usage. Customer education on energy efficiency is better leveraged in the current structure. Incentives are now based on customer payback periods, which recognizes that longer payback periods require greater financial incentives to lead the customer to take action. Company witness Mr. Folsom provides additional information on the program history and organization in his direct testimony. (Exhibit T-315)

Q: Has Avista demonstrated the prudence of their past DSM program expenditures?

A: Yes. Staff believes that Avista has demonstrated the prudence of their past DSM program expenditures. When the Commission approved the tariff rider in December, 1994 the Company understood that prudence was not presupposed and could be argued in a future rate case. Therefore, this proceeding is the appropriate forum for granting or denying Avista prudence of their past expenditures.

Q: How did Staff reach this conclusion?

A: Staff conducted audits of the DSM expenditures on two occasions. A 1997 audit which was conducted after the Company proposed a securitization of conservation assets found the pre-tariff rider expenditures and 1995-1997 tariff rider expenditures to be prudent. This past January Staff conducted another audit and determined that the 1998-1999 tariff rider expenditures should also be deemed prudent.

Q: What is the justification for prudence of Avista's tariff rider expenditures?

A: Avista has developed a structure for the development, implementation, and evaluation of its DSM programs that incorporates internal and external accountability. This structure has significantly contributed to our finding. The internal evaluation team is organizationally removed from the program managers and implementors in order to ensure independence for verification of energy savings and program evaluation. The measurement and evaluation team has recently adopted trimester reporting in order to keep the program managers and other stakeholders (including Commission Staff) better informed of expenditures, energy savings, cost-effectiveness, and other program issues. This team has displayed a thoroughness and objectivity in its work. As an outcome of the Idaho rate case, the evaluation team is undertaking a study to measure free riders in order to develop a more accurate baseline against which the program accomplishments can be measured. Staff supports this undertaking and the Company's ongoing efforts to refine their measurements and program operations.

Q: What other means does Avista employ to assure that program design and expenditures are appropriate?

A: Avista seeks outside guidance for its programs from its External Energy Efficiency (Triple E) Board, which is comprised of Commission Staff members, Public Counsel, customer representatives, environmental community representatives, low-income advocates, and other interested parties. This board meets formally with the Company twice a year.

Q: Are Avista's DSM programs cost effective?

A: Avista has shown that their DSM portfolio was cost-effective overall and achieved approximately 72 million kWh and 1.125 million therms in energy savings from 1995 to 1998. The results of their cost-effectiveness tests are included in Exhibit 316 and their methodology is described in Exhibit 317. Some of the programs were not cost effective on a stand-alone basis but were incorporated into the portfolio of programs to have an equitable distribution of funds across the full customer spectrum.

Q: Please specifically address the expenditures for participation in the Northwest Energy Efficiency Alliance (NEEA).

A: NEEA is a regional organization that promotes energy efficiency market transformation and is financially supported by the regional investor owned utilities and the Bonneville Power Administration (BPA). During 1997 and 1998, NEEA's first two years of existence, Avista expended a little over $1 million on behalf of its Washington service area for participation in NEEA. The Company recently signed a new five-year funding agreement that sets their Washington allocation portion of annual dues at $567,000. In its first three years of existence NEEA has estimated that its market transformation efforts account for 16 aMW of electricity savings in the region at less than half the cost of new generating resources, and it expects to save a total of 400 aMW by 2010. It is difficult to assess the specific energy savings within the Avista service area; however, NEEA strives to achieve geographic balance for long-term savings and benefits within its portfolio. Staff believes that Avista's investment in NEEA has been reasonable and prudent.

Q: Outside of this determination of prudence for past expenditures, do you have any other concerns about the tariff rider?

A: Yes. When the tariff rider was established in 1995, the Company stated that it would adjust the tariff rider "to match actual funding with DSM program costs and to keep the deferred balance as close to zero as possible." {Ex. 318, p. 23) However, the tariff rider's outstanding balance of unspent funds has steadily increased since the rider's inception through February, 1999 and has consistently been over $2 million since 1998, with the exception of December, 1999 when the balance was at $1.9 million. (Ex. 319) The Company has never adjusted the tariff rider to take into account this overcollection of funds. Company witness Bruce Folsom stated during cross-examination that the rider has not been adjusted in order to maintain program continuity and rate stability. (Tr. 415)

Q: Does Staff recommend that the tariff rider be reduced as a method to address the outstanding balance?

A: Not at this time. While we are concerned about the size of the outstanding balance, we recognize the importance of program continuity and rate stability for customers and we have also noted that the Company is currently, and has projected to continue, spending above collected revenues on DSM activities. The Company's most recent trimester report to the Triple E Board (August to November, 1999) shows that the Washington DSM expenditures exceeded rider revenues by 9.3% (excluding interest) in the period. In response to Staff Data Request No. 215 the Company produced Exhibit 322, in which it forecasts program expenditures that would result in the rider balance being reduced to nearly zero by May, 2001. If the Company does not reduce the balance to nearly zero by this time, Staff recommends that the Commission direct the Company to take steps to file a rider rate adjustment that would true-up the rider collections with their DSM expenditures. Additionally, it should be noted that the Company assesses interest at a rate of 10% on its monthly ending balance. From 1995 to 1999 the Company assessed $718,487 in interest, which is dedicated to incremental DSM. Staff believes that the assessment of interest at this rate on any positive balance continues to be appropriate as a disincentive for overcollection.

On a related note, in Exhibit 322 the Company also forecasts program expenditures exceeding tariff rider collections at a point in the future, which would result in it running a negative rider balance. This exhibit shows the Company collecting interest on the negative balance, which is unfavorable to ratepayers. We find the collection of interest on an undercollection contrary to the intentions of the interest mechanism. Exhibit 323, a letter of understanding that the Company submitted to the Commission at the time of the rider approval in 1994, stated that "The Company *assumes the risk of undercollecting* revenues for expenditures committed towards DSM during the period in which the Rider is in effect and must use any overcollections to fund incremental DSM." (Emphasis added.) Furthermore, we believe the Company is not justified in any assertion that it may collect interest from customers on program overspending because it has sole control over program implementation. During cross-examination, Mr. Folsom agreed that the Company is in the best position to control program spending to match rider fund collection. (Tr. 416, lines 2-7) Therefore, we recommend that the Commission clarify that if Avista finds that it is operating cost-effective DSM programs with costs exceeding the tariff rider collections, the proper recourse for the Company is to refile its tariff rider in Schedule 91 at a revised level such that negative balances are no longer sustained. Otherwise, Staff believes the Company should continue to be held to its promise of assuming the risk of undercollection as stated in Exhibit 323.

Q: Please summarize your testimony.

A: Staff recommends that the Commission find that Avista's past expenditures on DSM have been prudent. We also recommend that if the tariff rider balance is not reduced to a reasonable level approaching zero by mid-2001, the Company be directed to file a rider rate adjustment that more closely approximates its DSM program expenditures. Finally, we request that the Commission clarify to the Company that since the Company, not the customers, manages its program expenditures, the risk of undercollection is assumed by the Company if no effort is made to reconcile the rider rate before the Commission.

Q: Does this conclude your testimony?

A: Yes.