



Rob McKenna

ATTORNEY GENERAL OF WASHINGTON

Utilities and Transportation Division

1400 S Evergreen Park Drive SW • PO Box 40128 • Olympia WA 98504-0128 • (360) 664-1183

July 16, 2012

David W. Danner, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P.O. Box 47250
Olympia, Washington 98504-7250

RE: *In the Matter of Evaluating Prudence of Expenditures for Natural Gas DSM
Program,*
Dockets UG-121026

Dear Mr. Danner:

Enclosed for filing in the above-referenced docket are the original and 12 copies of the Staff Comments of the Washington Utilities and Transportation Commission and Certificate of Service.

Sincerely,

FRONDA WOODS
Assistant Attorney General

FW:klg
Enclosures
cc: Parties

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**In the Matter of
EVALUATING PRUDENCY OF
EXPENDITURES
FOR NATURAL GAS DSM
PROGRAM.**

DOCKET UG-121026

**STAFF COMMENTS OF
THE WASHINGTON UTILITIES
AND
TRANSPORTATION COMMISSION**

July 16, 2012

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I. Introduction

Pursuant to Order 05 of joint Dockets UE-110876 and UG-110877, Avista Corporation (Avista) was required to file with the Washington Utilities and Transportation Commission (Commission) by June 1, 2012, testimony and supporting evidence to demonstrate the prudence of its natural gas demand side management (DSM) expenditures during the preceding biennium.

On July 22, 2011, Avista, the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel), and the Commission's regulatory staff entered into a Memorandum of Understanding (MOU) regarding the appropriate forum for review of the prudence of Avista's Demand Side Management (DSM) programs and expenditures. The parties to the MOU filed joint motions in Docket UE-100176 and UE-110876/UG-110877, asking the Commission to clarify the process for reviewing the prudence of Avista's DSM programs and expenditures by adopting the procedure described in the MOU. On August 18, 2011, the Commission granted the joint motion in Dockets UE-110876/UG-110877, Avista's then-pending general rate case, and effectively denied it as moot in Docket UE-100176.¹ The Commission ordered that Avista's DSM programs and expenditures would be reviewed for prudence in a future docket, rather than in UE-110876/UG-110877, the pending general rate case. As a result, Avista is now requesting a finding of prudence.²

Although evaluation of natural gas programs is not required under the Energy Independence Act, RCW 19.285 (EIA), Order 05 directed that the natural gas DSM prudence filing would be included with Avista's June 1, 2012 EIA filing. Like its electric program, Avista's natural gas DSM program is funded through the company's DSM Tariff Rider. Because natural gas programs are not reviewed under the EIA, however, Staff limited its review to the overall prudence of the expenditures related to the Company's gas DSM portfolio.

The Commission Staff comments conclude:

1. The company complied with the reporting requirements in Order 05 in Dockets UE-110876 and UG-110877.
2. The company provided sufficient information to evaluate the prudence of its gas program.

II. Prudence

Staff desires to provide consistency in its review of DSM prudence and outlines the following proposed approach to assessing prudence for conservation activities.

The company must demonstrate that it evaluated its conservation needs and requirements, and that reasonable decisions were made in terms of programs selected, portfolio costs, and overall management of the programs selected. Four general factors that have been consistently considered in previous determinations of prudence by utilities include:

¹ *WUTC v. Avista Corporation*, Dockets UE-110876/UG-110877, Order 05 (Aug. 18, 2011). The Commission noted in footnote 2 of its order that its ruling effectively rendered the parallel motion in Docket UE-100176 moot.

² See Docket UG-121026, Notice of Opportunity to Comment on the Prudence of Avista Corporation's Natural Gas Demand Side management Program Expenditures During the Prior Two Years (June 22, 2012).

1. The need for the resource—The utility must determine what resources are necessary. Once needs have been identified, the company must decide how to meet the need in a cost-effective manner. In the case of conservation, the utility must show that the options selected to meet conservation requirements were chosen based on a cost effective and reasonable approach.
2. Evaluation of alternatives—The utility must analyze alternatives available based on current information. Factors to be considered include utility costs, impacts to the ratepayer, and ability to effectively deliver the alternative.
3. Communication with and involvement of the company's board of directors—For conservation programs, the advisory groups have been developed to substitute for the board of directors. The utility should inform its advisory group about the conservation programs selected and their cost of delivery.
4. Adequate documentation—The company must keep adequate detailed records that allow the Commission to evaluate the company's decision making process. The Commission should be able to follow the utility's decision making process, understand the factors the utility considered, and determine the fashion in which the utility valued the factors.

Prudence specifically related to conservation consists of several elements, including the proper establishment of conservation potential, whether programs are cost effective, reliable, and feasible, whether all reasonable measures were pursued, if appropriate public and stakeholder involvement was included in the process (advisory group review), and verification that programs were administered efficiently.

The cost effectiveness and feasibility of a portfolio is typically measured in terms of a benefit-to-cost ratio. As part of the filings, the companies must show a positive ratio of this metric to establish the cost effectiveness of their programs. The companies must file adequately detailed evidence that include cost effectiveness analyses of their proposed conservation programs. Demonstration of involvement from appropriate customer groups, external experts, and other stakeholders must be provided by the companies to demonstrate the prudence of their conservation programs. The formation and coordination of energy efficiency advisory groups is a typical vehicle used by the companies to meet this need. Verification of efficient administration of programs relies mainly on evaluation, measurement and verification (EM&V) processes. EM&V frameworks are established, and then implemented by a third party to verify the biennial savings of each individual company's portfolio. EM&V results and findings will highlight necessary adjustments of the program design or implementation.

As part of the review process for each of the company's conservation filings, Staff believes the company's conservation portfolio will generally be prudent if all of the following elements have been properly implemented by the company:

1. The company properly established its conservation potential, pursuant to its most current Integrated Resource Plan.
2. The conservation programs that the company implemented are cost effective, reliable, and feasible, determined using methodology consistent with the Northwest Power and Conservation Council.
3. The company pursued all available cost-effective, reliable and feasible conservation based on the knowledge it had at the time it filed its Integrated Resource Plan (IRP).

4. The company provided adequate opportunity for stakeholder involvement, and implemented appropriate recommendations from stakeholders.
5. The company used a third party to conduct an EM&V review, and incorporated the findings of that review into its portfolio.

Rather than evaluate conservation programs for a “finding of prudence,” Staff recommends that the ongoing review process that has developed for each utility’s portfolio is effectively a prudence review. The conservation planning and reporting process involves several elements throughout a biennial cycle. Aspects of prudence will be evaluated at several points in time through the biennium, and a “finding of prudence” is not necessary.

III. Analysis of the Information Submitted by the Company

Conservation Target

Avista based its goals for natural gas efficiency savings on its most recent IRP, filed under Docket UG-090015. The IRP set Avista’s efficiency savings at 3,181,981 therms for the 2010-2011 biennium. This target was established prior to the precipitous fall of natural gas commodity prices, which resulted in a retraction of efficiency programs based on cost effectiveness challenges resulting from lower avoided costs.

Conservation Results

Avista achieved 79 percent of the IRP established target, with 2,499,916 therms in total portfolio savings for the biennium. The gas portfolio had a realization rate of 85 percent for the biennium. The table below summarizes the company’s results.

Reported 2010-2011 Biennial Conservation Results	
Biennial Conservation Target From Company IRP	3,181,981 therms
Reported Savings	2,499,916 therms
Percent of Target Achieved	79%

As part of its June 1, 2012 filing, Avista presented assessment information related to the cost effectiveness of its gas DSM portfolio. Avista used the Total Resource Cost test (TRC) and the Program Administrator Cost (PAC) test to evaluate cost effectiveness. The TRC test is a benefit to cost test encompassing the ratepayer population, while the PAC test is a benefit to cost test from the perspective of achieving a minimization of the utility cost of delivering energy services. In summary, the TRC ratio was found to be 1.19, and the PAC to be 3.02.

Third Party Verification

Avista retained the Cadmus Group to serve as a third party independent evaluator of its 2010 and 2011 gas DSM programs as part of its effort to meet the requirements for EM&V of its programs (consistent with requirements in Docket UG-090135).

Reporting by Cadmus included assessments of both the impact of Avista's gas DSM portfolio, and an evaluation of the process of the individual programs. The impact evaluation provided estimates of program achievements, and the process evaluation examined the delivery of the Company's programs. The evaluations were conducted in accordance with current industry standards and established protocols. Cadmus evaluated three separate sectors as part of the review: residential, non-residential, and low income.

Avista has established two distinct groups within the Company to deliver its gas DSM programs. One group is responsible for program delivery, and a second group is responsible for the policy, planning, and analysis of the programs.

Overall, Cadmus found that Avista's gas DSM programs were run efficiently, although some areas for improvement do exist.

Stakeholder Involvement

Stakeholder involvement is an important aspect in the effective design and delivery of DSM programs.

Avista has documented a total of 39 meetings or webinars which took place within the 2010-2011 biennium where input from customer groups, external experts, the commission staff, and other stakeholders was solicited. Meetings included the energy efficiency advisory group, the Washington Conservation Working Group, and Integrated Resource Plan (IRP) meetings where DSM related topics were presented and/or discussed. Although electric DSM was discussed at these meetings, gas DSM topics were also evaluated.

IV. Interested Parties' Response

Staff recognizes that interested parties including Public Counsel, NW Energy Coalition, and the Energy Project may provide additional comments regarding this determination. Staff will evaluate and consider comments and input from outside parties following their incorporation into this docket.

V. Staff Position and Recommendation

1. The company complied with the reporting requirements of Order 05 in Dockets UE-110876 and UG-110877, thus effectively implementing a prudent conservation portfolio.
2. The company did not meet its conservation goal, but showed that its overall program was cost effective and efficiently managed.
3. The company's natural gas DSM program expenditures appear to generally be prudent, as supported by the testimony and evidence provided by the company.