BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,

Complainant,

v.

AVISTA CORPORATION d/b/a AVISTA UTILITIES,

Respondent.

DOCKET NO(S) UE-090134 & UG-090135 (*consolidated)*

In the Matter of the Petition of

AVISTA CORPORATION, D/B/A AVISTA UTILITIES,

For an Order Authorizing Implementation of a Natural Gas Decoupling Mechanism and to Record Accounting Entries Associated With the Mechanism

Docket No. UG-060518 (*consolidated)*

BARBARA R. ALEXANDER (BRA-1T)
ON BEHALF OF THE ENERGY PROJECT

AUGUST 17, 2009

PUBLIC VERSION

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1T)
DOCKET NO(S) UE-090134, UG-090135 & UG-060518

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BARBARA R. ALEXANDER'S EXHIBIT LIST

Exhibit No. ___ (BRA-2) Summary of Qualifications and Experience

I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Q: Please state your name and business address.

A: My name is Barbara R. Alexander. My office is located at 83 Wedgewood Dr., Winthrop, Maine 04364.

Q: By whom are you employed and in what capacity?

A: I am a self-employed independent consultant. I use the title of Consumer Affairs Consultant.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of The Energy Project. The Energy Project advocates on behalf of Washington's community action agencies for funding and programs designs that will keep low-income households connected to essential energy services they can afford.

Q: Please describe your professional qualifications.

A: I opened my consulting practice in March, 1996, after nearly ten years as the Director of the Consumer Assistance Division of the Maine Public Utilities Commission. While there, I managed the resolution of informal customer complaints for electric, gas, telephone, and water utility services, and testified as an expert witness on consumer protection, customer service and limited income issues in rate cases and other investigations before the Commission. My current consulting practice is directed to consumer protection, customer service and limited income issues associated with both regulated utilities and retail competition markets. My recent clients include the Pennsylvania Office of

Consumer Advocate, Maryland Office of People's Counsel, Maine Office of Public Advocate, Massachusetts Attorney General, The Utility Reform Project (TURN) in California, UWUA (in several proposed Advanced Metering deployments), and AARP on energy issues in many states (Montana, New Jersey, Maine, Ohio, Virginia, Maryland, Idaho, and the District of Columbia). I have prepared testimony on behalf of my clients before at least 20 state utility regulatory commissions in the U.S. and Canada.

With respect to my experience in Washington, I appeared on behalf of Public Counsel in the proceeding regarding the merger of Washington Natural Gas Co. and Puget Sound Power and Light Co. in 1996, which created Puget Sound Energy (PSE) (Docket No. UE-960195). It was in that proceeding that PSE's original Service Quality Index was developed and approved by the Commission. I submitted testimony on behalf of the Public Counsel and The Energy Project in PSE's most recent base rate case (Docket Nos. UE-072300 and UG-072301) in which I addressed PSE's service quality performance, implementation of low income assistance programs, the Company's proposal to significantly increase in fixed monthly customer charge, and its storm restoration practices with reference to the Hanukkah Eve Storm in 2006. I have also assisted Public Counsel on matters relating to telecommunications service quality in various proceedings concerning Qwest's retail service quality performance and the structure of its service quality index.

I am also an attorney, and a graduate of the University of Michigan (1968) and the University of Maine School of Law (1976).

Q: What exhibits are you sponsoring in this proceeding?

A: My resume and list of publications and testimony are provided in Exhibit No.____ (BRA-2).

Q: Please describe what issues you will address in this proceeding.

A: The purpose of my testimony is to evaluate the results and impact of the pilot decoupling mechanism (Pilot Program) authorized for Avista Utilities (Avista) by virtue of a multi-party settlement agreement[1] approved by the Washington Utilities and Transportation Commission (Commission) on February 1, 2007 in Docket UG-060518 on limited income[2] natural gas customers.[3] Therefore, my testimony does not address all aspects of the implementation of the Pilot Program. Nor do I address all the questions associated with this Pilot Program as reflected in the Evaluation Report conducted by Titus, a consulting firm, and which was attached to the Direct Testimony of Brian Hirschkorn on behalf of Avista as Exhibit No. ___(BJH-2). Rather, the focus of my testimony relates primarily to Chapter K of the Evaluation Report, "Impact on Washington Limited Income Customers."[4] In the course of my review of the Pilot Program and its impact on

[1] Public Counsel and The Energy Project did not join in the settlement.
[2] The term "limited income" was used in the Evaluation Report to refer to customers with an annual household income of 125% of federal poverty guidelines or less. In my testimony I use this term generally to refer to low-income households and I will present additional information about the size of this customer group later in my testimony.
[3] The Pilot Program was supposed to expire on June 30, 2009, but has now been extended by the Commission through December 2009 on a provisional basis while the current base rate case and evaluation of this Pilot Program can be completed. In the Order extending the Pilot Program, the Commission stated that will "…carefully evaluate the substantive impacts of the Pilot Program in the context of the general rate case now pending." See, Supplemental Order Temporarily Extending Decoupling Mechanism, Order 07 (June 30, 2009), at 3.
[4] During a hearing held on March 24, 2008 by the Commission to consider the delay in the implementation of the required Evaluation of the Pilot Program under Docket UG-060518, Commissioner Oshie specifically requested that the Evaluation examine "…whether or not limited income customers are going to be unduly or unreasonably affected by the operation of this program…" Commissioner Oshie also stated

limited income customers, my testimony will also provide additional reasons to support my overall recommendation that this decoupling program should be terminated.

Q: Please summarize your conclusions and recommendations.

A: I recommend that the Commission terminate this program as of June 30, 2009 and not allow any recovery of deferrals recorded after June 30, 2009. First, it is clear that limited income customers and many more payment troubled customers pay higher prices for essential natural gas service and do not receive any of the potential direct benefits from the more expensive DSM programs that Avista has implemented. Furthermore, this decoupling experiment appears to have stimulated Avista to create a very expensive media campaign to drive higher income customers to obtain rebates for certain appliances that were then claimed by Avista to result in even higher usage reductions compared to historical levels of claimed savings for several expensive appliances and investments. As a result, higher income customers can participate in programs that reduce their natural gas bills, but lower income customers do not have this option and must pay the higher prices for natural gas service without any realistic opportunity to participate in these programs. Third, there appears to be a legitimate basis for questioning Avista's actual energy savings from these more expensive DSM programs. This is particularly the case since the Evaluation Report submitted in this proceeding

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that the concern was even broader and should consider the potential impact of higher prices on the low-customer's usage, particularly with reflect to heating usage. He also raised the issue of whether limited income customers would end up paying higher prices and have higher bills for the same amount of gas because they could not afford to invest in efficiency measures. TR. at 147-148.

was unable to actually confirm that the claimed energy savings have occurred based on a statistically valid analysis of customer bills and usage analysis. As a result, Avista has not, as required by the Commission, provided a "convincing demonstration that the mechanism has enhanced Avista's conservation efforts in a cost-effective manner."

II. DESCRIPTION OF AVISTA'S DECOUPLING MECHANSIM AND AVISTA'S EVIDENCE CONCERNING ITS IMPACTS

Q: Please describe Avista's decoupling mechanism.

A: The decoupling mechanism allows Avista to increase prices for natural gas customers based on a complicated formula that is intended to reflect the potential for lost revenues due to the implementation of efficiency programs, the purpose of which is of course to reduce usage and avoid the purchase of more expensive natural gas. The formula is complicated because it tries to isolate changes in usage and sales revenues from the impact of weather, the growth in the customer base, and it also tries to prevent the mechanism from causing Avista to over-earn beyond a predetermined amount. Since Avista's sales revenues reflect a per therm price for a portion of its distribution (i.e., that portion that is not recovered in the fixed monthly customer charge) and natural gas supply services, the reduction in therm usage will, all things being equal, result in lower sales revenues. Avista (and other utilities) argue that they run the risk that their revenues and any profit margin built into their rate structure will decrease as a result of promoting and implementing efficiency programs and that a decoupling mechanism will shield them from this risk and encourage them to implement efficiency programs more aggressively. Of course, any utility's revenue requirement will be reset at the time of the base rate case to reflect the lost sales revenues so that these concerns about lost revenues are basically a reflection of the timing between base rate cases. The Commission's Order approving the settlement for the Pilot Program recognized the potential for "flaws", but allowed the proposed settlement to go forward, stating:

> After reviewing all of the arguments, we determine that it is in the public interest to allow the Company to proceed with this pilot program. However, we agree with Public Counsel and the Energy Project that the proposal is not without potential flaws. The settling parties should consider our approval as an opportunity to demonstrate that decoupling mechanisms do indeed increase utility sponsored conservation and that the potential flaws do not outweigh the program's benefits. We will carefully evaluate the mechanism, and will only consider an extension upon a convincing demonstration that the mechanism has enhanced Avista's conservation efforts in a cost-effective manner.
>
> Order 04, at 10, ¶ 31.

Q: Please describe Avista's evidence in support of the continuation of the decoupling program.

A: Mr. Brian Hirschkorn submitted Direct Testimony on behalf of Avista on this matter. He stated that the decoupling mechanism has "achieved its intended results" and named two intended results: (1) a "substantial increase" in natural gas DSM "efforts and results;" and (2) a recovery of a "substantial portion of its fixed natural gas distribution costs through relatively small rate adjustments between general rate filings." He also stated that the decoupling mechanism was consistent with current national energy policy. [Hirschkorn at 4] To support his statements about the impact of the decoupling mechanism, Mr. Hirschkorn submitted the Evaluation Report by Titus which was conducted between October 2008 and March 2009. Mr. Hirschkorn's testimony also included his evidence to support the conclusion that Avista had increased its natural gas DSM programs and results, relying on the claimed savings for residential and small commercial customers and the media campaign, "Every Little Bit," in which Avista promoted its website and DSM program information. With regard to "verified" DSM savings, Mr. Hirschkorn states that the Company fell short of its 2006 DSM goal, but that in 2007 and 2008 the verified savings were 137% of the goal. [at 10] On August 5, 2009, Avista informed the parties that this calculation was incorrect and submitted a revised presentation of its 2008 DSM verified savings showing that the savings were in fact 127.8% of the IRP goal.[5] With regard to actual lost sales and the lost margin or profit associated with those sales, Mr. Hirschkorn states that the lost margin resulting from DSM savings for Schedule 101 customers was 16% of the decoupling deferrals associated with the reduction in usage by all Schedule 101 customers for 2007-2008, thus showing that, "Customers are reducing their natural gas usage in ways other than through direct participation in the Company's DSM incentive programs." [at 11] With regard to the impact of the Pilot Program on limited income customers, Mr. Hirshkorn merely indicates

[5] Electronic communication from Pat Ehrbar, Avista, to service list and accompanying Exhibits, "08-05-09-Revised Final Avista 2008 Decoupling Summary.xls" and "Titus Report Changes-080509.pdf." Subsequently, Titus submitted numerous revised Tables from its Evaluation Report to reflect this revision from Avista. See, electronic communication from Steve Vock Titus, to service list dated August 7, 2009, with six attachments showing further changes to the Evaluation Report.

that Section K of the Report provides "comprehensive information" on this matter and he refers to Mr. Powell's Direct Testimony on Avista's DSM program portfolio.

Q: Does Mr. Powell discuss the impact of the Pilot Program on Limited income customers?

A: Not really. Mr. Powell's testimony summarized certain statements from the Evaluation Report, but his testimony does not provide any substantive analysis of the impact of the Pilot Program on limited income customers. Mr. Powell's testimony does confirm that efficiency programs targeted to limited income customers increased far less than the programs targeted to other Schedule 101 customers. He states that the DSM programs that target limited income customers are a reflection of annual contracts with the six Community Action Agencies in Washington. He points to an increase in the budgets for this program from $184,784 in 2004 to $536,338 in 2008. Most importantly, Mr. Powell notes that there are precautions that have limited the increase in funding for these programs that derive from concerns expressed by the Commission staff concerning the cost effectiveness of these programs and their impact on the cost effectiveness of the entire DSM portfolio. [Powell at 9] Mr. Powell then recites the findings of the Evaluation Report that the decoupling surcharge for limited income customers would result in an average increase for the November 2007 through October 2010 time period of $.40 per month based on the typical annual consumption of this customer group. He calculates that this results in a total annual cost to this customer group of $83,614. Finally, Mr. Powell notes that this customer group saw a 13% increase in DSM savings with a 43% increase in expenditures. [Powell at 10]

Q: Did the Evaluation Report study all the potential variables that might impact Avista's sales during this period?

A: No. The Report specifically did not evaluate the following important variables[6]:

- The impact of Avista's general DSM awareness advertising.
- The impact of electric DSM programs on gas usage and vice versa.
- The impact of price elasticity.
- The impact of "free ridership".
- The impact of the economy on usage and DSM program participation.

As a result, the Evaluation Report must be considered as only evaluating some of the variables that have impacted Avista's sales and sales revenues during the Pilot Program. This limited focus should be taken into account by the Commission in evaluating the Pilot Program.

Q: Please summarize the information presented in the Evaluation Report concerning the impact of the Pilot Program on limited income customers.

A: The Evaluation Report estimated the number of limited income customers served by Avista by extrapolating from the number of known customers who qualified for LIHEAP assistance in 2007 and using available county-specific U.S. Census information. The Report estimated that 15.9% of Avista's natural gas customers have a household income equal or less than 125% of poverty guidelines (17.3% of all customers served by Avista for both gas and electric service). The Report also stated that the average limited income customer saved 0.48% of their usage due to DSM savings. The Report noted that the budgets for the limited income DSM programs were established and approved by means of agreements in Docket UG-050483 (January 2006) and Docket UG-080416 (January 2009). These agreements allowed greater flexibility in spending by the CAP agencies and allowed a larger portion of the costs for a particular dwelling to be allocated to gas conservation and increased annual funding by $200,000 in the January 2006 agreement. In addition, there was additional funding for these programs due to settlements in various proceedings unrelated to Avista, but which targeted additional DSM programs to Avista's limited income customers.[7] The general program design has remained the same during this period in that the program delivers no cost home weatherization and hot water insulation measures to the respective household. The program does not typically fund appliance replacements for the wide range of consumer appliances for which rebates are provided for the residential DSM programs, but primarily focuses on any gas-fired heating systems and tightening up the dwelling to reduce the amount of natural gas used for space heating. Titus provided no additional information on whether limited income customers participated in Avista's residential DSM programs, but assumed that they did not do so.

Titus assumed that the usage profile of limited income customers who did not participate in LIHEAP was the same as those that participated in LIHEAP. The average usage of the limited income customers is lower than other Schedule 101

[6] Evaluation Report at 5.
[7] Evaluation Report, page 85.

residential customers by 9%[8], but the actual reason for this lower usage is unknown and has not been investigated or evaluated by either Avista or Titus in this proceeding.[9],[10] Based on this average usage, Titus calculated this customer group would pay an additional $6.12 for the decoupling surcharge for the three year period of November 2007 through October 2010, slightly less than the $7.29 impact for the average Schedule 101 customer.[11] However, this differential includes the presence of commercial customers in Schedule 101. When compared to residential customers in Schedule 101, limited income customers pay on average 59 cents less than the $6.71 paid by the average residential Schedule 101 customer for the decoupling deferral recovery cost.[12] Titus also calculates that the limited income customers would pay $95,655 and $71,573 for the 2007 and 2008 decoupling deferrals, which is 12.6% of the deferral cost burden borne by residential Schedule 101 customers.[13] The average cost of paying for Avista's DSM programs through the DSM program surcharge (Schedule 191) is much

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[8] It should be noted that Table K10 in the Evaluation Report compared limited income usage with Schedule 101 average usage. Avista's Response to Energy Project's Data Request No. 011 confirmed that the 9% differential was based on comparing limited income usage with residential Schedule 101 usage—58 therms versus 63.5 therms respectively.

[9] Avista's Response to Energy Project's Data Request No. 012. Nor does Avista have any information on the penetration of appliance types or age for limited income customers or residential customers generally. Avista's Response to Energy Project Data Request No.005.

[10] A study published in December 2007 contained Washington-specific data on income, usage, and appliance saturation for each of the electric and gas utilities. See, Washington State Energy Needs: Final Report (December 2007). This Report was also included in the Evaluation Report as Exhibit K-2. This Report found that Avista had the highest percentage (25%) of households that use natural gas as the main heating fuel compared to the 16% penetration for the state as a whole. In general, residential customers in Washington rely on electric heat as their main heating fuel.

[11] Evaluation Report, Table K11-A, Estimated Decoupling Deferral Recovery Cost.

[12] Avista's Response to Energy Project's Data Request No. 013.

[13] Table K-12 in the Evaluation Report shows that limited income customer would pay 10.6% of the total Schedule 101 cost deferral burden, but Avista's Response to Energy Project's Data Request No. 014 provides this information as a portion of the total residential Schedule 101 cost burden.

greater than the Decoupling Surcharge, estimated at $12.49 per year for 2007 and 2008, again slightly less than the average cost to a Schedule 101 customer of $14.86. Of course, these calculations were based on the Report's calculation that only 17.3% of Avista's customers are limited income customers, a conclusion that I question and will discuss later in my testimony.

From 2004/2005 to 2007/2008 the limited income DSM savings have increased 13% and DSM expenditures have increased 43% for limited income customers. However, these figures stand in stark contrast to the significant increase in expenditures and claimed savings for residential customers generally. According to Table C9-B of the Evaluation Report, DSM expenditures for Avista's Washington residential customers increased 25% in 2007 and another 50% in 2008 compared to the limited income DSM expenditures which increased 17% in 2007 and only 12% in 2008. The ratio of DSM dollars spent on limited income customers dropped from one in six in 2007 and one in eight in 2008.[14]

Finally, the limited income DSM program results in lower savings levels compared to the estimated savings results from the residential DSM programs (3.7 therms per limited income customer versus 4.1 therms per residential customer). Titus noted that the limited income DSM programs fund 100% of the measures and that the other residential programs only fund a portion of the cost of the measures through a fixed rebate or incentive payment so that it would be expected that the cost per therm for DSM savings would be higher for limited income customers. The result is that the lower percentage of DSM dollars spent on limited income customers has an even lower impact compared to those dollars spent on other residential customers.

The Evaluation Report also contained information on the participation rates for LIHEAP, LIRAP, and the DSM program. Approximately 30% of the limited income customer group participates in either LIHEAP or LIRAP (a bill payment assistance program that provides an annual benefit to customers who did not receive a LIHEAP grant). Only 1.2% of the limited income population participates in the low-income DSM programs.[15]

III. THE IMPLEMENTATION OF THIS PILOT PROGRAM HAS HAD AN ADVERSE IMPACT ON LIMITED INCOME CUSTOMERS

Q: Did either Avista's testimony or the Evaluation Report actually determine whether the Pilot Program had an adverse impact on limited income usage decisions or comfort in the home?

A: No. There was no attempt to evaluate the usage patterns of any limited income customers to determine whether they took steps that affected their heating temperature or usage in response to the higher bills associated with the Decoupling and DSM surcharges.

Q: Did Avista's testimony or the Evaluation Report contain any information on indicia of bill payment or non-payment during the Pilot Program?

A: No. The Evaluation Report did not provide information concerning indicia of payment troubled customers, such as frequency of late payment, issuance of

[14] Evaluation Report at 29.
[15] Evaluation Report, Table K14-B.

disconnection notices, disconnection itself, need for payment plans, declarations of medical emergency, demand for deposit, or other actions taken by any utility that typically fall more heavily on limited income households.

Q: Did Avista's testimony or the Evaluation Report document any impact on Avista's decisions concerning funding level or program design for the limited income DSM programs as a result of the Pilot Program?

A: No. It is misleading for Mr. Powell on behalf of Avista to proclaim that the limited income DSM program had an increase in funding during the Pilot Program and suggest, even indirectly, that this funding level had any connection to the Pilot Program. It is clear that the spending levels and program design for the limited income DSM programs are a direct reflection of negotiations and agreements that typically occur in the context of base rate cases or other regulatory proceedings. There is no evidence that the decoupling program or mechanism had any impact on Avista's design, funding, or implementation of DSM programs targeted to limited income customers.

Q: Do you agree with the definition of limited income used in this Evaluation Report?

A: No. There was apparently an understanding among the stakeholders in the development of the evaluation plan that the definition of "limited income" would track the definition of eligibility for LIHEAP for Avista's cutomers, which is 125% or less of federal poverty guidelines. This eligibility threshold is established by the Washington Department of Commerce. However, this definition is below that used in many other states and significantly below the maximum allowable definition in use for the federally funded LIHEAP and DOE Weatherization programs targeted to low income customers. The historical federal maximum eligibility guideline for LIHEAP has always been equal to 150% of poverty guidelines or less. Furthermore, the American Recovery and Reinvestment Act significantly increased funding for both LIHEAP and the U.S. Department of Energy's Weatherization Program and increased eligibility to 60% of the state's median household income or 200% of federal poverty guidelines. If a more typical definition of 150% of federal poverty is used to calculate the number of limited income customers served by Avista, the estimated percentage used in the Evaluation Report increases from 17.3% to 22.2%, almost 9,000 more customers. Using the 200% of federal poverty guidelines, slightly over 30% or 56,643 customers would qualify under the current federal guidelines for low income assistance.[16] Therefore, the Commission should consider that the use of the 125% income limitation in this evaluation has not fully captured and has significantly underestimated the impacts of Avista's decoupling mechanism on customers with limited incomes. There is a far larger group of customers who are likely to fall into the "payment troubled" category and face unaffordable gas and electric bills without the means to invest in new appliances or housing improvements that would trigger the Avista residential DSM program rebates. Yet these same customers are not eligible for the limited income DSM programs offered by Avista.

[16] Exhibit K1, pages 9-12 of the Evaluation Report calculates the estimated number of Avista's customers by a range of income levels from 50% of poverty to 200% of poverty. These exhibits were submitted with Mr. Hirshkorn's workpapers.

Q: Does an analysis that merely provides the "average" bill impact on limited income customers provide the necessary information to make a reasonable judgment concerning the impact of the Pilot Program?

A: No. As with residential customers generally, there is a wide range of customer usage and income profiles reflected in the customer group with incomes at or below 125% of poverty. For example, of the 17.3% of customers who meet this definition, 13% have income at or below 100% of poverty. As a result, the vast majority of these limited income customers must meet their essential needs for food, shelter, medications, and energy with an income that is not sufficient. According to a recent report on Washington state energy needs, done by Apprise, Inc. for the Washington Office of Community Trade and Economic Development, 14% of all households in Washington have a total household income at or below 125 % of the federal poverty level and an additional 4 % of all households have an income between 125 % and 150% of the federal poverty level.[17] Of these households, 72% of the households in Washington with income at or less than 125% of the federal poverty level have an energy burden that is greater than 5% of their annual household income and 46% of these households have an energy burden greater than 10% of income. By "energy burden" I refer to the percentage of the household's income that is required to pay for essential electric and gas service. In general, residential customers have an energy burden equal to 3-4% of their annual household income. It is also important to remember that this

[17] Washington State Energy Needs: Final Report (December 2007). This Report was also included in the Evaluation Report as Exhibit K-2.

information, as well as the calculations in the Evaluation Report, does not reflect the impact of the ongoing and severe economic recession with its accompanying unemployment and income reductions for a larger proportion of the population.

Q: Would an analysis of merely the additional Decoupling Surcharge provide sufficient information concerning the impact of this Pilot Program on limited income customers?

A: No. In order to properly evaluate the impact of this Pilot Program on limited income customers it is necessary to consider not only the impact of the bill increase due to the Decoupling Surcharge, but consider as well the obligation to pay for the significant increase in the DSM tariff rider that reflects Avista's expanded expenditures for DSM Limited income customers are not shielded from the obligation to pay for the DSM surcharge imposed on all residential customers as a result of Avista's increased spending on DSM.

Q: Would limited income customers pay higher bills due to the impact of the Decoupling surcharge?

A: Yes. The fact that the dollar amount of this surcharge is slightly lower on average compared to other residential customers is due to the lower usage for the average low income natural gas customer. However, not all low income customers use the average amount of therms for this customer group. In fact, in 2008 28% of Avista's known limited income customers had an average monthly usage in excess of 70 therms and 20% had an average monthly bill in excess of $100.[18]

[18] Avista's Response to Energy Project's Data Request No. 002, Attachment D.

Therefore, the impact of the Decoupling Surcharge is certainly higher than this calculated average for these higher use natural gas customers. These higher bills also have a more significant impact than on other residential customers because these bills constitute a higher percentage of the household's income and contribute to the household's inability to pay for essential electric and gas service on a timely basis. Furthermore, while the Evaluation Report calculated that the limited income customers would pay approximately 12% of the decoupling deferral amount, this understates the burden that will be incurred by a much larger low income population due to the Report's use of a overly restrictive definition of limited income.

Q: Do limited income customers pay higher bills due to the impact of the DSM cost recovery surcharge?

A: Yes. It is important for the Commission to consider that the impact of the Pilot Program was not merely to pass along higher bills in the form of the Decoupling surcharge, but to stimulate Avista to spend more for its efficiency programs, thus resulting in a higher DSM cost recovery charge for all customers. Limited income customers are not exempt from these higher charges. As a result, limited income customers must pay the significantly higher costs associated with the DSM programs, most of which do not provide any assistance to limited income customers. As with my discussion concerning the impact of the Decoupling Surcharge on limited income customers, the impact of the DSM cost recovery surcharge will be most significant on a limited income customer with higher than average usage and lower than average income. For example, 16.2% of Avista's known limited income customers have an annual usage in excess of 1,000 therms.[19] A low income customer with an annual usage of 1,000 therms will have to pay an additional $33.44 just for the DSM surcharge alone.[20]

Q: Do limited income customers receive DSM program assistance commensurate with the increased costs due to the Decoupling Surcharge and the DSM Surcharge?

A: No. Limited income customers were not provided with any new, expanded, or different services that can be linked to the Pilot Program or the DSM program expenditures that Avista promoted in 2007 and 2008. The budgets for the limited income DSM programs were not affected by the Pilot Program. Nor did any of Avista's expensive marketing programs focus on the limited income DSM programs.[21] The "every little bit" media campaign was directed to higher income customers and intended to drive customers to the Avista website and learn more information about the available rebates, none of which were aimed at lower income customers.[22] Clearly, the decoupling experiment did not incent Avista to take any new actions with respect to the development of new or expanded programs to limited income customers.

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[19] Avista's Response to Energy Project's Data Request No. 002, Attachment D.
[20] The current Schedule 191 DSM cost recovery factor for Schedule 101 customers is 3.3444 cents per therm, effective February, 2009.
[21] The costs of the 'every little bit' campaign are shown in Table C7-B of the Titus Report and indicate that $513,642 was collected from Washington ratepayers, for this outreach program. This marketing program did not include any outreach efforts or marketing messages specifically targeted to limited income customers.
[22] According to Avista's "every little bit" media strategy, "Adults with HH in comes over 55k are more likely to participate in conservation programs." See, Avista's Response to Public Counsel's Data Request No. 307 and Attachment B (at 3) to that response.

IV. AVISTA'S PILOT PROGRAM HAS RESULTED IN MORE DOLLARS SPENT FOR DSM BUT SIGNIFICANT QUESTIONS REMAIN CONCERNING COST EFFECTIVENESS

Q: Do you have any observations on the overall results of the Pilot Program?

A: Avista's did not change the overall design of its DSM programs for residential customers during this Pilot Program. In other words, the DSM programs targeted to residential customers are presumably based on the notion that providing a rebate or credit to the customer for purchasing more efficient appliances or investing in structural home improvements will stimulate more customers to take such actions compared to not offering such rebates. As a result, Avista spent about $4.3 million for residential DSM programs in 2008 that reflects the costs of marketing and providing the rebates to residential and small commercial customers for purchasing new appliances or other home improvements. This was a 70% increase over expenditures in 2007. However, some of this increase in spending and claimed savings was due to changes by Avista in 2008 to increase the dollar amount of the rebates and increase the claimed therm savings for certain items.[23] For example, the rebate for a new high efficiency gas-fired furnace increased from $200 to $400 during 2008. At the same time, Avista began recording a higher level of savings at the time that the dollar amount of the rebates was increased. The same gas furnace that was recorded as providing a 72 therm usage reduction with the $200 rebate was now recorded as providing a 123

[23] Avista Response to PC-283, Attachment A. One change resulted in a lower estimated therm savings, for 40 gallon high efficiency water heater tanks, but several other changes resulted in increased savings estimates, such as for the furnace boiler, insulation, and clothes washer programs.

therm reduction with the $400 rebate. The claimed usage reductions associated with these appliances and investments were not based on actual verified results in a statistically valid survey of Avista customers. Rather, Avista instituted these actions based on internal corporate decisions that were not a reflection of their consultant who conducted the verification evaluations.[24] I find the coincidence of the higher rebate amounts and the level of claimed savings from these appliances troubling.

Q: Is there any evidence that Avista has undertaken an analysis of the structure and size of its customer rebates to determine how to achieve usage reduction results for the lowest cost?

A: No. This evidence is devoid of any indication that Avista has attempted to design and implement the most cost effective DSM programs as a result of this Pilot Program. Rather, the overall incentive of this program has been to stimulate Avista to offer more customer incentives or rebates, increase the amount of the rebates, and claim a higher level of savings as a result of the volume of the rebates and the higher savings attributed to each rebate given to a customer.

Q: Has this proceeding documented that Avista's verification procedures for its claimed gas savings as a result of its DSM expenditures have been called into question?

A: Yes. It appears that Titus sought to provide actual bill analysis and verification of

[24] Avista's Response to Public Counsel's Data Request No. 441 describes the changes in rebate amounts and claimed savings and confirms that there was no notice to the WUTC on these changes or any specific discussion of these changes by the Triple E Board, an informal advisory group that Avista consults for the design of its DSM programs.

Avista's DSM programs as part of its Evaluation Report, but Avista refused to expand the report for that purpose. According to the Executive Summary of the Evaluation Report,

> The DSM Savings Verification Audits were performed as required. The assumptions made, methods used and results of the report appear reasonable. While considerable effort was invested to review back office operations and engineering calculations, *no actual energy measurement or post-installation bill verification was performed by the DSM Savings Verification Auditor.*[25]

The fact the DSM Verification did not include any actual measurement of energy usage or bill verification of actual DSM measures is further discussed in Section H of the Evaluation:

> The verified effect reported in the audit is not "measured" energy savings. The auditor verified the engineering estimates and the corresponding assumptions and documentation but did not perform any post-installation measurement or analysis.[26]

As a result, the Evaluation Report should not be relied upon by the Commission to determine whether Avista's increased expenditures for its DSM programs have actually resulted in verified cost effective savings for customers. In light of the Commission's stated intent that Avista must document that the Pilot Program resulted in the implementation of cost effective DSM, this is a disturbing development.

V. RECOMMENDATIONS

Q: What is your recommendation to the Commission with respect to the continuation of this decoupling mechanism?

A: I recommend that the Commission terminate this program as of June 30, 2009 and not allow any recovery of deferrals recorded after June 30, 2009. First, it is clear

[25] Evaluation Report, Executive Summary, p. 5. Emphasis added. Citation omitted.

that limited income customers and many more payment troubled customers pay higher prices for essential natural gas service and do not receive any of the potential direct benefits from the more expensive DSM programs that Avista has implemented. Furthermore, this decoupling experiment appears to have stimulated Avista to create a very expensive media campaign to drive higher income customers to obtain rebates for certain appliances that were then claimed by Avista to result in even higher usage reductions compared to historical levels of claimed savings for several expensive appliances and investments. As a result, higher income customers can participate in programs that reduce their natural gas bills, but lower income customers do not have this option and must pay the higher prices for natural gas service without any realistic opportunity to participate in these programs. Third, there appears to be a legitimate basis for questioning Avista's actual energy savings from these more expensive DSM programs. This is particularly the case since the Evaluation Report submitted in this proceeding was unable to actually confirm that the claimed energy savings have occurred based on a statistically valid analysis of customer bills and usage analysis. As a result, Avista has not, as required by the Commission, provided a "convincing demonstration that the mechanism has enhanced Avista's conservation efforts in a cost-effective manner."

Q: Does this complete your testimony at this time?

Yes.

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[26] Evaluation Report, Section H, p. 61. Citations omitted.