

March 19, 2010

**VIA FIRST CLASS AND ELECTRONIC MAIL**

David Danner  
Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Pk. Dr. S.W.  
PO Box 47250  
Olympia, WA 98504-7250

Re: Puget Sound Energy  
Docket No. UE-100382      Electric Conservation Service Tracker, Schedule 120  
Docket No. UG-100383      Gas Conservation Service Tracker, Schedule 120  
Docket No. U-091954      Staff Investigation of PSE Electric and Natural Gas  
Conservation Programs

Dear Mr. Danner:

Public Counsel submits these comments in advance of the Commission's March 25, 2010, Open Meeting. These comments address two items : (1) the Staff investigation of PSE's electric and natural gas conservation program descriptions, budgets, cost-effectiveness, and evaluation as described in Appendices A, B, C, and D of the Company's conservation tariffs; and (2) the Company's Electric Conservation Service Tracker (Schedule 120) and Natural Gas Conservation Service Tracker (Schedule 120). These two items are interrelated in that the Schedule 120 tariffs collect funds for PSE's conservation programs.

Public Counsel supports utility conservation programs because these programs can deliver an important least-cost resource and are required by law, both under the Commission's integrated resource planning rules and by Washington's Energy Independence Act (I-937). Furthermore, consumers have reasonably come to expect that their utility will offer such programs. Costs for conservation programs have increased substantially in recent years. As the cost burden borne by ratepayers grows, and the significance of the programs expands, it has become increasingly important for the Commission and stakeholders, including Public Counsel, to have confidence that utility conservation programs are cost-effective and well-designed.

## **I. THE STAFF INVESTIGATION OF PSE'S CONSERVATION PROGRAMS**

Because of unresolved concerns with PSE's December 2009 Energy Efficiency Services (EES) filing, Public Counsel supported Staff's request to open an investigation of PSE's conservation tariffs.<sup>1</sup> Due to conflicting demands on the parties during the short time available (approximately 10 weeks), the scope of the investigation was limited and it did not entail a detailed review of every area discussed in our December 17, 2009, comments. This letter presents the conclusions we were able to arrive at as a result of our participation.

### **A. Increased Size and Scope of the Energy Efficiency Portfolio.**

As a general matter, PSE is a leader among Washington utilities in the design and implementation of conservation programs. With PSE's two year conservation budget proposal now at over \$200 million, however, the historic level of documentation and review time for its programs is no longer adequate. The overall budget has become so large that it is on par with a general rate case request.<sup>2</sup> A general revenue request on this scale would ordinarily be reviewed in detail over several months with the benefits and protections of an adjudicative process.

For conservation budgets, that level of support, documentation and justification has not traditionally been provided. The only budget spreadsheet or workpaper included with PSE's \$200 million two-year EES budget is Appendix B, a one page document. While this document is a very useful overview, PSE's EES budget is simply too big and complex to be adequately presented for review solely in this limited format. The problem is illustrated by the single line item for the Residential Single Family Existing gas and electric program which has a budgeted cost of over \$57 million. Although this sizable number is a considerable portion of the entire budget, no further information is included that describes in any detail the components of that line item, except as to its allocation between gas and electric programs.

This recommendation is not meant to be critical of how PSE has provided the information included in their filing, which is consistent with past practice. However, further accounting and budget detail is needed. When such detail was sought in the Staff investigation, it was not easy to access due to formatting issues and internal differences in how accounts are organized. While PSE was cooperative in attempting to respond to information requests, much documentation currently does not exist in the format sought by Staff and Public Counsel.

---

<sup>1</sup> On December 17, 2009, Public Counsel submitted comments in advance of the December 23 Open Meeting addressing several areas.

<sup>2</sup> For example, PSE's most recent general rate request, as filed in May 2009, requested an increase of over \$148 million for electric and \$27 million for gas. Summary Document per WAC 480-07-510, Section (4), Puget Sound Energy 2009 Electric Rate Increase, Advice No. 2009-11, Filed May 8, 2009. Docket No. UE-090704; Summary Document per WAC 480-07-510, Section (4), Puget Sound Energy 2009 Natural Gas Rate Increase, Advice No. 2009-12, Filed May 8, 2009. Docket No. UG-090705. By comparison, PSE's two-year conservation budget for 2010-2011 is roughly \$169 million for electric and \$33 million for gas.

To: David Danner  
Re: Docket Nos. UE-100382, UG-100383 & U-091954  
Date: March 19, 2010  
Page 3

Going forward, it would be helpful if the Company provided its budget in a format similar to that provided by revenue requirement witnesses in general rate cases, with a summary page that would look similar to the current Appendix B, but with additional supporting spreadsheets in the same workbook that have greater detailed information related to each line item. Where appropriate, workpapers should also be provided. Additionally, the information should be specifically formatted to be easily read and printed by the user.

Finally, as an additional change to the process, Public Counsel suggests that PSE and CRAG members consider revising the timelines for review provided in the 2002 settlement to reflect the new environment. Again, the considerable scope of the programs makes it difficult for Staff, Public Counsel, and other stakeholders to thoroughly examine the completed filing and provide meaningful feedback. Public Counsel recommends that following the completion of the draft EES tariff filing, there should be a meeting with the CRAG to discuss the completed plan, which puts together numerous components that have only been considered separately up to that point. This process would also benefit from incorporating a longer time for review between the CRAG's first receipt of the draft plan and the time it comes before the Commission.<sup>3</sup>

#### **B. Appendix D—EES Evaluation Plan.**

PSE's December 2009 EES filing included an Appendix D outlining its evaluation plan for the 2010-2011 period. We have a few observations and recommendations regarding this document and issues related to evaluation, measurement, and verification (EM&V). First, we observe that prior versions of PSE's Appendix D (Evaluation Plan) included a clear listing of the impact and process evaluations that had been completed or were in progress. This relevant and useful information was not provided in the current Appendix D. It would be helpful to continue to include it.

Second, and more significantly, we believe it is appropriate for PSE to develop a more comprehensive EM&V Plan. Such a plan would be consistent with the Commission's recent guidance in Avista's general rate case, and is also appropriate given the substantially increased size and scope of the Company's energy efficiency portfolios. PSE's proposed Appendix D provides a general overview as to how the Company would determine which programs to evaluate, but does not provide a more specific roadmap or strategy describing the Company's workplan over the next two-year period to measure and verify the savings in its energy efficiency portfolios.

Public Counsel commends PSE for conducting impact and process evaluations of some of its energy efficiency programs. We believe this will serve the company well as it works with

---

<sup>3</sup> According to Exhibit F (Settlement Terms for Conservation) to the Settlement Stipulation in Docket Nos. UE-011570 and UG-011571, "PSE shall send draft tariff submittals and program changes to Advisory Committee members at least two months before any proposed effective date." p. 10. Currently, PSE sends a copy of the plan to the CRAG members who review the document on their own.

To: David Danner  
Re: Docket Nos. UE-100382, UG-100383 & U-091954  
Date: March 19, 2010  
Page 4

stakeholders to develop an EM&V plan.<sup>4</sup> Comments in the recent I-937 proceedings have recommended the Commission convene a generic proceeding or industry-wide collaborative to address various issues, including EM&V. Therefore, instead of approving PSE's Appendix D in its current form, we recommend that the Commission direct PSE to develop a comprehensive EM&V Plan, either as part of a generic industry-wide proceeding or by working with the CRAG.

### **C. Information-Only Programs and Increases in Marketing.**

“Information-only” conservation programs are those programs which rely solely on customer education and behavior modification to achieve conservation, rather than measures such as weatherization or the installation of energy efficient appliances. The results of these programs are uncertain and are very difficult to measure. As a result, behavior-based programs remain relatively untested as a reliable means of delivering conservation savings, particularly in comparison to traditional installation-based conservation methods and measures. Furthermore, attempting to attribute results to information-only programs also risks double counting of savings from these traditional, more reliable installation-based programs, which are the primary means by which PSE achieves energy savings.<sup>5</sup>

There has been scant rigorous or independent research on these programs. For example, little research has been done regarding the persistence of any change in behavior. While the average measure life of a high efficiency furnace or CFL is a known quantity, there is not yet any similarly reliable data regarding the persistence of energy savings related to information-only programs. Concerns of this nature explain the exclusion of information-only programs from PSE's 2002 conservation settlement. A prudent approach to such programs is to proceed with smaller-scale pilot programs that have an opportunity for full and complete independent evaluations.

While Public Counsel was unable to review these issues fully in the Staff investigation, we believe it is an area to watch closely in the future, across all utilities, as companies anticipate less conservation will be available through performance-based measures, and are looking to adopt behavior modification strategies and count savings from them. We believe it would be useful for the Company to provide the CRAG with a detailed review of these programs particularly considering the anticipated increase in the budget for such programs over the next biennium.

---

<sup>4</sup> We also observe that the Blue Ridge interim report of PSE's electric incentive mechanism contained useful guidance and recommendations on this issue. For example, Blue Ridge recommended that PSE conduct a participant cost test for each of its programs, because those programs that fail or are close to failing that test are likely comprised largely of free riders. Consequently, ratepayer funds should be directed to other, more beneficial programs. See “Independent Third-Party Evaluation of PSE's Electric Conservation Incentive Mechanism” prepared by Blue Ridge Consulting Group, October 24, 2009, p. 53.

<sup>5</sup> Public Counsel has expressed concern about the Company's ability to account for the possible double counting of energy savings associated with customers who utilize PSE's conservation programs and incentives.

*Home Energy Reports/OPOWER.* PSE is proposing a dramatic expansion of its existing pilot “information-only” program known as “Home Energy Reports.” The program is provided in cooperation with OPOWER, a subcontractor. The original pilot began last year, and includes over 40,000 households in the test group, and another 40,000 households in the control group, for a total of 80,000 households in PSE’s combined electric and gas service territory. OPOWER prepares reports that are sent either monthly or quarterly to the test households, comparing their energy use to their neighbors and encouraging them to conserve.

According to information provided by the Company in response to Public Counsel questions, it appears that the expansion of the pilot will add over 120,000 households to the test group and another 24,000 households to create a second control group of electric-only customers in two communities.<sup>6</sup> The program as expanded would include 225,000 households, over 20 percent of PSE’s electric customers. Expansion of the program in mid-stream as proposed is unusual and does not appear consistent with careful practice in pilot design. Furthermore, this expansion will quadruple the cost of the pilot for ratepayers, even when ARRA funds are excluded from the calculation and only the utility cost is considered. The following table provides a break down of the related costs.

<b>Cost of Home Energy Report Pilot 2010-2011</b>			
	Gas	Electric	Combined
Existing Pilot Outside Services	\$ 105,250	\$ 315,750	\$ 421,000
Labor	\$ 36,000	\$ 84,000	\$120,000
Community Expansion*	\$ 182,091	\$424,878	\$ 606,969
Post Community Expansion Cost **	\$ 424,544	\$ 678,555	\$ 1,103,099
<b>Total 2010-2011</b>	<b>\$ 747,885***</b>	<b>\$1,503,183</b>	<b>\$ 2,251,068</b>
Source: Public Counsel Questions to PSE, EES Staff Investigation—PSE Response 2/18/2010 * Excludes roughly \$607,000 <sup>7</sup> in ARRA funding provided by local communities that will be included in the total resource cost, but not the utility cost. **Assumes communities will only fund one year. Funding includes continuation of service to a portion of the community-funded participants after Year 1, through the balance of 2011 *** The sum for this column provided by PSE (\$719,917) appears to be an error. The sum shown is the mathematical total of the listed budget items provided by PSE, according to Public Counsel calculations. This also affects the combined total.			

For these reasons, Public Counsel does not endorse expansion of the pilot as proposed by PSE. As previously mentioned, the efficacy of information-only programs is an open question. Early results show this program to provide small benefits at best. A broad expansion of the pilot program before results have been evaluated, at a significantly increased expense to ratepayers, is a questionable use of customer funds. Public Counsel’s preference would be that PSE self-fund the expansion, using shareholder funds, if it believes the expansion to be desirable.

<sup>6</sup> Public Counsel Questions to PSE, EES Staff Investigation—PSE Responses 2/18/10, Response No. 4, p. 5.

<sup>7</sup> *Id.*

To: David Danner  
Re: Docket Nos. UE-100382, UG-100383 & U-091954  
Date: March 19, 2010  
Page 6

Public Counsel's key concern with the Home Energy Report program, whatever its ultimate scope, is to ensure that a reliable evaluation occurs. Both PSE and OPOWER have an interest in a favorable outcome of the pilot.<sup>8</sup> An evaluation by a third party without a direct economic interest in the outcome of results of the evaluation is essential. An objective evaluation is particularly important here because the effectiveness of information-only programs is a relatively new area of analysis, because the size of the pilot will lend significance to any result, and because any pilot costs borne by ratepayers should be rewarded with reliable and useful evaluation results.<sup>9</sup>

#### **D. Conclusions From the Staff Investigation.**

The Staff investigation, though limited in scope, effectively highlights the need for continued review and analysis of overarching, industry-wide issues, as the recent I-937 filings have also done. The analysis of company conservation programs needs to be improved across the board. Public Counsel continues to recommend consideration of a generic case or other similar proceeding for this purpose, as proposed in the I-937 dockets.

## **II. SCHEDULE 120 FILING**

#### **A. Expansion of Home Energy Report program.**

As noted above, Public Counsel does not endorse the expansion of the Home Energy Report pilot, primarily due to a concern with the additional cost. While Public Counsel does not formally recommend removal of pilot expansion costs from the tariff rider, Public Counsel recommends that PSE should be required to provide an explanation to the Commission as to why the additional costs cannot be borne by the Company and its investors. Whether or not the expansion is approved, the approval should be accompanied by a requirement that the pilot be evaluated by an independent third party. If the pilot is expanded, the evaluation should be at PSE shareholder expense.

---

<sup>8</sup> OPOWER was founded in 2007 (OPOWER website, "About Us" available at: <http://www.opower.com/Company/AboutUs.aspx>). According to p. 3 of PSE's Positive Energy Program Evaluation, in 2008 PSE became the second utility in the U.S. to implement the Home Energy Reports Program through OPOWER. OPOWER's interest in a favorable outcome is most evident in that it has used the results it has gained from PSE to advertise their services to additional utilities and in media coverage the company has received.

<sup>9</sup> PSE may argue that the expansion will be beneficial because it will enable entire communities to be included within the pilot, making it easier to analyze behavioral changes. PSE has indicated that the six communities in the combined electric and gas service territory that will participate in the expansion – Bellevue, Issaquah, Kirkland, Mercer Island, Redmond and Renton – will be compared to the original 40,000 control group. We observe, however, that the original control group includes a much broader range of communities, and therefore may not serve as an appropriate and reliable evaluation comparison.

To: David Danner  
Re: Docket Nos. UE-100382, UG-100383 & U-091954  
Date: March 19, 2010  
Page 7

**B. Proposed Budget, Proposed EES filing target, and Proposed I-937 Target.**

Public Counsel has no objection to the proposed tariff rider and tracker insofar as these funds are used to achieve all achievable and cost effective conservation that the utility is required to acquire by both the Energy Independence Act, as well as the conservation associated with its IRP portfolio. However, as we mentioned in our comments in response to PSE's I-937 Compliance Report, Public Counsel is concerned about the considerable difference between PSE's proposed I-937 target and the significantly higher proposed target under the budgeted amount for its EES programs. As filed, PSE's tariff rider will collect a budget calibrated to achieve the IRP-based two-year target level of over 70 aMW, while PSE is on record as setting a two-year target of only 42.2 aMW in its I-937 Compliance Report for the 2010-2011 period. The problem in the tariff rider context is that the Company cannot properly charge ratepayers for activities if they go beyond the "achievable," "reliable," "cost-effective" and "feasible" levels required by the Energy Independence Act.

This issue is yet to be resolved, and will be addressed by the parties in PSE's I-937 compliance docket which has been set for hearing. Pending the outcome of that docket, Public Counsel requests that, if the Commission approves the two-year target filed in PSE's I-937 compliance report, an automatic review of PSE's Schedule 120 tariff would be immediately triggered.

I plan to attend the Commission's March 25, 2010, Open Meeting on behalf of Public Counsel to make a presentation and will be available to address any questions regarding these items.

Sincerely,

STEFANIE JOHNSON  
Regulatory Analyst  
Public Counsel  
(206) 389-3040

cc: Mike Parvinen, UTC Staff (E-mail)  
Deborah Reynolds, UTC Staff (E-mail)  
David Nightingale, UTC Staff(E-mail)  
Tom DeBoer, PSE (E-mail)  
Cal Shirley, PSE (E-mail)  
Dan Anderson, PSE (E-mail)  
Andy Hemstreet, PSE (E-mail)