BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	DOCKETS UE-090134
	)	and UG-090135
Complainant,	)	*(consolidated)*
v.	)	
AVISTA CORPORATION, d/b/a AVISTA UTILITIES,	)	
	)	
Respondent.	)	
. . . . .	)	
In the Matter of the Petition of	)	DOCKET UG-060518
	)	(*consolidated*)
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.	)	Prefiled Direct Testimony
	)	Nancy L. Glaser
	)	
	)	
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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Nancy L. Glaser. I am a consultant with the firm of Glaser Consulting. My business address is 5317 46th Avenue South, Seattle, Washington, 98118.

Q. What is the purpose of your testimony?

A. I was asked by the NW Energy Coalition ("Coalition") to review and critique Avista's request to continue its Decoupling Mechanism as outlined in the pre-filed direct testimony of Mr. Brian J. Hirschkorn and make recommendations about its future merit and continuance. I conducted this review in light of the Coalition's mission to advocate for a clean and affordable energy future for the Northwest based on, in part, meeting all new energy demand with energy efficiency and providing consumer and low-income protection. The Coalition employed me as a Senior Policy Associate in 2006, and in that capacity I signed the Settlement Agreement that first proposed to implement the Decoupling Mechanism. The Commission authorized the Decoupling Mechanism to take effect on January 1, 2007, for a trial period.

Q. Please summarize your educational background and professional experience.

A. I received a Master of Arts degree in Economics from Harvard University in 1974 and a Bachelor of Arts degree in Economics from Michigan State University in 1971. I am currently self-employed (Glaser Consulting) following extensive executive-level experience with public electric and solid waste utilities. From January 1998 through the beginning of 2005, I directed several divisions (Finance, Environmental Affairs, Strategic Planning, and Safety) at Seattle City Light, the 7th largest public electric utility in the nation. Examples of my priority leadership responsibilities included: assuring adequate financial resources were available for the utility's annual capital and operating programs; developing comprehensive business, marketing and resource/energy efficiency plans to ensure the utility would stay competitive in a rapidly changing industry; and implementing multi-faceted, nationally recognized environmental

stewardship programs. From 1992 to 1996, I directed the City of Seattle's Solid Waste Utility. I have also worked as a professional economist and have taught economics at Harvard University, the University of Utah and Westminster College. Exhibit No. _____ (NLG-2) describes my educational background and professional experience in more detail.

Q. Have you appeared before the Commission and other agencies and regulatory bodies?

A. Yes. In addition to representing the Coalition in connection with the above-described Settlement Agreement, I represented the Coalition before the Commission in Puget Sound Energy's general rate case (Docket Nos. UG-060267 and UE-060266) and Cascade Natural Gas Company's general rate case (Docket No. UG-060256). I have presented testimony on a wide range of energy and environmental issues to the Bonneville Power Administration, the NW Power and Conservation Council, the Federal Energy Regulatory Commission, and the Seattle City Council.

Q. Please discuss the work you performed before the Seattle City Council.

A. Nine elected Seattle City Council members oversee the City's budget, set utility rates, and define policy to guide all City operations. As a senior member of a number of City Department's leadership teams, I regularly presented findings and recommendations to the City Council. I also served as the Executive Director of the Council's central staff that provided analytical, policy development, administrative and technical support to all Council members. I supervised for several years the Council's utility and transportation team that recommended significant rate, financial and policy changes for the City's electric, solid waste, water and drainage/wastewater utilities. Thus I have extensive experience, from both the executive and legislative sides, preparing and presenting testimony and recommendations to facilitate decisions of the Council in setting rates and policies for all of the City of Seattle's four public utilities.

SUMMARY RECOMMENDATIONS

Q. Please summarize your recommendations on behalf of the Coalition with regard to the Decoupling Mechanism.

A. I recommend the Commission continue the Decoupling Mechanism with three significant modifications. First, Avista's maximum deferral would be reduced from 90% to a maximum of 70% of the fixed cost margin difference, either positive or negative. Second, the company could recover deferred amounts if it meets not one, but two Demand Side Management ("DSM") targets: an overall DSM target, as is currently the case, and a specific DSM sub-target for Washington limited income customers. Both targets would be informed by the utility's Integrated Resource Plan and must be reviewed by the company's External Energy Efficiency ("Triple E") Advisory Group and approved by the Commission. And third, I propose structuring incentives within the Decoupling Mechanism to encourage and reward performance in excess of Commission-approved targets.

Q. Have you prepared a table that sets forth how Avista would recover deferrals? proposal?

A. Yes. The following table sets forth my proposal for deferral recovery. The table modifies a similar table that Mr. Hirschkorn presented in his testimony (at p. 16).

Actual vs. Both Overall and WA Limited Income DSM Targets*	Fixed Cost Margin Deferred
Less than 80%	0%
Greater than 80%; less than 90%	30%
Greater than 90%; less than 100%	40%
Greater than 100%; less than 110%	50%
Greater than 110%; less than 120%	60%
Greater than 120%	70%

*If Avista does not meet both targets, the Fixed Cost Margin Deferral associated with the lower performance target would prevail.

THE CONTINUED NEED FOR DECOUPLING

Q. Before discussing your proposal in more detail, could you review the incentives and disincentives that are embedded in traditional utility regulation and the effect that they have on utility behavior?

A. Yes. All ratemaking regulation provides utilities with incentives or disincentives to behave in a certain manner. It is critically important to acknowledge and understand these motivations when evaluating Avista's proposal to continue the Decoupling Mechanism.

Utilities should be fairly and reasonably rewarded for meeting their customers' energy service needs. Traditional rate design ties recovery of fixed costs directly to commodity sales. This encourages increased energy use and discourages even the most economical investments if they are likely to reduce throughput. If sales of natural gas go down, for example, utility shareholders forego cost recovery of recognized and prudent costs with every unsold therm. Historically, under this system, supply expansion is the primary response to projected load growth -- to the exclusion of significant investments in energy efficiency, peak load pricing and distributed energy resources. This is economically inefficient because there is a disincentive to choose conservation resources, to encourage efficiency investments by customers or to support policies that cause therm sales to decline (e.g., building codes, federal efficiency standards).

This regulatory paradigm places the utility's interest (to increase sales) in conflict with the customers' interest (to reduce their total energy costs). Not only does this foster a corporate culture that opposes direct utility investments in programs that reduce energy use, it further motivates the utility to discourage customer-financed reduction measures and to oppose efforts to tighten building codes and appliance standards.

Current regulation also has the effect of magnifying weather and business cycle risks and volatility for both the utility and its customers. During periods of higher than average usage caused by weather extremes, low commodity prices or economic boom, customers overpay fixed distribution costs, and utilities likely earn more than their allowed return on equity, which essentially results in a windfall unrelated to the utility's behavior. Conversely, with mild weather, high commodity prices, or periods of economic difficulty, consumers reduce usage and their payments fall short of covering approved fixed costs. The utility suffers a loss, again not connected to the utility's actions.

Q. How does decoupling overcome the disincentives to conserve energy that are embedded in traditional regulation?

A. Breaking the link between the utility's commodity sales and revenues removes both the utility's incentive to increase energy sales and the disincentive to run effective energy efficiency programs or invest in or encourage other activities that may reduce load. Decision-making can then focus on making the lowest reasonable cost investments to deliver reliable energy services to customers even when such investments reduce throughput. The result is a better alignment of shareholder, management and customer interests to provide for more economically and environmentally efficient resource decisions. A decoupling mechanism also can help establish a corporate culture that promotes substantial and aggressive investment in cost-effective conservation. A well-designed decoupling mechanism is an important tool for regulators to deploy to better align ratemaking with stated policy goals and customer interests. Further, such a mechanism allows the Commission to review and approve fixed cost recovery without increasing fixed customer charges. Not only do increases in fixed charges disproportionately affect low-income customers, these increases seriously erode the ratepayers' economic incentive to invest in energy efficiency.

PROPOSED MODIFICATIONS TO THE DECOUPLING MECHANISM

Q. Is Avista proposing any changes to the Decoupling Mechanism?

A. Yes, one minor change that Mr. Hirschkorn discusses on pages 12 and 13 of his testimony. The minor change would adjust actual monthly customer usage to remove the net effect of customers switching between rate schedules 101 and 111. As discussed below, Avista proposes no changes to the Decoupling Mechanism's general recovery process.

Q. If the Commission were to continue the Decoupling Mechanism under Avista's proposal, how would the company's DSM performance affect the level of deferred revenue that it could recover in the annual rate adjustment?

A. Avista recommends that the level of deferred revenue recovery be limited by and subject to the same DSM performance test that the Decoupling Mechanism employed during the trial period. Mr. Hirschkorn presents a table in his direct testimony (at p. 16) that sets forth this test:

Actual vs. Target DSM Savings	Amount Deferred
Less than 70%	0%
More than 70%; less than 80%	60%
More than 80%; less than 90%	70%
More than 90%; less than 100%	80%
100% or more	90%

Q. How did Avista's decoupling revenues compare to DSM lost margin during the Decoupling Mechanism's trial period?

A. The March 30, 2009 Final Report that evaluated the Decoupling Mechanism (Exhibit No. ___ (BJH-2)) ("Report") states in Table 1, page 2 that, under the Decoupling Mechanism, Avista recovered four and six times the lost margin attributable to its Washington Schedule 101 DSM

programs in 2008 and the 2007- 2008 biennium, respectively. Table 1 from the Report is reproduced below:

Table 1 - Decoupling Revenue and DSM Lost Margin

	2007	2008	Total
WA Decoupling Deferrals	$938,329	$673,508	$1,573,628
WA Schedule 101 DSM Lost Margin	$90,429	$169,189	$259,617
Total WA DSM Lost Margin	$174,898	$221,712	$396,610

Q. Why are you recommending changes to the Decoupling Mechanism?

A. The Coalition asked Avista to identify and describe the most significant obstacles, if any, it faced and expects to face (through 2015) as it plans its investments in cost-effective gas efficiency programs. Avista responded (Exhibit No. ___ (NLG-3), DR 09-10):

> … the most significant challenges and disincentives to the pursuit of enhancements to the natural gas DSM portfolio include successfully obtaining the necessary customer response, and delivering a total resource cost-effective natural gas portfolio (without undue impact upon Avista's tariff rider surcharge, the tariff rider balance or an unacceptable impact upon the Company's ability to earn its authorized return due to lost margin.)"

In my opinion it is necessary to continue the Decoupling Mechanism as a key tool to ensure that the last obstacle mentioned does not interfere with Avista's ability to maximize its investments in cost-effective DSM. But it is just as necessary to modify the Decoupling Mechanism that has been piloted by Avista to ensure that the other obstacles are also addressed effectively. My three recommendations - reducing the maximum decoupling deferral, adding a second DSM sub-target to encourage additional conservation investments for Washington limited income customers, and structuring incentives for Avista's DSM performance beyond Commission-approved targets – would begin to address the other obstacles. I believe the

Commission can encourage maximum investments in cost-effective conservation if it retains the benefits of a structured Decoupling Mechanism, reduces somewhat the amount of dollars returned to Avista through decoupling deferrals in that Mechanism, and considers redirecting limited ratepayer dollars to enhance the conservation tariff - - particularly in our current economic recession. This approach begins to more holistically address all the identified obstacles, not just the disincentive associated with the under-recovery of fixed costs.

If my recommendations are adopted, the Decoupling Mechanism would permit Avista to recover a significant share of its fixed costs so that company and customer interests are more fully aligned in support of all cost-effective conservation. Avista could increase its fixed cost recovery if it exceeds Commission-approved DSM targets, and customers could better afford increased investments in the conservation tariff rider.

Q. Do you have other reasons for your recommendations?

A. Yes. As discussed later in my testimony, one reason that the continued Decoupling Mechanism should limit recovery is because energy use trends are no longer symmetric in nature – the trend now is towards overall decreases in energy use.

Further, and just as important, as ratepayers are experiencing significant financial challenges in the current economic climate, a more equitable sharing of financial risk between Avista and its customers should be built into the Decoupling Mechanism. To this end, I recommend the Commission reduce the maximum allowed deferral recovery from 90% to 70%.

In addition, the Report states at page 3 that Washington Limited Income DSM growth is slower than the overall DSM growth in the state, which in turn is less than Washington Schedule 101 DSM growth. Thus, Schedule 101 customers are receiving considerable benefits from increased investments in DSM programs while limited income customers who are most in need of the benefits of DSM program investments continue to face obstacles that are interfering with the delivery of energy efficiency programs to them. If Avista must meet ambitious energy efficiency targets for its limited income customers as well as its full customer base (e.g. by

bringing a limited income efficiency target into the Decoupling Mechanism), then the company will place a stronger priority on achievement of both performance measures.

Q. Please describe in more detail your concerns about non-DSM-related changes in energy use.

A. Historically, the potential for changes in per-customer usage has been symmetrical over time. Usage might increase or decrease due to economic conditions, technology change and weather, but changes in gas use were not fundamentally skewed in one direction. Thus, a decoupling mechanism that created adjustments for any change in usage could be seen as inherently fair, regardless of how much of the change was due to DSM directly or indirectly affected by the utility's actions.

At the same time, there is asymmetry inherent in the ratemaking process itself, since a utility can easily and quickly initiate a rate case to accommodate falling profits or unrecovered costs, but customers do not have an equal ability to start a rate case if profits are rising. For years, many utilities in the region had long gaps between rate cases as they benefited from increased usage.

Q. Do you believe that changes in per customer usage are no longer symmetric?

A. Yes. Changes in per-customer natural gas usage are trending downward for the foreseeable future. There are several reasons for this, including: global warming which is gradually making winters less severe and consumers more concerned about their carbon footprints; smaller house sizes driven by economic and demographic trends; and a reaction to urban sprawl and long commutes. More specifically, in Avista's response to Public Counsel's data request (PC-179) (Exhibit ___ (NLG- 4), the company presents data showing a downward trend in usage for Schedule 101 customers. Two different methods of weather normalization included in the response indicate that the weather normalized annual therm sales of Schedule 101 customers have declined 16 to 18 percent since 1999. I therefore recommend that the Decoupling Mechanism limit adjustments for non-DSM-related changes in gas usage.

Q. Please provide specific details concerning your recommended modifications to the Decoupling Mechanism.

A. First, Avista should be commended for continuing to include an annual earnings test and a maximum 2% adjustment in the Decoupling Mechanism. For the above reasons, however, I recommend the following changes in the DSM performance table:

Actual vs. Both Overall and WA Limited Income DSM Targets*	Fixed Cost Margin Deferred
Less than 80%	0%
Greater than 80%; less than 90%	30%
Greater than 90%; less than 100%	40%
Greater than 100%; less than 110%	50%
Greater than 110%; less than 120%	60%
Greater than 120%	70%

*If Avista does not meet both targets, the Fixed Cost Margin Deferral associated with the lower performance target would prevail.

Q. Why is a maximum recovery of 70% a reasonable level?

A. I am proposing an adjustment to the recovery level that takes into account the factors I discuss in my testimony. It is difficult to precisely determine how much overall usage change is actually related to energy efficiency efforts. I do not agree that only direct savings from the Company's DSM programs should be counted, because much DSM can be and is affected by other utility actions. The utility's public service and education efforts, plus its behavior in appliance standard/code development and implementation forums are also important. If, for example only, in 2008 Avista's expanded education/energy code/legislative efforts had resulted

in total therm savings equivalent to the savings from Schedule 101 direct DSM programs, then approximately a 50% recovery of fixed costs would result in Avista recovering all fixed costs related to all direct utility and utility-related efficiency efforts. Yet, it is not possible to definitively calculate what all DSM related savings may be. Nor do I believe that it is necessary to specifically quantify these non-programmatic DSM savings for deferral percentages to be structured into the Decoupling Mechanism. I have suggested a range of 30% to 70% in my recommendation.

Q. In the Order that approved the Decoupling Mechanism (Order 04, Docket No. UG-060518, page 6), the Commission raised the concern that the Mechanism might have the unintended consequence of discouraging customers from investing in energy efficiency measures. Did that happen?

A. No. My review of the Report, the DSM evaluation data and the annual rate impact of the deferral led me to conclude that the annual deferral amount is not significant enough to have a negative impact on decision-making of individual customers. Therm savings levels have steadily increased since 2002. The annual deferral amount does not appear consequential when comparing it to other charges on a customer's bill. Therefore, the Decoupling Mechanism does not appear to have discouraged customers from participating in Avista programs and investing in energy efficiency measures.

Q. Does Avista have a strong commitment to energy efficiency?

A. Yes. The company exceeded the conservation targets identified in its Integrated Resource Plan by 41% in 2007 and 32% in 2008. In addition, in response to a Coalition data request (NWEC-014 in Exhibit ___(NLG-3)), Company therm savings due to sponsored DSM programs have risen steadily since 2001. Avista should be commended for delivering DSM programs to its customers well beyond its stated goals and for its expanded information and outreach programs. It is widely known that forecasting explicit estimates of the energy efficiency investments attributable to education, information and outreach programs is very difficult and savings estimates are not required. That said, these types of complementary

educational and outreach programs are critical to the success of energy efficiency program participation and efficiency activity in general.

Q. Has Avista demonstrated that the Decoupling Mechanism materially contributed to its energy efficiency decision-making?

A. Despite the strong energy efficiency performance, Avista has not yet provided clear evidence that the Decoupling Mechanism, per se, has materially contributed to its decision-making with regards to energy efficiency. This can best be seen in Avista's responses to the Coalition's data requests, certain of which are attached to my testimony as Exhibit No. ___ (NLG-3). These data requests focused on two lines of questioning – first, did the Pilot Mechanism make a material impact or otherwise influence Company, Board or Rating Agency decision-making toward DSM investments and savings levels; second, what does the Company identify as its challenges to future DSM efforts? It does not appear from the responses that the Decoupling Mechanism had a significant effect in any briefing or decision-making discussion on the future of DSM investments.

In response to the Coalition's second line of data requests, Avista indicated that the Decoupling Mechanism served to address one of the major considerations related to DSM acquisition - - costs are recovered based on sales volume. When the Coalition asked Avista to identify and describe the most significant obstacles, if any, it faced and expects to face (through 2015) as it plans its investments in cost-effective gas efficiency programs, the company responded that corporate earnings due to reduced sales is one of the four obstacles faced by the company. Despite this obstacle, there is little documentation that implementation of the Decoupling Mechanism to date has caused Avista to behave any differently than it otherwise would have given the steady rise in therm savings since 2002; nor that the Company took any specific actions due to the Decoupling Mechanism's existence.

CONCLUSION

Q. Why should the Decoupling Mechanism be continued with modifications?

A. It would be premature and unwise to eliminate the Decoupling Mechanism at this time. Continuance of the Mechanism addresses one key obstacle any utility faces as it invests in cost-effective DSM -- fixed costs have been traditionally recovered based on sales. In addition, the Mechanism's impact on average customer bills is relatively modest: on average (according to the Report, page 4) a $5.64 average annual increase. While modest, this impact does reflect a reduction of risk for the company and an increased impact on customers. During these difficult economic times, I believe that a greater sharing of the risk tied more closely but not limited to the level of programmatic and broad company-wide conservation education is appropriate. Thus, it is important to modify the Decoupling Mechanism, as recommended in my testimony, to keep more dollars in customers' pockets, account for downward trending in customer natural gas usage, and increase incentives for DSM investments with Washington limited income customers.

Q. Is there additional legislative guidance that influenced the development of your recommendation?

A. Yes. RCW 19.285.060(4) reads: "The commission … may consider providing positive incentives for an investor-owned utility to exceed targets established in RCW 19.285.040." I have built such incentives into my recommendations and encourage the Commission to structure a continued Decoupling Mechanism in a manner that encourages DSM performance that exceeds Commission-established targets.

Q. Do you have any closing comments?

A. Yes. To assist the utility in delivering the most cost-effective efficiency programs possible and helping its customers save money on their gas bills, the Commission should address the other important obstacles identified by the company in its response to a Coalition data request (Exhibit No. ___ (NLG-3), Data Request NWEC-10). If Avista is to successfully

invest in expanded DSM programs, there must be sufficient funds generated by the conservation tariff to fund all cost-effective energy efficiency investments, customers must receive strong incentives to make investments in conservation, and the company must see financial benefit for acquiring the lowest-cost resource in their service territory. If the Commission adopts my recommended modifications to the Decoupling Mechanism, the disincentive to pursue energy efficiency is still removed and a modest incentive has been added to encourage high performance.

Q. Does this conclude your testimony?

A. Yes.