

Washington State Conservation Work Group

Methodology Sub-Group Report

Background & Objective

The Washington State Conservation Work Group (WSCWG) created the Methodology Sub-Group to examine the extent to which the electric investor-owned utilities (IOU's) were consistent with the methodologies used by the Northwest Power and Conservation Council to determine avoided costs and calculate the Total Resource Cost (TRC) test of cost-effectiveness.

The sub-group consisted of WSCWG participants that were interested in this issue. The following organizations were represented on the sub-group:

- Avista
- PacifiCorp
- PSE
- NW Power & Conservation Council
- WUTC Staff
- Public Counsel
- Energy Project
- NEEA

Work Tasks

The sub-group was asked to produce two deliverables for presentation and discussion with the entire work group.

1. A matrix comparing the avoided cost and TRC methodologies of the IOU's with the Power Council. This matrix broke down the avoided cost and TRC calculations into their key components. The IOU's and the Power Council described how they address each component in their respective avoided cost and TRC calculations. The matrix also included an assessment of the relative consistency of each utility's approach with the Power Council for each individual component. This matrix is included as Attachment A to this report.
2. A side-by-side comparison of TRC calculations for an illustrative sample of conservation measures. The IOU's and the Power Council ran a test set of measures through their TRC calculations, holding measure performance and cost assumptions constant across all parties, but using their own avoided cost and financial assumptions. The TRC results for each party were presented in terms of net present values for each major benefit and cost category, as well as overall benefit/cost ratio. The full results are presented in Attachment B to this report.

Meetings

The sub-group conducted three conference calls to review progress and discuss next steps. The sub-group also exchanged material and ideas via e-mail. The conference calls occurred on:

DRAFT 5/19/2011

- February 28, 2011
- April 1, 2011
- April 14, 2011

The sub-group presented a draft methodology matrix to the entire work group on March 16, 2011, and the final matrix and TRC calculations on April 21, 2011.

Findings and Conclusions

The work of the sub-group and discussion by the entire work group at the April 21 WSCWG meeting resulted in the following conclusions regarding avoided cost and TRC methodologies.

The comparison of avoided cost and TRC methodologies found that all the utilities were generally consistent with the Power Council. All key components of the Council's methodology were addressed by the utilities. The issue that generated the most discussion was the derivation of the discount rate used in NPV calculations. The IOU's assumed their weighted average cost of capital as the discount rate for the TRC, while the Power Council assumed a hybrid of utility and customer discount rates as being most representative of the TRC perspective. In the end, it was agreed that the values of all parties are, at this time, sufficiently close to each other to not make any material difference in TRC results. The parties may choose to revisit this issue at a later time.

The comparison of TRC calculations found that the methodologies of each IOU were consistent with the Power Council. TRC analyses were conducted for five prototypical measures selected by the Power Council to illustrate a variety of benefit and cost situations. The Power Council provided the assumptions for energy savings, costs, non-energy impacts, and measure lives that were held constant by all parties for this exercise. The values of other economic assumptions, particularly those used to calculate the avoided costs that drive energy benefits, varied across the parties, based on their unique service area characteristics and resource needs. These differences in assumptions drove the various results for each party, not inconsistencies in methodological approach.

In conclusion, it appears that there is overall consistency of methodologies between the utilities and the Power Council.