

ATTACHMENT B – Proposed Conditions List for PSE in UE-111881

- 1 (1) **Ten-Year Potential/Biennial Conservation Target – Approval and Conditions.** Puget Sound Energy’s 2012-2021 ten-year achievable conservation potential of 3,531,508 megawatt-hours (403.1 average megawatts), and Puget Sound Energy’s 2012-2013 biennial conservation target of 666,000 megawatt-hours (76.0 average megawatts) at the customer meter, identified in Puget Sound Energy’s 2012-2013 Biennial Conservation Plan (BCP) filed on October 28, 2011, are approved with conditions pursuant to RCW 19.285.040(1)(e) and WAC 480-109-010(4)(c). This approval is subject to the Conditions described in Paragraphs (2) through (12) below. The Conditions in this Order, and not those in Section K of the EIA Settlement filed September 3, 2010 and approved by the Commission in Order 05 in Docket UE-100177, shall apply to Puget Sound Energy’s 2012-2021 Ten-Year Achievable Conservation Potential and Puget Sound Energy’s 2012-2013 Biennial Conservation Target.
- 2 (2) **Puget Sound Energy Retains Responsibility.** Nothing within this Agreement relieves Puget Sound Energy of the sole responsibility for complying with RCW 19.285 and WAC 480-109, which requires Puget Sound Energy to use methodologies consistent with those used by the Pacific Northwest Electric Power and Conservation Planning Council (Council). Specifically, the conditions regarding the need for a high degree of transparency, and communication and consultation with external stakeholders, diminish neither Puget Sound Energy’s operational authority nor its ultimate responsibility for meeting the biennial conservation target approved herein.
- 3 (3) **Advisory Group.**
 - (a) Puget Sound Energy must maintain and use an external conservation Advisory Group of stakeholders to advise Puget Sound Energy on the topics described in subparagraphs (i) through (ix) below. To meet this condition, Puget Sound Energy shall continue to use its Conservation Resources Advisory Group (CRAG), initially created under Docket UE-011570 and UG-011571, and its Integrated Resource Planning Advisory Group created under WAC 480-100-238. The Advisory Groups shall address but are not limited to the following issues:

- (i)
 - (1) Updates to the evaluation, measurement, and verification (EM&V) framework as implemented by Puget Sound Energy which guides its approach to evaluation, measurement, and verification of energy savings. This framework must be reflected in the Biennial Conservation Plan for the next biennium, 2014-2015, and
 - (2) Modification of existing or development of new EM&V conservation protocols based on Puget Sound Energy's current evaluation, measurement and verification approach.
 - (ii) Development of conservation potential assessments under RCW 19.285.040(1)(a) and WAC 480-109-010(1).
 - (iii) Guidance to Puget Sound Energy regarding methodology inputs and calculations for updating cost-effectiveness.
 - (iv) Review the market assessments and the data values used in updating Puget Sound Energy's supply curves.
 - (v) Review need for tariff modifications or mid-course program corrections.
 - (vi) Review appropriate level of and planning for:
 - (1) Marketing conservation programs.
 - (2) Incentives to customers for measures and services.
 - (vii) Consideration of issues related to conservation programs for customers with low-income.
 - (viii) Program achievement results with annual and biennial targets.
 - (ix) Review conservation program budgets; and review the actual expenditures compared to the program budgets. Puget Sound Energy shall inform the CRAG members when its projected expenditures indicate that Puget Sound Energy will spend more than 120% or less than 80% of its annual conservation budget.
- (b) The CRAG shall meet face-to-face at least semi-annually to hear updates, review program modifications, or consider need for revisions. In addition, the CRAG shall meet at least two additional times per year through conference calls or face-to-face meetings. CRAG members may call meetings at any time

with sufficient notice for meeting attendance. Puget Sound Energy shall make arrangements to hold a meeting within 2 weeks from the date of the request.

- (c) Except as provided in Paragraph (8) below, Puget Sound Energy will provide the Crag an electronic copy of all tariff filings related to programs funded by the Electric Conservation Service Rider that Puget Sound Energy plans to submit to the Commission at least two months before any proposed effective date. When extraordinary circumstances dictate, Puget Sound Energy may provide the Crag with a copy of a filing concurrent with the Commission filing. This condition does not apply to a general rate case filing.
- (d) Puget Sound Energy will notify the Crag of public meetings scheduled to address Puget Sound Energy's integrated resource plan. Puget Sound Energy will also provide the Crag with the assumptions and relevant information utilized in the development of Puget Sound Energy's integrated resource plan as they apply to development and/or modification of the ten-year conservation potential as requested through the integrated resource plan public process. This will include updated information such as conservation supply curves and avoided cost analysis.

4 (4) **Annual Budgets and Energy Savings.**

- (a) Puget Sound Energy must submit annual budgets to the Commission each year. The submissions must include program-level detail that shows planned expenses and the resulting projected energy savings. In odd-numbered years, the annual budget may be submitted as part of the Biennial Conservation Plan required under Paragraph (8)(f) below. In even-numbered years, the annual budget may be submitted as part of the Annual Conservation Plan required under Paragraph (8)(b) below. The Annual Conservation Plan will include program descriptions and annual budget details as contained in the Biennial Conservation Plan (BCP).
- (b) Puget Sound Energy must provide its proposed budget in a detailed format with a summary page indicating the proposed budget and savings levels for each electric conservation program, and subsequent supporting spreadsheets providing further detail for each program and line item shown in the summary sheet.

- 5 (5) **Program Details.** Puget Sound Energy must maintain its conservation tariffs, with program descriptions, on file with the Commission. Program details about specific measures, incentives, and eligibility requirements must be filed as tariff attachments as shown in the BCP. Puget Sound Energy may propose other methods for managing its program details in the Biennial Conservation Plan required under Paragraph (8)(f) below, after consultation with the CRAG as provided in Paragraph (9)(b) below.
- 6 (6) **Approved Strategies for Selecting and Evaluating Energy Conservation Savings.**
- (a) Puget Sound Energy has identified a number of potential conservation measures described in the BCP. The Commission is not obligated to accept savings identified in the BCP for purposes of compliance with RCW 19.285. Puget Sound Energy must demonstrate the prudence and cost-effectiveness of its conservation programs to the Commission after the savings are achieved. *See* RCW 19.285.040(1)(d).
- (b) Except as provided in Paragraph (6)(c) below, Puget Sound Energy must use the Council's Regional Technical Forum's ("RTF's") "deemed" savings for electricity measures. As of the date of this Agreement, the RTF maintains a Web site at <http://www.nwcouncil.org/energy/rtf/>.
- (c) If Puget Sound Energy uses savings estimates that differ from those established by the RTF, such estimates must be based on generally accepted impact evaluation data and/or other reliable and relevant source data that has verified savings levels, and be presented to the CRAG for comment.
- (d) When Puget Sound Energy proposes a new program tariff schedule, it must present it to the CRAG for comment with program details fully defined. After consultation with the CRAG in accordance with Paragraph (3) above, Puget Sound Energy must file a revision to its Annual Conservation Plan in this Docket. The revision may be acknowledged by placement on the Commission's No Action Open Meeting agenda.

- (e) Puget Sound Energy must provide opportunities for the CRAG to review and advise on the development of evaluation, measurement and verification protocols for conservation programs. See Paragraph (3)(a)(i) above.
- (f) Puget Sound Energy must spend a reasonable amount of its conservation budget on EM&V, including a reasonable proportion on independent, third-party EM&V. Puget Sound Energy must perform EM&V annually on a four-year schedule of selected programs such that, over the EM&V cycle, all major programs are covered. The EM&V function includes impact, process, market and cost test analyses. The results must verify the level at which claimed energy savings have occurred, evaluate the existing internal review processes, and suggest improvements to the program and ongoing EM&V processes. Evaluation reports involving analysis of both program impacts and process impacts of the programs evaluated in the prior year must be part of the Annual Report on Conservation Acquisition described in Paragraphs (8)(c) and (g) below.
- (g) An independent third-party evaluation of portfolio-level electric energy savings reported by Puget Sound Energy for the 2012-2013 biennial period, from existing conservation programs operated during that period, shall be conducted to verify those savings. The independent third-party evaluator shall be selected through an RFP process. The review will be funded by the Puget Sound Energy Electric Conservation Service Rider. The review will be managed by UTC and Puget Sound Energy staff with input on the scope, cost, RFP development, evaluator selection and ongoing oversight by the CRAG. The scope shall:
 - (i) Focus on portfolio level EM&V of the existing 2012-2013 Puget Sound Energy conservation portfolio regarding impact, process, market, and cost-effectiveness analysis;
 - (ii) Examine selected existing 2012-2013 programs or measures in more depth than others, as called for in the RFP,;and
 - (iii) Provide for some additional but limited detailed independent EM&V study at the program or measure level to be selected by the independent third-party evaluator from Puget Sound Energy's existing 2012-2013 programs.

This evaluation shall include a review of Puget Sound Energy's reported electric savings on a semi-annual basis, with results provided to Commission staff and Puget Sound Energy and then discussed with the CRAG. A final report for the entire 2012-2013 biennium shall be submitted as part of Puget Sound Energy's two-year report on conservation program achievement, required by Paragraph (8)(h) below. The report shall be finalized and made available no later than June 2014 and may be implemented in phases and delivered as a final product at an earlier date, as needed by Puget Sound Energy.

- 7 (7) **Program Design Principles**
- (a) All Sectors Included — Puget Sound Energy must offer a mix of tariff-based programs that ensure it is serving each customer sector, including programs targeted to the low-income subset of residential customers. Modifications to the programs must be filed with the Commission as revisions to tariffs or as revisions to Puget Sound Energy's Annual Conservation Plan, as appropriate.
 - (b) Outreach on Programs — Puget Sound Energy must establish a strategy and proposed implementation budget for informing participants about program opportunities in the relevant market channels for each of its energy efficiency programs. Puget Sound Energy must share these strategies and budgets with the CRAG for review and comments, and provide updates at CRAG meetings.
 - (c) Incentives and Conservation Program Implementation — Puget Sound Energy must offer a cost-effective portfolio of programs in order to achieve all available conservation that is cost-effective, reliable, and feasible. Programs, program services, and incentives may be directed to consumers, retailers, manufacturers, trade allies or other relevant market actors as appropriate for measures or activities that lead to electric energy savings. Incentive levels and other methods of encouraging energy conservation need to be periodically examined to ensure that they are neither too high nor too low. Incentive levels and implementation methods should not unnecessarily limit the acquisition of all available conservation that is cost-effective, reliable, and feasible. Puget Sound Energy shall work with the CRAG to establish

appropriate penetration levels consistent with Council methodology and the Energy Independence Act.

- (d) Conservation Efforts without Approved EM&V Protocol — Puget Sound Energy may spend up to ten (10) percent of its conservation budget on programs whose savings impact has not yet been measured, as long as the overall portfolio of conservation passes the Total Resource Cost (TRC) test as modified by the Council. These programs may include information-only, behavior change, and pilot projects.
 - (i) Information-only services refers to those information services that are not associated with an active incentive program or that include no on-site technical assistance or on-site delivery of school education programs. Information-only services and behavior change services shall be assigned no quantifiable energy savings value without full support of the CRAG.
 - (ii) If quantifiable energy savings have been identified and Commission-approved for any aspect of such programs, the budget associated with that aspect of the program will no longer be subject to this ten percent spending restriction.

Puget Sound Energy may ask the Commission to modify this spending limit following full CRAG consultation. As of the date of this Agreement, an outline of the major elements of the Council’s methodology for determining achievable conservation potential, including the Total Resource Cost test, is available on the Council’s Web site at

[http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%20 2 .pdf](http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%202.pdf).

8 (8) **Required Reports and Filings**

Puget Sound Energy must file the following:

- (a) Semi-annual Conservation Acquisition Report, comparing budgeted to actual kWh’s and expenditures, by August 15, 2012.¹

¹ See *In re Puget Sound Energy*, Docket UE-970686, Second Supplemental Order Requiring Reporting on Programs Funded by the Tariff Rider Mechanism, Ordering ¶ 1 (March 29, 2000) (“Puget Sound Energy is required to submit

- (b) By December 1, 2012, the 2013 Annual Conservation Plan, containing any changes to program details and an annual budget with a requested acknowledgement date of January 1, 2013. The Annual Conservation Plan may be acknowledged by placement on the Commission's No Action Open Meeting agenda. A draft will be provided to the CRAG by November 1, 2012.
- (c) 2012 Annual Report on Conservation Acquisition, including an evaluation of cost-effectiveness and comparing budgets to actual, by February 15, 2013.²
- (d) Revisions to cost recovery tariff (Schedule 120) by March 1, 2013, with requested effective date of May 1, 2013.
- (e) Semi-annual Conservation Acquisition Report, comparing budget to actual kWh's and dollar activity, by August 15, 2013.³
- (f) A report identifying its ten-year achievable potential and its biennial conservation target (Biennial Conservation Plan), including revised program details and program tariffs by November 1, 2013, requesting an effective date of January 1, 2014. In addition to the usual customer-based measures, the plan will also include both distribution and generation energy efficiency program plans as required by RCW 19.285. Prior to filing the Biennial Conservation Plan, Puget Sound Energy shall provide the following information to the CRAG: ten-year conservation potential and two-year target by August 1, 2013; draft program details, including budgets, by September 1, 2013; and draft program tariffs by October 1, 2013.
- (g) 2013 Annual Report on Conservation Acquisition, including an evaluation of cost-effectiveness, by Feb. 15th, 2014.⁴
- (h) Revisions to cost recovery tariff (Schedule 120) by March 1, 2014, with requested effective date of May 1, 2014.

semi-annual reports on the progress of electricity conservation programs delivered under Schedule 83, Electricity Conservation Service, within 45 days of the end of the second and fourth quarters, until such time as the tariffed services are no longer offered").

² *See id.*

³ *See id.*

⁴ *See id.*

- (i) Two-year report on conservation program achievement by June 1, 2014. This filing is the one required in WAC 480-109-040(1) and RCW 19.285.070, which require that the report also be filed with the Washington Department of Commerce.

9 **(9) Required Public Involvement in Preparation for the 2014-2015 Biennium**

- (a) Puget Sound Energy must consult with the Advisory Groups to facilitate completion of a 10-year conservation potential analysis by November 1, 2013. *See* RCW 19.285.040(1)(a); WAC 480-109-010(1). This must be based on a current conservation potential assessment study of Puget Sound Energy's service area within Washington State. This may be conducted within the context of Puget Sound Energy's integrated resource plan. If Puget Sound Energy chooses to use the supply curves that make up the conservation potential in the Council's Northwest Power Plan, the supply curves must be updated for new assumptions and measures.
- (b) Puget Sound Energy must consult with the Advisory Groups between April 1, 2013, and October 31, 2013, to identify achievable conservation potential for 2014-2023 and set annual and biennial targets for the 2014-2015 biennium, including necessary revisions to program details. *See* RCW 19.285.040(1)(b); WAC 480-109-010(2) and (3).
- (c) Fuel switching program will continue to use current practice of upgrading only to high-efficiency gas measures.

10 **(10) Cost-Effectiveness Test is the Total Resource Cost (TRC) Test**

- (a) The Commission uses the TRC, as modified by the Council, as its primary cost-effectiveness test. Puget Sound Energy's portfolio must pass the TRC test. In general, each program shall be designed to be cost-effective as measured by this test. Puget Sound Energy must demonstrate that the cost-effectiveness tests presented in support of its programs and portfolio are in compliance with the cost-effectiveness definition (RCW 80.52.030(7)) and system cost definition (RCW 80.52.030(8)) and incorporate, quantifiable non-energy benefits, the 10 percent conservation benefit and a risk adder consistent with the Council's approach. An outline of the major elements of the Council's

methodology for determining achievable conservation potential, including the Total Resource Cost test, is available on the Council's website at [http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%20 2 .pdf](http://www.nwcouncil.org/energy/powerplan/6/supplycurves/1937/CouncilMethodology_outline%202.pdf).

- (b) In addition to the Council-modified TRC, Puget Sound Energy must provide portfolio calculations of the Program Administrator Cost test (also called the Utility Cost test), Ratepayer Impact Measure test, and Participant Cost test described in the National Action Plan for Energy Efficiency's study "Understanding Cost-effectiveness of Energy Efficiency Programs." The study is available on the Web site of the United States Environmental Protection Agency at <http://www.epa.gov/cleanenergy/documents/suca/cost-effectiveness.pdf>.
- (c) Overall conservation cost-effectiveness must be evaluated at the portfolio level. Costs included in the portfolio level analysis include conservation-related administrative costs. All cost-effectiveness calculations will assume a Net-to-Gross ratio of 1.0, consistent with the Council's methodology.

11 (11) **Recovery Through an Electric Conservation Service Rider**

- (a) Annual Filing — Puget Sound Energy's annual Electric Conservation Service Rider filing, required under Paragraph (8)(d) above, will recover the future year's budgeted expenses and any significant variances between budgeted and actual income and expenditures during the previous period.
- (b) Scope of Expenditures — Funds collected through the Electric Conservation Service Rider must be used on approved conservation programs and their administrative costs. Additionally, Rider funds may be used as approved by the Commission; e.g., for net metering administration costs, small-scale renewable programs and demand response pilots.
- (c) Recovery for Each Customer Class — Puget Sound Energy shall retain existing Rider mechanisms, subject to the Commission's Order in Docket UE-970686.

12 (12) **Additional Commitments**

- (a) In accordance with RCW 34.05.240 and WAC 480-07-930, Puget Sound Energy will file a petition for a declaratory order with the Commission by July 6, 2012 concerning whether capital investments in electric power production turbines that increase the efficiency of electric power production are considered part of the requirement in RCW 19.285.040(1), which states: "Each qualifying utility shall pursue all available conservation that is cost-effective, reliable and feasible." If the Commission determines that such capital investments in electric power production turbines fall within the requirements of RCW 19.285.040(1), then Puget Sound Energy will analyze whether such conservation is feasible, achievable, and cost-effective prior to filing its 2014-2015 biennial conservation target. Nothing in this Order limits the Commission's discretion or legal authority to issue a declaratory order in accordance with its interpretation of RCW 19.285.
- (b) Puget Sound Energy will review the feasibility of pursuing cost-effective conservation in the form of reduction in electric power consumption resulting from increases in the efficiency of energy use at electric power production facilities it owns in whole or in part outside the boundaries of Washington State, and report back to the CRAG on the status by September 1, 2012. The review may include, but is not limited to: economic reasonableness; contractual obligations or limitations; tariff schedule limitations; legal limitations; rule limitations; cost-recovery limitations; financial limitations; practical limitations; operational limitations; transmission capacity limitations; and any other limitations or considerations that are a result or a combination of interactions between or among these noted limitations and considerations (e.g., the impact of operational limitations on legal limitations). Puget Sound Energy shall work with the CRAG to identify options for overcoming obstacles to the feasibility of pursuing cost-effective conservation in the form of reduction in electric power consumption resulting from increases in the efficiency of energy use at electric power production facilities that Puget Sound Energy owns in whole or in part outside the boundaries of Washington State, prior to filing its 2014-2015 biennial conservation target.