ATTACHMENT A

Comments by NW Energy Coalition

December 7, 2011

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

RE: Docket No. UE-111881 – Puget Sound Energy's Report Identifying Its Ten-Year Achievable Conservation Potential and Its Biennial Conservation Target Pursuant to RCW 19.285.040 and WAC 480-109-010

The NW Energy Coalition ("Coalition") appreciates the opportunity to offer these comments in response to the Commission's November 4, 2011 Notice of Opportunity to Comment on Puget Sound Energy's Report Identifying Its Ten-Year Achievable Conservation Potential and Its Biennial Conservation Target Pursuant to RCW 19.285.040 and WAC 480-109-010. In this letter, we offer support for PSE's filing with one exception related to the Company's assessment of production efficiency potential.

OVERARCHING COMMENTS

We commend Puget Sound Energy (PSE) for keeping its Conservation Resources Advisory Group (CRAG) as well as its Integrated Resources Plan Advisory Group (IRPAG) well-informed during the development of its 10-year conservation potential and proposed new biennial target. The Coalition is an active member of both of those advisory groups. PSE staff has been diligent about responding to information requests from advisory group members, discussing concerns as they arise, and seeking collaborative resolution of issues. PSE also does a fantastic job of providing CRAG members with needed materials, including detailed documents tracking progress towards meeting each of the conditions approved in conjunction with its 2010/2011 conservation target in Docket No. UE-100177.

As discussed in its Biennial Conservation Plan (BCP), PSE proposes to use its 2011 Integrated Resources Plan (IRP) as the basis for its 10-year conservation potential assessment and biennial target. We support that approach. PSE's analysis in its IRP demonstrates that substantial cost-effective conservation is available and achievable. PSE also proposes to increase its conservation acquisition, from a current biennial target of 71 aMW to a new target of 76 aMW, despite potential acquisition challenges.[1] Again, we support this approach, and appreciate PSE's decision to file a point target as envisioned in the law (rather than a range as allowed by WAC 480-109-010(2)(c)). Additionally, we

[1] PSE Biennial Conservation Plan, p. 2.

support PSE's proposed continuation of the "conditions list" adopted in UE-100177 as part of PSE's 2010-2011 biennial conservation target, modified to reflect appropriate dates in the upcoming biennium.[2]

We also agree with PSE with regard to its electric conservation obligation that "After Commission approval of PSE's biennial acquisition target, that conservation energy target is deemed to be all cost-effective, reliable, feasible, and available conservation that the Company must pursue for the 2012-2013 biennium." (PSE 2012-2013 Biennial Conservation Plan, p. 7) In other words, once the Commission has approved PSE's biennial target, we do not believe that number should be second-guessed during the biennium. This was a topic of conversation during the recent staff-initiated workgroup process focused on implementation of the Energy Independence Act's ("I-937") conservation requirements. (Docket No. UE-110001)

CONCERN RELATED TO PRODUCTION EFFICIENCY POTENTIAL

PSE collaborated well with the CRAG in setting its biennial target, and with one exception, we believe that PSE conducted a solid, robust analysis of its conservation potential. That exception relates to PSE's analysis of its production efficiency potential.

In PSE's filing, Schedule 292 provides for energy efficiency in Company-owned or operated production or distribution facilities, with a focus on measures that will reduce energy use (e.g., through lighting upgrades at generation facilities). Table 8 in the BCP (p. 27) shows 16,200 MWh (1.8 aMW) of cost-effective conservation available in production and distribution in 2012-2013. PSE's IRP assessed distribution efficiency potential, but did not consider production efficiency potential. Instead, "PSE developed a separate assessment of the conservation potential at its electric production facilities. This assessment included all hydro and thermal plants operated by PSE in the state of Washington."[3]

First, we question why PSE's assessment of production efficiency potential only considered facilities located in Washington State, as listed in Figure 2.[4] Neither the law[5] nor the rules[6] suggest that conservation in a qualifying utility's production facilities is limited solely to those located in Washington. As a result of PSE's interpretation, the Colstrip coal facility in Montana, for example, was excluded from the analysis even though PSE owns 50% each of Units 1 and 2, and 25% each of Units 3 and 4. Given two of the other five owners of Colstrip also are subject to I-937, a joint proposal for addressing energy efficiency in that facility could be appropriate.

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[2] Id., p. 6.
[3] Id., p. 3 of final section titled "Cumulative Ten-Year Conservation Potential"
[4] Id., p. 4 of final section titled "Cumulative Ten-Year Conservation Potential"
[5] RCW 19.285
[6] WAC 480-109

Second, we believe that PSE's analysis should include cost-effective opportunities for turbine upgrades and other output efficiency improvements in addition to efficiency measures that reduce overall consumption at production facilities. The rationale for this assertion rests on the interplay in I-937 between the definition of conservation and the mandate for utilities, in assessing their conservation potential, to use methodologies consistent with those used by the Northwest Power and Conservation Council ("Council").

I-937 defines conservation as "any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution."[7] That definition is substantively identical to the definition of conservation in the Pacific Northwest Electric Power Planning and Conservation Act ("Northwest Power Act).[8] The Northwest Power Act established the Council and mandated the Council to produce regional electricity plans every five years.

I-937 requires the following:

> (1) Each qualifying utility shall pursue all available conservation that is cost-effective, reliable, and feasible.
>
> (a) By January 1, 2010, using methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council in its most recently published regional power plan, each qualifying utility shall identify its achievable cost-effective conservation potential through 2019. At least every two years thereafter, the qualifying utility shall review and update this assessment for the subsequent ten-year period.[9]

While the definitions of conservation in I-937 and the Northwest Power Act refer to reductions in consumption, the Council has interpreted that definition to include turbine efficiency improvements and similar efforts to enhance electricity production efficiency. For example, the second[10] and the third[11] regional plans describe generation system

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[7] RCW 19.285.030(4).

[8] "Conservation" means any reduction in electric power consumption as a result of increases in the efficiency of energy use, production, or distribution. Northwest Power Act, §3(3), 94 Stat. 2698.

[9] RCW 19.285.040, emph. added.

[10] Northwest Power Planning Council. Northwest Conservation and Electric Power Plan Volume Two. (1986) See p. 6_2 to 6_7. For example, the Plan discusses possibilities for improving efficiency in existing thermal plants ranging from "minor component replacement to complete repowering using advanced design heat sources such as fluidized bed combustors." (at p. 6-7)
http://www.nwcouncil.org/library/1986/1986Plan_Vol2.pdf

[11] Northwest Power Planning Council. 1991 Northwest Conservation and Electric Power Plan. Volume II-Part I. See pp. 594-618.

efficiency improvements in the region. In the Second Plan, "the Council […] concluded that energy savings from turbine runner replacement and electronic governors [in hydropower facilities] should be included in the resource portfolio."[12] In the Third Plan, the Council began "compiling estimates of regional thermal upgrade potential"[13] in addition to its analysis of potential improvements to the efficiency of existing hydropower facilities. Further, "the Council encourage[d] owners and operators of the region's thermal power plants to fully explore the potential for cost-effective upgrades to these facilities, and to implement these improvements when cost-effective."[14]

I-937 references using methodologies consistent with the most recently published plan. The Sixth Plan does not include a specific assessment of generation efficiency potential. However, according to recent communications with the Council's Manager of Conservation Resources, the current methodologies in the Sixth Plan are still relevant to assessing generation system efficiency improvements. Limited budget and resources in recent years have constrained Council staff from conducting specific analyses comparable to those done for the second and third plans, but the necessary methodologies are included in the most recently published plan.

It is important to note that I-937 specifically allows efficiency upgrades at hydropower facilities to count as eligible renewable resources towards meeting the state's renewable energy standard.[15] And of course additional power produced due to turbine improvements in other generation facilities that are considered eligible renewable resources would be counted towards the renewable standard as well. To avoid double-counting of resource acquisition, we recommend the Commission clarify that only turbine efficiency upgrades at generation facilities that are not eligible renewable resources be included in PSE's assessment of production efficiency potential.

We recognize that conducting an assessment of end-use efficiency potential in generation facilities owned in whole or in part by PSE that are not included in Figure 2[16] will take time. As will conducting an assessment of the potential for cost-effective turbine efficiency upgrades in generation facilities owned in whole or in part by PSE. We recommend the Commission direct PSE to conduct these assessments and file the savings estimates as part of its next 10-year conservation potential and biennial target for 2014-2015.

SUMMARY RECOMMENDATION

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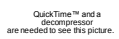
http://www.nwcouncil.org/library/1991/91-4/1991Plan_Vol2_Part2.pdf
[12] Northwest Conservation and Electric Power Plan Volume Two, p. 6-7.
[13] Id., p. 596.
[14] Id.
[15] See definition of "eligible renewable resource" at RCW 19.285.030(10(b).
[16] BCP, p. 4 of final section titled "Cumulative Ten-Year Conservation Potential."

We respectfully request the Commission:

1) Approve PSE's proposed biennial target of 76 aMW for 2012-2013;
2) Approve continuation of the "conditions list" approved in Docket No. UE-100177, modified to include updated dates (as suggested in PSE's filing);
3) Direct PSE to assess end-use cost-effective conservation potential in generation facilities owned in whole or in part by the Company that were not included in its analysis submitted as part of this filing; and
4) Direct PSE to assess cost-effective potential for efficiency upgrades such as turbine improvements in production facilities owned in whole or in part by the Company that are not considered eligible renewable resources.

Thank you for the opportunity to provide these comments. I plan to participate in the Open Meeting on December 15 and would be happy to answer any questions at that time.

Sincerely,



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Comments of Public Counsel

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PUGET SOUND ENERGY'S REPORT CONCERNING ITS TEN-YEAR CONSERVATION POTENTIAL AND ITS BIENNIAL CONSERVATION TARGET PURSUANT TO RCW 19.285.040 AND WAC 480-109-010	DOCKET NO. UE-111881

COMMENTS OF PUBLIC COUNSEL

December 7, 2011

I. INTRODUCTION

1. Pursuant to the Commission's November 4, 2011 Notice of Opportunity to Comment, (Notice) the Public Counsel Section of the Washington State Attorney General's Office (Public Counsel) respectfully submits these comments in advance of the Commission's December 15, 2011 Open Meeting. These comments address Puget Sound Energy's (PSE or the Company) report concerning its ten-year conservation acquisition potential and its biennial conservation target filed with the Commission in compliance with RCW 19.285.040 and WAC 480-109-010. The ten-year potential and biennial conservation target are included in PSE's 2012-2013 Biennial Conservation Plan (BCP). In addition to acting as the compliance report for WAC 480-109-010, the BCP also

addresses additional requirements included in the settlement terms for electric conservation in Docket No. UE-100177 (2010 Electric Conservation Settlement Agreement).[17]

2. PSE proposed a ten-year conservation potential of 3,531,508 MWh and a biennial conservation target of 666,000 MWh based on its 2011 IRP.[18] PSE's BCP and its exhibits and attachments provide facts and evidence regarding how the ten-year potential and biennial target were developed, as well as discussion of how the Company will meet the biennial target.[19] Based on our involvement in the public process and review of PSE's BCP, Public Counsel has not found any reason for concern regarding how the Company developed its ten-year potential and biennial target. We believe that this filing is in compliance with the requirements of the EIA and the 2010 Conservation Settlement Agreement, and that the Commission should approve the target, with conditions. Public Counsel's comments will provide a brief overview and discussion of (1) the proposed ten-year potential and biennial target, (2) the public involvement process, (3) the Biennial Conservation Plan, and (4) recommended conditions for approval of the target.

II. TEN-YEAR POTENTIAL AND BIENNIAL TARGET

A. Basis for PSE's Ten-Year Potential and Biennial Target.

[17] Agreed Conditions for approval of Puget Sound Energy, Inc's 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285 Docket No. UE-100177 and Agreed Modifications to Electric Settlement Terms for Conservation in Docket No. UE-011570 (2010 Electric Conservation Settlement Agreement).

[18] By comparison, for the 2011-2012 Biennium, PSE's approved 10 year potential was 3,748,773 MWh and its biennial target was 622,000 MWh.

[19] The Company included with its BCP an exhibit titled "Ten-year Potential and Two-year Target" (Potential and Target Exhibit). This document provides a useful summary of how the potential and the target meet the requirements of WAC 480-109, as well as any additional requirements laid out in the 2010 Conservation Settlement Agreement.

3. PSE's Ten-Year Potential was identified through two processes. The majority of the conservation savings associated with the ten-year potential were identified in the Conservation Potential Assessment (CPA) for PSE's 2011 IRP, using methodologies consistent with the Northwest Power and Conservation Council.[20] According to PSE, the potential identified in the IRP consists of the "optimized level of energy use and distribution system conservation potential selected by PSE's resource portfolio model for the 2011 Integrated Resource Plan."[21] While the CPA identified the conservation potential for energy use and the Company's distribution system, it did not assess the conservation potential at PSE's production facilities. In order to account for available reductions in electric power consumption[22] at PSE's production facilities, the Company conducted energy audits at each facility to identify site-specific efficiency improvements to all energy-consuming equipment.[23] As shown below, PSE has estimated that the vast majority (96%) of its ten-year potential is from Energy Use Conservation.[24] Distribution and Production Conservation account for a very small portion of the potential, at 3% and 1% respectively.

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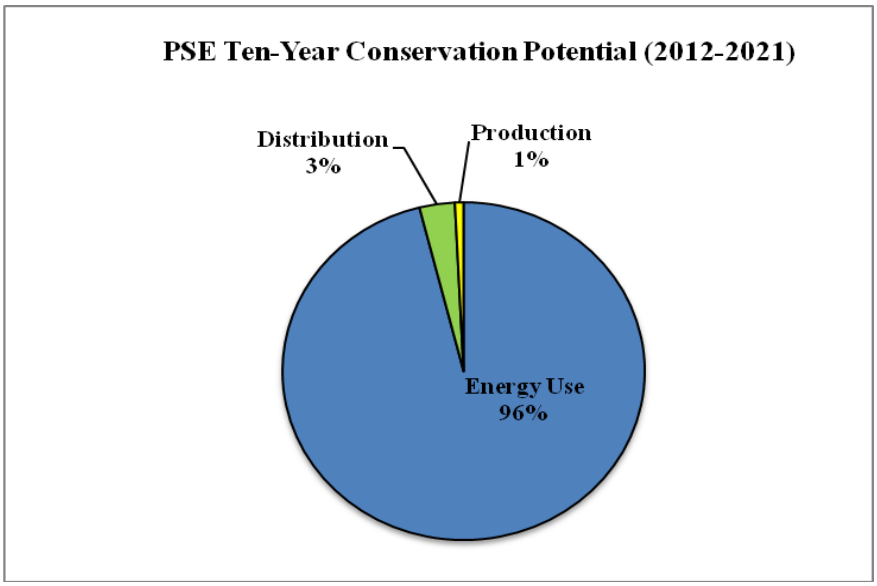
[20] *See* Comprehensive Assessment of Demand Side Resource Potentials (2012-2013), which is included as Attachment 5 to PSE's Biennial Conservation Plan.
[21] PSE 2012-2013 Biennial Conservation Plan, Exhibit: Ten-year Potential and Two-year Target (Potential and Target Exhibit), p. 1.
[22] As explained on p. 1 of the Potential and Target Exhibit, as related to its production facilities, PSE has interpreted the definition of conservation in WAC 480-109-007(3) to relate to "any reduction in electric power consumption" due to energy efficiency improvements at the facilities.
[23] Figure 2 of Potential & Target Exhibit provides detail of the Conservation potential identified at each facility.
[24] Energy Use efficiency is includes measures such as improved building shell efficiency, high efficiency electric end-use equipment and controls, and electric-to-gas customer fuel conversion. Potential and Target Exhibit, p. 5.



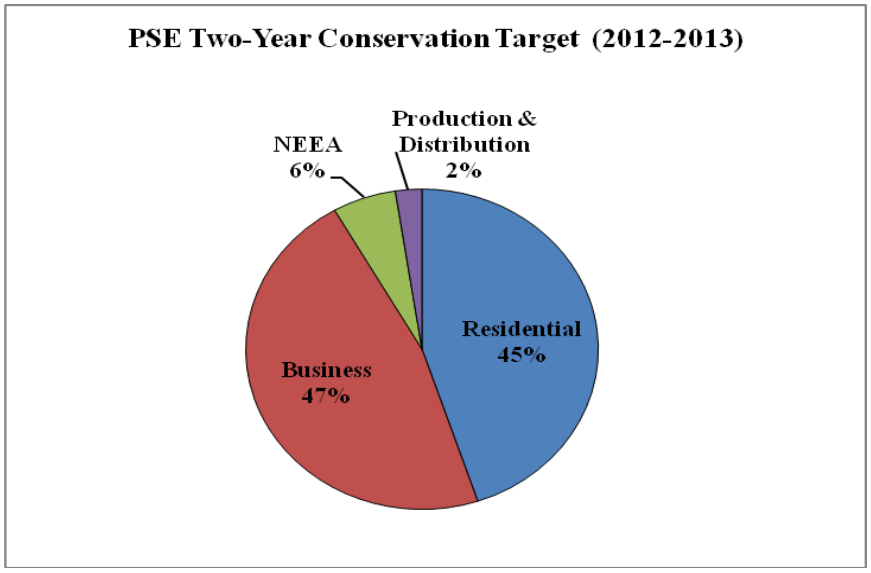
Source: BCP Exhibit: Ten-year Potential and Two Year Target, p.5.

4. PSE's biennial target of 666,000 MWh was derived from the ten-year potential assessment. As the CPA-identified potential is inclusive of savings that are available within the Company's service territory from all possible sources,[25] the Company made a number of prorata adjustments to account for the fact that it is not realistically feasible to achieve all of the potential through PSE-funded programs.[26] As a result of these adjustments, the biennial target is reduced by approximately 2.5% from the total conservation potential identified for 2012-2013. This target represents an 18% share of the total ten-year conservation potential. At 666,000 MWh the target proposed for 2012-2013 is higher than the Company's target for the 2010-2011 biennium, although the previous target did not account for production and distribution efficiency. However, even

[25] These additional sources include codes and standards, market transformation, and adoption of conservation measures outside of any programs or code requirements.
[26] Potential & Target Exhibit, p. 7. For further discussion of PSE's specific prorata adjustments, see Potential & Target Exhibit, pp. 6-8.

when the estimated savings from production and distribution are removed for the sake of an apples-to-apples comparison, PSE's proposed biennial target is roughly 4.5% higher than it was in the prior period.

5. The biennial target will be met primarily through conservation savings achieved through end-use efficiency programs. As shown below, the Company estimates that approximately 45% of the target will be met through its Residential Energy Management Programs and 47% from the Business Energy Management programs (commercial and industrial customers). Additionally, the Company projects that roughly 6% of the target will be met with savings from NEEA. The remainder, about 2%, will be achieved through distribution and production efficiency.



Source: BCP, p. 8.

B. Public Process.

6. PSE engaged stakeholders in an appropriate public process for the development and review of its target, potential, and BCP both with the Conservation Resources Advisory Group (CRAG) and the Integrated Resource Plan Advisory Group (IRPAG). As

noted in the BCP, the Company held seven IRPAG meetings in 2010-2011, and seven CRAG meetings between late 2010 and the time that the BCP was filed. Over that period of time, the Company provided periodic updates regarding the status of the development of the potential and the target. The content of the October 28, 2011 filing was in accordance with information previously provided to the CRAG and the IRPAG.

7. The public process also allowed for discussion of a number of topics related to how the Company will meet its target. For example, PSE informed the CRAG of the challenges and opportunities the Company anticipates in the upcoming period and how those have impacted the way its programs are tailored.[27] Additionally, the Company provided information regarding the internal processes PSE relies upon for reviewing and updating its programs and unit energy savings (UES) estimates throughout the biennium, which will increase the reliability of the Company's reported savings.[28]

C. Biennial Conservation Plan.

8. PSE's BCP includes extensive documentation of the process by which the Company estimated its potential and target. It also includes important information regarding the methods and practices by which the Company will meet the biennial target, such as sector and program level-estimated savings, program budgets and anticipated savings, and processes for evaluating, measuring, and verifying the portfolio. The content provided in the BCP provides relevant facts and evidence in support of the

[27] For example, the RTF recently reduced the unit energy savings (UES) assumption for retail CFLs by 33%, a measure which accounts for a sizeable portion of the energy savings in the residential portfolio.
[28] *See,* for example, BCP Exhibit 8, EM&V Framework, Attachment 3, "Guidelines for Evaluation Study Follow-up" and Attachment 5, "Measure Revision Guidelines."

Company's proposed ten-year potential and biennial target, and also meets the reporting requirements laid out in the 2010 Conservation Settlement Agreement.

9. At this time, discussion of the BCP is be limited to how it meets requirements related to the EIA. The specific details of PSE's electric and natural gas programs and budgets contained in the BCP will be reviewed in Docket No. UE-111860 and UG-110861 and for which Public Counsel will provide separate comments.

III. PUBLIC COUNSEL CONCLUSIONS AND RECOMMENDATIONS

10. Based on review of this filing and involvement in the stakeholder process, Public Counsel believes that PSE has met the requirements of RCW 19.285.040, WAC 480-109-010 and in the 2010 Electric Conservation Settlement Agreement. Public Counsel recommends the Commission approve PSE's proposed ten-year potential and biennial target subject to the conditions included in the 2010 Electric Conservation settlement.[29] Additionally, as discussed below, we request the Commission to provide guidance over the upcoming biennium on two issues that are currently addressed in an inconsistent manner across utilities.

A. Conditions.

11. PSE's conservation programs have been operating under settlement agreement conditions in Docket Nos. UE-011571 and UG-011571. In Docket No. UE-100177,

[29] Public Counsel's recommendation is premised upon the understanding that the Commission's approval is limited narrowly to the numerical MWh biennial target and ten- year potential proposed by PSE in this docket. It has become clear in the initial implementation of the EIA that the commission should not prejudge the prudence of any of the underlying energy efficiency activities at this time. The approval of these targets in no way precludes the Commission from reviewing the prudence and cost effectiveness of the DSM programs that the Company will rely upon to meet this target.

PSE's first EIA compliance filing, the 2002 conditions and settlement agreement were updated as they related to electric conservation, primarily with the purpose of creating a framework that would assist with EIA compliance.[30] According to the terms of the 2010 Electric Conservation Settlement Agreement:

> Except where expressly stated, the conditions in Section K and all other provision of this Agreement are intended to remain in effect notwithstanding the biennial review conducted under the Energy Independence Act. Any party may petition to, or the Commission may on its own motion and notice to parties, modify the conservation program if required by the results of the review.[31]

12. The Company has indicated, both in its BCP and as a part of the public process, it will abide by the ongoing obligations of the 2010 Electric Conservation Settlement Agreement.[32] Public Counsel believes these conditions remain relevant and that this approach is reasonable, particularly in light of the considerable effort that went into developing the conditions and the short period of time that has passed since the conditions were approved in September 2010. PSE has developed processes to ensure the conditions are being implemented and tracked,[33] and there have been no significant problems with how the programs are operating under the current conditions.

13. One problematic outcome of this approach is the elimination of Condition K(6)(g). This condition requires a one-time only, third-party evaluation to verify

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[30] Agreed Conditions for approval of Puget Sound Energy, Inc's 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285 Docket No. UE-100177 and Agreed Modifications to Electric Settlement Terms for Conservation in Docket No. UE-011570 (2010 Electric Conservation Settlement Agreement).
[31] 2010 Electric Conservation Settlement, Section B(4)a.
[32] BCP, p. 20.
[33] See BCP Exhibit 9: Condition Compliance Status.

portfolio-level electric energy savings for the 2010-2011 biennium.[34] As a part of this condition, the Company will submit the third party evaluation as a part of its biennial report on conservation program achievement. Public Counsel believes this third-party portfolio verification is likely to provide a useful purpose to the Commission, Staff, and stakeholders for the assessment of whether the Company has met its Biennial Conservation target in periods beyond the 2010-2011 biennium.

14. In the same way that significant revisions to the conditions list are premature at this time because of the short period of time that they have been in effect, we also believe it is too early to eliminate what could be an important component of the compliance review before the parties are able to fully evaluate its role in EIA compliance. Public Counsel plans to raise the issue with the Company and the CRAG, and to discuss continuation of this important condition beyond its scheduled expiration.

B. Consistency Issues.

15. In the course of reviewing conservation-related compliance filings across multiple utilities, Public Counsel has recognized some inconsistencies. For example, we note that there is some uncertainty regarding the timing and approach to prudence determination of conservation expenditures for different utilities. This is an area that we believe requires further attention from all stakeholders and the Commission in the next biennium in order to resolve this inconsistent treatment.

16. Additionally, we note that the three electric IOUs have taken different approaches to incorporating projected savings from NEEA's market transformation efforts in their

[34] 2010 Electric Conservation Settlement Agreement, p. 9.

proposed biennial targets for 2012-2013. The three different approaches are summarized below:

- Avista's BCP states that the biennial target is directly from its CPA, which includes a range of energy efficiency measures, regardless of delivery, and therefore includes savings acquired through NEEA.[35] Avista's does not identify a specific amount of projected savings from NEEA within its biennial target, but the 2012 Business Plan projects 7,359 MWh from NEEA in 2012, about 15% of projected Washington electric DSM savings.[36] Avista also states in their BCP that with respect to claiming NEEA savings, "[t]he methodology will be based upon the inclusion of the net market effects and the natural adoption of these regionally supported services and technologies ...."[37]

- PSE's proposed biennial target for 2012-2013 includes 38,800 MWh for projected NEEA savings, which represents about 6% of PSE's proposed target.[38] This amount reflects 75% of NEEA's projected net market effects savings allocated to PSE from currently funded and previously funded NEEA initiatives.[39] PSE is seeking to "deem" this conservative value of savings, and would report this amount in June, 2014, even if actual NEEA savings are higher or lower. PSE discussed this approach with the CRAG and the CRAG supported this approach, with the understanding that there is a need for consistency in the way the utilities claim NEEA savings.

- Pacificorp's proposed biennial target for 2012-2013 includes 2.0 aMW for projected NEEA savings (17,520 MWh), which represents about 22% of Pacificorp's proposed

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[35] Docket No. UE-111882, Avista 2012-2013Biennial Conservation Plan (BCP), November 1, 2011, p. 9.
[36] Avista BCP, Appendix A, 2012 DSM Business Plan, Tables 4 and 5, pp. 54-55. The projection of 7,359 MWh of NEEA savings is derived by subtracting Washington local portfolio savings (42,303 MWh, shown in Table 4) from Washington total projected savings (49,662 MWh, shown in Table 5).
[37] Avista BCP, p. 17.
[38] PSE BCP, p. 27.
[39] PSE began using this approach regarding NEEA savings in 2007, based upon CRAG input, in conjunction with PSE's Electric Conservation Incentive Mechanism, in effect from 2007 - 2009. NEEA's "net market effects" (NME) savings are calculated as follows: NME = Total Regional Savings - Naturally Occurring Baseline - Local Programs.

> target.[40] This amount reflects NEEA's Total Regional Savings for the Company's Washington service territory, less savings from Pacificorp's local programs on relevant measures. This approach includes savings from what NEEA terms "naturally occurring baseline," or savings that would occur naturally. Pacificorp has included a memo from NEEA regarding the savings projections for the biennium as Appendix 9 to the Company's proposed 2012-2013 biennial target filed September 15, 2011.

17. At this time Public Counsel does not endorse one particular approach over another in terms of the inclusion of NEEA savings in the biennial target. While it may not be feasible for the 2012-2013 biennium, we believe that ultimately it is most appropriate for the IOUs to use a consistent approach to incorporating NEEA savings in their biennial target, and in reporting and claiming savings associated with NEEA. We would welcome guidance from the Commission on this issue.

V. CONCLUSION

18. Public Counsel appreciates the opportunity to comment on PSE's proposed 2012-2013 Biennial Conservation Plan. At this time we respectfully request that the Commission approve PSE's ten-year conservation potential and biennial conservation target, subject to the conditions of the 2010 Electric Conservation Settlement Agreement. Additionally, we request Commission guidance over the next biennium regarding consistent treatment of NEEA savings and prudence determination of conservation expenditures.

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[40] Docket UE-111880, *PacifiCorp's Report on its Ten year Achievable Conservation Potential and Biennial Conservation Target for 2012-2013*, September, 15, 2011, Table 9, p. 23. PacifiCorp's proposed target of 8.89 aMW does not yet include projected distribution efficiency savings.

Comments from UTC Staff

December 7, 2011

UTC STAFF COMMENTS ON PUGET SOUND ENERGY'S REPORT IDENTIFYING ITS TEN-YEAR ACHIEVABLE CONSERVATION POTENTIAL AND ITS BIENNIAL CONSERVATION TARGET PURSUANT TO RCW 19.285.040 AND WAC 480-109-010

DOCKET UE-111881

A. Introduction

On October 31, 2011, Puget Sound Energy (PSE) filed with the Washington Utilities and Transportation Commission (Commission) a report (Biennial Conservation Plan, or BCP) concerning its ten-year achievable conservation potential for the period 2012-2021 and its biennial conservation target for the period 2012-2013. The report is required by RCW 19.285.040, WAC 480-109-010, and Order 05 in Docket UE-100177.

In Paragraph 41 of UE-100177 Order 05, the Commission approved and adopted Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, which the parties to Docket UE-100177 had negotiated. Section K(8)(f) of the Agreed Conditions required PSE to file "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, 2011, requesting an effective date of January 1, 2012." The filing that initiated the current docket, Docket UE-111881, is the result.

As described below, Commission Staff recommends that the Commission approve with conditions the ten-year achievable conservation potential and biennial conservation target identified in PSE's October 31, 2011 report. *See* WAC 480-109-010(4)(c).

B. Discussion

PSE has made significant strides in the continued development and refinement of its conservation programs during the 2010-2011 biennium. In addition, the Company actively participated and provided leadership during the Washington Conservation Working Group meetings held during the first half of 2011 in Docket UE-110001.

Through its Integrated Resource Planning process, PSE has determined that it is more cost-effective to accelerate the acquisition of conservation by planning for a 10-year ramp rate for conservation implementation instead of the 20-year ramp rate projections used by the Pacific Northwest Power and Conservation Council.[41] This accelerated 10-year ramp-up rate results in achieving more conservation earlier. It is consistent with the mandate in RCW 19.285.040(1) that qualifying electric utilities, such as PSE, "shall pursue all available conservation that is cost-effective, reliable, and feasible."

PSE estimates that its 2012-2021 ten-year achievable conservation potential is 3,531,508 MWh (403.1 aMW), as measured at the customer meter. A small amount (3.1 aMW), less than 1 percent, is from generator site efficiencies such as lighting upgrades, compressed air upgrades, pump replacements, and cooling tower improvements. About 3 percent of conservation efficiencies are planned to be achieved through implementation of distribution energy efficiencies.

PSE states that its 2012-2013 biennial conservation target is 666,000 MWh, or 76.0 aMW, measured at the customer meter. The company estimates that, during the 2012-2013 biennium, about 98 percent of the energy savings will be generated from end-use efficiency savings. The target was developed with a bottom-up approach using individual end-use technologies to determine the technical, economic and achievable potential.

PSE has worked diligently to fulfill all of the Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, which the Commission adopted in Order 05 of Docket UE-100177. PSE has indicated to its Conservation Resource Advisory Group (CRAG) a desire to retain, with one exception, the same set of conditions for approval of PSE's 2012-2021 ten-year achievable conservation potential and 2012-2013 biennial conservation target. The exception is a one-time requirement to perform a portfolio-wide third

[41] *See* 16 U.S.C. § 839b(e)(3)(D).

party conservation verification study. *See* Docket UE-100177, Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, Section K(6)(g).

Order 05 in Docket UE-100177 required PSE to perform only one independent third-party evaluation of portfolio-level electric energy savings. The conditions list in Attachment A contains recommended language to provide for a modified method in the next biennium.

As shown in Attachment A, Staff has redlined the conditions that were set forth in Section K of the Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, which the Commission approved in Paragraph 41 of Order 05 in Docket UE-100177. Staff recommends that these adjustments be made and adopted by the Commission as conditions for approval of PSE's 2012-2021 ten-year achievable conservation potential and 2012-2013 biennial conservation target.

Staff recommends that the Commission readopt without change Sections A through J of the Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285.

Attachment A – PSE Biennial Conservation "Conditions List" with Modifications for 2012-2013

K. Conditions

All conditions in Section K will be in effect until superseded

~~(1)~~ **Ten-Year Potential/Biennial Conservation Target –Approval and Conditions.** . ~~The Executing Parties recommend that~~ PSE's Ten-Year Achievable Conservation Potential and Biennial Conservation Target, as identified in the Company's ~~*Report Identifying PSE's Ten-Year Achievable Conservation Potential and Biennial Conservation Target* (Revised Report)~~ 2012-2013 Biennial Conservation Plan (BCP) filed on ~~June 18, 2010~~ October 28, 2011 ~~and this Agreement be~~is approved pursuant to RCW 19.285.040(1)(e) and WAC 480-109-010(4)(c) with the conditions listed below.

(2) **Company Retains Responsibility.** Nothing within this Agreement relieves PSE of the sole responsibility for complying with RCW 19.285 and WAC 480-109, which requires PSE 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 PSE's operational authority nor its ultimate responsibility for meeting the biennial conservation target approved herein.

(3) **Advisory Group**.

(a) PSE must maintain and use an external conservation Advisory Group of stakeholders to advise the Company on the topics described in subparagraphs (i) through (ix) below. To meet this condition, PSE 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) Development of a written framework for evaluation, measurement, and verification (EM&V) as implemented by PSE 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~~2012-2013~~, and
(2) Modification of existing or development of new EM&V conservation protocols based on PSE'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 PSE regarding methodology inputs and calculations for updating cost-effectiveness.

(iv) Review the market assessments and the data values used in updating PSE'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. PSE shall inform the CRAG members when its projected expenditures indicate that the Company 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. PSE shall make arrangements to hold a meeting within 2 weeks from the date of the request.

(c) Except as provided in Paragraph (8) below, the Company will provide the CRAG an electronic copy of all tariff filings related to programs funded by the Electric Conservation Service Rider that the Company plans to submit to the Commission at least two months before any proposed effective date. When extraordinary circumstances dictate, the Company 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) The Company will notify the CRAG of public meetings scheduled to address the Company's integrated resource plan. The Company will also provide the CRAG with the assumptions and relevant information utilized in the development of PSE'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) **Annual Budgets and Energy Savings**.

(a) PSE 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 Attachment B to the Revised Report.

(b) PSE 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)~~ **Program Details**. PSE 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 ~~Attachment B of~~ the BCP~~the Revised Report~~. PSE may propose other methods for managing its program details in the B~~iennial~~ C~~onservation P~~~~lan~~ required under Paragraph 8(f) below, after consultation with the CRAG as provided in Paragraph 9(b) below.

(6) **Approved Strategies for Selecting and Evaluating Energy Conservation Savings.**

(a) PSE has identified a number of potential conservation measures described in ~~Attachment B of its Revised Report filed on June 18, 2010, in this Docket~~ the BCP. The Commission is not obligated to accept savings identified in the Revised Report for purposes of compliance with RCW 19.285. PSE 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, PSE 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 PSE 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 PSE 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, PSE 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) PSE 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) PSE must perform EM&V annually on a four~~multi~~-year schedule of selected programs such that, over the EM&V four-year 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. An annual independent, third-party EM&V report involving analysis of both program impacts and process impacts, for those programs reviewed in that year,~~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.

~~i. **Evaluation** - PSE must spend between one (1) and three (3) percent of its electric conservation program budget on electric evaluation activities, as defined in the Company's Biennial Conservation Plan, including a reasonable proportion on independent, third-party evaluation reports. For this calculation, the electric conservation program budget consists of non-NEEA conservation programs that have or may have electric energy savings. PSE may ask the Commission to modify this spending band following full CRAG consultation.~~

~~ii. **Measurement & Verification** - In accordance with Paragraph 3(a)(i)(1) above, PSE shall provide detailed descriptions of its measurement and verification (M&V) policies, protocols, guidelines and processes to the CRAG for review and advice. Additionally, PSE shall provide to the CRAG an estimate of the costs associated with the detailed M&V plan and PSE will maintain M&V activities at levels that are at least commensurate with regional peers.~~

~~(g) A one-time only, independent third-party evaluation of portfolio-level electric energy savings reported by PSE for the 2010–2011 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 PSE Electric Conservation Service Rider. The review will be managed by UTC and PSE 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 2010-2011 PSE conservation portfolio regarding impact, process, market, and cost-effectiveness analysis,~~

~~ii. examine selected existing 2010-2011 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 the Company's existing 2010-2011 programs.~~

~~This evaluation shall include a review of the Company's reported electric savings on a semi-annual basis, with results provided to Commission staff and PSE and then discussed with the CRAG. A final report for the entire 2010-2011 biennium shall be submitted as part of the Company's two-year report on conservation program achievement, required by Paragraph (8)(h) below. This condition terminates after the final report is submitted. The report shall be finalized and made available no later than June 2012 and may be implemented in phases and delivered as a final product at an earlier date, as needed by PSE. Funds spent in meeting this condition shall count toward PSE's expenditures required under Paragraph (6)(f)(i) above.~~

~~(h)~~(g) PSE shall work with the CRAG to review the current systematic biennial review and verification of portfolio-level savings for future biennia.

(7) **Program Design Principles**

(a) All Sectors Included — PSE 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 PSE's Annual Conservation Plan, as appropriate.

(b) Outreach on Programs — PSE 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. PSE 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 — PSE 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. PSE shall work with the CRAG to establish appropriate incentive levels and penetration levels based on market information and consistent with Council methodology and the Energy Independence Act.

(d) Conservation Efforts without Approved EM&V Protocol — PSE 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.

The Company 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/I937/CouncilMethodology_outline%20_2_.pdf.

(8) **Required Reports and Filings**

PSE must file the following:

(a) Semi-annual Conservation Acquisition Report, comparing budgeted to actual kWh's and expenditures, by August 15, 201~~0~~2 as required in UE-970686.

(b) By December 1, 201~~0~~2, the 201~~1~~3 Annual Conservation Plan, containing any changes to program details and an annual budget with a requested acknowledgement date of January 1, 201~~1~~3. 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, 201~~0~~2.

(c) 201~~0~~2 Annual Report on Conservation Acquisition, including an evaluation of cost-effectiveness and comparing budgets to actual, by February 15, 201~~1~~3.

(d) Revisions to cost recovery tariff by March 1, 201~~1~~3, with requested effective date of May 1, 201~~1~~3.

(e) Semi-annual Conservation Acquisition Report, comparing budget to actual kWh's and dollar activity, by August 15, 201~~1~~3 as specified in UE-970686.

(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, 201~~1~~3, requesting an effective date of January 1, 201~~2~~4. 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, PSE shall provide the following information to the CRAG: ten-year conservation potential and two-year target by August 1, 201~~1~~3; draft program details, including

budgets, by September 1, 201~~1~~3; and draft program tariffs by October 1, 201~~1~~3.

(g) 201~~1~~3 Annual Report on Conservation Acquisition, including an evaluation of cost-effectiveness, by Feb. 15th, 201~~2~~4.

(h) Two-year report on conservation program achievement by June 1, 201~~2~~4. 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) **Required Public Involvement in Preparation for the 2014-2015~~2012-2013~~ Biennium**

(a) PSE must consult with the Advisory Groups to facilitate completion of a 10-year conservation potential analysis by November 1, 201~~1~~3. *See* RCW 19.285.040(1)(a); WAC 480-109-010(1). This must be based on a current conservation potential assessment study of PSE's service area within Washington State. This may be conducted within the context of PSE's integrated resource plan. If PSE 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) PSE must consult with the Advisory Groups between April 1, 201~~1~~3, and October 31, 201~~1~~3, to identify achievable conservation potential for 201~~2~~4-202~~1~~3 and set annual and biennial targets for the 201~~2~~4-201~~3~~5 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) **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. PSE's portfolio must pass the TRC test. In general, each program shall be designed to be cost-effective as measured by this test. PSE 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/I937/CouncilMethodology_outline%20_2_.pdf.

(b) In addition to the Council-modified TRC, PSE 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. For the additional cost-effectiveness tests identified in 10(b) -PSE must consult with the CRAG to determine when it is appropriate to evaluate measure and program level cost-effectiveness. All cost-effectiveness calculations will assume a Net-to-Gross ratio of 1.0, consistent with the Council's methodology.

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

(a) Annual Filing — PSE'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 — The Company shall retain existing Rider mechanisms, subject to the Commission's Order in Docket UE-970686. Prior to PSE's electric Schedule 120 filing ~~in 2011~~, the CRAG will review the cost allocation methodology included in the 2002 Settlement Agreement in Docket UE-011570, and in Docket No. UE-970686.