

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,)	
)	
Complainant,)	Docket NO. UE-991606 and
)	UG-991607
v.)	
)	
AVISTA CORPORATION,)	
)	
Respondent.)	

NW ENERGY COALITION BRIEF

The NW Energy Coalition focused on four issues during the course of the Avista rate case proceeding: demand side management (DSM), Kettle Falls, rate design and low-income assistance. This brief summarizes the Coalition's views and recommendations with regard to those issues.

Demand Side Management

Energy efficiency tariff rider

Avista initiated the nation's first non-bypassable distribution charge for conservation in 1995 and has pursued innovative DSM programs that deliver real energy savings (T-46, p. 5, ls. 10-16). Both ratepayers and shareholders benefit through the Company's investments in energy conservation. Program participants can benefit directly through reduced energy bills, increased comfort, productivity and in some cases safety (Tr., p. 431, ls. 14-15; T-649, p. 3, ls. 8-10). All customers benefit indirectly by having a resource acquired at below avoided cost or below total resource cost, by having a relatively stable conservation or energy efficiency message provided, and by delaying the need to build additional generation, thereby reducing environmental impacts (Tr., p. 431, ls. 16-23; T-649, p. 3, ls. 10-13). Shareholders benefit from these investments through reduced regulatory assets leading to better Wall Street ratings. Further, as a result of implementing the tariff rider, shareholders benefit from reduced competition for scarce capital budgeting dollars. (Tr., p. 432, lines 12-25; Tr., p. 433, ls. 1-7)

The Coalition and staff testified that the Company has demonstrated the prudence of its past DSM program expenditures from January 1, 1995 through December 31, 1998 (T-663, p. 2, ls. 13-14; T-649, p. 5, ls. 3-5), and no party testified to the contrary. The Company has shown that its DSM portfolio was cost-effective overall, saving more than 72 million kWhs at a cost

below the avoided cost of electricity since the tariff rider's inception in 1995 (T-315, p. 3, ls. 17-18; T-663, p. 4, ls. 4-6). We recommend that the Commission find Avista's expenditures for its DSM programs to be prudent, just and reasonable.

On a going forward basis, the Coalition supports the Company's proposal to maintain the level of the DSM tariff rider at 1.54% of retail revenues. Maintaining the tariff rider at a constant level is important to ensure program continuity and rate stability (Tr., p. 415, ls. 20-21) and guarantee the Company's ability to meet its contractual commitments (Tr., p. 420, ls. 12-25). The tariff rider balance reached its peak at approximately \$2.9 million in February 1999, and has steadily decreased in magnitude to a level of \$2.1 million in January 2000 (Exhibit 319; Tr., p. 414, ls. 20-24). Exhibit 322 projects that the tariff rider balance will be below zero in May 2001, and the Company will make program modifications at that time to maintain the balance at close to zero (Tr., p. 420, lines 2-5). The tariff rider balance may be maintained at a "reasonable level" above zero to ensure the Company's ability to meet its funding commitments, including signed contracts with customers, Northwest Energy Efficiency Alliance dues, and funds committed to low-income agencies for weatherization (Exhibit 664). Staff is not recommending a reduction in the tariff rider at this time (T-663, p. 5, ls. 16-18), and no other party has weighed in on this issue. The Coalition recommends that the Commission approve the Company's continued implementation of the DSM energy efficiency tariff rider at a level of 1.54%.

Natural gas tariff rider

The Coalition recommends increasing the natural gas tariff rider from its current level of 0% to its former level of 0.52%. The Company anticipates natural gas load growth in its Washington service area (Exhibit T-26, p. 12, lines 13-14), and the Company's Washington gas

customer base has increased by more than 66% since 1990 (Exhibit T-26, p. 16, lines 14-15). The weighted average cost of gas (WACOG) in 1995 was high enough to justify natural gas energy efficiency programs and the establishment of the 0.52% tariff rider level, and the WACOG today is again approaching 1995 levels (Tr., p. 437, ls. 1-9). Conservation potential exists regardless of gas prices, but gas prices determine whether or not it is cost-effective for ratepayers to invest in conservation (Tr., p. 1931, ls. 6-8). Energy efficiency is a very dynamic, constantly evolving resource. As industries and technologies grow and change, new opportunities arise. In addition, new construction, renovations, and changes in building ownership all lead to potential conservation opportunities. Ignoring this potential can result in significant lost opportunities. (Tr., p. 1931, ls. 17-25 & p. 1932, ls. 1-12) With rising gas prices and load growth, the Company should implement programs that will capture cost-effective natural gas conservation opportunities. To do this, the Company needs to have in place a tariff rider that collects sufficient funds.

Kettle Falls

The Coalition recommends that the Commission direct Avista to evaluate the feasibility and cost of purchasing fuel stock for the Kettle Falls plant from providers certified by the Forest Stewardship Council (FSC). As discussed in Exhibit 652, FSC certifies forest operations based on rigorous rules and procedures endorsed by leading environmental advocacy groups, and is the most credible, broadly supported and environmentally oriented forest certification program in existence. In Exhibit 651, the Company indicates that it receives wood from several suppliers who have received, or are in the process of receiving, certification from the Sustainable Forestry Initiative (SFI). SFI is an industry-sponsored program, with flexible open-ended guidelines (T-

649, p. 10, ls. 6-12). SFI emphasizes intensive forestry management practices, such as plantations, tree farms, and heavily regulated uneven-aged management, and allows significant chemical use (Exhibit 652, p. 1). FSC certification is vastly preferable to SFI certification from an environmental perspective because it is independent and relies on robust, detailed standards. Further, FSC conducts field assessments and requires certified forest owners to undergo annual field performance audits by FSC-accredited certifiers. (Exhibit 652, ps. 2-3)

Approximately 150,000 acres of forests currently are FSC-certified in the Pacific Northwest and lower British Columbia (Tr., p. 1935, ls. 16-20), and that number is growing. Avista obtains about 59% of its fuel stock for Kettle Falls from B.C. (Exhibit 651) and FSC is functional in B.C. (T-649, p. 11, ls. 11-22) as well as in the U.S. Investigating FSC-certified suppliers falls within the realm of the Company's commitment to environmental stewardship and innovation as outlined in the direct testimony of Mr. Dukich (T-46, ps. 4-6). To fully protect the public interest, the Commission and the utility should examine the full life cycle of power plants invested in or constructed in this region by investor-owned utilities (Tr., p. 1941, ls. 4-25). Thus, we recommend that the Company present to the Commission, within six months of an order in this proceeding, a cost-benefit analysis assessing the feasibility of meeting all or some of the fuel stock requirements for the Kettle Falls facility with wood waste from FSC-certified suppliers (Tr., p. 1941, ls. 23-25).

Rate Design

The Coalition recommends maintaining the Company's current three-tiered inverted block rate design for residential electric customers, and concurs with Public Counsel's analysis supporting this recommendation (T-686, ps. 8-17). Staff also support retention of the 3-block

rate, at least during the current proceeding. In direct testimony, Mr. Kilpatrick states, “the most appropriate way to effect recovery of [staff’s] proposed revenue requirement is through decreasing the energy components of *existing* electric rates” (T-658, p. 7, italics added for emphasis).

The inverted block structure sends an appropriate signal to customers to conserve energy. All residential customers benefit from the lower block rate, and the utility benefits because conservation leads to decreased need for building new power plants and for upgrading the transmission and distribution systems. Further, transitioning to a flat energy charge sends a conflicting price signal to customers that invested in energy efficiency and conservation in response to the price signal embedded in the block rates. (T-649, p. 8, ls. 8-12)

Public Counsel’s analysis clearly shows that the three current blocks accurately reflect Avista’s low cost, medium cost and high cost resources (T-686, ps. 8-10). The lower block can be viewed as one way to return to Avista’s customers the benefits of the utility’s lower-cost generating resources. Further, Public Counsel’s analysis demonstrates that the three blocks also reflect residential usage patterns, with the lower block in line with more stable year-round loads and the higher block in line with peak-oriented and seasonally dependent loads (T-686, ps. 10-12). Serving peak loads is accompanied by higher costs and risks than serving stable loads, and therefore the utility should maintain a strong price signal to reflect those costs accurately.

In his rebuttal testimony, Mr. Hirschorn argues that retention of the three-block inverted rate structure causes additional financial difficulty for 21% of Avista’s residential customers who rely on electric space heat (T-506, p. 13, ls. 11-15). According to Exhibit 650, which contains data from a 1997 residential survey, 27% of Avista’s low-income customers (defined as having

an annual household income less than \$15,000) use electric heat. Presumably, the 21% to which Mr. Hirschhorn refers includes this subset of low-income customers. We believe that all customers should take steps where possible to reduce unnecessary energy consumption (Tr., p. 1934, ls. 13-17).

To encourage energy conservation, the three block structure should be maintained and the Company's Energy Services Group should strategically target providing residential customers who rely on electric space heat with energy efficiency information and programs that will enable them to lower their bills (Tr., p. 1934, ls. 7-12). We recommend that the Commission direct the Company specifically to market targeted energy efficiency program options to all residential customers with average annual bills for the year 2000 greater than 150% of the average residential bill for that year.

We recognize that some low-income customers may be negatively impacted by the current rate design, especially if they live in buildings with electric heat that are owned by third parties who make the decisions regarding installation of energy conservation measures. We recommend that the Energy Services Group consider creative ways to overcome this barrier and otherwise target low-income customers with electric space heat for weatherization programs (Tr., p. 1934, ls. 7-12). We also recommend that the Company continue to pursue fuel-switching opportunities with residential electric space heat customers where possible (Tr., p. 1940, ls. 17-22). The Company has been pursuing both fuel switching and weatherization opportunities for its low-income customers (Tr., p. 1983, ls. 3-11), and we encourage continued progress in this area. Finally, with respect to low-income customers, a bill assistance program can help ensure

that these customers are not unduly burdened by the inverted block structure.

Low-Income Assistance

Exhibits T-649 and T-726 demonstrate that a strong need exists in Washington and in Avista's service territory for low-income energy assistance programs. Avista's voluntary ratepayer contribution program currently in place clearly does not meet the needs of Avista's low-income customers, and the Company's low-income customers bear non-sustainable energy burdens (T-726, p. 7, l. 6). Although Avista's residential rates are among the lowest in the country (T-326, p. 4, ls. 6-7), rates for low-income customers can still be unsustainable. The Company believes that Avista's "current and proposed rates do not lead to an unaffordable energy burden for the Company's low-income customers" (T-326, p. 5, ls. 8-10). Exhibit 738 clarifies this issue by noting that an electricity bill can be unaffordable even with low rates if the bill exceeds an affordable percentage of income. Exhibit 730 shows that natural gas and electric bills are unaffordable, for example, for low-income households in Avista's service territory that are living below 50% of poverty.

In 1999, the Legislature clarified the authority of investor-owned utilities to offer low-income assistance programs and the Commission to approve those programs. Engrossed House Bill 1459, signed into law by the Governor, states:

Upon request by an electrical or gas company, the commission may approve rates, charges, services, and/or physical facilities at a discount for low-income senior customers and low-income customers. Expenses and lost revenues as a result of these discounts shall be included in the company's cost of service and recovered in rates to other customers. (RCW 80.28.068)

The intent of that language was to remove ambiguity in the law concerning the availability of reduced rates only for "indigent and destitute persons" and recognize the legitimacy of discount

rates for low-income customers. Although this provision focuses on a company request, it in no way prohibits the Commission from directing a utility to provide low-income assistance programs.

Avista's low-income customers in Washington received more than \$1,000,000 in energy and fuel efficiency assistance in 1999 (T-326, p. 3, ls. 7-8). Of that \$1,000,000, only \$20,000 was directed to rate assistance through a contribution to Project Share, which supports a community emergency heating assistance program (Tr., p. 1983, ls. 11-13). The remaining funds were dedicated to low-income energy efficiency efforts, not low-income energy assistance programs (Tr., p. 1983, ls. 3-11). Both energy assistance and energy efficiency programs are critical to affordability for low-income customers. Energy assistance addresses short term, immediate need while energy efficiency can lower bills in the long term, potentially leading to less need for assistance as well as increased comfort and safety.

Project Share is primarily a voluntary ratepayer donation program, subject to the budgets and generosity of donors. These types of charitable programs are helpful but not sufficient to address the needs of low-income customers both in terms of funding level and funding consistency. (T-649, p. 14, ls. 22-23 & p. 15, ls. 1-3)

The Company indicates that it assists low-income customers through payment arrangements, short disconnection periods and write-offs of unpaid accounts (T-326, p. 3, ls. 15-18). It is not possible to ascertain how much these activities are specifically helping Avista's low-income customers, however, because the Company does not collect information from customers concerning income level (Exhibit 70; Tr., p. 1948, ls. 1-12). Instead, the Company relies on subjective and anecdotal evidence to estimate the effects of these practices on low-

income customers (Tr., p. 1951, ls. 11-13 & p. 1952, ls. 18-21). For example, the Company offers payment arrangements as a matter of course without asking the income level of the customer (Tr., p. 1948, ls. 21-24). Further, write-offs are a reactive rather than proactive way to address payment problems.

The Coalition strongly supports and applauds Avista's efforts to provide energy efficiency programs to low-income customers. We recommend that these efforts be combined with meaningful programs supported by a guaranteed level of investment in low-income energy assistance. We support the Spokane Neighborhood Action Programs' (SNAP's) recommendation regarding implementation of a 1% wires charge, collected as an undifferentiated component of base rates, that would be used to fund low-income energy assistance programs (T-726, p. 30, ls. 2-3). That funding level would be a cap or a maximum for expenditures on energy assistance (T-726, p. 29, ls. 14-15). Mr. Folsom claims that the Company already makes a financial commitment for low-income customers equal to more than 1% of Washington retail revenue (T-326, p. 3, ls. 19-20). As discussed above, the majority of that commitment focuses on energy efficiency activities. Of the remaining expenditures, it is not possible to determine how much was spent specifically on low-income energy assistance.

The Coalition also supports SNAP's recommendation to engage in a collaborative process to develop energy assistance programs that will help address the specific needs of Avista's low-income customers (T-726, p. 19, ls. 16-20 & p. 20, ls. 1-6). Energy assistance can take many forms, including traditional bill assistance and education. Exhibit 732 provides some detailed examples of types of assistance programs. The collaborative should design programs that will address both the types of nonpayment common among Avista's customers and the

reasons for nonpayments (T-726, p. 24, ls. 13-18).

Other Washington utilities that have offered low-income energy assistance programs have found that those programs have reduced overall costs for the Company by reducing, for example, arrearages and collection costs (Tr., p. 1938, ls. 5-12; T-726, p. 35, ls. 12-18 & p. 36, ls. 1-2). An investor-owned utility offering a low-income assistance program should track those offsets and reinvest any savings in the program, thus reducing the amount of money that ultimately needs to be collected from ratepayers. Evaluation of offsets is tricky considering that the Company does not collect information segmented by household income. Ideally, the collaborative could develop a method for evaluating these offsets. Alternatively, a simple approach (though neither rigorous nor comprehensive) would be for the Company to measure uncollectibles, and if those decrease compared with the test period, apply the reduction in uncollectibles to offset the low income discount. Ratepayers, who would otherwise shoulder the entire cost of the uncollectibles, would be reimbursed for those savings.

If the Commission prefers participating in a detailed discussion of potential program offerings prior to ordering collection of funds for low-income energy assistance, we recommend at a minimum that the Commission direct the Company to establish a collaborative. The goal of that collaborative would be to return to the Commission for approval of initial programs and a funding mechanism and level by mid-November 2000. This collaborative process would be similar to that just approved by the Commission in the PacifiCorp rate case (Docket No. UE-991832). The Commission approved adoption of a comprehensive stipulation, which states in section 14 that stakeholders shall be convened to work with the Company to develop a low-income assistance tariff filing. That filing will be submitted by November 15, 2000, or such later

date upon agreement of all parties. A collaborative process involving the Company, Washington Utilities and Transportation Commission staff, and low-income energy services providers and advocates is a reasonable approach to develop programs that will help address the needs of low-income customers in Avista's service territory. Once programs are developed, a more exact level of necessary funding also can be determined.

Summary of NW Energy Coalition Recommendations

In this proceeding, the NW Energy Coalition recommends that the Commission:

find Avista's expenditures for its DSM programs from January 1, 1995 through December 31,

1998 to be prudent, just and reasonable;

approve the Company's continued implementation of the DSM energy efficiency tariff rider at a

level of 1.54%;

increase the natural gas tariff rider from its current level of 0% to its former level of 0.52%;

direct Avista to conduct a cost-benefit analysis regarding purchasing fuel stock for the Kettle

Falls plant from providers certified by the Forest Stewardship Council and report back to the

Commission within six months of an order in this proceeding;

maintain the Company's current three-tiered inverted block rate design for residential electric

customers;

direct the Company specifically to market targeted energy efficiency program options to all

residential customers with average annual bills for the year 2000 greater than 150% of the

average residential bill for that year;

encourage the Company to aggressively pursue opportunities for fuel switching and weatherizing

low-income homes that rely on electric space heating; and

address the needs of low-income customers in Avista's service territory for energy assistance by

(1) directing the Company to implement a 1% wires charge to fund energy assistance programs and initiate a collaborative process to develop programs and determine a mutually agreeable mechanism for tracking offsets and incorporating savings into future program funds; or at a minimum by (2) directing the Company to initiate and participate in a collaborative that will develop programs, determine how offsets will be treated, match programs with an appropriate funding level, and return to the Commission with a recommendation by mid-November 2000.