

Agenda Date: April 29, 2010
Item Number: A1

Docket: UE-100176
Company: Avista Corporation

Staff: Deborah Reynolds, Regulatory Analyst
Dave Nightingale, Senior Regulatory Engineering Specialist
Ryan Dyer, Regulatory Analyst

Recommendation

Enter an order in Docket UE-100176 approving Avista Corporation's 10-Year Achievable Conservation Potential and Biennial Conservation Target subject to conditions.

Background

On January 29, 2010, Avista Corporation ("Avista or company"), filed a 10-Year Achievable Conservation Potential and Biennial Conservation Target Report (Initial Report) with the Washington Utilities and Transportation Commission ("commission"), pursuant to RCW 19.285 and WAC 480-109. Each regulated utility must identify its achievable cost-effective conservation potential using methodologies¹ consistent with those used by the Northwest Power and Conservation Council ("council").² Avista timely identified its 10-year conservation potential of 873,302 MWh in a manner consistent with the council's methodology. Further, each regulated utility must identify its biennial conservation target and file a report with the commission on or before January 31, 2010.³ The company timely identified its biennial target of 128,603 MWh limited to 125,982 MWh of non-conversion resources and filed its Initial Report.

On February 2, 2010, the commission issued a notice of opportunity to comment⁴ on Avista's Initial Report by March 5, 2010, and a notice of open meeting on March 11, 2010, to all interested persons. During the comment period, the commission received written comments from the Northwest Energy Coalition, the Washington Department of Ecology, Public Counsel, and staff. The commission heard additional oral comments at the March 11, 2010, open meeting from the Sierra Club, Climate Solutions, the Northwest Energy Efficiency Alliance, the Energy Project, the Northwest Energy Coalition, Public Counsel, the company, and staff.

¹ Attachment 1, The Northwest Power and Conservation Council's Methodology for Determining Achievable Conservation Potential - Outline of Major Elements.

² RCW 19.285.040 (1) (a) and WAC 480-109-010 (1).

³ RCW 19.285.040 (1) (b) and WAC 480-109-010 (2).

⁴ Notice of Opportunity to Comment on Avista Corporation's Report Concerning its Ten-Year Conservation Potential and its Biennial Conservation Target Pursuant to RCW 19.285.040 and WAC 480-109-010, February, 2 2010.

WAC 480-109-010(4) provides that the commission will consider all comments and determine whether additional scrutiny is warranted, and may establish an adjudicative proceeding or other process to fully consider appropriate revisions. Upon conclusion of its review, the commission will approve, approve with conditions, or reject Avista's ten-year conservation potential and biennial conservation target.

Following receipt of the comments summarized below, the commission deferred its consideration of Avista's filing to a later open meeting. Subsequently, a teleconference was held by Avista to discuss the issues contained within the company's initial filing with interested parties on March 18, 2010.

Interested parties were given an opportunity to comment on the revised version of Avista's report. Staff's comments of March 5, 2010, stated that the commission's standard practice for approval of targets included the filing of program details, and staff sought input on a draft list of conditions for approval of Avista's Report from interested persons. Avista filed a Revised Ten-year Achievable Conservation Potential and Biennial Conservation Target Report (Revised Report) on April 16, 2010, which allowed a brief window for continuing discussion of issues with interested parties before the April 29, 2010, open meeting.

The main body of the Revised Report describes: how Avista involved the public in developing its targets; how the company established its ten-year achievable conservation potential and biennial conservation target; what measures the company will use to achieve that target; and how acquisition will be measured. The report also describes how Avista will work with stakeholders during the initial (2010-2011) compliance period, as well as the company's expectations for future compliance periods. The 21-page Revised Report was supported by three attachments totaling over 350 pages, including Avista's 163-page 2010 DSM Business Plan, which provided substantial details about Avista's energy efficiency programs.

Summary of comments by interested parties

Summary of Staff Comments

Staff evaluated whether the company established the correct conservation metrics by reviewing the following aspects of its Initial Report:

- The company's methodology for establishing its conservation metrics compared to the council's methodology.
- Whether sufficient and complete program details were submitted as part of the conservation report.
- To what extent the company included public participation in the development of the conservation potential and target.

Staff found that the Initial Report did not allow staff to fully determine that the conservation metrics were correct. RCW 19.285 points to the council in part because they prepare a regional conservation potential assessment every five years. The way the council prepares its regional

conservation assessment is the methodology mentioned in RCW 19.285. The regional conservation potential is then an input to a spreadsheet called the “calculator” which divides the regional conservation potential between all the companies in the region. The council’s Sixth Plan calculator is using a regional conservation potential based in large part on work completed in early 2009, and therefore requires relatively little adjustment by the companies for the current two-year RCW 19.285 cycle.

The council’s calculator states it provides “rough guidance for utility conservation program planning” and is intended for use when a company does not have access to better information. The calculator was intended for use by companies that had not already developed integrated resource plans.⁵ Reference to the “council’s calculator” should not be confused with reference to the “council’s methodology.”

RCW 19.285 requires the companies to identify all cost-effective conservation using methodologies consistent with the council’s most recent plan. In addition, WAC 480-109 requires that the conservation potential be “derived” from either the IRP or the council’s plan. Staff believes this means those two sources represent optional starting points for the companies’ analyses in developing their conservation metrics.

In addition to being consistent with the council’s methodology, the company conservation metrics also need to be consistent with Washington policy. RCW 19.285 directs the commission to rely on its existing practices. Fuel-switching is a Washington-specific difference in which measures should be included in the conservation metrics. The commission has encouraged fuel-switching as explored in the commission’s workshop in Docket UG-080750, and several other dockets.

Staff believes each company should file enough information to allow the commission to make a determination about company conservation metrics. Prior to RCW 19.285, the commission’s standard practice for review and approval of conservation targets required the filing of program details. These program details are in Appendix C and D of staff’s comments. Appendix C is a table that lists the programs’ features and provides cross references to prior commission orders. The program features and details include annual conservation targets, advisory group roles and responsibilities, avoided costs, specific strategies for expanding programs, guidance on eligible

⁵ From cells A2 of the Council’s Fifth and Sixth Plan “Calculators” – “Introduction: The purpose of this calculator is to provide utilities with a simple means to compute "their share" of the Northwest Power and Conservation Council 6th Plan's regional conservation target. This calculator is intended to provide utilities with an "approximation" of the level of conservation they should target in order to be consistent with the Council's regional goals. The Council does not formally assign individual utility targets in its planning process. Individual utility conservation goals are best established through utility integrated resource planning processes which can better account for local conditions and legal requirements. Nevertheless, the results of this calculator can be used as rough guidance for utility conservation program planning until such time as a utility completes its own integrated resource plan or other similar process.”

measures, reporting requirements, and details about cost recovery among other things. Appendix D includes excerpts from Commission orders cited in Appendix C.

The company did not begin its process for development of the conservation metrics with sufficient lead time which unnecessarily limited the public process. Staff believes that future filings should be based on a longer timeline to allow for adequate planning and target setting.

Avista's use of the Sixth Plan calculator with the electric-to-gas conversion adjustment was appropriate for this RCW 19.285 cycle. However, supporting documentation and clarification of some program details was needed, including additional support for excluding pumping load from its conservation potential and more discussion about the methodology for counting distribution efficiency savings. Before staff could recommend approval, additional discussion with the company and interested parties, as well as exchange of additional information, was recommended. Certain issues were suggested to be resolved by a Washington Conservation Collaborative with all regulated energy companies participating.

During staff review of existing conservation program conditions it was discovered that Docket UE-991606 required the company to absorb all financial risk of overspending its projected conservation budget.⁶ Staff believes the subsequent enactment of RCW 19.285 changed the law on this issue. Staff recommended that the recording of interest on conservation fund balances be discussed at the Washington Conservation Collaborative.

Summary of Public Counsel Comments

Public Counsel was concerned about the documentation and inclusion of electric-to-natural gas conversions, quantifiable behavioral efficiencies, distribution efficiencies, the acquisition of NEEA savings, and ARRA-supported projects. Public Counsel thought it premature to automatically treat such items as qualifying measures without further clarification and scrutiny. Public Counsel was also concerned about how consistent Avista's DSM savings estimates were with the Regional Technical Forum. Public Counsel was also unclear about how Avista documented its prorated ten-year cumulative conservation to determine the appropriate biennial conservation target. Public Counsel further stated that interested parties did not have a meaningful opportunity to engage in the development of Avista's proposed targets.

Public Counsel recommended a rulemaking or other process to address certain topics such as the savings estimates used to calculate conservation acquisition and the development of standard DSM reporting requirements. Public Counsel also recommended that the Commission approve only Avista's specific numerical biennial target and ten-year potential and not the entire filed report.

⁶ *UTC v. Avista Corporation*, Docket Nos. UE-991606 & UG-991607 (*consolidated*), 3rd Supplemental Order, at ¶ 422 (September 29, 2000).

Summary of Northwest Energy Coalition Comments

The Northwest Energy Coalition (“NWECC”) recommended that the Commission approve with conditions Avista’s initial conservation filing. NWECC recommended several modifications to the Initial Report including establishing consistent methods for calculating savings potential, whether standard-efficiency electric-to-natural gas conversion savings should be counted, the process of counting distribution efficiency savings, and eliminating the use of a cumulative target approach.

Summary of Department of Ecology Comments

The Department of Ecology’s (Ecology) comments were made as one comment on all three of the regulated electric utilities’ filings. Ecology notes that only Avista used the Sixth Plan calculator as a basis for its conservation metrics. They discourage the use of the Fifth Plan calculator because it is not current and provides for achieving less energy conservation. Ecology also states that investing in cost-effective energy conservation measures is an important action that furthers the state goal of emissions reduction to 1990 levels by the year 2020.

Discussion

Avista chose to derive its conservation potential and biennial target from the council’s calculator by adjusting for utility specific estimates which is consistent with council methodology. The level of specific program detail included in Avista’s filing was sufficient. Staff reviewed the Revised Report against staff’s comments from March 5, 2010, and was satisfied that the revisions were appropriate. Following are the specific areas of concern identified in staff’s comments.

Fuel-Switching

Staff expressed concern that the company’s history with fuel-switching programs might lead to over-achievement of this resource at the expense of other conservation measures. Despite the fact that the council’s power plan excludes electric-to-natural gas conversions, the company believes, and staff agrees, that resources acquired through such conversions should be contained within the I-937 target and be considered an eligible measure. Consequently, the results of the company’s target-setting process appropriately incorporate electric-to-natural gas conversions. In its Revised Report, Avista agreed to limit its acquisition of electric-to-natural gas conversions, so that for the 2010-2011 biennium, 125,982 mWh out of the 128,603 mWh acquisition target will come from non-conversion resources.⁷

Pumping Load

In its Initial Report, the company did not provide any support for excluding pumping load from its conservation potential, which could have been included by using the council calculator’s option three. In its Revised Report, the company explained the exclusion of a separate adjustment for pumping load on the basis that it represented only a diminutive portion of usage

⁷ See pages 2 and 3 of the Revised Report.

and revenue, 2.5 percent and 2.3 percent respectively. The company does regard pumping efficiency programs as eligible measures for meeting its I-937 acquisition target. The company views pumping efficiency measures as fairly unique projects and will continue to pursue them through its site-specific program.⁸

Cumulative vs. First Year Savings

The company appeared to have proposed counting cumulative savings instead of first-year savings in future years in its Initial Report. Staff did not believe this was appropriate. Companies have historically reported only first-year savings. Avista removed this proposal from its Revised Report.

Distribution Efficiency

The company discussed its methodology for counting distribution efficiency savings very briefly in its Initial Report. The company provided additional information so that staff could determine whether this proposal was consistent with the council's methodology. The council's regional technical forum is currently considering adoption of a regional methodology for voltage control on distribution circuits which may be appropriate for Avista to follow. In the interim, the company's methodology for counting distribution efficiency savings are consistent with the methodologies established by the Northwest Energy Efficiency Alliance ("NEEA"). Staff finds this appropriate.

Current Practices

During its discussions with the company, staff drafted a Conditions List based on its comments with regards to the conservation programs offered by the company. Parties commented on the Conditions List, and staff proposes it here as appropriate conditions for the commission's approval of Avista's conservation potential and biennial target. (See Attachment 2)

The commission's review and approval of previous conservation targets relied on conservation potential assessments filed in utility integrated resource plans required by WAC 480-100-238. The commission has also addressed, in prior dockets, the inclusion of education-only programs, pilot and research projects, performance incentives and penalties, and equity between customer groups. Therefore, providing sufficient detail on these issues to allow the commission to come to a conclusion concerning the biennial conservation targets is a necessary component of complying with RCW 19.285. Reliance on standard practice is in the public interest because it shows continuity with existing conditions agreed to by the commission in past orders.

Evaluation Improvement Efforts

The company discussed its current process of enhancing Evaluation, Measurement and Verification ("EM&V") protocols and initiated a collaborative to review EM&V as prescribed by the commission in Dockets UE-090134, UG-090135 and UG-060518 (consolidated). The

⁸ "Pumping" schedules 31, 32 and attachment C of the compliance filing are used as support by the Company.

company's EM&V efforts include impact, process, market, and cost test analyses with the intention of supplying information to stakeholders to adequately determine the prudence of conservation programs. Staff proposes a condition that the company spend between three and six percent of its conservation budget on EM&V, including a reasonable proportion on independent, third-party EM&V. EM&V will be performed annually on a multi-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 will verify that claimed energy savings have actually occurred, will evaluate the existing internal review processes, and will suggest improvements to the program and ongoing EM&V processes. An annual independent, third-party EM&V report involving analysis of both program and process impacts will be part of the Annual Report on Conservation Acquisition. (See Section 5 of Attachment 2.)

Behavioral, Pilot, and Informational Programs

The company is committed to pursuing opportunities for behavioral efficiencies as part of its demand-side resource portfolio and will include such programs into the I-937 acquisition target if a reasonable quantification method can be developed. Staff proposes a condition that the company 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 educational, behavior change, or pilot projects. Modifications to this spending limit may be made with commission approval following full advisory group consultation. (See Section 6(d) of Attachment 2.)

Filing Schedule

To streamline the information received from all companies and provide adequate time for planning, analysis, and public input, staff recommends a filing schedule as part of the conditions for approval of Avista's 10-year conservation potential and biennial targets. (See Section 7 of Attachment 2).

Codes & Standards

Staff did not have enough information to evaluate the company's proposal for addressing codes and standards. Staff proposes a condition that the company file new program tariffs when it needs to count savings from new sources. (See Section 8(a) of Attachment 2.)

Regional Market Transformation

The company discussed how it would use the best available disaggregation methodology with regards to regional market transformation efforts. Staff felt that work papers should be provided to support its proposal. Staff was also unclear as to what levels of disaggregation the company was referring. Staff proposes a condition that the company file new program tariffs when it needs to count savings from new sources. Staff expects Avista to provide new opportunities to discuss regional market transformation as soon as possible through its Advisory Group. (See Section 8(a) of Attachment 2)

Rider Fund Balances

Staff found inconsistencies between RCW 19.285 and a previous commission order in Docket UE-991606 concerning the collection of interest on rider fund balances. The order states:

If the energy efficiency program expenditures exceed tariff rider collections in the future, the Company may not collect interest on the negative balance; the Company must bear the risk of undercollection of funds through the tariff rider; because the Company, not its customers, manages the energy efficiency program expenditures.⁹

This issue need not be addressed now. The company included the recording of interest on conservation fund balances in its issues list for discussion under the conservation incentive Docket U-100522, which is an appropriate venue for this discussion.

Conclusion

Enter an order in Docket UE-100176 approving Avista Corporation's 10-Year Achievable Conservation Potential and Biennial Conservation Target subject to conditions.

Attachments - 2

⁹ *UTC v. Avista Corporation*, Docket Nos. UE-991606 & UG-991607 (*consolidated*), 3rd Supplemental Order, at ¶ 422 (September 29, 2000).