

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of)	DOCKET UE-100176
AVISTA CORPORATION’S)	
)	ORDER 01
)	
Ten-Year Achievable Conservation)	ORDER APPROVING AVISTA’S
Potential And Biennial Conservation)	TEN-YEAR ACHIEVABLE
Target Under RCW 19.285.040 and)	CONSERVATION POTENTIAL AND
WAC 480-109-010)	BIENNIAL CONSERVATION
.....)	TARGET SUBJECT TO
)	CONDITIONS
)	

BACKGROUND

The Energy Independence Act

- 1 Washington voters approved Initiative 937, the Energy Independence Act, in the 2006 general election. Now codified in Chapter 19.285 of the Revised Code of Washington, it requires electric utilities with 25,000 or more customers to set and meet energy conservation targets, among other things.

- 2 Under RCW 19.285.040(1)(a) and (b), utilities are required to do 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.

- (b) Beginning January 2010, each qualifying utility shall establish and make publicly available a biennial acquisition target for cost-effective conservation consistent with its identification of achievable opportunities in (a) of this subsection, and meet that target during the subsequent two-year period. At a minimum, each biennial target must be no lower than the qualifying utility's pro-rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period.

3 "Conservation" is defined in RCW 19.285.030(4) to mean "any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution." This definition is substantially similar to the definition of "conservation" in the Pacific Northwest Electric Power Planning and Conservation Act of 1980 ("Northwest Power Act"), 16 U.S.C. § 839a(3).

4 "Cost effective" is defined in RCW 80.52.030(7) to mean "a project or resource is forecast:

- (a) To be reliable and available within the time it is needed; and
- (b) To meet or reduce the electric power demand of the intended consumers at an estimated incremental system cost no greater than that of the least-cost similarly reliable and available alternative project or resource, or any combination thereof."

5 System cost is defined in RCW80.52.030(8) to mean "an estimate of all direct costs of a project or resource over its effective life, including, if applicable, the costs of distribution to the consumer, and, among other factors, waste disposal costs, end-of-cycle costs, and fuel costs (including projected increases), and such quantifiable environmental costs and benefits as are directly attributable to the project or resource."

6 RCW 19.285.040(1)(a) requires utilities to use "methodologies consistent with those used by the Pacific Northwest electric power and conservation planning council" when identifying their achievable cost-effective conservation potential. The Pacific Northwest Electric Power and Conservation Planning Council ("Council") is a regional multistate

agency established under the Northwest Power Act.¹ The Council prepares and adopts a regional conservation and electric power plan for the Pacific Northwest region south of Canada every five years.² The Council's plans include regional targets for conservation. The Council adopted its Sixth Northwest Power Plan in February 2010.

- 7 RCW 19.285.080(1) authorizes the Washington Utilities and Transportation Commission ("Commission") to "adopt rules to ensure the proper implementation and enforcement of this chapter as it applies to investor-owned utilities." The Commission adopted such rules in Docket UE-061895, *In the Matter of Adopting Rules to Implement the Energy Independence Act*, General Order R-546 (Nov. 26, 2007). The rule adoption order is published in issue 08-1 of the Washington State Register as Wash. St. Reg. 07-24-012. The rules are codified at Chapter 480-109 of the Washington Administrative Code.
- 8 WAC 480-109-010 guides investor-owned utilities' compliance with RCW 19.285.040(1). WAC 480-109-010(1) requires each utility, by January 1, 2010, to project its cumulative ten-year conservation potential. WAC 480-109-010(3) requires each utility, beginning January 2010, to establish a biennial conservation target. WAC 480-109-010(3) directs that, "On or before January 31, 2010, . . . each utility must file with the commission a report identifying its ten-year achievable conservation potential and its biennial conservation target." WAC 480-109-010(4) describes the process for review by the Commission. Under WAC 480-109-010(4)(c), upon conclusion of that review, "the commission will determine whether to approve, approve with conditions, or reject the utility's ten-year achievable conservation potential and biennial conservation target."
- 9 Under RCW 19.285.040(1)(a), utilities are to use "methodologies consistent with those used by the [Council]" when identifying their achievable cost-effective conservation potential. The Commission's rules do not describe the Council's methodology for assessing conservation potential. The Washington Department of Commerce has adopted rules to guide consumer-owned utilities' compliance with RCW 19.285.040, including a rule that briefly describes the methodology. Though the Department of Commerce rule does not bind the Commission or investor-owned utilities, it provides a useful abbreviated summary of the Council's methodology.

¹ 16 U.S.C. § 839b(a); *see* RCW 43.52A (state participation in the Council).

² 16 U.S.C. § 839b(d)(1); *see* 16 U.S.C. § 839a(14) (definition of "regional").

10 The Department of Commerce rule, WAC 194-37-070(6)(a), provides:

The [Council's] analytical methodology for establishing the conservation resource potential and conservation targets for the Northwest power system is outlined in procedures (a)(i) through (xv) of this subsection. . . :

- (i) Analyze a broad range of energy efficiency measures considered technically feasible;
- (ii) Perform a life-cycle cost analysis of measures or programs, including the incremental savings and incremental costs of measures and replacement measures where resources or measures have different measure lifetimes;
- (iii) Set avoided costs equal to a forecast of regional market prices, which represents the cost of the next increment of available and reliable power supply available to the utility for the life of the energy efficiency measures to which it is compared;
- (iv) Calculate the value of the energy saved based on when it is saved. In performing this calculation, use time differentiated avoided costs to conduct the analysis that determines the financial value of energy saved through conservation;
- (v) Conduct a total resource cost analysis that assesses all costs and all benefits of conservation measures regardless of who pays the costs or receives the benefits. The [Council] identifies conservation measures that pass the total resource cost test as economically achievable;
- (vi) Identify conservation measures that pass the total resource cost test, by having a benefit/cost ratio of one or greater as economically achievable;
- (vii) Include the increase or decrease in annual or periodic operations and maintenance costs due to conservation measures;
- (viii) Include deferred capacity expansion benefits for transmission and distribution systems in its cost-effectiveness analysis;

- (ix) Include all nonpower benefits that a resource or measure may provide that can be quantified and monetized;
- (x) Include an estimate of program administrative costs;
- (xi) Discount future costs and benefits at a discount rate based on a weighted, after-tax, cost of capital for utilities and their customers for the measure lifetime;
- (xii) Include estimates of the achievable customer conservation penetration rates for retrofit measures and for lost-opportunity (long-lived) measures. The [Council's] twenty-year achievable penetration rates, for use when a utility assesses its twenty-year potential, are eighty-five percent for retrofit measures and sixty-five percent for lost opportunity measures achieved through a mix of utility programs and local, state and federal codes and standards. The [Council's] ten-year achievable penetration rates, for use when a utility assesses its ten-year potential, are sixty-four percent for nonlost opportunity measures and twenty-three percent for lost-opportunity measures; the weighted average of the two is a forty-six percent ten-year achievable penetration rate;
- (xiii) Include a ten percent bonus for conservation measures as defined in 16 U.S.C. § 839a of the Pacific Northwest Electric Power Planning and Conservation Act;
- (xiv) Analyze the results of multiple scenarios. This includes testing scenarios that accelerate the rate of conservation acquisition in the earlier years; and
- (xv) Analyze the costs of estimated future environmental externalities in the multiple scenarios that estimate costs and risks.

11 An outline of the major elements of the Council's methodology, downloaded from the Council's Internet Web site,³ was provided to the Commission as Attachment 1 to the April 29, 2010 Staff Memo and as Appendix B to the March 5, 2010 Staff Comments in

³ The outline is available at http://www.nwcouncil.org/energy/powerplan/6/supplycurves/I937/CouncilMethodology_outline%20_2_.pdf (last visited May 13, 2010).

this Docket. The Council's methodology is generally described in Council document 2007-13, "Achievable Savings: A Retrospective Look at the Northwest Power and Conservation Council's Conservation Planning Assumptions" (August 2007).⁴

Avista's Filings

- 12 On December 31, 2009, Avista Corporation ("Avista" or "Company") documented its compliance with the January 1, 2010 deadline of RCW 19.285.040(1)(a) and WAC 480-109-010(1) by filing with the Commission a document entitled "Projected 'Cumulative Ten-Year Electric Conservation Potential'." The filing was assigned docket number UE-091983. In the December 31 filing, Avista identified a ten-year conservation potential of 873,302 megawatt-hours.
- 13 On January 29, 2010, in accordance with WAC 480-109-010(3), Avista filed with the Commission a Ten-Year Achievable Conservation Potential and Biennial Conservation Target Report ("Initial Report"), pursuant to RCW 19.285.040(1). That filing initiated this Docket UE-100176. Avista identified a ten-year conservation potential of 873,302 megawatt-hours and a biennial 2010-11 conservation target of 128,603 megawatt-hours. In its 20-page Initial Report, Avista explained that it had used Option 1 in the Sixth Plan Target Calculator interactive spreadsheet posted on the Council's Web site to guide its development of these numbers,⁵ with modifications applicable to Avista's conservation programs. Avista filed more than 350 pages of supporting materials, including Council documents, correspondence with stakeholders and advisors, draft protocols for evaluating elements of Avista's conservation programs, and a 218-page document entitled "2010 DSM Business Plan," which provided substantial details about Avista's energy efficiency programs.
- 14 On February 2, 2010, the Commission issued a Notice of Opportunity to Comment on Avista's Initial Report by March 5, 2010, and a notice that Avista's Initial Report would be considered at the Commission's Open Meeting on March 11, 2010. During the

⁴ Council document 2007-13 is available at <http://www.nwcouncil.org/library/2007/2007-13.pdf> (last visited May 13, 2010).

⁵ The Sixth Plan Target Calculator interactive spreadsheet is available on the Council's Web site at http://www.nwcouncil.org/energy/powerplan/6/supplycurves/I937/UtilityTargetCalc_v2.0_6thPlan.xls (last visited May 13, 2010). According to the Introduction section of the spreadsheet, its purpose 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." For utilities such as Avista whose service territory is in more than one state, the Calculator computes a separate output for each state in which the utility provides electric service.

comment period, the Commission received written comments from Public Counsel, the Northwest Energy Coalition, the Washington Department of Ecology, and Commission 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, Public Counsel, the Northwest Energy Coalition, the Company, and Commission Staff.

- 15 RCW 19.285.040(1)(e) authorizes the Commission to “rely on its standard practice for review and approval of investor-owned utility conservation targets.” The Commission has codified some of its standard practice in WAC 480-109-010(4). Under the rule, the Commission will consider all comments on a utility’s ten-year achievable conservation potential and biennial conservation target, may determine that 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 the utility’s ten-year conservation potential and biennial conservation target.
- 16 The Commission decided at the March 11 Open Meeting to defer its consideration of Avista’s filing to a later open meeting so that Commission Staff, Avista, and other interested persons could engage in additional discussion. Staff sought input from interested persons on a draft list of conditions for approval of Avista’s ten-year conservation potential and biennial conservation target. Staff convened a conference call on March 19, 2010, in which Avista and interested persons participated.
- 17 As a result of those conversations, Avista filed a Revised Ten-year Achievable Conservation Potential and Biennial Conservation Target Report (“Revised Report”) on April 16, 2010. In the April 16 filing, Avista identified a ten-year conservation potential of 873,302 megawatt-hours and a biennial 2010-11 conservation target of 128,603 megawatt-hours. The overall numbers were the same as those identified in the Initial Report, but Avista clarified that its biennial conservation target included a minimum of 125,982 megawatt-hours from conservation measures that do not rely on electric-to-natural gas fuel switching. The main body of the Revised Report described how Avista involved the public in developing its biennial target; 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 Revised Report also described 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, and included some information that had not been filed with the Initial Report. Public Counsel and the Northwest Energy Coalition submitted written comments on the Revised Report.

18 Staff reviewed the Revised Report, and was satisfied with the changes made by the Company. Staff presented a memo at the April 29, 2010, Open Meeting recommending approval with conditions.

19 The Commission considered Avista's Revised Report at its April 29, 2010 Open Meeting, and heard additional oral comments from Public Counsel, the Northwest Energy Coalition, the Company, and Commission Staff. The comments indicated general agreement among the participants, but revealed the need for further discussion regarding the details of a final order. The Commission approved Avista's Ten-Year Achievable Conservation Potential and Biennial Conservation Target subject to conditions to be worked out through additional discussion, with a final order to be presented to the Commission at its May 13, 2010 Open Meeting.

SUMMARY AND DISCUSSION OF COMMENTS FROM INTERESTED PERSONS

Commission Staff

20 Commission Staff evaluated whether Avista had complied with RCW 19.285.040(1) and WAC 480-109-010 by reviewing the following aspects of its Initial and Revised Reports:

- The Company's methodology for identifying its ten-year conservation potential and whether it was consistent with the Council's methodology for assessing conservation potential.
- Details about the Company's programs and whether they supported the ten-year conservation potential and biennial target.
- The extent to which the Company included public participation in the development of the ten-year conservation potential and biennial target.

21 Staff was pleased with Avista's Initial Report and found it to be well-supported but incomplete, with additional information needed about a few items, as follows:

- Assurance that Avista would not rely disproportionately on electric-to-gas fuel switching to achieve conservation savings;
- Avista's rationale for excluding irrigation pumping load from its ten-year conservation potential; and
- Clarification about Avista's methodology for counting distribution efficiency savings.

22 In addition, Staff objected to Avista's proposal to set future biennial conservation targets on a cumulative basis, rather than a biennial basis. Finally, Staff recommended that some issues that had implications for all investor-owned utilities in Washington, such as the collection of interest on tariff rider fund balances, be deferred to a "Washington Conservation Collaborative" for broader discussion.

23 **Fuel Switching.** Avista used the output from Option 1 of the Council's Sixth Plan Target Calculator and then made adjustments to account for Avista's programs that encourage residential customers to switch from electric furnaces and appliances to those that use natural gas. Under the Council's view of its legal mandate, the Council has not included electric-to-gas fuel switching in its menu of conservation measures, but it recognizes that fuel switching can result in case-specific energy savings. Staff urged that fuel-switching that saves energy should be recognized as "conservation" under RCW 19.285, noting that the Commission conducted a workshop on switching from electricity to natural gas for direct end use in Docket UG-080750.

24 Staff was initially concerned, however, that Avista's inclusion of electric-to-gas fuel switching could result in undue reliance on that measure. In its Revised Report, Avista clarified that its 2010-11 biennial conservation target of 128,603 megawatt-hours includes a minimum of 125,982 megawatt-hours from conservation measures that do not rely on fuel-switching. Staff was satisfied with that clarification.

25 **Irrigation Pumping Load.** Avista's Initial Report did not mention irrigation pumping as a potential source for reductions in electric power consumption. Staff found no support for that omission. In its Revised Report, Avista stated that irrigation pumping loads accounted for only 2.5% of usage and 2.3% of revenue, and provided supporting documentation for those numbers. The Revised Report explained that Avista pursues pumping efficiency opportunities as part of its site-specific conservation program, in

which conservation measures are individually tailored for each customer. Staff was satisfied with the explanation.

26 **Distribution Efficiency.** Staff was unable to determine from Avista's Initial Report whether the Company's methodology for counting distribution efficiency savings was consistent with the Council's conservation potential assessment methodology. In its Revised Report, Avista included additional information about its distribution efficiency potential, explaining that the Company had relied on the methodology established by the non-profit Northwest Energy Efficiency Alliance (NEEA), as published in a 2008 NEEA report on the Utility Distribution Efficiency Initiative. Staff was satisfied with the explanation.

27 **Other Issues.** In its Final Report, Avista deleted its proposal to set future biennial conservation targets on a cumulative basis. Staff agreed with the deletion.

28 Staff concluded that Avista had provided the public and Staff with sufficient opportunities for participation in the development of its ten-year conservation potential and biennial conservation target under WAC 480-109-010(3)(a).

29 Staff concluded that Avista's methodology for identifying its ten-year conservation potential was consistent with the Council's methodology. Staff concluded that Avista's use of the Council's Sixth Plan Target Calculator for deriving its ten-year conservation potential and biennial target, as modified to include electric-to-gas conversions, was consistent with WAC 480-109-010(1)(b)(ii) and WAC 480-109-010(2).

30 Staff recommended that the largely voluntary guidelines under which Avista had previously operated its conservation programs be incorporated into an order in this Docket. The rationale is that RCW 19.285.040(1)(e) authorizes the Commission to "rely on its standard practice for review and approval of investor-owned utility conservation targets," and the Commission's "standard practice" for reviewing and approving utility practices includes program details. Avista agreed to entry of an order that includes program details.

31 Staff proposed a condition that Avista spend between three and six percent of its conservation budget on evaluation, measurement, and verification activities to determine whether its programs result in actual energy savings. During the April 29 Open Meeting,

Staff explained that three to five percent is consistent with budget allocations in other jurisdictions. Staff also proposed that Avista be permitted to spend up to ten percent of its conservation budget on programs whose energy savings has not yet been measured, so long as the Company's overall portfolio of conservation measures passes the Total Resource Cost test as modified by the Council.⁶ Avista agreed to both conditions.

32 Avista's Initial and Final Reports contained proposals for addressing future opportunities for pursuing energy savings. Staff proposed conditions requiring Avista to file additional information in the future regarding such opportunities if it elects to pursue them. Avista agreed to that condition.

33 In the Staff Comments of March 5, 2010, Staff identified a possible inconsistency between a provision in a prior Avista rate-making order and RCW 19.285. The provision in question addresses interest on conservation tariff rider fund balances.⁷ Staff proposed that the Commission establish a Washington Conservation Collaborative as a forum for coordination and development of issues and solutions related to the implementation of RCW 19.285, including the issue of interest on rider fund balances. In a related matter, on April 6, 2010, the Commission filed with the Washington Code Reviser a Preproposal Statement of Inquiry "to examine if [the Commission] should adopt new or modified regulations to address declines in revenue as a result of utility promoted conservation."⁸ The Commission assigned docket number U-100522 to the proceeding and invited interested parties to submit statements of issues. Included on the list that Avista submitted on April 23, 2010, was the issue of whether a utility should be allowed to accrue interest on tariff rider fund balances. In the Staff Memo dated April 29, 2010, Staff proposed that the issue be addressed in Docket U-100522 and need not be addressed in this Docket.

⁶ A summary of the Total Resource Cost test as applied by the Council is contained in Item 3(a) in Attachment 1 to the Commission Staff Memo dated April 29, 2010 and Appendix B to the Staff Comments dated March 5, 2010. The document is also available on the Council's Web site at http://www.nwcouncil.org/energy/powerplan/6/supplycurves/I937/CouncilMethodology_outline%202_2_.pdf (last visited May 13, 2010).

⁷ *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Docket Nos. UE-991606/UG-991607, Third Supplemental Order ¶ 422 (Sept. 29, 2000).

⁸ Wash. St. Reg. 10-08-075. A preproposal statement of inquiry is the first step in rule making under the Washington Administrative Procedure Act, RCW 34.05.310.

Public Counsel

- 34 In written comments dated March 5, 2010, Public Counsel stressed that utility conservation programs should be cost-effective and well-designed. Public Counsel questioned whether Avista's proposal to count energy savings from electric-to-natural gas conversions as "conservation" was consistent with the Council's conservation potential assessment methodology. Public Counsel expressed concern about Avista's proposal to include in the Company's assessment of conservation potential quantifiable behavioral efficiencies, distribution efficiencies, regional efficiency measures "beyond utility program intervention," the acquisition of NEEA savings, and projects funded under the American Reinvestment and Recovery Act. Public Counsel thought it premature to treat such items as qualifying measures without further clarification and scrutiny. Like Staff, Public Counsel objected to Avista's proposal to set future biennial conservation targets on a cumulative basis, rather than a biennial basis, believing the Company's proposal to be inconsistent with RCW 19.285. Public Counsel was also concerned that Avista's Demand Side Management savings estimates may not be consistent with those of the Council's Regional Technical Forum. Public Counsel urged that Avista had not provided adequate documentation to show how it developed its biennial target from its ten-year conservation potential. Finally, Public Counsel stated that interested parties had not had a meaningful opportunity to engage in the development of Avista's proposed biennial target.
- 35 Public Counsel recommended a rule making or other process to address certain topics such as the savings estimates used to calculate conservation acquisition and the development of standard Demand Side Management reporting requirements. Public Counsel also recommended that the Commission approve only Avista's specific numerical biennial target and ten-year potential and not Avista's entire Initial Report.
- 36 In written comments dated April 23, 2010, Public Counsel expressed disappointment that Avista's Revised Report did not adopt many of the revisions and clarifications Public Counsel had requested. Public Counsel recommended, however, that the Commission approve Avista's proposed ten-year conservation potential and biennial target, subject to conditions. First, Public Counsel recommended that Avista be required to submit annual budgets, with program details, to its energy efficiency advisory group. Second, Public Counsel recommended that the Commission specifically list approved strategies for

Avista's selection and evaluation of energy conservation savings. Avista agreed to both conditions.

- 37 Public Counsel reiterated that conservation measures should be quantifiable and verifiable. Public Counsel recommended that, in future filings, Avista should explain the relationship between its Integrated Resource Plan and its biennial conservation target under RCW 19.285.040(1), and should document the relationship between its ten-year conservation potential and its biennial target.
- 38 Public Counsel submitted additional written comments on April 29, 2010. Public Counsel recommended that Avista should review the rebates it offers to customers to make sure they are not directed predominantly to customers who would have invested in efficiency measures anyway.
- 39 In oral comments presented during the Commission's April 29, 2010 Open Meeting, Public Counsel expressed concern about Commission Staff's proposal that Avista be permitted to spend up to ten percent of its conservation budget on programs whose energy savings has not yet been measured.

Northwest Energy Coalition

- 40 In written comments dated March 5, 2010, the Northwest Energy Coalition ("NWECC") recommended that the Commission approve with conditions Avista's biennial conservation target. NWECC recommended that Avista be required to use consistent methods of calculating conservation potential and savings in all future filings. NWECC supported Avista's proposal to count energy savings from electric-to-natural gas conversions as "conservation," but only to the extent that such conversions install high-efficiency natural gas equipment. NWECC recommended that installation of new distribution system equipment should qualify as a conservation measure only if the new equipment meets high efficiency standards. NWECC joined with Commission Staff and Public Counsel in objecting to Avista's proposal to set future biennial conservation targets on a cumulative basis, rather than a biennial basis. NWECC stated that Avista's level of stakeholder involvement was adequate, but encouraged greater outreach in the future. NWECC asked the Commission to consider consolidating Avista's various conservation filings into a single docket, at least in even-numbered years.

41 In written comments dated April 23, 2010, NWEAC again recommended that installation of new distribution system equipment should qualify as a conservation measure only if the new equipment meets high efficiency standards. NWEAC reiterated that electric-to-natural gas conversions should count as “conservation” only to the extent that such conversions install high-efficiency natural gas equipment. During the Commission’s April 29, 2010, Open Meeting, Avista suggested that it would reduce its biennial conservation target if that condition were imposed. Commission Staff suggested that a possible solution could be a condition requiring Avista to phase out incentives for customers to convert electric equipment to standard-efficiency natural gas equipment.

42 In oral comments presented during the Commission’s April 29, 2010, Open Meeting, NWEAC agreed with Commission Staff’s proposal that Avista be permitted to spend up to ten percent of its conservation budget on programs whose energy savings has not yet been measured.

Washington Department of Ecology

43 The Washington Department of Ecology (Ecology) submitted written comments dated March 5, 2010. Ecology’s comments were made as one comment on the filings of all three of the investor-owned electric utilities. Ecology expressed support for Avista’s use of the Council’s Sixth Plan Target Calculator as a basis for developing its biennial conservation target, and generally encouraged utilities to invest in cost-effective electricity conservation measures.

FINDINGS AND CONCLUSIONS

44 (1) The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including electric companies. *RCW 80.01.040, RCW 80.04, RCW 80.08, RCW 80.12, RCW 80.16, RCW 80.28.*

45 (2) Under RCW 19.285.040(1)(a) and (b), electric utilities that serve more than 25,000 customers in the State of Washington are required to do 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.
 - (b) Beginning January 2010, each qualifying utility shall establish and make publicly available a biennial acquisition target for cost-effective conservation consistent with its identification of achievable opportunities in (a) of this subsection, and meet that target during the subsequent two-year period. At a minimum, each biennial target must be no lower than the qualifying utility's pro-rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period.
- 46 (3) As used in RCW 19.285.040(1), “‘Conservation’ means any reduction in electric power consumption resulting from increases in the efficiency of energy use, production, or distribution.” *RCW 19.285.030(4)*.
- 47 (4) The Washington Utilities and Transportation Commission has authority to determine investor-owned utilities' compliance with RCW 19.285.040(1). *RCW 19.285.060(6)*. The Commission has authority to review and decide whether to approve investor-owned utility conservation targets. The Commission may rely on its standard practice in exercising that authority. *RCW 19.285.040(1)(e)*. The Commission has adopted WAC 480-109-010 to implement RCW 19.285.040(1).
- 48 (5) Avista is an electric company and a public service company subject to Commission jurisdiction. Avista is a qualifying investor-owned electric utility under RCW 19.285.030.

- 49 (6) Avista timely identified its ten-year achievable conservation potential and biennial conservation target, and timely submitted a Ten-Year Achievable Conservation Potential and Biennial Conservation Target Report to the Commission under WAC 480-109-010.
- 50 (7) To guide the development of its 2010-2019 achievable conservation potential and 2010-2011 biennial conservation target, Avista used Option 1 in the Sixth Plan Target Calculator interactive spreadsheet prepared by the Pacific Northwest Electric Power and Conservation Planning Council. Using the Sixth Plan Target Calculator as a starting point, Avista made modifications applicable to its conservation programs. After considering Avista's Revised Report and supporting documentation, comments received, and Staff's analysis, the Commission concludes that the Ten-Year Achievable Conservation Potential that Avista identified is consistent with RCW 19.285.040(1) and WAC 480-109-010(1). The Commission concludes that the 2010-2011 Biennial Conservation Target that Avista established is consistent with RCW 19.285.040(1) and WAC 480-109-010(2).
- 51 (8) The Commission concludes that Avista has satisfied the staff and public participation requirements of WAC 480-109-010(3) in developing its ten-year conservation potential and biennial conservation target.
- 52 (9) Avista agreed to the Conditions described in this Order. The Conditions memorialize the Commission's standard practice with respect to investor-owned utility conservation programs and facilitate the Commission's ability to determine Avista's compliance with the provisions of RCW 19.285. *RCW 19.285.040(1)(e); RCW 19.285.060(6); RCW 80.28.303(1).*
- 53 (10) Avista's Ten-Year Achievable Conservation Potential of 873,302 megawatt-hours and Biennial Conservation Target of 128,603 megawatt-hours, including at least 125,982 megawatt-hours of conservation resources not derived from electric-to-natural gas conversions, are appropriate subject to the Conditions included in this Order.

- 54 (11) After reviewing Avista’s Revised Ten-Year Achievable Conservation Potential and Biennial Conservation Target Report filed on April 16, 2010, and giving due consideration to all relevant matters and for good cause shown, the Commission finds it is in the public interest to approve with conditions Avista’s Ten-Year Achievable Conservation Potential and Biennial Conservation Target identified in the Company’s Revised Report, as authorized by RCW 19.285.040 (1)(e) and WAC 480-109-010(4).
- 55 (12) The Commission finds that it is not appropriate to consider Staff’s proposal for a conservation collaborative until after the Commission has completed review of the pending conservation target filings of the other investor-owned utilities. When those reviews are complete, Staff may renew its proposal, taking into account the other demands on Commission staff resources.
- 56 (13) This matter came before the Commission at its regularly-scheduled meeting on April 29, 2010. The Commission orally approved Avista’s ten-year conservation potential and biennial conservation target at that time. This final Order was presented to the Commission for consideration at its regularly-scheduled meeting on May 13, 2010.

ORDER

THE COMMISSION ORDERS:

- 57 (1) Avista Corporation’s Ten-Year Achievable Conservation Potential and Biennial Conservation Target, as identified in the Company’s Revised Report filed on April 16, 2010, are approved with conditions pursuant to RCW 19.285.040(1)(e) and WAC 480-109-010(4)(c). This approval is subject to the Conditions described in Paragraphs (2) through (11) below.
- 58 (2) **Company Retains Responsibility.** Nothing within this Order relieves Avista of the sole responsibility for complying with RCW 19.285, which requires Avista 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

Avista's operational authority nor its ultimate responsibility for meeting the biennial conservation target approved herein.

- 59 (3) **Advisory Group.**
- (a) Avista must maintain and use an external conservation Advisory Group of stakeholders to advise the Company on the topics described in subparagraphs (i) through (x) below. To meet this condition, Avista may continue to use its External Energy Efficiency Board created under Docket UE-981126, and its Integrated Resource Planning Technical Advisory Committee created under WAC 480-100-238. The Advisory Group shall advise on the following:
 - (i) Development and modification of protocols to evaluate, measure, and verify energy savings in Avista's programs.
 - (ii) Development of conservation potential assessments under RCW 19.285.040(1)(a) and WAC 480-109-010(1).
 - (iii) Guidance to Avista regarding methodology inputs and calculations for updating cost-effectiveness.
 - (iv) Review of data sources and values used to update supply curves.
 - (v) Consideration of the 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 limited income.
 - (viii) Comparing program achievement results with annual and biennial targets.
 - (ix) Review of conservation program budgets and actual expenditures compared to budgets.
 - (b) The Advisory Group should meet quarterly at a minimum. Avista must permit any member to request an additional meeting of the Advisory Group with reasonable notice.
- 60 (4) **Annual Budgets and Energy Savings.**
- (a) Avista must submit annual budgets to the Advisory Group and to the Commission no later than November 1 of each year. The submissions

must include reasonable program 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 DSM Business Plan required under Paragraph 8(b) below.

- (b) Avista 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.

61 (5) **Program Details.** Avista 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 or as revisions to the Company's DSM Business Plan. Avista may propose other methods for managing its program details in the Biennial Conservation Plan required under Paragraph 8(f) below, after consultation with the Advisory Group as provided in Paragraph 9(b) below.

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

- (a) Avista has identified a number of potential conservation measures as qualifying measures in its Revised Report filed on April 16, 2010, in this Docket. The Commission is not obligated to accept savings identified in the Revised Report for purposes of compliance with RCW 19.285. Avista 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 subparagraph (6)(c), Avista must use the Council's Regional Technical Forum's ("RTF's") "deemed" savings for electricity measures. As of the date of this Order, the RTF maintains a Web site at <http://www.nwcouncil.org/energy/rtf/>.
- (c) If Avista utilizes savings amounts for prescriptive programs that have not been established by the RTF, such estimates must be based on a rigorous

impact evaluation that has verified savings levels, and be presented to the Advisory Group for comment.

- (d) When Avista proposes a new program, it must present it to the Advisory Group for comment with program details fully defined. After consultation with the Advisory Group in accordance with Paragraph 3 above, Avista must file a revision to its DSM Business Plan in this Docket. The revision may be acknowledged by placement on the Commission's No Action Open Meeting agenda.
- (e) Avista must provide opportunities for the Advisory Group to review and assist with the development of evaluation, measurement and verification protocols for conservation programs. See Paragraph 3(a)(i) above.
- (f) Avista must spend between three (3) and six (6) percent of its conservation budget on evaluation, measurement, and verification (EM&V), including a reasonable proportion on independent, third-party EM&V. Avista must perform EM&V 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 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 must be part of the Annual Report on Conservation Acquisition described in Paragraphs 8(c) and (g) below. Avista may ask the Commission to modify this spending band following full Advisory Group consultation.

63 (7) **Program Design Principles**

- (a) All Sectors Included — Avista must offer a mix of tariff-based programs that ensure it is serving each customer sector, including programs targeted to the limited-income subset of residential customers. Modifications to the programs must be filed with the Commission as revisions to tariffs or as revisions to Avista's DSM Business Plan, as appropriate.
- (b) Outreach on Programs — Avista 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. Avista must share these strategies and budgets with

the Advisory Group for review and comments, and provide updates at Advisory Group meetings.

- (c) Incentives and Conservation Program Implementation — Avista must offer a cost-effective portfolio of programs in order to achieve all available conservation that is cost-effective, reliable, and feasible. Programs and incentives may be directed to consumers, retailers, or trade allies, as appropriate for measures that save energy. 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 achievable energy conservation.
- (d) Conservation Efforts without Approved EM&V Protocol — Avista 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, and pilot projects. The Company may ask the Commission to modify this spending limit following full Advisory Group consultation. As of the date of this Order, 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.

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

Avista must file the following:

- (a) Six-Month Report on Conservation Acquisition, comparing budgeted to actual kWh's and expenditures, by August 15, 2010.
- (b) 2011 DSM Business Plan, containing any changes to program details and an annual budget by November 1, 2010.
- (c) 2010 Annual Report on Conservation Acquisition, including an evaluation of cost effectiveness and comparing budgets to actual, by March 31, 2011.
- (d) Revisions to cost recovery tariff by May 1, 2011, with requested effective date of July 1, 2011.

- (e) Six-Month Report on Conservation Acquisition, comparing budget to actual kWh's and dollar activity, by August 15, 2011.
- (f) Biennial Conservation Plan including revised program details and program tariffs, together with identification of 2012-2021 achievable conservation potential, by November 1, 2011, requesting effective date of January 1, 2012. This filing will satisfy the requirement in WAC 480-109-010 to file 10-year Achievable Conservation Potential and Biennial Conservation Target on or before January 31.⁹
- (g) 2011 Annual Report on Conservation Acquisition, including an evaluation of cost-effectiveness, by March 31, 2012.
- (h) Two-year report on conservation program achievement by June 1, 2012. 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.

65 (9) **Required Public Involvement in Preparation for the 2012-2013 Biennium**

- (a) By July 1, 2011, Avista must consult with the Advisory Group to facilitate completion of a 10-year conservation potential analysis by November 1, 2011. *See* RCW 19.285.040(1)(a); WAC 480-109-010(1). This must be based on a current conservation potential assessment study of Avista's service area within Washington State. This may be conducted within the context of Avista's integrated resource plan. If Avista 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) Avista must consult with the Advisory Group between July 1, 2011, and October 31, 2011, to identify achievable conservation potential for 2012-2021 and set annual and biennial targets for the 2012-2013 biennium, including necessary revisions to program details. *See* RCW 19.285.040(1)(b); WAC 480-109-010(2) and (3).
- (c) During the consultation described in subparagraph 9(b) above, Avista must review with the Advisory Group whether standard-efficiency fuel

⁹ The Commission recognizes that this deadline is not the same as the rule. This is acceptable because Avista has agreed to the earlier deadline. A change to Chapter 480-109 WAC may be considered after we complete our evaluation of the conservation filings by Pacific Power & Light Company and Puget Sound Energy.

conversion savings should be included in the 2012-2013 Biennial Conservation Target.

- 66 (10) **Cost Effectiveness Test is the Total Resource Cost Test**
- (a) The primary cost effectiveness test IS the Total Resource Cost (TRC) test as modified by the Council. The Council-modified calculation of TRC includes quantifiable non-energy benefits, a risk adder, and a 10 percent conservation benefit adder that increases the avoided costs by 10 percent. The Council does not include a net-to-gross adjustment. As of the date of this Order, an outline of the major elements of the Council’s methodology for determining achievable conservation potential, including the Total Resource Cost test, is [referenced](#) in paragraph (7)(d).
 - (b) In addition to the Council-modified TRC, Avista must provide 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.” As of the date of this Order, the study is available on the Web site of the United States Environmental Protection Agency at <http://www.epa.gov/cleanenergy/documents/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. Avista must continue to evaluate measure and program level cost tests.
- 67 (11) **Recovery Through an Electric Tariff Rider**
- (a) Annual Filing — Avista’s annual tariff rider filing, required under paragraph (8)(d), 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 rider must be used on approved conservation programs and their administrative costs.
 - (c) Recovery for Each Customer Class — Rate spread and rate design must match Avista’s underlying base volumetric rates.

DATED at Olympia, Washington, and effective May 13, 2010.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

JEFFREY D. GOLTZ, Chairman

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner