

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11_____

DOCKET NO. UG-11_____

EXHIBIT No. ____ (BWF-3)

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REPRESENTING AVISTA CORPORATION

Rebate Processing Procedures for Demand Side Management Programs

May 2011

**Provided Pursuant to UTC Order 07
Dockets UE-100467 & UG-100468**



Introduction

In response to the Washington Utilities and Transportation Commission's (UTC) Order No. 7 in Dockets UE-100467 & UG-100468, Avista Corporation dba Avista Utilities ("Avista or the Company") submits its report on the Company's "Rebate Processing Procedures for Demand Side Management (DSM) Programs. The Company chose to do an internal review of these processes and procedures with the results detailed in this report.

Background

Paragraph 15 of the Settlement Stipulation in the above referenced Docket provides:

Rebate Processing Procedures for DSM Programs.

Avista will conduct, either internally or by an independent, third-party, a comprehensive review of its customer rebate processing system for all rebate programs, including process analysis/best practices review of rebate processing to ensure accuracy. As part of this review there will be a thorough examination of the Company's procedures for prescriptive rebate programs where the amount of the rebate varies and is calculated individually for each customer (e.g., residential insulation and window replacement). The review is expected to culminate in a final report with recommendations regarding any new systems and/or controls the Company should implement to improve and enhance its rebate processing, including but not limited to controls to ensure that rebates do not exceed the program maximum, currently set at fifty percent of project cost for most programs. Avista shall furnish the final report resulting from this review in a report to be provided to all parties, and the Triple E Board, upon completion and prior to the Company's next general rate case.

Avista currently offers energy efficiency incentives and rebates to its residential, commercial and industrial customers through tariff schedules 90 and 190 in Washington. As it relates to residential customers, rebates for residential home improvements (including insulation, water heating, and appliances) and residential new construction have been in place for over five years. In 2006 Avista processed 6,589 rebates. This number increased to 17,312 rebates paid in 2008, and in 2010, over 35,000 rebates were processed. The Company also provides rebates for non-residential customers. These include high-efficiency motors and lighting, among other things.

Issues Addressed in this Report

1. Internal Comprehensive Review: Conduct an internal comprehensive review of its customer rebate processing system for all rebate programs, including process analysis/best practices review of rebate processing to ensure accuracy.

2. Examination of Company's Procedures for Prescriptive Rebate Programs: Examination of Company's procedures for prescriptive rebate programs where the amount of the rebate varies and is calculated individually for each customer.
3. Recommendations Regarding Any New Systems and/or Controls: Report with recommendations regarding any new systems and/or controls the Company should implement and enhance its rebate processing.

1. Internal Comprehensive Review

During 2010 an internal evaluation of the Company's rebate processing efforts was undertaken. The first goal was to utilize "Lean Six Sigma" business management strategies to review the current residential rebating process (from customer application to final rebate payment) and determine if changes could be made to provide for further efficiencies and accuracy. A second goal was to identify as many areas in the new process that could be automated, thereby reducing the potential for errors. Automation could include moving customer applications to a web-based approach, electronically transmitting customer applications to a customer service database, and streamlining the automated payment requests to the Company's accounts payable department.

A cross-functional business improvement team was developed to look into these issues. This team consisted of employees from Avista's Energy Solutions, Customer Service, Accounts Payable, Strategic Project Development, Marketing, Process Improvement and Enterprise Technology departments. The team focused on reviewing the current state of rebate processing, "challenging" each step of the process by reviewing whether a particular process was necessary, accurately controlled, and whether it added value to the customer in the long run. The team scrutinized the amount of time it takes to process residential rebates, the number of touches and steps in the process, and the total number of handoffs for each rebate. The team conducted a thorough review of the residential rebate process.

As it relates to non-residential rebate processing, those rebates continue to be reviewed and processed by the individual program managers in a manner similar to the processing of site-specific energy efficiency incentives. Given that, along with the fact that the volume of commercial/industrial rebates is dwarfed by the amount of residential rebates (i.e., hundreds versus tens of thousands), no further review was warranted.

2. Examination of Company's Procedures for Prescriptive Rebate Programs

While conducting the internal review described above, the Company found one payment that was discovered to have exceeded the 50% cap for a measure. This was for a measure, windows, where the \$3 per square foot incentive averages between 10% and 15% of the total cost (\$20 - \$30 per square foot) and was an unexpected result of a data entry error. The result

of the error was an overpaid incentive of approximately \$4,659. As a result of this error, additional “checks and balances” were implemented to ensure that correct incentives were being calculated and paid to customers, and that future data entry errors would be avoided. Because incentives cannot exceed 50% of the cost of a measure, the Company extended a control measure within the rebate processing systems to all measures to ensure that the cap cannot be exceeded on measures that often reach or have the potential to exceed the 50% cap and those that shouldn’t but invariably might. This built-in system edit ensures that all measures now have at least a 50% cap, which not only ensures that the Company does not pay more than 50% of the installed costs on a measure, but also helps to protect against data entry errors.

Another system edit that was implemented was to provide for a verification check when window rebates are input into the system. Because of the typically higher cost of windows, this edit warns the data entry employee if the rebate is over 15% of the installed costs, which is the higher end of typical amount paid on such measures. This edit will further help the Company to avoid the risk of potential overpayment from a data entry error.

Finally, as it relates to nonresidential programs, as stated earlier most of the programs are site-specific in nature and calculation, and very few are prescriptive or rebate based. Non-residential programs that are prescriptive, such as lighting and motors, follow similar checks and balances for processing rebates.

3. Recommendations Regarding Any New Systems and/or Controls

To maximize customer value and minimize inefficiencies and errors, the business improvement team believed that there should be further automation in the processing of residential rebates. The current manually intensive process, which was established more than a decade ago when the number of rebates was minimal, is not the most ideal system given that the volume of rebates has increased substantially. The manual processing of rebates is time consuming and labor intensive, making it prone to the possibility of errors. Between the manual process, and the fact that almost half of all rebates received from customers are either incomplete or inaccurate, it can take approximately 8 minutes to accurately process one rebate. Given that the Company processed nearly 40,000 rebates in 2010, rebate automation along with improved efficiencies and accuracy was identified as a value-added opportunity for the Company and its customers.

Summary of Objectives after Automation

The business improvement team identified several objectives that could be achieved through the automation of the rebating process.

- Instant crediting to customers' account rather than have the customer wait 4 to 6 weeks to receive a check;
- Self-service automatic verification of customer eligibility and potentially some measure eligibility which would allow customers to apply for rebates at their convenience through an online portal;
- Accurate input by customers through web-entry allows for confirmation of completed rebate request information and automatic upload into the customer service data base. This decreases data entry errors and the need for follow up for basic rebate information. Processing time is reduced and allows the rebate processing team greater focus on customer, measure and incentive verification;
- Built in eligibility and verification checks could reduce processing time and errors, providing higher quality assurance and rebate payments in a shorter amount of time;
- Provide for a reduction in number of checks printed and mailed, resulting in decreased costs, and;
- Rebate status updates via email would result in cost savings to the Company and ratepayers through reduces customer phone calls.

Some of the improvements resulting in further rebate accuracy have already been implemented, as described in section 2. However, the majority of the improvements in rebate processing will be achieved through automation. The Company is currently developing estimates related to the amount of programming time that will be required to make the necessary modifications to the customer service system and avistautilities.com. After the programming and testing is completed, the modifications will be rolled out to internal employees as well as our customers. The tentative date for completion is in late summer 2011.

Due to the nature of most non-residential programs, both site-specific or prescriptive with unique characteristics, they receive more individualized. Automation, however, is being considered for appropriate non-residential prescriptive programs (e.g. lighting). The Company will provide periodic updates regarding the status of the automation project to the DSM Advisory Group (Triple – E).