[Service Date May 19, 2010]

May 19, 2010

NOTICE OF AMENDMENT TO CONSOLIDATED ISSUES LIST

RE: Conservation Incentives, Docket U-100522

TO ALL INTERESTED PERSONS:

On May 13, 2010, the Washington Utilities and Transportation Commission (Commission) issued a Notice of Opportunity to File Written Comments and a Consolidated Issues List in the above-referenced docket. **Comments on the Consolidated Issues List are due by June 4, 2010**. The Commission now amends the Consolidated Issues List to add one issue as follows:

14.5) *State greenhouse gas emission reduction goal (70.235.020).* How would removing the linkage between the number of kilowatt hours sold and financial returns for utilities impact the state's ability to meet its statutory greenhouse (GHG) emission reduction limits (RCW 70.235.020)?

There are no other changes to the consolidated issues list. The complete amended consolidated issues list is provided below for the convenience of the parties. The numbering of the original set of issues in the consolidated issues list has not changed in the amended consolidated issues list.

Amended Consolidated Issues List

General

1) *Definitions.* What is decoupling? What is lost margin? How is it measured? What are fixed costs?

2) *Recovery of Conservation Program Costs.* Are the utilities' conservation program costs recovered from ratepayers in a timely manner?

a. If cost recovery is untimely, please describe how and why.

b. Are there other methods of funding conservation programs that would be more efficient and effective at acquiring conservation resources?

Impact of Conservation Resource Development on Rate of Return

3) *Statement of the Issue.* Does the development of conservation resources deny the utility an opportunity to earn its allowed rate of return? Would an attrition study be the best way to determine this question? Are there alternative ways of making such a determination?

4) *Magnitude of the Risk.* How much lost margin can be attributed to each utility's conservation programs? How much lost margin can be attributed to the other types of conservation referenced in question 6 below?

5) *Direct Conservation Incentives and Rate of Return.* What is the rationale for making incentive payments to utilities for acquiring conservation resources? Is it to encourage conservation? (See questions 14-17 below relating to conservation mandates.) Is it to ensure that the utility earns a sufficient rate of return? Does an incentive program act as an effective substitute for decoupling?

Details of a Conservation Incentive Mechanism

6) *Categories of Lost Margin Due to Conservation Eligible for Recovery.* Identify which, if any, of the following declines in customer use should be subject to recovery by the utility and how each could be calculated or measured:

a) Margin decline from company-sponsored conservation programs that provide a rebate or that provide direct assistance with conservation-measure deployment (such as site visit evaluation).
b) Information provided by the utility to the customer, such as educational programs, bill inserts, or information on the utility's website.
c) A company's share of Northwest Energy Efficiency Alliance (NEEA) regional conservation savings including market transformation that is not counted in the utility's programmatic or informational efforts. If yes, how can NEEA savings be separated from other conservation savings that occur for the purposes of a cost recovery mechanism?
d) Independent customer conservation efforts (no rebate or direct utility assistance documented).
e) Conservation due to codes and standards.
f) Elasticity (i.e., heating fewer rooms, lowering thermostat, et cetera).
g) Substitution, such as switching from electric to gas, gas to electric, or to other

heating sources, such as wood or thermal-solar hot water heaters.

h) Other (describe).

7) *Impact of Conservation Incentive Mechanism on Utility Incentives to Encourage Consumption.* If a utility recovers lost margin as calculated by installed conservation measures, does it still have an incentive to encourage customers to use more energy in some other application? Are any utilities promoting the use of more energy by its customers?

8) *Offsets.* To what extent should any recovery of lost margin be offset by revenues associated with new load (sometimes referred to as "found margin"), including:

a) New customers,

b) Additional load for existing customers,

c) Other?

9) *Application to Industrial Customers.* Should large customers be treated differently than residential or commercial customers with regard to lost revenue recovery or incentives? If so, please explain the rationale for excluding large customers.

10) *Other Characteristics of an Incentive Mechanism.* What characteristics should an incentive mechanism include?

a) Should it allow the utility to recover an absolute dollar amount? If so, how should the amount be calculated? Should recovery be based on all conservation that occurs over a given period, or be proportional to the conservation that occurs as a result of a utility's actions?

b) For electric utilities, should the incentive targets be different and greater than the Energy Independence Act (EIA or I-937) targets?

c) Should there be penalties for failing to achieve the incentive mechanism's target or rewards for achieving only a percentage of the target?

d) Should there be an earnings test to determine if the utility is over earning?

e) Should the incentive include all customer classes in the target and in the collection of the incentive payments?

f) Are there other complementary rate making policies that should be matched with an incentive mechanism such as a pro forma adjustment to account for lower loads? Please provide details of any such proposals.

Impact on Rates

11) *Impact on Various Classes of Customers.* How should the costs of an incentive mechanism be spread among the various rate classes? Are transport customers appropriately protected from a recovery mechanism's costs?

12) *Impact on Low Income Households.* Should the design of an incentive mechanism consider its impact on low-income customers? Would a lost margin recovery mechanism cause low-income households to bear a higher percentage of system costs? Are existing utility conservation programs for the residential class accessible to low-income customers? If not, is the relationship between bill impacts and access to programs for low-income equitable?

13) *Impact on Utility Incentives.* Does the recovery of lost margin from conservation provide an incentive for the utility to control costs? What is the incentive to minimize purchased gas adjustment (PGA) costs (within some risk level) if the utility is compensated for any decline in sales from conservation?

Relationship of Incentives to Conservation Mandates

14) *Impact of Conservation Mandate in I-937.* In light of the legal requirement for an electric utility to pursue all available conservation that is cost-effective, reliable and feasible under I-937, is it appropriate to provide an incentive to electric utilities for conservation?

14.5) *State greenhouse gas emission reduction goal (70.235.020).* How would removing the linkage between the number of kilowatt hours sold and financial returns for utilities impact the state's ability to meet its statutory greenhouse (GHG) emission reduction limits (RCW 70.235.020)?

15) *Incentives to Exceed I-937 Targets.* Under the EIA, the Commission may consider providing positive incentives for an investor-owned utility to exceed the conservation targets established in RCW 19.285.040. Do ratepayers benefit from encouraging the utility to pursue conservation that is not cost-effective and therefore beyond its target?

16) *Impact of Disincentive.* As investor-owned electric utilities currently acquire more than their share of the Northwest Power and Conservation Council's assessment of conservation potential, does a disincentive to encourage conservation actually exist?

17) *Natural Gas Planning.* Does the lowest cost mix of resources described in WAC 480-90-238(2)(a)-(b) (natural gas integrated resource planning) require a gas utility to pursue all cost-effective conservation, i.e., conservation that has costs equal to or less than supply side resources?

Evaluation, Measurement and Verification

18) *Use Per Customer as a Metric.* Is use-per-customer for individual rate classes a useful metric for identifying conservation effects?

19) *Load Forecasting.* Load forecasting is a key input for calculating conservation effects. How can load forecasting become more reliable? How does conservation get accurately incorporated into a company's load forecast?

20) *Methods for EM&V.* Should the Commission establish a method, or general guidelines for an evaluation, measurement and verification (EM&V) methodology?

a) What role should a third party evaluator of EM&V play?

b) Are EM&V methods accurate enough to use the history of individual customer usage as the basis for determining the payments in an incentive mechanism?

c) What role should the Regional Technical Forum play in EM&V issues?

21) *Impact on Cost-Effectiveness of Conservation Measures.* If lost margin is recovered in rates, should the cost be included in the cost-effectiveness test? How much would the inclusion of those costs decrease the amount of conservation achievable under the cost-effective threshold?

Relationship of Conservation Incentives to Utility Return on Equity

22) *Effect of Incentive Mechanism on Allowed Return on Equity.* Should adoption of an incentive or lost margin/decoupling mechanism require a downward adjustment in the utility's return on equity?

23) *Incentive Rate of Return.* Should a utility's rate of return be increased for sponsoring and administering conservation programs? If so, please explain. Should a utility earn a return on monies collected from ratepayers to fund its conservation programs? If so, please explain. Would the amount of energy efficiency offered by the utility increase under either of the above circumstances?

Other Issues

24) *Other Issues.* Comment on any other issue relevant to this inquiry that is not covered above.

Sincerely,

DAVID W. DANNER
Executive Director and Secretary