

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DOCKET NO. UE-11 _____

DOCKET NO. UG-11 _____

DIRECT TESTIMONY OF

BRUCE W. FOLSOM

REPRESENTING AVISTA CORPORATION

I. INTRODUCTION

Q. Please state your name, employer and business address.

A. My name is Bruce Folsom. I am employed by Avista as the Senior Manager of Demand Side Management (DSM). My business address is East 1411 Mission Avenue, Spokane, Washington.

Q. Would you please describe your education and business experience?

A. I graduated from the University of Washington in 1979 with Bachelor of Arts and Bachelor of Science degrees. I received a Masters in Business Administration degree from Seattle University in 1984.

I joined the Company in 1993 in the State and Federal Regulation Department. My duties included work associated with tariff revisions and aspects of integrated resource planning, demand side management, competitive bidding, and emerging issues. In 2002, I was named the Manager of Regulatory Compliance which added responsibilities such as implementing the Federal Energy Regulatory Commission's changes to its Standards of Conduct rule. I joined the demand side management (DSM) team in September 2006 to assist in the contemplated growth of energy efficiency services. We restructured the energy efficiency group in August 2010 and I am now leading the DSM Policy, Planning and Analysis Team. Prior to joining Avista, I was employed by the Washington Utilities and Transportation Commission beginning in 1984, and then served as the Electric Program Manager from 1990 to February, 1993. From 1979 to 1983, I was the Pacific Northwest Regional Director of the Environmental Careers Organization, a national, private, not-for-profit organization.

1 **Q. What is the scope of your testimony in this proceeding?**

2 A. I report on the status of four reporting requirements relative to energy efficiency,
3 stemming from our two previous general rate cases. This is preceded by a brief overview of the
4 Company’s DSM programs and recent results, including compliance with the conservation
5 component of “I-937” (codified as RCW Chapter 19.285 and WAC Chapter 480-109).

6 **Q. Are you sponsoring any Exhibits that accompany your testimony?**

7 A. Yes. I am sponsoring Exhibit Nos. ____ (BWF-2), ____ (BWF-3), and ____ (BWF-4),
8 all of which are reports required in the Settlement Stipulation approved by the Commission in
9 Docket Nos. UE-100467 and UG-100468.

10 **II. OVERVIEW OF DSM PROGRAMS AND CURRENT ISSUES**

11 **Q. Please provide a brief overview of Avista’s approach to DSM and current**
12 **results.**

13 A. Avista is in its 34th year of providing energy efficiency services. The Company’s
14 approach to energy efficiency is based on two key principles. The first is to pursue all cost-
15 effective kilowatt-hours and therms by offering financial incentives for most energy saving
16 measures with a simple financial payback of over one year and up to thirteen years. The second
17 key principle is to use the most effective “mechanism” to deliver energy efficiency services to
18 customers. These mechanisms are varied and include 1) prescriptive programs (or “standard
19 offers” such as high efficiency appliance rebates), 2) site-specific or “customized” analyses at
20 customer premises, 3) “market transformational,” or regional efforts with other utilities through
21 the Northwest Energy Efficiency Alliance (NEEA), 4) low-income weatherization services

1 through local Community Action Agencies, 5) low-cost/no-cost advice through a multi-channel
2 communication effort, and 6) support for cost-effective appliance standards and building codes.

3 The Company's offerings include over 300 measures that are packaged into over 30
4 programs for customer convenience. As part of Avista's Integrated Resource Planning (IRP)
5 efforts, over 3,000 measures are considered and then examined for cost-effectiveness. The
6 Company's comprehensive energy efficiency outreach, the "Every Little Bit" communications
7 campaign, continues to inform customers of the availability of these services.

8 **Q. What are the recent results of Avista's energy efficiency programs?**

9 A. In 2010, approximately 34 people spread over 23 Full Time Equivalent (FTE)
10 delivered energy efficiency programs and measures (through Schedules 90 and 190) resulting in
11 electric savings of 68,911 MWh (or 105% of the IRP goal) and natural gas savings of 1.9
12 million therms (or 85% of the IRP goal). Approximately 77% of the energy efficiency budget
13 was provided to participating customers as rebates (residential) and financial incentives
14 (commercial and industrial). This does not include additional benefits such as site audits and
15 technical analyses provided to customers by the Company's DSM engineering staff.

16 The aggregated Tariff Riders (Washington and Idaho, electric and natural gas Schedules
17 91 and 191) have been returned to a "zero balance". Because customer demand for our energy
18 efficiency services has outstripped our tariff rider funding, at the beginning of 2010 the tariff
19 riders were underfunded by \$11.9 million (i.e., the Company had "pre-funded" energy efficiency
20 services in advance of receiving tariff rider funding). In the past year, increases to the tariff
21 riders have allowed for adequate revenue to both fund current energy efficiency operations and
22 to reduce the underfunded balance. (For example, \$33.3 million was collected through the tariff

1 riders to fund energy efficiency programs and reduce the underfunded balances in 2010 and of
2 this, \$24.8 million was expended for the operation of energy efficiency programs with the
3 remainder used to work down the negative tariff rider balances.)

4 The past year included several other energy efficiency activities that bear on policy and
5 operational impacts going into the future. These include:

- 6 • The Company launched two “economic stimulus” (or American Recovery and
7 Reinvestment Act, or ARRA) projects—home energy audits and a supporting
8 \$900,000 revolving loan fund—in partnership with three Spokane area jurisdictions
9 (City of Spokane, Spokane County, the City of Spokane Valley), a community-based
10 organization, an independent contractors network, educational institutions, and
11 eastern Washington banks and credit unions.
- 12 • Avista introduced a new, or reconfigured, approach in January 2011 for stakeholder
13 input to obtain input from three groups of stakeholders: customers, technical experts,
14 and regulatory and policy experts.
- 15 • The Company restructured Avista’s energy efficiency program delivery into two
16 separate teams, Implementation and Policy. Under the new structure, a Policy,
17 Planning, and Analysis (PPA) group was created. This restructuring houses all
18 customer-serving DSM operations together and separates out the analysis and
19 reporting functions to an independent group. The operations team includes the
20 program managers, engineers and the Account Executives who promote our DSM
21 programs to commercial and industrial customers. The PPA Team is comprised of
22 analysts and has the responsibility and accountability for third-party evaluation. This
23 better reflects the need for independent evaluation, measurement and verification
24 (EM&V).
25

26 **III. COMPLIANCE WITH RECENT ORDERS**

27 **Q. Please describe Avista’s efforts to implement “I-937”, also known as WAC**
28 **Chapter 480-109, “Acquisition of minimum quantities of conservation and renewable**
29 **energy as required by the Energy Independence Act”.**

30 A. In Docket No. UE-100176, the Commission approved Avista’s Ten-year
31 Achievable Conservation Potential and Biennial Conservation Target Report (“Conservation
32 Resource Report”). Avista elected to use the Northwest Power Planning Council’s Option #1 of

1 the 6th Power Plan to establish the Company's acquisition target, adjusted to include electric-to-
2 natural-gas fuel conversions. The acquisition target is 11.6% greater than the Company's
3 Integrated Resource Plan's energy efficiency targets for the same period. Avista intends to
4 acquire 128,603 MWh of energy efficiency as described in its approved Conservation Report in
5 2010 and 2011, the first I-937 two-year compliance period, including a minimum of 125,982
6 MWh from non-conversion resources identified in the 6th Plan. Avista's projection of the
7 acquisition over a ten-year period, assuming that this same option is selected in future
8 compliance periods, is 873,302 MWh.

9 Avista is on target to achieve these savings, partly through ongoing modifications to our
10 energy efficiency programs to assure some "cushion" in the event that third party evaluations
11 show that "realization rates" (that is, actual savings compared to expected savings) are less than
12 expected.

13 Avista will be filing its 2012-2013 Conservation Resource Report on or before November
14 1st, 2011 after a stakeholder involvement process. Managing towards current targets and
15 planning for future energy efficiency operations is hastened by the Company's DSM business
16 planning process. For example, Avista's 2011 DSM Business Plan, filed with the Commission on
17 November 1st, 2010, anticipated that the key challenges to be addressed in 2011 involve:

- 18 • Managing for the uncertainties created by the timing of the completion and delivery of
19 several key determinants to Avista's energy acquisition claim. These uncertainties relate
20 to the realization rates resulting from external independent electric and natural gas impact
21 and process analyses and the completion of energy savings attributed to Avista based
22 upon our participation in the Northwest Energy Efficiency Alliance. Those uncertainties
23 create challenges in Avista's ability to plan for meeting electric acquisition targets
24 established under Washington's I-937 and Washington natural gas decoupling
25 requirements.

- 1 • Meeting natural gas acquisition targets established within the most recent Integrated
- 2 Resource Plan.
- 3 • Maintaining the cost-effectiveness of the natural gas DSM portfolio.
- 4 • Fully meeting the evaluation, measurement and verification (EM&V) expectations
- 5 established as a result of the Idaho Memorandum of Understanding, the Washington
- 6 “Initiative 937 conditions” established by the Washington Utilities and Transportation
- 7 Commission and the results of Avista’s 2010 EM&V Collaborative.
- 8

9 **Q. In Docket No. UG-090135, the Commission ordered Avista to convene a**

10 **collaborative on evaluation, measurement and evaluation issues. What is the status of this?**

11 A. The Commission ordered the Company and interested parties to participate in a

12 collaborative to examine specified evaluation, measurement and verification (EM&V) and low-

13 income issues. The Collaborative addressed the following issues:

- 14 1) Develop best practices on DSM EM&V by September 1, 2010 to include:
- 15 • Response to Order No. 10, paragraph 305, in Docket No. UG-090135 for Washington
- 16 natural gas decoupling -
- 17 ○ To develop “consistent and accurate methods to judge the effectiveness of all
- 18 energy efficiency programs and measures” and
- 19 ○ To “file an EM&V plan for its DSM programs by September 1, 2010. The plan
- 20 should include a bill verification analysis that examines changes in customer
- 21 usage as a result of DSM programs.”
- 22
- 23 2) Review of electric and natural gas low-income issues to include:
- 24 • Response to Order No. 10, paragraph 306, in Docket No. UG-090135 for Washington
- 25 natural gas decoupling -
- 26 ○ “In a collaborative with the Parties, Avista is to ‘explore’ new approaches to low-
- 27 income conservation, identify barriers to its development, and address the Energy
- 28 Project’s concerns.”
- 29 ○ The conclusions must be filed by September 1, 2010,
- 30

31 Ten organizations and Avista actively participated in eight meetings on the west side of

32 the state plus several conference calls. Halfway through the process, the Collaborative retained

33 an independent facilitator, Dr. Dune Ives, and engaged two nationally-recognized EM&V

1 experts, Steve Schiller and Dr. Chris Ann Dickerson, to assist with this project. On September 1,
2 2010, Avista filed with the Commission an “Evaluation, Measurement and Verification
3 Framework” and “Low Income Energy Efficiency Report”. The Framework is an overarching
4 40 page (plus appendices) document that defines the methods that Avista will use to perform
5 EM&V activities for its DSM programs. Also, on September 1, 2010, Avista filed a Low
6 Income Report that addressed: 1) Avista’s Current Low-Income Energy Efficiency Portfolio, 2)
7 Defining the Low-Income Residential Customer Segment, 3) Proportionality of Low-Income
8 Program Funding, 4) Barriers to Delivering Energy Efficiency Services to Low-Income
9 Customers, 5) Concepts for Low-Income Energy Efficiency Delivery Mechanisms, and 6)
10 Evaluating the Low-Income Energy Efficiency Programs.

11 Following upon the Collaborative’s EM&V Framework document, Avista filed its 2011
12 EM&V Plan with the Commission on November 1st, 2010. Thereafter, the Company released a
13 “macro RFP”—to signify that all DSM programs will have third-party external review—and
14 selected The Cadmus Group in January, 2011 to perform this work. The Company’s DSM
15 Advisory Group continues to be updated and involved on these activities.

16 **Q. In Docket Nos. UE-100467 and UG-1004687, the Company agreed to provide**
17 **certain reports related to DSM to the Parties in those dockets. What is the status of the**
18 **three reports?**

19 A. The Company has provided all three reports to the parties in the above referenced
20 Dockets. The first report that was provided complies with Paragraph 16 of the Settlement
21 Stipulation, which states:

22 In addition, the Company agrees that an independent, third-party will conduct
23 Evaluation, Measurement, and Verification (“EM&V”) of Avista’s Limited

1 Income Weatherization program as part of the conditions approved by the
2 Commission in Docket UE-100176. The Company also agrees that an
3 independent, third-party will conduct an impact evaluation and cost-effectiveness
4 analysis of Avista’s residential windows program (natural gas and electric), using
5 program participant data from 2008 and/or 2009, with a final report completed no
6 later than May 30, 2011. Avista and the selected evaluator will work in good
7 faith to ensure all program participant data is as accurate as possible. If
8 necessary, the selected evaluator may conduct an audit of all participant data for
9 this program. (footnote omitted)

10
11 On March 4, 2011, the Company provided a copy of the third-party report entitled
12 “Energy Impacts Evaluation of Select 2008 Avista Residential and Low Income Demand-Side
13 Management Programs”, as prepared by Ecotope, Inc. It has been provided in this case as
14 Exhibit No. ____ (BWF-2).

15 The second report that was provided to the parties complies with Paragraph 15 of the
16 Settlement Stipulation, which states:

17 Rebate Processing Procedures for DSM Programs. Avista will conduct, either
18 internally or by an independent, third-party, a comprehensive review of its
19 customer rebate processing system for all rebate programs, including process
20 analysis/best practices review of rebate processing to ensure accuracy. As part
21 of this review there will be a thorough examination of the Company’s
22 procedures for prescriptive rebate programs where the amount of the rebate
23 varies and is calculated individually for each customer (e.g., residential
24 insulation and window replacement). The review is expected to culminate in a
25 final report with recommendations regarding any new systems and/or controls
26 the Company should implement to improve and enhance its rebate processing,
27 including but not limited to controls to ensure that rebates do not exceed the
28 program maximum, currently set at fifty percent of project cost for most
29 programs. Avista shall furnish the final report resulting from this review in a
30 report to be provided to all parties, and the Triple E Board, upon completion
31 and prior to the Company’s next general rate case.
32

1 On May 3, 2011, the Company provided a copy of the internal review titled “Rebate Processing
2 Procedures for Demand Side Management Programs” as prepared by the Company. It has been
3 provided in this case as Exhibit No. ____ (BWF-3).

4 Finally, the third report that was provided to the parties complies with Paragraph 17 of
5 the Settlement Stipulation, which states:

6 Independent, External Review of Data Management Strategy. Avista agrees
7 that an independent, third-party will conduct an evaluation of Avista’s data
8 tracking systems and data strategy for its DSM programs. The review will
9 examine Avista’s internal operations for data entry, tracking, and reporting,
10 and its systems for ongoing review, oversight and controls to ensure data
11 accuracy. As part of this review, the selected external evaluator will share
12 industry best practices regarding data management strategies. The review will
13 also examine whether the documentation required from participating customers
14 is appropriate. The review is expected to culminate in a final report with
15 findings, as well as recommendations regarding any new systems and/or
16 controls the company should implement to improve and enhance its DSM data
17 management. In addition, the final report will include recommendations
18 regarding effective and accurate procedures that should be followed to correct
19 DSM data, when errors are discovered particularly in filings with the
20 Commission. Avista shall furnish the final report resulting from this review in
21 a report to be provided to all Parties, and the Triple E Board, upon completion
22 and prior to Avista’s next general rate case.
23

24 On May 3, 2011, the Company provided a report titled “Data Management Review for Demand
25 Side Management Programs” which contains the Company’s responses to the independent
26 review as prepared by Moss Adams LLP. The report prepared by Moss Adams, “Avista
27 Corporation Demand Side Management Programs Observations and Recommendations”, is
28 included as an attachment to Avista’s Report. These reports have been provided in this case as
29 Exhibit No. ____ (BWF-4).

30 **Q. Has the Company requested the review of energy efficiency costs in this**
31 **filing?**

1 A. No. The Company, as part of the conditions approved by the Commission in
2 Docket No. UE-100176, Order 01 at paragraph 67, must file tariff revisions with the
3 Commission on or before May 1st of each year, beginning in 2011, (and with an effective date of
4 July 1st), to revise the DSM portions of Schedules 91 and 191 to recover future year's planned
5 expenses and any significant variances between planned and actual revenue and expenditures
6 during the previous year. The purpose of this condition was to establish tariff riders that are
7 sufficient to fund the following twelve months of DSM as well as amortize any tariff rider
8 imbalance, thus minimizing the potential for under- or over-collections.

9 Accordingly, review of the prudence and cost-effectiveness of expenditures will take
10 place within Docket No. UE-100176, and not in this general rate case.

11 **Q. Does that complete your pre-filed direct testimony?**

12 A. Yes, it does.