

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND)	DOCKETS UE-090134
TRANSPORTATION COMMISSION,)	and UG-090135
)	(consolidated)
Complainant,)	
)	
v.)	
)	
AVISTA CORPORATION, d/b/a AVISTA)	
UTILITIES,)	
)	
Respondent.)	
.....)	
)	
In the Matter of the Petition of)	DOCKET UG-060518
)	(consolidated)
AVISTA CORPORATION, d/b/a AVISTA)	
UTILITIES,)	
)	
For an Order Authorizing Implementation)	
of a Natural Gas Decoupling Mechanism)	
and to Record Accounting Entries)	
Associated With the Mechanism.)	
.....)	

CROSS-ANSWERING TESTIMONY
OF
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NW ENERGY COALITION

September 11, 2009

(REVISED 9/18/09)

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1 I. INTRODUCTION

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3 Q. Are you the same Nancy L. Glaser who submitted prefiled direct testimony in these
4 proceedings on behalf of the NW Energy Coalition (“NWECC”)?

5 A. Yes, I am.

6

7 II. PURPOSE AND SUMMARY OF CROSS-ANSWERING TESTIMONY

8

9 Q. Please describe the purpose of your cross-answering testimony.

10 A. The purpose of my cross-answering testimony is threefold. I first respond to (and agree
11 with) a recommendation by Public Counsel and Staff, that Avista’s future DSM
12 performance should be more effectively evaluated to ensure cost-effective delivery of
13 programs and benefits to customers. Specifically, I support the recommendation to
14 require independent bill verification analysis that examines changes in customer usage as
15 a result of DSM programs. This is a good idea.

16

17 I then respond to the parties’ proposals regarding Avista’s decoupling mechanism
18 (“Mechanism”). After reviewing these proposals, I continue to recommend that the
19 Commission continue the Mechanism with the modifications that I suggested in my direct
20 testimony.

21

22

1 Finally, my cross-answering testimony responds to Staff's specific suggestion that the
2 Commission replace the Mechanism with much higher fixed charges to Avista's
3 Schedule 101 customers. For several reasons, I do not agree that these higher charges are
4 warranted.

5
6 III. DSM PERFORMANCE AND BILL VERIFICATION ANALYSIS
7

8 Q. Please address Public Counsel's proposal for bill verification analysis.

9 A. On behalf of Public Counsel, Ms. Kimball investigated some of the limitations of the
10 current DSM performance estimates and, in my opinion, persuasively demonstrated the
11 need for bill verification analysis to examine changes in customer usage as a result of
12 DSM programs. I recommend that Public Counsel's suggested improvements to DSM
13 performance measurement be included in all future reviews and in the Mechanism
14 modifications I have recommended.

15
16 Q. Does Avista need more effective evaluation of its DSM programs?

17 A. Yes. The testimony submitted by Ms. Kimball and The Energy Project's witness, Ms.
18 Alexander provides compelling examples as to the need for a more comprehensive and
19 independent evaluation of measure performance. This is particularly important as energy
20 savings become a larger resource within the utility's resource portfolio. I believe that
21 low-cost energy savings that help reduce customer bills and reduce greenhouse gas

1 emissions will become an ever-increasing part of Avista's energy delivery strategy.

2 As such, verification of the savings is vital.

3
4 IV. WHAT THE OTHER PARTIES SAY ABOUT DECOUPLING

5
6 Q. Please summarize the other parties' proposals regarding the Mechanism.

7 A. Public Counsel and The Energy Project argue that the Commission should eliminate the
8 Mechanism altogether, retroactive to June 30, 2009. Staff proposes a phase-out of the
9 Mechanism (which is equivalent to elimination) and recommends that the Commission
10 greatly increase the fixed charges to Avista's residential customers.

11
12 Q. Do you agree that the Mechanism should be eliminated altogether?

13 A. No. As I noted in my direct testimony, it is important to modify the Mechanism as
14 recommended in my testimony to keep more dollars in customer's pockets, account for
15 downward trending in customer natural gas usage, and increase incentives for DSM
16 investment with Washington limited income customers. That said, however, I continue to
17 believe that decoupling serves an important purpose, both in general -- as a means to
18 recover a utility's fixed costs -- and as specifically applied to Avista. Elimination of the
19 Mechanism would take away decoupling to the detriment of an important objective in
20

1 Washington State – energy conservation -- that state law recognizes and the Commission
2 strongly supports.^{1/}

3
4 Q. Did you apply specific criteria in reaching this position?

5 A. Yes. In evaluating the parties’ proposals, I applied four key criteria that are important to
6 consider if Avista is to enhance its investments in cost-effective conservation:

7 (1) Does the proposed alternative remove disincentives to conservation?

8 (2) Does the proposed alternative explicitly structure incentives for Avista to
9 expand overall DSM performance?

10 (3) Does the proposed alternative explicitly structure improved DSM
11 performance with Avista’s limited income customers?

12 (4) Does the proposed alternative help Avista address the most significant
13 obstacles it faces as it strives to implement ambitious yet achievable DSM
14 programs?^{2/}

15
16 Q. What did you conclude after applying these criteria?

17 A. I concluded that continuation of the Mechanism – with the modifications that I
18 recommended in my direct testimony – would more directly and effectively address these
19 issues as compared to the draconian approach of simply eliminating the Mechanism.

1 See Order 04, *Final Order Approving Decoupling Pilot Program*, Docket No. UG-060518 (February 1, 2007) at ¶ 8 (decoupling “[reduces] the impact of energy consumption on a utility’s recovery of its fixed costs”) and ¶ 10 (“promoting energy conservation is a goal that we strongly support”); see also RCW 80.28.024, RCW 80.28.025, and RCW 80.28.260 (cited in Order 04 at n. 1).

2 Avista identified these obstacles as customer response, cost-effectiveness, demand-side management funding, and corporate earnings/sales goals. I discussed these obstacles in my direct testimony.

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Q. Do you have other comments regarding the proposals to eliminate the Mechanism?

A. Yes. Staff ‘s witness, Ms. Reynolds, provides a bill impact analysis that compares an aggressive (50%) reduction in energy use due to decoupling and Staff’s recommended increase to the fixed customer charge. ~~I discuss this issue in more detail later in my cross-answering testimony.~~ While Staff proposes the phase-out of decoupling in favor of the customer charge, there is little or no evidence presented as to why the Mechanism itself is inappropriate and somehow fails Avista and its customers.

Additionally, Public Counsel raises concerns with the DSM evaluations and the effectiveness of Avista’s DSM efforts in general. I concur that more thorough third-party evaluation of savings and verification of savings and bill impacts are critical to successful and cost-effective programs going forward. On their own, however, the DSM evaluations that were performed do not indicate a need to eliminate the Mechanism altogether.

Q. Mr. Brosch for Public Counsel expresses certain concerns regarding the Mechanism. Can you respond?

A. Yes. Mr. Brosch raises concerns about the level of Schedule 101 DSM savings and the recovery of fixed costs under the Mechanism. My recommended modifications to the Mechanism address several of these concerns. The deferral percentages that Avista

1 would receive are held to a maximum of 70% of deferred costs, and then only if Avista
2 meets or exceeds ambitious DSM goals. Further, evaluation of both Avista's overall
3 goals and its goals for limited income customers should include a review of DSM
4 program participant bill information and more effective savings verification.

5
6 I do not agree, though, that fixed cost recovery under the Mechanism should be limited
7 just to cost recovery for programmatic DSM savings. Such a limitation discourages
8 Company programs, actions and information distribution that allow customers to make
9 informed decisions to reduce energy use, and discourages support for public policies that
10 cause them use to decline (e.g. building codes and efficiency standards).

11
12 Finally, Mr. Brosch argues that the adjustment for new Schedule 101 customers should
13 be eliminated. But new customer efficiency decisions can and should be influenced by
14 Avista's customer connection policies. Removing the adjustment for new customers in
15 the Mechanism would erode the financial incentives for Avista to maximize investments
16 in cost-effective conservation.

17
18 V. STAFF'S PROPOSAL TO INCREASE CUSTOMER CHARGES

19
20 Q. Please summarize Staff's proposal to increase customer charges.

21 A. Staff's witness, Ms. Reynolds, recommends that the Commission significantly increase
22 the fixed charges to Avista's residential customers. Ms Reynolds proposes that the

1 Schedule 101 basic charge increase to \$8 per month effective January 1, 2010, and then
2 to \$10 per month effective January 1, 2011.^{3/}
3

4 Q. What is your response to Staff's proposal?

5 A. I do not agree that customer charges should be increased to the levels that Ms. Reynolds
6 suggests. I have three reasons for this position. First, it is not clear how the \$10
7 customer charge was derived. Second, fixed customer charges discourage customer
8 investments in conservation. And third, Ms. Reynolds does not provide a compelling
9 case as to why the increased fixed charge represents an improved rate design as compared
10 to the Mechanism.
11

12 Q. Is \$10 the appropriate amount to charge Avista's residential gas customers?

13 A. Fixed customer charges are generally set narrowly to include only costs associated with
14 serving that particular customer. It does not appear that Ms. Reynolds determined, in her
15 testimony, how much of the \$270 in average annual fixed cost assigned to each Schedule
16 101 customer (the figure cited by Ms. Reynolds) is incurred to serve each particular
17 Schedule 101 customer, and hence should be recovered in the customer charge. Without
18 such a calculation, it is difficult to determine or understand why Staff now prefers a much
19 higher fixed customer charge as compared to the Mechanism.
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3 Exhibit No. ____ (DJR-1T), p. 26 l. 20-23.

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Q. Why do high fixed customer charges discourage conservation?

A. A customer will see less reduction to their bills from participation in energy efficiency programs and from taking conservation actions with a higher fixed customer charge in place. To the extent more fixed costs are collected in fixed charges and not in customer usage charges, the energy usage charge is reduced. As an example, if the full \$270 annual fixed cost for Schedule 101 customers (according to Ms. Reynolds) were collected separate from the usage charge, customer bill reductions for an average customer as a result of DSM investments that reduced energy use by 10% would be \$27 per year less than if the fixed costs were included in ~~separate~~usage charges.

In addition, exclusion of fixed costs from a usage charge results in an incorrect price signal to customers as the charge is below the true long-run marginal cost of energy. Usage charges that reflect only a utility's current costs typically are less than the marginal costs associated with the development and delivery of new sources of energy. Additionally, important externalities such as costs related to global warming, for example, are not included in the usage charge and any customer decisions on energy use that do not consider such externalities lead to economically inefficient results.

Q. Does the suggested increase in the customer charge provide any benefits?

A. No. Ms. Reynolds acknowledges on page 8 of her direct testimony that conservation would probably reduce revenues, and so she calls for more frequent rate cases as well as

1 an increase in the customer charge. But the Mechanism provides a fixed cost recovery
2 true-up and regular rate recovery without the disincentive to conservation that a high
3 customer charge provides. The bill analysis work presented by Ms. Reynolds does not
4 show a benefit to customers from the switch from the current tariff -- which includes
5 decoupling and assumes a 10% reduction in usage from conservation -- to the higher
6 fixed charge/lower energy usage tariff.

7
8 Q. Why is Staff's case not compelling?

9 A. I concur with Ms. Reynolds that the Mechanism is more complex than her
10 recommendation and, going forward, will require somewhat more oversight by Staff,
11 Avista and stakeholders than an increase in the customer charge. Where I differ with Ms.
12 Reynolds is her position that this complexity, in and of itself, warrants abandonment of
13 the Mechanism. Such a position is not good regulatory policy. A reduction in Staff
14 workload, on its own, does not seem to be a reasonable basis to scrap a regulatory
15 mechanism – particularly one with compelling policy rationales for both its adoption and
16 its continuation. The merits of the Mechanism must be considered in context with these
17 policy rationales.

18
19 Q. Ms. Reynolds recommends that the Commission reduce monthly charges to \$3 per month
20 for limited income customers. What is your response to her proposal?

21 A. Although such a reduction in the fixed monthly charge for limited income customers
22 provides some necessary rate relief, it does so without tackling the obstacles to the timely

1 delivery of cost-effective DSM programs to these customers. A decoupling mechanism
2 that includes explicit DSM targets for limited income customers, as I've recommended, is
3 a much more effective way, in my opinion, to ensure that all the cost-effective
4 conservation in Avista's Washington service territory is implemented and that limited
5 income customers can better control their bills.

6
7 If the Commission wants to go further than what I recommended in my direct testimony
8 regarding limited income customers, it might consider a reduction in the deferral amount
9 applied to limited income customers and a corresponding increase in the deferral amount
10 applied to the remaining Schedule 101 customers. This action, in addition to my
11 recommendation to increase limited income energy efficiency program offerings, reduces
12 the bill impacts on those who pay a greater percentage of their income on energy bills.

13
14 Q. Do you have other comments on the issue of increasing customer charges in lieu of a
15 decoupling mechanism?

16 A. Yes. If the Commission decides to eliminate the Mechanism, I recommend that the
17 Commission replace it with a structured energy efficiency incentive program rather than
18 increases in fixed charges to customers. Increased fixed charges do nothing to incent
19 investments in cost-effective DSM on the part of Avista or its customers. Although I
20 believe it is premature to replace the Mechanism with an energy efficiency incentive
21 program prior to completion of Commission and stakeholder review of the effectiveness

1 of the program that is being piloted by Puget Sound Energy, I would prefer that type of
2 program to an increase in fixed charges.

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4 Q. Does this conclude your cross-answering testimony?

5 A. Yes, it does.

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