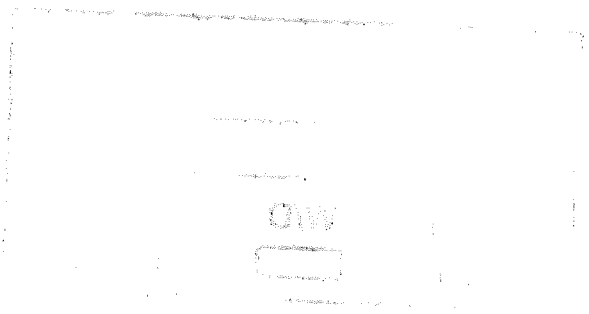
Exhibit T-____ (NEH-T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
Complainant,	)	**Docket NO. UE-991606 and UG-991607**
v.	)	
AVISTA CORPORATION,	)	
Respondent.	)	

DIRECT TESTIMONY OF NANCY ELLEN HIRSH

ON BEHALF OF THE NW ENERGY COALITION



I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Nancy Hirsh. My business address is 219 1st Avenue South, Suite 100, Seattle, Washington, 98104.

Q. By whom are you employed and in what position?

A. I am employed by the NW Energy Coalition as Policy Director.

Q. Please summarize your education and business experience.

A. I have a Bachelor of Science degree from the School of Natural Resources at the University of Michigan. I spent twelve years in Washington, D.C. working for the National Wildlife Federation and Environmental Action Foundation on federal energy policy and electric utility issues. My primary responsibilities included advocating for increased federal investments in energy conservation and renewable energy, addressing the environmental and consumer impacts of utility, energy and transportation initiatives and providing policy assistance to environmental and low-income advocates in support of their efforts to promote integrated resource planning and utility regulatory reform. Since 1996, I have been the Policy Director for the NW Energy Coalition. I have participated in regulatory proceedings in Georgia, Maryland, the District of Columbia, Oregon and Washington.

Q. What are your current responsibilities for the NW Energy Coalition?

A. I am the lead staff person responsible for establishing the policy goals of the Coalition to enhance investments in energy conservation, renewable resources, and low-income energy services and to ensure affordable electricity for all northwest citizens while maintaining a healthy environment. I coordinate the work of the policy team as we

conduct our policy analysis and develop our advocacy positions. I represent the Coalition on the Boards of the Northwest Energy Efficiency Alliance and the Renewable Northwest Project.

Q. Please state the issues you will address in your direct testimony.

A. I will comment on three issues brought forward in this proceeding: Avista's electric and natural gas energy efficiency programs; rate design; and the request from the Company for a higher return on investment for renewable energy from the Kettle Falls generating plant. I also will provide comments on low-income rate assistance, which was not discussed in the Company's direct case.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes, I am sponsoring Exhibit Nos. NEH-1 through NEH-3, as marked for identification. I will introduce and describe these exhibits, as appropriate, later in my testimony.

II. ENERGY EFFICIENCY PROGRAMS

Q. Please describe your involvement in the design and implementation of Avista's electric and natural gas energy efficiency programs.

A. I was a member of then Washington Water Power's Demand-side Opportunities Group (DOG) from 1996 to 1998, then a member of the Company's External Energy Efficiency Board (Triple E Board) from 1998 to 1999. Board members include representatives from regulatory and state agencies, consumer groups, low-income service providers, environmental organizations, and industrial and gas customers. As a member of the DOG and the Triple E Board, I provided input to the Company regarding choice of programs delivered, program and project expenditures, and the level of savings realized

by individual programs as well as by the energy efficiency program as a whole. I also have prepared comments for the Company and the Washington Utilities and Transportation Commission regarding the Company's energy efficiency expenditures and achievements.

Q. Please describe the benefits experienced by ratepayers and shareholders as a result of utility investment in energy efficiency.

A. Ratepayers benefit directly and/or indirectly through the Company's investments in energy conservation. Direct benefits accrue to those customers who participate in the programs offered by Avista, leading to lower energy bills, increased comfort, productivity and in some cases safety. All customers also benefit indirectly from these investments by the Company acquiring the cheapest energy available, delaying the need to build additional generation and reducing potential harm to the environment from increased generation.

Shareholders also benefit from these programs. As Mr. Folsom stated during cross-examination of his direct testimony in this case, shareholders benefit from these investments through reduced regulatory assets leading to better Wall Street ratings. Further, as a result of implementing the tariff rider, shareholders benefit from reduced competition for scarce capital budgeting dollars. (Tr., p. 432, lines 12-25; p. 433, lines 1-7)

Q. Are you aware that the current electric energy efficiency tariff rider balance, as of January 31, 2000, is $2,149,560?

A. Yes. Exhibit 319 in this proceeding shows the tariff rider revenues and expenditures for 1995 through 1999, as well as January 2000.

Q. Given this balance, do you believe that the Company's electric energy efficiency tariff rider should be ramped down below its current level of 1.54%?

A. No. As indicated in Exhibit 319, the tariff rider balance reached its peak at $2,993,921 in February 1999, and has since decreased in magnitude to its current level. Exhibit 322 in this proceeding projects that the tariff rider balance will be below zero in May 2001. The Company has been diligently ramping up their programs and pursuing investment opportunities to ensure expenditure of these funds to capture cost-effective savings, and therefore there is no need to reduce the tariff rider level.

Q. Why is it important to maintain the electric energy efficiency tariff rider at a minimum of 1.54% of retail electric revenues?

A. In addition to the response above, maintaining the tariff rider at a minimum of 1.54% of retail revenues will help the Company meet its current customer commitments, maintain continuity with its existing programs, and continue funding its share of the Northwest Energy Efficiency Alliance. Once the tariff level reaches a funding balance close to zero (i.e., May 2001), the Company should examine the possibility of ramping up its funding of energy conservation to ensure that all cost-effective conservation opportunities are captured in all customer classes, including weatherization of low-income homes. According to Exhibit 322 in this proceeding, the tariff rider balance shows a projected deficit for each month following April 2001, implying that potential investments in cost-effective conservation exceed revenue generated through the tariff rider. During cross-examination, Mr. Folsom indicated that there are cost-effective opportunities in Avista's service territory not currently being captured by the electric energy efficiency tariff rider

(Tr., p. 433, lines 8-19). If market prices for electricity rise as generally predicted, additional cost-effective conservation also would become available.

Q. Do you believe that the Company's investments in energy efficiency activities using tariff rider revenue have been prudent, just and reasonable?

A. Yes, I do. According to the direct testimony of Mr. Folsom (Exhibit T-315, p. 3, lines 17-18), the Company has saved more than 72 million kWhs below the avoided cost of electricity since the tariff rider's inception in 1995, yielding benefits to ratepayers and the environment. While programs have been slow to ramp up in the past 1 1/2 years, the Company has worked diligently and effectively with its customers to secure interest in the new slate of efficiency programs. We anticipate energy savings to increase over time. From 1996 to 1999, I have received status reports issued by the Company regarding implementation of their energy efficiency programs. During this time I have provided feedback and critique to the Company on improvements and modifications that would make their programs more effective. The Company has been very responsive to recommended changes to increase energy savings. In addition, the Triple E Board provides guidance to the Company in its program implementation and design and monitors the Company's progress. Broad stakeholder involvement in program design and implementation can help motivate the Company to maximize the effectiveness of the programs offered.

Q. In 1997, Avista's natural gas tariff rider was reduced from 0.52% to 0%. Do you think this tariff rider should be increased?

A. Yes. In his direct testimony (Exhibit T-26, p. 12, lines 13-14), Mr. Turner states that the Company anticipates natural gas load growth in its Washington service area. Further,

Mr. Turner states that the Company's Washington gas customer base has increased by more than 66% since 1990 (Exhibit T-26, p. 16, lines 14-15). The price of natural gas appears to be on the rise. According to Mr. Folsom during cross-examination (Tr., p. 437, lines 1-9), the weighted average cost of gas (WACOG) in 1995 was high enough to justify natural gas energy efficiency programs and the establishment of the 0.52% tariff rider level. The WACOG today is again approaching 1995 levels. With rising gas prices and load growth, the Company should seek and capture cost-effective natural gas conservation opportunities. Thus, the tariff rider level should be increased to provide funds for the Company to implement programs to capture these cost-effective savings.

Q. According to direct testimony in this case (T-315, p. 5, lines 18-21), the Company plans to reevaluate the viability of offering natural gas energy efficiency programs after submission of its Integrated Resource Plan (IRP) to the Commission. Do you feel the decision to ramp up the natural gas tariff rider should be made within the context of this rate case?

A. My preference would be for the level of the tariff rider to be decided through this rate case process. If gas prices are approaching 1995 levels and are projected to go even higher, there appears adequate justification to increase the rider level to its original 1995 level of 0.52%. However, because the tariff rider level can be increased or decreased absent a rate case process, I am comfortable discussing this proposal in a separate Commission proceeding. I would add that the NW Energy Coalition has not been involved in the gas IRP process to date and has not heard from the Company regarding the status of its electric IRP since November 1999.

III. RATE DESIGN

Q. The Company is proposing a reduction in the number of energy rate blocks from three to two for residential customers. How might this change affect conservation activities?

A. An inverted block rate promotes the incentive to conserve energy because consumers concerned about their bill or interested in conservation will try to stay below the level of higher rates. Trends in Avista's service territory indicate that customers are indeed price conscious. As Mr. Hirschkorn points out in his testimony (T-490, p. 14, lines 13-15), energy use per residential customer has decreased since 1986, primarily due to fuel switching for economic reasons, of which both lower gas prices and a higher block rate could be contributing factors. Further, although the number of residential customers, energy usage and revenue have increased since 1986, total energy consumption in the higher-rate second and third blocks has not increased during the same period (T-490, p. 14-15), thus potentially indicating the energy conserving effect of the higher blocks. Reducing the number of energy rate blocks may lessen the price signal to customers to curb their energy consumption and may reduce the incentive to fuel switch.

Q. In the Company's direct testimony (T-490, p. 14, lines 11-12), Mr. Hirschkorn suggests that the present inverted rates are no longer representative of the incremental cost of energy. How do you respond?

A. It may be shortsighted to assume that the incremental cost of energy will remain at a reduced level, particularly given market forecasts of rising natural gas prices. In that environment, a strong conservation message is still valid and appropriate.

Q. The Company suggests that it is moving towards a flat energy charge for its residential customers. Do you support implementation of a flat energy charge?

A. No. Again, an inverted block rate sends an appropriate signal to customers to conserve energy. Currently, residential customers who use more than 600 kWh/month have an incentive to conserve because they pay a higher rate to use more than the "lifeline" amount of energy, and those who use less than 600 kWh/month have an incentive to continue conserving energy to avoid paying a higher rate for electricity in excess of that amount. All residential customers benefit from that lower block rate, and the utility benefits because conservation leads to decreased need for building new power plants and upgrading the transmission and distribution system. Further, transitioning to a flat energy charge sends a conflicting price signal to those customers that retrofitted their homes or switched to gas heat in response to the price signal embedded in the block rates.

As one rationale for reducing the number of energy blocks, the Company states that many customers who still use electricity as their primary home-heating source either do not have natural gas available or cannot afford to convert to another fuel source (T-490, p. 15, lines 4-7). The Company could investigate other methods for addressing this issue. According to Exhibit NEH-1, 27% of Avista's customers, with an annual income of less than $15,000, use electric heat. The Company should target these customers for energy efficiency programs and possibly fuel switching. For example, the Company could more strategically target use of the electric tariff rider funds to low-income weatherization programs for those customers, and could explore the feasibility of funding fuel-switching programs specifically for these low-income households.

IV. RETURN ON INVESTMENT FOR KETTLE FALLS

Q. Do you support the Company's request for a higher return on investment for the energy from the Kettle Falls wood waste steam plant (Exhibit T-46)?

A. The RCW 80.28.025 clearly directs the Commission to encourage energy generation through renewable resources, including wood and wood waste, and allow a return on investment for projects that produce or generate energy from renewable resources. RCW 80.28.025 specifies that construction of those renewable energy resources must have started after June 12, 1980 and before January 1, 1990. Further, the renewable resources must generate energy at a cost less than or equal to the cost of energy from similarly available energy resources using nuclear energy or fossil fuels that would meet demand in the same time period. A higher return on investment should be granted if the Company demonstrates that the Kettle Falls plant meets the criteria established in the law.

Q. Do you believe that the Company can take actions that will further increase the environmental benefits associated with the Kettle Falls Generating Plant?

A. Yes. The Company could purchase wood waste only from suppliers who have undergone independent third party certification to ensure that the waste is derived from sustainable forestry practices. The Company goes to great lengths in its testimony (Exhibit T-46) to outline the innovative and pioneering accomplishments of the Company. Striving to reduce the full life-cycle environmental impacts of the Kettle Falls plant would not be beyond the responsibility of the Company and is consistent with the intent of the collaborative relicensing efforts currently underway for Avista's hydroelectric projects.

Q. Do any of the Company's wood waste providers currently undergo certification?

A. In its response to Record Request No. 0013 in this proceeding (Exhibit NEH-2), the Company states that it currently receives wood from several suppliers who have received, or are in the process of receiving, certification from the Sustainable Forestry Initiative.

Q. Is this the type of certification to which you are referring?

A. No. The Sustainable Forestry Initiative (SFI) was developed and is administered by the American Forest and Paper Association for its members. Thus it is an industry-sponsored program and a good first step. But, based upon conversations with environmental experts in the area of forest management practices and certification, it is clear to me that SFI does not adhere to the level of environmental stewardship we consider necessary in a certification program. The implementation guidelines for the SFI are very flexible and open-ended, and include few fixed performance requirements. SFI forestry emphasizes intensive forestry management, including chemical use. For certification, SFI requires neither consistent benchmarks for environmental performance across companies nor independent monitoring of field performance and environmental claims.

Q. Please describe the type of certification you would encourage the Company to require of its wood waste suppliers.

A. Most leading environmental advocacy groups support and encourage independent, third party certification efforts, whether those are aimed at certifying forest management practices, green energy products, low-impact hydropower resources, or other activities and programs. I am involved in several green power certification efforts that have sought third party independent evaluation of industry projects. I encourage the Company to require its wood waste suppliers to undergo certification by the Forest Stewardship Council rather than the SFI. FSC is an international, performance-based forest

certification system which awards "seals of approval" to well-managed forest operations that adopt environmentally and socially responsible forest management practices and to companies that process and sell products made from certified wood. FSC is independent from forest owners and companies, and is the most credible, broadly supported and environmentally oriented forest certification program in existence. Forest owners who apply for certification through the FSC must successfully complete rigorous certification field assessments, undergo peer reviews, satisfy specific conditions, and undergo annual field performance audits by FSC-accredited certifiers. The Natural Resources Defense Council has done a comparison of the SFI and FSC certification programs, which is included as Exhibit NEH-3.

Q. In Exhibit NEH-2, the Company states that the FSC hasn't yet approved its goals and practices for the British Columbia interior, effectively impacting approximately 59% of Avista's Kettle Falls fuel volumes. Do you agree with this assessment?

A. No. FSC has international Principals and Criteria (P&Cs) and has approved the guidelines and process for certifiers, including Silva Forest Foundation, a British Columbia based outfit, to conduct certifications anywhere in the world. Currently, a process is underway to develop regional versions of the P&Cs which all certified operations must follow. This process is occurring in British Columbia and is probably the process to which the Company referred. In the absence of finalized and approved regional P&Cs, the FSC certifiers may go ahead and conduct certifications as stipulated under their FSC accreditation. In short, FSC certification is currently available in British Columbia.

Q. Do you think the Company should agree to only contract with FSC certified wood waste suppliers as part of the settlement of this rate case proceeding?

A. The Company should examine the feasibility of moving in this direction. Requiring its wood waste suppliers to undergo independent third party certification is particularly reasonable in light of the Company's testimony (Exhibit T-46) that it has distinguished itself from many utilities in its pursuit of initiatives that are beneficial to customers and the environment. Now is the time for Avista to begin phasing in FSC certified material and provide the Company's suppliers with time to make necessary changes and participate in the FSC certification process.

V. LOW-INCOME ASSISTANCE

Q. Is there an issue of critical importance to the NW Energy Coalition that is appropriate for this rate case proceeding but was not addressed by the Company in its testimony?

A. Yes, the issue of providing energy assistance to low-income households.

Q. Please explain what you mean by low-income energy assistance.

A. According to the 1996 *Comprehensive Review of the Northwest Energy System*, programs to ensure that low-income customers are adequately and fairly served include: 1) energy-efficiency services, 2) energy assistance, and 3) customer service practices. Energy assistance includes emergency bill assistance, rate discounts, percentage-of-income payment plans, fuel funds, traditional payment assistance programs, and integration of services with other social service agencies. (p. 21)

Q. Please describe the need for low-income energy assistance.

A. In 1998, the Washington Utilities and Transportation Commission and the Washington Department of Community, Trade and Economic Development (CTED) produced the *Washington State Electricity System Study* in compliance with Engrossed Substitute Senate Bill 6560. That study clearly shows that low-income energy service programs in Washington currently do not meet the need. Approximately 290,000 households in Washington are eligible for low-income energy services, and those households are likely to contain young children or seniors. (p. 9-21) Low-income households in Washington pay on average 14.9 percent of their income for their energy while non-low-income households pay only 3.6 percent of their income. Historically, low-income energy service programs in Washington were funded primarily through federal sources. Since the early 1990s, federal funding has dropped by 35 percent, but state and utility contributions have not been increased to offset this reduction. Thus, low-income funding in Washington is both declining and unstable. (p. 9-25)

According to the 6560 study, "The need for low-income energy services may have grown as the percent of Washington's population earning below the federal poverty level increased significantly this decade." (p. 9-20) From 1990 through 1995, the percentage of Washington's population below the poverty level increased by nearly 40 percent. During the same period, Washington's median income declined. (p. 9-25) Clearly, a strong need exists in Washington for utility funding of low-income energy assistance programs.

Q. Does Avista currently offer any programs that fund low-income energy assistance?

A. Yes, the Company has a voluntary ratepayer donation program called Project Share. The Company provides the revenues from Project Share to community based providers, such

as the Spokane Neighborhood Action Program (SNAP) to help fund low-income energy assistance programs. The Company spends approximately $40,000 annually on administration of the Project Share program.

Q. Could the Company do more to assist its low-income customers?

A. Yes. The Company could raise or tap into other sources of revenue in addition to Project Share voluntary donations to assist more low-income households in its service area and provide greater energy assistance to those with the greatest need. Testimony presented in this proceeding through SNAP outlines the critical need in Avista's service territory for additional services.

Q. Please name some examples of other sources of revenue aside from voluntary contributions that could be used to fund low-income energy assistance.

A. The Company could incorporate funding for low-income energy assistance programs into general rates through a rate discount or similar discount, provide shareholder funds for these programs, or increase the energy efficiency tariff rider to a level sufficient to cover additional costs of implementing some low-income assistance programs without detracting from any of the funds intended for energy efficiency programs (i.e., 1.54% of retail electric revenues would be maintained as a minimum for investments in energy conservation programs).

Q. What are the benefits of funding low-income energy assistance through one of these revenue sources?

A. Ratepayer or shareholder dollars would provide a consistent, stable source of funding for low-income energy assistance. While Project Share funds are a good source of funding for low-income assistance programs and should be continued, they are subject to the

vagaries of individual customers. As the 6560 study shows, charitable donations fluctuate from year to year. It is difficult to establish and maintain programs with funding that is not set at a guaranteed level. In addition, as stated earlier, federal funding is on the decline and more community based support is necessary.

Q. Legally, can the Company establish a differential rate for low-income energy assistance?

A. Yes. The 1999 Legislature passed and Governor Locke signed a bill (EHB1459) clarifying the authority of investor-owned utilities to offer low-income customers discounts for rates, charges and services (RCW 80.28).

Q. Has the issue of additional funding for low-income energy assistance been raised with the Company?

A. My understanding is that SNAP has been discussing possible funding sources and programs with the Company. The NW Energy Coalition looks forward to a successful settlement agreement with the Company, SNAP, and the other relevant parties in this case regarding low-income energy assistance funding and program design.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.