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VIA ABC LEGAL MESSENGERS AND ELECTRONIC MAIL

David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
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Re: ***Puget Sound Energy***
Docket No. UE-110399 ***Electric Conservation Service Rider, Schedule 120***
Docket No. UE-110400 ***Electric Energy Efficiency Program, Large Power User***
Docket No. UG-110401 ***Self-Directed Program, Schedule 258***
Gas Conservation Service Tracker, Schedule 120

Dear Mr. Danner:

Public Counsel submits these comments in advance of the Commission's April 28, 2011, Open Meeting. These comments address two topic areas. First, we discuss Public Counsel's review of PSE's energy efficiency programs and practices in connection with the Company's Electric Conservation Service Rider (Schedule 120) and Natural Gas Conservation Service Tracker (Schedule 120) filings. Second, we discuss issues related to PSE's Large Power User Self-Directed Program (Schedule 258). Our review highlights changes made by PSE to improve and refine their programs and make reported savings more accurate. We also identify programmatic and policy issues that will be addressed by PSE and the CRAG in the coming months. With regard to Schedule 258, we address how certain problems have been identified and resolved in the near term, and how the CRAG is also engaged in a review of this program to consider possible longer term program modifications.

Public Counsel Recommendation

Public Counsel supports the Staff recommendation to take no action, to allow PSE's proposed tariffs in Docket Nos. UE-110399 & UE-110400 to become effective. We also support PSE's proposed natural gas conservation tracker (Schedule 120) in Docket No. UG-110401, which was previously suspended by the Commission on March 24, 2011.

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A. Public Counsel's Review of PSE's Energy Efficiency Programs and Practices

In 2010, PSE's expenditures totaled \$75M for the electric portfolio and almost \$20M for the natural gas portfolio, resulting in estimated savings of approximately 33aMW and five million therms.¹ Given the expanding size and scope of energy efficiency programs for PSE and other utilities, Public Counsel has continued to devote significant resources to understanding the programs and reviewing evaluations and reported results. Over the past year, Public Counsel has been involved in numerous activities and proceedings related to PSE's conservation programs, including regular participation with the Conservation Resource Advisory Group (CRAG). Additionally, Public Counsel has worked with PSE to arrange several seminars and "field trips" that have been open to all members of the CRAG who wish to attend. Through these events, listed below, Public Counsel has been able to gain a better understanding of PSE's programs and processes, as well as practical knowledge and observations of specific measures and how they achieve energy savings:

- PSE's Measure Metrics system to track savings of energy efficiency programs. (April 2010)
- Residential sector programs and measures, including duct sealing, weatherization, home energy use assessments, and ductless heat pumps. (May 2010)
- Commercial and Industrial measures at a wastewater treatment facility and a glass factory, as well as presentation of the analysis necessary to assess the conservation potential of measures at industrial sites. (June 2010)
- Residential sector rebate processing procedures and systems and Small Business Lighting. Public Counsel was specifically interested in the processes and internal controls the Company has developed to help ensure that rebates are issued appropriately in an accurate manner. The visit to the Small Business Lighting program provided information regarding the tools used to monitor projects and vendors, as well as demonstrations of specific applications and technology. (October 2010)

Upon reviewing PSE's 2010 Annual Report, Public Counsel submitted inquiries to PSE on a range of topics. In addition, Public Counsel analysts met with PSE EES employees on April 7, 2011, to better understand the Company's tracking and monitoring of two of the largest programs – residential lighting and commercial/industrial retrofits. Public Counsel also participated in Staff's review at PSE on April 12th. We appreciate PSE's prompt responses to our inquiries and request for meetings.

This section of our comments next focuses on: (1) certain programmatic, incentive, and savings adjustments made by PSE, as well as enhanced reporting, and (2) issues that Public Counsel anticipates will need closer and ongoing CRAG review in the coming months.

1. Program Revisions, Savings Adjustments and Enhanced Reporting

Public Counsel believes that all companies should place a priority on continually assessing their conservation programs and results to ensure accuracy and to also ensure that ratepayer dollars are being expended in an appropriate, effective and efficient manner. PSE has made several changes

¹ Docket No. UE-100177, PSE's 2010 Annual Report of Energy Conservation Accomplishments ("2010 Annual Report"), February 15, 2011, Appendix A.

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and adjustments to their programs, savings claims, and reports to the Commission to that end. In several instances, PSE has revised its incentive levels in response to changes in the market or evaluation results. The examples discussed below are not meant to be exhaustive, but they illustrate some of the specific changes and adjustments that PSE has made during the past year.

a. Energy Education – Savings removed, program modified

Public Counsel concurs with PSE's decision to remove the electric and natural gas savings associated with the Energy Education program (Powerful Choices). PSE's 2010 Annual Report, Revised Appendix A removes the savings for this program that had been reported in PSE's original filing.² The savings originally reported were fairly small, representing less than 1 percent of the residential electric savings and almost 2 percent of residential natural gas savings.³ Nevertheless, it is appropriate to remove these from claimed savings because, as PSE's own assessment of the program revealed, the savings from this education program targeting middle school students are not verifiable. PSE has discussed this with the CRAG, and has made substantial program adjustments to scale back the program in light of the evaluation findings.⁴

b. Single Family Existing – Incentives adjusted, program offerings and delivery modified

PSE's largest residential program, in terms of expenditures and savings, focuses on existing single family residences. This program includes numerous electric and natural gas measures.⁵ PSE has made several changes to this program during the past year. For example, the Company has substantially modified delivery of their residential lighting program. Previously, the residential lighting program was fully outsourced to an outside vendor. Currently, PSE conducts program administration internally, and contracts with two separate vendors for rebate processing and field services. The Company has reported that these changes result in significant cost savings.⁶ Other changes to the single family existing program include eliminating incentives for window upgrades, and adjusting incentive levels for insulation.

c. Double-counting by vendors of various programs – Savings removed

Through internal audit processes, PSE has discovered certain errors associated with double-counting of savings by its vendors. For example, PSE discovered that the residential lighting vendor had double counted about 3,000 CFL coupons, which resulted in an adjustment to savings.⁷ In addition, PSE has indicated that the vendor has provided a financial credit toward the rider funds, in light of this error. PSE's internal audit reviews have also resulted in the discovery of double counting errors by the vendor of the Energy Smart Grocer Program. Public Counsel understands that these adjustments will be detailed in a revised filing of portions of the

² PSE has informed Public Counsel of its intent to file with the Commission a Revised Appendix A, and other relevant portions of their 2010 Annual Report, on or about April 25, 2011. PSE provided a draft copy of its revised filing to Public Counsel on April 20, 2011.

³ 2010 Annual Report, Appendix A.

⁴ The program revisions to Powerful Choices are discussed at p. 66 of PSE's 2010 Annual Report.

⁵ See 2010 Annual Report, pp. 68-79.

⁶ 2010 Annual Report, pp. 72-73.

⁷ As discussed above, PSE has modified the delivery of the residential lighting program, and is now using a different vendor to handle rebate processing.

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2010 Annual Report, which PSE intends to file with the Commission on or about April 25, 2011. PSE has indicated that it has recently established stricter requirements regarding how contractors will report information. Furthermore, the Company indicated that it plans to review its processes with its third-party vendors to ensure that savings and expenses are tracked accurately and can be verified. Considering that some of PSE's largest programs rely on third parties for administration and/or program delivery, this type of assessment is critical to the reliability and accuracy of reported savings achievements and expenditures.

d. Small Business Lighting

PSE's Small Business Lighting Program revised its incentive levels in 2010 based in part upon the fact that numerous projects were completed at no cost to the customer. PSE made the revision with the belief that the cost to the program could be reduced without adversely affecting the level of program participation.⁸ This reduction in the program's incentive levels was discussed with Public Counsel during the October 2010 field trip. It will be important for the Company to continue to assess the impacts of the reduction to incentive levels, including any market reactions to this change, and whether, even at the lower rates, projects continue to be completed at no cost to the customer.

e. Additional Reporting and Documentation

PSE's 2010 Annual Report is substantially expanded from prior versions, including numerous appendices. Of note, Appendix B outlines all measures and savings estimates, and Appendix F provides clear and transparent descriptions of all adjustments to reported savings. PSE has also provided completed evaluations in Appendix G.

2. Issues for Ongoing CRAG Review and Assessment

In the coming year, we anticipate that PSE and the CRAG will continue to focus on several areas, including evaluating specific programs, utilizing evaluation data, adjusting incentives, and developing conservation targets for the 2012-2013 period. Some of the programmatic and policy issues we expect to be addressed by the CRAG in the coming months are discussed below.

a. Residential Hot Water Heater Program Evaluation (possible future program modification)

One possible program modification that we anticipate discussing with PSE and the CRAG concerns the residential natural gas water heater program. In 2010, this program accounted for 250,679 therms of savings, approximately 9 percent of the residential portfolio. An evaluation conducted by KEMA, included in Appendix G to PSE's 2010 Annual Report, indicates that this program is operating in an increasingly transformed market, whereby 68 percent of participants would have installed the efficient water heater even without the PSE rebate. For that reason,

⁸ 2010 Annual Report, p. 125.

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KEMA recommended modifying the program to require purchase of a water heater with a higher level of efficiency.

b. Home Energy Report (HER) Pilot

Public Counsel believes it is appropriate that at this time, PSE is not claiming any energy savings associated with the Home Energy Report (HER) pilot (administered by OPOWER). As shown in Appendix A, there are no electric or natural gas savings recorded for this pilot program in 2010.⁹ Based upon our review of the program and preliminary evaluation conducted to date, this is appropriate. Because the possible savings associated with this program are very small at the household level, it is important to ensure there are no anomalies with the data. In addition, in light of the small household-level savings and unique persuasion-based model of this pilot, it will be important to ensure that the analysis is conducted with sufficient rigor so that issues related to persistence and possible double-counting of savings (particularly lighting) are fully explored. It will also be important to understand what actions customers have taken in response to this program, to inform the cost-effectiveness analysis and better understand responses to the program. We will continue to work with PSE and the CRAG in the review of this pilot as additional data, reports, and evaluations are completed and shared with the CRAG.

c. Evaluation Measurement & Verification (EM&V)

PSE is beginning to work with the CRAG on the development of an EM&V Framework. PSE has also recently retained a contractor to conduct a 3rd party verification of electric savings for 2010-2011. Both of these activities are pursuant to settlement conditions in Docket No. UE-100177.

d. I-937 Implementation

This will be a major focus of the CRAG in 2011. The CRAG will review and advise PSE on a range of I-937 related issues. In addition, PSE will work with the CRAG on the development of proposed two-year conservation targets for the 2012-2013 period.

As discussed below, another major topic that CRAG will examine in 2011 concerns whether program changes to Schedule 258, Large User Self-Directed program, should be made.

B. Schedule 258 Issues

As a part of the settlement conditions in Docket No. UE-100177, the Parties agreed to retain the existing Schedule 120 rider mechanism, with the condition that the cost allocation methodology would be reviewed by the CRAG prior to the 2011 Schedule 120 filing.¹⁰ This review revealed

⁹ 2010 Annual Report, Appendix A.

¹⁰ In the Joint Narrative in support of the Settlement Agreement in Docket No. UE-100177, ¶ 57. Public Counsel stated, : "An additional component of the conditions section important to Public Counsel is the review of the current cost allocation methodology associated with the Electric Schedule 120 rates (Section 11(c))....Public Counsel believes it is important that stakeholders and the Commission take a closer look at how these costs and benefits are distributed among ratepayers. This review will be done through the CRAG. In this Agreement stakeholders have reserved the right to propose changes to the Commission regarding the cost allocation

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that the existing program and its rates did not comply with the 2002 and 2010 Settlement agreement (which adopted conditions directly from the earlier settlement agreement) on two issues, both of which are addressed by the current filing. These two issues are as follows: (1) between 2005 and 2010, electric Schedule 120 rates were not being allocated according to the peak credit methodology for all rate classes, with the exception of Schedule 449,¹¹ and (2) Schedules 40, 46, and 49 were not contributing to NEEA and program administration expenses.¹²

1. Application of Peak Credit Methodology to Schedule 120 rates

The 2002 Settlement agreement required that the Company continue to use the peak credit method of assigning the costs of its electric conservation programs to each rate schedule, with the exception of Schedule 449.¹³ Because of the exception for Schedule 449, these comments are focused on the non-Schedule 449 customers participating in the Schedule 258 program. It is important that the Schedule 120 rates are fairly allocated across rate classes because utilities are required to acquire all achievable cost-effective conservation as an alternative supply-side resources.¹⁴

However, in 2005 the rates for Schedule 258 customers were held constant at a rate designed to collect only the amount needed for the Schedule 258 budget. We understand that in part, PSE's rationale for holding the rate constant was that Schedule 258 programs are implemented on a 48-month cycle. At the beginning of each cycle, eligible customers receive an estimate of how much money is available to them for conservation in that period.

Because rates for Schedule 258 customers were set only to recover for this specific subset of electric conservation programs, this change had considerable impact for customer classes not included in Schedule 258. This was because the cost of PSE's entire portfolio of conservation programs increased dramatically in the following years. As a result, between 2006 and 2010, the customer classes not included in Schedule 258 programs saw Schedule 120 rates increase dramatically, while rates for Schedule 258 were flat, with only a small increase in 2010. The following graph provides an illustration of this trend.

methodology if they believe that the current methodology is not adequate or unfairly burdens one class of customers[.]

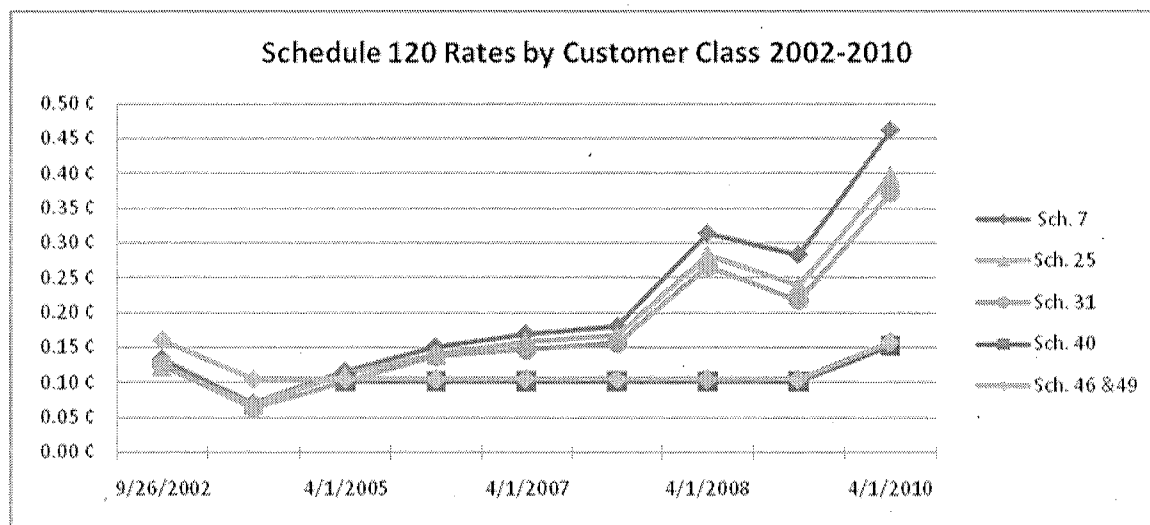
¹¹ Docket No. UE-011570, Settlement Terms for Conservation, p. 9, ¶ 36. The 2010 Settlement Agreement adopted this condition pending further review.

¹² Docket No. UE-011570, Settlement Terms for Conservation, p. 7, ¶ 26.

¹³ Docket No. UE-011570, Settlement Terms for Conservation, p. 9, ¶ 36. Schedule 449 customers are somewhat unique in terms of their participation in Schedule 258 because as transport customers they do not take power directly from PSE.

¹⁴ The IRP rule states, "Each electric utility regulated by the commission has the responsibility to meet its system demand with a least cost mix of energy supply resources and conservation." WAC 480-100-238(1) (emphasis added).

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As shown above, between 2005 and 2009, residential rates (Schedule 7) had increased by 145 percent while the rates for Schedules 40, 46, and 49 had not increased at all. As of April 1, 2010, the rates for residential customers had increased 300 percent since 2005, while rates for Schedule 258 customers had increased 50 percent.

While the current filing will result in a significant increase for Schedules 40, 46 and 49, this increase is warranted and necessary in order to fairly allocate rates to customers and to ensure that the programs are in compliance with the Settlement Agreement.

2. NEEA and Administration Costs

The 2002 Settlement Agreement stated that “Non-449 Schedule 258 customers will share in paying NEEA/market transformation and administration costs consistent with all other non-449 customers.”¹⁵ In the review of the Schedule 120 cost allocation methodology, it came to the attention of the Parties that the non-449 Schedule 258 customers were not paying a share of the NEEA and administration costs. This tariff filing corrects this problem by creating a specific method to account and collect for these costs, and provides a specific percentage that will be applied to ensure that all Schedule 258 customers contribute toward these expenses. In addition, as described in PSE’s substitute cover letter in Docket UE-110400, the Parties were able to reach an agreement that an additional \$1,000,000 will be allocated from the Schedule 258 programs toward NEEA and administration costs for the 2011 program year.¹⁶

3. Evaluation of Schedule 258 Programs

Public Counsel believes the filings in Dockets No. UE-110399 and UE-110400 adequately resolve these historical issues with Schedule 258. However, this review has revealed several complexities associated with the program, and stakeholders have continued discussions regarding this program in order to evaluate whether there are any long term improvements that

¹⁵ Docket No. UE-011570, Settlement Terms for Conservation, p. 7, ¶ 26.

¹⁶ Docket No. UE-110400, Substitute Cover Letter, March 29, 2011, p. 2.


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can be made. As part of this review, Public Counsel seeks to further examine numerous issues related to this program. For example, we will examine whether this special carve out is necessary to continue to deliver programs to all of these customers. According to the terms of the Schedule 258 tariff, all non-449 customers are also allowed to participate in the programs available to other customers, and in fact they have done so with increasing frequency.¹⁷ PSE's commercial and industrial programs are currently undergoing a third party evaluation conducted by Navigant, and the results of that evaluation may be useful in assessing whether the Schedule 258 program design might benefit from modifications.

C. Conclusion

We appreciate your consideration of these issues. We plan to attend the Commission's April 28, 2011, Open Meeting to address any questions regarding these comments.

Sincerely,


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¹⁷ For example, in response to an inquiry from Public Counsel, PSE provided information that in 2010 customers on Schedules 40, 46, and 49 received \$2,716,606 as a result of participating in PSE conservation programs outside of Schedule 258. This resulted in 9,444,128 of first-year kWh savings.