

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Petition of

**PUGET SOUND ENERGY**

Docket No. UE-970685 and 970686

For an Order (1) Authorizing Deferral of  
Electricity Conservation Expenditures and  
(2) Approving as Tariff Rider for Concurrent  
Recovery in Electric Rates of Such Deferred  
Electricity Conservation Expenditures

**PETITION**

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**Introduction**

Northwest Conservation Act Coalition (NCAC) and the Natural Resources Defense Council (NRDC) respectfully offer these comments in response to Puget Sound Energy's (PSE) Schedule 83 filing. While we are extremely disappointed with the scope and magnitude of its conservation portfolio, we recommend that the Commission approve PSE's electric conservation tariff and program filing as an interim measure. It was clear from the collaborative process that PSE was distracted by the merger proceedings. Since the merger was approved and new staff assignments made, the Collaborative has made some progress, and we are confident that we can continue along this path.

This filing should not be viewed as setting a precedent for future efforts. A vigorous dialogue between PSE and the parties must begin immediately in order to develop more fully the elements necessary for PSE's Integrated Resource Plan and to help the Company reach the conservation investment goals outlined in the Comprehensive Review. NCAC and NRDC are committed to working with PSE to identify additional targeted opportunities for conservation investment through this collaborative process.

Below we expand on our concerns about scope and magnitude, avoided costs, program design, measurement and evaluation, and the cost recovery mechanism:

**I. Scope and Magnitude/Avoided Costs**

The filing reflects a dramatic reduction from past conservation program savings and investment levels and a departure from program delivery mechanisms which have been tested and proven effective. While the programs proposed are certainly cost-effective, the portfolio fails to take advantage of all the cost-effective energy efficiency opportunities

available to PSE. Clearly the Commission is aware of Puget Sound Power & Light's historic commitment to conservation programs, especially over the past 6 years. Unfortunately, Puget Sound Energy's current commitment to acquiring all cost-effective conservation resources appears to be very cautious given the uncertainty associated with utility industry restructuring. While NCAC and NRDC believe the transformation is coming; the transition has not yet taken place, nor will it happen within the time frame of this tariff.

The conservation investment level recommended in the Comprehensive Review was based on an analysis of the cost effective energy efficiency resources in the region and is a good guideline with which to judge conservation program commitments. Using this yardstick, PSE should be encouraged to strengthen and build on its portfolio and commitment to the public purposes which have been an integral part of past utility operations, so that they will not be lost as we move to a more competitive market.

While conservation is an energy resource on equal footing with other supply-side resources, it is not a resource only acquired when the utility is in a resource acquisition mode. Conservation resources frequently come in small packages, are decentralized and extremely time sensitive. The energy efficiency resource which can be reaped from good new building design produces savings for 50 years. It should not be foregone because of a five year surplus. There are many cost-effective "lost opportunities" in the form of new buildings and retrofits which PSE should capture on an on-going basis, based on an avoided cost that reflects long term energy supply costs, as well as environmental costs.

Energy conservation provides environmental benefits to PSE's customers even at a time when PSE is not acquiring other new resources. By reducing energy demand, conservation results in reduced air pollution emissions, improved fish and wildlife protection efforts, and reduced carbon dioxide emissions (the most important, human caused greenhouse gas responsible for climate change). In the short term, conservation can help displace existing fossil fuel resources. In the long term, conservation investments made now reduce the need for future incremental power supplies which would most likely come from fossil fuel generation.

We are encouraged that PSE has agreed to use the Northwest Power Planning Council's (NPPC) avoided cost calculations for this interim filing. However, the scope and magnitude of the proposed conservation program did not change substantially to reflect

these revised avoided costs. *Table III-1 Summary of Cost Effectiveness Results* in PSE's 4/22/97 filing Work Papers (p. III-4) shows that the PSE Utility Cost is significantly less than the Energy Benefit (five of the seven programs have utility costs which are less than 40% of avoided cost). This table suggests that programs could be expanded. While we did not receive detailed PSE supply curves during collaborative meetings, the NPPC's supply curves from its 1996 draft plan show that there is a significant increase in cost effective resources when avoided costs are increased from around 20-30 mills in PSE's original filing to between 30-50 mills using NPPC values. For example, NPPC's 1996 *Draft Fourth Northwest Conservation and Electric Power Plan*, Appendix G, p. G-47 shows that the regional potential for new single family space heating conservation measures is increased from 70 aMW at 30 mills/kwh to 120 aMW at 40 mills/kwh. Similarly, the new multifamily space heating supply curve on the same page shows a conservation potential of 7 aMW at 30 mills/kwh, but 37 aMW at 40 mills/kwh.

We understand that avoided costs will be an important part of the upcoming Integrated Resource Plan discussions. PSE's original avoided costs reflected the short term spot market price of energy which reflect only the operating costs of gas turbine power plants. These avoided costs are significantly lower than those used by other utilities. The short term spot market price reflects surplus market conditions and low natural gas prices, a situation which is not permanent. Spot market prices could increase significantly, even in the short term. Conservation measures are a long term investment and should be compared to a long term avoided cost. Therefore, avoided costs need to reflect the fixed capital costs of new power plant investments, must incorporate environmental externalities and must include transmission and distribution losses and transmission and distribution incremental costs. Seasonality should also be considered, since conservation programs such as space heating reduction reduce peak load, making them more attractive as a conservation resource. We believe that the NPPC avoided costs which account for all these factors are in the range of what the true avoided costs are for the given situation.

## **II. Program Design**

The program design comments here do not address any specific program, but the overall scope of the portfolio. The goal of conservation programs is to accomplish actual energy savings. While we recognize that a shift away from programs that provide large incentives for customers may be appropriate, we are concerned that PSE's emphasis on information-only programs in the residential sector will compromise energy savings. An integrated package of informational and incentive programs will, in our opinion, produce

savings that information-only programs will not. While lack of information is certainly one of the market barriers which must be overcome by customers, the other market barriers such as capital constraints, short payback expectations and land/lord tenant situations, must also be addressed by PSE programs.

Proven measures should not be eliminated until new programs have been shown to be as effective at breaking down market barriers. We are concerned with the loss of existing program infrastructure if up-and-going programs are completely eliminated. It will be much harder to build programs back up from scratch if the new approaches fail to produce the promised savings than to maintain them at a viable level. PSE's programs must include funds for actual measure installation, in addition to education, at least until education measures are proven to result in energy savings on their own.

NCAC and NRDC had hoped that PSE would design its conservation programs for this interim filing from the perspective of an integrated gas and electric company by incorporating fuel conversion in its electric conservation programs. One of the intended goals of the collaborative was to take advantage of the expanded opportunities for cost effective conservation associated with integrated gas and electric programs. Time unfortunately did not permit this, but we expect that an important part of the integrated resource plan development will be the initiation of an integrated, fuel blind conservation program.

### **III. Measurement and Evaluation**

The measurement & evaluation (M&E) of PSE's programs will be critical. There must be continual monitoring, especially for education-based programs. M&E activities should include the analysis and review of the actual energy savings to ensure programs are effective and accomplishing their established goals. NCAC and NRDC recommend that the evaluation standards for market transformation/NEEA type programs reflect the regional and long term energy savings goals of these programs.

### **IV. Cost Recovery**

PSE proposes the use of a rate design methodology based on a modified PRAM. While NCAC and NRDC prefer a cost recovery mechanism based upon a uniform cents per kWh for all customer classes, we accept PSE's proposed mechanism as an interim solution. Since the parties have not had the opportunity for any substantial discussion on a new cost recovery mechanism, the interim rate design should not set a precedent for future

filings. We instead look forward to a comprehensive dialogue on conservation cost allocation, long term cost recovery mechanisms, integrated resource planning and program designs over the coming year through participation on the PSE Technical Advisory Committee and the conservation collaborative, and in preparation for the PSE refiling of Schedule 83 in June of 1998.

### **Recommendation**

NCAC and NRDC recommend that the Commission approve PSE's electric conservation tariff as an interim measure while the Company develops a combined gas and electric Integrated Resource Plan and new filing for June of 1998. We support the need to transform the market so that barriers to customer investments in energy efficiency are reduced or eliminated. In this spirit, we are eager to work with the Company and other collaborative members to develop constructive detail and substance about new methods for accomplishing the acquisition of cost-effective resources and public purpose objectives outlined in the Comprehensive Review's recommendations. However, it should be clear to both the Commission and PSE that NCAC and NRDC expect the company to meet the conservation investment goals of the Comprehensive Review in their June 1998 filing.

We also urge the Commission to require PSE to develop a supplemental filing within 90 days of approval which identifies additional targeted near-term cost-effective conservation programs to capture additional near-term energy efficiency opportunities, and to ensure that estimated savings are achieved.