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Via Electronic and United States Mail

June 30, 2014

Steven V. King, Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. S.W.
P.O. Box 47250
Olympia, Washington 98504-7250

RE: *Avista Corporation d/b/a Avista Utilities: Report concerning its progress in meeting its conservation target during the preceding biennium*
Docket UE-111882

Dear Mr. King:

Enclosed for filing in the above-referenced docket are the original and two copies of the Comments of Commission Staff.

Sincerely,

PATRICK J. OSHIE
Assistant Attorney General

PJO:klg
Enclosures
cc: Parties

COMMISSION STAFF COMMENTS REGARDING
AVISTA CORPORATION dba AVISTA UTILITIES'
2012-2013 BIENNIAL CONSERVATION REPORT
JUNE 30, 2014

DOCKET UE-111882

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Background

On May 30, 2014, Avista Corporation filed its 2012-2013 Biennial Conservation Report (Conservation Report) with the Washington Utilities and Transportation Commission (commission), as required by Order 01 in this docket.¹

Throughout the 2012-2013 biennium, staff met regularly with Avista's Demand-Side Management Advisory Group (Advisory Group). This allowed staff to conduct an ongoing review of the company's progress toward meeting its biennial target and review proposed program changes before they were filed.

Staff's review of Avista's Conservation Report focused on evaluating whether the company met the reporting requirements set forth in RCW 19.285.070 and WAC 480-109-040 and whether the company correctly reported savings for the biennium.

Pursuant to Order 05 of joint Dockets UE-110876 and UG-110877, staff also reviewed testimony and supporting evidence to demonstrate the prudence of its electric demand side management (DSM) expenditures during the preceding biennium.

In these comments, staff will summarize Avista's report, highlight key pieces of information, and identify lingering issues. Staff will also discuss recent and anticipated changes in the rules and policies affecting energy conservation. Staff will review comments filed by other parties in this matter and make a final recommendation on whether the Commission should issue an order accepting the report and finding that Avista has met its biennial conservation target, demonstrated prudence of its DSM expenditures, at the July 25, 2014, recessed open meeting.

Avista's Biennial Conservation Report

In Order 01 of this docket, the commission approved a 2012-2013 biennial conservation target range of 108,589 to 197,557 megawatt-hours (MWh) for Avista. The company reports that it exceeded the bottom end of the range by 78 percent, achieving 192,749 MWh. The company spent about \$31.5 million over the biennium, which is about 15 percent more than the \$27 million budget the commission approved. A summary of Avista's reported savings and expenditures is in Table 1:

Table 1: Summary of Avista's 2012-2013 Conservation Achievements

	Target	Actual	Percent of target
Savings (MWh)	108,589	192,749	178%
Savings (average MW)	12.4	22	
Expenditures	\$26,985,290	\$31,545,109	115%

¹ Docket UE-111882, at ¶ 30.

Using the Northwest Power and Conservation Council's (Council) cost-effectiveness test, Avista reported a cost-effectiveness ratio of 1.3 for its conservation portfolio during the biennium.

Avista's significant overachievement of its target was largely driven by its inclusion of the Opower residential savings², savings from the 2011 CFL contingency program that occurred in 2012, and higher than expected savings from its participation in the Northwest Energy Efficiency Alliance (NEEA).

Discussion

Avista achieved 97 percent of its reported savings, an impressive realization rate considering the complexity of its portfolio. Staff appreciates Avista's engagement with the advisory group and its responsiveness to inquiries. However, staff agrees with the third-party reviewer that Avista must address some significant organizational issues, particularly intra-team communication and process evaluation reviews.

Third-Party Review

Avista retained the Cadmus Group (Cadmus) to perform the third-party evaluations in the past two biennia. All of the evaluations in the review period determined that the programs were run efficiently, but consecutive reviews identified key implementation challenges with the company's project review process. Notably, Cadmus identified program delays resulting from poor team communication, and the lack of any formal follow-through procedure when problems were discovered in a review. Notably, the 2012 review discovered that only about one-third of the company's large conservation projects were actually reviewed, despite protocol that calls for all large projects to be reviewed. In its Conservation Report, the company concedes that it must do a better job and notes that it is implementing a new technical and administrative review process called "Top Sheet" that is designed to ensure a second review at each project.³ The company also implemented a random internal review of site-specific projects to incorporate continuous process improvement.

As part of its written review, Cadmus also submitted a new set of recommendations in its 2012-2013 biennium program and process evaluations. Avista only received the reports two weeks before its Conservation Report filing was due to the Commission, therefore staff understands that the company did not have sufficient time to respond directly to the new comments. However, staff is troubled to see some of the same recommendations being made, particularly around the need for standardized processes and better team communication applied to non-residential large projects. In the biennial Process Evaluation Report, Cadmus recommended that the company create a quality control system in addition to the company's Top Sheet for a redundant check on all large projects, as well as an external third-party review of completed Top Sheets for completeness and accuracy. Cadmus also asks that the company develop standardized processes

² Conservation savings attributed to OPower's residential program were not included in the original electric conservation target set by the Commission for Avista.

³ See Docket UE-111882; Direct Testimony of Chris D. Drake Exhibit No. ___ (CDD-1T), page 12.

with the DSM group, including clear delineation of roles and assignments of all processes and responsibilities.

Avista is currently undergoing a reorganization of the DSM group, hiring a new Senior Manager of Energy Efficiency, effective July 1. According to the company, the goal is to bring its divided team back under central leadership with the same goals and vision. It is evident that the company is trying to fix many of the process and organizational issues facing the team. Cadmus supports the reorganization in the direct testimony of Mr. Khawaja who reiterates that the team should clarify responsibilities and improve coordination within and between the team. He also recommends that the company continue to define and document program processes.

Staff is pleased with recent developments and the steps the company is taking to remedy its organizational and process challenges. Staff anticipates that in the coming weeks the company will report the new organizational structure to the advisory group, and then begin working with the advisory group to improve its program.

CFL Contingency

Beginning in July 2011 and continuing through November 2011, Avista mailed a box of eight Energy Star CFLs to residences and small businesses as part of its CFL Contingency Plan filed in Docket UE-100176. Avista claimed savings from the program in the 2010-2011 biennium based on third-party impact analysis. In Order 03, the Commission concluded that the company should use the “deemed” savings developed by the Regional Technical Forum rather than its own method for the related Simple Steps, Smart Savings™ program.⁴ The company believed that the Commission expected the same treatment of the CFL Contingency Plan, stopped performing impact analysis, and adopted a RTF methodology.

In its Conservation Report, Avista is claiming savings of 21,179 MWh in 2012 using methodology it believes is consistent with the RTF. The methodology’s in-service rate assumes that some of the CFLs distributed to Avista’s customers in 2011 would be installed during 2012, and uses the 2013 RTF installation rate to record the first-year savings of bulbs assumed to be installed in 2012. Avista provided staff with a timeline of events related to the Contingency Plan.

The standard practice is to record first-year savings in the year the measure was installed, despite when the first-year savings will accrue. For example, if a customer installs a low-flow showerhead on December 31, 2011, all of the first-year savings would be recorded as having been achieved in 2011. In the Contingency Plan, the eight CFL light bulbs were delivered in 2011. Staff is sympathetic to the argument that some CFLs could be installed in 2012. However, there is no precedent for running a program in one year and recording savings in another without persuasive verification of the installation and savings. Staff does not agree with Avista’s interpretation of Order 03 that the verification of the savings from the CFL Contingency Plan should not be continued. In staff’s view, the order only addressed the upstream buy-down of CFLs in the Simple Steps, Smart Savings™ program. If Avista had questions about the treatment

⁴ See Docket UE-100176, at ¶32. Simple Steps, Smart Savings™ is a program consisting of a combination of measures, including the upstream buy-down of CFL prices.

of savings from the CFL Contingency Plan, it should have raised this issue with the Advisory Group and requested clarification of the Commission's order. The company also chose not to address this issue during the 2012 Business Plan or 2012 Annual Report because the program was not being delivered during 2012. Staff strongly disagrees with Avista's refusal to bring this issue to the Advisory Group for resolution, particularly when it planned to claim the savings in 2012.

If the company is not allowed to claim the CFL contingency program savings in 2012, it will still have achieved 171,570 MWh, or 58 percent above its target. The compelling question is whether the Commission wishes to change the way it treats savings from programs where customers purchase something that may not be installed right away. Staff is not yet ready to make a recommendation but will be prepared to do so at the recessed open meeting on July 25, 2014.

Opower

Avista is claiming 6,220 MWh of savings from its Opower residential behavior program in 2013. Opower's program was not evaluated nor included in Avista's Conservation Plan. During the development of the 2013 DSM Business Plan in late 2012, the company and its contractor EnerNOC assumed that a behavioral program would not be cost-effective. However, in early 2013 the company determined that the program could be done cost-effectively, and contracted with Opower to begin a mid-year program.

Staff supports the inclusion of the program's savings in the company's biennial achievement. As part of its obligation to pursue all conservation, the company is expected to adaptively manage its portfolio by monitoring the efficiency landscape for potential savings. As peer utilities were implementing residential behavioral programs, Avista continued to pursue these potential savings well into the biennium. The treatment of behavioral programs in the target-setting process has been settled going forward. At the Commission's directive, the company included Opower savings in its 2014-2015 Biennial Conservation Plan in Docket UE-132045. The Commission determined that beginning in the 2014-2015 biennium, behavioral savings should be included in claimable targets only if the savings are identified in a company's conservation potential assessment. Staff believes the Commission order does not apply to the 2012-2013 biennium. A discussion on the treatment of Opower in future biennia is discussed later in this document.

NEEA

Avista is claiming 34,427 MWh of regional electric efficiency savings from its participation in NEEA, substantially higher than the company forecast of 14,716 MWh.⁵ The achievement was largely driven by the success of NEEA's television initiative which greatly increased each member's claimed savings. In the direct testimony of Bruce W. Folsom, it appears that the company is claiming regional electric efficiency savings outside of the forecasted electric

⁵ Avista anticipated 1.2 aMW of NEEA savings for the entire service territory (Idaho and Washington) in each year of the biennium. 1.2 aMW equals 10,512 MWh, of which 70% is allocated to Washington, or 7,358 MWh per year. 7,358 multiplied by 2 is equal to 14,716 MWh.

efficiency savings target.⁶ Through data requests and conversation the company clarified that achieved NEEA savings are part of the biennial target. The treatment of NEEA savings in future biennia is discussed later in this document.

Conservation policy updates

Staff has been working to resolve a number of general issues that have been identified during the first three biennial cycles. Many of these issues are being addressed through an open rulemaking proceeding, while other issues have been addressed through Commission orders or informal collaborations between staff, the utilities, and external stakeholders. This section will briefly summarize these processes and their impact on this and future conservation filings.

Energy Independence Act Rulemaking

The Commission has opened a rulemaking procedure in Docket UE-131723 to update WAC 480-109, the Commission's rule implementing the Energy Independence Act (EIA). The proposed rule may address several issues raised by various parties since the biennial conservation cycle began in 2010.

Informal draft rule language was made available to parties on April 9, 2014, and discussed at the Commission's workshop with stakeholders on May 15, 2014. Staff is reviewing the comments received on the informal draft rule. The proposed rule will be filed later in 2014, and will be subject to additional comment and revision before being finalized. Following is a brief summary of the key conservation issues that staff expects will be addressed in the proposed rule:

- **Pursue all.** RCW 19.285.040(1) requires utilities to “pursue all available conservation that is cost-effective, reliable and feasible.” Staff's comments on the three regulated utilities' 2010-2011 biennial conservation reports identified a general process by which staff would interpret this broad language when evaluating whether a utility met the requirement.⁷ The informal draft rule defined the term “pursue all” and further expounded on the process that staff has identified. Following the commission's rulemaking workshop on May 15, 2014, staff has been working with stakeholders to resolve concerns around this language.
- **Conditions lists.** WAC 480-109-010(4)(c) allows the commission to approve a utility's 10-year conservation potential and two-year conservation target subject to conditions. In the three planning cycles that have occurred since the EIA's conservation requirements went into effect, the commission has crafted a number of standard conditions. The informal draft rule incorporated many conditions which were generally applicable to all three companies and widely accepted by the parties involved. Examples of this include the interim reports a utility is required to file and the role of conservation advisory groups.

⁶ See Docket UE-111882; Direct Testimony of Bruce Folsom. at Page 7, line 13.

⁷ *In the Matter of Evaluating Electric Utility Conservation Achievements Under the Energy Independence Act*; Dockets UE-100170, UE-100176, and UE-100177; Staff Comments, July 16, 2012, page 9.

- **Legislative changes.** The rule will also incorporate recent legislative changes that will affect future conservation filings. Chief among these changes is a law passed in the 2014 session that will allow utilities that exceed their target in a given biennium to “bank” the overage and apply it toward meeting up to 25 percent of the targets in the two succeeding biennia.

The full text of the informal draft rule is available in Docket UE-131723.⁸

NEEA

In its memo on the utilities’ 2010-2011 Biennial Conservation Plans,⁹ staff noted that the three utilities took different approaches in how they claimed savings from NEEA and that multiple stakeholders felt that a common approach was warranted. The commission agreed and ordered the utilities to craft a uniform approach for treatment of NEEA savings.¹⁰

In response, the utilities proposed to remove NEEA savings from the target-setting process.¹¹ Utilities would continue to fund NEEA and report the amount of savings they received from doing so, but would not reflect those savings when setting their target or apply them toward meeting their target. The commission accepted this approach and allowed the utilities to begin using it in the 2014-2015 biennium.

UES values/baselines

Another issue that staff identified in its memo on the utilities’ 2010-2011 Biennial Conservation Reports related to how frequently utilities update the assumed savings values for their conservation measures. The commission directed the utilities to use the unit energy savings (UES) values that the Council’s Regional Technical Forum (RTF) calculates for each measure, where they exist and are appropriate.¹² However, the utilities vary in how frequently they update their assumptions to reflect current RTF practice. Pacific Power and Light Company (PacifiCorp) and Avista update every other year when preparing their next biennial target; this allows the utilities to use the same value when setting their target and measuring whether they met it. Puget Sound Energy (PSE) voluntarily updates UES values every year.

Staff recognizes that PSE’s approach may increase a company’s risk of not meeting its target. In an effort to quantify this risk, staff has arranged for PacifiCorp and Avista to report at the end of the 2014-2015 biennium the difference between using the same UES values for the entire biennium and updating them annually. Staff may use this information to formulate a recommendation on how companies should treat UES values in the future.

⁸ *Notice of Opportunity to File Written Comments*, Docket UE-131723, April 9, 2014.

⁹ Dockets UE-100170, UE-100176, and UE-100177; Open Meeting Memo, Aug. 9, 2012, Attachment A.

¹⁰ See *In the Matter of PacifiCorp d/b/a PacificPower & Light Company’s 2010-2011 Biennial Conservation Target Under RCW 19.285.040*, Docket UE-111770, Order 03 ¶ 28.

¹¹ See *Joint Proposal for Consistent Approach to Northwest Energy Efficiency Alliance Claimed Conservation Savings*, Docket UE-111770, Oct. 31, 2012.

¹² See *In the Matter of Pacific Power & Light Company d/b/a PacifiCorp’s Report Identifying its 2014-2023 Ten-Year Achievable Electric Conservation Potential and Its 2014-2015 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-132047, Order 01 ¶ 6.

Opower

Staff comments on the biennial conservation plans filed for the 2014-15 biennium identified inconsistencies in how the companies measure savings from the Home Energy Reports programs they run through Opower.¹³ All three companies have now contracted with Opower for the service, but each measures savings differently.

The main difference in approaches is in the measure life – how long the behavioral changes created by the reports are assumed to last before residents return to their old habits and utilities need to “repurchase” the savings with additional reports. PSE and Avista use two-year measure lives, which means that the reports in the first year create savings that last into the second year, so only a fraction of the second-year savings are treated as new savings for the program. PacifiCorp, on the other hand, assumes a one-year measure life, which means that the company assumes that all the savings in a given year are the result of that year’s reports alone. The practical impact of these differences is that on a per-household basis, PacifiCorp claims a much higher level of savings from its Home Energy Reports program than Avista and PSE.

Staff stated in the comments on the 2014-15 biennial conservation plans that it would work with the utilities during the biennium to devise a “reasonable and consistent approach.”¹⁴ Staff met with the utilities, external stakeholders, and a representative from Opower on May 22, 2014, to discuss this matter. The meeting provided valuable insight into current industry practice and the benefits and drawbacks of different approaches to measuring savings from behavioral programs. Staff continues to explore the matter.

Finding of Prudency

Pursuant to Order 05 of joint Dockets UE-110876 and UG-110877, every two years Avista is required to file with the Commission testimony and supporting evidence to demonstrate the prudency of its electric demand side management expenditures during the preceding biennium.

On July 22, 2011, Avista, the Public Counsel Section of the Washington State Attorney General’s Office (Public Counsel), and the Commission’s regulatory staff entered into a Memorandum of Understanding (MOU) regarding the appropriate forum for review of the prudence of Avista’s Demand Side Management (DSM) programs and expenditures. The parties to the MOU filed joint motions in Docket UE-100176 and consolidated Dockets UE-110876 and UG-110877, asking the Commission to clarify the process for reviewing the prudence of Avista’s DSM programs and expenditures by adopting the procedure described in the MOU. On August 18, 2011, the Commission granted the joint motion in Dockets UE-110876/UG-110877, Avista’s

¹³ *UTC Staff Comments Regarding Electric Utility Reports on Ten-Year Achievable Conservation Potential and Biennial Conservation Targets*; Dockets UE-132043, UE-132045, and UE-132047; pages 15-17.

¹⁴ *Id.*, page 17.

then-pending general rate case, and effectively found the question moot in Docket UE-100176.¹⁵ The commission ordered that Avista's DSM programs and expenditures be reviewed for prudence in a future docket, rather than in UE-110876/UG-110877, the pending general rate case. As a result, Avista is now requesting a finding of prudence.¹⁶

Staff desires to provide consistency in its review of DSM prudence and outlines the following proposed approach to assessing prudence for conservation activities.

The company must demonstrate that it evaluated its conservation needs and requirements, and that reasonable decisions were made in terms of programs selected, portfolio costs, and overall management of the programs selected. Four general factors that the Commission has consistently considered in previous determinations of prudence for utilities include:

1. The need for the resource. The utility must determine what resources are necessary. Once needs have been identified, the company must decide how to meet the need in a cost-effective manner. In the case of conservation, the utility must show that the options selected to meet conservation requirements were chosen based on a cost effective and reasonable approach.
2. Evaluation of alternatives. The utility must analyze alternatives available based on current information. Factors to be considered include utility costs, impacts to the ratepayer, and ability to effectively deliver the alternative.
3. Communication with and involvement of the company's board of directors. For conservation programs, the advisory groups have been developed to substitute for the board of directors. The utility should inform its advisory group about the conservation programs selected and their cost of delivery.
4. Adequate documentation. The company must keep adequate detailed records that allow the Commission to evaluate the company's decision making process. The Commission should be able to follow the utility's decision making process, understand the factors the utility considered, and determine the fashion in which the utility valued the factors.

Prudence specifically related to conservation consists of several elements, including the proper establishment of conservation potential, whether programs are cost effective, reliable, and feasible, whether all reasonable measures were pursued, if appropriate public and stakeholder involvement was included in the process (advisory group review), and verification that programs were administered efficiently.

RCW 19.285 requires companies to use methodologies consistent with those of the Council in identifying their achievable cost effective conservation potential. Filings required of the companies as part of this process include Conservation Plans, any updates to those plans, and

¹⁵ *WUTC v. Avista Corporation*, Dockets UE-110876/UG-110877, Order 05 (Aug. 18, 2011). The Commission noted in footnote 2 of its order that its ruling effectively rendered the parallel motion in Docket UE-100176 moot.

¹⁶ Docket UE-111882

periodic reports on conservation achievement including a Conservation Report, and cost recovery tariffs.¹⁷

The cost effectiveness and feasibility of a portfolio is typically measured in terms of a benefit-to-cost ratio. As part of the filings, the companies must show a positive ratio of this metric to establish the cost effectiveness of their programs. The companies must file adequately detailed evidence that include cost effectiveness analyses of their proposed conservation programs. Demonstration of involvement from appropriate customer groups, external experts, and other stakeholders must be provided by the companies to demonstrate the prudence of their conservation programs. The formation and coordination of energy efficiency advisory groups is a typical vehicle used by the companies to meet this need. Verification of efficient administration of programs relies mainly on evaluation, measurement and verification (EM&V) processes. EM&V frameworks are established, and then implemented by a third party to verify the biennial savings of each individual company's portfolio. EM&V results and findings will highlight necessary adjustments of the program design or implementation.

As part of the review process for each of the company's conservation filings, staff believes the company's conservation portfolio will generally be prudent if all of the following elements have been properly implemented by the company:

1. The company properly established its conservation potential, pursuant to RCW 19.285.040(1).
2. The conservation programs that the company implemented are cost effective, reliable, and feasible, determined using methodology consistent with the Council.
3. The company pursued all available cost-effective, reliable and feasible conservation based on the knowledge it had at the time the BCP was filed, and adaptively managed its portfolio of conservation.
4. The company provided adequate opportunity for stakeholder involvement, and implemented appropriate recommendations from stakeholders.
5. The company used a third party to conduct an EM&V review, and incorporated the findings of that review into its portfolio.

Third Party Verification

Avista retained the Cadmus Group to serve as a third party independent evaluator of its 2012 and 2013 electric DSM programs. Cadmus evaluated three separate sectors as part of the review: residential, non-residential, and low income. Reporting by Cadmus included assessments of both the impact of Avista's DSM portfolio, and an evaluation of the process of the individual programs. In general, Cadmus found the programs to be efficiently run with some areas of improvement, which were elaborated upon in the beginning of this document.

¹⁷ Docket UE-100170, Order 02 ¶ 59, Docket UE-100176, Order 01 ¶ 64; Docket UE-100177, Agreed Conditions for Approval of Puget Sound Energy, Inc.'s 2010-2011 Biennial Electric Conservation Targets Under RCW 19.285, Section K(8) (approved and adopted in Order 05 Amended).

Rather than evaluate conservation programs for a “finding of prudence,” Staff recommends that the ongoing review process that has developed for each utility’s portfolio is effectively a prudence review. The conservation planning and reporting process involves several elements throughout a biennial cycle. Aspects of prudence will be evaluated at several points in time through the biennium, and a “finding of prudence” at a particular point in time is no longer necessary. Staff believes this to be the best approach for evaluating the prudence of conservation programs, which do not lend themselves easily to a review at a single point in time.

However, if the Commission elects to require a “snapshot” of prudence as part of the ongoing prudence review process, staff suggests holding a workshop in the ongoing rulemaking Docket UE-131723. This would allow staff and the companies to work together to design a timeline of filings that would allow an appropriate amount of time for the review of a request for a snapshot prudence finding, and simplify the incorporation of such guidance into the rule.

Conclusion

Staff will review the comments of other stakeholders and provide a recommendation as to whether the commission should accept Avista’s biennial conservation report and issue an order finding that the company met its biennial conservation target at the July 25, 2014, recessed open meeting.