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(T) 12-28-94

Thomas D. Dukich
Manager, Rates and Tariff Administration
The Washington Water Power Company
E. 1411 Mission Avenue
P.O. Box 3727
Spokane, Washington 99220
Phone: (509) 482-4724 Fax: (509) 482-4879

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
THE WASHINGTON WATER POWER)
COMPANY FOR APPROVAL OF REVISED)
GAS AND ELECTRIC TARIFFS FOR)
IMPLEMENTATION OF ENERGY EFFICIENCY)
PROGRAMS FOR RESIDENTIAL,)
COMMERCIAL, AND INDUSTRIAL)
CUSTOMERS)

DOCKET NO. UE-
DOCKET NO. UG-

WUTC		
DOCKET NO.	UE-991604	
EXHIBIT #	318	
ADMIT	W/D	REJECT
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

1 benefits. Attachment N describes the TRC cost-effectiveness methodology used
2 by the company.

3 Attachment C provides an explanation of the manner in which the company
4 would implement the revisions for each program, the cut-off dates, and the
5 manner in which the changes could be communicated to customers.
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7 VI. DSM TARIFF RIDER

8 **A. Introduction:** As discussed above, several factors impact WWP's
9 decisions related to the acquisition of DSM. In addition to those noted above,
10 other factors include capital budget issues, creation of regulatory assets through
11 deferral of DSM amortization, competitive pressures, and recognition of lost
12 margins.

13 The company proposes a mechanism, called a "DSM Tariff Rider" (or
14 "Rider"), which would substantially reduce the company's concerns. The Rider
15 would provide funding for the specific DSM programs offered by the company
16 through a separate tariff rate assessed on energy transmitted over WWP's
17 distribution system.

18 WWP views this proposal as a measured response to industry changes
19 which:

- 20 • addresses retail wheeling concerns related to DSM,
- 21 • is consistent with policy and rate recovery issues of the WUTC, and
- 22 • does not require a general rate case to implement.

23 **B. Underlying Policy and Legal Support:** On numerous occasions,
24 the WUTC has stated its support for DSM and associated cost recovery. This
25 support ranges from the Commission's endorsement of NARUC's Resolution of
26 "making a least cost plan, the most profitable plan" by removing barriers to least
27 cost planning, to DSM tracker filings.

28 A DSM Tariff Rider is expressly allowed for Commission consideration
29 and adoption through RCW 80.28.260, "Adoption of policies to provide financial

1 incentives for energy efficiency programs". Paragraph (3) states:

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3 "The commission shall consider and may adopt other policies to protect a
4 company from a reduction of short-term earnings that may be a direct
5 result of utility programs to increase the efficiency of energy use. These
6 policies may include allowing a periodic rate adjustment for investments in
7 end use efficiency or allowing changes in price structure designed to
8 produce additional new revenue."

9 In the company's view, the proposed rider would not set precedent for
10 indiscriminate use of selected cost recovery mechanisms for selected expenses
11 given the nature of supporting legislation and underlying policy support.

12 **C. Benefits:** The DSM Tariff Rider would provide the following
13 benefits:

14 1. Funding for the DSM programs would be provided through a tariff
15 linked to the DSM measures; the funding would be used solely to cover costs
16 directly associated with the DSM programs.

17 2. Current funding of DSM through the DSM tariff rider would
18 essentially eliminate capital budget concerns with regard to DSM and would
19 provide a stable, predictable source of DSM funding.

20 3. Current funding would allow DSM costs to be expensed rather than
21 capitalized which would lower the total cost of DSM to customers by eliminating
22 the income tax effects and AFUCE associated with traditional rate base treatment.

23 4. Current funding through the DSM tariff rider would avoid building
24 "regulatory assets" on the utilities books related to DSM, which is becoming an
25 increasing concern of financial rating agencies.

26 5. Retail wheeling would not threaten DSM, under this proposal, since
27 the DSM funding would be based on any energy, regardless of the supplier,
28 delivered over the company's distribution system.

29 **D. Rider Proposal:** The DSM Tariff Rider, expressed in cents/kwh and
30 cents/therm, would be applied to all retail energy sales transmitted over the
31 company's distribution system for all customer classes except for special contract

1 customers. The Rider rate would be included as a separate Schedule 91--
 2 Experimental DSM Rider. The rate would be set such that funding would match
 3 anticipated DSM program costs. To the extent that funding does not match
 4 program costs, the difference, whether positive or negative, would be deferred to
 5 a balance sheet account. As the DSM programs on Schedule 90 and 190 are
 6 modified over time, the DSM tariff rider rate would also be adjusted, up or
 7 down, to match actual funding with DSM program costs and to keep the deferred
 8 balance as close to zero as possible. A carrying cost would be accrued on any
 9 balance in the account.

10 All DSM expenditures funded through the rider, would be subject to a
 11 prudence review at the time of the company's next general rate case.

12 The DSM tariff rate is proposed to be:

<u>Electric</u>	<u>Rider Rate</u>	<u>% Increase</u>
Schedule 1	0.073 ¢/kwh	1.55%
Schedule 11 & 12	0.103 ¢/kwh	1.55%
Schedule 21 & 22	0.075 ¢/kwh	1.55%
Schedule 25	0.047 ¢/kwh	1.55%
Schedule 31 & 32	0.061 ¢/kwh	1.55%
Schedules 41-49 (Street Lighting)		1.55%
<u>Natural Gas</u>	<u>Rider Rate</u>	<u>% Increase</u>
Schedule 101	0.197 ¢/therm	0.55%
Schedule 111 & 112	0.170 ¢/therm	0.55%
Schedule 121 & 122	0.097 ¢/therm	0.55%

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29 The average residential monthly electric bill would be increased by 81¢
 30 under the proposed rider. These rates would provide approximately \$10.15
 31 million to apply towards the proposed DSM programs for each of 1995 and 1996,
 32 and is approximately equal to the estimated total program costs for those two
 33 years. The proposed rate for natural gas customers is proportionately lower than
 34 the electric rider rate so as to match natural gas rider revenue with natural gas

1 DSM expenditures. Changes to the rider rate would occur as programs and
2 measures are revised in future filings.

3 The proposed rider rate does not include lost margins. Lost margins are
4 estimated to be \$846,000 based on the proposed programs contained in this
5 application. Of every dollar collected under the rider, an additional 14.8 cents
6 represents lost margin. While WWP believes that lost margins between rate cases
7 is problematic, the company recognizes that it is its decision to not file a rate
8 case and, therefore, is not requesting lost margins recovery herein.

9 **E. Restrictions:** Restrictions on the Rider are summarized as follows:

- 10 1. Funds may be applied only to DSM related costs approved by the
11 Commission.
- 12 2. Unused funds would accrue interest at a rate of 10%.
- 13 3. The Rider would be reviewed during a general rate case and at such
14 other times as the Commission may deem appropriate.

15 Attachment E provides the accounting guidelines for the proposed rider.

16 **F. Customer Acceptance of the Proposed Tariff Rider:** WWP
17 has a long-standing concern regarding consumer rates. Since 1987, there has
18 been only one change to electric base rates. Thus, development of this Rider
19 proposal included consideration of its acceptability to customers. WWP
20 commissioned an independent research firm, Robinson Research, to conduct a
21 survey on issues regarding charging customers for DSM through the kind of
22 Rider mechanism being proposed. Robinson Research surveyed 300 randomly
23 chosen WWP residential customers between July 27 and August 1, 1994.

24 Eighty-three percent (83%) of the respondents said they would be willing
25 to pay up to one dollar per month to fund energy efficiency programs available
26 to all customers. Further, in recognition of the fact that deferrals of cost
27 recovery are more expensive to customers in the long run than are immediate
28 cost recovery mechanisms, customers were asked if they would prefer to pay

1 about \$1.00 now or pay between \$1.50 and \$1.75 in about six years from now.
2 Sixty-nine percent (69%) said that they would prefer to pay \$1.00 now.

3 This survey indicates that customers want the company to run DSM
4 programs, they are willing to pay for it, they prefer to pay for it up-front rather
5 that waiting to pay more later, and up to \$1.00 per month is an acceptable amount
6 to pay. Summary results of this survey are included in Attachment F.

7 **G. Consistency with Merger Application:** In the company's merger
8 application, WWP proposes a rate freeze for both its electric and natural gas
9 service for a five year period, extending through January 1, 2000, as explained
10 by company witness John Buerger (in prefiled testimony in Docket Nos. UE-
11 941053 and UE-941054, Exhibit T-46). The rate plan proposal noted planned
12 tariff filings as follows:

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14 Q: Does the Company have plans at this time to file tariff amendments
15 or rate design changes?

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17 A: Other than the Company's planned filing for this fall to revise its
18 demand side management programs and the periodic natural gas trackers, it
19 has no other plans at this time to file major tariff amendments or rate
20 design changes. The Company believes, however, that it should retain the
21 flexibility to propose such changes if it believes that the existing tariffs are
22 not accomplishing their intended objectives. (p.9, lines 15-26)

23 24 25 **VII. ALTERNATIVE TO DSM TARIFF RIDER**

26 In the event that the Commission should decide to not implement the tariff
27 rider at this time, the company proposes, as an alternative, the continuation of the
28 most recently approved DSM accounting.

29 This accounting treatment provides for capitalizing DSM expenditures and
30 deferral of amortization with accrual of AFUCE. The company opted to begin
31 amortization this year of the accumulated DSM balance, approximately \$68
32 million, associated with the experimental programs.