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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA)
CORPORATION'S APPLICATION FOR A) **CASE NO. AVU-E-13-09**
FINDING THAT IT PRUDENTLY INCURRED) **AVU-G-13-02**
ITS 2010-2012 ELECTRIC AND NATURAL GAS)
ENERGY EFFICIENCY EXPENDITURES.) **COMMENTS OF THE**
) **COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission comments as follows on Avista Corporation's Application.

BACKGROUND

On September 30, 2013, Avista Corporation dba Avista Utilities applied for an Order finding that it prudently incurred \$25,380,857 in electric and natural gas energy efficiency expenditures from January 1, 2010 through December 31, 2012.¹

In support of its Application, the Company says its energy efficiency programs provide a financial incentive/rebate for cost-effective efficiency measures with a simple payback within one year to 13 years. The Company packages about 300 measures into 30 programs for customer convenience. Residential programs include high efficiency equipment, electric-to-

¹ The \$25,380,857 in total energy efficiency expenditures consists of \$20,010,255 in electric energy efficiency expenditures and \$5,370,602 in natural gas energy efficiency expenditures. See Direct Testimony of Lori B. Hermanson at 4.

natural gas conversions, Compact Fluorescent Lamps, “second” refrigerator recycling, weatherization, and educational assistance through community events. *Id.* at 2. Non-residential programs include prescriptive (standard offer) programs and site-specific (customized) programs. The site-specific programs provide incentives on cost-effective commercial and industrial energy efficiency measures with a simple financial payback exceeding one year, up to 13 years. Application at 2-3.

In addition, the Company says it helps fund the Northwest Energy Efficiency Alliance (“NEEA”), which uses a regional approach to obtain electric efficiency by transforming markets for efficiency measures and services. The Company says these programs allow it to acquire resources that would otherwise be unachievable or more costly without regional cooperation. *Id.* at 3.

The Company also says it provided about \$700,000 for low-income weatherization in 2012 and \$50,000 for conservation education in Idaho, with the program being administered by local community action agencies. *Id.*

The Company reports that its energy efficiency programs continue to exceed the targets set in the Integrated Resource Plan (“IRP”) and asserts that its expenditures of tariff rider revenue have been reasonable and prudent. The Company has offered programs for all customer classes with total savings of more than 109,100 MWh and 950,822 therms from January 1, 2010 through December 31, 2012. The Company says this represents 190% of the Company’s IRP target of 57,289 MWh, a 13-year levelized total resource cost of \$36.55 per MWh saved, and a 21-year levelized total resource cost of \$1.13 per therm saved. The Company says its tariff rider funded programs have been very successful. Participating customers benefit from lower bills; non-participating customers benefit from the Company acquiring lower cost resources and maintaining the energy efficiency message and infrastructure for the benefit of its service territory. *Id.* at 3-4.

STAFF REVIEW

Commitment to Energy Efficiency

Staff recognizes Avista’s commitment to energy efficiency that includes over 30 years of uninterrupted demand-side management (DSM). The Company regularly convenes stakeholder meetings to review its energy efficiency programs and obtain input from customers, Commission Staff, and environmental interests. Its commitment stems from a dedication to DSM and

customer service that begins at the corporate level and extends through the organizational ranks to program managers. Staff notes that Avista's current Vice President of Energy Resources regularly attends Avista's Energy Efficiency Advisory Group meetings and attended the annual NEEA/BPA Efficiency conference in Portland last year alongside the Avista program managers that deliver these programs to customers.

Examples of Avista's commitment to energy efficiency are numerous. When both potential partners declined to participate in a utility-funded partnership of the Center for Advanced Energy Studies (CAES) Energy Efficiency Institute (CEERI), Avista—with the active and vocal support of its Vice President of State and Federal Regulation—forged ahead and filed for Commission approval of Idaho-based energy efficiency research and development funding which will begin to address a much neglected area of utility investment. *See* AVU-E-13-08.

In 2012, Avista achieved significant energy savings in its commercial energy efficiency program by offering increased incentives and, importantly, a deadline on T-12 to T-8 lighting conversions.² Even with the larger incentives, the program remained cost-effective and increased Idaho savings by 240%. This contributed toward the Company meeting 190% of its IRP targets for energy savings over these three years.

These successes have not been without challenges. Falling natural gas prices have made acquiring cost-effective energy efficiency more difficult for utilities. Avista received Commission approval to suspend its natural gas DSM programs in late 2012 when those programs were demonstrated to no longer be cost-effective. Lower avoided costs have also impacted electric residential programs because these programs frequently have higher overhead costs and lower energy savings acquisitions than the economies of scale generated by commercial and industrial (C&I) programs. Avista responded by orchestrating a direct-mail compact fluorescent lighting (CFL) program and funding a residential behavior-based energy efficiency program that has the potential to deliver extremely cost-effective savings.

Although Staff applauds Avista's general commitment to energy efficiency, Staff's review of the Company's prudency request revealed a number of program implementation issues. These issues include insufficient controls around engineering assumptions and the basis for site-specific incentive payments, incorrect interpretation of Schedule 90 regarding

² This program was based on a 2011 Multi-Sector Process evaluation conducted by Cadmus that found high saturation of T12s in Avista's service territory and little urgency from customers about the need to upgrade.

implementation of prescriptive projects, a significant upward trend in non-incentive utility costs—primarily labor—despite the suspension of Idaho gas DSM programs, and escalating evaluation costs driven primarily by Washington’s I-937 legislation.

Staff Financial Review

As part of its review, Staff performed two separate on-site audits and reviewed all DSM expenditures. Staff’s audit consisted of evaluating the Company’s internal controls processes, interviews with Company Staff, and reviews of jurisdictional allocations. Based on its review, Staff generally supports the Company’s DSM efforts and recommends that the Commission approve \$25,172,700 as prudently incurred expenses for the years 2010-2012. This amount consists of \$19,827,396 in Idaho electric tariff rider expenses, and \$5,345,304 in Idaho gas tariff rider expenses.

Although the Company’s Application did not specify an exact amount of expenditures to be deemed prudent for each year, Table No. 1 on page 4 of Company witness Hermanson’s testimony includes a chart illustrating total expenses of \$20,010,255 for Idaho electric energy efficiency, and \$5,370,602 for Idaho gas energy efficiency for the three years 2010-2012. This amount is different than what is reported in the Company’s Idaho Demand-Side Management Report. It also differs from the total expenses provided in the Company’s response to Production Request No. 1 and Production Request No. 3. Staff reviewed five different sources of information to determine the Company’s DSM expenditures for the period in question, and each source provided a different amount. Although total expenses from the five sources were not materially different, it is troubling that the Company could not provide a consistent amount. The same problems occurred when trying to determine the tariff rider revenues.

Staff constructed the following tables to illustrate what it believes to show the appropriate amount of expenses requested to be deemed prudent by the Company. The expense amounts are from the Company’s reply to Production Request No. 1, while the revenues were pulled from the monthly reports sent to the Company’s energy efficiency advisory group.

Table 1. Idaho Electric Tariff Rider

	<u>2010</u>	<u>2011</u>	<u>2012</u>	Total <u>2010-2012</u>
Beginning Tariff Rider Balance	\$(2,369,036)	\$(466,268)	\$(26,684)	\$(2,369,036)
Tariff Rider Revenue	7,347,740	7,707,719	6,804,866	21,860,325
Tariff Rider Expenses	(5,444,972)	(7,268,135)	(7,300,840)	(20,013,947)
Ending Tariff Rider Balance	\$(466,268)	\$(26,684)	\$(522,658)	\$(522,658)

Table 2. Idaho Gas Tariff Rider

	<u>2010</u>	<u>2011</u>	<u>2012</u>	Total <u>2010-2012</u>
Beginning Tariff Rider Balance	\$(1,626,625)	\$(814,740)	\$988,582	\$(1,626,625)
Tariff Rider Revenue	2,769,029	3,763,884	1,284,190	7,817,103
Tariff Rider Expenses	(1,957,144)	(1,960,562)	(1,453,449)	(5,371,155)
Ending Tariff Rider Balance	\$(814,740)	\$988,582	\$819,323	\$819,323

Total expenditures shown in the above tables are slightly greater than those reported in the Company's testimony (\$3,692 for electric and \$553 for gas). Staff has verified the above expenses, and the tariff rider ending balances tie directly to what has been reported to the Company's external energy efficiency advisory group. Staff has used the numbers above as the starting point for its audit. Adjustments to the above amounts have been made and will be discussed in greater detail below.

Table 3 illustrates Staff's recommended expenses to be deemed prudent, along with the tariff rider ending balances for both gas and electric.

Table 3. Tariff Rider Account Summaries 2010-2012

	<u>Electric</u>	<u>Gas</u>
Beginning Tariff Rider Balance 1/1/2010	\$(2,369,036)	\$(1,626,625)
Tariff Rider Revenue	21,860,325	7,817,103
Tariff Rider Expenses	(20,013,947)	(5,371,155)
Adjustment – OER	94,749	1,350
Adjustment – Evaluation Expenses	89,820	12,363
Adjustment – LCSC	1,982	12,138
Ending Tariff Rider Balance 12/31/2012	\$(336,107)	845,174

On December 31, 2012 the Company had a surplus balance (customers owe Company) of \$336,107 for the Idaho electric tariff rider. The Idaho gas tariff rider balance was a credit balance (Company owes customers) of \$845,174. Both of these ending balances reflect the adjustments proposed above by Staff.

Site-Specific Projects

As part of its review, Staff examined the impact and process analyses conducted by independent, third-party evaluators during the three-year prudency period. Several of these evaluations indicated that the implementation of Avista’s site-specific projects, which constitute a large portion of the savings generated and expenses incurred by Avista’s DSM portfolio, is an area of concern.

The Avista 2010-2011 Multi-Sector Electric Impact Evaluation includes an extensive list of site-specific energy savings adjustments that were needed to correct a number of errors in data entry, installation verification, energy modeling simulation, HVAC/lighting interactive effects, and energy savings calculations in the first two years of this prudency review.

A selection of this list reads:

- “Some [non-residential] simulation models did not accurately represent the actual as-built building or system operation.”
- “Avista [non-residential] implementation staff may not have conducted a thorough analysis of energy savings calculations provided by participants or third-party contractors for all projects.”

- “Avista implementation staff made errors on some projects in entering data to characterize building or measure performance.”³
- “Avista should consider revising its methodology for calculating and tracking HVAC/lighting interactive effects.”
- “Avista should create a quality control system to double-check all projects with savings over 300,000 kWh. An Avista EM&V engineer reported he has begun to review these types of projects.”⁴

Staff is concerned that these lapses in reliable program management occurred in two of the three program years included in this filing. Avista’s internal evaluation team reached similar conclusions about program management for the last year of this prudency review, 2012.⁵

In 2012, Cadmus conducted a high-level process evaluation of Avista’s non-residential portfolio and found that many of the problems identified in 2010-2011 evaluations persisted into 2012. Cadmus summarized the findings of Avista’s internal evaluation, which reported an “overall reliance on customer-supplied data and the need for a reliable and replicable approach to source that data.” The internal review also documented that “Interactive effects were accounted for incorrectly, [p]rojects have missing documentation, such as invoices,” and “[e]ngineering errors resulted in incorrect claimed savings and incentive amounts (the significance of these errors varied in size).”⁶ In addition, Cadmus “found that 18% of all projects were missing contract date fields in SalesLogix” and “44% of site-specific projects were missing post-verification dates (and it is Avista’s policy to conduct-post verification on all site-specific projects).”⁷ Engineering assumptions and data sources are critical aspects of site-specific program management because incentive payments are paid based on energy savings generated with these assumptions.

During one of its on-site audits, Staff requested and reviewed the documents produced by Avista’s internal evaluation team during the 15 months that the internal review was in place. Although the internal review was detailed, comprehensive, and found problems similar to those

³ Cadmus. Avista 2010-2011 Multi-Sector Electric Impact Evaluation, page 2.

⁴ Cadmus. Avista 2010-2011 Multi-Sector Electric Impact Evaluation, page 5. Staff notes that the EM&V engineer referenced in this answer was part of Avista’s internal review team.

⁵ In response to 2010 evaluation, measurement, and verification (EM&V) concerns, Avista created a process under which an independent, internal evaluation team would review all site-specific projects with potential incentives over \$50,000. This process was in place from August 2011 through December 2012 before Avista suspended it without notice.

⁶ Cadmus. Avista 2012 Process Evaluation Memorandum, page 3.

⁷ Cadmus. Avista 2012 Process Evaluation Memorandum, page 8.

identified in the 2010-2011 Cadmus impact evaluation, the internal review process was discontinued in December 2012, the end of this prudency period.

Cadmus reports that the internal review was suspended for several reasons, with a primary reason being the project delays caused when “the review required further discussion to understand the assumptions behind the savings estimation, new data or information request from the customer, or new analysis...”⁸ In addition to the time lag created, the effectiveness of the review was greatly diminished because Avista failed to establish a “formal follow through procedure”⁹ to arbitrate differences, establish new policies, and assign accountability for meeting new policy requirements around engineering assumptions, incentive calculations, and invoice documentation. Lastly, the internal review team was only given about one-third of the projects over \$50,000 to review, even though Avista’s policy was that they would review 100% of those projects.

Staff is concerned about the solutions Avista has instituted to address these findings. The Company says it has created a new review process in which each project will include “Top Sheets” designed to ensure that engineering and administrative requirements are met on each project. On the surface, this seems like a reasonable response to the problem. But three issues remain. First, the Top Sheets are filled out by a member of the implementation or engineering team and then double-checked for accuracy by another member of the same team. Because Cadmus and Avista’s internal review found deficiencies with the engineering and implementation practices, having those members check their own work is unlikely to improve accuracy. This was the same problem noted in December 2010 Moss Adams report, after the first year of this prudency review:

“When nonresidential rebates are submitted, the engineering department reviews the information and creates a report detailing the savings and project. Once that report is complete, another engineer within the department reviews the report. As the engineers are in the same department and likely peers, Avista may want to consider having engineers from the policy, planning, and analysis group to perform the review to provide an independent and fresh look.”¹⁰

⁸ Cadmus. 2012 Process Evaluation Memorandum, pages 2-3.

⁹ Cadmus. 2012 Process Evaluation Memorandum, page 3.

¹⁰ Moss Adams. Demand Side Management Programs Observations and Recommendations, Avista 2010 Demand Side Management Annual Report, page 141.

Second, Avista has modified the role of the internal review to “conduct random spot-checks” on project calculations and documentation after projects have been contracted, and in some cases, received an incentive.¹¹ Previously, the internal review team would review the project and provide input before the incentive was paid. That method helped correct problems before rider money was spent on a project. But the new method provides input at the end of the process, often after the incentive check has issued and the opportunity to correct any problems has passed.

Staff’s third and overriding concern is that the main problem identified during the internal review process—the lack of formal follow-through on program management issues—has not been resolved. The absence of a central decision maker to determine—and enforce—program management policies was a major reason the internal review process was dissolved. Instead of addressing that organizational shortcoming, Avista has chosen to minimize the review so that arbitration is not necessary. Staff agrees with Avista’s implementation staff that “this will help overcome bottlenecks.” But Staff does not believe that it will adequately protect tariff rider money from being paid out imprudently.¹²

Cadmus has previously recommended that Avista designate a specific decision-maker for its site-specific program. In 2011, Cadmus recommended that Avista “[c]onsider designating a central leadership role for the Site-Specific program to oversee future planning and vision, and ensure it continues to deliver cost-effective energy savings to the [commercial and industrial] C&I portfolio,” and “noted that no central leadership role exists for overseeing the Site-Specific program. Based on evaluation experience and best practice research, Cadmus has found typically large C&I programs—in particular those contributing significant energy savings to overall portfolios—have a central point of management to oversee planning, vision, and meeting future goals cost-effectively.”¹³

The same recommendation appears again in 2012: Successful implementation “may include designating a senior-level point person to serve as the decision-maker for questions or disagreements regarding a project or its calculation methodology.”¹⁴ Staff supports this recommendation.

¹¹ Cadmus. 2012 Large Process Evaluation Memorandum, page 3.

¹² Cadmus. 2012 Large Process Evaluation Memorandum, page 4.

¹³ Cadmus. 2011 Multi-Sector Process Evaluation Report, pages 5 and 71.

¹⁴ Cadmus. 2012 Large Process Evaluation Memorandum, page 17.

Importantly, the modified review system and other program changes may still be in flux and did not become effective until 2013, which is not the focus of this prudency review. But because the Company has presented the altered review process to address persistent problems occurring in the 2010-2012 period, Staff believes it is necessary and appropriate to comment on conspicuous shortcomings in the proposed solution.

During both on-site audits, Staff discovered several site-specific incentives issued in 2013 that may have violated contract rules, lack sufficient documentation, or otherwise represent an imprudent use of customer funds. Because expenses incurred in 2013 and are not subject to prudency review here, Staff withholds comment and further investigation of these projects until Avista files its request for prudency of 2013 DSM expenses.

Insufficient Documentation for Large Projects

Of the instances where Staff identified a lack of proper documentation, two are particularly noteworthy. On November 11, 2011, the Company paid an incentive of \$14,120 to Lewis and Clark State College for an energy efficiency project. But during Staff audit the Company could not provide any project invoices and had no record of an installation verification being performed. Although the Company reports and claims savings from the project, sufficient documentation does not exist to determine the prudency of the incentive, or whether or not the project was actually completed. Staff recommends deferring recovery on this project until Avista's next prudency filing to allow the Company an opportunity to provide documentation in support of its incentive payment. Staff's adjustment to the Company's expenses is represented in Table 3 (Adjustment – LCSC).

Staff also found evidence of lax program management in \$96,099 worth of Office of Energy Resources (OER) projects, beginning with the customer contract and extending to the installation verification (IV) and documentation required for incentive payment.

First, Avista signed a customer energy efficiency agreement with the OER, even though OER is not an Avista customer. The OER then signed Memorandums of Understanding with the schools in Avista's service territory where by each school agreed that its entire incentive would be collected by the OER. Avista maintains that this was acceptable because OER was acting as an agent, or contractor, for efficiency projects in the schools. While that may be, normal program procedures require the Company to sign an energy efficiency contract with its customer, which in this case would have been each school. In that agreement, the individual schools may

choose to assign their incentive payment to the contractor who managed the project. But it is contrary to established procedure for Avista to sign a customer agreement with an entity located outside of its service territory who is not a customer.

When Staff asked if Avista had ever before signed a customer agreement with a non-customer, Avista could not identify any such occurrence or describe a similar situation in which this might be a reasonable solution. Instead, Avista maintained that this series of projects was “unique.”

As mentioned earlier, all site specific projects and most prescriptive projects are required by Avista policy to undergo installation verification (IV) before an incentive payment is issued. All but two of the nineteen OER projects were prescriptive, but the project path the Company followed was site-specific and none of the projects underwent IV. Avista said that because a trusted government office was managing the projects, it did not think an IV was necessary. But Staff points out that Avista, not the OER, is responsible for the prudent expenditure of tariff rider funds. Further, because the OER receives the incentive for the projects, there is at least an appearance of a conflict of interest in letting the incentive recipient confirm installation of incented measures.

The largest problem with these projects is that Avista issued a \$96,099 check to the OER without receiving receipts or invoices from its contractors to confirm the purchase and labor associated with these measures. Instead, the OER supplied a self-generated tally of installed measures that qualified for incentives and Avista paid on that basis. When Staff asked Avista to further explain that approach, Avista said it was atypical and that the Company paid the incentive “based on the relationship” with the OER. Staff does not believe that this justifies incentive payments in the absence of minimum documentation requirements.

Staff believes that these measures were purchased and installed. But Staff cannot recommend recovery of Avista program expenditures without sufficient documentation. Therefore, Staff recommends that recovery of these expenses be deferred until 1) Avista receives invoices confirming the purchase and installation of these measures and 2) Avista has verified the installation of these projects. Staff’s adjustment to the Company’s expenses is represented in Table 3 (Adjustment – OER).

Prescriptive Projects and DSM Tariff Compliance

Staff is also concerned that the Company's loose program management contributed to tariff compliance issues regarding prescriptive project incentives. Schedule 90 describes energy efficiency services offered to Avista's customers and lists the criteria under which incentives will be provided for electric efficiency, fuel-conversion, and distributed renewable energy measures.

During the period under review, eligible measures were required to have a measure life greater than 10 years and incentives were capped at 50% of the incremental project cost. The tariff specified three exceptions to these rules: low income programs, low-cost electric efficiency measures (e.g. compact fluorescent lights), and market transformation efforts.

In mid-2013, Avista filed a tariff advice to revise Schedule 90. In that filing, Avista asked to raise the incentive cap on some projects from 50% to 70% of the incremental cost and to add prescriptive measures to the list of exceptions that allow incentives to be capped at 100% of incremental cost.

In its explanation to Staff, Avista stated that the design and management of its DSM programs would not change. The Company explained that the filing, among other things, was to align the tariff language with long-standing program implementation practice under which the 50% cap was not interpreted to apply to prescriptive measures. Avista maintained that it filed the tariff revision to "clarify" that 100% caps on prescriptive incentives are acceptable.

Staff supported the tariff revisions, but made clear that it would examine Avista's program implementation—which should conform to the tariff in place at the time—during the Company's next prudency review, which is the subject of this case.

Staff carefully reviewed the language in the Company's tariff and finds no reasonable room for interpretation. The tariff language pertaining to funding reads: "Incentives in which the tier structure applies will be capped at 50% of the incremental project cost with the exception of... [low income, low cost, and market transformation projects] that may be capped at a maximum of 100% of the incremental cost."¹⁵

The 2012 Large Process Evaluation conducted by Cadmus audited Avista's site-specific and prescriptive nonresidential projects to determine if the program implementation aligned with the DSM tariff. The evaluation concluded that a significant number of 2012 prescriptive projects

¹⁵ Avista received approval for a revision to Schedule 90 effective January 1, 2011. However, the quoted language remained unchanged from March 3, 2008 through August 22, 2013.

in Idaho and Washington that were not specifically exempted exceeded the 50% cap. In addition to prescriptive projects, Avista was exceeding the incentive cap on programs operated by third parties.¹⁶

Staff agrees that there are valid program management reasons for exceeding a 50% cap on prescriptive and third-party programs. But the fact that Avista designed and ran programs for several years outside clear tariff language raises concerns about the rigor with which Avista managed its programs.

Staff acknowledges that although the cap on third-party programs remains an issue, the August 2013 tariff revision addresses the prescriptive cap issue going forward. However, the revised tariff does not absolve the Company of responsibility for the previous three years of operating outside the tariff. Staff also notes that incentive payments above the 50% cap between January and August 2013 will be an issue in the Company's upcoming 2013 prudency determination. Staff does not recommend a disallowance because Staff believes the Company should have simply filed to amend its tariff several years earlier to raise the cap on incentive levels. But Staff cautions Avista to conform to the specific language in its tariffs going forward.

Renewable Projects

From 2010 through 2012, Avista incented 11 small-scale wind and solar projects totaling \$21,214 in incentives and \$5,703 in non-incentive utility costs under Schedule 90. These renewable energy measures are subject to Schedule 63 Net Metering rules and allow for solar, wind, biomass, hydropower, and fuel cell technology with generation capacity not to exceed 100 kW. Based on the Company's cost-effectiveness calculations, none of the projects were cost-effective from a Total Resource Cost ("TRC") perspective. The Utility Cost Test ("UCT"), which does not include the individual customer's contribution to the project, came in substantially higher and passed the cost-effective threshold.

The Company has previously stated that it designs its measures, programs and portfolio to be cost-effective from a TRC perspective (in most cases, the TRC is more difficult to pass than the UCT). It does not want to economically incent a measure that may be detrimental to the individual though it may be beneficial from the UCT perspective. But the Company makes an exception when a measure or program is "minimally short of being fully cost-effective."¹⁷ Staff

¹⁶ Avista's Energy Smart Grocer program is operated by Portland Energy Conservation Inc.

¹⁷ From Avista's response to Staff Production Request 40.

recognizes that renewable projects may be undertaken by customers for reasons that do not directly translate into a monetary benefit, which diminish the importance of the TRC. Staff notes, though, that the TRC results for all of these installations were exceptionally low.

In an attempt to improve cost-effectiveness, the Company revised its Schedule 90 tariff to exclude measures with a long lifecycle payback, such as renewable projects. The revised tariff became effective on January 1, 2011. According to the Company, the 11 projects cited above were under contract before to the tariff revision. Staff has reviewed the projects and does not believe an adjustment is warranted.

Non-Incentive Utility Costs

Staff is concerned that non-incentive utility costs, primarily labor, have increased significantly over the past few years. In response to discovery, Avista produced a graph showing that non-incentive utility costs have increased from about 26% of the total DSM budget in 2010 to 32% in 2012. At the November 6, 2013 annual Fall Avista Advisory Group meeting, Avista reported that “43% of utility expenditures are non-incentive in nature (excluding supplementary expenditures). [This is] a consequence of less than proportionate reduction in infrastructure to the overall portfolio size.” Staff points out that including supplementary expenses, 53% of Avista’s DSM expenses are non-incentive. Staff understands that both of these percentages represent dual-fuel system expenses, but is concerned that it may be indicative of an upward trend.

In its prudency filing, Avista reports incentive and non-incentive expenses for each program. Some programs, especially residential and natural gas DSM programs, show a very steep increase in non-incentive expenses from 2011 to 2012. Staff understands that reduced energy savings from these programs can make labor costs appear disproportionately large from one year to the next. But Avista may need to adjust staffing levels to account for the suspension of natural gas DSM in order to reverse the upward trend of non-incentive utility costs at the portfolio level. While Staff does not make a recommendation regarding non-incentive utility costs in this filing, Staff believes Avista should more carefully manage, and if necessary reduce, non-incentive utility costs.

External Evaluation and Consulting

With the passage of Initiative Measure No. 937 (I-937) in Washington, Avista has been required to spend more money on third-party Conservation Potential Assessments (“CPAs”) and independent evaluation and verification of energy efficiency savings. Although Staff believes the CPAs and independent evaluations have some benefit to Idaho ratepayers, the frequency with which these items are required in Washington (every two years) is more than Staff believes necessary. Idaho ratepayers should not pay for additional burdens placed on the Company to satisfy other jurisdictional requirements.

Staff and the Company have discussed Staff’s concerns about the jurisdictional allocation of third-party consultants many times over the past several years. During Staff’s audit in this case, the Company internally reviewed its third-party consulting and evaluation expenses. As a result of that review, the Company shifted \$102,183 (\$89,820 electric and \$12,363 gas) from the Idaho tariff rider to the Washington tariff rider. Staff accepts this adjustment (represented in Table 3 as Adjustment – Evaluation Expenses) and will continue to monitor the Company’s third-party expenses to ensure that jurisdictional costs are apportioned properly.

STAFF RECOMMENDATION

Staff recommends that the Commission issue an order that:

1. Approves \$25,172,700 as prudently incurred expenses for the years 2010-2012. This amount consists of \$19,827,396 in Idaho electric tariff rider expenses and \$5,345,304 in Idaho gas tariff rider expenses.
2. Directs Avista to identify—or if missing, establish—its central decision maker for DSM policy and procedures.
3. Defers recovery of Lewis and Clark State College and OER project incentives until Avista’s next prudency filing to provide the Company an opportunity to obtain purchase and labor invoices and verify installation of all incented projects.

Respectfully submitted this 6th day of March 2014.



Karl T. Klein
Deputy Attorney General

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF MARCH 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. AVU-E-13-09/AVU-G-13-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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