DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

TERRI CARLOCK

WAYNE HART

GARY RICHARDSON

WORKING FILE

FROM:BRAD PURDY

DATE:DECEMBER 16, 1996

RE:RATE CASE NOS.  WWP-E-96-7 AND WWP-G-96-4

APPLICATION OF WASHINGTON WATER POWER FOR APPROVAL OF REVISIONS TO DSM PROGRAMS

On October 24, 1996, The Washington Water Power Company (Water Power; Company) filed an Application for approval of tariff revisions related to the Company’s energy efficiency programs and funding.  Through its filing, Water Power proposes to continue the Company’s electric energy programs at their current level and the energy efficiency tariff rider (Schedule 91) at the current 1.50% of base rates.  Water Power states that the resulting revenue of approximately $5 million per year, on a system basis, is dedicated exclusively to electric energy efficiency programs.  Water Power proposed eliminating its gas conservation program (Schedule 190) due to declining prices of natural gas.  The tariff rider for natural gas programs (Schedule 191) is also proposed to be decreased from a surcharge of 0.52% to 0, i.e., eliminated.

According to the Company, the proposed changes to existing electric programs are, for the most part, “housekeeping” modifications.  A significant change is proposed for the Company’s market transformation programs.  Water Power is proposing to reorient its market transformation efforts through participation, starting in 1997, in a coordinated regional approach under the auspices of the Northwest Energy Efficiency Partnership.

Water Power states that the proposed withdrawal of Schedule 190 results from the avoided cost of natural gas having decreased to a level which significantly reduces the cost effectiveness of natural gas energy efficiency programs.  The Company intends to make available information on financing and installation options for interested customers.  Additionally, to avoid lost opportunities, natural gas efficiency improvements may be examined when Company representatives are reviewing customers’ potential electricity improvements.  Because the cost of this service is expected to be minimal, the Company is not proposing cost recovery at this time.  Water Power will continue to monitor the weighted average cost of gas to determine if there are any substantive changes in the gas commodity prices that would improve the cost effectiveness of gas energy efficiency programs.

Water Power states that this filing is based on the following planning objectives:

(1)   Emphasize customer satisfaction as a key measure;

(2)   recognize that energy efficiency provides:

new resources and long term resource diversity,

customer service,

public policy responsiveness,

social benefits;

(3)  focus on market transformation and leveraging opportunities;

(4)  build on previous field experience and market research;

(5)  participants pay major percentage when possible; and,

(6)  provide stable funding for energy efficiency programs compatible with Water Power financial criteria and the changing industry environment.

Water Power asserts that the tariff rider remains a good response for the continuation of energy efficiency as the industry continues to experience change to a more competitive environment.  Likewise, Water Power continues to gain experience regarding the provision of energy efficiency at low costs to benefit participating and non-participating customers.

The Company states that in the course of the 1997-1999 energy efficiency planning, eight organizations participated in two meetings to discuss and critique the Company’s proposed programs.  The DSM Opportunities Group (DOG) offered helpful suggestions, many of which have been incorporated in the Company’s filing, Water Power states.  According to Water Power, there is no change in the total revenue associated with Schedules 90 and 91.  Due to load growth, the electric rider declines to 1.50% on a system basis, compared to the 1.55% level during the 1995-96 period.  Because of differences in load growth between customer classes, Water Power notes that the change in the effective rate varies among the different schedules, but in no case does the change amount to more than 0.013 kWh. The Company states that the proposed revisions to Schedule 191 result in a revenue decrease of approximately $450,000 per year on a system basis, which would be matched by the elimination of a similar amount of expenditures under Schedule 190.

Water Power requests that the Commission approve the proposed DSM tariff changes included in the Company’s filing to be effective January 1, 1997 for a three-year period ending December 31, 1999.

On November 6, 1996, the Commission issued a Notice of Modified Procedure soliciting comments in response to the Company’s Application.  Comments were received from the Commission Staff and the Potlatch Corporation.  In addition, Water Power filed a response to the comments submitted by Potlatch.

Commission Staff

Staff generally concurs with the Company’s Application.  Staff has reviewed the Application and agrees that the changes to the electric DSM programs proposed by Water Power are, for the most part, housekeeping measures.  Staff participated in the first DOG meeting conducted by the Company in preparation for this program and believes that most of the comments raised by those in attendance at the meeting were positive and constructive.  Staff also believes that Water Power has done a good job of incorporating the suggestions made during the meeting into the Application ultimately submitted.

Staff believes that the Company’s decision to participate in the regional market transformation effort (the Northwest Energy Efficiency Partnership) is a preferred alternative to the Company’s independent efforts for these types of programs.  According to Staff, regional action for this type of effort should be more effective over the long term and should result in savings for the ratepayers.  Although Staff expressed reservations about the tariff rider concept when initially proposed, it is pleased with the manner in which the Company has implemented it and the positive effects that the stable source of funding has had on the Company’s DSM efforts.  Consequently, Staff has no reservations in recommending the continuation of the tariff rider for electric customers.

Staff also concurs with the Company’s decision to reduce the gas tariff rider to zero and to eliminate the programs that apply to gas customers.  While Staff has not independently verified any of the calculations used to justify this decision, the results of the Company’s analysis are consistent with Staff’s expectations regarding gas supply costs as reported by Water Power.  Furthermore, Staff believes that Water Power has proposed a reasonable process for termination of the gas DSM programs and the ongoing efforts the Company has identified for customer service after the programs are eliminated are positive and reasonable alternatives.

Potlatch Corporation

Potlatch concurs with the Company’s request to terminate the gas DSM program but opposes Water Power’s proposal to continue the electric DSM programs on the basis that they are no longer cost-effective.  Referring to Appendix D of Water Power’s Application, Potlatch notes that the Company appears to have used a 1995 avoided cost of 7.34¢ kWh as a benchmark for assessing the cost-effectiveness of the Company’s DSM programs.  According to Potlatch, such a threshold is ludicrous in today’s energy market.  Current prices in the northwest for multi-year firm electric supply contracts range from 1.5 to 2.5¢ per kWh, Potlatch contends.  Moreover, the Commission recently established Water Power’s avoided cost rates for PURPA purchases from non-fueled projects at a levelized price of 2.566¢ per kWh for a 10 year contract beginning in 1997.  According to Potlatch, only two of the seven programs for which Water Power provides historical data would be cost-effective if required to meet the same avoided cost hurdle rate as PURPA projects.

Potlatch further argues that it is difficult to defend Water Power’s continued investment in its electric DSM programs when Idaho Power has recently requested the authority to terminate its Partners in Industrial Efficiency (PIE) conservation program for its larger industrial customers.  According to Potlatch, the three technologies specifically cited by Idaho Power as being funded under the PIE program (efficient lighting measures, variable speed drives and more efficient refrigeration) are also prominently featured in Water Power’s commercial and industrial DSM funding proposal.  Potlatch believes that energy conservation, as a resource, must meet the tests of the free market and should not be artificially supported by investor-owned utilities, which simply pass the cost on to captive ratepayers.

Potlatch further asserts that because Water Power is aggressively marketing its surplus resources at market prices to off system customers, this creates a cross-subsidization when coupled with a ratepayer funded DSM program.  Potlatch further asserts that there is a cross-subsidy of future ratepayers by existing ratepayers because Water Power’s DSM costs are expensed rather than capitalized.

According to Potlatch’s calculations, if Water Power’s proposal is accepted, Washington and Idaho ratepayers will spend $13,689,000 over the next three years to purchase 113,896,000 kWh of conservation equating to an average cost during the three-year period of 12¢ per kWh.  Potlatch contends that these purchases are not necessary to serve indigenous customers.  Their only practical affect is to increase Water Power’s ability to sell into competitive markets where prevailing prices are only a fraction of the program’s current costs.  The result, Potlatch contends, is that the great majority of the ratepayer payments under Water Power’s proposal constitute a ratepayer cross-subsidy of Water Power’s bulk power sales in competitive markets.

Water Power Response

Water Power argues that a number of the assertions made by Potlatch are irrelevant or inaccurate.  First, Water Power contends that Potlatch does not properly evaluate the 1997-1999 energy efficiency cost-effectiveness of the DSM programs.  For its 1997-99 proposed programs, Water Power has in fact used a cost-effectiveness ceiling of 3.16¢ per kWh, within a 30-year levelized period.

Second, Water Power contends that Potlatch has erroneously applied the 1995-1996 cost-effectiveness level approved in 1994 by the Idaho and Washington Commissions to 1997-1999 energy efficiency programs.  The Company contends, therefore, that this is an irrelevant argument.

Third, Water Power argues that in its discussion of the 1995-1996 cost-effectiveness level of 7.34¢ per kWh, Potlatch has not analyzed the underlying basis for this figure.  According to the Company, this avoided cost is a 30-year levelized ceiling which includes several factors such as (a) an 8% line loss; (b) 10% demand side management credit to reflect the region’s environmental preference for DSM resources per the Northwest Power Act; (c) capacity adders for several programs which disproportionately impacted winter energy; and (d) higher energy costs due to the seasonality of the savings from some of the programs.

Attached to its response comments, is Water Power’s summary for 1997-1999 DSM program budget with cost-effectiveness numbers submitted to the Commission Staff and seven other regional agencies and organizations comprising Water Power’s DSM opportunities group.  Water Power notes that the Washington Utilities and Transportation Commission recently approved the Company’s similar DSM application.  Furthermore, no other party has raised any concerns regarding the cost-effectiveness of Water Power’s energy efficiency programs with the exception of the Northwest Industrial Gas Users in Washington regarding Schedule 191.

Finally, Water Power notes that the majority of Potlatch’s load is currently served by special contract.  The energy efficiency tariff riders (Schedules 91 and 191) are not applied to pre-existing special contracts.

Commission Decision

Does the Commission wish to terminate Water Power’s gas DSM programs?

Does the Commission wish to continue Water Power’s electric energy programs at their current level and the energy efficiency tariff rider (Schedule 91) at 1.50% of base rates?

Brad Purdy

vld/M:WWP-E-96-7.bp