

BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION

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IN THE MATTER OF THE APPLICATION)
 OF AVISTA CORPORATION FOR THE)
 AUTHORITY TO INCREASE ITS RATES)
 AND CHARGES FOR ELECTRIC AND)
 NATURAL GAS SERVICE TO ELECTRIC)
 AND NATURAL GAS CUSTOMERS IN THE)
 STATE OF IDAHO.)
)
)
)

CASE NO. AVU-E-09-1/
AVU-G-09-1

DIRECT TESTIMONY OF LYNN ANDERSON

IDAHO PUBLIC UTILITIES COMMISSION

MAY 29, 2009

1 Q. Please state your name and business address for the
2 record.

3 A. My name is Lynn Anderson and my business address is
4 472 West Washington Street, Boise, Idaho.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Idaho Public Utilities
7 Commission as a Staff economist.

8 Q. What are your duties with the Commission?

9 A. Currently, my primary duties are evaluating energy
10 efficiency policy, opportunities, barriers, efforts and cost-
11 effectiveness, the results of which are used to make
12 recommendations to the Commission and other entities.
13 Additional duties include investigating utility applications,
14 customer petitions and conducting general research.

15 Q. Would you please outline your academic and
16 professional background?

17 A. I have a Bachelor of Science degree in government
18 and a Bachelor of Arts degree in sociology, both from Idaho
19 State University where I also studied economics and
20 architecture. I studied engineering at graduate and
21 undergraduate levels at Northwestern University and Brigham
22 Young University, respectively, and graduate-level public
23 administration and quantitative analysis at Boise State
24 University.

25 I have attended many training seminars and

1 conferences regarding utility regulation, operations,
2 forecasting, marketing and program evaluation, including
3 Lawrence Berkeley Laboratory's Advanced Integrated Resource
4 Planning seminar in 1994, the Northwest Public Power
5 Association's Troubleshooting Residential Energy Use course
6 in 2001, and the International Energy Program Evaluation
7 conferences in 2003, 2005 and 2007.

8 I began my employment with the Commission in 1980
9 as a utility rate analyst. In 1983 I was appointed to the
10 telecommunications section supervisor position and in 1992 I
11 was appointed to my present position as an economist. In
12 that capacity I have been a Staff representative to the
13 Northwest Energy Efficiency Alliance's Board and Cost-
14 Effectiveness Committee, Avista Utilities' External Energy
15 Efficiency Board, Idaho Power's Energy Efficiency Advisory
16 Group, the Northwest Power and Conservation Council's Demand
17 Response Initiative, the Energy Efficiency and Conservation
18 Task Force of the Idaho Strategic Energy Alliance, and work
19 groups under the National Action Plan for Energy Efficiency,
20 including Evaluation, Measurement and Verification (EM&V).

21 Since 1999 I have served the Commission as a policy
22 strategist for electricity and telecommunications issues on
23 an as-needed basis.

24 From 1975 to 1980 I was employed by the Idaho
25 Transportation Department where I performed benefit/cost

1 analyses of highway safety improvements and other statistical
2 analyses.

3 Q. What is the purpose of your testimony?

4 A. The purpose of my testimony is to provide
5 information regarding Avista Utilities' efforts to promote
6 energy efficiency (aka demand-side management or DSM) and to
7 recommend that the Commission defer a prudency finding for
8 Avista Utilities' 2008 DSM expenses until such time that the
9 Company is able to provide more comprehensive evaluations of
10 its DSM programs and efforts.

11 **Prudency of Efficiency/DSM Expenses**

12 Q. Does Avista's Application or the pre-filed
13 testimony of any witness in this case ask the Commission to
14 determine the prudency of the Company's past energy
15 efficiency or demand-side management (DSM) expenses?

16 A. Yes, both the Application and Company witness Bruce
17 Folsom request a prudency finding for Avista's DSM programs
18 from January through November of 2008. However, Mr. Folsom's
19 testimony and exhibit in support of the request provide DSM
20 information that is combined for both its Washington and
21 Idaho service areas. Only through discovery requests was
22 Staff able to obtain Idaho-specific DSM program costs and
23 estimated savings for this 11-month period. For example,
24 Avista's total DSM costs for the first 11 months of 2008 are
25 purportedly shown on page 1 of Mr. Folsom's Exhibit No. 13 as

1 Utility Cost Test (UCT) costs of \$12.1 million for
2 electricity programs and \$5.9 million for natural gas
3 programs. Avista's response to Staff Production Request No.
4 8 indicated that Idaho's share of the above costs were \$3.7
5 million for electricity programs and \$2.4 million for natural
6 gas programs.

7 Q. Beyond providing aggregated DSM data for multiple
8 states, do you question parts of Mr. Folsom's testimony?

9 A. Yes, I do. On page 9 of Mr. Folsom's pre-filed
10 testimony is a discussion of Avista's cost per kilowatt-hour
11 of savings obtained through its participation in the
12 Northwest Energy Efficiency Alliance (NEEA). Mr. Folsom
13 states "In 2007, the last year for which data is available,
14 NEEA acquired 2.0 aMW applicable to Avista's service area at
15 a cost of 0.07 cents/kWh" and that Avista's "...avoided cost
16 for a comparable time period is 0.4 cents/kWh."¹ I believe
17 these costs should have read "0.7 cents/kWh" savings and "4.0
18 cents/kWh" avoided costs. In addition to the misplaced
19 decimals, it should be noted that NEEA, for the most part,
20 has not tracked savings by utility service area. Instead,
21 NEEA has allocated its total regional savings proportionally
22 to individual utilities based only on utility funding
23 percentages. Thus, there is little or no data to support the
24 declarations of 2.0 aMW of NEEA direct savings in 2007 in

25 ¹ The hypothetically allocated 2.0 aMW in 2007 actually represents
cumulative savings from prior years through 2007.

1 Avista's service area or the cost-effectiveness of whatever
2 actual savings there were in Avista's service area in 2007 or
3 any other year. This does not mean that NEEA has not been a
4 valuable resource for Avista's customers, but only that a
5 verifiable measure of that value is not available. It is
6 noteworthy that NEEA's recently adopted 2010-2014 Business
7 Plan states that NEEA will report future savings at the
8 service territory level.

9 Q. Were you able to evaluate prudence of Avista
10 Utilities' DSM expenditures based on the Company's filing?

11 A. No, there was not sufficient information in the
12 filing to fully assess DSM prudence. Consequently, many
13 production requests and follow-up questions needed to be
14 asked and although the Company provided much information
15 about its DSM program planning and implementation, it did not
16 provide sufficient post-implementation evaluations of its DSM
17 programs to fully justify a prudence determination by the
18 Commission. For example, in Avista's response to Staff
19 Production Request No. 5, which asked for comparisons of pre-
20 implementation estimated evaluation budgets to actual
21 evaluation costs, the Company did not provide such data and,
22 instead, provided an explanation of why Avista has not
23 tracked evaluation costs in the past, e.g. the less-than-
24 formal nature of its in-house evaluations and its reliance
25 upon indirect evaluations performed by outside entities such

1 as "...the Northwest Power and Conservation Council's
2 Regional Technical Forum, Energy Star, Consortium for Energy
3 Efficiency, Electric Power Research Institute, and others."

4 Importantly, this response also states that "Avista
5 is presently in the process of changing our EEM [energy
6 efficiency measure] verification system to allow for better
7 documentation of EEM's and scheduled revisiting to adjust for
8 changes in savings as well as measure costs."

9 Additional evidence of Avista's lack of sufficient
10 program evaluation was obtained in its response to Staff
11 Production Request No. 6, in which the Company was asked to
12 list and provide copies of all program evaluations from 2004
13 through 2009 - the Company provided only four such "studies,"
14 all but one of which consisted of just one or two pages of
15 data with little or no verbal analyses. Avista's response
16 further elaborated that while it had other examples of such
17 "studies," "...it would take a great deal of time and effort
18 to go through all of our projects from the last 5 years and
19 pull them out. For this reason, Avista planned the new
20 approach to EEM verification which we have already started to
21 implement."

22 The Company's response to Staff Production Request
23 No. 6 ended with the following statement: "In order to
24 control costs, the least data necessary and the combined
25 understanding of the analysts, program managers, and

1 engineers is gathered to mitigate the risk of inaccurate data
2 and improper reporting of energy savings."

3 In consideration of the Avista's responses to
4 production requests, it became clear that formal and
5 transparent post-implementation evaluation of DSM programs
6 has not been a high priority of the Company.

7 Q. How important are post-implementation evaluations
8 of DSM programs?

9 A. Such evaluations are essential to both verify cost-
10 effectiveness of programs and to further improve them, or to
11 provide evidence that they should be discontinued. It is a
12 common and accepted best-practice that DSM programs require
13 transparent, post-implementation evaluations.

14 Because Avista's evaluation of its service area-
15 specific DSM programs has been largely an informal process,
16 most evaluation results apparently exist only in the memories
17 of a few employees and their computers. Thus, Avista's DSM
18 implementers and managers are hampered to the extent the
19 informal evaluation results are not readily available to
20 them; the Commission is hampered in its prudence
21 determination; and Avista's customers are hampered in their
22 understanding of the DSM programs and acceptance of the
23 charges on their bills to support those programs.

24 Q. Is Avista's concern about controlling evaluation
25 costs a valid reason to skimp on DSM program evaluations?

1 A. While cost-consciousness is important, formal,
2 credible and transparent evaluations remain essential to
3 prudent DSM program management. By "formal" I do not mean to
4 suggest that all evaluations need to be lengthy, costly
5 reports completed by outside consulting firms, although it is
6 sometimes useful and efficient to hire such consultants for
7 their specific expertise and to gain additional perspective.

8 Q. Was the Company aware of its responsibility to
9 thoroughly evaluate its DSM programs?

10 A. Clearly, Avista should have been aware of the
11 Staff's and the Commission's concerns about proper program
12 evaluation based upon the Staff's comments and the Commission
13 Order issued in Case No. AVE-E-99-04. In that case, Avista
14 sought much greater flexibility in planning and implementing
15 its DSM programs. The Staff recommended approval of the
16 request and the Commission granted the requested increased
17 flexibility. But the Staff cautioned in its filed comments
18 that "...the importance of program evaluation will
19 significantly increase with the increased flexibility
20 provided under the new tariffs." (p. 4). And the Commission
21 Findings in Order No. 28138 included the following caution:
22 "We share Staff's concerns regarding the sweeping nature of
23 the proposed changes as they might affect the Company's
24 ability to determine energy savings and appropriate funding
25 levels. We are encouraged by the Company's proposal to

1 closely monitor its DSM programs. The Company remains
2 responsible for demonstrating that its Schedule 90 DSM
3 programs are a cost effective use of its Schedule 91 DSM
4 surcharge revenues." Order No. 28138 at 4 (emphasis added).

5 Q. Is there additional evidence of Avista's general
6 awareness of the necessity of transparent program
7 evaluations?

8 A. Yes. In response to Staff Production Request
9 No. 5, Avista stated, "The Engineering group uses the IPMVP
10 (International Performance Measurement and Verification
11 Protocol) guidelines for their EEM verification work."
12 Beginning on page 6 of the IPMVP is a good, multi-part
13 explanation for why formal, transparent measurement and
14 verification of energy efficiency measures and programs is
15 important, including the need for increasing energy savings,
16 reducing program costs, improving program management, and
17 increasing public understanding and acceptance of the costs.

18 Based on the Company's responses to production
19 requests, Avista employees do evaluate at least some DSM
20 projects and other employees diligently track the actual
21 program by program costs and assumed savings, but very few
22 evaluations are available for inspection by the Staff, let
23 alone by the public. In fact, the four project "evaluations"
24 provided to Staff were labeled as "confidential".

25 Q. Has Staff recommended a prudency finding for

1 Avista's DSM programs since Order No. 28138 was issued in
2 1999?

3 A. Yes, in Case Nos. AVU-E-04-01/AVU-G-04-01, I stated
4 a belief that Avista reasonably and prudently managed its DSM
5 resources from 1999 through October 2003. And in its last
6 rate case (AVU-E-08-01/AVU-G-08-01), the Company, Staff and
7 Parties negotiated Stipulation Paragraph No. 11 that said
8 "The Parties agree that Avista's expenditures for electric
9 and natural gas energy efficiency programs from November 1,
10 2003 through December 31, 2007, have been prudently
11 incurred." In the former case the Commission found that
12 Avista's DSM efforts were prudent and in the latter case it
13 accepted the negotiated Settlement Stipulation.

14 Q. In either the 2004 or the 2008 cases cited above,
15 did the Company provide post-implementation DSM program
16 evaluations?

17 A. No, the Company did not volunteer such evaluations
18 and the Staff did not specifically request them. However,
19 the fact that Staff did not request copies of evaluations in
20 the past should not have suggested to Avista that it was no
21 longer expected to evaluate its DSM programs, given that good
22 program management requires such evaluations and that Staff
23 and the Commission clearly stated in 1999 that evaluations
24 would become even more important as a result of the Company's
25 increased flexibility to plan and manage its DSM programs.

1 Q. Do you have other concerns about the prudence of
2 Avista's DSM efforts?

3 A. In general, I believe that Avista's employees try
4 to perform their DSM planning and implementation duties in a
5 conscientious and cost-effective manner, notwithstanding the
6 Company's need for, and already planned, evaluation process
7 improvements. However, there are a few issues that cause at
8 least some concern. These are: 1) a probable over-statement
9 of savings due to lack of net-to-gross energy savings
10 adjustments; 2) probable over-emphasis of portfolio-level
11 cost-effectiveness; and 3) probable over-emphasis of total
12 resource cost test (TRC) cost-effectiveness.

13 Q. Please explain net-to-gross adjustments of energy
14 savings.

15 A. Various DSM standard practice manuals² state that
16 gross energy savings observed subsequent to implementation of
17 a DSM program should be adjusted to reflect both estimated
18 savings that would have occurred absent the program and
19 savings that occur due to the program but that fall outside
20 the program's measurement metrics. To the extent that the
21 former outweighs the latter, as it does for many programs,
22 analysts who ignore net-to-gross adjustments overstate the
23 cost-effectiveness of DSM programs.

24 ² National Action Plan for Energy Efficiency's Model Energy Efficiency
25 Program Impact Evaluation Guide, the California Standard Practice Manual:
Economic Analysis of Demand-Side Programs and Projects, and the Electric
Power Research Institute's End-Use Technical Assessment Guide (TAG).

1 Q. Please explain your concerns regarding possible
2 over-emphasis of "portfolio-level" and "TRC" cost-
3 effectiveness.

4 A. Avista's policy and tariff says that TRC (total
5 resource cost) cost-effectiveness will be determined for its
6 overall portfolio of DSM programs. Company DSM managers have
7 said that it is not necessary for each measure or program to
8 be cost-effective. But, Commission Order No. 22299 issued in
9 1989 says that utilities' DSM costs should be no higher than
10 necessary and absolutely no higher than the avoided cost.
11 The Order expected that some resources would be priced at
12 full avoided cost, some at "no losers" cost, and some below
13 "no losers" cost." Clearly, the Commission did not intend
14 for utilities to evaluate cost-effectiveness for entire
15 portfolios without consideration of each measure's cost-
16 effectiveness.

17 Conceivably, there are some non-cost-effective
18 measures for which it may be prudent for utilities to provide
19 incentives if such measures can be shown to help sell cost-
20 effective measures to customers. But the burden of proof is
21 on the utility to show how the utility's overall cost-
22 effectiveness is increased, rather than decreased, by
23 inclusion of non-cost-effective measures in its portfolio.
24 Failure to do so would be an indication of imprudent DSM
25 management.

1 It is important to note that while the TRC cost-
2 effectiveness test is a useful tool to screen possible DSM
3 measures and programs, it is not a sufficient cost-
4 effectiveness evaluation perspective. One of the reasons for
5 TRC insufficiency is that this cost-effectiveness test does
6 not count utility incentives as a cost and therefore it
7 places absolutely no limits on incentives, in other words
8 higher incentives always produce higher TRC results, even if
9 the incentive paid exceeds the actual measure cost or even
10 the avoided supply cost. Clearly, cost-effectiveness from
11 the utility cost test (UCT) perspective must also be
12 evaluated.

13 It should be noted that in spite of Avista's tariff
14 stating its reliance upon TRC cost-effectiveness, the Company
15 also consistently calculates and says it considers cost-
16 effectiveness perspectives from the UCT, participant test,
17 and non-participant test (ratepayer impact).³ Still, this
18 tariff language seems to not conform to Order No. 22299.

19 _____
20 ³ The TRC perspective compares the value of avoided supply costs to
21 the total of the utilities' DSM program administrative costs and the
22 direct cost of the measure's labor and materials, including any costs
23 incurred by customers. In the TRC, utility incentive payments are viewed
24 as transfer payments and are ignored.

25 The UCT perspective compares the value of avoided supply costs to
only the utility's DSM costs, including administration and incentive
payments to participants. Non-rebated customer costs are ignored. The
UCT is a misnomer in that customers, not utilities, are the ultimate
beneficiaries of programs that pass this cost-effectiveness test.

The participant test compares the net costs (i.e. costs after
rebates and tax incentives) incurred by program participants to their
personal benefits, e.g. lower bills and increased comfort or production.

The non-participant test considers whether energy rates are changed
as a result of the program.

1 **Recommendations**

2 Q. What are your recommendations regarding Avista's
3 request for the Commission to find that its DSM expenses from
4 January through November 2008 were prudently incurred?

5 A. I recommend that the Commission defer prudence
6 determination of Avista's January through November 2008 DSM
7 costs until the Company provides appropriate DSM program
8 evaluations. I anticipate that when the Company is able to
9 provide these evaluations it will be able to request a
10 prudence finding for more than the first 11 months of 2008.

11 Historically, due to agreements reached when the
12 Company's DSM tariff rider was initiated, Avista has only
13 requested DSM prudence findings in conjunction with general
14 rate case filings. I suggest that the Commission state that
15 it will accept future applications for DSM prudence
16 determinations at any time chosen by the Company, thus
17 potentially severing this non-rate case issue from future
18 rate cases.

19 Finally, I recommend that Avista's tariff Sheets 90
20 and 190 be modified by removal of the following sentence:
21 "The acquisition of resources is cost-effective as defined by
22 a Total Resource Cost test (TR) as a portfolio."

23 Q. Does this conclude your direct testimony in this
24 proceeding?

25 A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29TH DAY OF MAY 2009,
SERVED THE FOREGOING **DIRECT TESTIMONY OF LYNN ANDERSON**, IN CASE
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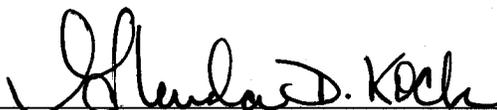
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