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# BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS SCHEDULE 191 – ENERGY EFFICIENCY (PUBLIC PURPOSE) RIDER ADJUSTMENT.** | ) | **CASE NO. AVU-G-10-02**<br><br>**COMMENTS OF THE COMMISSION STAFF** |

**COMES NOW** the Staff of the Idaho Public Utilities Commission (Commission), by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application issued on March 9, 2010, and the Notice of Modified Procedure and Notice of Comment/Protest Deadline issued in Order No. 31017 on April 8, 2010, in Case No. AVE-G-10-02, submits the following comments.

## BACKGROUND

On February 16, 2010, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting an increase in the Company's natural gas Schedule 191 - Energy Efficiency (Public Purpose) Rider Adjustment. That rate would increase from 3.9% to 6.5% of estimated base revenues, and would collect about $1.6 million in additional annual revenue for funding the Company's cost of providing natural gas energy efficiency services and incentives for retail customers taking service under Schedules 101, 111 & 112 and 131 & 132. The proposed effective date is

April 1, 2010. On March 9, 2010, the Commission issued a Notice of Application in Case No. AVU-G-10-02 and by Order No. 31017 suspended the Company's proposed effective date.

Schedule 191 public purpose funds support demand-side management (DSM) programs described in Company tariff Schedule 190. The Company's DSM programs are based on providing a financial incentive or "rebate" for cost-effective efficiency measures installed by customers with a simple payback of greater than one year and an expected life of at least 10 years. Incentives are generally capped at 50% of the incremental cost of the measure. The Company's DSM rider also provides funding to community action agencies for weatherization of low-income housing and other programs that are expected to result in demonstrable savings. Finally, the DSM rider also is used to fund non-incentive efforts such as education, lending terms, provision of product samples, and technical assistance.

According to the Company, its customers are increasingly looking to its DSM programs for assistance in responding to increased natural gas prices. As a result, existing and planned programmatic expenditures by the Company are exceeding tariff rider revenues. The Company claims that the proposed Schedule 191 increase will true-up its natural gas tariff rider to a level that meets customer demand and reduces existing negative balances, while providing funding for its future energy efficiency programs. The Idaho natural gas savings target for 2009, established in 2008, was 465,845 therm annual savings. The Company reports it actually achieved 580,081 therm annual savings, exceeding its goal by approximately 25%.

**STAFF REVIEW**

For purposes of this case, Staff verified the estimated annual level of expenditures required to fund existing DSM programs, reviewed the existing DSM deferral balance subject to recovery and confirmed the proposed Energy Efficiency Rider Adjustment rate necessary to true-up the DSM deferral balance. Based on this review, Staff supports the Company's proposal to increase the energy efficiency tariff rider of Schedule 191 to collect an additional $1.6 million annually, or approximately $1.52/month for the average residential customer using 66 therms/month.

The proposed increase in revenues for DSM will not increase the earnings of the Company. The proposed energy charges of the individual natural gas rate schedules under the Company's Application are as follows:

| | Existing | Proposed |
|---|---|---|
| Schedule 101 (General Service) | $0.03458 | $0.05762 per therm |
| Schedules 111 & 112 (Large General Service) | $0.03045 | $0.05038 per therm |
| Schedules 131 & 132 (Interruptible Service) | $0.02552 | $0.04020 per therm |

As reflected in the Company's Application, the proposed increase is necessary to continue to fund ongoing natural gas efficiency programs consistent with Avista's most recent Natural Gas Integrated Resource Plan (IRP). It will also serve to amortize a deficiency balance ($1,375,435 end of January 2010) resulting from the Company's response to higher than expected customer demand for services.

Staff has reviewed the 2009 expenditures and confirmed the unfunded balance of $1,375,435 as of December 31, 2009. Although Staff confirms the deferral balance as accurate, Staff does not at this time make any recommendations regarding the prudency of either past or future DSM expenditures. Staff is in the process of examining the prudency of Avista's DSM expenses incurred in 2008 and 2009 and will make a recommendation to the Commission regarding this issue as part of its analyses in case AVU-G-10-01.

Staff recognizes that rate increases are difficult in challenging economic times but continues to support cost-effective DSM/energy efficiency programs. Although consumption reductions by customers of individual utilities have little effect on wholesale gas prices and wholesale gas costs are much less time-variant than electricity prices, it remains important to provide assistance to help customers manage their bills by providing incentives, engineering services and education to overcome various market barriers hampering cost-effective, long-term energy efficiency.

The Company continues to offer residential rebates for the conversion of electricity-to-natural gas for space and water heating appliances as well as a broad program for any non-residential electricity-to-natural gas conversions. Such conversions must meet applicable criteria for relative British thermal unit (Btu) efficiency. Staff supports conversions to direct use of natural gas whenever it is cost-effective compared to the avoided costs of electricity generation, transmission and distribution.

In addition to prescriptive programs, Avista offers "site-specific" programs for nonresidential customers. Site-specific programs are customized to the customer premises. The site-specific offering provides incentives on commercial and industrial energy efficiency measures with a simple financial payback exceeding one year. This is implemented through site analysis, customized diagnosis, and incentives determined for savings generated by the customers' premises or processes.

In 2009, the Company provided low-income weatherization of $1.9 million from Washington and Idaho electricity and natural gas DSM tariff riders. Effective October 1, 2008, in Order No. 30647, $465,000 was directed to Idaho electricity and natural gas low-income customers. Of this amount, $130,200 was used directly for natural gas. The Company provided $25,000 to Idaho (CAP) agencies for the purpose of underwriting agency personnel assisting in low-income outreach and conservation education. Of this amount, $12,500 or 50% was directly assigned to natural gas. The low-income weatherization portfolio of the Company represents approximately 6.3% of its total energy efficiency budget excluding utility support.

Avista's Application reports that it is in the process of enhancing its evaluation, measurement and verification (EM&V) protocols. The Company's enhanced EM&V includes impact, process, market and cost-effectiveness analyses. The Company initiated a collaborative, consisting of its External Energy Efficiency (Triple-E) members and other interested individuals and entities, beginning in March 2010 to review EM&V and low-income issues and will provide a report to the Commission on or before September 1, 2010. That report will describe Avista's enhanced EM&V protocols.

**Benefit/Cost Analysis**

The gas sub-portfolio benefit/cost (B/C) ratio of each Washington and Idaho customer segment is shown below as it appears in Table 4 of the Company's 2009 Energy Efficiency Annual Report filed April 1, 2010.

| Segment | State | TRC ratio | PACT ratio |
|---|---|---|---|
| Residential | ID | 1.64 | 4.69 |
| Residential | WA | 1.68 | 5.7 |
| Low Income | ID | 1.42 | 1.42 |
| Low Income | WA | 2.54 | 2.48 |
| Non-residential | ID | 0.97 | 3.01 |
| Non-residential | WA | 0.73 | 3.23 |
| | ID | 2.28 | 3.74 |
| | WA | 2.30 | 4.41 |
| | System | 2.30 | 5.96 |

TRC is total resource cost B/C ratio.
PACT is program administrator cost test (aka- utility cost test) B/C ratio.

As shown above, the Company's claimed overall Idaho natural gas portfolio remains cost effective. However, the non-residential (i.e. commercial and industrial) programs were not reported as TRC cost-effective in 2009. The ratio calculations in the table above assume 100% net-to-gross; e.g. that no customers would have installed their efficient measures in the absence of Avista's incentives to do so. Lower net-to-gross assumptions result in lower B/C ratios. At the Staff's request, Avista is in the process of reviewing and correcting the B/C ratios of its Annual Report using less than 100% net-to-gross assumptions. Even though customers' reductions in consumption have little impact on wholesale prices and wholesale gas costs are less time variant than prices for electricity, Staff expects all expenditures on energy efficiency programs to be prudently incurred and cost effective.

After reviewing data provided by the Company illustrating the differences between non-residential and residential program costs versus amounts paid through the DSM rider, it has become apparent to Staff that commercial and industrial customers are receiving nearly double the benefit given their program costs vs. rider pay-in amounts. Based on post-implementation evaluations, the Company needs to: 1) further assure that class benefits compared to contributions are reasonable; 2) further improve program delivery; 3) make sure programs are cost-effective; 4) consistently reassess baseline trends; and 5) clearly illustrate program EM&V. The Company reported in its 2009 Energy Efficiency Annual Report, regarding the non-residential programs, that it will continue "transitioning some of these programs to be standard offers (or "prescriptive") through forms specifying qualifying measures and associated conditions, similar to the way in which residential programs are offered." In order to expedite the transition of these programs to standard offers, the Company should do market research that leverages its site-specific, cost effective measures by targeting particular industries (e.g. - SIC or NAICS[1]), or regionally recognized multi-site companies. Certain industries and multi-site companies have standard equipment, production cycles, and footprints. Since these similarities exist, the exchange of information between the account executives who target customers, and the engineers who conduct the modifications should be organized, so that the most cost effective industries and multi-site companies are prioritized appropriately. Leveraging "economies of

[1]Standardized methods of classifying business/industrial activity, it represents principle segments of an economy with a numerical code. In the US, Standard Industrial Code (SIC) was established in 1987 and is now being replaced with the North American Industry Classification System (NAICS) that also covers Canadian and Mexican industries.

scale"[2] will result in advantages that reduce the average marginal cost of site-specific diagnosis, retrofits, analysis, incentives, and programs. By quickly transitioning from "site-specific" to "standard offers" when appropriate, the Company can improve cost-effectiveness and provide savings to customers.

Regardless of Staff's concerns about the cost-effectiveness of the Company's non-residential programs, at this time it is not Staff's intent to either validate or question either the Company's DSM prudency or actual cost-effectiveness calculations of any of its programs. Prudency and cost effectiveness review was not requested in this Application, but it will occur during the course of Avista's current rate case in which the Company has requested a prudency review of its DSM expenditures (Case No. AVU-G-10-01). In this rate case, Staff will evaluate the prudency, operational discretion and cost-effectiveness of the Company's program decisions.

Staff has reviewed the Company's new forward looking method used for determining the Schedule 191 rates necessary to fund program participation. Staff believes a forward looking estimate of usage for determining rates is reasonable, but advises the Company to closely evaluate its forecasting accuracy to determine whether adjustments to the regression model are necessary. Staff supports the increase in Schedule 191, Energy Efficiency Rider, from approximately 3.9% to 6.5% of estimated base revenues, resulting in a total increase of approximately 2.5% for all customer classes.

## CUSTOMER RELATION ISSUES

The Company's "Energy Efficiency Rider Adjustment" Application, filed on February 12, 2010, contained the press release but not the customer notice. Staff brought this omission to the Company's attention on May 17, 2010. As a result, the customer notice was mailed with Avista's cyclical billings beginning May 21, 2010, and ending June 19, 2010. Customers had until June 30, 2010 to file comments. Staff reviewed both the press release and notice and determined that they complied with the notice requirements of Rule 125, IPUC Rules of Procedure, IDAPA 31.01.01.

As of June 29, 2010, three customers submitted written comments to the Commission opposing the proposed increase to Schedule 191 rates. Included with one customer's comment were signatures of seventy-six other people who agree with the submitted comment opposing the

[2] In microeconomic theory, Economies of Scale is a long run concept referring to reductions in unit cost as the size of a facility, or production, increases.

proposed increase. They feel it is not justifiable to ask customers to make up for the shortfall in loss of revenue that has been created by the success of the program. They cite the poor economy, fixed incomes, lack of a social security cost of living increase, job losses, stagnant wages, and home loss as factors that inhibit customers' abilities to pay higher rates. Another comment received from a customer acknowledges that rebates for energy efficiency measures have been necessary to foster mass behavioral changes needed to support energy efficiency programs. At this time, however, the customer opposes offering rebates funded by customers, especially rebates for appliance purchases, to benefit those who have been late to adopt energy efficiency practices. This customer also feels that Avista has not justified why it needs to raise rates to support its educational and low income energy efficiency programs. Another customer cites the poor economy and company profits in her opposition to the proposed increase.

Staff notes that Avista's DSM gas tariff rider amount is not separately itemized on customers' bills, as is the case with Rocky Mountain Power and Idaho Power. The rider amount is expressed as "cents per therm" rather than as a percentage of the bill and is incorporated into the amount charged for energy consumption. Staff supports this billing practice, but acknowledges that an increase to the rider amount is indistinguishable from a general rate increase to most customers.

Staff recognizes that an increase in natural gas rates will not be viewed favorably by many customers within the Company's service territory, particularly those on fixed incomes or those using natural gas as their primary heating source, especially given the current economic climate. However, Staff also asserts that all customers realize a net benefit from the cost effective use of DSM programs because of the reduced need for gas commodities storage as well as distribution and transmission facilities. The total of all customers' bills will be lower than it would be absent such programs.

Staff often works with customers who are identified as those most likely to benefit from energy efficiency programs, incentives and rebates. This interaction provides Staff with an opportunity to share information, increase participation in energy efficiency programs and assist customers in reducing their bills. Unfortunately, easily accessible, up to date DSM program information needed to fully assist customers can be difficult for Staff to obtain. Therefore, Staff recommends that the Company provide in its annual DSM report clear descriptions of each residential energy efficiency program, rebate or other incentive offered by the Company. Staff also requests that the Company provide periodic updates of any changes made to or discontinuance of any program, rebate, or incentive. This will assure that Staff has the most up to date information available to assist customers.

## STAFF RECOMMENDATION

Staff recommends that the Company's proposed increase of $1.6 million in annual revenue from Schedule 191 Energy Efficiency Public Purpose Rider be approved to fund the costs associated with providing natural gas energy efficiency services.

Staff recommends that the Company provide in its annual DSM report clear descriptions of each residential energy efficiency program, rebate or other incentive offered by the Company.

Staff recommends that the Company provide periodic updates of any changes made to or discontinuance of any program, rebate, or incentive to the Commission Staff.

Respectfully submitted this 30th day of June 2010.

Scott Woodbury
Deputy Attorney General

Technical Staff: Matt Elam
Donn English
Curtis Thaden

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 30TH DAY OF JUNE 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-10-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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