Office of the Secretary
Service Date
April 3, 2014

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR A FINDING THAT IT PRUDENTLY INCURRED ITS 2010-2012 ELECTRIC AND NATURAL GAS ENERGY EFFICIENCY EXPENDITURES	))))))	**CASE NO. AVU-E-13-09 AVU-G-13-02** **ORDER NO. 33009**

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] Avista asked the Commission to process the case under Modified Procedure. Application at 1.

On November 5, 2013, the Commission issued a Notice of Application and Notice of Modified Procedure that set comment and reply deadlines. *See* Order No. 32921. At the parties' request, the Commission extended these deadlines to March 6 and March 20, 2014. *See* Order No. 32965. Commission Staff and the Idaho Conservation League ("ICL") filed the only comments in the case, and the Company filed a reply.

Having reviewed the record, we issue this Order finding that Avista prudently incurred $25,172,700 in energy efficiency expenditures for the years 2010-2012. Our decision is more thoroughly discussed below.

THE APPLICATION

In its Application, Avista says its energy efficiency programs provide a financial incentive/rebate for cost-effective efficiency measures with a simple payback of greater than one year and up to 13 years. Avista packages about 300 measures into 30 programs for customer convenience. Residential programs include high efficiency equipment, electric-to-natural gas conversions, Compact Fluorescent Lamps, "second" refrigerator recycling, weatherization, and educational assistance through community events. Application 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

[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* Hermanson Direct at 4.

efficiency measures with a simple financial payback exceeding one year, up to 13 years. *Id.* at 2-3.

In addition, Avista 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. Avista says these programs allow it to acquire resources that would otherwise be unachievable or more costly without regional cooperation. *Id.* at 3.

Avista 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.*

Avista reports that its energy efficiency programs continue to exceed the targets set in the Integrated Resource Plan ("IRP") and 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. Avista says this represents 190% of the Company's IRP target of 57,289 MWh, a 13-year levelized total resource cost per saved MWh of $36.55, and a 21-year levelized total resource cost per saved therm of $1.13 a therm. The Company says its tariff rider-funded programs have been very successful. Participating customers benefit from lower bills; non-participating customers benefit from Avista acquiring lower cost resources and maintaining the energy efficiency message and infrastructure for the benefit of its service territory. *Id.* at 3-4.

THE COMMENTS

Commission Staff and ICL filed comments and Avista filed a reply. The comments and reply are summarized below.

A. Staff Comments

Staff applauds Avista's commitment to energy efficiency, which Staff says 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 regularly convenes stakeholder meetings to review its energy efficiency programs and obtain input from customers, Commission Staff, and environmental interests. Staff Comments at 2-3. But Staff raised concerns about a number of program implementation issues. These include insufficient controls around engineering assumptions and the basis for site-specific incentive payments, incorrect interpretation of Schedule 90 regarding 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. *Id.* at 3-4.

2. Financial Review. Staff performed two on-site audits and reviewed Avista's DSM expenses. Based on its review, Staff recommended 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. *Id.* at 4.

Staff notes that Avista's Application did not specify an exact amount of expenditures to be deemed prudent for each year, and that the Company was inconsistent on the total amount of DSM expenses at issue. Staff says Avista provided different figures in testimony, the DSM Report, and in response to production requests. And while the expenses reported in each of the five sources Staff reviewed did not materially differ, Staff found it troubling that Avista could not provide a consistent amount. Staff said the same problems occurred when trying to determine tariff rider revenues. *Id.* at 4. Staff ultimately used the expense amounts provided in Avista's discovery responses and the revenues reflected in Avista's monthly EEAG reports as the starting point for its audit, as follows:

Table 1. Idaho Electric Tariff Rider

	2010	2011	2012	Total 2010-2012
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

	2010	2011	2012	Total 2010-2012
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

Id. at 4-5. Staff then adjusted these amounts. The following table illustrates Staff's recommended expenses to be deemed prudent following the adjustments, along with the tariff rider ending balances for both gas and electric:

Table 3. Tariff Rider Account Summaries 2010-2012

	Electric	**Gas**
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

Staff thus opines that, on December 31, 2012, Avista had a surplus balance (customers owe Company) of $336,107 for the Idaho electric tariff rider, and a credit balance (Company owes customers) of $845,174 for the Idaho gas tariff rider. *Id.* at 6.

3. Staff's Proposed Adjustments. Staff's Table 3, above, includes adjustments related to Office of Energy Resources ("OER) projects, Lewis-Clark State College ("LCSC") projects, and evaluation expenses. These adjustments are discussed below.

a. Adjustment—Office of Energy Resources Projects. Staff criticized Avista's "lax management" of $96,099 worth of OER projects. First, Staff said Avista signed a customer energy efficiency contract with OER although OER is not Avista's customer. OER, in turn, signed agreements with schools served by Avista under which each school agreed that OER would collect the school's incentive. Staff said normal program procedures require the Company to sign the energy efficiency contract with its customer—the school—and not with OER, a non-customer that resides outside Avista's service territory. *Id.* at 10-11.

Second, although Avista policy is to not pay an incentive unless it has first verified that the incentivized measure was actually installed, Staff found that Avista paid incentives on OER projects without verifying that the measures had been installed. *Id.* at 11.

Third, Staff said Avista issued a $96,099 check to OER without receiving contractor receipts or invoices to confirm the purchases and labor associated with the measures. Instead,

OER supplied a self-generated tally of installed measures that qualified for incentives and Avista paid on that basis. *Id.*

Staff believes the measures were purchased and installed. But Staff recommended the Commission defer Avista's recovery of program expenses until Avista: (1) receives invoices confirming the purchase and installation of these measures, and (2) verifies the installation of the projects. Staff's OER-related adjustments are reflected in Table 3 (Adjustment – OER). *Id.*

b. Adjustment—Lewis-Clark State College Project. On November 11, 2011, Avista paid an incentive of $14,120 to LCSC for an energy efficiency project. But during Staff's audit, Avista could not provide project invoices or evidence showing that the incentivized measures had been installed. In other words, Staff says Avista lacks sufficient documentation from which to assess whether Avista prudently paid the incentives. Staff thus recommended the Commission defer Avista's recovery of LCSC-related expenditures until Avista's next prudency filing to allow Avista an opportunity to provide evidence supporting the prudency of its payments. Staff's adjustment to Avista's LCSC-related expenses is represented in Table 3, above (Adjustment – LCSC). *Id.* at 10.

c. Adjustment—Evaluation Expenses. 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, Staff says Washington requires these items every two years, which is more frequently than necessary. Staff says Idaho ratepayers should not pay for additional burdens that other jurisdictions place on Avista. *Id.* at 15.

Staff and Avista 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, Avista internally reviewed its third-party consulting and evaluation expenses. As a result of that review, Avista 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 Avista's third-party expenses to ensure that jurisdictional costs are properly apportioned. *Id.*

4. Other Issues.

a. Site-Specific Projects. Site-specific projects form a significant part of the savings and expenses from Avista's DSM portfolio. Staff has some concerns about Avista's implementation of these projects.

For example, a 2010-2011 third-party evaluation found that site-specific energy savings adjustments were needed to correct errors in data entry, installation verification, energy-modeling simulation, HVAC/lighting interactive effects, and energy savings calculations. Staff notes that Avista's internal evaluation reached similar conclusions for 2012. *Id.* at 6-7;

Likewise, a 2012 third-party evaluation found that many problems with Avista's non-residential portfolio from 2010-2011 persisted into 2012. Specifically, there was an "overall reliance on customer-supplied data and the need for a reliable and replicable approach to source that data." Further, "[i]nteractive 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)." Moreover, "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)." *Id.* at 6-7.

Staff says Avista suspended its internal review process at the end of 2012 after a third-party evaluator found the internal review process: (1) caused project delays; (2) had become less effective because Avista had no formal follow through procedure to arbitrate differences, establish new policies, and assign accountability for meeting new policy requirements for engineering assumptions, incentive calculations, and invoice documentation; and (3) reviewed just 1/3 of the projects over $50,000 despite Avista's policy that all such projects be reviewed. *Id.* at 8.

To address these problems, Avista created a new review process that uses "Top Sheets" to ensure that each project's engineering and administrative requirements are met. Staff has three concerns about this solution. First, an engineering or implementation team member completes the Top Sheets and another member then checks their accuracy even though third-party evaluators have found Avista's engineering and implementation practices to be flawed. Second, an internal review of project calculations and documentation occurs after projects are contracted and sometimes after Avista has paid the incentive. Third, Avista has still not

provided for formal follow through on program management issues. Staff joins the independent evaluators' recommendation that Avista designate a central decision-maker to determine and enforce program-management policies. *Id.* at 9.

b. Prescriptive Projects and DSM Tariff Compliance. Staff expressed concern that Avista did not comply with its DSM tariff—Schedule 90—with regard to project incentive caps. For the period that is the subject of this prudency review, Schedule 90 stated, in pertinent part: "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." Staff says that despite this clear language, Avista exceeded the 50% cap on numerous prescriptive projects and on programs operated by third parties. Staff notes that there are good reasons for exempting prescriptive projects from the 50% cap. In fact, Avista ultimately filed a tariff advice in August 2013 to do just that. But Avista did not comply with the tariff before then. Further, the tariff has not been revised to lift the cap as to third-party programs. Staff thus cautions Avista to comply with its tariffs going forward. *Id.* at 12-13.

c. Renewable Projects. Avista designs its measures, programs and portfolio to be cost-effective under the Total Resource Cost test ("TRC"). But from 2010 through 2012, Avista incented 11 small-scale renewable projects that were not cost-effective under the TRC. Avista explains it did this because each measure or program was just "minimally short of being fully cost-effective." Staff, on the other hand, found the projects' TRC results to be "exceptionally low." But Staff acknowledged that the TRC's importance can diminish when customers undertake renewable projects for reasons that do not directly translate into a monetary benefit. Further, the projects were cost-effective under another cost-effectiveness test (the Utility Cost Effectiveness test ("UCT"). And Avista revised its tariff to exclude measures with a long lifecycle payback, such as renewable projects, effective January 1, 2011 (the 11 projects at issue were under contract before to the tariff revision). Staff thus believes that no adjustment is warranted.

d. Non-Incentive Utility Costs. Staff is concerned that non-incentive utility costs, primarily labor, have significantly increased over the past few years. For example, 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. However, Staff says 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. Staff does not recommend any disallowances regarding non-incentive utility costs in this filing but suggests that Avista more carefully manage non-incentive utility costs and reduce them if necessary. *Id.* at 14.

B. ICL Comments

ICL acknowledges Avista's long-term commitment to energy efficiency programs and believes that "[m]ore than other Idaho utilities Avista demonstrates an enhanced commitment to pursuing cost-effective energy efficiency opportunity and proactively engages stakeholders." ICL Comments at 3. ICL recommended the Commission find that Avista prudently incurred its 2010-2012 energy efficiency expenses. *Id.* at 1.

ICL also urges Avista to develop, by the end of 2014, benchmarks and a timeline for addressing the process issues raised by the third-party evaluators. *Id.* at 1-2. Finally, ICL notes that some individual programs in Avista's DSM suite had a TRC of less than 1.0. ICL attributes this to the TRC only including documented and quantifiable non-energy benefits even though other legitimate non-energy benefits exist. To solve this problem, ICL proposes: (1) including a 10% conservation adder to roughly account for non-energy benefits in all energy efficiency programs with known but difficult to measure non-energy benefits; and (2) focusing prudency reviews on the Program Administrator Cost test, which focuses on the costs and benefits that accrue to the utility and is a better measure of energy efficiency program value. *Id.* at 2-3.

C. Avista's Reply

In its reply, Avista says it will address the program management issues raised in the comments through an overall program review that Avista's senior management has already initiated. Avista says it will thoroughly review its DSM implementation practices and renew its focus on employing utility best practices related to DSM program implementation and oversight. The Company says it looks forward to working with Staff and others to implement the recommendations that emerge from this review. The Company also says it will furnish a report to the Commission, Staff, and others before July 1, 2014, describing how the Company has addressed Staff's concerns. Company Reply at 1-2.

With regard to Staff's proposed adjustments, Avista says it "does not oppose the deferral of the prudency review for the Lewis-Clark State College and OER projects...." Avista also says "it concurs with Staff that the 2010-2012 program expenditures, as adjusted, were prudently incurred and in the interest of the Company's Idaho customers." *Id.* at 2.

COMMISSION DECISION

We have reviewed the record, including the Application, comments, and reply. We find that Avista is an electrical and gas corporation, and that we have jurisdiction and authority over Avista and the issues in this case under Title 61 of the Idaho Code and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

Like Staff and ICL, we applaud Avista's long-standing, "top down" commitment to DSM and stakeholder involvement in energy efficiency issues. We also appreciate Avista's ongoing review of its DSM programs and willingness to explore and collaborate with stakeholders to further address the program management issues raised in the comments. In particular, we believe that establishing a central decision-maker will greatly aid Avista in determining and consistently applying its DSM policies and procedures.

Based on our review of the record, including Avista's agreement to the adjustments proposed in the comments, we find that Avista prudently incurred $25,172,700 in DSM expenses for the years 2010-2012, consisting of $19,827,396 in Idaho electric tariff rider expenses and $5,345,304 in Idaho gas tariff rider expenses. We also find it reasonable to defer consideration of Avista's recovery of LCSC and OER project incentives until it files its next DSM prudency review proceeding. Deferring LCSC and OER project recovery affords Avista an opportunity to support its claims with evidence such as labor invoices and verification that the incented projects were installed.

O R D E R

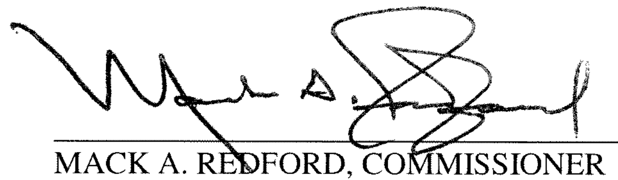
IT IS HEREBY ORDERED that Avista's 2010-2012 DSM expenditures are approved as prudently incurred in the amount of $25,172,700, consisting of $19,827,396 in Idaho electric tariff rider expenses and $5,345,304 in Idaho gas tariff rider expenses.

IT IS FURTHER ORDERED that any recovery by Avista of LCSC and OER project incentives is deferred until Avista's next prudency filing.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 3rd day of April 2014.

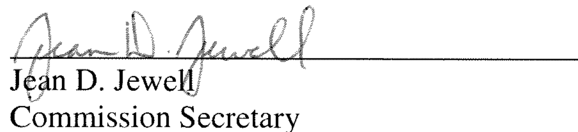
PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:AVU-E-13-09_AVU-G-13-02_kk3