NW Energy Coalition

for a clean and affordable energy future

March 5, 2010

David Danner
Executive Director and Secretary
Utilities and Transportation Commission
PO Box 47250
Olympia, WA 98504-7250

RE: Docket UE-100176, Avista ten-year conservation potential and biennial conservation target

Dear Mr. Danner,

The NW Energy Coalition is pleased to submit these written comments on Avista's proposed 2010-2011 biennial conservation target filed in accordance with RCW 19.285.040 (1). We will also be present at the Commission's March 11 open meeting to provide oral comments.

After providing context for treating energy efficiency as a priority resource, we discuss Avista's proposed biennial target in the context of its Integrated Resource Plan ("IRP") analysis of conservation potential and provide specific comments on some of the proposals within Avista's filing. We recommend the Commission approve Avista's biennial conservation target with some modifications, as discussed below.

Finally, we suggest the Commission consider additional opportunities for engaging members of the public and other interested stakeholders in future I-937 target-setting discussions, and we recommend the Commission consider consolidating future annual budget and savings target filings with Avista's I-937 conservation filing.

Washington State and the Region Prioritize Efficiency for Meeting Energy Demand

The 1980 Pacific Northwest Electric Power Planning and Conservation Act sets important precedent for the region by prioritizing energy efficiency above all other resources.[1] Washington also has a long history of prioritizing energy efficiency as a resource.[2] State law further finds that energy efficiency is the cleanest, cheapest and most abundant source of energy available. In addition to saving money for consumers and utilities, the law recognizes that efficiency reduces our carbon

[1] 16 U.S.C. § 839b(e)(1)
[2] (see for example RCW 19.27A.015, Findings, 1990 c 2, § 1; RCW 43.21F.015; RCW 19.27A.130, Finding, 2009 c 423)

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footprint and protects electricity consumers in times of energy shortage. Pursuit of energy efficiency fosters retention and further development of the clean energy sector in Washington, including green jobs.[3]

Washington law specifically directs all state agencies to foster efficient energy use.[4] Further,

…all state agencies are directed to employ their existing authorities and responsibilities to:

(a) Work with local organizations and energy companies to facilitate the development and implementation of workable renewable energy and energy efficiency projects;

(b) Actively promote policies that support energy efficiency and renewable energy development;

(c) Encourage utilities and customer groups to invest in new renewables and products and services that promote energy efficiency; and

(d) Assist in the development of stronger markets for renewables and products and services that promote energy efficiency. …[5]

The Legislature also recently provided policy direction to electric and natural gas utilities to pursue energy efficiency, to wit:

> It is the intent of the legislature that financial and technical assistance programs be expanded to direct municipal, state, and federal funds, as well as electric and natural gas utility funding toward greater achievement of energy efficiency improvements. To this end, the legislature establishes a policy goal of assisting in weatherizing twenty thousand homes and businesses in the state in each of the next five years. ...[6]

In 2006, the state's voters approved Initiative 937, which was codified into law as the Energy Independence Act[7] ("Clean Energy Act"). The Clean Energy Act declares, as state policy, "*increasing energy conservation* and the use of appropriately sited renewable facilities builds on the strong foundation of low-cost hydroelectric generation in Washington state and will promote energy independence in the state and the Pacific Northwest region."[8] This declaration of state policy combined with the conservation acquisition standard established in RCW 19.285.040(1) confirm the important role that energy efficiency holds for Washington and for the region.

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[3] (see for example RCW 28B.20.298, § 1; RCW 19.27A.015, Findings, 1990 c 2, § 1; RCW 82.04.4493, Findings, Intent, 2008 c 284 § 1; RCW 80.04.250, Findings, 1991 c 122 § 1; RCW 70.260.010 Finding, Intent, 2009 c 379)

[4] (see for example RCW 43.21F.010; RCW 39.35.010, Findings, c 214 § 14 (2); RCW 43.19.668)

[5] RCW 28B.20.298 (2)

[6] RCW 70.260.010 Finding, Intent, 2009 c 379 (2)

[7] Chapter RCW 19.285 *et seq*.

[8] RCW 19.285.020 (emphasis added)

The Commission Has Affirmed Energy Efficiency as a Priority Resource

The Commission has repeatedly affirmed energy efficiency as a priority resource for meeting electric and natural gas demand:

- "… the Commission has independently treated conservation as a priority resource, and we reaffirm that policy in this order"[9]
- "… promoting energy conservation is a goal that [the Commission] strongly supports"[10]
- "It is difficult to overstate the importance of conservation measures, as reflected in these statutes and rules, and in our policies"[11]
- Conservation is one of our cornerstone missions. Consequently, we encourage and support efficiency programs as one of the key objectives in our ratemaking. We have long recognized that conservation is, under almost all circumstances, the least cost energy resource available to a utility and its ratepayers.[12]

Energy Efficiency Dominates the Northwest Power and Conservation Council's Sixth Plan

The Northwest Power and Conservation Council adopted the region's Sixth Power Plan on February 10, 2010. The Plan emphasizes the essential role of conservation in meeting electricity demand, and as already recognized by this Commission, the fundamental point that achieving significant conservation will remain a critically important goal for utilities in this region, including Washington, into the indefinite future.[13]

The dominant new resource in the Sixth Power Plan resource strategy is improved efficiency of electricity use, or conservation. The attractiveness of improved efficiency is due to its relatively low cost and the absence of major sources of risk. Conservation costs half of alternative generating resources and lacks the risk associated with volatile fuel prices and potential carbon policies. It also has short lead time and is available in small increments both of which reduce risk. Therefore, improved efficiency reduces both the cost and risk of the resource strategy.[14]

It is important to note that sources of achievable potential savings in the Sixth Plan are about 50 percent higher than in the Council's Fifth Plan adopted in December 2004. The new assessment is higher because the Council identified new sources of savings in areas not addressed in the Fifth Plan and because savings potential has increased significantly in the residential sector due to technology improvements and in the industrial sector as a result of a more detailed conservation assessment.[15]

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[9] Docket U-090222, Order 01, issued 9/14/09), para 18
[10] UE-090134, UG-090135, & UG-060518 (consolidated), Order 10, issued 12/22/09, para 237
[11] Id., para 239
[12] Id., para 289.
[13] Id., para 239.
[14] Northwest Power and Conservation Council's 6th Power Plan, Pre-Publication Version 2-10-10, p. 10-4.
[15] Id., p. 4-1. The Fifth Plan estimated achievable conservation at approximately 3,900 average megawatts at a cost up to $120 per megawatt-hour, while the Sixth Plan estimates achievable conservation at 5,860 average megawatts at an equivalent levelized life-cycle cost.

Avista's Filing Has Strengths and Weaknesses

This section of our comments walks through the substantive sections of the Compliance Report filed in this Docket. In summary, we recommend the Commission approve Avista's biennial conservation target with some modifications, as discussed below. These modifications include:

- Use of consistent methods of calculating savings potential and expressing savings targets across all filings and reports.
- Count only savings from electric to natural gas conversions when the conversion installs high efficiency gas equipment.
- Eliminate the use of a cumulative target approach because it is unnecessary and confusing when targets are updated every two years.
- Ensure that replacement of distribution system equipment meets high efficiency standards rather than using an assumption that new equipment is automatically more efficient as per Avista's life-cycle analysis.

We support Avista's use of the Council methodologies and the calculator that uses the 6th Plan as its basis.

> The purpose of this calculator is to provide utilities with a simple means to compute "their share" of the Northwest Power and Conservation Council 6th Plan's regional conservation target. This calculator is intended to provide utilities with an "approximation" of the level of conservation they should target in order to be consistent with the Council's regional goals. The Council does not formally assign individual utility targets in its planning process. Individual utility conservation goals are best established through utility integrated resource planning processes which can better account for local conditions and legal requirements. Nevertheless, the results of this calculator can be used as rough guidance for utility conservation program planning until such time as a utility completes its own integrated resource plan or other similar process.[16]

We note that Power Council staff sent the Commission, each of the utilities and a number of stakeholders a copy of the draft conservation calculator updated to the 6th Plan in September, 2009.[17] Avista began referencing the Option #1 calculator using the draft 6th Plan data after that point in time. It is appropriate for Avista to build from the 6th Plan, the most current analysis of efficiency opportunities available, particularly since Avista's 2009 IRP energy efficiency projections did not have the benefit of an updated efficiency resource assessment or the Company's Business Plan (which was filed in this Docket).

While the Commission rules allow each utility to express their conservation target using a range of savings, we believe that Avista's choice of using a single point target is consistent with the way Avista has been setting its conservation targets in years past. The proposed biennial conservation target of 128,603 MWh is just under 15 percent of the ten-year target of 873,302 MWh.[18] While the Commission rules give each utility some flexibility in the

[16] Introduction, Northwest Power and Conservation Council's Sixth Plan Conservation Target Calculator, last revised 1/14/2010.
[17] UE-100176, Attachment A, 1/29/10, page 65, Email from Tom Eckman, Sept. 8, 2009.
[18] UE-091983, Compliance Report of Avista, January 29, 2010, page 11.

interpretation of the Clean Energy Act conservation acquisition obligation of a "…pro rata share for that two-year period of its cost-effective conservation potential for the subsequent ten-year period," it is important to recognize that larger biennial targets may be needed in future years to ensure all cost-effective savings are acquired.[19]

The Compliance Report makes a point of showing that the I-937 biennial target, using the 6th Plan Option #1, is in excess of the 2009 Avista IRP.[20] We point out that these numbers are comparing apples and oranges because the 6th Plan calculator includes some distribution efficiency savings and the IRP savings numbers do not. The following data illustrates this point:

Avista 2009 Electric Integrated Resource Plan, August 31, 2009, page 3-10.

Total 2010 = 10.4 aMW (WA,ID, NEEA, no distribution ee)
Total 2011 = 10.7 aMW (WA, ID, NEEA, no distribution ee)

WA only 2010 - assume WA 70% of total savings (as per Avista)

WA only 2010 = 7.28 aMW (includes NEEA, no distribution ee)
WA only 2011 = 7.49 aMW (includes NEEA, no distribution ee)

6th Plan Calculator Option #1

WA only 2010 = 6.85 aMW (includes NEEA and distribution ee)
WA only 2011 = 7.53 aMW (includes NEEA and distribution ee)

Avista Business Plan - January 31, 2010, page 7

WA only 2010 - 6.99 aMW (the Business Plan says "This target is based upon the Council's 6th Plan augmented with 1,285,000 kWh's of estimated direct-use (electric to gas) fuel-efficiencies.") It is not clear if the fuel conversion savings are already included in the target number listed in the Business Plan.

Electric to natural gas conversions are not explicitly included in the definition of conservation in RCW 19.285.030 (4), nor is the Power Council allowed to analyze the electric system benefits of conversion to natural gas. That said, conversion from direct use of electricity to direct use of natural gas is supported in the Energy Independence Act[21] if the reduction in electric usage is directly related to implementation of high efficiency cogeneration. Avista is proposing to include conversion from electric to gas across all its sectors, including residential; therefore it is appropriate that Avista increases its conservation target, beyond the outcome identified by the Option #1 calculator, to include these measures. We support Avista's approach that breaks out conversion as an additional resource on top of its Option #1 calculation. We recommend that savings from conversion only apply to the savings target if

[19] RCW 19.285.040 (b); WAC 480-109-007(14)
[20] UE-091983, Compliance Report of Avista, January 29, 2010, pages 9-10.
[21] RCW 19.285.040(c).

high efficiency natural gas replacement units are installed. This type of requirement is similar to the high efficiency requirement of the cogeneration provision in the law.[22]

On page 12 of its Compliance Report, Avista states:

> "For this first compliance period, Avista is electing to establish a target based upon a single acquisition target rather than a range of target acquisition. It is also our intent to treat the acquisition target in the 2nd (2012-2013) compliance period and beyond as a cumulative target. The cumulative 2010-2013 acquisition target applied to the second (2012-2013) I-937 compliance period would include all acquisition achieved in 2010-2011 or acquisition for which penalties, if any, have been paid during that period."

Avista's December 31, 2009 ten-year potential document also addresses this issue.[23] This document goes on to explain that this approach prevents the Company from limiting acquisition in excess of the compliance target to preserve potential in subsequent compliance periods.[24] It is not clear why such a cumulative approach would be necessary because the law requires each qualifying utility to review and update its ten-year potential assessment every two years and subsequently identify its new biennial target.[25] Those updates will account for acquired savings as well as new opportunities. The utility and its customers will benefit in cost and risk reductions from conservation savings acquired in excess of its target. We do not support this type of cumulative target approach because it appears unnecessary and confusing given the two-year updates to the biennial and ten-year conservation targets.

We applaud Avista's commitment to fully explore efficiency gains in its distribution system. For decades the region has pushed electric and natural gas customers to use energy more efficiently and to conserve resources, yet similar focus of purpose has not been applied to the utility side of the meter in both distribution and generation systems and facilities. While we fully support acquisition of these savings it is important to keep the scale of identified savings in perspective. In a preliminary memo to the Triple E Board in November 2009, the Company says that distribution system efficiencies are a significant component of the 6th Plan.[26] A review of the 6th Plan Conservation Supply Assumptions chapter shows that region-wide approximately 400 aMW of savings are available specifically for voltage reduction measures.[27] Using the Council's conservation calculator Option #2, Avista's share for the 2010-2011 biennium is less than half an average MW. We point this out not to diminish in any way Avista's commitment to acquire this resource or to expand to include other measures but to make sure that the investment dollars toward acquisition are focused on the sectors with the greatest opportunity.

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[22] Id.

[23] Projected "Cumulative Ten-Year Electric Conservation Potential", December 31, 2009.

[24] Id., page 4.

[25] RCW 19.285.040(1)(a) & (b)

[26] Docket UE-100176, Attachment A, 1-29-2010, page 77.

[27] Northwest Power and Conservation Council's 6th Power Plan, Pre-Publication Version 2-10-10, p. 4-12-13.

In addition, the Compliance Report references life-cycle cost modeling for the distribution system investments.[28] This is an appropriate approach and should be utilized. As part of this section, Avista states that it will count savings from the normal business replacement of old distribution equipment with new equipment. It is true that new equipment is generally more efficient than older models, however, we expect the same counting of savings approach applied to end-use savings to apply to distribution savings. For example, Avista does not provide a rebate or incentive for just any new appliance and/or equipment regardless of efficiency. A new clothes washer is likely to be more efficient than the washer it is replacing, yet only a new high efficiency washer that meets certain efficiency criteria is offered a rebate ant thus counted as savings by the Company. Another widely recognized example is televisions - many models of new TVs are significant energy consumers and would not meet high efficiency standards. The distribution efficiency approach put forward by the Company seems inconsistent with this principle.

Attachment B of Avista's filing is a copy of Avista's 2010 DSM Business Plan, dated January 18, 2010. We appreciate Avista's commitment to the high level of detail provided in the Business Plan. That said, the Business Plan is 208 pages and the Coalition has not had the time to review this document. In this filing, we recommend the Commission focus on approval or rejection of Avista's proposed biennial target and make no decision at this time regarding the Business Plan.

Avista's filing contains specific details on its enhanced Evaluation, Measurement and Verification (EM&V) protocol. As energy efficiency resources become a larger part of utility resource portfolios and the investment of funds to acquire those resources become more significant, it is crucial that utilities develop and use common, or at least consistent, protocols to evaluate, measure, verify and report savings and costs of demand-side management (DSM) program delivery. Given this, we support Avista's enhanced focus to help ensure the cost-effective delivery of this resource and increase the credibility of conservation savings for reducing loads. Yet we are not prepared to offer full comments on the EM&V protocols included in this Docket as we have not had a chance to fully analyze and review them. In our cursory review we noticed that the Impact Analysis does not include customer bill analysis and the Process Analysis does not look at participation rates. We would like the opportunity to provide further comment on these protocols and look to other resources for expertise and guidance[29]. Again, we recommend the Commission focus on approval or rejection of Avista's proposed biennial target and make no decision at this time regarding the EM&V protocol. These issues will be fully discussed in the recently announced Avista Collaborative, the first meeting is scheduled for March 10.

Stakeholder Involvement and Timing of Conservation Filings May Require Additional Direction from the Commission

The Commission rules emphasize, "Participation by the commission staff and the public in the development of the ten-year conservation potential and the two-year conservation target is essential."[30] Avista utilized its IRP TAC and Triple E Board for feedback during the

[28] Docket UE-091983, Compliance Reporting of Avista Corporation, page 15.
[29] Northeast Energy Efficiency Partnership's EM&V Forum - http://neep.org/emv-forum/about-emv-forum.
[30] WAC 480-109-010(3)(a)

development of its conservation potential assessment. While those advisory groups include several experts, they typically do not include members of the public or other entities who may be interested in the utility's efforts with regard to I-937. Preparation for the 2010-2011 biennium has been a learning experience for all stakeholders, and we believe Avista's level of stakeholder involvement was sufficient for this period. But we encourage the Company and the Commission to consider additional possibilities for outreach to non-traditional stakeholders.

We also take this opportunity to suggest the Commission consider consolidation of each utility's conservation filings into a single Docket, at least in every even-numbered year. The requirements in I-937 for a utility to assess its 10-year conservation potential and establish a biennial target based on its pro rata share of that potential were intended to effectively replace rather than be additional to the utility's annual conservation filings for approval of budgets and savings targets. We believe having multiple filings, especially when the filings have different proposed savings targets, is unnecessarily confusing and inefficient.

Conclusion

Thank you for the opportunity to provide these comments. These first I-937 compliance reports and target setting filings are a learning experience for each utility, the Commission, and all stakeholders involved. We provide these comments in the spirit of constructive criticism and look forward to continuing to work with the Company, the Commission, Public Counsel and other stakeholders to implement RCW 19.285.040.

Sincerely,

Nancy Hirsh
Policy Director