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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION DBA AVISTA UTILITIES -WASHINGTON WATER POWER DIVISION (IDAHO) FOR AN ORDER APPROVING PROPOSED SCHEDULE 92 - ALL CUSTOMER ELECTRIC ENERGY BUY-BACK PROGRAM.	**CASE NO. AVU-E-01-6** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure, Notice of Comment/Protest Deadline, and Interlocutory Order No. 28720 issued on April 25, 2001, submits the following comments.

On April 16, 2001, Avista Corporation dba Avista Utilities—Washington Water Power Division—Idaho (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) in Case No. AVU-E-01-6. The Company requests approval of a new Tariff Schedule 92—All Customer Electric Energy Buy-Back Program. The purpose of the program is to promote electric conservation by customers and displace higher cost energy that would otherwise be purchased at prevailing market prices. Conservation will be encouraged by providing customers a billing credit if they are able to reduce consumption more than 5% below last year's usage.

PROGRAM DESCRIPTION

All metered customers who have lived at the same address, or who have had the same place of business for the past 12 consecutive months and who are not participating in any other buy-back program are eligible for the program. The program is designed to provide an additional incentive for customers to reduce the amount of energy they use.

The program will apply only to a customer's energy usage (kilowatt hour meter). The customer's energy savings and potential bill credit will be calculated independently for each meter. Customer energy usage that is not metered, but billed on a flat rate will not be eligible. Customers who are participating in the Company's other buy-back programs will not be eligible for this program for the period that they are participating in other programs.

Customers will receive a bill credit each month if they reduce their usage by more than 5% as compared to the same month in the prior year. The bill credit will be 5¢ for each kilowatt hour savings in excess of the 5% threshold/dead band. The 5% dead band is adopted in lieu of adjusting usage for weather and other factors.

As proposed, the Schedule 92 program will begin with customer meter readings on May 15, 2001 and end with meter readings on October 12, 2001. The effective period is designed to provide all customers five monthly billings under the program. The Company is proposing that customer meter readings on and after May 15 would include the incentive calculation on their bill based on the entire prior month usage.

Coincident with the Company's filing, and continuing through the remainder of April, the Company will provide a customer bill insert describing the proposed program. A special newsletter will be provided in all customers' May bills, describing the approved program. On Commission approval of the program, the Company states that it will begin running several television, radio and newspaper adds describing the program. The Company's web site will also contain information about the program and ways customers can save energy.

STAFF ANALYSIS

The Company's anticipated summer prices for purchased power that is not part of a prior contract is in the range of $285 to $511 per MWh. Any power purchased at these prices is well above power supply costs built into rates and will quickly add up in the Power Cost Adjustments (PCA) deferral account for future recovery. One advantage to these prices is that any excess power created from the All Customer Buy-Back program can be sold back to the market at the same high prices and will work to reduce deferral amounts.

This summer's overall supply of power in the Northwest is expected to be extremely tight. Hydropower production will be well below average throughout the Northwest. The Staff is aware of a number of generating plants that are under construction, however no significant new resources will be completed in time to affect this cooling season. The market price of power will be driven by supply and demand. Since new supply will take time, reduction in demand appears to be the most effective way to reduce costs in the short-run.

The Avista All Customer Buy-Back program should provide significant demand side reduction. Based on Avista's Customer poll, over 50% of the customers stated that they would reduce electricity consumption by more than 10% in order to receive a 5-cent per kWh payment. By lowering the energy reduction threshold in its proposal to 5%, the Company anticipates an even higher percentage of participants.

The Company has not provided any estimate of potential energy savings and Staff is not aware of any comparable programs. However, in an effort to estimate program impact, Staff has performed an analysis attached as Appendix A. The analysis assumes that **all** kWh savings over 5% are the result of the program and paid for by the Company. This analysis shows the program to be much more cost effective than purchasing from the market. Though the cost of reducing demand with this program is less than meeting demand with market purchases, it is still higher than power supply costs included in rates. Therefore, this program will continue to add to the deferral account but at a much slower rate than purchasing power from the market.

Staff is concerned that the only research Avista did in designing the buy-back program was limited to a survey to assess how many customers say they will reduce their electricity consumption if they are paid $.05/kWh and $.10/kWh to do so. The Company did not investigate how many customers have the same address as one year ago, nor how many customers' usage of electricity has varied by 5% in the past. This is information that should have been easily researched by the Company and would have been useful to it in designing the program.

Staff is also concerned that the 5% kWh reduction threshold may be lower than optimal for maximizing ratepayer benefit. Staff notes that individual monthly kWh consumption may easily vary by more than 5% from year to year due to weather differences, timing of vacations or business trips, other non-conservation factors, and conservation measures already financed by the Company.

Paying customers for energy reductions that would have occurred anyway for other reasons does not maximize ratepayer benefits from the buy-back program. Staff also notes that the Company's customer survey that helped it develop the buy-back program asked if customers would conserve electricity if the Company bought back the kWhs that were saved in excess of 10% of last year's consumption. However, Staff believes it is prudent to approve the temporary buy-back program with the promoted 5% threshold.

Staff is additionally concerned about the administrative and marketing costs of the program. These costs may exceed the actual payments to customers if participation is similar to Staff's analysis. However, all conservation efforts in excess of Staff's conservative estimates directly decrease the impact of administrative and marketing costs and lower the overall unit price of purchased power.

Finally, Staff is concerned about the degree of equitableness of this program among individual customers. Customers who have participated in one or more of the Company's Schedule 90 conservation programs in the past year will likely be rewarded again through the buy-back program. Customers who have decreased the size of their household, split households or purchased an additional vacation home will likely be rewarded by the buy-back program even without implementing any conservation efforts. Landlords of commercial properties also have an opportunity to benefit if lessees have gone out of business in the last year. The landlord's address would not have changed yet building usage could change considerably.

On the other hand, customers who initiated conservation measures at their own expense prior to the past year will be less likely to be able to effectively participate in this program. Customers who have combined households in the past year or who have added children through birth or adoption or who have allowed grown children, parents, other relatives or borders to move into their homes will also be less likely to be able to effectively participate in this program in spite of any conservation efforts they may take. In addition, customers who have changed addresses in the past year will not be eligible for the buy-back program regardless of any recent conservation efforts. Staff recognizes that lower income households may move more often than those with higher incomes may.

Staff has considered the degree of inequitableness of the buy-back program resulting from the above demographics and decided that the program is worthwhile anyway because all customers will benefit in varying degrees due to the current high market prices for electricity. The Staff is also mindful that Avista's Schedule 90 conservation programs, including a recently implemented compact fluorescent light bulb giveaway and a low interest loan program, are available to all households and businesses.

Staff agrees that this program reduces power supply costs that would otherwise flow through the PCA. Consequently, Staff recommends that program costs be subject to recovery through the PCA as are other reasonably incurred power supply costs.

ACCOUNTING AND RATEMAKING TREATMENT

The Company proposes that the net savings from the program directly flow through the PCA deferral account. Staff agrees that these program costs reduce net power supply costs and should flow through the PCA as do other power supply costs. Staff further recommends that a separate subaccount be established to completely track all costs associated with this program. The Company intends to review program results on a monthly basis. Staff recommends that the Company include Staff in its monthly distribution of results to facilitate Staff's review of the program. Staff also recommends a final accounting of program results to assess program impacts and evaluate benefits.

Staff believes that some lost revenue that can legitimately be attributed to the buy-back program should be subject to recovery. However, Staff has identified several factors including weather, existing conservation programs and changes in household that can impact energy consumption from year to year. The Company should not expect to recover lost revenue when these are the reasons for energy reductions. Even the Company has established a 5% kWh threshold before customers are eligible for payments to account for non-program related reductions.

In previous cases the Commission required that each company requesting lost revenue, work with Staff and other interested parties to establish an acceptable lost revenue recovery methodology. Staff recommends that Staff and Company work to resolve the lost revenue issue prior to a request for program cost recovery consistent with the other buy-back and customer exchange programs previously approved by the Commission.

STAFF RECOMMENDATION

Staff recommends approval of the program and makes the following additional recommendations:

1) The Company shall include sub-accounts in the purchase power Account 555 to specifically track the program costs.

2) The Company shall provide Staff all Company generated interim reports for the program.
3) The Company shall provide a summary program performance report following the completion of the program.
4) The Commission should direct Staff and the Company to develop and present a proposal to the Commission recommending a procedure to calculate the appropriate amount of lost revenues that should be passed through the Company's Power Cost Adjustment mechanism prior to actual recovery in rates.

Respectively submitted this day of May 2001.

Scott Woodbury
Deputy Attorney General

Technical Staff: Michael Fuss

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