SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
BAR NO. 1895

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

RECEIVED
2009 AUG 28 PM 2:52
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION FOR AUTHORITY TO INCREASE ITS TARIFF SCHEDULES 91 AND 191 – ENERGY EFFICIENCY PUBLIC PURPOSE RIDER ADJUSTMENTS.	**CASE NO. AVU-E-09-6 AVU-G-09-4** **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 and Notice of Comment/Protest Deadline issued on July 31, 2009, in Case No. AVE-E-09-6/AVU-G-09-4, submits the following comments.

BACKGROUND

On June 30, 2009, Avista Corporation dba Avista Utilities (Avista; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of an increase to tariff Schedules 91 and 191 rates, Energy Efficiency Public Purpose Rider Adjustment. Schedules 91 and 191 are designed to recover the costs incurred by the Company associated with providing electric and natural gas energy efficiency services to customers. Avista contends the proposed increase in Schedules 91 and 191 rates is necessary to continue to fund ongoing electric and natural gas efficiency programs consistent with the Company's most recent electric and natural gas integrated resource plans (IRPs). It will also serve to amortize a deficiency balance within the electric and natural gas efficiency tariff riders resulting from the Company's response to higher than expected customer demand for services.

The estimated annual revenue change associated with the Company's filing is approximately $5.4 million for electricity and $1 million for natural gas, or an increase of 2.73% and 1.0% respectively uniformly spread among all customer classes. An increase in the energy efficiency tariff has no impact on Company earnings.

The Commission, by Interlocutory Order No. 30870 authorized the proposed increases in Schedules 91 and 191 Energy Efficiency Public Purpose Rider Adjustments effective August 1, 2009 to coincide with other rate changes occurring on that date and established a procedural schedule for investigation and comments.

According to the Company's Application, customers continue to respond to increased electricity and natural gas prices by pursuing energy efficiency improvements through Avista's demand-side management (DSM) programs. Existing and planned programmatic expenditures are exceeding tariff rider revenues. As of the close of May 2009, Avista's electricity DSM tariff rider balance for Idaho is a negative $2,361,178 and the natural gas DSM tariff rider balance for Idaho is a negative $1,036,753. The proposed tariff rider increase is estimated to eliminate this current negative balance by the end of 2010 and to fund estimated future expenditures.

Schedules 91 and 191 funds support DSM programs described in Schedules 90 and 190. These programs include but are not limited to the following measures:

- Appliance Measures
- Compressed Air Measures
- HVAC Measures
- Industrial Measures
- Lighting Measures
- Maintenance Measures
- Motors Measures
- Renewable Technologies
- Northwest Energy Efficiency Alliance Participation
- Shell Measures
- Sustainable Building Measures

The Application states that DSM programs provide financial incentives for cost-effective efficiency measures installed by customers with a simple payback of greater than one year. These include more than 300 measures that are packaged into more than 30 programs for customer convenience.

Avista maintains that it will continue to encourage the direct use of natural gas by its electricity customers. The Company has residential rebates for the conversion of electricity-to-natural-gas space and water heat loads as well as a broad program for any non-residential electricity-to-natural-gas conversions meeting specified criteria for relative British Thermal Unit (BTU) efficiency. The cost-effective potential for these measures has been incorporated into Avista's IRP effort and is contained within the identified acquisition goal. Avista's residential programs include promotions for high efficiency equipment, electricity-to-natural-gas conversions, compact florescent lights (CFLs), "second" refrigerator recycling, home weatherization and rooftop dampers, as well as providing educational assistance through various community events.

For commercial and industrial customers Avista offers "site-specific" programs, in addition to prescriptive programs. 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. Commercial and industrial programs available to Avista customers include:

- Energy Smart Commercial Refrigeration
- Lighting and Controls
- Commercial Food Service Equipment
- Building Retro-commissioning
- Premium Efficiency Motors
- Power Management for Personal Computer (PC) Networks
- LEED Certification, Commercial HVAC Variable Frequency Drives (VFDs)
- Refrigerated Warehouses
- Vending Machine Controllers
- Demand Controlled Ventilation
- Side-stream Filtration
- Steam Trap Replacement and Repair
- Multi-family Development
- LED Traffic Signals
- Electricity-to-Natural-Gas Water Heater Conversions
- Commercial Clothes Washers

In addition to Avista's prescriptive and site-specific programs, the Application states that the Company funds and participates in the activities of the Northwest Energy Efficiency Alliance (NEEA). NEEA focuses on using a regional approach to obtain electricity efficiency through the transformation of markets for efficiency measures and services. An example of NEEA-sponsored programs that benefit Avista customers is decreasing the cost of CFLs and high efficiency appliances by working through manufacturers. For some measures, a large scale, cross-utility approach is the most cost-effective means to achieve energy efficiency savings. This approach is particularly effective for markets composed of large numbers of smaller usage homogenous consumers, such as the residential and small commercial markets. The results from NEEA programs are reported in March of the following year. For 2008, Avista's claimed portion of the regional savings from NEEA programs amounted to 2.1 aMW or more than 18 million kWh.

Effective October 1, 2008, in Order No. 30647 in Docket Nos. AVU-E-08-01 and AVU-G-08-01, $465,000 was directed to Idaho electricity and natural gas low-income customers and $25,000 was provided to Idaho Consumer Assistance Program (CAP) agencies for the purpose of underwriting agency personnel assisting in low-income outreach and conservation education. The low-income weatherization portfolio represents approximately 8% of the Company's total energy efficiency budget.

The Application states that Avista also participated in the energy affordability workshops in Case No. GNR-U-08-01 and that it supports legislative efforts to allow utilities to propose offering rates and policies that assist low-income customers.

Stakeholder Review

The Company has regularly convened a stakeholders' forum known as the External Energy Efficiency Board (Triple E). The Application states that these meetings have included customer representatives, Commission staff members, and individuals from the environmental communities and that at the meetings the Company's programs and cost-effectiveness tests and results are reviewed. The Application further claims that Avista's DSM programs have been cost-effective from both a Total Resource Cost (TRC) and Program Administrator Cost Test (PACT) (formally known as the utility cost test or UCT) perspective and that the increased funding requested in the Company's filing will continue to be subject to the cost-effectiveness test prescribed by the Commission.

Revised Procedures

To reduce the likelihood of significant positive or negative balances in the future, Avista proposes that a schedule be established for the revision of the DSM components of Schedules 91 and 191. Avista proposes to file on or before February 15th of each year to revise the DSM portions of the Schedule 91 and 191 tariff rider mechanisms to establish tariff riders that are sufficient to fund the following twelve months of DSM as well as amortizing any tariff rider imbalance. It is understood that discussions with interested parties may, from time to time, lead to modifications of this process in the event that the projected change to the tariff rider is very small or when changes to the period of time that an imbalance is to be recovered are deemed appropriate.

The protocols described above, the Company contends, will manage the balances of the tariff rider mechanism and ensure that sufficient funding is available for the completion of programmatic measures. The reasons that the tariff rider balances have been negative are because Avista has acquired, and will continue to acquire, cost-effective energy-efficiency resources as an important component of its overall resource portfolio. This includes meeting customer demand for energy efficiency financial rebates in advance of tariff rider recovery.

STAFF REVIEW

Audit Verification of Rider Account Balances

In Case Nos. AVU-E-08-01 and AVU-G-08-01 all parties stipulated that Avista's expenditures in Idaho for electric and natural gas energy efficiency from November 1, 2003 through December 31, 2007 were prudently occurred. The Commission affirmed the Stipulation in Order No. 30647. As a part of the review in this case, Staff audited the energy efficiency expenditures from January 1, 2008 through May 31, 2009, and verified the reported balance on May 31, 2009 to be as follows:

	Electric	Natural Gas
January 1, 2008 Rider Balance	$ 384,396	$ (407,643)
Contributions	3,465,578	2,481,719
Interest	24,296	
Expenditures		
Residential Programs	2,052,941	1,031,663
Low Income Programs	352,990	201,000
Non-Residential Programs	2,925,832	1,592,643
Regional Programs	310,300	(98)
General Programs	593,383	285,607
May 31, 2009 Rider Balance	$(2,361,177)	$(1,036,740)

The Company's Application reported an actual balance for Natural Gas that was an immaterial $13 less than what Staff was able to verify.

The projected current revenues at the current tariff rates would be insufficient to fund the planned DSM expenditures. Without any changes to the DSM rider funding, the resulting tariff rider balances would be approximately a negative $10.5 million for Idaho electric operations and a negative $2.78 million for Idaho natural gas operations on December 31, 2010. The proposed increase in the Schedule 91 and 191 tariffs attempts to reduce the discrepancy between collections and expenditures and eliminate tariff rider imbalances by the end of 2010.

Public Comments

As of August 27, 2009, eighteen customers submitted written comments to the Commission regarding the proposed increases to Schedules 91 and 191 rates, also known as "energy efficiency tariff riders".

Of the eighteen written comments received, seventeen customers expressed opposition to the proposed increase. One customer proposed that Avista implement a program to remotely control the use of air conditioners during times of peak demand.

A wide range of concerns were expressed as to why the Commission should disallow an increase to the energy efficiency tariff riders with the most prevalent concerns being the poor state of the economy and recent rate increases granted to the Company. Of the seventeen customers in opposition, ten referenced either the current state of the economy, unemployment, and financial challenges with paying utility bills. Eight customers cited the Company's recent general rate increases and questioned the need for another increase.

Five comments were made about executive pay and Company profits.

Concerns about the future viability of small businesses were also mentioned. One small business owner faces the challenge of potentially having to increase the rent of low income clientele. Another owner stated that she is going out of business because of the inability to pay higher utility bills.

Electricity Schedule 91

Staff recognizes that rate increases are especially unpopular during hard economic times. However, Staff is also aware that even more expensive supply-side alternatives have been and will continue to be avoided to the extent that customers use existing electricity resources more efficiently. Cost-effective DSM, including energy efficiency programs and load management programs, is a significant resource that helps customers control their utility bills, reduces the need for higher-cost, supply-side resources, and increases system reliability.

The least costly electricity resource is customers increasing the efficiencies and efficient use of their buildings, appliances, lights, irrigation systems, and industrial processes without utility intervention and administration. Staff believes the second least costly resource is available when utilities or other entities prudently administer cost-effective programs that provide monetary incentives and educational opportunities for customers to increase their efficiencies. The most expensive resources are additional generation, transmission and distribution facilities, regardless of whether the generation facilities are thermal, hydro, wind, solar or other alternatives.

In spite of many years of utility DSM programs, it remains evident that most customers, left on their own, do not use electricity as efficiently as rational economic theory suggests they should. Continued less-than-optimum efficiency by customers is probably due to a combination of Avista's historically low electricity rates, lack of knowledge and misconceptions about efficiency, and a perceived need for inordinately high implicit discount rates, i.e. individuals and business often, if not usually, requiring much higher rates of return for energy efficiency investments than for competing, alternative investments. This may be due to a skewed perception of risk, misinformation, and/or other factors. An additional, compounding factor is the fact that due to rate averaging and inclusion of fixed cost recovery in energy and demand rates, most retail electricity prices usually do not accurately reflect or track incremental resource costs.

Whatever the reasons for inefficient consumption, the result is that Avista's own analyses, as well as regional and national analyses, show that there remain many efficiency programs that utilities or other entities can administer cost-effectively. Even though such administration creates additional costs, the programs can be cost-effective to the extent that the cash incentives and/or educational efforts result in customers improving their efficiencies beyond what they would do without such programs in amounts sufficient to cost-effectively recoup the administration costs. Prudently designed and managed programs are expected to be less costly than currently available supply-side resources. Appropriate post-implementation evaluations should be completed to further improve the programs, reassess all assumptions including baseline trends, and show the actual cost-effectiveness achieved.

Staff expects that Avista's energy efficiency program costs will continue to be prudently incurred and that the programs will remain cost-effective. However, Staff believes that Avista's tariff schedule 90 potentially over emphasizes reliance upon the total resource cost (TRC) cost-effectiveness test. Staff continues to favor broader cost-effectiveness analyses for utility DSM from the additional perspectives of all customers, program participants and non-participants. Although Avista currently performs such additional analyses, Staff is concerned about the Company's tariff language limitation to the TRC perspective. An additional concern is the tariff's emphasis on portfolio cost-effectiveness, which inappropriately suggests that cost-effectiveness for individual programs and measures is not important. Conceivably, there are some non-cost-effective measures for which it may be prudent for Avista to provide incentives if such measures can be shown to help sell cost-effective measures to customers, but the burden of proof is on the Company to show how overall net benefit to customers is increased, rather than decreased.

Regardless of Staff's concerns about tariff language expressed above, it is not Staff's intent to either validate or question either the Company's DSM prudency or its actual cost-effectiveness calculations for any of its programs at this time. Such validation and additional review was not requested in this case and it will occur during the course of a subsequent DSM prudency review, at which time the Commission determines whether or not Avista's past DSM expenditures remain recoverable from its customers.

All customer classes are receiving benefits from Avista's electricity DSM programs. Staff has reviewed the Application's proposed funding level and supports continuation of the rate increases in Schedule 91, Energy Efficiency Rider, from approximately 1.25% of base revenues to approximately 3.98% of base revenues, resulting in a 2.7% rate increase for all customer classes.

Gas Schedule 191

Most of Staff's reasoning for supporting the electricity DSM tariff rider increase also applies to the natural gas rider increase. The primary economic differences between the two energy resources are that wholesale gas costs are much less time-variant and consumption reductions by customers of individual utilities have less effect on wholesale prices. As a result of these differences, cost-effectiveness from the non-participant perspective is even more difficult. Nevertheless, Avista historically has achieved cost-effectiveness from the other major perspectives, i.e. TRC, UCT and participant, for its natural gas efficiency programs.

All customer classes are receiving benefits from Avista's natural gas DSM programs. Staff has reviewed the Application's proposed funding level and supports continuation of the rate increases in Schedule 191, Energy Efficiency Rider, from approximately 1.6% of base revenues to approximately 2.6% of base revenues, resulting in a1% rate increase for all customer classes.

Proposal for Annual DSM Funding Review

The Application proposes a regularly scheduled, annual review of energy efficiency tariff rider balances and associated adjustments to rider funding levels. Staff is not necessarily opposed to annual reviews and revisions per se, but we do not believe it is necessary for the Commission to order such. Instead of mandated, automatic reviews each year, Staff believes it is reasonable for the Commission to continue to allow the Company to file revisions to its tariff riders at any time deemed necessary and appropriate by the Company.

Furthermore, Staff believes it is reasonable to explore other funding alternatives in the future. Such alternatives may include recovering some DSM expenses from base rates and/or capitalizing, rather than expensing, some DSM costs.

STAFF RECOMMENDATION

Staff recommends that the increases in Avista's Schedules 91 and 191 Energy Efficiency Public Purpose Rider Adjustments effective August 1, as authorized by Interlocutory Order No. 30870, remain in effect.

Staff recommends that the Commission not accept Avista's proposal to require annual reviews of Rider balances and adjustments to the Rider levels and instead that the Commission continue to allow the Company to file proposed changes to Schedules 91 and 191 at the Company's discretion whenever it is necessary and appropriate to do so, either within or outside general rate case filings.

Respectfully submitted this 28th day of August 2009.

Scott Woodbury
Deputy Attorney General

Technical Staff: Lynn Anderson
Curtis Thaden
Donn English
Bryan Lanspery

i:umisc:comments/avue09.6/avug09.4swlabldect.doc

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 28TH DAY OF AUGUST 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NOS. AVU-E-09-06 AND AVU-G-09-04, BY ELECTRONIC MAIL TO THE FOLLOWING:

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220
E-MAIL: david.meyer@avistacorp.com

KELLY NORWOOD
VICE PRESIDENT – STATE & FED. REG.
AVISTA UTILITIES
PO BOX 3727
SPOKANE WA 99220
E-MAIL: kelly.norwood@avistacorp.com

SECRETARY