

DAVID J. MEYER
VICE PRESIDENT AND CHIEF COUNSEL OF
REGULATORY & GOVERNMENTAL AFFAIRS
AVISTA CORPORATION
P.O. BOX 3727
1411 EAST MISSION AVENUE
SPOKANE, WASHINGTON 99220-3727
TELEPHONE: (509) 495-4316
EMAIL: david.meyer@avistacorp.com

RECEIVED
2013 SEP 30 AM 10:17
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. AVU-E-13-09
OF AVISTA CORPORATION FOR A) CASE NO. AVU-G-13-02
FINDING OF PRUDENCE FOR 2010-2012)
EXPENDITURES ASSOCIATED WITH)
PROVIDING ELECTRIC AND NATURAL GAS) DIRECT TESTIMONY
ENERGY EFFICIENCY SERVICE IN THE) OF
STATE OF IDAHO) BRUCE W. FOLSOM
)

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business
3 address.

4 A. My name is Bruce Folsom. I am employed by
5 Avista as the Director of Energy Efficiency Policy. My
6 business address is East 1411 Mission Avenue, Spokane,
7 Washington.

8 Q. Would you please describe your education and
9 business experience?

10 A. I graduated from the University of Washington in
11 1979 with Bachelor of Arts and Bachelor of Science
12 degrees. I received a Masters in Business Administration
13 degree from Seattle University in 1984.

14 I joined the Company in 1993 in the State and Federal
15 Regulation Department. My duties included work associated
16 with tariff revisions and regulatory aspects of integrated
17 resource planning, demand side management, competitive
18 bidding, and emerging issues. In 2002, I was named the
19 Manager of Regulatory Compliance which added
20 responsibilities such as implementing the Federal Energy
21 Regulatory Commission's major changes to its Standards of

1 Conduct rule. I began my current position in September of
2 2006.

3 Prior to joining Avista, I was employed by the
4 Washington Utilities and Transportation Commission
5 beginning in 1984, and then served as the Electric Program
6 Manager from 1990 to February, 1993. From 1979 to 1983, I
7 was the Pacific Northwest Regional Director of the
8 Environmental Careers Organization, a national, private,
9 not-for-profit organization.

10 **Q. First, why is the Company requesting a finding**
11 **of prudence outside of a General Rate Request?**

12 A. Beginning in 1995, Avista has requested a
13 finding of prudence for prior period cost recovery of
14 energy efficiency expenditures at the time of general rate
15 case filings. This process occurred as an outcome of how
16 Avista's Demand Side Management (DSM) Tariff Rider was
17 established. As the country's first system benefit charge
18 for conservation, several "legacy" protocols were adopted,
19 including the scope and timing of cost-recovery. However,
20 over time, reviewing energy efficiency issues in general
21 rate cases did not provide the level of focus desired by

1 parties to these proceedings. Discussions with Commission
2 Staff and Avista's Energy Efficiency Advisory Group have
3 led to requesting a finding of prudence, and examination
4 of associated issues, in a stand-alone case as presented
5 herein.

6 **Q. What is the scope of your testimony in this**
7 **proceeding?**

8 A. I will provide an overview of the Company's
9 recent Idaho DSM portfolio results and expenditures for
10 electric and natural gas efficiency programs. I will also
11 provide documentation demonstrating Avista's expenditures
12 for electric and natural gas efficiency programs have been
13 prudently incurred. More specifically, I address Avista's
14 involvement with the Northwest Energy Efficiency Alliance
15 (NEEA), the Company's proposal in a concurrently-filed
16 case for university research and development, status of
17 the Company's suspended natural gas DSM programs, overall
18 evaluation by Avista's third-party contractor ("Cadmus"),
19 and opportunities presented for stakeholder involvement.

20 Lastly, I introduce the other Company witnesses in
21 this case.

1 II. OVERVIEW OF DSM PROGRAMS AND CURRENT ISSUES

2 Q. Would you please provide a brief overview of
3 Avista's DSM programs?

4 A. Yes. Avista has historically had a significant
5 and consistent commitment to energy efficiency, beginning
6 its programs in 1978. In the mid-1990s, while the electric
7 industry was pulling back from offering energy efficiency
8 services, Avista pioneered the DSM Tariff Rider. Now in
9 its nineteenth year, the tariff rider was the country's
10 first distribution charge to fund DSM and is now
11 replicated in many other states. Schedule 91 currently
12 has a rate equal to 2.8% of retail revenue for electric
13 service and the Schedule 191 rate is 0.0% of retail
14 revenue for natural gas.

15 The Company's approach to energy efficiency is based
16 on two key principles. The first is to pursue all cost-
17 effective kilowatt hours and therms by offering financial
18 incentives for energy saving measures within simple
19 financial payback periods. As will be described by
20 Company witness Mr. Drake, the Company's programs are
21 delivered across a full customer spectrum. Virtually all

1 customers have had the opportunity to participate and many
2 have directly benefited from the program offerings. All
3 customers have indirectly benefited through enhanced
4 resource cost-efficiencies as a result of this portfolio
5 approach.

6 **Q. What were the Company's energy efficiency**
7 **targets and results for 2010-2012?**

8 A. The Company's energy efficiency targets are
9 established in the process of developing the Electric and
10 Natural Gas Integrated Resource Plans (IRPs). The targets
11 derived through the resource planning efforts provide a
12 starting point for program planning which is accomplished
13 through the annual business planning process where program
14 offerings are optimized for the Company's service
15 territory based on current economic and market conditions.

16 The Company's energy efficiency offerings include
17 over 300 measures and equipment options that are packaged
18 into over 30 programs for customer convenience. As part of
19 Avista's planning efforts, over 3,000 equipment options
20 and over 1,700 measures are evaluated and then examined
21 for cost-effectiveness.

1 The results of Avista's energy efficiency programs
2 continue to exceed the targets established as part of this
3 IRP process, as shown in Table No. 1 below. Idaho energy
4 efficiency savings for 2010 through 2012 were 109,100
5 first-year MWh (or 12.5 aMW). This represents 190% of the
6 Company's IRP target of 57,289 MWh for this period.

7 **Table No. 1**

8

2010-2012 MWh Savings	2010-2012 IRP Target	Percent Achieved
109,100	57,289	190%

9

10 Over 181.4 aMW of cumulative savings have been
11 achieved through Avista's energy efficiency efforts in the
12 past thirty-five years; of which 117.6 aMW of DSM is
13 currently in place on the Company's system with
14 approximately 35.3 aMW in our Idaho service territory.
15 Current Company-sponsored conservation reduces retail
16 loads by nearly 10
17 percent.

18 The 2010-2012 natural gas savings targets for Idaho
19 were 2.1 million therms. Over 950,822 first-year therms
20 have been saved in Idaho, which is 45% of this period's
21 target as represented in Table No. 2. (Avista's combined

1 Idaho and Washington natural gas targets were 7.0 million
2 therms of which 4.1 million therms were achieved.)
3 Natural gas efficiency acquisition was affected by lowered
4 natural gas avoided costs and the suspension of Avista's
5 Idaho natural gas DSM programs in 2012. Company witness
6 Ms. Hermanson will provide the detail in support of these
7 results.

8 **Table No. 2**

9 2010-2012 Therm Savings	2010-2012 IRP Target	Percent Achieved
10 950,822	2,105,692	45%

11 **Q. What was the cost of these efficiency**
12 **acquisitions?**

13 A. During 2010-2012, the Company spent \$25.4
14 million on Idaho electric and natural gas DSM programs of
15 which 64.0% was paid out to customers in direct incentives
16 pursuant to the cost-effectiveness tests described by Ms.
17 Hermanson. This percentage does not include additional
18 benefits such as technical analyses provided to customers
19 by the Company's DSM engineering staff.

20 **Q. Do the 2010-2012 results reflect Avista's**
21 **participation in regional energy efficiency efforts?**

1 A. Yes. The numbers reported include 12,614 MWh of
2 first-year Idaho savings acquired through Northwest Energy
3 Efficiency Alliance's (NEEA) regional efforts. NEEA
4 focuses on using a regional approach to obtain electric
5 efficiency through the transformation of markets for
6 efficiency measures and services. An example of NEEA-
7 sponsored programs that benefit Avista customers are
8 efforts to decrease the cost of compact fluorescent light
9 bulbs (CFLs) and high-efficiency appliances by working
10 through manufacturers. For some measures, a large-scale,
11 cross-utility approach is the most cost-effective means to
12 achieve energy efficiency savings and transform the
13 market. This approach is particularly effective for
14 markets composed of large numbers of homogenous smaller
15 usage consumers, such as the residential and small
16 commercial markets.

17 **Q. Please explain Avista's relationship to the**
18 **Northwest Energy Efficiency Alliance (NEEA).**

19 A. Avista has been a member of the NEEA, and
20 actively involved in its governance, since the creation of
21 that organization in 1996. As one of fourteen funders,

1 Avista is supportive of the use of a coordinated regional
2 market transformation effort to the extent that the effort
3 is a cost-effective enhancement of, or alternative to,
4 local utility efforts at acquiring those resources for our
5 customers.

6 The utility cost of NEEA's savings in Avista's Idaho
7 service area is \$140 per first-year MWh. This compares
8 with \$165 per first-year MWh for Avista-funded local
9 energy efficiency programs. During the 2010-2012 period,
10 Avista's Idaho-related NEEA funding averaged \$590,000 per
11 year, or a total of nearly \$1.8 million.¹

12 **Q. What is the Company's plan for identifying**
13 **future potential in energy efficiency within new and**
14 **evolving technologies?**

15 A. On August 30, 2013, Avista filed an application
16 with the Commission to authorize up to \$300,000 per year
17 of Schedule 91, DSM Tariff Rider revenue to fund applied
18 research at Idaho's universities through a "call for
19 papers" approach. The intent of this initiative is to
20 supplement the pipeline of emerging technology. While this

¹Based on Avista's regional customer count and loads formula of 5.4% of NEEA's annual budget with 30% allocated to Idaho.

1 application is in a separate docket, (Case No. AVU-E-13-
2 08), I mention this to underscore Avista's interest in
3 advancing research efforts to assist the pursuit of new
4 technologies on its customers' behalf.

5 **Q. What is the status of the Idaho electric and**
6 **natural gas tariff rider balances?**

7 A. The Idaho electric and natural gas tariff rider
8 balances are \$3,271,549 underfunded (i.e. dollars expended
9 exceed dollars collected through the Tariff Rider) and
10 \$734,222 overfunded, respectively.² Overfunded balances
11 indicate that more tariff rider funding was collected than
12 necessary to fund the on-going DSM operations. The
13 overfunded balance will be held to cover some long-term
14 site-specific projects that are projected to complete and
15 be paid in 2014-2015. After qualifying projects have been
16 paid, any remaining balance will be netted with the
17 Purchase Gas Adjustment (PGA).

18 Avista has historically filed for changes in
19 Schedules 91 and 191 when the rider balances have exceeded
20 certain thresholds, such as a 2% retail rate impact.

² Unlike the 8.5% interest the Company incurs on Schedule 91 electric tariff rider, the overfund balances on Schedule 191 does not incur interest.

1 Going forward, Avista plans to file energy efficiency
2 true-ups on an annual basis. Ms. Hermanson describes the
3 expenditures, efficiency savings, and cost-effectiveness
4 of these programs in her direct testimony.

5 Q. Due to low natural gas avoided costs, Avista
6 suspended its natural gas energy efficiency programs by
7 Commission decision effective September 25, 2012. Does
8 the Company have plans to consider bringing these programs
9 back?

10 A. Yes. Avista intends to propose an offering of
11 natural gas efficiency programs in Idaho when the cost-
12 effectiveness is "favorable" as measured by the total
13 resource cost (TRC) test. Avista will monitor the
14 quarterly weighted average cost of gas (WACOG), relative
15 to the prevailing WACOG when Schedule 191 was suspended,
16 as a proxy for avoided cost. Should there be an increase
17 of 50% in gas costs; Avista will evaluate the viability of
18 reinstating a cost-effective natural gas DSM portfolio.
19 Similarly, natural gas DSM was temporarily suspended in
20 1997 and reinstated in 2000 when natural gas avoided costs

1 increased enough to offer cost-effective natural gas DSM
2 programs.

3 **Q. Please describe the opportunity for external**
4 **review of Avista's DSM activities.**

5 A. The Company has had continuous energy efficiency
6 stakeholder involvement since 1992. To gain perspectives
7 from external experts and opinion leaders, Avista provides
8 opportunities for communication and input pertaining to
9 the Company's DSM portfolios. The Company's program
10 offerings, planning, evaluation findings, underlying cost-
11 effectiveness tests and results are reviewed during
12 stakeholder meetings. Currently, the Company holds in-
13 person meetings at least twice per year, hosts several
14 webinars annually, provides a full analysis of the results
15 of DSM operations on an annual and monthly basis,
16 discloses (with appropriate concern for customer
17 confidentiality) large projects and provides a quarterly
18 newsletter summarizing recent DSM activities.

19 Avista's Energy Efficiency Advisory Group, separate
20 from the Company's Integrated Resource Planning Technical
21 Advisory Committee, includes representatives from

1 regulatory and other governmental agencies, environmental
2 groups, nationally recognized energy-efficiency
3 organizations, and advocacy groups for low income and
4 industrial customers as well as end-use customer
5 participants.

6 Avista appreciates the active engagement of the
7 Commission Staff as part of our Energy Efficiency Advisory
8 Group. Additionally, the Idaho Rivers Alliance, the
9 Northwest Energy Coalition, University of Idaho Integrated
10 Design Lab and the Northwest Industrial Gas Users have
11 representation on Avista's Advisory Group.

12 **Q. How many Avista staff assist in the**
13 **implementation of Avista's DSM programs?**

14 A. Currently, these programs are supported by
15 twenty-one full-time equivalents (FTE) spread over 43
16 staff that support DSM programs in Washington and Idaho.

17 **Q. With the suspension of natural gas programs and**
18 **declining electric avoided costs, what are the Company's**
19 **plans with current staffing levels?**

20 A. The Company's 2012 Voluntary Severance Incentive
21 Program resulted in a decrease of approximately 1.25 FTE

1 in the DSM Department. In addition to this, Avista is
2 continuing to evaluate the appropriate staffing levels and
3 will maximize attrition opportunities as they arise.

4 III. PRUDENCE OF INCURRED DSM COSTS

5 Q. Would you please explain the Company's request
6 for a finding of prudence in this case?

7 A. Yes. Idaho electric programs have been cost-
8 effective from both Total Resource Cost (TRC) test and
9 Program Administrator Cost (PAC) test perspectives. As
10 explained later in by Company witness Ms. Hermanson, the
11 2010-2012 TRC benefit-to-cost ratio of 1.91 for the Idaho
12 electric DSM portfolio is cost-effective, with a residual
13 TRC benefit to customers of \$29.9 million. The 2010-2012
14 PAC, also known as the Utility Cost Test (UCT), benefit-
15 to-cost ratio of 3.35 is also cost-effective, with a
16 residual PAC benefit of nearly \$42.4 million. The
17 levelized TRC and PAC costs are \$36.55 and \$19.97 per MWh,
18 respectively.

19 The overall portfolio of measures has a weighted
20 average measure life of approximately 13 years for 2010-
21 2012.

1 Avista has previously demonstrated the prudence of
2 program expenditures in the context of general rate cases.
3 In the Company's 2010 electric and natural gas general
4 rate cases (Case Nos. AVU-E-10-01 and AVU-G-10-01), the
5 Commission issued a finding in Order No. 32070 that
6 electric and natural gas expenditures through December 31,
7 2009 were prudently incurred. At this time, the Company
8 requests that the Commission issue a finding that electric
9 and natural gas energy efficiency expenditures from
10 January 1, 2010 through December 31, 2012 were prudently
11 incurred.

12 **Q. Please summarize the Company's energy**
13 **efficiency-related savings for this period?**

14 A. The Company's tariff riders under Schedules 91
15 (electric) and 191 (natural gas) are system benefit
16 charges to fund energy efficiency.

17 As shown on page 1 of Exhibit No. 3, Schedule 1, from
18 January 1, 2010 through December 31, 2012, 109,100 MWh and
19 950,822 therms of annual first-year efficiency savings
20 were achieved. Page 1 of Exhibit No. 3, Schedule 1

1 details the energy savings by regular and low-income
2 portfolios for both electric and natural gas DSM programs.

3 **Q. Please describe the retention of the**
4 **independent, third-party evaluators who verified the 2010-**
5 **2012 savings.**

6 A. In late November 2010, following the filing of
7 its Evaluation, Measurement, and Verification (EM&V)
8 Annual Plan, the Company issued a comprehensive Request
9 for Proposal (RFP) for EM&V services for its 2010-2011
10 electric and natural gas DSM portfolio. Avista retained
11 consultants Steve Schiller and Dr. Chris Ann Dickerson to
12 assist with the RFP process in order to ensure a
13 comprehensive scope and appropriate vendor selection.
14 This came on the heels of a collaborative process with the
15 consistent involvement of the Commission Staff to develop
16 an overarching "EM&V Framework" to establish protocols for
17 savings acquisition and program management review.

18 Over twenty prospective bidders participated in a
19 conference call with five bidders submitting proposals by
20 the December 27, 2010 due date. The Company conducted
21 detailed interviews by phone with two bidders being

1 selected for second interviews on-site. Cadmus was the
2 awarded the independent EM&V contract based on its
3 detailed evaluation approach following best practices,
4 coupled with its strong regional and national reputation.
5 In addition, Cadmus had a sizeable and diverse complement
6 which made it possible for multiple teams to be
7 immediately deployed on various tasks, such as the
8 Technical Reference Manual (TRM) review and natural gas
9 measurement and verification, in order to meet impending
10 regulatory deadlines.

11 **Q. What evaluation of the Company's DSM programs**
12 **have occurred?**

13 A. Cadmus performed independent (or "third-party")
14 impact and process evaluation on Avista's DSM programs for
15 the 2010-2012 time period covered by the Company's request
16 in this case. Impact evaluation is intended to verify,
17 and adjust as necessary, "claimed" savings. Process
18 evaluation reviews "procedures" for continual improvement.
19 Ms. Hermanson and Mr. Drake describe the results of
20 Cadmus' work in detail.

1 Q. Do you agree with Cadmus' conclusions and
2 **recommendations?**

3 A. Yes. As further discussed in Company witness
4 Drake's direct testimony, the August 2, 2013 "2012 Process
5 Evaluation Memorandum" makes recommendations regarding
6 Avista's "2011 Large Project Review Process" and a
7 "Database and Realization Rate Review." We have begun
8 establishing new processes and procedures to ensure
9 successful implementation of these recommendations.

10 Q. Have the expenditures for energy efficiency been
11 **cost-effective and prudent?**

12 A. Yes. The Company's expenditure of tariff rider
13 revenue has been reasonable and prudent. A portfolio of
14 programs covering all customer classes has been offered
15 with total savings of over 109,100 MWh and 950,822 therms
16 during January 1, 2010 through December 31, 2012. A 13-
17 year levelized total resource cost per saved megawatt hour
18 of \$36.55 has been achieved. The 21 year levelized total
19 resource cost per saved therm has averaged \$1.13 a therm.
20 Ms. Hermanson will provide further detail demonstrating
21 cost-effectiveness of Idaho DSM programs in her testimony.

1 The Tariff Rider funded programs have been very
2 successful. Participating customers have benefited through
3 lower bills. Non-participating customers have benefited
4 from the Company having acquired lower cost resources as
5 well as maintaining the energy efficiency message and
6 infrastructure for the benefit of our service territory.

7
8

IV. OTHER COMPANY WITNESSES

9 Q. Would you please provide a brief summary of the
10 testimony of the other witnesses representing Avista in
11 this proceeding?

12 A. Yes. The following additional witnesses are
13 presenting direct testimony on behalf of Avista:

14 Chris Drake, Manager of Demand Side Management
15 Program Delivery, will describe Avista's energy efficiency
16 program offerings available to Idaho customers and program
17 management perspectives. Mr. Drake will also respond to
18 Evaluation, Measurement and Verification findings and
19 Cadmus recommendations specific to implementation issues.

20 Lori Hermanson, Senior Resource Analyst, will address
21 the cost-effectiveness of Idaho DSM programs offered in
22 2010-2012, and sponsors evaluation studies.

1 Q. Does that complete your pre-filed direct
2 testimony?

3 A. Yes, it does.