Office of the Secretary
Service Date
January 27, 2015

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF AVISTA CORPORATION SEEKING A DETERMINATION BY THE COMMISSION THAT THE COMPANY'S ELECTRIC AND NATURAL GAS ENERGY EFFICIENCY EXPENDITURES WERE PRUDENTLY INCURRED	**CASE NOS. AVU-E-14-07 AVU-G-14-02** **ORDER NO. 33216**

On August 12, 2014, Avista Corporation ("Avista" or "Company") submitted an Application seeking a determination by the Commission that the Company's electric and natural gas energy efficiency expenditures from January 1, 2013 through December 31, 2013, were prudently incurred. In its Application, Avista states that it spent $7,634,864 on Idaho electric and natural gas DSM programs.

On September 18, 2014, the Commission issued a Notice of Application and Intervention Deadline. *See* Order No. 33131. The Idaho Conservation League ("ICL") submitted a timely petition to intervene.

On November 11, 2014, the Commission issued a Notice of Modified Procedure with a 21-day comment period. *See* Order No. 33174. Thereafter, Commission Staff ("Staff") was the only party to submit written comments.

APPLICATION

Avista's previous electric and natural gas energy efficiency prudency filing was on September 30, 2013. The Company requested a Commission finding of prudency regarding its electric and natural gas energy efficiency expenditures for the calendar years of 2010-2012 (AVU-E-13-09; AVU-G-13-02). Subsequently, the Commission issued a final Order ruling that $25,172,700 of the Company's requested amount of $25,380,857 were prudently incurred. *See* Order No. 33009.

In support of its current Application, Avista submitted a cover letter and the prefiled testimony and exhibits of Avista DSM and Products and Service Managers Chris D. Drake and Bruce W. Folsom. The Company also included the prefiled testimony of M. Sami Khawaja who is employed by Avista's third-party DSM evaluator: The Cadmus Group, Inc.

In its Application, Avista summarized its low-income, residential and non-residential programs benefitting its Idaho electric and/or natural gas customers. Avista offered the following low-income programs to Idaho electric and/or natural gas customers: weatherization assistance and Low Income Energy Assistance Program (LIHEAP). For program evaluation, measurement and verification, Avista states that it employed Cadmus after a competitive request for proposal (RFP) process. Avista employs an implementation team made up of program managers, coordinators, engineers, account executives, and analysts. The Company provided verification of installation and project invoices.

The Company provided an overview of the Company's recent Idaho DSM portfolio results and expenditures for electric and natural gas efficiency programs; Avista's involvement with the Northwest Energy Efficiency Alliance (NEEA); an update on the Company's university research and development activities; status of the Company's suspended natural gas DSM programs; overall evaluation by Avista's third-party contractor, Cadmus; and stakeholder involvement. Mr. Folsom attached two exhibits to his testimony depicting a summary of 2013 research and development projects funded by the DSM tariff rider, and Avista's 2013 Annual Report – Demand-Side Management, Idaho; summary of DSM energy savings and levelized costs; a summary of electric DSM cost-effectiveness; and a summary of natural gas DSM cost-effectiveness.

Avista claims that it achieved Idaho energy efficiency savings for 2013 of 21,999 MWh net savings. This represents 136% of the Company's target savings of 19,009 MWh dictated by Avista's IRP for this period. Avista has achieved over 189 aMW of cumulative savings through its energy efficiency efforts in the past 36 years. 122 aMW of DSM is currently in place on the Company's system, with approximately 36 aMW in the Idaho service territory. Current Company-sponsored conservation reduces retail loads by 10.6%. Additionally, 51,772 therms of residual first-year efficiency savings were achieved from January 1, 2013 through December 31, 2013.

Avista spent $7,634,864 on Idaho electric and natural gas DSM programs, of which 64% were paid out to customers in direct incentives pursuant to the cost-effectiveness tests shown in Exhibit No. 1. This does not include additional benefits such as technical analyses provided to customers by the Company's DSM engineering staff.

Regarding Avista's participation and funding of Northwest Energy Efficiency Alliance (NEEA) programs, the Company states the levelized cost of resources acquired through Avista's Idaho participation was 1.8 cents per kWh. This compares with $141 per first-year MWh for Avista-funded local energy efficiency programs in Idaho. During 2013, Avista's Idaho-related NEEA funding was $801,838.

On August 30, 2013, Avista filed a request with the Commission to authorize up to $300,000 per year of Schedule 9, DSM Tariff Rider revenue to fund applied research at Idaho's universities through a "call for papers" approach. The intent of this initiative is to supplement the pipeline of emerging technology. Avista states that the Idaho electric and natural gas tariff rider balances were $3,459,189 (underfunded) and $674,059 (overfunded), respectively.

Avista states that it intends to reinstate its <u>natural gas</u> efficiency programs as soon as they are "cost-effective," as verified through the application of the Total Resource Cost (TRC) test. Avista alleges that Idaho's <u>electric</u> programs are cost-effective according to the TRC, benefit to cost ratio of 1.23, and Program Administrator Cost (PAC), benefit to cost ratio of 1.86, tests.

Avista also presented the findings of the Cadmus evaluations. Cadmus conducted impact and process evaluations of the electric and natural gas programs in the residential, non-residential, and low-income sectors. Avista states that although natural gas programs were suspended in Idaho prior to 2013, there were several instances where natural gas savings were achieved due to grandfathered projects or dual fuel saving measures. The Company asserts that Cadmus's evaluations met industry standards and protocols.

The Cadmus evaluation included 357 phone surveys conducted for the residential measure verification and over 2,000 general population surveys. The process evaluations included 357 residential participant, 2,160 residential general population, 201 non-residential participant, and 140 non-residential non-participant surveys. The evaluations also included 20 contractor interviews, as well as interviews with several implementation contractors, Avista PPA, and implementation staff.

Avista believes the evaluation addresses all 13 measurement and verification needs in accordance with 14 industry and regulatory standards. Impact evaluation on the 2013 program years verified electric savings exceeding IRP and Avista Business Plan goals. Avista believes that the process evaluations reveal that the programs run efficiently while some areas for improvement exist.

STAFF COMMENTS

Staff reviewed Avista's Application and performed an on-site audit of all of its DSM expenditures. Staff recommended the Commission issue an Order approving $7,736,994, $7,579,365 in Idaho electric tariff rider expenses and $157,629 in Idaho gas tariff rider expense, as prudently incurred expenses for the 2013 calendar year.

Staff confirmed that the above amount includes LCSC incentive payments of $14,120 ($1,982 electric and $12,138 gas) and the $96,099 ($94,749 electric and $1,350 gas) of incentives paid to the Office of Energy Resources (OER).

Finally, Staff recommended the Commission direct Avista to do the following: present the Issues Tracker to a third-party on a recurring basis to ensure findings and recommendations are being addressed; complete a full QA/QC review for site-specific projects reporting savings over 300,000 kWh; and include a substantive review of project Top Sheets in its next evaluation.

Staff believes the Company continues to be committed to energy efficiency. Staff noted that Avista exceeded its 2013 electric IRP target, established from the Company's Conservation Potential Assessment (CPA), for the fourth consecutive year. Staff applauded Avista's high level of savings by continuously innovating, adapting, and expanding program offerings.

Staff remarked that Avista implemented a cost-effective residential behavioral program which generated 1.6% energy savings per home, exceeded targets for energy savings by 31%, reported very low opt-out rates of 1.21%, and significantly increased participation in its existing prescriptive residential programs.

In 2014, Avista filed a tariff advice to streamline its electric-to-natural gas conversion program and increase the incentive payments. The approved changes were made because its market assessment determined that the majority of easily-achieved conversions had been acquired. The Company worked to create demand for the program by embedding gas conversion messaging in the Home Energy Reports as part of its residential behavioral efficiency program.

Also in 2014, Avista announced or deployed several pilot programs to explore new opportunities for energy savings. These include a residential smart thermostat program with contractor and customer installation options, a "fleet heat" pilot to fund sensors to turn off engine block heaters when ambient air temperatures permit, and a prescriptive gas station canopy LED campaign. In addition to energy efficiency, the Company has contracted with Applied Energy Group (AEG) to study the potential for demand response and load following resources, including direct load control, firm curtailment, time-of-use pricing, critical-peak pricing, and real-time pricing. These options are being evaluated in its 2015 electric IRP in order to meet capacity shortfalls forecasted in 2020.

Staff believes that Avista's most notable achievement in 2013 was the critical role it played facilitating collaboration in NEEA's budget negotiations to improve its effectiveness and preserve it as a four-state energy efficiency market transformation organization.

As mentioned above, Staff conducted an on-site audit. Staff evaluated the Company's internal controls processes, interviewed program managers, and reviewed jurisdictional allocations.

Staff's recommendation for approval of $7,579,365 in Idaho electric tariff rider expenses and $157,629 in Idaho gas tariff rider expense is $102,183 greater than the $7,634,864 included in the Company's request. *See Folsom Direct* at 6. Staff explains that in its review of Avista's previous prudency case (Case Nos. AVU-E-13-09 and AVU-G-13-02) the Company discovered that some consulting and evaluation expenses ($89,820 electric and $12,363 gas) were booked to the Idaho tariff rider and should have been charged to Washington. This error was corrected on the Company's books in 2013 with a negative journal entry. When these journal entries are netted with the rest of the Company's expenses in its reporting system, it produces the actual amount the Company requests for prudency determination.

Staff discussed the underfunded balance as of December 31, 2013, in the electric rider account of $3,459,188. On the gas side, the Company owed customers $674,058 at the end of 2013. This money is being returned to customers as a part of the stipulation that extended the existing rate plan approved by the Commission in Order No. 33130.

In Order No. 33009, the Commission deferred recovery of incentives paid to Lewis and Clark State College (LCSC) and the Office of Energy Resources (OER) until this current case. This allowed Avista an opportunity to provide invoices and verification of measures installed for those projects. In its filing, Avista provided original invoices and documentation for the LCSC project. Staff is satisfied with the documentation and recommended the Commission allow recovery of the $14,120 ($1,982 electric and $12,138 gas) deferred in the previous case.

Staff recommended the Commission approve recovery of the $96,099 ($94,749 electric and $1,350 gas) in incentives paid to the Office of Energy Resources (OER). Staff expressed a concern with the lack of information provided by the OER to Avista regarding incentive payments. The OER invoice did not include any itemized documentation for the measures installed or labor performed at each site, but rather just a total sum of the amount owed for each project with no detailed information.

Staff stated that it followed the Commission's directive to verify the installation of the measures. The Company sent its own personnel to each school and did a physical inventory of all measures installed. The Company then matched that inventory to the bid proposal worksheet received from the OER. Based on the verification performed by the Company, Staff is satisfied that the measures were installed and are producing energy savings.

Staff verified that in accordance with the Company's reply comments from the previous prudency case, the Company made a voluntarily commitment to file a Status Report by July 1, 2014, explaining how it addressed Staff's concerns in that case. The Status Report stated that Avista established a central decision maker for DSM policy and procedures, undertook a significant re-organization of its DSM department, establishing a "Senior Manager of Energy Efficiency" under whose direction "the DSM organization will be fully integrated," and a Policy, Planning, and Analysis (PPA) group.

The Status Report also included the Company's first DSM Standard Operating Procedures (SOP) document, which "provides a detailed explanation of how the DSM programs in Idaho are to be implemented." Avista has also developed an "Issues Tracker" using software known as CATSweb that will ". . . improve quality management and compliance performance."

Staff believes that this tracker will help Avista improve its programs more quickly by formalizing the process for reviewing and adopting program recommendations when appropriate. However, Staff shares Internal Audit's recommendation that "on a reoccurring basis (quarterly, semiannual, etc) the Issues Tracker should be presented to a third-party, like Internal Audit, to ensure findings and recommendations are being addressed."

Staff commented that in the Company's previous prudency case, Avista instituted a series of "Top Sheets" for each of its non-residential site specific projects to ensure that the technical and administrative requirements for each project are consistently met and documented. When compared to the DSM project database audit conducted during the previous prudency review, Staff noticed an improvement in project documentation, including invoice tracking and confirmation of installation verification. Staff believes much of this improvement may be attributable to the Top Sheets and SOP document.

Despite recent improvements, Staff believes that the Company's previous process and documentation issues identified by Staff and others extended beyond 2012 and into 2013. Staff believes that Avista's failure to document basic contract compliance on one of its most important projects ($183,542 incentive to U.S. Silver on a hoist upgrade) represents the Company's project management practices prior to mid-2013. However, Staff does not recommend a disallowance because the problems with this project occurred several years before the significant improvements Avista has recently made to its program management process. Staff is confident that future projects will not encounter these issues.

Staff supports the progress Avista has made so far in improving its processes to protect ratepayer funds. However, several issues identified by Staff, Cadmus, and Avista's Internal Auditing department remain unresolved.

In Staff's previous prudency comments, it expressed concern with the Top Sheet peer review. Specifically, Staff comments stated: ". . . Top Sheets are filled out by a member of the implementation team or engineering team and then double-checked for accuracy by another member of the same team. Because Cadmus and Avista's internal review found deficiencies with the engineering implementation assumption practices, having those members check their own work is unlikely to improve accuracy."

Further, Staff discovered that having an external review after the incentive was paid did not protect ratepayers from funding imprudent projects. During Staff's on-site audit, Avista confirmed that this additional internal review process was no longer in place. Moreover, Staff criticized the Company practice of permitting members of the same team to conduct peer review without any sort of external review.

Avista defends its decision to rely primarily on the Top Sheet and peer review processes for project management improvements by confirming that it will continue conducting third-party impact and process evaluations to ensure rigorous program management.

Staff also supports the two recommendations made by Cadmus, a third-party evaluator, and the Company's Internal Audit Committee. Cadmus recommends the following:

> All large prescriptive or site-specific projects reporting savings over a threshold of 300,000 kWh or 10,000 therms should undergo a complete QA/QC prior to incentive payment in addition to the standard Top Sheet review process. Typically a QA/QC process reviews engineering calculations, verifies inputs, checks payback period and incentive payments for reasonableness, and ensures compliance with program requirements and tariff rules. In order to align the above recommendation regarding program management with implementation, Cadmus recommends that Avista determine and document the specific requirements and steps in the QA/QC process through a collaborative process that will ensure accountability and balance needs for efficiency and customer satisfaction.

Staff commented that Cadmus's recommendation is similar to Internal Audit's position on the same issue.

Finally, Cadmus recommended that Avista conduct an external third-party review of Top Sheets, including reviewing a random sample of completed Top Sheets for quality and accuracy.

Staff recommended that Avista adopt both sets of recommendations to help ensure continued prudency of tariff rider expenditures.

COMMISSION FINDINGS

The Commission has reviewed the record in this case, including Avista's Application, prefiled testimony, and Staff comments. The Commission notes for the record that no party has objected to Avista's request for an Order finding that its 2013 DSM-related expenses were prudently incurred.

The Commission finds that Avista prudently incurred the amount of $7,736,994 in DSM-related expenses, $7,579,365 in Idaho electric tariff rider expenses and $157,629 in Idaho gas tariff rider expense, for the 2013 calendar year.

The Commission notes that the amount approved in this Order exceeds the original request made by the Company in its Application. The Commission approves the additional amount of $102,183 to Avista's current DSM-related expense request in order to compensate the Company for certain appropriate consulting and evaluation expenses ($89,820 electric and $12,363 gas) that were erroneously booked to the Idaho tariff rider and should have been properly assigned to Washington.

The Commission is very encouraged that Avista was able to exceed its target savings of 19,009 MWh, found in its 2013 IRP, by a significant amount. The Company's achievement of 21,999 MWh net savings and 51,772 therms for the 2013 calendar year is commendable. The Commission urges the Company to continue this favorable trend and even improve upon its commitment to the implementation of cost-effective DSM programs.

Accordingly, based on our thorough review of the record and careful consideration of the Company's Application and request, the Commission finds that Avista prudently incurred \$7,736,994 in DSM-related expenses, \$7,579,365 in Idaho electric tariff rider expenses and \$157,629 in Idaho gas tariff rider expense, for the 2013 calendar year.

CONCLUSIONS OF LAW

Avista is an electrical and gas corporation. The Commission has 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*.

O R D E R

IT IS HEREBY ORDERED that Avista's Application for approval of its calendar year 2013 DSM expenditures is approved as prudently incurred in the amount of \$7,736,994.

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 27th day of January 2015.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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