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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 NO. AVU-E-14-07 AVU-G-14-02** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission ("Commission"), by and through its attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Modified Procedure issued in Order No. 33174 on November 12, 2014 in Case No. AVU-E-14-07/AVU-G-14-02, submits the following comments.

BACKGROUND

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. Avista states that it spent $7,634,864 on Idaho electric and natural gas efficiency programs.

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). Thereafter, 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 pre-filed Testimony and Exhibits of Avista DSM and Products and Service Managers Chris D. Drake and Bruce W. Folsom. The Company also included the pre-filed testimony of M. Sami Khawaja who is employed by Avista's third-party DSM evaluator: The Cadmus Group, Inc. ("Cadmus").

APPLICATION

In its Application, Avista listed its low-income, residential and non-residential programs benefitting its Idaho electric and/or natural gas customers. 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.

Avista claims that in 2013 it achieved 25,899 gross, first-year MWh energy savings in its Idaho service territory. This represents 136% of the Company's target savings (19,009 MWh) identified in its 2013 IRP. Avista has achieved over 189 aMW of cumulative savings through its energy efficiency efforts in the past thirty-six 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 percent. Additionally, 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. According to the Company, 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% was paid out to customers in direct incentives pursuant to the cost-effectiveness tests shown in Exhibit No. 1. The direct incentives do not include additional benefits such as technical analyses provided to customers by the Company's DSM engineering staff.

The Company states that the levelized cost of resources acquired through Avista's Idaho participation in the Northwest Energy Efficiency Alliance (NEEA) was 1.8 cents per kWh. This compares with 14.1 cents per kWh for Avista-funded local energy efficiency programs in Idaho. During 2013, Avista's Idaho-related NEEA funding was $801,838.

Avista states that it intends to reinstate its Idaho natural gas efficiency programs as soon as they are cost-effective according to the Total Resource Cost (TRC) test. Avista maintains that Idaho's electric programs are cost-effective with a TRC benefit-to-cost ratio of 1.23, and with a Program Administrator Cost (PAC) test benefit-to-cost ratio of 1.86.[1]

Avista also presented the findings of its Cadmus evaluations. Cadmus conducted impact and process evaluations of the electric and natural gas programs in the residential, non-residential, and low income sectors. The Company asserts that Cadmus' evaluations meet industry standards and protocols. The Company further believes that the process evaluations reveal that the programs are run efficiently while some areas for improvement exist.

STAFF ANALYSIS

Commitment to Energy Efficiency

Staff believes the Company continues to be committed to energy efficiency. For example, the Company exceeded its 2013 Electric IRP target for the fourth consecutive year.[2] The IRP target was established from the Company's Conservation Potential Assessment (CPA), which assumes that 85 percent of all cost-effective energy efficiency potential can be achieved over the planning period. Avista has been able to continue achieving this high level of savings by continuously innovating, adapting, and expanding program offerings.

In addition to continuing its branded energy efficiency campaigns, "Every Little Bit" and "Efficiency Matters," Avista implemented a cost-effective residential behavioral program. This program 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.[3]

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[1] The TRC test establishes cost-effectiveness based on the total benefits and costs of the program in the utility's service territory. The PAC test establishes cost-effectiveness based only on the benefits and costs that accrue to the utility.

[2] Avista achieved 136% of its 2013 IRP target. Direct testimony, Bruce Folsom, page 5.

[3] 2013 Cadmus Impact Evaluation, page 70.

In 2014, Avista filed a Tariff Advice to streamline its electric-to-natural gas conversion program and increase the incentive payments.[4] 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 both 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.

While this list of historic and ongoing accomplishments deserves recognition, perhaps 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.

Staff Financial Review

As part of its review, Staff performed an on-site audit and reviewed all DSM expenditures. Staff's audit consisted of evaluating the Company's internal controls processes, interviews with program managers, and reviews of jurisdictional allocations. Based on its review, Staff supports the Company's DSM efforts and recommends that the Commission approve $7,736,994 as prudently incurred expenses for the 2013 calendar year. This amount consists of $7,579,365 in Idaho electric tariff rider expenses, and $157,629 in Idaho gas tariff rider expense. This amount is $102,183 greater than the $7,634,864 included in the Company's request (Folsom Direct, Pg. 6). During Staff's review in the previous prudency case (Case No. 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

[4] Tariff Advice No. 14-05-E. Avista typically refers to "fuel efficiency" when referencing its electric to natural gas conversions.

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.

Table 1 illustrates Staff's recommended expenses to be deemed prudent, along with the tariff rider ending balances for both Idaho gas and electric.

Table 1: Idaho DSM Tariff Rider Balances

	Electric	Natural Gas
Company Reported Beginning Balance	$(522,697)	$819,324
Deferred Recovery – OER Incentives	94,749	1,350
Deferred Recovery – LCSC Incentive	1,982	12,138
Adjustment for EV&M – Order No. 33009	89,820	12,363
Staff Calculated Beginning Balance	$(336,146)	$845,175
DSM Rider Revenue	4,553,054	0
Energy Efficiency Expenses	(7,579,365)	(157,629)
Recovery of Deferred OER Incentives	(94,749)	(1,350)
Recovery of LCSC Incentive	(1,982)	(12,138)
Ending Balance	$(3,459,188)	$674,058

As of December 31, 2013, the Company had an underfunded balance (Customers owe Company) in the electric rider account of $3,459,188. During the year, energy efficiency expenses far exceeded the revenue collected from the DSM tariff rider, signaling that an increase in funding may be necessary in the near future. 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 recommends the Commission allow recovery of the $14,120 ($1,982 electric and $12,138 gas) deferred in the previous case.

Staff's concern with incentives paid to the Office of Energy Resources is based on the lack of information provided by the OER to Avista. 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 would normally recommend a complete disallowance of any expense paid with such little supporting documentation. However, following 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 recommends that the Commission approve recovery of the $96,099 ($94,749 electric and $1,350 gas) in incentives paid to the OER.

Improvements from the Previous Prudency Review

In the Company's Reply Comments from the previous prudency case, it acknowledged the problems identified by Staff and has since taken meaningful actions to address many of the issues. For example, the Company voluntarily committed to file a Status Report by July 1, 2014 explaining how it addressed Staff's concerns. The Status Report stated that, consistent with Staff's recommendation, Avista established a central decision-maker for DSM policy and procedures.

In addition to establishing a central decision-maker, Avista undertook a significant reorganization of its DSM department, which consisted of two main aspects. First, the Company established a "Senior Manager of Energy Efficiency" under whose direction "the DSM organization will be fully integrated."[5] Second, the Policy, Planning, and Analysis (PPA) group, whose previous duties had included providing internal review, was reconstituted as the "Analyst Team." The Analyst Team's revised duties may be evolving but currently include developing the annual DSM Business Plan, providing cost-effectiveness analysis, and managing external evaluations.

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."[6] Avista believes that the SOP document will help create structure and clarity around program management.

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[5] Avista Status Report, June 26, 2014, page 3.

[6] Avista Status Report, June 26, 2014, page 3.

Staff's Comments in the 2010-2012 prudency review also noted that shortcomings in Avista's program management were identified, but remained uncorrected throughout the course of several years and multiple evaluations. In order to make sure that future recommendations are recognized and receive appropriate follow-through, Avista has developed an "Issues Tracker" using software known as CATSweb. This tracker is "for managing internal and external recommendations—from detection to corrective action and/or follow up."[7] According to the Company, this will "...improve quality management and compliance performance." *Id.* 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, semi-annual, etc) the Issues Tracker should be presented to a third-party, like Internal Audit, to ensure findings and recommendations are being addressed."[8]

As discussed in the Company's previous prudency case, it has 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.

Insufficient Project Documentation

Despite the recent improvements, the Company's previous process and documentation issues identified by Staff and others extended beyond 2012 and into 2013. In 2013, Avista paid a $183,542 incentive to U.S. Silver on a hoist upgrade. Originally, the project contract was signed under the tariff that required complete installation by December 2, 2011. However, the project invoices indicate that although the equipment was bought throughout 2011, commissioning did not occur until March 2012. By that time, Avista's tariff had been modified to impose a 13-year simple payback (SPB) period as a proxy for cost-effectiveness on all projects. Previously

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[7] Avista Advisory Group meeting, October 23, 2014, Program Planning, page 1.

[8] Wild Rose Review and Demand Side Management Follow-up Audit Report, Avista Internal Audit Department, April 3, 2014, page 3.

existing projects could be processed under the 2011 tariff if their existing contract terms were met or if Avista and the customer signed an amendment to extend the terms of the contract.

However, no contract amendment was signed for U.S. Silver and while project engineers maintain that the project was installed before the December 2, 2011 contract deadline, there does not appear to be any documentation. In the absence of meeting the original contract requirements or signing a contract amendment, the project should have been held to the updated tariff standards, which excluded incentives for projects exceeding a 13-year SPB. During this time, U.S. Silver began providing actual project costs which were higher than originally anticipated. Consequently, the higher costs drove the project SBP over the 13-year limit required under the most current tariff.

Avista has acknowledged that this project should have included a contract amendment. During its audit, Staff questioned the Company about how such an important, high-profile project could fall through the cracks. Avista claims that because it was such a large project, several members of their team were in constant contact with the customer and closely monitoring the project process. Consequently, normal documentation steps used to track progress on smaller, more intermittent projects were neglected.

Staff believes that Avista's failure to document basic contract compliance on one of its most important projects 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. These improvements include a deadline notification system that sends periodic reminders as compliance deadlines approach, and a legacy/transition project tracking function to clearly link projects to the legally applicable tariff. With these controls in place, Staff is confident that future projects will not encounter these issues.

Opportunities for Further Improvement

Staff supports the progress Avista has made so far in improving its processes to protect ratepayer funds. These may all be steps in the right direction, but 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."[9] Staff further pointed out that having an external review after the incentive was paid did not protect ratepayers from funding imprudent projects.

In Testimony filed for this prudency case, Avista explains that the Top Sheet peer review is not a stand-alone solution, but is improved through an internal review process:

> To complement the deployment of the Top Sheet procedures within the [I]mplementation [T]eam for project, policy, and contract review, the DSM analysts also perform an internal review of a subset of completed site-specific and prescriptive projects. The projects selected for internal review are randomly selected. The information resulting from the internal review is communicated back to the Implementation Team to be incorporated back into the continuous process improvement activities.[10]

But during Staff's on-site audit, Avista confirmed that this additional internal review process was no longer in place. It is not clear what lead to the dissolution of this review, but Avista explained that when program management practices are being significantly and rapidly overhauled, it could be difficult to state precisely what the exact process was at a particular point in time. Regardless of the cause or the timing, Avista's decision to remove the review rather than improve upon it by having the review precede the incentive payment is the exact opposite of Staff's prior recommendation.

Staff's recommendation for a central DSM decision maker was based on the understanding that there had been differences of opinion regarding engineering assumptions, calculations, policy requirements, and tariff interpretations. But if the peer-review is conducted by members of the same team without any sort of external review, there is unlikely to be much disagreement. Although disagreement may be reduced, the quality of the work will not necessarily improve.

The Company has defended 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 agrees that impact evaluations can identify realization rates, determine if engineering

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[9] Staff Comments, page 8, Case Nos. AVU-E-13-09/AVU-G-13-02.

[10] Chris Drake, Direct Testimony, page 17.

calculations are sufficiently robust, and compare project incentive payments to tariff rules—but only long after incentives have been paid, which exposes the Company to a much greater risk of disallowance than if mistakes are identified and corrected before payment is issued.

Since Avista's new program management practices were instituted to resolve problems, it is reasonable to expect more stringent controls, but certainly not less than the controls Avista identified in Testimony[11] and in the July 19, 2013 Internal Audit.[12] In addition, while overall realization rates increased to 94% from 2012 to 2013, individual project realization rates varied between 0% and 306%. The wide range of realization rates indicates that Avista's calculation methodologies, which directly impact claimed savings and incentive amounts, could be significantly improved. Staff agrees with Cadmus that "[w]hile [recent refinements] have led to improved reliability of reported savings in 2012, quality assurance problems may persist.[13] On that basis, Staff also supports the two recommendations made by both Cadmus and Internal Audit:

First, Cadmus recommends that:

> [a]ll 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[14] 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.[15]

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[11] Direct Testimony, Chris Drake, page 17.

[12] Page 2 of the July 19, 2013 Internal Audit reads: "Management Response: As stated, this independent review process was changed in 2013 due to structural limitations of the independent review process. A peer review has been implemented with independent review occurring as an audit after incentive payment. These actions, combined with more frequent randomly-selected reviews, focuses on thresholds for significant projects."

[13] Cadmus 2012-2013 Process Evaluation, page 82.

[14] Quality Assurance/Quality Control.

[15] Cadmus 2012-2013 Process Evaluation, page 82.

Cadmus' recommendation is similar to Internal Audit's position on the same point: "Significant projects should still obtain an independent review prior to incentive payout. The Implementation Team and PPA Staff should determine the thresholds for significant projects based on risk and dollar amount."[16]

Second, Cadmus recommends that Avista:

> Conduct an external third-party review of Top Sheets, including reviewing a random sample of completed Top Sheets for completeness and accuracy. These were not reviewed as part of the current process evaluation, but should be included in the next process evaluation. Review should not only verify the presence of the Top Sheets, but also the quality and accuracy of the information reported.[17]

Again, it parallels a similar recommendation from Internal Audit: "[p]erform an internal review in the next 6 months to test both the effectiveness and existence of Top Sheets (as Internal Audit's review was limited only to existence.)"[18] Staff recommends that Avista adopt both sets of recommendations to help ensure continued prudency of tariff rider expenditures.

RECOMMENDATIONS

Staff recommends that the Commission issue an order that:

1. Approves $7,736,994 prudently incurred expenses for the 2013 calendar year. This amount consists of $7,579,365 in Idaho electric tariff rider expenses, and $157,629 in Idaho gas tariff rider expense. This 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 OER.
2. Directs Avista to present the Issues Tracker to a third-party on a recurring basis to ensure findings and recommendations are being addressed.
3. Directs Avista to complete a full QA/QC review for site-specific projects reporting savings over 300,000 kWhs.

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[16] Demand-side Management Audit Follow-up Report, July 19, 2013, page 2.

[17] Cadmus 2012-2013 Process Evaluation, page 82.

[18] Wild Rose Review and Demand Side Management Follow-up, April 3, 2014, page 4.

4. Directs Avista to include a substantive review of project Top Sheets in its next evaluation.

Respectfully submitted this 3rd day of December 2014.

Neil Price
Deputy Attorney General

Staff: Stacey Donohue
Donn English
Curtis Thaden

Umisc/comments/avue14.7_avug14.2npdesdnkct comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 3RD DAY OF DECEMBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NOS. AVU-E-14-07/AVU-G-14-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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