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IDAHO PUBLIC
UTILITIES COMMISSION

February 13, 2020

Diane Hanian, Commission Secretary
Idaho Public Utilities Commission
11331 W Chinden Blvd.
Boise, ID 83714

RE: AVU-E-18-12 and AVU-G-18-08

Dear Ms. Hanian:

Attached for filing is an original and seven (7) copies of Avista Corporation's dba Avista Utilities ("Avista" or "the Company") the Stipulation and Settlement entered into by and among Avista, and the Staff of the Idaho Public Utilities Commission related to the Company's request for prudence of its Energy Efficiency expenses in the above references Cases. Please direct questions on this matter to me at (509) 495-4975.

Sincerely,

Linda Gervais

Senior Manager of Regulatory Policy & Strategy
Avista Utilities
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509-495-4975

Enclosures

02/10/2020

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR A DETERMINATION OF 2016-2017 ELECTRIC ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	CASE NOS. AVU-E-18-12 and AVU-G-18-08
	STIPULATION AND SETTLEMENT
IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR A DETERMINATION OF 2014-2017 NATURAL GAS ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	

This Stipulation and Settlement ("Stipulation") is entered into by and among Avista Corporation, doing business as Avista Utilities ("Avista" or "Company"), and the Staff of the Idaho Public Utilities Commission ("Staff"). These entities are collectively referred to as the "Parties" and singularly as a "Party," and represent all who have appeared in these proceedings. The Parties understand this Stipulation is subject to approval by the Idaho Public Utilities Commission ("IPUC" or the "Commission").

I. INTRODUCTION

The terms and conditions of this Stipulation are set forth herein. The Parties agree that this Stipulation represents a fair, just and reasonable compromise of all the issues raised in the proceeding, is in the public interest, and its acceptance by the Commission represents a reasonable resolution of the multiple issues identified in these cases. The Parties, therefore, recommend that the Commission, in accordance with Commission Procedural Rule 274, approve the Stipulation and all of its terms and conditions without material change or condition.

II. BACKGROUND

On November 16, 2018, Avista filed Applications with the Commission seeking a determination that its 2014-2017 natural gas energy efficiency expenses, and 2016-2017 electric energy efficiency expenses were prudently incurred in Idaho. In its filings, the Company requested a determination that energy efficiency expenditures totaling $22,719,204 for Idaho's electric energy efficiency programs (AVU-E-18-12), and expenditures totaling $2,899,525 for Idaho's natural gas energy efficiency programs (AVU-G-18-08) were deemed prudent and in the public interest.

Since November 2018, Staff has submitted 33 production requests in the natural gas case (AVU-G-18-08) and 40 production requests in the electricity case (AVU-E-18-12) to Avista. Staff and the Company held several conference calls to discuss and clarify responses to production requests and confer with the third-party evaluator, Nexant. Following some of these calls, the Company provided supplemental responses to some of its production requests in order to amend the record. Staff also held monthly calls with the Company to discuss ongoing issues and delve into more complicated topics that could not be covered in production requests. An onsite financial audit was also conducted by Commission Staff in February 2019.

On July 11th and 12th, 2019, Idaho Commission Staff performed an onsite audit and met with the Energy Efficiency Planning and Analytics group, Energy Efficiency engineers, and members of the Energy Efficiency Program Management team. During this visit, Staff intended to gain a better understanding of the function of the Energy Efficiency Program as a whole, and discuss Staff's concerns regarding the rigor and content of the Annual Conservation Report, procurement and management of third-party evaluators, and the internal oversight mechanisms retained to implement improvements. Staff and the Company discussed each concern and identified possible solutions throughout the audit.

On Tuesday, November 9, 2019, Avista and Commission Staff met in Boise to clarify Staff's remaining concerns about Avista's 2016 and 2017 DSM Annual Conservation Report & Cost Effectiveness Analysis. During this meeting, Staff presented 11 comments and recommendations for discussion (identified in Attachment A). These are summarized as follows:

1. Avista's Conservation Reports and the third-party impact evaluation insufficiently describe how programs are operated, suffer from inaccurate and inconsistent reporting methodologies, and lack the documentation and workpapers necessary for Staff review.
2. The Company has no formal processes for using third-party evaluation results to identify problem areas or improvement opportunities in its own programs and Staff found little evidence that results are used informally. The Company does not consistently use impact evaluation results to appraise program effectiveness or measure cost effectiveness.
3. Staff is concerned about the delegation of both of these reports to the same third-party contractor.
4. Staff is concerned that Avista's Energy Efficiency Program lacks a cohesive process management focus and coordination throughout its teams. Staff believes an overall lack of process ownership makes it difficult for Avista to plan, coordinate, staff, and find appropriate expertise to achieve key process objectives.
5. Staff believes that some of the models and statistical methods used by Nexant were inappropriate or incomplete. Staff is particularly concerned that sample sizes used by

Nexant were too small to be actionable and that estimated savings were not adjusted for the effects of weather.

III. SETTLEMENT ACTION ITEMS

After exploring each of the recommendations of Staff, the Company has agreed that it will:

1. Review the previously submitted "2018 Annual Conservation Report" and determine the changes that should be made to assure that it conforms with the terms of this agreement no later than the first quarter of Calendar Year ("CY") 2020.
2. Review the contract and the statement of work with the current third-party Evaluation, Measurement and Verification (EM&V) vendor to ensure that future work conforms with the terms of this Stipulation. The EM&V vendor will partner with Avista Supply Chain Contract Management to develop a vendor performance management plan and to add clarity and process around roles, relationships, and internal controls by the second quarter of CY 2020. Avista will provide this plan to Staff by August 1, 2020.
3. Hold one or more business process improvement (BPI) workshops, to be facilitated by Avista's internal BPI experts, focused on Avista's internal processes and staffing roles for compiling and verifying annual EM&V and information contained in Avista's annual conservation reports by the second quarter of CY 2020. The recommendations of this workshop and a plan for realizing them, will be provided to Staff by August 1, 2020.
4. Direct Avista Internal Audit to perform an audit of the energy efficiency processes for adequacy of controls and adherence to industry best practices. The Company will provide audit findings, recommendations, and a plan for realizing them to Staff by August 1, 2020.
5. Evaluate the format and process for the annual report. Avista will consider preparing the report internally (or contracting out to a writing resource) and leaving the EM&V with the current third-party vendor, doing so by the second quarter of CY 2020. The Company will provide the results of its evaluation and its decisions about a third-party vendor by August 1, 2020.
6. Review team roles and responsibilities. Avista will hire or develop staff expertise and reassign roles and responsibilities to ensure performance that meets expectations.
7. Engage with Commission Staff when selecting a third-party EM&V vendor. Avista will work with Staff to identify a schedule for evaluations that more closely matches the

prudence filing dates so that results can be evaluated, discussed, and programmatic changes can be implemented within a reasonable timeframe.

8. Address the issues and implement the recommendations identified in Attachment A: Issues and Staff Recommendations Regarding Avista's DSM Programs, November 2019. Avista will submit a report to Staff on the status of each of these items by July 31, 2020.

Again, Avista acknowledges Commission Staff's concerns, and looks forward to working through each of the issues outlined by Staff and provided in Attachment A. Avista is already taking steps to address Staff's concerns, first, by bringing the development of the Company's Annual Report back in-house verses relying on the third-party evaluator. Avista is creating a revised reporting format that will organize its subject matter by program. Each section will focus on a program with information including program description and design, cost effectiveness, energy efficiency savings, and associated costs. Avista has engaged its internal Business Process Improvement (BPI) team with an effort to understand and improve the formal process for the development of its Annual Report. The goals of the BPI include:

a. Develop a new reporting format that results in a useful document that sufficiently describes Avista's programs, provides appropriate and accurate documentation, and ultimately demonstrates prudence of the Company's programs.
b. Formalize processes and procedures to implement recommendations and results from the impact and process evaluations.
c. Establish adequate employee involvement for the preparation, review, and delivery of Annual Conservation Reports. And,
d. Develop a formal oversight structure, process ownership, and sustainability plan.

To ensure the Company's reports are accurately prepared, Avista is establishing an expanded review process. The scope of the review process will be determined through the BPI.

Avista has also committed to creating a new Technical Resource Manual (TRM) and has held scoping meetings with an outside vendor. Avista will work with Commission Staff and its Advisory Group on the content of the TRM.

The Company has also communicated to its third-party evaluator that a deliverable shall include work papers to support the evaluation and samplings. Avista has worked closely with its vendor to ensure that this expectation is met. The Company's 2020 evaluation work plan will evaluate Idaho and Washington separately. In addition, smaller programs will be evaluated on a biennial basis, rather than every year. In an effort to increase its expertise around third-party data, Avista has engaged its internal employees with statistical expertise and received their pledge to participate in the review of the Annual Conservation Report. These individuals will also participate in the BPI.

Finally, Avista has hired a new analyst with eight years of energy efficiency experience. This new employee will support the analytics group by providing more detailed reporting and program design knowledge.

Overall, the parties agree that the Company did not completely accomplish the objective of supporting the overall prudence of Avista's energy efficiency expenditures. Parties also agree that the Company will take a more proactive approach to manage expectations and the quality of work performed by its third party EM&V evaluators.

IV. TARIFF RIDER ADJUSTMENTS

The Parties agree to the following miscellaneous items for settlement purposes:

1. Adjustments to Energy Efficiency Tariff Rider Accounts – The Parties agree to the following adjustments to the energy efficiency tariff rider accounts:

	2014	2015	2016	2017	Total
Electric			$ (165,795)	$ (132,072)	$ (297,867)
Natural Gas	$(13,197)	$ (653)	$ (26,113)	$ (78,729)	$ (118,692)
					$ (416,559)

Avista will restore these adjustments to their respective tariff rider balances upon approval of this Stipulation. These adjustments to the energy efficiency tariff rider accounts, funded by Avista and not recoverable from customers, reflect the cost of the Nexant third-party evaluations, along with adjustments for costs that should have been assigned to Washington operations, or to a different Idaho fuel (i.e. an electric project was inadvertently assigned to natural gas, or vice versa). A list of the adjustments is provided in Attachment B.

As discussed earlier, the Nexant reports contained a number of significant errors—including but not limited to incorrect tables, typographical errors, and other deficiencies—and therefore were not used and useful. The Parties agree that Avista shall implement all the items set forth in this document and its attachments and shall submit a report updating the Commission on the status of each of these items in the identified schedule. If Commission Staff recommends and the Commission determines, in its sole discretion, that Avista has not otherwise implemented all items in a satisfactory manner, then Avista shall fund an additional $84,000 to the electric and natural gas tariff riders (90 percent of the penalty shall be applied to the electric tariff rider, and 10 percent to the natural gas tariff rider) and such funds would not be recoverable from customers.

2. Energy Efficiency Tariff Rider Balances – After accounting for the agreed-upon adjustments listed in the previous section, the Parties agree that the Idaho Electric energy efficiency tariff rider account has an underfunded balance as of December 31, 2017 of $9,276,761. The Parties agree that the Idaho Natural Gas energy efficiency tariff rider account has an overfunded balance as of December 31, 2017 of $299,593. The reconciliation and calculation of tariff rider balances is provided in Attachment C.

3. Aside from issues addressed in this Stipulation, Staff agrees that the Company's remaining 2016-2017 energy efficiency expenditures should be allowed as prudent.

V. OTHER GENERAL PROVISIONS

The Parties agree that this Stipulation represents a compromise of the positions of the Parties in this case. As provided in Commission Procedural Rule 272, other than any testimony filed in support of the approval of this Stipulation, and except to the extent necessary for a Party to explain before the Commission its own statements and positions with respect to the Stipulation, all statements made and positions taken in negotiations relating to this Stipulation shall be confidential and will not be admissible in evidence in this or any other proceeding.

The Parties submit this Stipulation to the Commission and recommend approval in its entirety pursuant to Commission Procedural Rule 274. Parties shall support this Stipulation before the Commission, and no Party shall appeal a Commission Order approving the Stipulation or an issue resolved by the Stipulation. If this Stipulation is challenged by any person not a party to the Stipulation, the Parties to this Stipulation reserve the right to file testimony, cross-examine witnesses and put on such case as they deem appropriate to respond fully to the issues presented, including the right to raise issues that are incorporated in the settlement terms embodied in this

Stipulation. Notwithstanding this reservation of rights, the Parties to this Stipulation agree that they will continue to support the Commission's adoption of the terms of this Stipulation.

If the Commission rejects any part or all of this Stipulation or imposes any additional material conditions on approval of this Stipulation, each Party reserves the right, upon written notice to the Commission and the other Parties to this proceeding, within 14 days of the date of such action by the Commission, to withdraw from this Stipulation. In such case, no Party shall be bound or prejudiced by the terms of this Stipulation, and each Party shall be entitled to seek reconsideration of the Commission's order, file testimony as it chooses, cross-examine witnesses, and do all other things necessary to put on such case as it deems appropriate. In such case, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for the completion of the case, in accordance with law.

The Parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

No Party shall be bound, benefited, or prejudiced by any position asserted in the negotiation of this Stipulation, except to the extent expressly stated herein, nor shall this Stipulation be construed as a waiver of the rights of any Party unless such rights are expressly waived herein. Execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory, or principle of regulation or cost recovery. No Party shall be deemed to have agreed that any method, theory or principle of regulation or cost recovery employed in arriving at this Stipulation is appropriate for resolving any issues in any other proceeding in the future. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

The obligations of the Parties under this Stipulation are subject to the Commission's approval of this Stipulation in accordance with its terms and conditions and upon such approval being upheld on appeal, if any, by a court of competent jurisdiction.

This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

DATED this 11th day of February, 2020.

Avista Corporation	Idaho Public Utilities Commission Staff
By:	By: Terri Carlock
David J. Meyer	Terri Carlock
Attorney for Avista Corporation	Utilities Division Administrator

Issues and Staff Recommendations Regarding Avista's DSM programs, November 2019
Case Nos. AVU-E-18-12 and AVU-G-18-08

1. Avista's Conservation Reports and the third-party impact evaluation lack proper documentation, suffer from inaccurate and inconsistent reporting methodologies, and insufficiently describe how programs are documented—especially in the portrayal of expenses and the cost-effectiveness of Idaho programs.
    a. Staff recommends the Company closely examine the accuracy of its reports, tables, and figures—and more diligently proofread these documents.
    b. Staff recommends the Company work closely with its third-party evaluator to develop accurate equations that represent its methodology.
    c. Staff recommends the Company describe how programs are operated through more in-depth program descriptions, while organizing Conservation Reports to focus on programs holistically, perhaps on a chapter by chapter basis.
    d. Staff recommends Conservation Reports include program details that have historically only been contained in the Annual Conservation Plan, including:
        i. Program changes made during the program year,
        ii. The latest Evaluation, Measurement and Verification (EM&V) plan,
        iii. Frequently used terms, and
        iv. A Unit Energy Savings (UES) list for measures, including any updates.
2. The Company does not consistently use impact evaluation results to evaluate program effectiveness or measure cost effectiveness.
    a. When the value of the realization rate is statistically significant (outside sampling level bounds), the Company should investigate to determine the reason for the discrepancy between the values determined by the Company and its third-party evaluator. If, after investigation, the discrepancy is determined to be valid, the Company should adjust program and measure savings used to determine cost test ratios (e.g. Utility Cost Test (UCT), Total Resource Cost (TRC), etc.) and to adjust savings reported to the Commission in annual reports.
    b. Staff recommends that the Company apply realization rates from the most recently evaluated program savings to subsequent years of unverified program savings. This should continue until realization rates are updated in a future evaluation.
3. The Company has no formal processes for using third-party evaluation results to identify problem areas or improvement opportunities in its own programs, and Staff found little evidence that results are used informally.
    a. In order for the impact evaluation to be useful, its results should be used by the Company to evaluate the cost effectiveness of programs and measures, to identify opportunities for process improvement, and to provide more accurate estimates of savings (verified savings) to the Commission.

   b. Staff strongly recommends that the Company develop a formal procedure for communicating, evaluating, and using feedback from its third-party evaluator to assess and improve its programs, while still maintaining the independence of the third-party evaluator.

4. The sample sizes used to determine Verified Savings, in some cases, were inadequate for determining cost effectiveness with sufficient confidence to make decisions about individual programs or measures.
   a. Staff believes that the Company should work with their third-party evaluator to assure that the Company has sufficient confidence in the results of the impact evaluation to make decisions about programs and individual measures. This may require that the Company and third party evaluator adapt their approach to sampling: For example, Staff believes that the Company and its third-party evaluator should consider analyzing small programs and measures, like the Commercial Insulation program, on a biennial, or triennial basis so that sufficient data is available to provide reliable estimates of measure/program cost effectiveness.
   b. Staff believes it is necessary for some of Avista's team members to have sufficient statistical knowledge to be able to formulate requirements such as sampling levels and sampling plans, to proofread and interpret the statistical results of evaluations, and to have some knowledge of statistical survey methodology, experimental design, and multiple regression.
5. Staff found some models used by Nexant[1] to be inappropriate, applied incorrectly, or to be of questionable value. For example, given the randomized design used to select participants in the Oracle Home Energy Reports program, a t-Test would have been more appropriate than the overly complicated model used by Nexant. Furthermore, the Nexant model included interaction terms, but no Main Effects terms for some of the terms used in the Model.
   a. Staff believes that the team used to evaluate its third-party evaluator's performance should include one or more members with skill in statistical survey/experimental design and multiple regression analysis. Staff recognizes an appropriate level of knowledge and skills is necessary to manage and understand third-party work products and identify problems prior to submitting reports and analyses for prudency filings.
6. Nexant did not adjust energy savings results for weather sensitive programs (Fuel Efficiency, Energy Store, HVAC, Low Income).
   a. Staff recommends that the Company correct energy savings from weather sensitive programs for the effects of weather.
7. During its review of Company documentation, Staff noted that the Company did not have a method in the Technical Reference Manual (TRM) to identify who is making a change, when a change will go into effect, or what the new value will be. In particular, the

[1] Nexant is a third-party evaluator used by Avista in this case.

Company's updates to its TRM often consist of undated marginal notes to values within an EXCEL spreadsheet.

   a. The Company's procedures for updating data and improving processes should be formalized. Staff suggests it should be maintained and updated using a formal document management system.

8. Workpapers provided to Staff by the Company were incomplete, and often consisted of hard-coded numbers with no supporting calculations or data. As a result, Staff was unable to verify either the savings claimed by the Company, or the savings and realization rates determined by its third-party evaluator, Nexant.
   a. The Company should preserve workpapers and source data for Staff's review, both for the Company's calculations and for the calculations performed by its third-party evaluator. The third-party evaluator should be retained for a period of time sufficient to answer questions that arise during Staff's review of the third party's work products.
   b. Staff recommends Avista retain employees with adequate knowledge, skills, and abilities to oversee third-party contracts, products, and outputs—providing strong contractual direction from the beginning, including distinct criteria for product success and robust internal controls.
   c. Staff believes that the method for documenting site-specific projects and computations can serve as a model for retaining other computations performed by either the Company or its third-party evaluator.
9. Staff is concerned that the Company has been delegating fundamental tasks to its third-party contractor, while providing little or insufficient oversight.
   a. Staff found little evidence that the Energy Efficiency Planning group had proofread either the Annual Conservation Report, the Impact Evaluation, or the workpapers supporting these documents. Staff believes that the Company ultimately bears responsibility for the quality, accuracy, and usefulness of both reports. Staff is uncertain that the Energy Efficiency Planning and Analytics group, as currently constituted, has the skill set requisite for properly evaluating both reports.
   b. Delegating responsibility for both its Annual Conservation Report and its Impact Evaluation to the same contractor creates a situation in which the contractor is evaluating its own work.
   c. Staff believes internal production of the Annual Conservation Report, using Idaho Power's Annual DSM Report as a model, and working closely with Commission Staff, has the potential to resolve some of the issues identified herein.
10. Staff believes Avista's Energy Efficiency Program requires internal controls and oversight, which used to be provided by the Planning and Analytics staff. Staff's analysis of Avista's DSM program revealed a lack of internal controls and insufficient use of quality assurance procedures not only in reporting, but also in record keeping. Though the Company has created Standard Operating Procedures (SOPs) and other management strategies to improve controls, deficiencies were apparent during the audit and through an

examination of the report, which should have been caught if quality assurance protocols were being implemented.

   a. An organizational structure needs to be in place where recommendations and findings of the internal evaluators can be implemented.

11. Staff is concerned that inexperienced leadership and frequent turnover in key management positions with a limited knowledge surrounding demand-side management, program development, measurement, and administration may be contributing to the functionality of the energy efficiency group. The Avista energy efficiency program lacks a cohesive process management focus and coordination throughout its teams.
    a. Staff believes the existing structure requires the Director of Energy Efficiency maintain sufficient authority to make required changes to plan, coordinate, staff, and achieve key process objectives. In order to do so, Staff believes the Director must sustain sufficient understanding of DSM, the energy efficiency group, and its programs to identify opportunities for continual improvement of processes and set organizational goals.

Stipulated Adjustments
AVU-G-18-08
Idaho Natural Gas

2014

(1,708)	Incentive Paid in Error after Natural Gas programs were suspended
(4,672)	Payment for Electric CPA mistakenly booked to WA/ID Gas.
(120)	Payment on Corporate Credit Card- Receipt was lost
(6,697)	NEEA Natural Gas Initiatives allocated to WA/ID only. Oregon should receive allocation.
$ (13,197)	

2015

$ (653)	January NEEA allocaed WA/ID only. Oregon should receive allocation.

2016

(869)	Washington incentive expense mistakenly charged to Idaho
(9,390)	Idaho electric incentive expense mistakenly charged to Idaho gas
(6,650)	Idaho electric incentive expense mistakenly charged to Idaho gas
(9,204)	Nexant Evaluation Expenses
$ (26,113)	

2017

(171)	Washington Expense mistakeny charged to Idaho
(78,558)	Nexant Evaluation Expenses
$ (78,729.00)	

$ (118,692)	Total Stipulated Natural Gas Adjustments 2014-2017

Staff Adjustments
AVU-E-18-12
Idaho Electric

2016

(178,835)	Nexant evaluation expenses
(3,000)	Idaho gas incentive expense mistakenly charged to Idaho electric
9,390	Idaho electric incentive expense mistakenly charged to Idaho gas
6,650	Idaho electric incentive expense mistakenly charged to Idaho gas
$ (165,795)	

2017

(108,337)	Nexant evaluation expenses
(1,539)	Washington expense charged to Idaho
(22,196)	Washington incentive expense charged to Idaho
$ (132,072)	

$ (297,867)	Total Staff Proposed Electric Adjustments 2016-2017

Attachment C

Avista Utilities Tariff Rider Balances

Idaho Natural Gas	**2014**	**2015**	**2016**	**2017**
Beginning Balance on January 1	$ (674,059)	$ (3,122)	$ 46,906	$ 36,937
DSM Rider Revenue	-	-	(1,013,083)	(1,393,272)
Energy Efficiency Expenses	53,451	50,681	1,029,227	1,135,471
Transfer Out to Customers	630,683	-	-	-
Stipulated Adjustments	(13,197)	(653)	(26,113)	(78,729)
Ending Balance on December 31	$ (3,122)	$ 46,906	$ 36,937	$ (299,593)

Idaho Electric	**2016**	**2017**
Beginning Balance on January 1	$ 431,784	
Prior Year Adjustments (Order No. 33769)	(277,798)	
Approved Balance January 1	$ 153,986	$ 5,502,557
DSM Rider Revenue	(6,229,358)	(7,347,000)
Energy Efficiency Expenses	11,743,724	11,253,276
Stipulated Adjustments	(165,795)	(132,072)
Ending Balance on December 31	$ 5,502,557	$ 9,276,761