Office of the Secretary
Service Date
April 28, 2020

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 NO. AVU-E-18-12 AVU-G-18-08**
IN THE MATTER OF AVISTA CORPORATION'S APPLICATION FOR A DETERMINATION OF 2014-2017 NATURAL GAS ENERGY EFFICIENCY EXPENSES AS PRUDENTLY INCURRED	)	**ORDER NO. 34647**

On February 11, 2020, Avista Corporation ("Avista" or "Company") signed a Stipulation and Settlement ("Settlement") with Commission Staff regarding the Company's electric and natural gas energy efficiency prudency cases. *See* Case Nos. AVU-E-18-12 and AVU-G-18-08. On February 18, 2020, the Company filed the Settlement for Commission consideration, under Procedural Rule 274. *See* IDAPA 31.01.01.274. The Commission issued a Notice of Motion to Approve Settlement Agreement on March 9, 2020, setting a March 26, 2020 comment deadline and an April 2, 2020 reply comment deadline. The Commission received two public comments on the Settlement.

Having reviewed the record, the Commission approves the Settlement.

BACKGROUND

On November 16, 2018, Avista filed two applications with the Commission. The first application, Case No. AVU-G-18-08, requested the Commission determine whether the Company prudently incurred $2,899,525 in natural gas energy efficiency expenses from January 1, 2014 through December 31, 2017. The second application, Case No. AVU-E-18-12, requested the Commission determine whether the Company prudently incurred $22,719,204 in electric energy efficiency expenses in 2016 and 2017.

The Commission issued notices of Application and set intervention deadlines for both cases in December 2018. *See* Order Nos. 34210 and 34222. During the ensuing months, Staff worked closely with the Company to understand its data and processes. Staff submitted 33 production requests in Case No. AVU-G-18-08 and 40 production requests in Case No. AVU-E-18-12. Onsite audits were conducted in February 2019 and July 2019.

On September 17, 2019, the Commission issued notices of Modified Procedure, setting a November 18, 2019 comment deadline and a December 2, 2019 reply comment deadline in both cases. *See* Order Nos. 34446 and 34444.

On October 29, 2019, Staff notified the Commission that, per Commission Rule 272 (IDAPA 31.01.01.272), it would begin settlement negotiations with Avista in both cases. At the request of Staff, the Commission pushed back the comment deadlines for the cases to December 9, 2019 for comments and December 23, 2019 for reply comments. *See* Order Nos. 34487 and 34489.

On December 9, 2019, Staff filed comments for both cases. Staff stated it had settled with the Company in principle and that it believed the Settlement would be ready to file soon. Staff recommended that once the Settlement was filed with the Commission, the Commission should set new comment deadlines in both cases to allow the public to provide feedback on the Settlement.

On February 18, 2020, Avista filed the Settlement—signed by Staff and the Company—for Commission consideration.

THE SETTLEMENT

Action items

In the Settlement, Avista acknowledged it "did not completely accomplish the objective of supporting the overall prudence of Avista's energy efficiency expenditures." Settlement at 6. Many of the action items in the Settlement arose from a November 9, 2019 settlement negotiation meeting, in which Staff presented 11 comments and recommendations regarding Avista's Energy Efficiency Program. Acknowledging these concerns, the Company agreed to eight action items:

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 demand-side management ("DSM") Programs, November 2019. Avista will submit a report to Staff on the status of each of these items by July 31, 2020.

Settlement at 4-5.

Additionally, Avista described the steps it is already taking to address Staff's concerns. Where previously the annual report has been developed by a third-party evaluator, Avista will now develop the annual report in-house. The Company is also updating the annual report's format to organize its subject matter by program. Avista's internal BPI team will be evaluating the annual report development process to determine how it can be improved. The Company will also create a new technical resource manual and will work with Commission Staff on its content. The Company told its third-party evaluator that its deliverables must include work papers to support the evaluation and samplings. Experienced Avista employees will review the annual report and participate in the BPI. Finally, Avista recently hired an analyst with considerable energy efficiency experience who will support the Company's analytics group by providing more detailed reporting and program-design knowledge.

Avista agreed to "take a more proactive approach to manage expectations and the quality of the work performed by its third-party EM&V evaluators." Settlement at 6.

Tariff rider adjustments

As part of the Settlement, the Company and Staff agreed to several adjustments to the energy efficiency tariff rider accounts. Notably, the parties agreed the third-party evaluator's energy efficiency reports were not used and useful because they contained many significant errors and insufficient documentation. Also, the recommendations from the reports were not properly implemented. The parties agreed to remove the cost of the third-party evaluations from the energy efficiency tariff rider accounts—$87,762 from the natural gas account and $287,172 from the electric account. The Settlement stipulates that these adjustments will be funded by Avista and are not recoverable from customers.

Adjustments totaling $41,625 were also made to correct a number of errors, including costs that should have been assigned to Washington operations or to a different fuel. The Settlement stipulates that Avista will restore these amounts to their respective tariff rider balances. Besides these issues, the Company and Staff agreed Avista's remaining energy efficiency expenditures should be allowed as prudent.

The Company and Staff agreed that if the Commission finds Avista did not implement all of the action items in the Settlement in a satisfactory manner, Avista must fund an additional $84,000 to the electric and natural gas tariff riders.[1] The $84,000 would not be recoverable from customers.

Other general provisions

The Company and Staff agreed the Settlement is in the public interest and that its terms are fair, just, and reasonable. The Settlement states that if the Commission "rejects any part or all of [the Settlement] or imposes any additional material conditions on approval of [the Settlement]," each party reserves the right to withdraw from the Settlement. Settlement at 9.

[1] 90% of the penalty would be applied to the electric tariff rider, and 10% to the natural gas tariff rider.

PUBLIC COMMENTS

The Commission received two public comments on the Settlement. While neither comment expressly opposed the Settlement, both had concerns about the practices and management of Avista's Energy Efficiency Program. Specifically, the commenters recommended Avista's internal EM&V evaluation team be completely independent from the Energy Efficiency Program. One comment also suggested the Company incorporate into its August 1, 2020 report a plan on how it will work toward achieving a fully independent and transparent EM&V process.

One comment also questioned how Avista calculates the cost effectiveness of its DSM programs. The commenter noted Avista uses gross savings to calculate cost effectiveness. The commenter asserted this practice violates nationally recognized and accepted DSM evaluations standards, which require the cost effectiveness of DSM programs be calculated based on net savings.

COMMISSION FINDINGS AND DECISION

The Company is an electrical corporation under *Idaho Code* § 61-119, a gas corporation under *Idaho Code* § 61-116, and a public utility subject to the Commission's jurisdiction under *Idaho Code* § 61-129. Having reviewed the record, we accept the Settlement as just, fair, reasonable, and in the public interest. We find that Avista's 2016-2017 electric energy efficiency expenditures and 2014-2017 natural gas energy efficiency expenditures were prudently incurred in the amount authorized by the Settlement.

The Settlement represents a procedural roadmap for improving the reporting and management of Avista's Energy Efficiency Program. Case Nos. AVU-E-18-12 and AVU-G-18-08 began in November 2018, which indicates the time, effort, and resources that Commission Staff dedicated to identifying and remedying issues with Avista's Energy Efficiency Program and ensuring that costs included in the Application were prudently incurred. Both parties now acknowledge the Application's deficiencies and the inadequate processes that led to the deficiencies.

Staff identified expenses that were not used and useful and worked with the Company to address the problems prospectively. The action items agreed to by the parties are not a mere checklist but indicate the Company's willingness, as encouraged and directed by Staff, to improve the Company's entire Energy Efficiency Program. We understand these action items to be tools with which the management of and reporting for Avista's Energy Efficiency Program can be calibrated over time.

In sum, we anticipate the Settlement will substantially improve the Company's Energy Efficiency Program. The Settlement reflects Staff's hard work and engagement and the Company's willingness to improve its internal operations to achieve better results, which will benefit all customers.

ORDER

IT IS HEREBY ORDERED that the Settlement is approved.

IT IS FURTHER ORDERED that Avista prudently incurred $22,421,337 in electric energy efficiency expenses in 2016-2017.

IT IS FURTHER ORDERED that Avista prudently incurred $2,780,833 in natural gas energy efficiency expenses in 2014-2017.

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 about any matter decided in 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.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of April 2020.

PAUL KJELLANDER, PRESIDENT

KRISTINE RAPER, COMMISSIONER

ERIC ANDERSON, COMMISSIONER

ATTEST:

Diane M. Hanian
Commission Secretary

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