

**Comments of Jonathan Powell**  
**Regarding the February 13<sup>th</sup>, 2020 Stipulation by Avista Utilities**  
**in AVU-G-18-08 and AVU-E-18-12**

Avista Utilities has requested a finding of regulatory prudence for their 2014-2017 natural gas efficiency programs (AVU-G-18-08) and their 2016-2017 electric efficiency programs (AVU-E-18-12). The Idaho Public Utilities Commission Staff (Staff) has recommended the approval for recovery of over 98% of the \$25.6 million of combined electric and natural gas expenditures incurred during those specified periods. The expenditures found to non-recoverable are primarily related to errors in jurisdictional accounting and expenses related to analytical work found to be so deficient as to be deemed not used and useful. As a result of Staff's diligent and thorough regulatory review they have identified eleven specific areas where analytical and management deficiencies were sufficiently lacking as to create the need for a focused business improvement effort by the Company subject to future additional public review by Staff. The Company has responded with the acknowledgment that there are opportunities for improvement and have agreed to pursue those improvements per their stipulation filed February 13th, 2020. Avista's stipulation includes eight specific elements that they have committed to pursue to include three specific deliverables to be completed by August 1<sup>st</sup>, 2020.

It is in the public interest to get this right the first time. Delays resulting from the failure to holistically and comprehensively address the identified deficiencies will delay the realization of the potential benefits of the desired improvements and will likely mean that there will be a need to either revisit these topics at a later date or accept an inadequate response to addressing the Staff identified deficiencies. In the spirit of getting this right the first time I am offering comments in regards to necessary improvements in the evaluation, measurement and verification (EM&V) process that I fear will be not be given due consideration by the Company nor will their importance be fully recognized by the public. My insights are based upon a thirty year career in the analysis, EM&V, program delivery, portfolio management and policy of utility energy efficiency efforts, most of that in the Northwest to include Idaho.

Staff has appropriately offered detailed insights into deficiencies regarding technical competence, communication issues within Avista's reporting, cost-effectiveness analysis, measurement of energy savings, business processes and

appropriate use of the feedback obtained from EM&V processes by program delivery staff. These are clear symptoms of an EM&V process in crisis. The clarity of the Staff's communication of these observations provides a metric against which the Company's future success in improving these processes can be measured. My intent is to illuminate the foundations for those deficiencies.

Unfortunately I am concerned that the Company response, in the form of eight specific deliverables self-identified in their stipulation, will amount an exercise in simply checking these eight boxes as achieved and moving forward without a comprehensive treatment of the fundamental issues.

Simply stated, no EM&V work product can be successful unless it is based upon a foundation of analytical independence and transparency. Many, perhaps all, of the observed deficiencies are founded in whole or part on the lack of an organizational structure and roles and responsibilities supporting an independent and transparent EM&V process. The current process presumes that an internal evaluation team reporting to the very Director whose work product is being evaluated will perform an internal evaluation and manage an external evaluation that is thorough, complete and unbiased in the reporting of all aspects of impact and process evaluations. Additionally the internal evaluation staff is expected to work with program delivery staff in the selection, management and funding of a consultant engaged to complete a third-party EM&V work product which will then be externally represented by the Company as an independent evaluation of the performance of the same program delivery staff who were involved in all aspects of the management of the evaluation contract.

Under these circumstances and with an understanding of the proliferation of conflicts of interest and the involvement of multiple parties each with their own perspectives and interests to protect it would be almost impossible to produce a coherent work product. With certainty that work product will not be a thorough, accurate and unbiased representation of the energy efficiency portfolio achievements. This ill-advised approach to EM&V is a contributing factor to each and every one of the Staff identified deficiencies.

EM&V serves as the primary window into the portfolio that external parties rely upon to gauge regulatory prudence and policy compliance as well as forming the foundation for a continuous improvement process. When that window into the

process does not function it is certain that the portfolio performance will suffer and all parties, to include the Company and those with regulatory responsibilities, will be misled.

Avista's stipulation contains agreements to complete a business process improvement process, a review by the Company's Internal Audit department and a review of team roles and responsibilities. This promised review may, and certainly should, lead to a review of organizational structure and roles and responsibilities that include consideration of the re-establishment of an internal independent EM&V function. Unfortunately there is no specific commitment to do so. Even if all of the identified issues related to the analytical competence, report formatting and content, contract management and other symptomatic deficiencies are adequately resolved this will amount to merely treating the current presentation of symptoms without addressing the underlying cause. Lacking the establishment of an independent EM&V staff managing an independent third-party evaluation contract leading to a transparent reporting process the Avista response will fail to address the root causes leading to the Staff identified deficiencies.

There is an understandable and well-founded reluctance on the part of Staff to engage in the micromanagement of utility work processes which they will at a later date be responsible for reviewing for regulatory compliance and cost-recovery. I am not burdened by that regulatory responsibility and am therefore free to be more specific in my observations and recommendations.

The Company should evaluate and incorporate into their August 1<sup>st</sup>, 2020 reporting a plan for how they will work toward achieving a fully independent and transparent EM&V process. An obvious first step would be the establishment of an EM&V team reporting well outside the organizational boundaries of those whom they are evaluating. An organizational shift in the reporting relationship of the EM&V staff from the department that is being evaluated and to the Company's Internal Audit department would come as close to creating an internally independent EM&V process as can reasonably be achieved.

The internal independent EM&V staff should have the sole responsibility to select, manage and fund the third-party evaluation contract. Consultants have an inherent desire to satisfy their client. If their client is the team responsible for delivering the energy efficiency portfolio they will have a tendency, often a strong tendency, to deliver EM&V work products that support their desire for a favorable review of their personal and departmental performance. A consultant

selected, managed and funded by an internal EM&V team that is both independent and ethical will have less of a tendency to bias their reporting to favor the Company. Consultants are malleable, some more than others, and for this reason it is important that the consultant selection and funding also be at the sole discretion of the EM&V team. It is too easy for the Company to select a consultant likely to represent their work in a favorable light. Similarly in regards to funding, it is too easy for those managing the consulting contract to decline to fund important portions of the evaluation that are likely to not reflect well upon the Company's performance.

There should be a firm internal and external commitment to allow the EM&V team unfettered access to the information necessary to complete a thorough evaluation. This would include all information relevant to portfolio performance as well as reasonable and necessary direct access to customers and project facilities.

The EM&V team should explicitly not be responsible for any task that would compromise their independence. This would necessarily preclude them from responsibility for the completion of a business plan which they would later be responsible for evaluating or similar analytical functions that would place them in the position of being partially responsible for the success or failure of program delivery tasks. It would be necessary to retain an analyst integral to the program delivery team to perform those analytical tasks which would compromise the independence of the EM&V staff.

A commitment to transparency in the reporting of EM&V work products must be incorporated within the review of roles and responsibilities. Independent EM&V work products which are completed but then diverted within the organization to avoid external scrutiny nullifies the objective of establishing an independent and transparent EM&V process.

There is a clear path available to the Company that would lead to a dramatic improvement in EM&V processes and a broader improvement in analytical and program delivery functions. That path must start with the creation of an internal independent EM&V team with the previously described roles and responsibilities. If the Company fails to deliver a detailed plan incorporating all of these elements fundamental to an industry standard level of EM&V quality they should be expected to publically offer specific reasons why they have chosen to not do so and to explain the reasoning behind their conclusion that independence and transparency is an unimportant feature of an EM&V process and their broader commitments to process improvements made within their stipulation.