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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
AVISTA CORPORATION FOR A)	CASE NO. AVU-E-18-12
DETERMINATION OF 2016-2017 ENERGY)	
EFFICIENCY EXPENSES AS PRUDENTLY)	
INCURRED)	
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IN THE MATTER OF THE APPLICATION OF)	
AVISTA CORPORATION FOR A)	CASE NO. AVU-G-18-08
DETERMINATION OF 2014-2017 NATURAL)	
GAS ENERGY EFFICIENCY EXPENSES AS)	COMMENTS OF COMMISSION
PRUDENTLY INCURRED)	STAFF IN SUPPORT OF
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)	SETTLEMENT AGREEMENT

STAFF OF the Idaho Public Utilities Commission, by and through its Attorneys of record, Edward J. Jewell and Matt Hunter, Deputy Attorneys General, submits the following comments.

BACKGROUND

On November 16, 2018, Avista Corporation (“Avista” or "Company") 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, Commission Staff worked closely with the Company to understand its data and processes.

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. 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 extended the comment deadlines for both 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 in both cases. Staff stated it had settled with the Company in principal 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 to allow public input on the settlement.

On February 18, 2020, Avista filed a Settlement Agreement for Commission consideration.

The proposed Settlement Agreement addresses reporting and program management issues identified by Commission Staff that have made the Company's prudency cases challenging for several years. The Company agrees to review its internal process and provide the results to Staff by specific dates. The Company will also evaluate how its reports to the Commission are prepared, engaging with Staff as part of this evaluation.

The Company and Staff agree to adjust the energy efficiency rider accounts to correct costs that were incorrectly assigned.

The Proposed Settlement Agreement 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 reserved the right to withdraw from the proposed Settlement Agreement. Settlement Agreement at 9.

STAFF REVIEW

Staff has reviewed the Settlement Agreement and asserts it resolves the issues discovered in the current case and previous demand side management (“DSM”) prudency reviews. Staff believes the Settlement Agreement is in the public interest and is a just, fair, and reasonable compromise that should improve the quality of the Company’s DSM processes and reporting, and therefore recommends it be approved by the Commission.

Staff conducted an intensive evaluation of Avista’s DSM programs. The investigation included two on-site audits in Spokane, over 70 production requests, monthly phone calls with the Company, and several conference calls to confer with the Company’s third-party Evaluation, Measurement, and Verification (“EM&V”) evaluator, Nexant. After a meeting in Boise in November 2019, the Company and Staff agreed that a settlement would provide the best outcome to improve the Company’s processes and reporting while also reducing costs to customers.

Staff believes that the Company continues its commitment to energy efficiency, but its processes and reporting must be improved. Staff comments dating back to 2014 have consistently focused on the lack of proper documentation, inaccuracies in reporting, and insufficient information describing how programs are operated—especially in the portrayal of expenses and the cost-effectiveness of Idaho programs. Staff did not identify any formal or informal processes for using third-party evaluation results to identify problem areas or find improvement opportunities for its programs. Staff’s analysis also revealed the Company was not using impact evaluation results to appraise program effectiveness or measure cost effectiveness.

The Settlement Agreement documents Staff’s concerns in further detail and identifies specific, measurable, action items for the Company to complete to address these shortfalls. Staff asserts these actionable steps will improve the processes and program in quantifiable ways.

The Settlement Agreement

The parties agreed to several quantified adjustments in the Settlement Agreement to address Staff concerns and fix accounting errors discovered during the audit. The Settlement Agreement includes zero cost recovery for the fees paid by the Company for Nexant’s reports for 2016-2017 because Staff determined the reports were not used nor useful. The reports contained significant errors—including but not limited to incorrect tables, typographical errors, and other

deficiencies. Further, the information in the reports was not being used to improve the effectiveness of the programs, as intended. The total disallowance for Nexant reports was \$374,934, which includes \$287,172 electric evaluation adjustments and \$87,762 gas evaluation adjustments. The Settlement Agreement provides that the Company will review its previously submitted 2018 Annual Conservation Report to ensure that it complies with the terms of the Settlement Agreement. Additionally, the Company will work with its third-party EM&V evaluators to ensure future work also conforms with the Settlement Agreement.

Per the terms of the Settlement Agreement, the Company has made several commitments. The Company will hold one or more business process improvement (“BPI”) workshops facilitated by internal BPI experts. The Company’s Internal Audit Department will perform an audit of the energy efficiency processes for adequacy of controls and adherence to industry best practices. Additionally, the Company will review, hire, or develop staff expertise and reassign roles and responsibilities to ensure that performance meets Commission Staff’s expectations. The outcomes of the BPI workshops and internal audits will be provided to Staff no later than August 1, 2020.

As in a traditional prudence case, Staff performed an audit of the Company’s DSM expenses, sampling and reviewing transactions across the Company’s programs. The audit uncovered some accounting errors in the energy efficiency tariff rider accounts. A total of \$41,625 in adjustments were either booked to the wrong account or the incorrect fuel source. Parties agree Avista will restore these adjustments to their respective tariff rider balances.

Parties agreed that the Company needed to take a more proactive approach to support the overall prudence of Avista’s energy efficiency expenditures and to manage its third-party evaluator. The Settlement Agreement states action items and a schedule that the Company must achieve to avoid an additional \$84,000 penalty to the electric and natural gas tariff riders, which would not be recoverable from customers. Staff believes this delayed penalty, above and beyond the quantified adjustments, was necessary to effect lasting programmatic changes. However, the Company may avoid incurring this additional penalty by working with Staff to implement the action items and submit reports based on the agreed upon schedule set forth in the Settlement Agreement. Staff has seen progress, as noted in the Settlement Agreement, as the Company has worked to address Staff’s concerns.

PUBLIC COMMENTS

The Commission received one public comment on the Settlement Agreement. The commenter claimed that failure to holistically and comprehensively address the identified deficiencies will delay the potential benefits of the desired improvements and expressed concerns that Staff will have to revisit these topics again in the future. The commenter also expressed concerns about the Company's EM&V processes and requested additional independence between the Company's evaluation team and program management team, both of which report to the same director.

STAFF RECOMMENDATION

The parties agree that the Settlement Agreement is in the public interest and that its terms are fair, just, and reasonable. Staff believes this Settlement Agreement addresses long-standing concerns and implements recommendations that have been clearly articulated on a documented timeline. Thus, Staff recommends:

1. The Commission approve the Settlement Agreement in its entirety, without any material change or condition.
2. The Commission find that the Company's demand-side management expenses, with the exception of those identified in the above section and Settlement Agreement, were prudently incurred for electric accounts between 2016 and 2017 (AVU-E-18-12) and between 2014 and 2017 for natural gas (AVU-G-18-08).

Respectfully submitted this 26th day of March 2020.



Edward J. Jewell
Deputy Attorney General



Matt Hunter
Deputy Attorney General

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26th DAY OF MARCH 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF IN SUPPORT OF SETTLEMENT AGREEMENT**, IN CASE NOS. AVU-E-18-12 AND AVU-G-18-08, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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/s/ Reyna Quintero
SECRETARY