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UTILITIES COMMISSION

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION ) CASE NO. AVU-E-10-01  
OF AVISTA CORPORATION FOR THE ) CASE NO. AVU-G-10-01  
AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR ELECTRIC AND )  
NATURAL GAS SERVICE TO ELECTRIC ) DIRECT TESTIMONY  
AND NATURAL GAS CUSTOMERS IN THE ) OF  
STATE OF IDAHO ) BRUCE W. FOLSOM  
)

FOR AVISTA CORPORATION

(ELECTRIC AND NATURAL GAS)

1 I. INTRODUCTION

2 Q. Please state your name, employer and business  
3 address.

4 A. My name is Bruce Folsom. I am employed by  
5 Avista as the Senior Manager of Demand Side Management  
6 (DSM). My business address is East 1411 Mission Avenue,  
7 Spokane, Washington.

8 Q. Would you please describe your education and  
9 business experience?

10 A. I graduated from the University of Washington in  
11 1979 with Bachelor of Arts and Bachelor of Science  
12 degrees. I received a Masters in Business Administration  
13 degree from Seattle University in 1984.

14 I joined the Company in 1993 in the State and  
15 Federal Regulation Department. My duties included work  
16 associated with tariff revisions and regulatory aspects of  
17 integrated resource planning, demand side management,  
18 competitive bidding, and emerging issues. In 2002, I was  
19 named the Manager of Regulatory Compliance which added  
20 responsibilities such as implementing the Federal Energy  
21 Regulatory Commission's major changes to its Standards of  
22 Conduct rule. I began my current position in September of  
23 2006. Prior to joining Avista, I was employed by the

1 Washington Utilities and Transportation Commission  
2 beginning in 1984, and then served as the Electric Program  
3 Manager from 1990 to February, 1993. From 1979 to 1983, I  
4 was the Pacific Northwest Regional Director of the  
5 Environmental Careers Organization, a national, private,  
6 not-for-profit organization.

7 **Q. What is the scope of your testimony in this**  
8 **proceeding?**

9 A. I provide an overview of the Company's DSM  
10 programs and recent results. I also request a finding  
11 that Avista's expenditures for electric and natural gas  
12 energy efficiency programs have been prudently incurred  
13 for calendar years 2008 and 2009.

14 **Q. Are you sponsoring any exhibits to be introduced**  
15 **in this proceeding?**

16 A. Yes. I am sponsoring Exhibit No.15 prepared  
17 under my direction. Exhibit No.15 documents the results  
18 and cost-effectiveness of Avista's DSM programs.

19

20 **II. DSM PROGRAMS AND CURRENT PERIOD RESULTS**

21 **Q. Would you please provide a brief overview of**  
22 **Avista's DSM programs?**

1           A.    Yes. Beginning in 1978 Avista has historically  
2 had a significant and consistent commitment to energy  
3 efficiency, spurring many innovations. For example,  
4 Avista initiated a large electric-to-natural-gas  
5 conversion program in the early 1990s. In the mid-1990s,  
6 while the electric industry was pulling back from offering  
7 energy efficiency services in expectation of retail  
8 electric competition, Avista pioneered the Energy  
9 Efficiency Tariff Rider. Now in its sixteenth year, the  
10 tariff rider was the country's first distribution charge  
11 to fund DSM. The tariff rider is an "expensed" ratemaking  
12 pass-through mechanism (providing no additional earnings  
13 either through capitalization, shared-benefit incentives  
14 or fixed cost recovery) dedicated to funding customer  
15 facility and process energy efficiency improvements. The  
16 energy efficiency portion of Schedule 91 currently has a  
17 billed rate of approximately 3.98% of revenue for electric  
18 service and the Schedule 191 energy efficiency rate is  
19 4.19% of revenue for natural gas. Avista has a proposal  
20 pending with the IPUC to increase the Schedule 191 rate.

21           The Company's approach to energy efficiency is based  
22 on two key principles. The first is to pursue all cost-  
23 effective kilowatt hours and therms by offering financial

1 incentives for most energy saving measures with a simple  
2 financial payback of over one year. The second key  
3 principle is to use the most effective "mechanism" to  
4 deliver energy efficiency services to customers. These  
5 mechanisms are varied and include 1) prescriptive programs  
6 (or "standard offers" such as high efficiency appliance  
7 rebates), 2) site-specific or "customized" analyses at  
8 customer premises, 3) "market transformational," or  
9 regional, efforts with other utilities, 4) low-income  
10 weatherization services through local Community Action  
11 Agencies, 5) low-cost/no-cost advice through a multi-  
12 channel communication effort, and 6) support for cost-  
13 effective appliance standards and building codes. These  
14 will be described later in my testimony.

15 The Company's offerings include 475 measures that are  
16 packaged into over 36 programs for customer convenience.  
17 As part of Avista's planning efforts, over 3,000 measures  
18 are considered and then examined for cost-effectiveness.  
19 The Company's comprehensive energy efficiency outreach,  
20 the "Every Little Bit" communications campaign, received  
21 several national honors in 2009. This comprehensive  
22 communication approach helps customers reorient their  
23 thinking about energy efficiency.

1           The Company's programs are delivered across a full  
2 customer spectrum. Virtually all customers have had the  
3 opportunity to participate and a great many have directly  
4 benefited from the program offerings. As will be  
5 described later in my testimony, all customers have  
6 indirectly benefited through enhanced cost-efficiencies as  
7 a result of this portfolio approach.

8           **Q. Would you please provide an overview of the**  
9 **specific energy efficiency programs offered to residential**  
10 **customers?**

11           A. Yes. Avista offers the following residential  
12 programs:

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1 **Illustration No. 1:**

- 2 **RESIDENTIAL**  
3 High Efficiency Furnace/Boiler  
4 High Efficiency Heat Pump  
5 High Efficiency Variable Speed Motor  
6 High Efficiency Tank Water Heater  
7 Space Heat Conversion (Direct Use of Natural Gas)  
8 Water Heat Conversion (Direct Use of Natural Gas)  
9 Heat Pump "Conversion" (Electric Efficiency Upgrade)  
10 Ceiling, Attic, Floor, Wall Insulation  
11 High Efficiency Windows  
12 Fireplace Damper  
13 BuiltGreen™ (New Construction Energy Star®)  
14 Something for Everyone  
15 Energy Star® Appliances  
16 CFL (and CFL Recycling) Promotions  
17 "Second" Refrigerator/Freezer Recycling Program  
18 "Geographic Saturation"  
19 Community Events and Workshops  
20 Low-cost/no-cost information  
21 Direct Use of Nat Gas: Multi-Family Housing  
22 Conversion  
23 Regional Market Transformation (NEEA)  
24 On-line Home Audits  
25 Ductless Heat Pump  
26 Energy Star® Homes  
27 Distributed Generation (net-metering)  
28  
29 **LIMITED INCOME RESIDENTIAL**  
30 Limited Income Weatherization with Community Action  
31 Programs  
32 (Note: All residential programs above are also  
33 available)  
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36 The residential programs shown above are standard  
37 offerings or what we call "prescriptive programs." These  
38 involve a menu of rebates on selected measures (e.g.,  
39 lighting, weatherization, appliances, etc.).

1           **Q.   And what do you offer for your commercial and**  
2 **industrial customers?**

3           A.   For commercial customers, in addition to  
4 prescriptive programs, Avista offers "site-specific"  
5 programs. Site-specific programs are customized to the  
6 customer's premises. The site-specific offering provides  
7 incentives on any cost-effective commercial and industrial  
8 energy efficiency measure. This is implemented through  
9 site analyses, customized diagnoses, and incentives  
10 determined for savings generated specific to the  
11 customer's premises or process.       The following  
12 illustration shows the programs available to Avista's  
13 commercial and industrial customers.

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1 **Illustration 2:**

2 **NON-RESIDENTIAL (COMMERCIAL & INDUSTRIAL)**

3 Site-Specific

4 (Note: Incentives offered for most measures with > 1  
5 year payback)

6 EnergySmart Program

7 LEED Certification Incentives

8 Power Management for PC Networks

9 Premium Efficiency Motors

10 Food Service Equipment

11 LED Traffic Signals

12 Refrigerated Warehouse

13 Commercial HVAC Variable Frequency Drives

14 Retro-Commissioning

15 Clothes Washers

16 Side Steam Filtration

17 Demand Controlled Ventilation

18 Vending Machine Controllers

19 Lighting and Controls

20 Electric to Natural Gas Water Heater Conversion

21 Steam Trap Replacement

22 Green Motors Initiative

23

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25 **Q. Would you briefly discuss the Company's staffing**  
26 **requirements and budget/actual expenditures?**

27 A. Yes. These programs are supported by twenty-  
28 three full-time equivalents (FTE) spread over 40 staff  
29 members. This does not include Company support from the  
30 Contact Center, Corporate Communications, Accounting and  
31 other direct and indirect support. The 2009 DSM budget  
32 (system, or Idaho and Washington, electric and natural  
33 gas) was over \$23 million, representing an increase of \$5

1 million over 2008. Expenditures in 2009 were approximately  
2 \$27 million and exceeded budget to meet customer demand.  
3 Of the revenues collected under Schedules 91 (electric  
4 tariff rider) and 191 (natural gas tariff rider) in 2009,  
5 73.8% was paid out to customers in direct incentives  
6 pursuant to the cost-effectiveness tests described below.  
7 This does not include additional benefits such as site  
8 audits and technical analyses provided to customers by the  
9 Company's DSM engineering staff.

10 **Q. What were the Company's energy efficiency**  
11 **targets and results for 2009?**

12 A. The Company's energy efficiency targets are  
13 established in the process of developing the Electric and  
14 Natural Gas Integrated Resource Plans (IRPs). These  
15 targets are revisited and adjusted to take into account  
16 new programs as part of our ongoing business planning  
17 process.

18 The results of Avista's energy efficiency programs  
19 continue to exceed the targets established as part of the  
20 IRP process. Local electric efficiency savings for 2009  
21 were 80.8 million kWhs (approximately 9.2 aMW) or 141% of  
22 the Company's annual IRP target. "Local" results do not  
23 include those delivered by the Northwest Energy Efficiency

1 Alliance (NEEA) which are generally reported in the second  
2 quarter every year and have ranged between 1 and 2 aMW for  
3 Avista's share.

4 Over 147 aMW of cumulative savings have been achieved  
5 through Avista's energy efficiency efforts in the past  
6 three decades; over 111 aMW of DSM is currently in place  
7 on the Company's system, or the equivalent of two Kettle  
8 Falls Generating Stations. By comparison, Avista's 2009  
9 total electric retail load was approximately 1,100 aMW.  
10 The 2009 natural gas IRP savings targets for Idaho and  
11 Washington were 1.58 million therms. Over 2 million  
12 therms were saved in 2009, which is 128% of the 2009  
13 annual target.

14 **Q. Please briefly explain Avista's participation in**  
15 **the NEEA regional energy efficiency efforts.**

16 A. As I mentioned earlier, in addition to Avista's  
17 prescriptive and site-specific programs, the Company funds  
18 and participates in the activities of the Northwest Energy  
19 Efficiency Alliance. NEEA focuses on using a regional  
20 approach to obtain electric efficiency through the  
21 transformation of markets for efficiency measures and  
22 services. An example of NEEA-sponsored programs that  
23 benefit Avista customers are efforts to decrease the cost

1 of compact fluorescent light bulbs (CFLs) and high-  
2 efficiency appliances by working through manufacturers.  
3 For some measures, a large-scale, cross-utility approach  
4 is the most cost-effective means to achieve energy  
5 efficiency savings. This approach seems particularly  
6 effective for markets composed of large numbers of smaller  
7 usage consumers, such as the residential and small  
8 commercial markets.

9 The results from NEEA programs for 2009 have not been  
10 finalized as of the date of the submittal of this  
11 testimony. The preliminary estimate of Avista's portion  
12 of NEEA's 2009 results is approximately 1.1 aMW of savings  
13 which is approximately 40% lower than 2008. This was due  
14 to lower CFL sales than estimated.

15 **Q. How do you inform your customers about your DSM**  
16 **programs?**

17 A. In 2006, Avista comprehensively reviewed the  
18 content and delivery process of our energy efficiency  
19 programs. An area identified for improvement was customer  
20 outreach. Our market research showed that customers  
21 thought they were doing what they could for energy  
22 efficiency, that it was too expensive, and/or that "it  
23 didn't matter." These findings led to our

1 "EveryLittleBit" outreach campaign which is a multi-year,  
2 multi-channel effort to educate customers about the  
3 benefits of energy efficiency and to lead customers to our  
4 financial incentives and low-cost/no-cost "tips."

5 Our focus on the residential side is to increase  
6 customer understanding of our programs and how our  
7 programs can help customers reduce their bills. We do this  
8 through bill inserts and communications to bring customers  
9 to our website with a "call-to-action" to use our  
10 financial rebates and follow our no-cost/low-cost  
11 suggestions.

12 We have equally beneficial programs for commercial  
13 and industrial customers. Illustration No. 3 below depicts  
14 a 2009 enhancement to our website, [www.EveryLittleBit.com](http://www.EveryLittleBit.com).  
15 This is an interactive tool to engage commercial customers  
16 and allows customers to quickly view programs that they  
17 can use, by "clicking on" a particular type of facility.  
18 A similar tool, "The House of Rebates," is available for  
19 residential customers.

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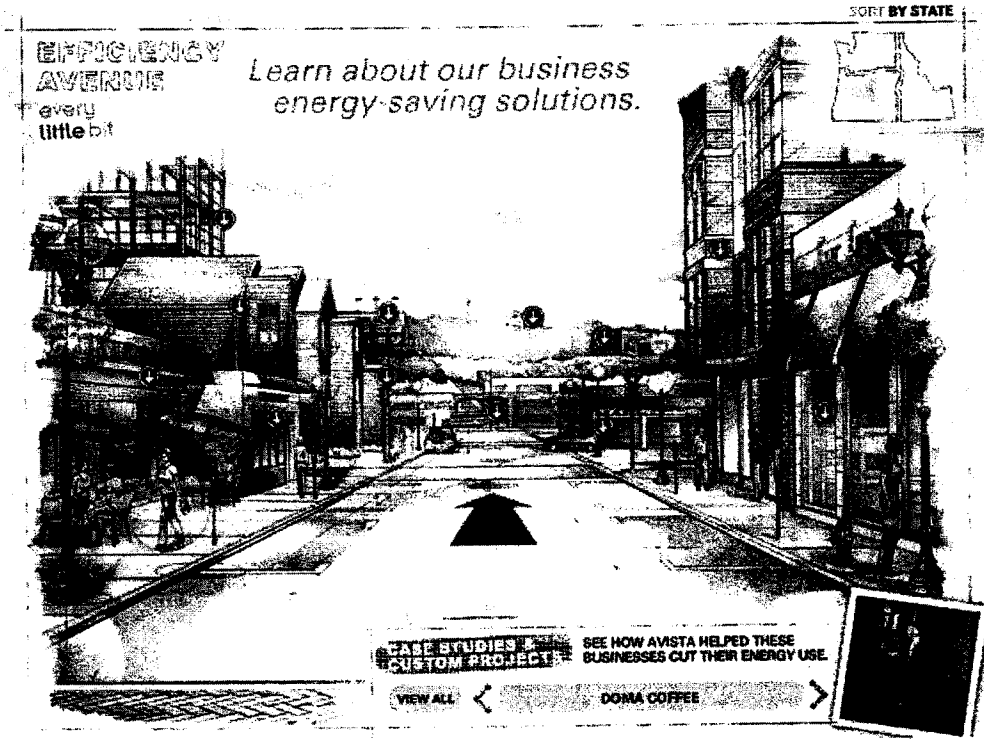
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**Illustration No. 3:**



Avista's EveryLittleBit campaign has been well-recognized nationally. E-Source awarded Avista top honors for the "best web-site" in 2009. Utility Communicators International provided the Company with 10 awards in 2009, related to the EveryLittleBit campaign, as a best-in-class initiative. Customer response has been similarly positive, as described later in my testimony.

**Q. How does Avista evaluate the success of its energy efficiency programs?**

1           A.    Given the increased interest in evaluation of  
2 energy efficiency results, I will address Avista's recent  
3 protocols and current plans for enhanced evaluation and  
4 future expectations. Avista uses several metrics for  
5 evaluating its energy efficiency programs. The primary  
6 measures for evaluation have been target achievement and  
7 cost-effectiveness. The latter has been the foundation  
8 for Commission review since the establishment of the  
9 tariff rider mechanisms in 1995. Based on these reviews,  
10 Avista has received findings of prudence from the Idaho  
11 Commission and the Washington Commission every year from  
12 1995 through 2007. More specifically, the review standard  
13 has applied a combination of industry standards known as  
14 the Total Resource Cost (TRC) test and the Program  
15 Administrator Cost Test (PACT) (formally known as the  
16 Utility Cost Test (UCT)).<sup>1</sup>

17           In 2009, stakeholders in both Idaho and Washington  
18 requested more detailed analyses on a prospective basis.  
19 This interest stems from several perspectives, including:

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<sup>1</sup> The Total Resource Cost Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participants' and the utility's costs. The Program Administrator Cost Test measures the net costs of a demand-side management program as a resource option based on the costs incurred by the program administrator (including incentive costs) and excluding any net costs incurred by the participant. The benefits are similar to the TRC benefits. Costs are defined more narrowly.

1 1) a recent "Memorandum of Understanding (MOU) for  
2 Prudency Determination of DSM (Demand Side Management)  
3 Expenditures" filed with the Idaho Public Utilities  
4 Commission, 2) compliance with Washington's Renewable  
5 Portfolio Standards (RCW Chapter 19.285 and WAC Chapter  
6 480-109) relative to establishing electric savings  
7 acquisition targets and verification procedures, and 3)  
8 Avista's recently concluded general rate case, relative to  
9 natural gas decoupling in Washington, in which the  
10 Washington Commission ordered the Company and interested  
11 parties to participate in a collaborative to examine  
12 specified evaluation, measurement and verification (EM&V)  
13 and low-income issues.

14 Avista aspires to best-practices in all aspects of  
15 its energy efficiency efforts, providing transparent and  
16 accessible documentation of its energy efficiency  
17 evaluations to interested parties. The collaborative (for  
18 EM&V and low-income issues) is underway with a final  
19 report scheduled to be filed with the WUTC on or before  
20 September 1, 2010. The discussion with interested  
21 stakeholders on these issues in a unified and structured  
22 approach will facilitate a thorough and efficient review  
23 of key issues.



1           Without getting ahead of the discussion that will  
2 occur in the collaborative, Avista expects that its EM&V  
3 efforts will be ramped up in several areas discussed  
4 below. These areas will be modified by the collaborative  
5 as appropriate. As described in the draft plans, EM&V is  
6 intended to reflect all of the analyses necessary to  
7 supply information to stakeholders to adequately determine  
8 the prudence of Avista's DSM Programs. EM&V includes  
9 "impact," "process," "market," and "cost test" analyses.  
10 These are described below (and taken as a whole are  
11 synonymous with other terms such as "Portfolio Evaluation"  
12 or "Program Evaluation").

13           Impact Analysis - Impact analysis provides the  
14 documentation necessary to prove that the savings  
15 estimated within a particular program are equal to  
16 the savings realized by all of the customers  
17 participating in that program. Impact analysis  
18 subcomponents include:

- 19           ▪ Measure Verification applies principles of  
20 the International Performance Measurement &  
21 Verification Protocol (IPMVP). Only a  
22 single measure may be verified using this  
23 technique or protocol. The verification of  
24 a statistically significant number of  
25 projects using IPMVP techniques is often  
26 extrapolated to verify and perform impact  
27 analysis on whole programs. The following  
28 are parameters included for the  
29 verification of a measure.

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- Process for calculating the savings;
- Incremental cost of a measure;
- Installation date;
- Measure life;
- Claimed savings;
- Rate schedule for Duel Fuel Incentive Calculator (DFIC) Calculation; and
- Other

Process Analysis - Process analysis is the documentation of the continuous changes necessary to create, implement, modify and possibly terminate programs. The following items are included in process analysis.

- Contact information;
- Changes to programs over time;
- Rules for customer qualification;
- Project cost data; and
- Other

Market Analysis - Market analysis determines the effect of the marketplace on customer implementation of energy efficiency including customer costs.

Cost Test Analysis - Cost test analysis combines several industry terms relative to the evaluation of energy efficiency cost-effectiveness, including among others: Net-to-Gross analysis, Total Resource Cost (TRC) analysis, and Free Riders or Free Drivers.

Depending on the outcome of the collaborative, revisions to reported annual savings may occur due to the

1 results of these EM&V protocols. These modifications of  
2 savings will be documented with supporting analyses and  
3 may yield increases or decreases in future reported  
4 savings.

5 **Q. What is the status of the tariff rider balance?**

6 A. The current tariff rider balance - both Idaho  
7 and Washington, electric and natural gas - is a negative  
8 \$9,557,925 (i.e., dollars expended exceed dollars  
9 collected through the tariff riders). By jurisdiction and  
10 fuel, the negative rider balances are, as of February  
11 2010: (\$2,008,944) - Idaho electric; (\$1,238,294) - Idaho  
12 natural gas; (\$2,653,751) - Washington electric; and  
13 (\$3,656,937) - Washington natural gas.

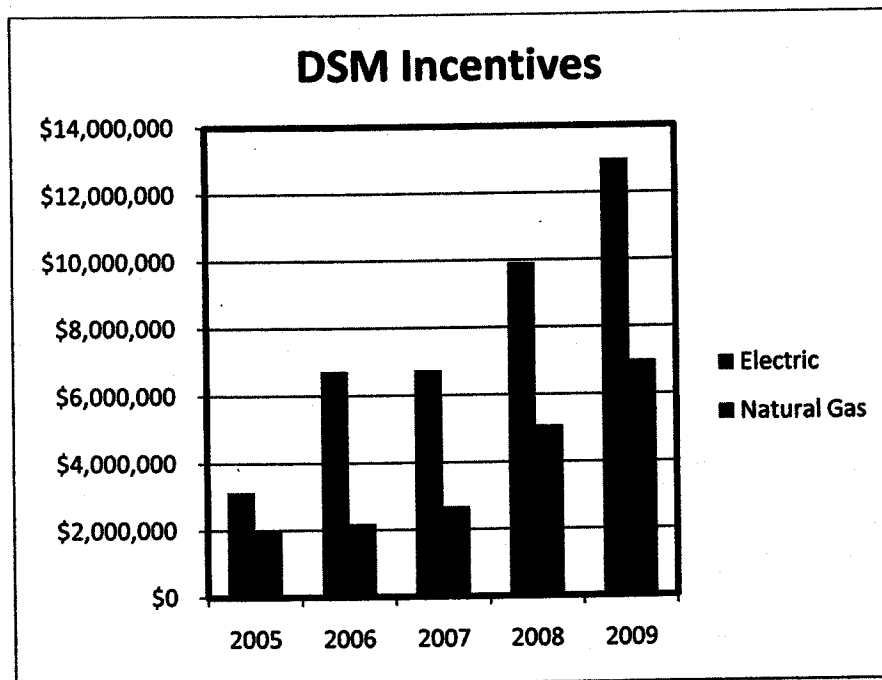
14 **Q. What are the causes of these negative balances?**

15 A. There are several reasons for these negative  
16 balances. First, the Company does not "cap" its energy  
17 efficiency efforts based on available revenue. Avista is  
18 committed to meeting customer demand for energy efficiency  
19 services in advance of revenue recovery. Second, the  
20 Company has leveraged the high level of public interest in  
21 "green" technologies to enhance the acquisition of cost-  
22 effective energy-efficiency measures. Third, periods of  
23 increased energy costs have heightened customers'

1 awareness of the benefits of energy efficiency. Simply  
2 stated, energy efficiency is one way for customers to have  
3 more control over their energy bill. Fourth, outreach  
4 works. Our EveryLittleBit campaign has resonated with  
5 customers. These leveraging opportunities and the customer  
6 response to the Company's efficiency programs have  
7 exceeded our expectations.

8 The following shows the three-fold increase in  
9 rebates in the past five years:

10 **Illustration No. 4:**



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13 Q. What is the Company's plan to address these  
14 balances?

1           A.     Schedules 91 and 191 are true-up mechanisms that  
2 are reviewed annually and revised, as appropriate, to  
3 reflect expenditures to fund energy efficiency programs.  
4 On the electric side, projected Schedule 91 revenues (at  
5 the current rates) are expected to provide for the 2010  
6 energy efficiency budget and to reduce the negative  
7 electric rider balance by year-end 2010. There may be new  
8 programs that will be launched, or continued customer  
9 demand exceeding forecasts that will prevent returning the  
10 tariff rider balance to near zero, but this would be  
11 addressed in the January 2011 review period.

12           The largest negative balances are on the natural gas  
13 side. Despite an increase to the natural gas tariff rider  
14 rates in 2009, the natural gas tariff rider balances are  
15 not decreasing due to strong customer demand for natural  
16 gas efficiency measures. On February 12, 2010, Avista  
17 filed a tariff rider revision to Schedule 191 in Idaho to  
18 reduce the natural gas tariff rider balance. The Schedule  
19 191 rate will, in turn, be reviewed again in 2011 and  
20 revised to reflect the anticipated decrease in the natural  
21 gas rider balance.

22           **Q.     What kind of external oversight does the Company**  
23 **have regarding DSM?**

1           A.    The Company has had an energy efficiency  
2 advisory committee in some form since 1992.  The current  
3 stakeholder panel, the External Energy Efficiency (Triple  
4 E) Board, was established as a non-binding oversight group  
5 in 1999 to provide for improved opportunities for  
6 communication, input and oversight of Avista's DSM  
7 portfolios.  Avista currently facilitates meetings of the  
8 board twice per year, provides a full analysis of the  
9 results of DSM operations on an annual or more frequent  
10 basis, discusses (with appropriate concern for customer  
11 confidentiality) large projects, and provides the Triple E  
12 with a quarterly update of DSM activities.  Additionally,  
13 the Triple E Board can initiate additional meetings of the  
14 board at their own request.  Board membership has included  
15 representatives from regulatory, governmental,  
16 environmental, nationally recognized energy-efficiency  
17 experts, customer advocates for limited income and  
18 industrial segments as well as end-use customer  
19 participants.

20           **Q.    Does the Company propose to increase its low-**  
21 **income weatherization funding as part of this filing?**

22           A.    Yes.  The Company proposes to increase its low-  
23 income weatherization funding for electric and natural gas

1 service by a percentage amount equal to the percentage  
2 rate increase granted in this case for residential  
3 customers. The additional funding would be provided  
4 through the DSM tariff riders, Schedules 91 and 191.

5 Low-income weatherization and appropriate levels of  
6 funding are also part of the Company's recently formed  
7 collaborative with a report due to the Washington  
8 Commission on or before September 1, 2010: "In a  
9 collaborative with the Parties, Avista is to 'explore' new  
10 approaches to low-income conservation, identify barriers  
11 to its development, and address the Energy Project's  
12 concerns." This may affect future proposed levels of low-  
13 income weatherization funding in both Idaho and  
14 Washington.

15

16 **III. PRUDENCE OF INCURRED DSM COSTS**

17 **Q. Would you please explain the Company's request**  
18 **for a finding of prudence in this case?**

19 **A. Yes.** When the Commission approved the Company's  
20 energy efficiency programs in 1995, Avista committed to  
21 demonstrating the prudence of program expenditures in  
22 future general rate cases. In the Company's 2007 general  
23 electric and natural gas rate cases (Case Nos. AVU-E-08-01

1 and AVU-G-08-01), the Commission issued a finding that  
2 electric and natural gas expenditures through December 31,  
3 2007 were prudently incurred. At this time, the Company  
4 requests that the Commission issue a finding that electric  
5 and natural gas energy efficiency expenditures from  
6 January 1, 2008 through December 31, 2009 were prudently  
7 incurred.

8 **Q. Would you please summarize the Company's energy**  
9 **efficiency-related savings for this time period?**

10 A. Yes. As shown in Exhibit No. 15 from January 1,  
11 2008 through December 31, 2009, over 155 million kWh and  
12 3.9 million therms of energy savings were obtained system-  
13 wide. Page 1 and 2 of Exhibit No. 15 detail the energy  
14 savings by regular and low-income portfolios for both  
15 electric and natural gas DSM programs.

16 **Q. Has there been ongoing review of the Company's**  
17 **programs?**

18 A. Yes, as previously discussed, the Company has  
19 regularly convened a stakeholders forum known as the  
20 External Energy Efficiency Board. These meetings have  
21 included customer representatives, Commission staff  
22 members, and individuals from the environmental  
23 communities. These stakeholder meetings review the



