BEFORE THE PUBLIC UTILITY COMMISSION

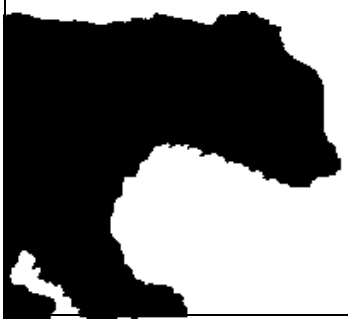
OF OREGON

LC 55

In the Matter of	)
	)
AVISTA CORPORATION	)
dba AVISTA UTILITIES	)
	)
2012 Integrated Resource Plan	)

COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON

January 25, 2013



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The Citizens' Utility Board of Oregon (CUB) appreciates the opportunity to comment on Avista's Initial Application of its Integrated Resource Plan (IRP). CUB is generally pleased with Avista's work in this IRP and recognizes the value of the issues that were raised. There are, however, a few areas CUB believes Avista could have addressed more fully. CUB will address these issues below.

I. Energy Efficiency

In section 9.3, Avista states that it filed to suspend its demand-side management (DSM) programs in Washington and Idaho, and that it is also seeking to do the same in Oregon.[1] Avista is arguing that the programs are no longer cost-effective, but recognizes that the programs could theoretically be offered again if they are proven to be cost-effective.[2] CUB urges Avista to re-examine its position on DSM investments.

There are several arguments to be made regarding the value of energy efficiency. A recent study by The Lawrence Berkeley National Laboratory discusses potential savings from

[1] Section 9.3, page 114.
[2] Section 4.3, page 58.

energy efficiency as a percentage of electric utility retail sales.[3] The study argues that although energy efficiency may not be cost-effective at a given point in time, employing energy efficiency programs may still be cost-effective over the lifetime of the investment. The study lists a brief history of energy crises and notes that it was usually after the time of a crisis that investments in energy efficiency were made. In particular, the study notes how attention to energy efficiency increased only *after* a crisis occurred and that it took such an event for utilities to recognize DSM as an effective method of managing and containing costs for their customers.

This logic could easily be applied to natural gas utilities. Energy efficiency can act as a method of risk mitigation, and Avista should not easily discount it.[4] The rush to invest in energy efficiency after the fact is arguably too little, too late, and proactively investing in energy efficiency during times when it is less cost-effective does not mean that it will not be cost-effective at some point in the future. To borrow an example from the electricity industry, there may exist a peaking generation unit that might not be economic to operate in a year with good hydro conditions and mild temperatures, but this does not mean that the unit should be decommissioned immediately. Furthermore, the expertise and administrative support for efficiency programs is not something that can be turned on and off like a switch; there would be a significant ramping-up process involved in restoring the program in the future.

There is also the matter of long-term energy efficiency investments like home weatherization. Such investments last for a very long time, so there is a concern about lost savings in not pursuing those kinds of projects. A homeowner who is remodeling a home may experience a potential lost opportunity. If the weatherization is not included as part of the home

[3] Barbose, G. L., Goldman, C. A., Hoffman, I. M., & Billingsley, M. (2013). The future of utility customer funded energy efficiency programs in the United States: Projected spending and savings to 2025.*Ernest Orlando Lawrence Berkeley National Laboratory*, Retrieved from http://emp.lbl.gov/sites/all/files/lbnl-5803e.pdf.
[4] *Ibid*.

remodel, it might never happen. It can therefore be argued that there is a certain "loss" in cost-effectiveness when these sorts of projects are not pursued. These savings are accrued over a long time horizon, over which there are likely to be significant fluctuations in energy prices. For example, the up-front cost of constructing a building that meets LEED certification criteria is larger than the cost of simply meeting standard building codes. If incentives are not provided to encourage builders to go beyond the standard code, the opportunity to realize energy savings from these projects may have been lost for ten years or more.

The incremental costs of energy efficiency upgrades are generally much higher than the costs of upgrading initial construction; it would therefore be much more expensive to administer an incentive program for retrofits that would achieve the same amount of energy savings in the future. It is instead cheaper and more efficient to continue long-term incentive programs rather than letting funding lapse when projects are temporarily not cost-effective.

Avista should also consider the Governor's 10-Year Energy Action Plan, as it has some important implications for DSM. One of the governor's core objectives is energy efficiency: "Maximize energy efficiency and conservation to meet 100 percent of new electricity load growth."[5] While this specific goal refers to electricity, the prioritization of energy efficiency should apply to natural gas and transportation fuels as well as electricity. Throughout the Governor's Energy Plan, several mechanisms for achieving this goal are listed, and among them are achieving efficiency gains in commercial buildings, building on existing energy efficiency capabilities (which implies the continuation of the current programs in place), and energy efficiency retrofits. Given the fact that many of these buildings use both electricity and natural

[5] Kitzhaber, J. A. (2012). *10-year energy action plan*. Page 2. Retrieved from website: http://www.oregon.gov/energy/Ten_Year/Ten_Year_Energy_Action_Plan_Final.pdf.

gas, it would be advisable for Avista to examine in its IRP to what degree it could continue to make energy efficiency a priority.

Finally, Avista should also be considering climate change impacts in its analysis. CUB appreciates that Avista has devoted a section to global warming in its IRP, but without a commitment to energy efficiency, the plan offers little in the way of carbon reductions. As Avista's load grows, so will its carbon emissions. There are only two ways that gas utilities can reasonably confront climate change. The first is by taking actions that reduce greenhouse gas in their internal operations systems (such as in their fleet of cars and trucks), and the second is to help customers become more energy efficient. A lack of energy efficiency implies that more gas would be burned, thereby leading to more emissions. As per the IRP guidelines, Avista included carbon costs in its modeling, so it understands the effects of potential carbon regulation. If efficiency programs are suspended, the higher emissions would ultimately expose customers to higher carbon costs and other regulatory costs passed on to them. Energy efficiency is really the only way to effectively address emissions. Additionally, Avista states in its IRP that it does not expect global warming to affect peak weather conditions, and that there is no evidence to suggest that global warming has an effect on extreme events. Regardless of the Company's position, energy efficiency could serve to mitigate the risk of these extreme events.

II. Hedging

Avista's analysis on hedging could also be refined. Avista briefly discusses hedging in Section 5.4, but CUB recommends that it be investigated further. If Avista is considering any long-term hedges, such as a 30-year project similar to NW Natural's 2011 contract with Encana, this should be an issue brought up in the IRP. Such a project is equivalent to an electric utility building a generation plant and would constitute a significant aspect of a utility's assets.

Furthermore, even if Avista is not considering any long-term hedges, the question still remains of whether it *should* be considering such projects.

Energy efficiency can also serve as a hedging mechanism, as discussed in Section I of these comments. The hedging value of conservation is particularly evident in cases of price excursions of natural gas. Whereas the downside risk of efficiency investments is minimal, the upside risk is significant. Extreme weather or political events can cause price spikes that can triple or quadruple natural gas costs in a short period of time. When prices reach significantly higher levels, the benefits of energy efficiency investments become proportionally greater as well. DSM investments can therefore be considered to be a type of hedge against rising gas costs on a systemwide basis.

III. Distribution

CUB's final point concerns distribution. Avista could have elaborated in its IRP about possible investments in its distribution system. Staff had asked Avista about expected peak system demand, as well as potential DSM estimates.[6] Avista's response to Staff was that before potential estimates for DSM can be developed, a baseline forecast without DSM must be modeled. Above the baseline, DSM is only assessed in terms of cost and risk if there is a resource shortage. Only then is it compared to other demand and supply side options. Avista states, "Many distribution projects are routine maintenance and reliability enhancements. These costs are not included in the IRP analysis."[7] Avista should consider Commission Order No.12-437[8] and its relevance to this IRP. The order essentially states that there were distribution investments NW Natural had made that were not shown to be prudent before they became

[6] Appendix, Section 1.2.4, page 131.
[7] *Ibid.*
[8] UG 221 NW Natural 2012 General Rate Case.

operational, and the Company requested to include them in rate base. If Avista is to consider making significant distribution investments, these should be analyzed in the IRP to ensure that they are the most cost-effective options.

IV. Conclusion

Overall, CUB appreciates Avista's IRP analysis, but feels that Avista can enhance its findings by taking into consideration the points raised above. The various impacts concerning distribution investments, hedging mechanisms, and suspending energy efficiency programs are issues that should be further examined.

Respectfully Submitted,
January 25, 2013

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LC 55 – CERTIFICATE OF SERVICE

I hereby certify that, on this 25th day of September, 2013, I served the foregoing **COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket LC 55 upon each party listed in the LC 55 PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and five copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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