

Agenda Date: December 20, 2017  
Item Number: D9

**Docket:** UG-171163  
Company: Northwest Natural Gas Company

Staff: Kyle Frankiewich, Regulatory Analyst

### **Recommendation**

Take no action, thereby allowing the proposed tariff revisions to go into effect by operation of law on January 1, 2018, and acknowledging receipt of Northwest Natural Gas Company's 2018 Energy Efficiency Plan in Docket UG-171163.

### **Background**

Northwest Natural Gas Company (NW Natural or company) operates its energy efficiency programs under a settlement stipulation approved by the Washington Utilities and Transportation Commission (commission) in Order 04 of Docket UG-080546. The majority of NW Natural's energy efficiency (EE) programs in Washington State are administered by the Energy Trust of Oregon (ETO), with some augmentation by the company. The program portfolio is managed by NW Natural, with advice and review provided by the company's Energy Efficiency Advisory Group (EEAG).

On December 1, 2017, the company timely submitted its annual EE Plan to the commission. The EE Plan provides 2018 calendar year program goals and budget figures, and adds, removes and modifies program offerings as needed.

NW Natural serves approximately 80,000 gas customers in Clark, Skamania, and Klickitat counties.

### **Discussion**

#### *Budget changes for 2018*

The tables below compare conservation program budgets and savings estimates for 2017 and 2018. In 2018, the company expects to acquire 365,145 therms with a budget of \$2.7 million. This is a 27 percent increase in spending and a 34 percent increase in projected savings compared to the 2017 program. Residential and commercial savings programs will be delivered by the ETO. The low-income savings will be delivered by Clark County Community Action Agency (CCCCAA) through the Washington Low Income Energy Efficiency program (WALIEE).

There are three main drivers for the substantial budget increase:

- Increases in program costs for ETO, which could be exacerbated by ETO's cost allocation methods and shifting costs between the electricity sector and the gas sector.
- Growth in the residential program spurred mainly by continued expansion of the new home construction track, as well as a reorganization of residential program tracks.

- New pilots, increased funding to Northwest Energy Efficiency Alliance (NEEA), and a proposed program evaluation project combine to triple portfolio-level expenses.

NW Natural's 2018 conservation budget is quite a bit higher than their 2017 budget, though the 2017 actual spending has been significantly higher than 2017's budget. This was also the case in the previous cycle; the budget for the 2017 program year was substantially larger than 2016's budget, but similar to 2016 actuals.

**Table 1. Comparison of Budgets from 2017 and 2018**

<b>Program Budgets</b>	<b>2017 Projected Budget<sup>1</sup></b>	<b>2018 Projected Budget</b>	<b>2017-2018 Change (\$)</b>	<b>2017-2018 Change (%)</b>
<i>Commercial Programs</i>	\$783,898	\$918,575	\$134,677	17%
<i>Residential Programs</i>	\$1,043,134	\$1,335,690	\$292,557	28%
<b>ETO subtotal</b>	<b>\$1,827,032</b>	<b>\$2,254,265</b>	<b>\$427,234</b>	<b>23%</b>
<i>WA-LIEE</i>	\$167,974	\$109,091	(\$58,883)	-35%
<b>NW Natural program subtotal</b>	<b>\$1,995,006</b>	<b>\$2,363,356</b>	<b>\$368,351</b>	<b>18%</b>
<i>Market Transformation (NEEA)</i>	\$100,422	\$141,049	\$40,628	40%
<i>Pilots</i>	n/a	\$70,000	n/a	n/a
<i>Evaluation</i>	n/a	\$90,000	n/a	n/a
<b>All programs total</b>	<b>\$2,095,427</b>	<b>\$2,664,405</b>	<b>\$568,978</b>	<b>27%</b>

*Energy savings changes for 2018*

NW Natural's projected savings continue to outpace its growing budgets. The company estimates a 35 percent increase in its 2018 therm savings projections relative to 2017, forecasting that it will acquire 365,145 therms from its portfolio of programs. The 2017 EE Plan contained an 8 percent increase in the annual target relative to the previous year, and the company expects to greatly exceed this increased target.<sup>2</sup> NW Natural does not project cost-effectiveness ratios for their plans, but previous performance informs the company's expectation that Utility Cost Test and Total Resource Cost ratios will both stay above 1.0 at the portfolio level for 2018.

**Table 2. Comparison of Energy Savings from 2017 and 2018**

<b>Projected Energy Savings by Program</b>	<b>2017 Projected Savings</b>	<b>2018 Projected Savings</b>	<b>2017-2018 Change (therms)</b>	<b>2017-2018 Change (%)</b>
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<sup>1</sup> In previous years' plans, NW Natural reported a range of savings targets and budgets. 2017 figures shown here are the midpoint of the 2017 EE Plan's high and low range for energy savings and for budget estimates.

<sup>2</sup> The program has historically achieved 50 percent of its annual savings in the fourth quarter, and the program has achieved over 80 percent of its annual target as of September 30 (NW Natural's Q3 2017 EE Report, docket UG-161259).

<i>Commercial Programs</i>	144,786	160,000	15,215	10.5%
<i>Residential Programs</i>	116,563	199,880	83,317	71%
<b>ETO subtotal</b>	<b>261,349</b>	<b>359,880</b>	<b>98,532</b>	<b>37.7%</b>
<i>WA-LIEE</i>	8,235	5,265	(2,970)	-36.1%
<b>NW Natural program subtotal</b>	<b>269,584</b>	<b>365,145</b>	<b>95,562</b>	<b>35.4%</b>
<i>Market Transformation (NEEA)</i>	n/a	n/a	n/a	n/a
<i>Pilots</i>	n/a	n/a	n/a	n/a
<i>Evaluation</i>	n/a	n/a	n/a	n/a
<b>All programs total</b>	<b>269,584</b>	<b>365,145</b>	<b>95,562</b>	<b>35.4%</b>

### *Program changes for 2018*

Residential: NW Natural's 2018 EE Plan includes two new tracks within their residential program, adding a midstream and a products track as well as a multifamily track to complement their two main tracks – existing homes and new homes. The residential products track was previously part of the new homes program; the offerings are now structured in a separate program track. The company's service area in Washington is continuing to experience a housing construction boom, and the projected growth in the new homes program track, even after the products track is removed, reflects this. The reorganization, the new multifamily track and continued growth explain a significant 28 percent increase in the residential program's budget. Programmatically, ETO continues to hone its energy savings calculation methodology for new homes, using an energy performance score (EPS) system that offers incentives based on tiered efficiency "paths." More efficient paths are paired with increasing incentives for builders.

Commercial: After underperforming for two years, 2017 saw significant growth in savings coming from the commercial program. This is partially due to real growth thanks to a maturing project pipeline, and partially because savings from delayed projects, which would otherwise have been completed in prior years, were realized in 2017. NW Natural and ETO will continue to focus on this program to find performance improvements, building on the foundations laid in 2017 - adding staff and expanding outreach efforts.

WALIEE: As with other utilities whose low-income weatherization programs rely on other funding sources, NW Natural's WALIEE program is hobbled by the current absence of the Matchmaker Program, which is unfunded as of last July due to the legislature's inability to pass a capital budget. NW Natural is responding to this crunch by repurposing some of its WALIEE funding to provide other services targeted at low-income customers. The company is planning to serve 13 homes, down from a goal of 20 homes in 2017. NW Natural and the EEAG agreed to adjust the average per-home cap for health and safety improvements from \$440 to \$1000, a change that went into effect later in 2017. Hopefully this will ease some of the Clark County Community Action Agency's financial constraints while the legislature overcomes its challenges.

NEEA: NW Natural will continue its participation in the (NEEA) gas market transformation efforts. As this work is in the fourth year of a long-term market transformation effort, NW Natural does not forecast any NEEA energy savings for 2018.

Pilots: NW Natural is proposing three new pilot programs for the 2018 program year. The first is a low-income furnace tune-up program which represents a creative way to offer services to low-income customers while the WALIEE program is hobbled by partner funding woes. The second is a new school construction pilot, which will allow NW Natural to better pursue efficiency measures for a substantial number of new schools in their Washington service area. The third is a placeholder intended to allow NW Natural to respond to any opportunities identified by evaluation efforts.

*Tariff revisions for 2017*

Schedule G, Sheet G.1: Updates the program year from 2017 to 2018.

Schedule I, Sheet I.2: Adds a fourth method for determining whether an energy efficiency measure is qualified, allowing for pilot plans as described in the EE Plan and reviewed by the advisory group. Staff is comfortable supporting this company-proposed change, which was prompted by the low-income furnace tuneup pilot.

*Progress in 2017*

Per its third quarter 2017 report, NW Natural's ETO programs saved 227,449 therms from January through September, at a cost of \$1,415,910.<sup>3</sup> The energy savings are 81 percent of those programs' total savings goal for the 2017 program year, while the related expenditures represent 72 percent of those programs' \$1.98 million conservation budget. NW Natural has historically achieved a large proportion of its program goals in the fourth quarter and expects to do so again in 2017.<sup>4</sup>

*Budget analysis: Direct benefit to customer*

During the 2017 annual conservation plan cycle, staff analyzed each utility's budget allocations as an additional metric of program success. Each company was asked to provide data on the programs' 2017 direct benefit to customers<sup>5</sup> (DBtC) ratio along with an explanation of why the ratio was appropriate for the 2017 conservation program.

Commission staff recommends that all conservation programs spend 60 percent or more of their total conservation budgets to provide direct benefits to their customers. For the 2017 program year, NW Natural filed supplemental materials clarifying its budget, and staff determined that the

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<sup>3</sup> 2017 third quarter report, page 3, filed under Docket UG-161259.

<sup>4</sup> Fourth quarter therm savings have accounted for roughly 60 percent of annual savings for program years 2013 through 2016. Annual reports filed under the following dockets: 2013 - UG-121886; 2014 - UG-132147; 2015 - UG-143895; 2016 - UG-152349.

<sup>5</sup> Direct benefits to customers includes but is not limited to: customer incentives, rebates, bill credits, credits on purchases, payments to community action agencies, free efficiency measures, and upstream incentives to partners or trade allies.

company's metric for 2017 was 48.4 percent.<sup>6</sup> The final report on the company's actual 2017 performance is expected in early 2018.

NW Natural will continue to *not* meet staff's recommended direct-benefit target, though the metric has improved to 50.2 percent for 2018. In last year's filings, ETO contended that the 60 percent DBtC goal may not be appropriate for NW Natural's particular circumstances for a number of reasons: the relatively small size of its Washington service area; continued maturation of a fairly new conservation program; lack of economies of scale; lack of a partner program to pool shared costs; low gas prices, which cause many conservation measures to be less than cost-effective; and increased evaluation costs for ETO to develop Washington-specific avoided cost calculations.

Staff believes these arguments continue to be valid. Staff share NW Natural's concerns about the impacts of a downward trend in ETO's electric conservation efforts, which appears to be prompting a shift of ETO's administrative costs towards gas utilities – and hence towards NW Natural's Washington ratepayers. Staff and NW Natural are tracking these developments.

#### *Proposed program evaluation*

NW Natural has included \$90,000 in the 2018 EE Plan for a program evaluation study which would analyze all facets of its conservation program in Washington, something that has not been done since 2010. Phase One of the analysis would develop benchmarks for program performance. Phase Two would focus on identifying areas for enhancement within the current program. Phase Three would investigate opportunities to expand the company's efforts. Staff welcomes this program evaluation, and believes it is well-timed, given that ETO's costs and cost allocation methodology are a topic of focus. Hiring a third party to analyze what has and has not worked for the program, and to survey other programs in the region, can only improve the conservation program offered to Washington ratepayers.

#### **Conclusion**

Take no action, thereby allowing the proposed tariff revisions to go into effect by operation of law on January 1, 2018, and acknowledging receipt of Northwest Natural Gas Company's 2018 Energy Efficiency Plan in Docket UG-171163.

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<sup>6</sup> For both program years, staff did not include portfolio-level costs or NEEA in this calculation.