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Item Numbers: A3 and A5

Dockets: UE-152076
UG-152077

Company: Avista Corporation

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Recommendations

Take no action, acknowledging the timely receipt of the 2017 Annual Conservation Plan (Demand-Side Management business plan) submitted on November 15, 2016, in Dockets UE-152076 and UG-152077.

Background

Avista is currently operating its electric energy efficiency programs under conditions approved by the Washington Utilities and Transportation Commission (commission) pursuant to RCW 19.285 and WAC 480-109.[1] The company's biennial 2016-2017 electric conservation commitment is 82,477 MWh. This is comprised of a base 72,626 MWh in savings, Northwest Energy Efficiency Alliance (NEEA) market transformation returns of 6,220 MWh, and a decoupling commitment of 3,631 MWh.[2] The decoupling commitment stems from the settlement agreement in Docket UE-140188, which adds 5 percent of the base to the company's biennial conservation commitment.[3]

On November 15, 2016, Avista Corporation (Avista or company) timely filed its 2017 Electric and Natural Gas Demand-Side Management (DSM) Annual Conservation Plans (Business Plan) in Dockets UE-152076 and UG-152077. Avista concurrently filed their 2017 Natural Gas DSM Business Plan in Docket UG-152077. Avista's 2016-2017 natural gas conservation target is 1,136,000 therms.[4]

In 2015, Avista served 245,401 electric customers and 154,905 natural gas customers in eastern Washington. For electric customers, Avista serves the following counties: Adams, Asotin, Ferry, Franklin, Grant, Lincoln, Spokane, Stevens, and Whitman counties. In addition to the counties

[1] *In the Matter of Avista Corporation's 2016-2025 Ten-Year Achievable Conservation Potential and 2016-2017 Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-152076, Order 01 (January 28, 2016).
[2] Id. ¶4.
[3] *Utilities and Transp. Comm'n v. Avista Corp.*, Dockets UE-140188/UG-140189, Order 05 at 12-13, ¶26 (November 25, 2014).
[4] Docket UE-152076, Order 01 (January 28, 2016) ¶7.

served for electric service, the natural gas service territory also includes Klickitat and Skamania counties.

Discussion

Electric DSM Budget. Avista is projecting a 3 percent decrease in its annual electric conservation budget, decreasing from $11.3 million to $10.9 million. The table below summarizes the 2016 and 2017 budgets by expense category and also highlights the change in budgets.

Electric Program Budgets	2016 Budget[5]	2017 Budget	2017 Change
Incentive Payments			
Residential	$ 722,409	$ 885,046	23%
Non-residential	$ 4,083,850	$ 3,384,633	-17%
Low-income	$ 561,500	$ 435,933	-22%
Non-Incentive Expenses			
Labor	$ 1,609,565	$ 2,261,000	40%
Outreach	$ 336,000	$ 476,000	42%
EM&V	$ 791,781	$ 446,250	-44%
NEEA	$ 1,400,000	$ 1,400,000	0%
Third Party	$ 853,913	$ 1,249,123	46%
Other	$ 208,362	$ 351,925	69%
Total	**$ 11,258,015**	**$ 10,889,910**	-3%

Residential incentive payments for Simple Steps, Smart Saving are projected to increase in 2017. Non-residential and low-income program incentive payments are projected to be reduced for LED lighting. The low-income program reduction in budget is commensurate with a rise in Avista's natural gas low-income budget.

Electric DSM Savings. Although there is a 3 percent reduction in budget, Avista plans to meet its biennial target of 82,477 MWh set forth in Docket UE-152076. The total projected electric savings for the 2016-2017 biennium is 100,822 MWh. The table below summarizes expected 2016 and 2017 electric savings by program.

[5] *Avista Corporation*, Docket UE-152076, Revised 2016 DSM Business Plan (January 5, 2016), Appendix B, at page 29 & 30.

Projected Electric Savings Goals (kWh)	**2016[6]**	**2017**	**2017 Change**
Residential	24,277,723	11,594,496	-52%
Non-residential	22,915,669	21,248,695	-7%
Low-income	518,673	280,439	-46%
NEEA	3,110,000	3,109,800	0%
Sub-Total	50,822,065	36,233,430	
Commitment based on actual vs. forecast	n/a	13,766,570	
Total	**50,822,065**	**50,000,000**	-2%

Avista is currently tracking above originally forecasted energy savings and has increased the 2017 goal by 13,766 MWh, forecasting combined increases in residential and non-residential programs. Avista is projecting a 2017 savings total goal of 50,000 MWh, similar to their 50,822 MWh goal in 2016. The year-to-date energy savings for Washington electric is significantly above the target and can be attributed to greater than expected LED lighting energy savings. The Total Resource Cost test benefit-to-cost ratio for Avista's Washington electric portfolio is projected to be 1.8 for 2017.

It should be noted that these savings only represent those that are claimable toward EIA compliance. Avista projects to achieve an additional 6,855 MWh of savings in 2017 for electric-to-gas fuel conversions which may not be claimed in the 2016-2017 biennium toward meeting the biennial target.

Natural Gas Program Budgets	**2016 Budget[7]**	**2017 Budget**	**2017 Change**
Incentive Payments			
Residential	$ 790,368	$ 1,108,862	40%
Non-residential	$ 685,470	$ 444,639	-35%
Low Income	$ 253,339	$ 582,068	130%
Non-Incentive Expenses			
Labor	$ 787,114	$ 399,000	-49%
Outreach	$ 250,000	$ 84,000	-66%
EM&V	$ 173,870	$ 78,750	-55%
NEEA	$ 395,939	$ 395,939	0%
Third Party[8]	$ 27,157	$ 115,748	326%
Other	$ 171,900	$ 50,575	-71%
Total	**$ 3,535,157**	**$ 3,259,581**	-8%

6 *Avista Corporation*, Docket UE-152076, Revised 2016 DSM Business Plan (January 5, 2016), Appendix B, at page 176.
7 *Avista Corporation*, Docket UG-152077, Revised 2017 DSM Business Plan (November 15, 2016), Appendix B, at page 29 & 30.
8 Dramatic third party budget increase is due to reclassifying low-income administration cost as a third-party cost and higher-than-expected costs from contractors installing spray nozzles and aerators to reduce hot water usage.

Natural Gas DSM Budget. Avista is projecting a 8 percent decrease in its annual natural gas conservation budget, decreasing from $3.5 million to $3.3 million. The table below summarizes the 2016 and 2017 budgets by expense category.

Residential incentive payments are expected to increase from 2016 to 2017, mostly driven by high efficiency furnace measures. With rebates increasing for high efficiency furnaces, Avista expects more program participation and increased energy savings.

Avista is shifting expenditures from electric to natural gas low-income programs, and that is reflected in the 130 percent rise in that part of the budget. The community action partner (CAP) agencies that implement the low-income programs may spend their annual allocated funds on either electric or natural gas efficiency measures at their discretion. The company plans on a 24 percent increase in natural gas program incentive payments.

Natural Gas DSM Savings. Avista is projecting a 9 percent increase in its projected year-over-year savings acquisition, increasing from 567,653 therms to 620,310 therms. The table below summarizes projected 2016 and 2017 natural gas savings by program.

Projected Gas Savings (therms)	**2016**	**2017**	**2017 Change**
Residential	269,342	398,801	48%
Non-residential	275,299	206,916	-25%
Low-income	23,012	14,593	-37%
Total	**567,653**	**620,310**	9%

Unlike Avista's electric target which is established by order on a biennial basis, Avista's natural gas target is an annual, non-binding target that is established in the company's most recent IRP. Avista's 2017 IRP natural gas conservation target is 489,110 therms.[9] Given Avista's projected acquisition of 620,310 therms in 2017, the company should meet its target.

The changes in year-over-year savings expectations are relatively minor, and the utility cost test benefit-to-cost ratio for Avista's Washington natural gas portfolio is projected to be 1.7 for 2017. The ratio for the total resource cost test is 0.9.

Supplemental Budget Analysis

During the 2017 Annual Conservation Plan cycle, staff identified a need to analyze 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[10] (DBtC) ratio along with an explanation of why the ratio was appropriate for the 2017 conservation program.

[9] *Avista Corporation*, Docket UG-151751, Natural Gas 2016 Integrated Resource Plan (August 31, 2016), Table 3.3, at page 52.
[10] 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.

In the requested supplemental filing, Avista presented a DBtC ratio of 59 percent for the electric program, and 79 percent for the natural gas program. Unfortunately, 59 percent does not meet the 60 percent threshold. The company believes that it has been conservative in defining DBtC within the programs, and while the planned electric conservation ratio is currently at 59 percent, the company is confident that in the future it will exceed the expected 60 percent threshold.[11]

Stakeholder Comments

In comments filed on January 20, 2017, Utility Conservation Services, LLC (UCONS) supported efforts to acquire conservation in hard-to-reach markets, specifically manufactured homes. In addition to urging the Commission to reinforce these efforts, UCONS suggests requiring reporting savings by sector alongside the conservation potential for each sector. UCONS also submitted a detailed proposal of a pilot program designed to reach manufactured homes customers in Pierce and Thurston counties.

Staff encourages Avista to evaluate the merits of the proposed pilot and explore opportunities in the manufactured homes sector for inclusion in their energy efficiency program.

Conclusion

Avista has developed its electric and natural gas portfolios to cost effectively meet its biennial conservation targets. Therefore staff recommends that the commission take no action and acknowledge the timely receipt of the 2017 Demand-Side Management business plans on November 15, 2016, in Docket UE-152076 and UG-152077.

[11] The company notes that if they include electric-to-gas conversions, the planned direct-benefits-to-customers budget ratio for the electric portfolio improves to 63 percent and to 79 percent for the natural gas portfolio.