August 31, 2012

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RE: UG-121207, Commission Investigation into Natural Gas Conservation Programs

Introduction

The following comments are provided by the NW Energy Coalition ("Coalition") in response to the Commission's July 31, 2012 Notice of Opportunity to File Written Comments and an Optional Statement of Proposed Issues on the Commission Investigation into Natural Gas Conservation Programs.

The Commission has a long history of supporting natural gas conservation. In its Order in the 2009 Avista General Rate Case, the Commission noted that "achieving significant conservation will remain a critically important goal for utilities in this region, including Washington, into the indefinite future."[1] The Commission also acknowledged its legislative directive to consider incentives for investment in conservation resources. RCW 80.82.024 states that "the potential for meeting future energy needs through conservation measures…may not be realized without incentives to public and private energy utilities." It continues by affirming that "actions and incentives by state government to promote conservation….would be of great benefit to the citizens of this state by encouraging efficient energy use."

The Commission now must tackle the challenge of maintaining its commitment to conservation in the face of low gas prices. The Coalition is committed to developing creative solutions that ensure conservation programs continue for the benefit of utilities and their customers.

Discussion

The Commission has solicited responses to the following two questions, and asked stakeholders for statements of proposed issues concerning the planning and implementation of natural gas conservation programs:

1. What are the appropriate assumptions or factors to include in natural gas avoided cost calculations?

- *Revisiting the 10% conservation adder*
  The 10% conservation adder is a de-facto representation of hard-to-quantify benefits of electric energy conservation as understood in 1980.[2] Over the past three decades, the energy landscape

[1] Dockets UE-090134, UG-090135 & UG-060518 (consolidated), Order 10

[2] "For purposes of this paragraph, the 'estimated incremental system cost' of any conservation measure or resource shall not be treated as greater than that of any non-conservation measure or resource unless the incremental system cost of such conservation measure or resource is in excess of 110 per centum of the incremental system cost of the nonconservation measure or resource." Pacific northwest electric power planning and conservation act, *§3(4)(D), 94 Stat. 2699 (16 USC Chapter 12H, §839a(4)(D)).*

has changed quite a bit. The Coalition believes that the 10% adder is no longer sufficient on the electric side, and no similar adder has been mandated for gas conservation. We believe it is worth investigating the merits of this type of consistently applied adder for gas conservation measures.

- *Ensure utilities are doing a robust analysis of all costs and benefits*
  Unless utilities conduct a full accounting of all the costs and benefits that conservation confers to their business, their customers and society, energy efficiency will remain undervalued. A robust analysis should include the following components:

  - Utility costs and benefits
    - Avoided environmental compliance costs
    - The cost to the utility assuming that natural gas prices will rise and benefit of mitigating price risks over the long term
    - The value of retaining conservation program delivery infrastructure
    - Peak demand reduction
    - Distribution system maintenance
    - Pipeline & storage benefits
    - Reduced customer arrearages
    - Reduced bad-debt write-offs
    - Improved customer service

  - Customer benefits
    - Lower bills
    - Co-benefits in reduced water, fuel oil, etc. usage
    - Increased productivity
    - Increased safety and comfort
    - Reduced rate volatility resulting from Purchase Gas Agreement adjustments

  - Societal benefits
    - Reduced emissions and other environmental impacts

- *Choice of discount rate*
  Energy efficiency programs incur less financial risk than supply-side resources because of the way that they are funded. While building additional capacity typically requires utilities to raise capital, conservation programs do not. Accordingly, energy efficiency programs should employ a low-risk, long-term customer/societal cost discount rate.

2. Should companies use a combination of cost tests in evaluating the cost-effectiveness of natural gas conservation programs?

The Commission has prioritized use of the Total Resource Cost test for evaluating cost-effectiveness of electric and natural gas conservation programs, and regionally, this is the cost test of choice. Utilities frequently perform other cost tests, particularly the Utility Cost Test, when examining the efficacy of their programs. Opportunities may exist to make better use of the TRC and/or other existing cost tests, either individually or through a composite approach. The Coalition is open to examining different ways of determining cost effectiveness that still robustly consider conservation program costs and benefits.

Statement of Proposed Issues

In addition to the questions raised by the Commission concerning cost tests, the Coalition proposes that the following issues be considered in this docket:

- Regional approaches to natural gas conservation cost effectiveness, including the Energy Trust of Oregon's proposed 2-year waiver[3] and British Columbia's Modified TRC[4]
- The effect of hedging mechanisms on avoided cost calculations
- Whether cost-effectiveness test calculations should be consistent across utilities
- How the potential cost of future carbon regulation and the cost of climate change will be addressed
- What factors should be considered in determining cost-effectiveness of low-income programs
- How to provide utilities the flexibility needed within conservation programs to maintain community investments in energy efficiency and increase market acceptance of emerging technologies

Conclusion

In considering changes to the Commission's policies and practices, the Coalition urges the Commission to be mindful of the considerable benefits energy efficiency programs provide to customers. Energy conservation helps customers lower their energy bills while reducing their exposure to gas price volatility. Additionally, conservation programs support and maintain local jobs. Because most of our natural gas is imported from other states and Canada, conservation programs are a valuable alternative to sending ratepayer money out of state.

Coalition staff plans to participate in the stakeholder workshop scheduled for October 19. Any questions regarding this submission should be directed to Lynne Dial, 206-621-0094 or lynne@nwenergy.org.

[3] On August 2, 2012, the Energy Trust of Oregon (ETO) filed a request for exceptions to cost effectiveness standards for natural gas weatherization programs. (UM 1622) ETO requested a two-year suspension of its 1.0 benefit/cost ratio requirement for several natural gas measures, citing "lower-than expected savings from evaluations, higher than expected project costs for several measures, and lower avoided cost forecasts due to changes in market fundamentals." In doing so, the ETO aims to maintain program stability while working on solutions to manage these challenges.

[4] "Adventures in Tweaking the TRC: Experiences from British Columbia", 2012 ACEEE Summer Study on Energy Efficiency in Buildings.