

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**In the Matter of Avista Corporation d/b/a
Avista Utilities 2024-2025 Biennial
Conservation Plan**

DOCKET UG-230898

**In the Matter of Cascade Natural Gas
Corporation 2024-2025 Biennial
Conservation Plan**

DOCKET UG-230937

**In the Matter of Northwest Natural Gas
Company d/b/a NW Natural 2024-2025
Biennial Conservation Plan**

DOCKET UG-230944

**In the Matter of Puget Sound Energy
2024-2025 Biennial Conservation Plan**

DOCKET UG-230893

**COMMISSION STAFF COMMENTS REGARDING
GAS UTILITY CONSERVATION PLANS UNDER RCW 80.28
(2024-2025 BIENNIAL CONSERVATION PLANS)**

December 22, 2023

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Introduction

The Washington Utilities and Transportation Commission (Commission) must approve biennial conservation targets for gas utilities. 2024-2025 is the second biennium requiring approval of gas conservation targets.¹

By November 15, 2023, Avista Corporation d/b/a Avista Utilities (Avista), Cascade Natural Gas Corporation (Cascade), Northwest Natural Gas Company d/b/a NW Natural (NW Natural), and Puget Sound Energy (PSE), filed their respective Biennial Conservation Plans (BCPs or Plans) with their 2024-2025 conservation targets with the Commission.² The Commission requested comments on the Plans by December 22, 2023.³

Commission Staff (Staff) provided technical assistance to the utilities and assisted with the review of the Plans through participation in the various advisory groups for all four companies.

Discussion

Staff conducted a thorough review of the draft and final Plans and provided feedback to each company to ensure that each Plan complied with the statutory requirements to acquire all available and cost-effective conservation.⁴ Staff summarizes the gas target-setting process and discusses the effect of recent legislation on the BCPs.^{5,6} Staff also discusses additional recommendations regarding Plan implementation in the 2024-2025 biennium. Staff intends to present its final recommendations and potential conditions for approval at the Commission's January 17, 2024, Recessed Open Meeting, after further consideration, which will include, at minimum, a review of comments filed by interested parties.

¹ The Laws of 2019, Chapter 285, created new sections, including Revised Code of Washington (RCW) 80.28.380 (requiring each gas utility to identify and acquire all conservation measures that are available and cost-effective) and RCW 80.28.395 (establishing the cost of greenhouse gas emissions for RCW 80.28.380). Under the new section, gas utilities must establish biennial acquisition targets based on a conservation potential assessment (CPA). Per RCW.80.28.380, the CPA must be prepared by an independent third party and approved by the Commission. The first gas biennial target must take effect by 2022.

² Avista: Docket UG-230898, Cascade: Docket UG-230937, NW Natural: Docket UG-230944, PSE: Docket UG-230893.

³ *Ibid.*, Notice of Opportunity to Comment, Nov. 21, 2023.

⁴ Revised Code of Washington. Title 80. Public Utilities. §80.28.380. 2019.
<https://app.leg.wa.gov/RCW/default.aspx?cite=80.28.380> (RCW 80.28.380).

⁵ *Id.*

⁶ Every three years, the state building code council must review the Washington state energy code (RCW 19.27A.045). At the time of the conservation target setting, the expected effective date of the 2021 revisions was July 1, 2023. This was later changed, with the new effective date for all 2021 building codes being March 15, 2024. <https://sbcc.wa.gov/state-codes-regulations-guidelines>.

Similar to electric utilities, company-specific tables starting on page 6 show that, in general, *budgets are increasing*, and *targets are decreasing* as compared to the last biennium. As covered in the section on page 3 regarding challenges to meeting targets, Staff expects this trend, generally, given savings are more difficult to acquire in the gas sector. If budgets were not increasing, Staff would potentially question whether the companies would be able to both meet their targets and expand equitable enrollment. Given these concerns, Staff is continuously working to vet the reasons for budget increases and target decreases. While Staff’s final review is pending, and we may potentially recommend approval of these targets and budgets, Staff offers more detail on the vetting process in company-specific sections below. Staff is prepared to offer more detail in the context of the upcoming recessed open meeting.

Table 1 shows each utility’s 2024-2025 gas target (in therms). See Table 2 below for definitions related to targets, thresholds, and conservation goals.

Table 1: Summary of 2024-2025 Gas Targets (Therms)

Company	Biennial Acquisition Target	Decoupling Threshold (If Applicable)	Total Utility Conservation Goal
Avista ⁷	1,812,463	90,623	1,903,086
Cascade ⁸	1,782,211	N/A ⁹	N/A
NW Natural ¹⁰	720,000	N/A	763,922
PSE ¹¹	6,541,000	304,500	7,034,500

⁷ *In re Avista’s 2024-2025 Washington Energy Efficiency Biennial Conservation Plan*, Docket UG-230898, Avista 2024-2025 Washington Energy Efficiency Biennial Conservation Plan at 2 (Nov. 1, 2023) (“Avista BCP”).

⁸ *In re Cascade’s 2024-2025 Natural Gas Biennial Conservation Plan*, Docket UG-230937, Cascade Natural Gas Corporation 2024-2025 Biennial Conservation Plan Exhibit 1, Sheet “Savings Potential” (Nov. 15, 2023).

⁹ *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket UG-152286, Order 04, ¶ 8-9 and ¶ 25 (July 7, 2016) (Order does not require an additional conservation commitment as part of the decoupling mechanism). Unlike Avista and PSE, Cascade does not have a commitment to achieve additional conservation savings as part of its decoupling agreement.

¹⁰ *In re Northwest Natural 2024-2025 Biennial Energy Efficiency Plan*, Docket UG-230944, 2024-2025 Biennial Energy Efficiency Plan at 5 (Nov. 15, 2023) (“NW Natural BEEP”).

¹¹ *In re Puget Sound Energy’s 2024-2025 Biennial Conservation Plan*, Docket UG-230893, 2024-2025 Biennial Conservation Plan at 1 (Nov. 1, 2023) (“PSE BCP”).

Target-Setting and Implementation Plans

The target-setting process for gas begins with the development of a Conservation Potential Assessment (CPA), which establishes the achievable savings potential in a utility’s service territory. Staff notes that three out of the four gas utilities include an economic screen within the CPA. PSE uses the Integrated Resource Plan (IRP) as an economic modeling screen, the same way it does for its electric IRP. After the economic screening, the utilities may treat the economic potential as a must-take resource in the IRP process. Per RCW 80.28.380, 2021 was the first year that gas companies were required to submit a CPA for Commission approval. Each gas utility CPA was approved at the September 14, 2023, open meeting.¹²

Once the amount of cost-effective conservation is identified, the gas utilities may make necessary adjustments to derive their biennial acquisition target, decoupling threshold, and total utility conservation goal. Examples of the modifications that a utility could make include updating savings estimates based on new information, adding savings associated with measures not captured in the CPA (such as distribution savings), and removing savings that will be achieved through programs without direct utility administration, such as the market transformation work done by the Northwest Energy Efficiency Alliance (NEEA).

Table 2 below defines the various elements used to determine *gas savings targets*. Staff used this terminology in its last BCP Comments and considers them accepted by all parties.¹³

Table 2: Definition of Savings Terms Used in 2024-2025 Gas BCPs

Biennial Acquisition Target	All available cost-effective conservation potential as required by RCW 80.28.380.
Decoupling Commitment	Avista and PSE have gas decoupling commitments equal to five percent of the CPA target.
Total Utility Conservation Goal	Biennial acquisition target plus decoupling commitment and any additional savings identified outside of the CPA target.

¹² PSE: Docket UG-230447, Avista: Docket UG-230469, Cascade: Docket UG-230434, NW Natural: Docket UG-230427.

¹³ These definitions are not necessarily found in a rule or a statute. Some of the terms were developed in 2018 through the Statewide Advisory Group (SWAG) process. See Dockets UE-171087, UE-171091, and UE-171092, “Report on 2018 Washington State Investor-Owned Utility Energy Efficiency Joint Advisory Group Activities and Outcomes”.

Challenges to Achieving Targets

Staff acknowledges, as in previous biennia, that utilities will face challenges meeting their targets. Perhaps most importantly, the region already secured the easiest and most cost-effective conservation measures.¹⁴ State building codes¹⁵ will have an impact on the future of conservation efforts in Washington. Already, builders are responding rapidly to the new building codes. Participation in new construction energy efficiency programs declined steeply for many utilities. Staff interprets this as an indicator that new construction with natural gas appliances also declined. In the future, this may translate into fewer new customers, and therefore a smaller pool of customers to participate in programs.

Similar to electric utilities, many of the companies, formally and informally, noted concerns about supply chain shortages, customer disengagement due to fears about high inflation and market uncertainty, and sometimes severe labor and contractor shortages. Additional detail on challenges to meeting targets is described within company-specific sections.

Balancing Cost-Effectiveness, Budget, Outreach, and Increased Enrollment

An additional challenge utilities are facing is the need to balance achieving their targets with maintaining cost-effectiveness at a reasonable budget, and achieving equity in their service territories.¹⁶ As an example, numerous studies show that certain customers, for example, communities of color and renters, are less likely to be able to access the benefits of conservation.¹⁷ While a higher budget and more culturally specific programs might help a utility lessen these barriers, utilities must maintain portfolio cost-effectiveness and consider the impact to ratepayers of increased budgets. Increasing enrollment and outreach can come at the expense of higher rates.

¹⁴ The 2021 Northwest Power Plan, Figure “Energy Efficiency Supply Curve, Differentiated by Sector for 2041” at 63. Staff notes, while the Power Plan is specific to the electric system, similar dynamics are true for gas. Available at: https://www.nwcouncil.org/2021powerplan_conservationpotential/

¹⁵ RCW 19.27A.020(2)(a) states that the Washington state energy code shall be designed to construct increasingly energy efficient homes and buildings that help achieve the broader goal of building zero fossil-fuel greenhouse gas emission homes and buildings by 2031. RCW 19.27A.160 requires a 70 percent reduction in net annual energy consumption in newly constructed residential and nonresidential buildings by 2031.

¹⁶ *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket UG-210755, Order 09 (Aug. 23, 2022).

¹⁷ Walker, G., Day, R., 2012. Fuel poverty as injustice: integrating distribution, recognition, and procedure in the struggle for affordable warmth. *Energy Policy* 49, 69–75.

Staff also notes that the interplay between state energy-related building standards¹⁸ and increasing pressures from Climate Commitment Act (CCA)¹⁹ compliance may increase avoided cost, increasing the cost-effectiveness of energy efficiency measures. This may alleviate some of the tensions between portfolio cost-effectiveness and equity imperatives. Furthermore, the positive feedback loop between declining customer counts and rising bill impacts creates the possibility that targeted energy efficiency measures may be a potent tool to rein in customer flight and stabilize the gas utilities as they decarbonize, and customers electrify.

Staff highlights the possibility that energy efficiency targeted in this manner may overlap considerably with equity imperatives. Further, while Staff does not object to the Companies' targets or plans at this time, Staff emphasizes that increasing gas costs should play a substantial role in the Companies' outreach related to conservation. A key pathway to bill management is conservation.

Staff believes the question of properly valuing the benefits of energy efficiency, fully marketing those benefits given the role of gas, and balancing cost-effectiveness with increased enrollment, requires further investigation. Staff looks forward to discussing this issue further within IRP advisory groups and with company representatives.

In company-specific highlights below, Staff illustrated some of these challenges and the ways certain utilities are overcoming them. In general, to expand equity and enrollment in utilities' service territories while maintaining a reasonable budget and cost-effectiveness, Staff recommends:

- Further quantification of nonenergy impacts.
- Exploring the potential to significantly increase rebates.
- Working closely with advisory groups, the Department of Commerce, and key partners in each service territory to ensure close weaving of outside sources of funding with ratepayer funds and potentially non-CAP agencies. For more information, see the section below on intersection with federal legislation, and company-specific sections.
- Continuing efforts to implement Staff's recommendations on equitable programming from the previous biennium, namely: identifying/targeting specific customer segments, completing, and implementing underserved customer needs assessments, and both adjusting old and creating new programs.²⁰

Staff also notes that the interplay between state building codes and increasing pressures from Climate Commitment Act (CCA) compliance may increase avoided cost, increasing the cost-effectiveness of energy efficiency measures. This may alleviate some of the tensions between portfolio cost-effectiveness and equity imperatives. Furthermore, the positive feedback loop between declining customer counts and rising bill impacts creates the possibility that targeted

¹⁸ See generally RCW 19.27A.020(2)(a) and RCW 19.27A.

¹⁹ RCW 70A.65: "Greenhouse Gas Emissions—Cap and Invest Program."

²⁰ See Staff comments at 5.

energy efficiency measures may be a potent tool to rein in customer flight and stabilize the gas utilities as they decarbonize, and customers electrify.

Staff highlights the possibility that energy efficiency targeted in this manner may overlap considerably with equity imperatives. Further, while Staff does not object to the Companies' targets or plans at this time, Staff emphasizes that increasing gas costs should play a substantial role in the Companies' outreach related to conservation. A key pathway to bill management is conservation.

In general, the question of properly valuing the benefits of energy efficiency, honestly and fully marketing those benefits given the role of gas, and balancing cost-effectiveness with increased enrollment, requires further investigation, and Staff looks forward to discussing this issue further with utility IRP teams.

NEEA Gas Savings

In the previous biennium, the Commission required all gas companies to participate in NEEA's gas market transformation programs through the 2020-2024 funding cycle.²¹ A new funding cycle for NEEA begins in 2025, midway through this biennium. NEEA's gas programs did not yet capture quantifiable savings beyond codes and standards, and none of the gas utilities are projecting any firm gas savings in the 2024-2025 biennium.^{22,23,24,25}

While Staff continues to support all companies' participation in the NEEA gas market transformation program in the 2025-2029 funding cycle and is highly supportive of regional collaboration around energy efficiency programs, including market transformation, Staff is not recommending the Commission prescribe participation in NEEA gas programs for this biennium. Staff expects the utilities to work with their advisory groups to discuss ongoing regional collaboration.

²¹ Avista: Order 01 Attachment A, Proposed Conditions for 2022-2023 Gas Conservation, Docket UG-210827 at 1 (January 18, 2022); Cascade: Order 01 Attachment A, Proposed Conditions for 2022-2023 Gas Conservation, Docket UG-210838 at 1 (January 18, 2022); NW Natural: Order 01 Attachment A, Proposed Conditions for 2022-2023 Gas Conservation, Docket UG-210831 at 1 (January 18, 2022); PSE: Order 01 Attachment A, Proposed Conditions for 2022-2023 Gas Conservation, Docket UG-210823 at 1 (January 18, 2022).

²² Avista BCP at 15.

²³ Cascade BCP at 43.

²⁴ NW Natural BEEP at 23.

²⁵ PSE BCP, Exhibit 1 and Exhibit 5.

Gas-to-Electric Conversion

As the role of gas in Washington transforms, gas companies are still expected, by law, to acquire all cost-effective gas conservation,²⁶ and gas customers are expected to pay for this conservation when it is prudent. There may, however, be reasons for gas companies to fund gas-to-electric conversions, especially in the sense of targeted pilots.

Due to the rising compliance costs of the CCA and the downward ratchet on customer counts imposed by building codes, customer counts are expected to decline. If the fixed costs of the gas system remain constant, the declining customer base will require each remaining customer to pay for a larger share of the remaining fixed costs. The gas-to-electric conversion that is strategically targeted should be investigated as a potentially cost-effective strategy for ratepayers. Addressing fixed costs in this way may contribute to mitigating uncontrolled customer flight and thereby aid gas utility stability. See the PSE section for more details regarding a targeted electrification pilot example.

Intersection with Federal Legislation

During the last biennium, the federal government passed significant energy legislation: the Infrastructure Investment and Jobs Act (IIJA) signed in November 2021, and the Inflation Reduction Act (IRA) signed in August 2022.²⁷ As a result, there are significant rebates and tax credits available to consumers for energy efficiency and electrification. These new programs, for which some final details are expected in 2024, raise questions about how they should be treated in relation to utility programs. For example:

- Can utilities claim savings that result from federal rebates?
- How should utilities treat federal rebates and tax credits in cost-effectiveness calculations?
- Some of the federal incentives focus on fuel-switching. How do utilities account for these savings when it comes to the EIA targets?

While the answers to some of these questions are unclear, Staff generally views utilities' conservation efforts, and programs outlined in federal legislation, as complementary. Per guidance from the National Action Plan for Energy Efficiency's study "Understanding Cost-Effectiveness of Energy Efficiency Programs" (November 2008), treatment of tax incentives should be treated consistently with other resources to which energy efficiency is compared. The details of how to treat the IIJA and IRA within utility efficiency programs should be discussed with each advisory group with this principle in mind.

²⁶ RCW 80.28.380.

²⁷ Infrastructure Investment and Jobs Act of 2021, Pub. L. No. 117-58, 135 Stat. 429 (2021); Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818 (2022).

Company Targets and Plans

Avista

As illustrated by Table 3, Avista set its gas conservation target of 1,812,463 therms for this biennium using the two-year pro rata share of its 10-year conservation potential. In addition, Avista has a decoupling commitment of 90,623 therms, for a total conservation goal of 1,903,086 therms for the biennium.

Table 3: Avista Gas Conservation Targets and Goals²⁸

Category	Savings (Therms)
Biennial Acquisition Target	1,812,463
Five percent decoupling commitment	90,623
Forecasted NEEA savings	39,970
Total Utility Conservation Goal	1,903,086

Table 4 compares expected savings and budgets in the 2022-2023 and 2024-2025 biennia. Avista expects no material change in spending for gas conservation and a savings decrease of 17 percent. The total budget for the gas conservation program in the upcoming biennium is \$18.8 million. Avista expects the gas program to remain cost-effective, with a UCT ratio of 2.85 and a TRC ratio of 2.0.

Table 4: Avista Gas Conservation Savings and Budget^{29,30}

	2022-2023 Total Utility Conservation Goal	2024-2033 10-year potential	2024-2025 Total Utility Conservation Goal
Savings (Therms)	2,302,056	8,282,019	1,903,086
Budget	\$18,837,759		\$18,799,739

²⁸ Avista BCP, Figure 1 at 2.

²⁹ Avista BCP, Table 3 at 7.

³⁰ *In re Avista's 2022-2023 Washington Energy Efficiency Biennial Conservation Plan*, Docket UG-210827, Avista 2024-2025 Washington Energy Efficiency Biennial Conservation Plan, Appendix A (Nov. 1, 2021).

CPA and BCP Comparison

In the Avista CPA, Applied Energy Group (AEG) outlines the total gas consumption in Washington in 2021 (183 million therms) and evaluates TRC achievable economic potential for various sectors in 2024 and 2025. The residential sector, which consumed 62 percent of the total gas in 2021, has a TRC achievable economic potential of 0.49 million therms in 2024 and 0.66 million therms in 2025. Key measures for this sector include gas furnace maintenance, connected thermostats, and insulation. The commercial sector, accounting for 36 percent of total gas consumption, has a TRC achievable economic potential of 0.63 million therms in 2024 and 0.68 million therms in 2025, with top measures including Strategic Energy Management and Retrocommissioning. The industrial sector, contributing under 2 percent of gas consumption, focuses on heat recovery as the top measure.

In the BCP, Avista plans to save 0.88 million therms in the residential sector over two years, with midstream and prescriptive programs being key contributors. The commercial/industrial sector aims to save 1.07 million therms, including 0.04 million in NEEA savings. Top projected savings for commercial/industrial include midstream programs, pay-for-performance, and site-specific measures. Notably, the BCP emphasizes the transition to a midstream incentive model, addressing participation barriers and improving equitable access for customers. Pay-for-performance and site-specific programs offer flexibility and customization for energy savings in commercial and industrial settings.

In an informal email, Avista explained that the difference between the CPA and the BCP targets lies in the adjustments made during the IRP process. Avista may choose not to incentivize certain measures due to various factors, leading to a reduction in the overall identified savings potential. Such factors can include equity concerns, program complexity, or difficulties in verifying the upgrades. Discrepancies in numbers impact the residential category the most because CPA groups low-income and residential categories together while IRP treats them separately. These factors contribute to some CPA-identified measures to be excluded during the IRP process.

In sum, Staff's review of Avista's gas programs for the new biennium is ongoing, and we look forward to making a recommendation at the upcoming open meeting.

Cascade

As illustrated in Table 5 below, Cascade set its conservation target at 1,782,212 therms for this biennium, based on the CPA conducted by AEG.³¹ Cascade does not attribute any savings to its participation in NEEA.

³¹ *In re Cascade Natural Gas Corporation's 2023 Conservation Potential Assessment*, Docket UG-230434, Cascade Natural Gas's 2023 Conservation Potential Assessment (Jun. 2, 2023).

Table 5: Cascade Natural Gas Conservation Targets and Goals

Category	Savings (Therms)
Biennial acquisition target	1,782,212
Forecasted NEEA savings	(0)
Total Utility Conservation Goal	1,782,212

Table 6 below compares expected savings and budgets in the 2022-2023 and 2024-2025 biennia. Cascade expects a modest budget increase from the previous biennium. For this biennium, the residential portfolio has a UCT ratio of 3.98 and a TRC ratio of 3.19. The commercial/industrial portfolio has a UCT ratio of 4.61 and a TRC ratio of 3.52.

Table 6: Cascade Natural Gas Conservation Savings and Budget

	2022-2023 Total Utility Conservation Goal	2024-2033 10-year potential	2024-2025 Total Utility Conservation Goal
Savings (Therms)	1,931,751	23,776,666	1,782,211
Budget	\$24,500,122		\$26,375,262

Low-income weatherization program penetration

Staff highlights that there is room for improvement relative to Cascade’s low-income Weatherization Incentive Program (WIP) program. Currently, Cascade has approximately 59,909 Washington customers who are low-income qualified and would qualify for WIP.³² However, the WIP program treated only 807 homes between 2008 and 2023. 807 homes correspond to 1.34 percent of eligible customers served over 15 years or, on average, 0.089 percent of eligible customers annually. Compare this to the residential energy efficiency rebate program with 2,536 participants in 2023.³³

Staff recognizes that the WIP program provides more than energy efficiency benefits to participants. Therefore, a direct comparison of program costs and outcomes to other energy efficiency programs at Cascade would not paint an accurate picture. Staff also highlights that Cascade’s current rebate schedule for its residential energy efficiency program has an average Utility Cost Test Ratio *greater than 3.29*. This indicates that there is likely room for increased rebates to be offered to low-income customers. Further, Staff notes that participation rates in

³² Based on figures provided by Cascade.

³³ As of Cascade filing this BCP. This value should increase some before the end of the year.

low-income programs are more complicated than participation in the residential energy efficiency program. Simply increasing rebates for low-income customers will likely not be a panacea. Any low-income program designed, parallel to or as an alternative to the WIP program, to improve penetration into low-income customer segments, will warrant a larger discussion with a full spectrum of interested parties present.

Low-Income Weatherization Administrative Budget

Staff notes that the WIP program administrative budget increased by 725 percent between the previous BCP and the 2023 BCP. Cascade clarified that this change reflects a more accurate accounting of Cascade's expenses and costs incurred by CAP agencies. If the new methodology is applied to the previous year, 2023, then the 2024 administrative budget is a 1.1 percent decrease relative to 2023. This budget increase does not include the tariff change adopted in UG-230938 that increased the total WIP admin costs from 30 percent to 40 percent of total costs.³⁴

Equity

Staff would like to commend Cascade for the inclusion of the tenets of energy justice in its BCP. Further, Staff would like to highlight Cascade's progress in organizing its Equity Advisory Group, unique among gas companies regulated by the Commission. To date, the EAG meetings primarily focused on educating its participants. However, Cascade began implementing some recommendations like improved language accessibility on the website. Staff looks forward to the continued development of the EAG and the insights it will bring in the future.

Point-of-Sale Offering

Cascade is streamlining its point-of-sale program to improve trade ally participation rates. In the last year, Cascade saw considerable improvements in participation rates. Trade Ally participation increased more than five-fold from July 2022 to July 2023 and now equates to approximately 61 percent of total residential program applications.³⁵ Staff commends these improvements.

In sum, Staff sees initial improvement and innovation in Cascade's proposed 2024-2025 Plan that will help Cascade tackle the challenges to achieving its target. Staff is looking forward to further conversations around improving equity and the penetration of low-income weatherization.

³⁴ Filed November 15, 2023.

³⁵ Trade Allies are relationships that are cultivated between the Utility and trades people in their service territory. Trade Allies are quality inspected and provided additional streamlining, incentives, and cooperative marketing by the Utility. Available at: <https://www.cngc.com/energy-efficiency/trade-ally/>.

NW Natural

As illustrated in Table 7, NW Natural set its gas conservation target of 763,922 therms for this biennium, including NEEA savings. Staff agree with the rationale and savings achievement level that is set by NW Natural for this 2024-2025 biennium.

Table 7: NW Natural Conservation Targets and Goals³⁶

Category	Savings (Therms)
Biennial Acquisition Target	720,000
Forecasted NEEA savings	60,000
Total Utility Conservation Goal	763,922

Table 8 below compares anticipated savings and budgets for the biennia of 2022-2023 and 2024-2025. Staff notes that NW Natural expects a 30 percent budget increase from the previous biennium. Like Avista and Cascade, NW Natural contracted with AEG to conduct their CPA, which was approved by the Commission (September 14, 2023, in Docket UG-230427). The anticipated program performance over the biennium is reported with a UCT of 1.59 and a TRC of 1.13.

Table 8: NW Natural Conservation Savings and Budget^{37, 38}

	2022-2023 Total Utility Conservation Goal	2024-2033 10-year potential	2024-2025 Total Utility Conservation Goal
Savings (Therms)	619,200	3,099,000	763,922
Budget	\$6,391,873		\$9,318,547

Residential

NW Natural anticipates high participation from residential customers in Southwest Washington. Staff would like to point out that the most substantial savings are expected to come from residential and commercial customers. Program delivery will be implemented by Energy Trust of

³⁶ NW Natural BEEP at 5.

³⁷ *Northwest Natural 2022-2023 Biennial Energy Efficiency Plan*, Docket UG-210831, 2022-2023 Biennial Energy Efficiency Plan at 4 (Nov 1, 2021).

³⁸ NW Natural BEEP at 5.

Oregon (ETO), an independent, nonprofit organization formed in 2002 in response to Oregon legislation. Staff is confident that ETO will acquire cost-effective gas savings for residential customers and builders through their incentive programs, education, and trade-ally support.

Building code changes led NW Natural to conclude that gas-heated homes will no longer qualify for incentives. Thus, the new homes program will be offered through 2024 to serve homes that were permitted under the previous 2018 Washington State Energy Code - Residential code. Staff highlights that in 2025 NW Natural will likely only be providing services to new homes through single stand-alone measures such as thermostats and gas fireplaces.

Commercial and Industrial programs

NW Natural relayed to Staff that big bond-funded construction projects are expected to save money in the first year of the two-year budget cycle. The Custom Track within this bond-funded construction program is intended to incentivize nonstandard energy-efficient capital projects, as well as operations and maintenance upgrades.

Staff is interested in the partnership between NW Natural and Clark Public Utility District (Clark PUD). Clark PUD and NW Natural plan to introduce a Smart Energy Management (SEM) offering in 2022. Staff expects the SEM will provide businesses and building managers with tools for energy savings through operational management. The tools will include education with a focus on sustainable implementation, and we expect only modest growth and savings due to code changes.

NW Natural plans to introduce an industrial incentive program in 2025. This program will focus on several key initiatives to reduce industrial natural gas usage. The program budget is \$150,000 for the biennium. A major aspect of the program is the installation and programming of an energy management system. Staff expects that this will be a solid investment for energy efficiency for NW Natural.

Washington Low Income Energy Efficiency and Nonenergy Impacts

The Washington Low-Income Energy Efficiency (WA-LIEE) program had a maximum spending limit of \$1,000 for health and safety measures. This biennium, NW Natural is increasing the budget by an additional \$4,000 for flexible spending in response to community feedback, rising costs, and inflation. Staff expressed enthusiasm regarding this development of the WA-LIEE budget.

Staff recommends that NW Natural needs to develop a plan to address the gaps in equity in the Biennial Energy Efficiency Plan (BEEP) which includes Energy Justice and consulting their equity advisory group of stakeholders to assist in equity considerations. Additionally, Staff would like to see NW Natural collaborate more closely with parties regarding future CPA development. During discussions with NW Natural, Staff raised the topic of nonenergy impacts and methods for their quantification and requested NW Natural explore how to quantify nonenergy impacts for future BEEPs. In summary, Staff tentatively approves of NW Natural's

gas programs for the succeeding biennium and will make its final recommendations at the upcoming recessed open meeting.

Puget Sound Energy

As illustrated in Table 9, PSE is requesting a gas Biennial Acquisition Target of 6,541,000 therms. This figure corresponds to the first two years of the CPA’s conservation potential, which Staff provides more discussion on below. In addition, PSE has a decoupling commitment of 304,500 therms, and program build-out savings of 640,000 therms, for a total utility conservation goal of 7,034,500 therms for the biennium. PSE also does not forecast gas savings from NEEA or pilot programs this biennium.

Table 9: PSE Gas Conservation Targets and Goals³⁹

Category	Savings (Therms)
Biennial Acquisition Target	6,541,000
Five percent decoupling commitment	304,500
Forecasted NEEA Savings	(0)
Excluded Gas Furnace Savings	(451,000)
Pilots with Uncertain Savings	0
Program Savings Build-Out	640,000
Total Utility Conservation Goal	7,034,500

Table 10 compares PSE’s projected 2024-2025 savings targets and associated budget to those from the previous biennium. PSE expects a 20 percent increase in conservation spending, with an associated 29 percent decrease in savings, as compared to the 2022-2023 biennium.⁴⁰

PSE indicates several drivers as to why costs are higher relative to savings across PSE's programs, including inflation-adjusted measure costs, increased vendor costs, contractor availability, higher incentives, and increased program support and administration.

PSE expects the gas program to remain cost-effective, with a UCT ratio of 1.35 and a TRC ratio of 1.25.⁴¹

³⁹ PSE BCP at 1.

⁴⁰ *In re PSE’s 2022-2023 BCP*, Docket UG-210823, 2022-2023 BCP at 1 (Oct. 29, 2023).

⁴¹ PSE BCP, Exhibit 1.

Table 7: PSE Gas Conservation Savings and Budget^{42, 43}

	2022-2023 Total Utility Conservation Goal	2024-2033 10-year Potential	2024-2025 Total Utility Conservation Goal
Savings (Therms)	9,791,327	51,120,059	7,034,500
Total Budget	\$48,523,531		\$58,230,217

Natural Gas Conservation Potential Assessment Based Target

The natural gas savings target that originally came out of PSE’s 2023 Gas IRP process was 10.4 million therms, but PSE maintains this target did not represent realistically achievable conservation potential, due to an increased focus on decarbonization, increased contractor backlog, and uncertainty in near-term federal codes that may eliminate certain future savings.⁴⁴ The revised target of 6.5 million therms, which is reflected in Table 11 above, is the result of ramp rate⁴⁵ adjustments and natural gas furnace savings corrections made to the Commission approved-CPA⁴⁶ and implemented in consultation with Cadmus (PSE’s CPA consultant) and with support from PSE's Conservation and Resource Advisory Group (CRAG). In other words, PSE used adjustments to ramp rates and natural gas furnace savings to set a more reasonable target, even though some of the problems with the CPA identified by PSE were unrelated to these issues (e.g., decarbonization).

In more detail, PSE decided to re-analyze its CPA using the Northwest Power and Conservation Council's (NWPCC) *20-year ramp rate methodology for discretionary measures*, rather than the 10-year ramp rates that PSE previously used. PSE indicates that longer ramp rates provide for a more realistic market uptake.⁴⁷ In regard to its gas furnace savings adjustment, PSE’s CPA did not align with the Regional Technical Forum’s (RTF) savings for gas furnaces, which are based on both standard and high-efficiency furnaces already in the marketplace, and therefore

⁴² PSE’s 2022-2023 BCP, Docket UG-210823, 2022-2023 BCP at 2 (Oct. 29, 2023).

⁴³ PSE BCP at 2.

⁴⁴ PSE notes that upcoming federal code changes as early as 2029 by the DOE, including 1) a high-efficiency water heater proposal for heat pump water heaters and high-efficiency natural gas water heaters, and 2) a high-efficiency natural gas furnaces proposal.

⁴⁵ Ramp rates refer to the rate at which conservation measures are likely taken up in the market.

⁴⁶ *In re Puget Sound Energy’s 2023 Natural Gas Conservation Potential Assessment*, Docket UG-230447, Order 01 (Sept. 14, 2023).

⁴⁷ PSE BCP at 72.

overestimated achievable savings. When PSE adjusted the measure to align with the RTF, it reduced PSE's biennium gas savings by 451,000 therms (as shown in Table 10).

While these ramp rate and gas furnace adjustments met approval with the CRAG, and the result is a more accurate natural gas savings target, the original problems with the CPA, as cited in the first paragraph of this section, are unresolved. While Staff agrees that PSE's new, lower proposed target is reasonable, Staff finds that it may be necessary for PSE's Customer Energy Management (CEM) team to work with its IRP team – and in consultation with the CRAG and other relevant advisory groups – to address ongoing CPA accuracy questions. This work should include, at minimum, a discussion of appropriate ramp rates and achievability factors, and any available analysis of gas customer electrification.

While Staff summarizes the adjustments made to PSE's natural gas savings targets and comments on potential solutions to the issues identified above, Staff may provide additional guidance or recommendations at the recessed open meeting on these Plans.

Building Codes

PSE's Plan notes that updates based on new codes and standards are one of the reasons for changes to PSE's natural gas target. PSE indicated to Staff that requirements for electric equipment are more stringent under the 2018 Washington State Energy Code (WSEC), which was implemented in 2021, than under the prior 2015 WSEC. For example, commercial new construction projects that were permitted under the 2018 WSEC are beginning to close out in 2022 and 2023 and show a decrease in savings as builders are opting to not incur the added expense of installing equipment that is even more efficient than the current code.

Equity

PSE's Plan provides a robust narrative and consideration for how to achieve equity within PSE's delivery of energy resources. In addition to detailing how equity is considered at the programmatic level, PSE includes a new "Equity Focus" section of its BCP, which summarizes information concerning PSE's CEM Strategy, the "Deepest Need" designation from PSE's 2021 CEIP,⁴⁸ Public Participation, Distributional Justice, and Equity Program Highlights.⁴⁹

In the 2024-2025 biennium, PSE indicates that its CEM Strategy is the vehicle through which equity is incorporated into its programs. PSE provides highlights of programs that demonstrate specific actions implemented by PSE's CEM team. For example, PSE indicates making improvements to its Space Heat Program, which targets customers with high energy burden and

⁴⁸ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-210795, Order 08 at 75 (June 6, 2023).

⁴⁹ Staff comments on the 2023 Biennial CEIP Update will cover topics regarding PSE's efforts to achieve distributional and procedural justice, as well as meeting the requirements of Condition 20 from PSE's 2021 CEIP.

Named Communities, such as providing outreach materials that are inclusive of non-English languages, building relationships with community partners, and offering larger incentives to manufactured home residents, to moderate-income, and to income-qualified customers, and simplifying program design to improve customer experience.

In the 2024-2025 biennium, PSE added a new budget category, titled Equity Support, to its overall BCP budget, which intends to assist PSE in achieving its equity-related objectives. Specifically, this budget item funds expenses related to PSE's Public Participation Plan for 2024-2025, including anticipated vendor costs and customer stipends for participation. PSE allocates \$87 thousand to both the electric and gas budget, for a total of about \$175 thousand, with no specific associated energy savings.

PSE appears to be making progress toward the incorporation of equity goals into its conservation programs. Staff recommends that PSE's CEM Team continue to engage with its customers, community partners, and Equity Advisory Group to better understand how conservation programs can best be implemented.

Low-Income Weatherization

PSE's LIW program electric budget increased since the last biennium. PSE indicated to Staff that the higher costs associated with the LIW program are primarily driven by inflation-adjusted measure costs. This change is consistent with budget increases in previous biennia. PSE also anticipates that higher-priced measures, such as ductless heat pumps, will make up a larger proportion of the LIW program, and that more funds will be needed for building repairs.

PSE indicates that in the 2024-2025 biennium, it will continue to implement the conditions of multiple settlements as they relate to LIW. The Settlement Stipulation and Agreement authorizes the sale of indirect interests in PSE and includes commitments that will benefit low-income customers in PSE's service area.⁵⁰ PSE indicates they will work with internal and external parties to determine how to spend funding from a special contract between Microsoft and PSE, which is intended for emerging technology, distributed generation, and/or repairs for energy-efficient measures.⁵¹ See the section on PSE's targeted electrification pilot below for more information on LIW.

Staff review finds that higher-cost LIW measures, as compared to the last biennium, are associated with PSE's efforts to assist low-income residential customers to access LIW measures. Staff also finds the implementation of the settlement conditions outlined above will further increase access to LIW measures. Staff recommends that PSE continue to improve the implementation of LIW measures.

⁵⁰ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket U-180680, Order 06 at 17-18 (March 7, 2019).

⁵¹ *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket UE-161123, Order 06 at 38-39 (July 13, 2017).

General Rate Case Commitment - Targeted Electrification Pilot

The 2022 PSE General Rate Case (GRC) revenue requirement settlement required that PSE conduct a Targeted Electrification Pilot, or TEP, aimed at engaging 10,000 customers through two of the following three pathways: rebates, electrification assessments, and education.⁵² The TEP will run through June 2024, and includes 1) free in-home electrification assessment for residential single-family natural gas customers, 2) rebates to both natural gas or electric customers that cover installation costs of heat pump systems that fully replace previous natural gas furnaces or boilers, 3) home weatherization and heat pump space and/or water heating upgrades at no cost for up to 50 low-income customers, and 4) electrification outreach to multi-family buildings and small-to-medium businesses. The design of these individual programs allows for alignment with funding available from the IRA.

PSE intends to present findings from the TEP in the 2026-2027 BCP, with consideration for the findings being assessed in consultation with PSE's CRAG.

Funding Opportunities

With funding opportunities for conservation programs becoming available through the IRA; the IJA, and the CCA, PSE indicates they are engaging in general advocacy to state and federal agencies for program requirements that will align with existing programs and benefit Name Communities and energy-burdened customers.

For IRA funding, PSE is monitoring federal requirements to understand how to develop programs. In the 2024-2025 biennium, PSE intends to align residential program priorities with efficiency and electrification projects, seek clarity on Department of Energy requirements for home efficiency audits for efficiency rebates and limited electrification assessments, and work with the Washington State Energy Office and peer utilities to better understand customer experience with electrification projects.

For the IJA, PSE indicates new funds for the LIW program will come from the State Weatherization Assistance Program and are being used by Commerce as a federally leveraged funding source to support increased weatherization via the agency network across the state.

Summary

After reviewing the comments filed by other parties in this matter, Staff intends to present its final recommendations regarding the gas targets, including potential conditions discussed with companies and interested persons and parties, at the Commission's January 17, 2024, Recessed Open Meeting.

⁵² *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Docket U-180680, Order 06 at 17-18 (March 7, 2019).