

Agenda Date: March 16, 2017
Item Number: A1

Docket: UG-161253
Company: Cascade Natural Gas Corporation

Staff: Kathi Scanlan, Regulatory Analyst

Recommendations

Take no action, acknowledging timely receipt of the 2017 Annual Conservation Plan submitted on November 30, 2016, in Docket UG-161253.

Background

Cascade Natural Gas Corporation (Cascade or company) operates its natural gas conservation programs under the requirements of the joint settlement agreement and order approved in Docket UG-152286.¹ As outlined in the order and agreement, the company must submit an Annual Conservation Plan (ACP or Plan) to the Washington Utilities and Transportation Commission (commission) by December 1 for the subsequent year and project its conservation target. The target is identified in this Plan as well as the 2016 Natural Gas Integrated Resource Plan (IRP), and the company must achieve at least 100 percent of its annual conservation target. This is Cascade's first ACP to be acknowledged by the commission under the order.

Cascade Natural Gas serves approximately 205,000 customers in smaller, rural communities in western and central Washington, including service to the following counties: Franklin, Benton, Walla Walla, Yakima, Chelan, Douglas, Grant, Adams, Cowlitz, Clark, Grays Harbor, Kitsap, Mason, Snohomish, Skagit, Island, and Whatcom. The company also serves 68,000 customers in central and eastern Oregon.

On November 30, 2016, Cascade timely filed its 2017 Conservation Plan in Docket UG-161253. On December 22, 2016, and again on January 26, 2016, the Plan was removed from the open meeting agenda to allow for continued discussion with the company about its conservation potential methodology and calculation of the annual target.

Discussion

Natural Gas Conservation Budget. Cascade proposes a 2 percent increase in its natural gas conservation budget from 2016 to 2017. Table 1 summarizes the budgets by expense category.

¹ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04, ¶10 (July 7, 2016).

Table 1

Natural Gas Program Budgets	2016 Budget²	2017 Budget	2017 Change
Incentive Payments			
<i>Residential</i>	\$1,128,698	\$891,663	-21%
<i>Non-Residential</i>	\$638,494	\$582,149	-9%
<i>Low-income</i>	\$90,000	\$385,000	328%
Non-Incentive Expenses			
<i>Labor</i>	\$262,206	\$345,000	32%
<i>Outreach</i>	\$97,500	\$174,500	79%
<i>Third Party³</i>	\$846,017	\$800,000	-5%
<i>Other</i>	\$299,779	\$239,411	-20%
Excluded Non-Incentive Expenses			
<i>NEEA</i>	\$244,996	\$313,174	28%
<i>Software Implementation</i>	\$100,000	\$35,000	-65%
<i>CPA & Model Development</i>	<i>n/a</i>	2017 RFP ⁴	
Total	\$3,707,690	\$3,765,897⁵	2%

Cascade adjusted the budget for residential incentive payments downward to account for lagging program participation in 2016. For the past two years, the residential programs were delivered through a mix of third party implementation and internal program oversight. With the goal of delivering a more efficient rebate processing from start-to-finish and expanding outreach, the company added a part-time employee and factored-in additional promotion and participation with its contractor partners, which has increased labor and outreach budgets in 2017.

Cascade filed revisions to the low-income program budget to better accommodate the needs of community action agencies and made a series of changes. The changes include aligning the qualified energy efficiency measures with the Washington State Department of Commerce weatherization priority list, expanding project rebate payments, and instituting an audit and inspection fee paid to agencies for work performed.

The utility cost test (UCT) benefit-to-cost ratio for Cascade's Washington natural gas portfolio is projected to be 1.6 for 2017.⁶ Due to the Technical Economic Achievable Potential (TEA-Pot)

² 2016 Washington Conservation Plan, Docket UE-152354, CNGC 2016 Conservation Plan (December 14, 2015), Table 1.

³ The company will no longer be using a third party contractor to deliver residential program; an overlap in 2016 occurred during the transition into company-managed residential program delivery.

⁴ The cost of the new conservation potential assessment and model development will be determined by the request for proposal (RFP) responses, which are anticipated in the second quarter of 2017.

⁵ *Id.*

⁶ Calendar year 2017 is estimated to have a UCT cost-effectiveness at a portfolio level of 1.6, excluding low-income programs from this calculation.

model limitations, the company did not calculate total resource cost (TRC) effectiveness, and the TRC is not presented in this Plan.

Natural Gas Conservation Savings. Cascade projects a 13 percent decrease in its projected year-over-year savings acquisition, decreasing from 982,915 therms to 854,876 therms. Table 2 summarizes the 2016 and 2017 natural gas savings by program.

Table 2

Projected Gas Savings (therms)	2016	2017	2017 Change
Residential	409,975	323,878	-21%
<i>Low-income</i>	7,000	15,000	114%
Non-residential	565,940	515,998	-9%
Total	982,915	854,876	-13%

Cascade is working to improve its adaptive management techniques in order to maintain expected level of savings. In 2016, preliminary savings are estimated to be approximately 367,000 therms. This is a third of the goal for 2016, and resulted in the company adjusting residential and non-residential savings projections downward for 2017. This shortfall was exacerbated by the company's transition to capturing savings based on paid date, rather than install date. A significant portion of the savings in the fourth quarter of 2016 will now be accounted for in 2017.

In order to encourage additional uptake in the non-residential sector, the company plans to expand outreach efforts by Lockheed Martin, Cascade's commercial program implementation vendor, and increase contractor or trade ally outreach.

2017 Annual Conservation Target. Cascade's 2017 conservation target consists of achievable conservation of 839,876 therms, then adds 15,000 therms for low-income programs, resulting in a target of 854,876 therms. The company is required by the commission to achieve 100 percent of its annual conservation target of 839,876 therms. While this target may have been aspirational in the past, that is no longer the case, and the company is required by order to meet the target.⁷

Additional Stakeholder Engagement. On February 22, 2017, Cascade representatives discussed with commission staff and the advisory group intended changes to its conservation assessment methodology. In addition to incorporating NWPCC's four-step methodology for calculating conservation potential, staff recommended that a new CPA conservation potential assessment be conducted, in tandem with efforts to improve the use of new adoption curves. Cascade's last potential assessment was performed in 2013.

Looking ahead to Cascade's 2018 IRP, staff believes the company needs to gain a better understanding of the conservation potential in each of its three unique service territories. Modification of the model and new CPA will allow Cascade to potentially expand its offerings

⁷ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04, ¶10 (July 7, 2016).

of cost-effective savings measures available in the near and long-term and increase accuracy in its target calculation. As outlined in Table 3, staff recommends the following proposed action plan, and the company has agreed to file an addendum in the docket of the 2016 IRP.⁸

Table 3

Date	Deliverable	Description
Q2-2017	RFP for Conservation Potential Assessment	In consultation with the conservation advisory group and commission staff, finalize the Request for Proposal (RFP) for a new CPA. The company has agreed to develop a new RFP for a conservation potential assessment and new (or modified) model using the Northwest Power and Conservation Council’s four-step methodology for calculating conservation potential: <ol style="list-style-type: none"> 1. Technical potential. Determine the amount of conservation that is technically feasible, considering the measures and number of these measures that could physically be installed or implemented, without regard to achievability or cost. 2. Achievable technical potential (use adoption curves). Determine the amount of conservation technical potential that is available within the planning period. This screen will consider barriers to market penetration and the rate at which conservation savings could be acquired. Where appropriate, Cascade should apply NWPCC’s adoption curves. <p><i>Note: Steps 3-4 (Economic Potential) will occur in Q2-2018.</i></p>
Q4-2017	2018 IRP Work Plan	The commission will review the 2018 IRP work plan. The work plan must outline the content of the IRP to be developed by the utility and the method for assessing potential resources, including conservation.
Q1-2018	Conservation Potential Assessment	The consultant will finalize CPA, which will be included as part of the 2018 IRP.
Q2-2018	Calculate Economic Potential in 2018 IRP	Using the Northwest Power and Conservation Council’s four-step methodology for calculating conservation potential, Cascade should calculate the economic potential within the IRP, but outside of the CPA: <ol style="list-style-type: none"> 3. Economic achievable potential. Establish the economic achievable potential, which is the conservation potential that is cost-effective, reliable, and feasible, by comparing the total cost of the conservation measures to the cost of

⁸ Docket UG-160453.

		<p>other resources available to meet expected demand, using an integrated portfolio approach or the benefit-cost ratio approach.</p> <p>4. Total resource cost (TRC). First, analyze the impacts of a program on a utility and its ratepayers and use a properly balanced TRC, including but not limited to analysis of: expected carbon policies, capacity (supply and distribution), monetized non-energy benefits, and conservation credit adder. As temporarily allowed by the commission's Policy Statement on Gas Conservation Programs, the utility cost test (UCT) may also be used to adjust economic achievable potential.⁹</p>
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In comments filed February 24, 2017, in the company's 2016 IRP docket, Public Counsel supported Cascade pursuing a more accurate conservation potential assessment and retooling of the conservation program model, utilizing NWPCC's conservation potential calculation methodology.¹⁰

Public Counsel notes that ratepayers should be shielded from the costs associated with the new assessment and revision of the program model. Although commission staff understands this viewpoint, recovery of the CPA and software model costs through the conservation cost recovery tariff is in line with the practice of other utilities. Overall, Public Counsel supports staff's recommendation that Cascade's 2017 Annual Conservation Plan be acknowledged, under the condition that the company agrees to work with staff and the advisory group to address concerns with the conservation potential assessment and model.

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 and worked with the company to categorize expenditures. Each company was asked to provide data on the programs' 2017 direct benefit to customers (DBtC) ratio along with an explanation of why the ratio was appropriate for the 2017 conservation program.¹¹

Cascade's direct benefit to customer ratio is approximately 57 percent, which was achieved by the company re-categorizing \$83,500 overhead as a direct benefit to customer, and removing Northwest Energy Efficiency Alliance (NEEA) from consideration in calculating portfolio level cost effectiveness. Unfortunately, 57 percent does not meet the 60 percent threshold. Staff

⁹ Policy Statement on the Evaluation of the Cost-effectiveness of Natural Gas Conservation Programs, Docket UG-121207 (October 2013).

¹⁰ Cascade Natural Gas Corporation's 2016 IRP, Docket UG-160453.

¹¹ 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.

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concluded the ratio is sufficient at this time, provided that the 2017 conservation target is met, and will continue to work with the company to reach 60 percent.

Conclusion

Take no action, acknowledging receipt of the 2017 Annual Conservation Plan on November 30, 2016, in Docket UG-161253.