Agenda Date: December 20, 2017
Item Number: D6

Docket: UE-171091
Company: Avista Corporation

Staff: Kathi Scanlan, Regulatory Analyst

Recommendation

Issue an Order in Docket UE-171091 finding that:

(1) Avista Corporation's biennial conservation target of 79,785 megawatt-hours is rejected.
(2) Avista Corporation must refile its 2018-2019 Biennial Conservation Plan on or before January 15, 2018, consistent with Attachment A, and excluding any fuel conversion program details or budgets (biennial conservation target 89,771 megawatt-hours; decoupling commitment 4,489 megawatt-hours).
(3) Avista Corporation is not authorized to enter into any new contracts for its multi-family market transformation (fuel conversion) program beyond December 20, 2017. Recovery is only allowed in the electric conservation tariff rider through December 31, 2018, for those builder or developer contracts already executed as of the date of this order.
(4) Funding of low-income fuel conversions may be made through Avista's Low-Income Rate Assistance Program (LIRAP) tariff Schedules 92 and 192. The company may propose a new low-income fuel conversion program and revise its tariffs accordingly.

Background

On November 1, 2017, Avista Corporation (Avista or company) filed its "2018-2019 Biennial Conservation Plan" (BCP or Plan) with the Washington Utilities and Transportation Commission (commission) under Docket UE-171091. The company filed replacement pages for the Plan on December 7, 2017. The Plan identifies a 2018-2027 achievable conservation potential of 368,000 megawatt-hours (MWh), a 2018-2019 biennial conservation target of 79,785 MWh, and a decoupling commitment target of 3,989 MWh.[1] Appended to the company's BCP is the "2018 DSM Annual Conservation Plan," which includes a description of conservation programs to achieve that target. Staff filed detailed responsive comments on the Plan on December 1, 2017.

Avista is a dual-fuel utility, serving approximately 245,000 electric customers and 155,000 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 served for electric service, the natural gas service territory also includes Klickitat and Skamania counties.

[1] Pursuant to Order 5 of Docket Nos. UE-140188 and UG-140189, Avista must achieve 105 percent of its biennial conservation target. As this is not a requirement identifiable to the Energy Independence Act (EIA), this "decoupling" commitment is not subject to penalties under the EIA. However, staff considers this commitment to be subject to penalties at a level consistent with that of the EIA.

Biennial Conservation Target and Portfolio Savings

As described in Staff Comments, Avista conducted a Conservation Potential Assessment (CPA), which evaluated the 2018-2027 achievable conservation potential and resulted in a 10-year potential of 368,000 MWh. The pro rata share of Avista's 10-year potential is 73,636 MWh. The company then adds 15,386 MWh of projected behavioral savings, which was estimated from its existing Opower/Oracle forecast for the 2018-2019 biennium. Next, Avista adds 749 MWh to account for distribution efficiencies. Avista's final step includes subtracting the 9,986 MWh of savings attributable to NEEA programs from the biennial conservation target. The Company then calculates the decoupling commitment, excluding NEEA savings. Staff disagrees with this calculation.

As its first contested issue, staff recommends that the highlighted NEEA savings be included as part of the Energy Independence Act (EIA) biennial conservation target. Any excess for NEEA should be treated the same as other excess savings. Staff's recommended target and decoupling commitment for Avista, which includes NEEA savings as identified within the CPA, is discussed in detail in Staff Comments, and is presented in Table 1 below:

Table 1. Staff's Recommendation for Avista's 2018-2019 Biennial Conservation Target and Portfolio Savings

Savings Category	Savings (MWh)
Pro Rata Share of 10-year Conservation Potential *(includes NEEA savings, as identified within the CPA)*	73,636
Behavioral Program Savings	15,386
Distribution and Street Light Efficiency	749
2018-2019 Biennial Conservation Target	**89,771**
Decoupling Commitment (5%)	4,489
Total Portfolio Savings	**94,260**

Biennial Budget and Cost-Effectiveness

The BCP provides budget details regarding Avista's plan for achieving the savings identified in its biennial conservation target and total portfolio. Excluding electric-to-gas fuel conversion programs, which are not counted towards Avista's BCP target, the company's 2018-2019 budget is $22,500,000. This is approximately the same as the budget for the 2016-2017 biennium; staff is satisfied with this proposed level of investment. However, staff remains very concerned about the scope and scale of Avista's ballooning fuel conversion programs, as highlighted in Table 2.

Electric-to-gas fuel conversions represent a third of Avista's total budget, which is a significant shift from years past, where these programs played a minor role. For fuel conversions alone, the company proposes to *double* its budget from last biennium, from $4.1 million to $9 million dollars. Historically, fuel conversions have been held outside of the biennial conservation target, as electric-to-gas fuel conversion savings are not considered EIA eligible savings.[2]

Table 2. Savings and Budgets from Avista's 2016-2017 and 2018-2019 BCPs

Program	2016-2017 BCP Target Savings (MWh)	2016-2017 Budget	2018-2019 BCP Target Savings (MWh)	2018-2019 Budget
Residential	35,446	$2,883,000	40,420	$3,214,000
Low-income	1,037	$1,883,000	1,400	$2,066,000
Non-Residential	45,831	$9,028,000	41,960	$6,943,000
NEEA	6,220	$2,800,000	9,980	$2,800,000
Administration/Other	-	$6,072,000	-	$7,480,000
Total *excludes fuel conversions	**88,533**	**$22,666,000**	**93,760**	**$22,500,000**
Electric-to-Gas Fuel Conversion Programs	*not considered EIA savings*	$4,102,000	*not considered EIA savings*	$9,037,000
Total	**-**	**$26,769,000**	**-**	**$31,537,000**

Avista expects its portfolio to achieve a Total Resource Cost (TRC) ratio of 1.8 and a Utility Cost Test (UCT) ratio of 2.7, indicating that the portfolio is still cost-effective.

In addition to the NEEA savings calculations, which affect all three electric companies, three issues were discussed in detail in Staff Comments filed on December 1, 2017, including: reporting on pilot programs, the decrease in residential offerings, and staff's recommendation to discontinue recovery of electric-to-natural-gas fuel conversion incentive programs through Avista's conservation cost recovery tariff. The first two issues may be addressed within the

[2] RCW 19.285 and WAC 480-109.

conservation advisory group. The third, most controversial issue in Avista's 2018-2019 BCP, is the company's proposed continuation of its fuel conversion programs, which is also presented by staff as a contested issue. Avista appears to be using electric conservation funding not just to improve customers' access to natural gas, or to avoid building a future electric generation plant, but to actually expand its natural gas business.

Historically, the commission has allowed fuel conversion expenditure recovery through the electric conservation rider, similar to other programs held outside the EIA, such as demand response pilots. Such pilots and programs have been much smaller in budget and scale. However, Avista's continued emphasis on fuel conversions is alarming to staff, especially considering that PSE discontinued its fuel conversion program for 2018. Avista stands alone in its electric-to-natural-gas residential and multifamily new construction fuel conversion program offerings, which are outlined in Table 3.

Table 3: Avista's 2018-2019 Fuel Conversion Incentives and Budget

	Residential Electric-to-Gas Fuel Conversion Program	**Non-Residential Builder Incentives for Developers/Builders of Multifamily New Construction**
2018-2019 Incentives[3]	$2,250, Combined Incentive: electric resistance heater and water heater to natural gas furnace and water heater $1,300, electric resistance heater to a natural gas direct vent wall heat unit $1,500, electric resistance heater to a natural gas furnace	Also referred to as a multi-family "market transformation," Avista presents a natural gas preferred option through incentives for developers/builders of new construction multi-family residential rentals, larger than a 5-plex. $3,500 per unit
2018-2019 BCP Budget	$4,942,900	$3,794,000

In response testimony filed on October 27, 2017, in Avista's 2017 general rate case dockets UE-170485 and UG-170486, staff argued that electric-to-natural-gas conversions for residential or non-residential multi-family new construction should not be included as part of the company's 2018-2019 Biennial Conservation Plan or conservation cost recovery adjustment. In comments filed on December 1, 2017 in Docket UE-171091, staff reiterated its position as set out in its response testimony. On December 4, the commission issued a notice of potential ex parte communication, preceding the December 20, 2017, recessed open meeting.

[3] *Avista Corporation's 2018 Annual Conservation Plan*, Appendix A at p. 9.

Residential fuel conversions and LEAP incentives. For residential fuel conversions, staff views Avista's incentives in Table 3 as duplicating the intent and purpose of Avista's existing natural gas Line Extension Allowance (LEAP) pilot program. LEAP allows Avista to provide a new natural gas residential customer an allowance of $4,500 to cover the cost of the natural gas line extension to the property. If the cost to connect to the system is less than the allowance amount, any excess can be applied toward a rebate for a natural gas furnace, boiler, and/or water heater. Combined with the LEAP program, customers can receive ratepayer-funded rebates in excess of $5,500 per project.[4] In contrast to Avista's residential fuel conversion rebates, which have been recovered through the electric conservation rider, LEAP is recovered through natural gas rates.

In 2010, Avista completed 177 residential fuel conversion projects. In the first 10 months of 2017, Avista completed 1,546 projects. Gas-over-electric fuel preference projects and total rebate expenditures have increased 770 percent. Staff surmises that the number of projects will continue to grow if combined LEAP and fuel conversion incentives are left in place.

Staff believes it is unfair that electric ratepayers must pay for the administration and incentives for conversion to natural gas. Avista's fuel conversion programs, combined with the LEAP excess allowance, fuel conversion incentive, and natural gas efficiency incentive, distort intra-fuel competition. A customer choice program that increases access to natural gas is more properly funded through gas rates. Staff believes that the EIA did not intend to support fuel conversion cost recovery programs.

Non-residential fuel conversions. In its 2018-2019 BCP, Avista not only increases the budget and incentives for residential electric-to-natural-gas fuel conversions but also increases its budget for multifamily "market transformation," also known as new construction electric-to-natural-gas fuel conversion, maintaining its $3,500 per unit incentive to new construction builders. Since 2008, Avista's multifamily program has provided rebates to developers of new complexes who choose to install natural gas. The budget for this program has ballooned to $3,794,000 for this two-year planning cycle.

Staff questions why incentives for fuel conversion are still being offered. In staff's data request sent to the company in May 2017, Avista estimated that 28 percent of the eligible multifamily construction market chose natural gas, while during 2004-2008, less than 15 percent chose natural gas. Historically, incentives for the multifamily new construction have ranged from $900 per unit, in 2008, up to $3,500 per unit in 2017. Staff questioned Avista's large pay-outs to builders, discovering one payment to a developer in the amount of $917,000 for 262 units. Staff also inquired about repeat developers/builders. In 2015, there were six multifamily new construction electric-to-gas incentivized projects, with three new developers and three repeat developers. In 2016, these projects grew to nine—again with three repeat developers. Staff believes this program is beyond its intended pilot stage and is not a "market transformation"

[4] See Avista's 2017 General Rate Case, Dockets UE-170485 and UG-170486; Snyder, Exh. JES-1T at p. 14.

program. In 2016, Avista discussed the success of its program and eventual discontinuation:

> *With construction activity revitalized in the past year the program has been modified and continues to be offered for a minimum of two years at a higher incentive amount of $3,500. Builders will continue to have two years to complete the construction of the project once contracted and will continue to provide documentation of their plans and incremental costs associated with installing natural gas over the electric straight resistance baseline. The program will be monitored for activity based on the number of units contracted through 2016 with the incentive amount to be evaluated for reduction or discontinuation.*[5]

Fuel conversions versus conservation savings. Staff's review of the BCP focused on verifying that the companies used methodologies consistent with the Northwest Power and Conservation Council's (Council) most recent Power Plan, and that proposed program changes are appropriate, and that each Plan complies with Washington's statutory requirement to "pursue all available conservation that is cost-effective, reliable and feasible."[6] Avista claims its residential and non-residential multifamily developer natural gas program is a cost-effective method to achieve electric savings that also removes electric load from Avista's system.

Staff disagrees. Avista's claim that fuel conversions are conservation would require that all electric utilities offer fuel conversions as part of pursuing all available conservation. The commission has never made such a determination.

Staff notes that the electric-to-natural-gas fuel conversions are held outside the CPA and do not "compete" with other supply side resources in the IRP. Instead, they are embedded in the demand-side forecast in the IRP. Staff agrees with this methodology, as it further illustrates that the conservation savings in the CPA are not the same as fuel conversion savings. Further, the commission has historically held fuel conversions outside of the BCP target, even though the prudency determination and costs of the program have been recovered through the company's annual conservation cost recovery tariff.

Intra-fuel competition. Avista appears to be putting its metaphorical thumb on the side of gas over electricity by offering incentives, paid for by electric ratepayers, further distorting intra-fuel competition in the residential and multifamily construction development market. As stated in Staff Comments and in filed testimony, staff does not consider fuel conversions as conservation, as defined by the Northwest Power Act or Washington State laws and rules. Instead, fuel conversion savings add energy, therm-by-therm, to Avista's natural gas system.

Fuel conversion program scale. The effect of Avista's growing fuel conversion incentives are not inconsequential. As a direct result of electric-to-natural-gas fuel conversions, staff requested that Avista, in its 2018 DSM Natural Gas Plan (ACP filed in Docket UG-171090), quantify the negative impacts. These impacts totaled (negative) 746,646 therms added to the system—a

[5] UE-152076; UG-152077, 2016 DSM Business Plan, Appendix B at p.38.
[6] RCW 19.285.040(1)(a).

direct result of Avista's growing residential and new construction multi-family electric-to-natural-gas conversion programs. In contrast, Avista's proposed energy efficiency savings for natural gas programs in 2018 (excluding conversions) total 719,451 therms. Avista's electric-to-natural-gas fuel conversions will blot out an entire year of natural gas efficiency gains. This provides an illustrative example of the sheer scale and impact of Avista's proposed fuel conversion programs. Coupled with the increased scale of the conversion program in comparison to the actual conservation program, it is readily apparent to staff that electric customers should no longer fund any electric-to-natural-gas conversion programs through the electric conservation rider.

Low-income fuel conversions. Staff notes one exception to fuel conversions: Avista's low-income weatherization program. This program allocates funds to seven Community Action Agencies (CAAs) in its territory and allows these agencies to spend the funds on either electric or natural gas measures at their discretion. Staff believes allowing funding of low-income fuel conversions through Avista's Low Income Rate Assistance Program (LIRAP) tariff Schedules 92 and 192 is more appropriate, as long as the funding is not recovered through its conservation program.

At this time, Staff recognizes that natural gas prices are a market driver and sees no reason to prevent these agencies funding low-income fuel conversion in cases when they determine it is in the best interest of the low-income customer to do so.[7] Future fuel conversion programs may be proposed by the company under LIRAP, including updating any tariffs.

Advisory group and public process. Avista's fuel conversion programs have continued to draw controversy each year, and staff believes these programs, which now represent one third of the company's total 2018-2019 BCP biennial budget, should be addressed by the commission. Staff voiced concerns with the company's growing fuel conversion program throughout 2017, meeting with the company eight times to discuss the fuel conversion issues.[8] After review of the company's Draft BCP, on October 23, 2017, staff recommended voluntary discontinuation of the residential and multifamily "market transformation" electric-to-natural-gas incentive programs because of the issues cited in this memo and Ms. Snyder's testimony. Avista *doubled* its residential and non-residential multi-family fuel conversion budgets in its 2018-2019 BCP, as compared to the 2016-2017 BCP.

Staff recognizes there is a timing issue with respect to the 2017 general rate case that needs clear procedural resolution, including an important public process component. Staff also acknowledges there is a lack of consensus within the advisory group on how to address Avista's

[7] In Avista's 2018 Annual Conservation Plan, for the low-income program, electric resistance heaters to natural gas furnace conversions are fully funded ($5,196). Electric to natural gas water heating is rebated at Avista's avoided cost of energy ($587).
[8] See Staff Comments filed in Docket UE-171091 at p.19.

controversial fuel conversion programs. As a result, staff makes several recommendations and proposes an interim approach.

Staff's Recommendation

Staff recommends rejection based upon the contested issues outlined in this memo, including Avista's exclusion of NEEA savings from its biennial conservation target, and inclusion of fuel conversion in its BCP. Staff does not believe that the commission should approve the BCP, as a whole, because of the fuel conversion issues. Staff believes that the prudency of proposed residential electric-to-natural-gas fuel conversion programs for the 2018-2019 biennium are more appropriately addressed in the context of the current Avista general rate case because of the inextricable link to electric rates.

Staff believes Avista's multi-family "market transformation" program must end now for any *new* contracts. The multi-family market transformation incentives are not discussed at length in Staff's testimony; the fate of the program should be decided by the commission at this time. Staff believes recovery should be allowed for builder or developer contracts already executed through the end of calendar year 2018, only.

Conditions List

As a general practice, the commission has approved utilities' biennial conservation plans subject to a series of conditions that are intended to guide the company and the advisory group in matters of program management and implementation not explicitly covered by statute or rule. Staff's proposed conditions have been reviewed with the goal of making the conditions as consistent as possible across the three electric utilities. The conditions list presented in Attachment A represents these efforts, and has been circulated by staff to the company and the advisory group.

Stakeholder Comments

The commission received comments from five parties on various issues within the company's biennial plan. Staff highlights several important issues raised, which are summarized below:

Mr. John Powell. Mr. Powell filed comments on November 29, 2017, suggesting Avista adopt, in its target-setting process, a reasonable estimate of the acquisition potential that could be derived from a historic review of the performance of the site-specific program. Mr. Powell also discussed the company's multi-family market transformation (fuel conversion) program, indicating that the new construction builder incentive program lacks the key elements that distinguish a market transformation program from traditional efficiency programs. Most critically, he points out that the multi-family nonresidential electric-to-gas program lacks trigger points that would lead to an exit strategy, which is a key characteristic that differentiates a market transformation program from traditional acquisition programs.

Mr. Powell identifies three additional issues related to the design and implementation of the company's conservation programs and recommends Avista: 1) complete a Request for Proposals (RFP) for additional resources, 2) address potential compromise issues related to the independence of Avista's third party evaluator, and 3) periodically review the membership of the advisory group and complete a general solicitation for new members.

The Energy Project. Mr. Shawn Collins submitted comments on behalf of the Energy Project on November 30, 2017. The Energy Project strongly encourages retention of fuel conversion incentives for the low-income weatherization program. He points out that low-income fuel conversion measures are offered separately from the residential fuel conversion program and have been found to achieve higher than expected savings. In the event the commission considers discontinuation of Avista's residential fuel conversion program, the Energy Project requests that fuel conversion measures be retained for the low-income weatherization program. These measures represent another option to help reduce the energy burden for low income households and should be preserved.

NWEC. In its comments filed on December 1, 2017, NW Energy Coalition (NWEC) agrees with staff that Avista's fuel conversion programs are not conservation and should therefore not be included as part of the BCP or be funded from the conservation rider. NWEC points out that we can expect Avista's electricity fuel mix to become cleaner and less emissions intensive over time, as Avista works toward meeting its renewable targets under the EIA, and as coal plants retire. Also, switching customers to natural gas use exposes customers to any future price volatility in the natural gas markets and to price risk and any future carbon pricing.

NWEC notes that Avista's electric residential efficiency portfolio is limited, and urges the company to take a harder look at other opportunities for residential conservation, including how the company plans to achieve savings that they are guaranteeing to meet (in their new behavioral pilot) after the discontinuation of the Oracle/OPower Home Energy Reports Program. NWEC asked the company to provide additional information on how it sets prescriptive incentive levels. They are also interested in any research on interest buy-downs or credit reserves that would allow more customers to take advantage of third-party financing and pay-for-performance programs.

UCONS. Utility Conservation Services, LLC (UCONS) also filed comments on December 1, 2017. These comments highlight concerns around Avista's approach with hard-to-reach markets. UCONS reminds Avista that it must pursue all cost-effective conservation, including within the manufactured home sector. Further, it recommends staff review Puget Sound Energy's approach to acquisition and RFP of energy efficiency in hard-to-reach markets and suggests the commission consider conducting workshops on this issue, including a rule-making to make improvements that enhance conservation efforts and spur innovation.

Public Counsel. In its comments filed on December 1, 2017, Public Counsel expressed concerns about Avista's proposed behavior program savings pilot. In particular, they question how Avista's proposed 15,386 MWh will be achieved by ending the Opower/Oracle Home Energy Reports. Public Counsel believes the company should disperse the 15,386 MWh savings allocated to behavioral savings to other residential and nonresidential programs, instead of relying on possible savings from the pilot program.

Public Counsel limited its comments on Avista's fuel conversion programs to the residential program and believes it should not be funded at its currently proposed level of $4.9 million, given the small electric DSM residential portfolio. Public Counsel also recommends that Avista's residential fuel conversion program continue to be offered, opposing staff's position of ending the program. Staff does not view fuel conversions as conservation and disagrees with Public Counsel's suggestions that modifications to the company's conversion programs should occur in the Advisory Group, pursuant to WAC 480-109-110. Public Counsel did not provide comments on Avista's non-residential multi-family fuel conversion program.

Finally, Public Counsel applauds the company's effort in creating several new pilot programs centered on hard-to-reach sectors in the company's service territory, including the residential behavioral pilot, the multi-family hard-to-reach program, residential wall insulation pilot, Ecova commercial building operation simulation pilot, and its low-income multi-family pilot program.

Conclusion

Issue an order rejecting Avista Corporation's biennial conservation target, and require the company to make compliance filings consistent with Attachment A and this memo. Avista Corporation should not be authorized to enter into any new contracts for its multi-family market transformation (fuel conversion) program beyond December 20, 2017. Further, recovery should only be allowed in the electric conservation tariff rider through December 31, 2018, for those builder or developer contracts already executed as of the date of this order. In addition, funding of low-income fuel conversions should be made through Avista's Low-Income Rate Assistance Program (LIRAP) tariff Schedules 92 and 192. Avista may propose a new fuel conversion program under LIRAP and should revise its tariffs to reflect this change.