Agenda Date: December 20, 2017
Item Number: D5

Docket: **UG-171090**
Company: Avista Corporation

Staff: Kathi Scanlan, Regulatory Analyst

Recommendation

Take no action, acknowledging Avista's natural gas savings target of 719,000 therms, and receipt of Avista's 2018 Natural Gas DSM Annual Conservation Plan (ACP) in Docket UG-171090.

Background

Avista (Avista or company) offers both electric and natural gas energy efficiency programs under the structure of a single energy efficiency program. As a result, Avista's 2018-2019 Electric Biennial Conservation Plan (BCP) and 2018 Natural Gas Annual Conservation Plan (ACP) is cross-docketed in Dockets UE-171091 and UG-171090.

On November 7, 2017, the company submitted its ACP to the commission. The ACP provides 2018 program goals and budget, and unlike Avista's electric target which is established by order on a biennial basis, Avista's natural gas target is an annual target established in the company's most recent IRP. Avista has no additional commitment for decoupling or automatic penalties for failure. For 2018, Avista identifies a natural gas savings target of 719,000 therms, which is greater than the IRP-identified target of 613,000 therms.

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

Discussion

2018 Natural Gas DSM Budget. Avista is projecting a 5 percent total decrease in its annual natural gas conservation budget, decreasing from $3.5 million to $3.3 million. This decrease is partially driven by continued low natural gas prices as well as decreasing non-incentive expenses, such as labor costs.

Table 1

Natural Gas Program Budgets	2017 Budget[1]	2018 Budget	Change
Incentive Payments			
Residential	$ 1,109,000	$ 1,069,000	-4%
Non-residential	$ 445,000	$ 486,000	9%
Low-income	$ 582,000	$ 550,000	-5%
Non-incentive Expenses			
Labor	$ 483,000	$ 390,000	-19%
Other (EM&V, Third Party)	$ 445,000	$ 566,000	27%
NEEA & CPA	$ 396,000	$ 212,000	-46%
Total	**$ 3,460,000**	**$ 3,273,000**	**-5%**

Natural gas savings and cost-effectiveness. As shown in Table 4 below, Avista projects a 16 percent increase in its projected year-over-year savings acquisition, increasing from approximately 620 to 719 thousand therms. The forecasted 2018 natural gas savings, by program, are increasing substantially for the residential sector. Based on the anticipated increase in residential furnaces and associated fuel conversion drivers, the residential sector is seeing an uptick in projected savings.

Table 2

Projected Gas Savings (therms)	2017	2018	2017 Change
Residential	398,000	487,000	22%
Low-income	15,000	15,000	-
Non-residential	207,000	217,000	5%
Total	**620,000**[2]	**719,000**[3]	16%
Negative impact of electric-to-gas fuel conversions		*(746,646)*	

The utility cost test (UCT) benefit-to-cost ratio for Avista's 2018 natural gas portfolio is projected to be 1.1, and the TRC is 2.4.

Negative impact of electric-to-gas fuel conversions. As a result of Avista's electric-to-gas fuel switching incentive programs (conversions) on the electric side, a significant amount of therms are added to Avista's natural gas system each year. As outlined in the Program Summary in

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[1] *Avista Corporation*, Docket UG-152077, Revised 2017 DSM Business Plan (November 15, 2016), Appendix B, at pages 29 & 30.

[2] Docket UG-151751, *Avista's Natural Gas 2016 Integrated Resource Plan* (August 31, 2016), Table 3.3, at p. 52. For 2017, Avista identifies an IRP natural gas conservation target of 489,110 therms, which is then adjusted in the ACP.

[3] *Id.* For 2018, Avista identifies an IRP conservation target of 612,830 therms, which is then adjusted in the ACP.

Appendix F of the ACP, staff has concerns with the negative impact of fuel conversions. These additional therms essentially blot out projected energy efficiency natural gas savings, as shown in Table 2. Staff summarizes its position on fuel conversions in response testimony filed on October 27, 2017, in Avista's 2017 general rate case concerning its programs in Dockets UE-170485 and UG-170486, and in Staff Comments filed on December 1 in Docket UE- 171091.

Supplemental budget analysis. During the 2017 annual conservation plan review cycle, staff analyzed each utility's budget allocations as an additional metric of program success. Each company was asked to provide data on the programs' 2017 Direct Benefit to Customers[4] (DBtC) ratio along with an explanation of why the ratio was appropriate. Avista plans to spend $2,106,000 DBtC in natural gas programs. Compared with the total amount budgeted for their efficiency programs, this results in a 64 percent DBtC ratio for natural gas programs in 2017, slightly above the 60 percent threshold recommended by staff. Staff will continue to work with the company and discuss program allocations.

Low-income Portfolio. Seven Community Action Partner (CAP) agencies deliver low-income energy efficiency programs (weatherization) for Avista's entire Washington service territory. CAPs receive an aggregate annual funding amount of $2,000,000. Agencies are allowed to spend their annual allocated funds on either electric or natural gas efficiency measures. CAPs are authorized to use 15 percent of their funds as a reimbursement for administration costs and up to 15 percent of their contract to fund health and safety improvements. Staff agrees with the level of support for health and safety expenditures, which are at the agency's discretion, and offer needed flexibility to help integrate improvements installed in each home.

Progress in 2017. As reported on a monthly basis by the company, programs saved 811,000 therms, achieving over 130 percent of the target from January through October (excluding conversions) at a cost of $3.7 million. If we adjust for electric-to-gas conversions, Avista savings are only 86,000 therms, which is 14 percent of the programs' total savings goal for the 2017 program year. The related expenditures represent 107 percent of the $3.46 million conservation budget. Staff is encouraged by Avista's current savings trajectory, although it will need to continue discussions about how to address fuel conversions.

Stakeholder comments. The commission did not receive any comments in this docket.

Conclusion

Take no action, acknowledging Avista's natural gas savings target of 719,000 therms and receipt of Avista's 2018 DSM Annual Conservation Plan (ACP).

[4] Direct benefits to customers includes but is not limited to: customer incentives, rebates, bill credits, credits on purchases, payments to CAP agencies, free efficiency measures, and upstream incentives to partners or trade allies.