

Agenda Date: December 17, 2015
Item Numbers: A5 and A6

Dockets: UE-152076 and UG-152077

Company: **Avista Corporation**

Staff: Chris McGuire, Regulatory Analyst

Recommendation

Provide staff with additional time to resolve concerns with Avista's Conservation Potential Assessment. Staff does not recommend issuing an order approving Avista's biennial conservation target at this time.

Background

On October 30, 2015, Avista filed its 2016-2017 Biennial Conservation Plan (BCP) with the Washington Utilities and Transportation Commission (commission). The BCP initially identified a 2016-2025 achievable conservation potential of 391,000 megawatt-hours (MWh), a 2016-2017 biennial conservation target of 72,461 MWh, and business plan to implement conservation programs to make progress toward that target. Avista filed its Electric and Natural Gas DSM Business Plans along with the BCP. Staff filed responsive comments on the BCP on December 3, 2015.

Summary

As discussed in staff's December 3 comments, there are three issues that will need to be resolved before staff can recommend approval of Avista's biennial target. The first two are adjustments to the target itself, and the third reflects a more general concern with the company's Conservation Potential Assessment (CPA) which, when addressed, could also affect Avista's biennial target.

The outstanding issues are as follows:

1. Incorrect value removed from the target to reflect the Northwest Energy Efficiency Alliance's savings projection for the biennium;
2. Inaccurate potential for behavioral savings reflected in the target; and
3. CPA achievable potential for Avista appears inconsistent with the achievable potential for other commission-regulated utilities.

Avista committed to file a revised BCP to address items 1 and 2, but had yet to do so as of the drafting of this memo. Issue 3 remains wholly unresolved as of the drafting of this memo.

Discussion

Biennial Conservation Target and Portfolio Savings

In its BCP, Avista identified a 2016-2025 achievable conservation potential of 391,000 MWh and a 2016-2017 two-year achievable conservation potential of 72,461 MWh. Although the BCP itself identified a 2-year potential of approximately 50,000 MWh, commission rules specify that the biennial target must be no lower than the pro rata share of the 10-year potential¹ so, therefore, the starting point for determining Avista's biennial target is 20 percent of 391,000 MWh, or 78,200 MWh. That starting point is then adjusted to reflect regulatory treatment of certain components of the company's conservation programs. Namely, adjustments are made to account for generation and distribution efficiency and to remove Northwest Energy Efficiency Alliance (NEEA) savings from the penalizable target. Avista's representation of its proposed target is as follows:

Table 1. Avista's proposed 2016-2017 Biennial Conservation Target (Note: savings values herein will need to be revised prior to commission approval)

Savings Category	Savings (MWh)
Pro Rata Share of CPA (End-use Efficiency)	78,200
Less NEEA	(7,972)
End-Use Efficiency Measures Subtotal	70,228
Plus Distribution Efficiency	2,082
Plus Generation Efficiency	151
Avista Proposed Biennial Conservation Target	72,461

It should be noted that this is not staff's recommendation for Avista's biennial target. Staff's recommended target will make a different adjustment for NEEA, a separate adjustment for Opower, and will address the apparent inconsistency in Avista's CPA.

Biennial Budget and Savings Projections

The 2016 DSM Business Plan, provided as Appendix B to the BCP, provides budget details regarding Avista's plan for achieving the savings identified in its biennial conservation target and total portfolio. The plan includes information regarding both electric and natural gas conservation programs. A summary of Avista's savings and expenditure expectations is as follows:

¹ WAC 480-109-100(3)(b). "Pro rata" is defined in WAC 480-109-060(19).

Table 2. Comparison of Savings and Budgets from Avista’s Electric 2016-2017 and 2014-2015 BCPs.

Program	2016-2017 Projected Savings (MWh)	2016-2017 Budget	2014-2015 Projected Savings (MWh)	2014-2015 Budget
Residential prescriptive	22,336	\$4,196,000	16,389	\$2,522,000
Home Energy Reports	13,110	\$813,000	6,900	\$843,000
Low Income	1,037	\$1,883,000	1,599	\$1,618,000
Non-Residential	45,831	\$9,028,000	39,200	\$4,870,000
Cascade SEM	-	-	1,098	\$252,000
NEEA	6,219	\$2,800,000	11,130	\$2,911,000
Administration/Other	-	\$6,072,000	-	\$8,522,000
Total	88,533	\$24,792,000	73,350	\$21,537,000

In short, Avista expects to achieve its biennial target by increasing spending for its residential prescriptive program as well as for its non-residential prescriptive and site specific programs. Avista also expects to reduce its administrative costs by nearly 30 percent for this biennium. For the 2016-2017 biennium Avista expects to achieve a TRC test benefit-to-cost ratio of 1.8. Staff commends Avista on improving the economic efficiency of its program offerings while continuing to maintain a cost-effective portfolio.

Table 3. Comparison of Savings and Budgets from Avista’s Natural Gas 2016-2017 and 2014-2015 BCPs.

Program	2016-2017 Projected Savings (therms)	2016-2017 Budget	2014-2015 Projected Savings (therms)	2014-2015 Budget
Residential prescriptive	539,000	\$1,606,000	505,000	\$1,371,000
Low Income	46,000	\$611,000	48,000	\$1,154,000
Non-Residential	551,000	\$1,703,000	602,000	\$1,220,000
NEEA	0	\$792,000	0	\$100,000
Administration/Other	-	\$2,639,000	-	\$2,415,000
Total	1,136,000	\$7,351,000	1,155,000	\$6,260,000

Avista's 2016-2017 business plan for its natural gas programs is remarkably similar to the plan for the previous biennium. This makes sense given the continued operation under the utility cost test (UCT) cost-effectiveness metric, persistent low gas prices, and Avista's lack of capacity acquisition needs for the foreseeable future. For the 2016-2017 biennium Avista expects to achieve a UCT benefit-to-cost ratio of 2.0 and a TRC test ratio of 0.9.

NEEA

Consistent with previous treatment of NEEA savings when setting biennial targets,² NEEA's projected savings are removed from the penalizable target. Staff continues to support this approach for this biennium, and describes the rationale for its support in its December 3 comments.

However, Avista's removal of NEEA savings from the target is inconsistent with historical treatment. Rather than simply remove NEEA's biennial commitment from the target, Avista attempted to extract market transformation-specific savings from the CPA and derive a savings estimate from the 10-year potential. Besides producing results of questionable reliability, the exercise is completely unnecessary; only NEEA's projection should be removed from the target as that is the component of target outside of the direct control of the utility. This adjustment will increase Avista's target by 1,753 MWh.

Avista has agreed to adjust its target accordingly in a replacement filing staff expects the commission to receive on Monday, December 14, 2015.

Opower

As described in staff's December 3 comments, the CPA evaluated behavioral savings in a manner inconsistent with the regulatory treatment of Opower savings. In short, the CPA did not evaluate these behavioral savings using a 2-year measure life assumption, which now is the agreed-upon standard for our utilities. The result of using an incorrect measure life assumption was a vast underestimate of the biennial potential for behavioral programs. Specifically, the 2-year potential for behavioral savings in the CPA was 688 MWh, while Opower's projected savings for the biennium was 13,110 MWh. Accordingly, Avista's biennial target should include an additional 12,422 MWh of behavioral savings.

Avista has agreed to adjust its target accordingly in a replacement filing staff expects the commission to receive on Monday, December 14, 2015.

² Joint proposal for a consistent approach to NEEA claimed conservation savings for the 2014-2015 Biennial Conservation Plan Compliance with Order 03 in UTC Docket UE-100176.

CPA Questions

As described in staff's December 3 comments, staff is not convinced that Avista's CPA accurately represents the achievable potential in the company's Washington service territory. Staff's discomfort is rooted in an apparent discrepancy between the achievable potential for Avista and that of Pacific Power. Specifically, although Avista's load is approximately 38 percent higher than Pacific Power's load, Pacific Power's CPA produced a 10-year potential that was 17 percent higher than Avista's 10-year potential.

Although staff has devoted a substantial amount of time to investigating this issue, it has yet to identify the source of the discrepancy. Neither Avista nor its contractor (Applied Energy Group, or AEG) has been able to provide an explanation to staff. Notably, AEG produced the CPAs for both Avista and Pacific Power and so is likely in the best position to provide resolution to this issue.

As of the drafting of this memo, staff had not yet resolved this issue. Given that the CPA is the backbone of the target-setting process, staff cannot at this time recommend approval of Avista's biennial target or 10-year conservation potential.

Conditions

In previous years, the commission has accepted the company's target subject to conditions. Those conditions were typically the product of robust discussions between, and subsequent consensus with, the company and its Advisory Group. No such discussions or consensus occurred in the development of this BCP, largely because the vast majority of those historical conditions have been incorporated into the revised rule (WAC 480-100).

One possible exception is the conditions around program design principles. If the commission decides to issue an order approving Avista's biennial target, staff recommends it do so with the following conditions:

Program Design Principles

- (a) Modifications to the programs must be filed with the Commission as revisions to tariffs or as revisions to Avista's current DSM Business Plan, as appropriate.
- (b) Conservation Efforts without Approved EM&V Protocol — Avista may spend up to ten (10) percent of its conservation budget on programs whose savings impact has not yet been measured, as long as the overall portfolio of conservation passes the Total Resource Cost (TRC) test as modified by the Council. These programs may include information-only, behavior change, and pilot projects.

- (i) Information-only services refers to those information services that are not associated with an active incentive program or that include no on-site technical assistance or on-site delivery of school education programs. Information-only services and behavior change services shall be assigned no quantifiable energy savings value without full support of the Advisory Group.
- (ii) If quantifiable energy savings have been identified and Commission-approved for any aspect of such programs, the budget associated with that aspect of the program will no longer be subject to this ten percent spending restriction.

Stakeholder Comments

In its comments filed on December 3, 2015, Public Counsel identified issues consistent with those identified by staff. Specifically, Public Counsel identified issues with Avista's treatment of NEEA and Opower, and noted the comparatively low conservation potential in the CPA. Additionally, Public Counsel noted that Avista has committed to updating its unit energy savings (UES) values annually. Although staff does not believe it is necessary to update UES values annually, staff supports Avista's decision. Staff notes here that, in updating UES values annually, Avista voluntarily makes it more challenging to achieve its target.

Conclusion

Given the outstanding issue with the CPA and the CPA's central role in the target-setting process, staff cannot at this time recommend approval of Avista's biennial target or 10-year conservation potential. Therefore, staff requests additional time to review Avista's BCP.