

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKET UG-120790
TRANSPORTATION	)	
COMMISSION,	)	ORDER 02
	)	
Complainant,	)	
	)	
v.	)	ORDER DISMISSING COMPLAINT
	)	AND ORDER SUSPENDING
AVISTA CORPORATION,	)	TARIFF; ALLOWING TARIFF
	)	REVISIONS ON A PERMANENT
Respondent.	)	BASIS

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**BACKGROUND**

- 1 On May 31, 2012, and again on June 5, 2012, Avista Corporation (Avista or Company) filed with the Washington Utilities and Transportation Commission (Commission) a revision to its currently effective Tariff WN U-29, designated as Substitute Fifteenth Revision Sheet 191 – Schedule 191, Public Purposes Rider Adjustment.
  
- 2 The purpose of the filing is to decrease the Gas Public Purposes Rider Adjustment (Gas Rider) charges to reflect actual costs and collections over the past year for conservation programs. The stated effective date is August 1, 2012.
  
- 3 In this filing, Avista proposes to decrease charges and rates for service by approximately \$1.9 million or 1.3 percent of overall billed rates. On June 29, 2012, in Docket UG-121119, Avista’s filed tariffs requesting to stop temporarily its natural gas demand side management (DSM or conservation) programs because such programs were no longer cost-effective given the decline in the cost of natural gas. Should that request be allowed to take effect, the proposed tariff rider rates at issue in this matter would have to be reduced further.
  
- 4 Accordingly, Commission Staff requested more time to investigate Avista’s books, accounts, practices and activities in this docket in conjunction with the proposed end of conservation programs. Because Avista proposed a decrease in rates, Commission Staff also recommended that the rates become effective on August 1, 2012, on a temporary basis, subject to revision.

- 5 On July 27, 2012, the Commission entered Order 01, Complaint and Order  
Suspending Tariff; Allowing Rates on a Temporary Basis, Subject to Revision.<sup>1</sup>
- 6 Shortly thereafter, on July 31, 2012, the Commission initiated a rule-making  
proceeding in Docket UG-121207 to consider, among other things, the methods by  
which the Commission and the gas utilities should evaluate the cost-effectiveness of  
gas conservation programs.
- 7 The Commission and parties to the various dockets addressing natural gas  
conservation programs performed extensive investigations, exchanged comments, and  
discussed Avista's filings. Ultimately, dockets UG-121207 and UG-121119 came  
before the Commission at its open meeting on April 11, 2013, and this docket, UG-  
120790, came before the Commission at its regularly scheduled open meeting on  
April 25, 2013.
- 8 Following the discussion at these open meetings, the Commissioners agreed that at  
this time it is not advisable for Avista to discontinue its gas conservation programs  
without either applying the Utility Cost Test (UCT) as described below to existing gas  
conservation programs, or including in the Total Resource Cost Test (TRC) a  
quantification of the risk avoidance and non-energy benefit values of conservation.  
Either of these options would likely eliminate an internal bias against conservation in  
the TRC that stakeholders brought to our attention at the April 11, 2013 open  
meeting.
- 9 Based on the positions articulated by the Commissioners, the Company proposed that  
the Commission should permit the tariff revision in this docket to go into effect by  
operation of law, and the Company would withdraw the tariff revisions in Docket  
UG-121119 and undertake further analysis of its existing programs. The Commission  
also indicated a desire to continue the work on cost-effectiveness standards in the  
rule-making proceeding in Docket UG-121207.

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<sup>1</sup> Paragraph 1 of Order 01, Docket UG-120790, incorrectly identified the filed tariff sheet as First Revision Sheet No. 190 – Supplemental Schedule 191, Public Purposes Rider Adjustment. The order should have referred to Substitute Fifteenth Revision Sheet 191 – Schedule 191, Public Purposes Rider Adjustment.

## DISCUSSION

- 10 WAC 480-90-238 discusses gas utilities' planning and conservation obligations.<sup>2</sup> As a result of the planning process, gas utilities are required to acquire cost-effective conservation to meet current and future needs.<sup>3</sup> Among the tests used to evaluate cost-effectiveness of conservation programs are the TRC and the UCT.
- 11 In the context of the various proceedings, the parties articulated the pros and cons of the TRC and the UCT. The TRC is designed to capture all of a conservation program's benefits and costs, regardless of who pays for them. The TRC can include significant non-energy benefits that accrue to the utility and its customers. A properly calculated TRC will account for a variety of benefits, including the hedge value of risk avoided, downward price pressure from reduced demand, the value of quantifiable non-energy benefits, and a method for including non-energy benefits that are difficult to quantify. A major concern with the TRC is that it typically includes the full costs, but often does not include the full benefits to customers because the

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<sup>2</sup> WAC 480-90-238 provides in part:

- (2) Definitions. (a) "Integrated resource plan" or "plan" means a plan describing the mix of natural gas supply and conservation designated to meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.
- (b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed and consistent analysis of a wide range of commercially available sources. At a minimum, this analysis must consider resource costs, market-volatility risks, demand-side resource uncertainties, the risks imposed on ratepayers, resource effect on system operations, public policies regarding resource preference adopted by Washington state or the federal government, the cost of risks associated with environmental effects including emissions of carbon dioxide, and the need for security of supply.
- (3) Content. At a minimum, integrated resource plans must include . . . (f) A comparative evaluation of the cost of natural gas purchasing strategies, storage options, delivery resources, and improvements in conservation using a consistent method to calculate cost-effectiveness.

<sup>3</sup> In the past, the Commission has used the same cost-effectiveness test to evaluate gas conservation as electric conservation to promote uniformity. Yet the Commission's authority over electric utilities' conservation obligations comes from the Energy Independence Act, RCW 19.285, a different source than gas utilities' conservation obligations. The discussion in this order, and in these proceeding in general, applies only to the cost-effectiveness evaluation of natural gas conservation.

hedge value and many non-energy benefits are difficult to quantify. This introduces a potential bias in the TRC against conservation programs.

- 12 The UCT, on the other hand, captures only the costs and benefits that accrue to the utility. The UCT does not include costs or non-energy benefits to an individual customer, thus it does not introduce an internal bias against conservation programs or the need for studies to value these difficult-to-quantify benefits. The UCT compares the costs that would eventually be charged to all ratepayers and the costs of implementing conservation programs, with the benefits from supply-side costs avoided due to the conservation programs. A primary concern with the use of the UCT raised in Docket UG-121207 is that a utility may create an incentive for activities that are not in an individual customer's economic interest because the UCT considers only the costs and benefits to all ratepayers, not an individual customer of a utility.<sup>4</sup>
- 13 The Avista filings in this docket (and in Docket UG-121119) are based on the Company's analysis of its gas conservation portfolio using the TRC.<sup>5</sup> Any adjustments to the tariff rider rate in these filings depend in substantial part on whether Avista's existing gas conservation programs continue. We are not comfortable ending gas conservation programs today because of the concerns with the TRC. At the April 11 open meeting, Avista acknowledged the Commissioners' concern with stopping the conservation programs and proposed to analyze its programs under the UCT. Recognizing the limitations of the UCT described above, Avista also proposed to consider, with its conservation advisory group, an individual customer's economic interest while selecting its portfolio of natural gas programs.

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<sup>4</sup> Neither test considers the social or environmental benefits of conservation. Conservation programs result in less burning of natural gas and fewer emissions of greenhouse gases. Some observers have advocated for evaluating conservation programs using the Societal Cost Test, which attempts to account for these costs. We acknowledge these environmental and social benefits of gas conservation, but believe that the use of a UCT or modified TRC achieves a similar result while providing more objective accounting of economic costs.

<sup>5</sup> Based on historic practice, rather than Commission rule or order, the TRC has been the Commission's primary test to determine the cost-effectiveness of a utility's portfolio of conservation programs. The Commission's first formal acceptance of the TRC for gas conservation programs was the result of a settlement in the Puget Sound Energy general rate case in Dockets UE-011570 and UG-011571. The TRC has been in use for the Avista gas conservation programs since its initial inception in Docket UG-941378. *See* Docket UE-100176, Staff Comments, Appendix C (March 5, 2010). The UCT's use generally has been restricted to determining the size of incentives that a utility should offer.

- 14 The Commission has not yet determined the best approach for evaluating natural gas conservation programs. However, for purposes of this docket, we accept Avista's proposed resolution, which maintains the existing programs but reserves for later resolution the issue of establishing specific standards for determining cost-effectiveness going forward.<sup>6</sup>
- 15 Accordingly, the Commission will dismiss the complaint in this docket and allow the tariff revision to go into effect with the understanding, which Avista representatives confirmed at the April 25 open meeting, that the Company will withdraw its filing in Docket UG-121119, and evaluate its gas conservation programs as proposed. The tariff rider merely provides the funding to implement the gas conservation programs for 2012 and 2013, which are cost-effective under the UCT. Under the UCT, the rates in the rider should be allowed to be effective on a permanent basis, subject to further inquiry on these issues and possible revision in future filings.

#### FINDINGS AND CONCLUSIONS

- 16 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including gas companies.
- 17 (2) Avista Corporation is a gas company and a public service company subject to Commission jurisdiction.
- 18 (3) This matter came before the Commission at its regularly scheduled meetings on July 27, 2012 and April 25, 2013.
- 19 (4) After reviewing the tariff revision filed on June 5, 2012, in Docket UG-120790 and giving due consideration, the Commission finds it is consistent with the

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<sup>6</sup> The Commission received comments from the Public Counsel Section of the Washington Attorney General's Office (Public Counsel), the Northwest Energy Coalition, and Jim Lazar recommending alternatives to Avista's proposal, but these commenters agreed that their recommendations should be considered in Docket UG-121207, rather than in this docket. Public Counsel nevertheless recommended here that the Commission simply suspend application of the TRC for a period of up to two years, rather than permit the Company to implement a new cost effectiveness test, even on a temporary basis. We find that Avista's proposal is the better option and provides the Company and its customers with greater flexibility in evaluating Avista's portfolio of conservation programs pending completion of proceedings in Docket UG-121207.

public interest to dismiss the Complaint and Order Suspending Tariff Revision dated July 27, 2012, and allow the revision to Tariff WN U-29, designated as Substitute Fifteenth Revision Sheet 191 – Schedule 191, Public Purposes Rider Adjustment to become effective on May 1, 2013.

**ORDER**

**THE COMMISSION ORDERS:**

- 20 (1) The complaint and order suspending the tariff revision Avista Corporation filed on June 5, 2012, is dismissed.
- 21 (2) The tariff revision Avista Corporation filed on June 5, 2012, is allowed to become effective on May 1, 2013, on a permanent basis.

DATED at Olympia, Washington, and effective April 25, 2013.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, Commissioner