

Agenda Date: January 28, 2016  
Item Numbers: A1 and A2

**Dockets:** **UE-152076 and UG-152077**  
Company: Avista Corporation

Staff: Chris McGuire, Regulatory Analyst  
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### **Recommendation**

Issue an order approving Avista's 10-year electric conservation potential as 383,063 MWh and biennial target as 72,626 MWh.

### **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) and a 2016-2017 biennial conservation target of 72,461 MWh. Commission Staff (staff) and Public Counsel filed responsive comments on December 3, 2015, indicating concern with certain elements of the BCP. Most notably, Staff indicated that without more time to analyze apparent inconsistencies with the conservation potential assessment (CPA), it would not be able to provide a recommendation to the commission. Avista's BCP was subsequently removed from the December 17, 2015, Open Meeting agenda and moved to the January 28, 2016, Open Meeting agenda.

Avista filed a revised BCP on January 5, 2016, addressing staff and Public Counsel's concerns with the level of Northwest Energy Efficiency Alliance (NEEA) and Opower's Home Energy Reports savings included in the company's biennial target.

### **Discussion**

#### ***Revised BCP***

As discussed in more detail in staff's December 3, 2015, comments, there were three issues that needed to be addressed before staff could recommend approval of Avista's biennial target. In summary, the issues were:

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.

On January 5, 2016, Avista filed a revised BCP that addressed items 1 and 2, above. Specifically, Avista amended the level of savings in its target to correspond to the projected biennial savings for NEEA and Opower. Previously, Avista had included in its target savings for NEEA and Opower that were inaccurately derived from the CPA. Staff found those CPA-derived savings to be unreasonable representations of the potential for those measures. Avista agreed and amended its 10-year potential and biennial target accordingly.

Regarding item 3, above, Staff ultimately determined that the disproportionately small conservation potential for Avista (as compared to Pacific Power) was due substantially to a relatively low forward price curve for electricity. Staff further determined that Avista's forward price curve for electricity was, in fact, reasonable and was estimated using the best available information at the time of developing the electric IRP. The largest driver of Avista's lower market price forecast (as compared to Pacific Power's) was the timing of development of those forecasts. Pacific Power developed its market forecast several months before Avista developed its market forecasts, prior to the crash of natural gas prices. Staff believes Avista's proposed conservation potential, as amended in its January 5, 2016, filing, and supplemented on January 6, 2015, is appropriate.

### ***Process Recommendations for future BCPs***

Staff's hesitance in moving forward with a recommendation was due to two main factors: 1) Avista's forward market price curve appeared disproportionately low as compared to its peer utilities and 2) Avista's complete reliance on a third-party consultant for derivation of its achievable conservation potential. Our other utilities rely on a third-party consultant to identify the technical potential (i.e. all conservation potential regardless of cost or uptake limitations), while the calculation of achievable potential is done through resource selection in the IRP model. If the achievable potential is not identified through the IRP model, conservation resource selection will not have been done in a manner consistent with the selection of other resources.

Although staff has been convinced that Avista's forward price curve for electricity is reasonable, staff believes that additional scrutiny through the Energy Efficiency Advisory Group is appropriate given the substantial influence of market price on conservation resource selection. Therefore, additional language has been added to condition 3(b) of Attachment A to enable additional input from the Advisory Group.

To ensure consistency between utilities and to ensure that conservation resources are competing directly with generation resources for meeting load in a least-cost/least-risk manner, Avista should identify its achievable conservation potential through its IRP model for future BCPs. To guide the company on this matter, an additional condition has been added to Attachment A as 10(a).

***Conservation Potential and Biennial Target***

In its revised BCP, Avista identified a 2016-2025 achievable conservation potential of 383,063 MWh and a 2016-2017 two-year achievable conservation potential of 60,212 MWh. Pursuant to WAC 480-109-100(3)(b), Avista’s biennial conservation target must be no lower than a pro rata share of the utility’s ten-year conservation potential.<sup>1</sup> Accordingly, Avista’s biennial target must be no lower than 76,613 MWh.<sup>2</sup> Consequently, the two-year conservation potential of 60,212 MWh cannot be the basis for the company’s biennial target. The target should be based on the biennial, pro rata share of 76,613 MWh. A breakdown of Avista’s proposed biennial target is as follows:

**Table 1. Avista’s revised 2016-2017 Biennial Conservation Target**

<b>Savings Category</b>	<b>Savings (MWh)</b>
Pro Rata Share of CPA	76,613
Less NEEA	(6,220)
End-Use Efficiency Measures Subtotal	70,123
Plus Distribution Efficiency	2,082
Plus Generation Efficiency	151
<b>Avista Proposed (Penalizable) Biennial Conservation Target</b>	<b>72,626</b>
Plus NEEA Projection	6,220
<b>Total EIA Commitment</b>	<b>78,846</b>
Plus Decoupling Commitment (5%) <sup>3</sup>	3,631
<b>Total Conservation Commitment</b>	<b>82,477</b>

Staff supports Avista’s proposed biennial conservation target, subject to penalty, of 72,626. After inclusion of Avista’s share of NEEA’s regional savings projections (which are included in the ten-year potential), Avista commits to achieve 20.5 percent of its ten-year conservation potential. Thus, the company proposes to exceed the required pro rata share of the ten-year conservation potential. Including the company’s decoupling commitment, Avista commits to achieve 21.5 percent of its ten-year conservation potential. The total conservation commitment of 82,477

<sup>1</sup> WAC 480-109-060(19) defines “Pro rata” as the calculation dividing the utility’s projected ten-year conservation potential into five equal proportions to establish the minimum biennial conservation target.

<sup>2</sup> 76,613 MWh is the ten-year potential of 383,063 MWh divided by five biennia.

<sup>3</sup> Pursuant to Order 5 of Dockets 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 penalizable under the EIA. However, staff considers this commitment to be subject to penalties at a level consistent with that of the EIA.

MWh represents approximately 0.7 percent of Avista’s projected sales volume over the next biennium.

***2016 DSM Business Plan***

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:

***Electric Business Plan – Biennial Budget and Savings Projections***

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

<b>Program</b>	<b>2016-2017 Projected Savings (MWh)</b>	<b>2016-2017 Budget</b>	<b>2014-2015 Projected Savings (MWh)</b>	<b>2014-2015 Budget</b>
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
<b>Total</b>	<b>88,533</b>	<b>\$24,792,000</b>	<b>73,350</b>	<b>\$21,537,000</b>
<b>Total claimable toward target</b>	<b>82,314</b>		<b>62,220</b>	

Avista expects to exceed its biennial target while reducing 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.

*Natural Gas Business Plan – Biennial Budget and Savings Projections*

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

<b>Program</b>	<b>2016-2017 Projected Savings (therms)</b>	<b>2016-2017 Budget</b>	<b>2014-2015 Projected Savings (therms)</b>	<b>2014-2015 Budget</b>
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
<b>Total</b>	<b>1,136,000</b>	<b>\$7,351,000</b>	<b>1,155,000</b>	<b>\$6,260,000</b>

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.

***Conditions***

In previous years, the commission has accepted the company’s target subject to conditions. Those conditions have been the product of robust discussions between, and subsequent consensus with, the company and its Advisory Group. This biennium is no different. The agreed-upon conditions were provided by Avista with its revised BCP on January 5, 2016, and are included here as an attachment to this memo.

***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**

Avista's revised BCP, filed on January 5, 2016, addressed all of the concerns staff identified in its December 3, 2015, comments. Additionally, staff has resolved the perceived inconsistency between Avista's CPA and Pacific Power's CPA. Therefore, Staff recommends that the commission approve Avista's ten-year conservation potential of 383,063 MWh and a 2016-2017 biennial target of 72,356 MWh.