

Agenda Date: August 9, 2018  
Item Number: A6

**Docket:** UG-161253  
Company: Cascade Natural Gas Corporation

Staff: Andrew Rector, Regulatory Analyst

### **Recommendation**

Take no action, thus acknowledging Cascade Natural Gas Corporation's 2017 annual conservation achievement report.

### **Background**

Cascade Natural Gas Corporation (Cascade or company) operates its natural gas conservation program under the requirements of a general rate case joint settlement agreement approved in Docket UG-152286.<sup>1</sup> On May 31, 2018, Cascade filed its 2017 annual conservation achievement report with the Washington Utilities and Transportation Commission (commission) in Docket UG-161253.<sup>2</sup>

In 2017, Cascade served 213,743 customers in Adams, Benton, Chelan, Cowlitz, Douglas, Franklin, Grant, Grays Harbor, Island, Kitsap, Mason, Skagit, Snohomish, Walla Walla, Whatcom, and Yakima counties.

### **Discussion**

*2016 joint settlement agreement:* According to the terms of the joint settlement agreement, "Cascade must achieve at least 100 percent of its annual conservation target."<sup>3</sup> The company agreed to a number of provisions, including:

- Filing an annual conservation plan by December 1, an annual conservation report by June 1, and an annual conservation cost recovery tariff by October 1.
- Providing all reports and tariffs to the conservation advisory group (CAG) 30 days in advance of their filing.
- Holding quarterly meetings with its CAG.
- Working with the CAG to develop an evaluation, measurement, and verification framework.
- Conducting an investigation into the barriers to low-income conservation.<sup>4</sup>

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<sup>1</sup> *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04, ¶10 (July 7, 2016).

<sup>2</sup> The company submits an advanced version of the report to their conservation Advisory Group for comment at least 30 days prior to submitting a final revision to the Commission.

<sup>3</sup> *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286 Exhibit A – Joint Settlement Agreement, ¶19.

<sup>4</sup> *Ibid.*, ¶20-26.

*2016 conservation achievement:* The company failed to meet its conservation goal in 2016, which was set prior to the settlement agreement. The company achieved 41 percent of its 2016 conservation goal, with a significant decrease in total therms saved from 2015. In its memo recommending the commission acknowledge the 2016 final report, staff noted that these results were “not acceptable,” but acknowledged several positive changes that Cascade had undertaken to improve the program.<sup>5</sup>

*Cascade’s corrective actions:* Below are some of the key changes Cascade instituted in 2016 and 2017 to improve its conservation program:

- To simplify program delivery and increase affordability, the company brought its residential energy efficiency program in-house in 2016.
- Cascade increased its marketing and outreach to commercial customers, and altered its contract with its third-party commercial program vendor to a pay-for-performance contract.
- Cascade revised its low-income Weatherization Incentive Program (WIP) by aligning its list of qualified energy efficiency measures more closely with the Washington Department of Commerce’s Weatherization Priority List, increasing rebate payments, and adding audit and inspection reimbursements. These changes became effective February 1, 2017. In August 2018, the company made further changes to the program, including removing the \$10,000 project cap and revising the administrative payment process for partner agencies.
- As part of a tariff revision, Cascade increased incentive levels for several measures as of June 30, 2017.<sup>6</sup> These changes brought Cascade’s incentives to a level more in-line with the other gas utilities in the state.
- After many modeling issues were identified with Cascade’s previous conservation potential assessments (CPA), the company contracted with a new consultant for its latest CPA, obtaining a new model called LoadMAP. The CPA was completed in Q2 2018, and is being used in developing the company’s upcoming integrated resource plan and conservation plan.

*2017 conservation achievement:* Cascade provided a draft copy of its annual conservation report to the CAG on May 1, 2018, and after receiving comments from stakeholders, filed the final report in a timely manner on May 31, 2018. Table 1 below compares the company’s 2017 conservation achievement with its goals and budget:

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<sup>5</sup> UG-170700, Open Meeting Memo (July 13, 2017).

<sup>6</sup> UG-170670.

**Table 1: Cascade programmatic spending and conservation breakdown by program<sup>7</sup>**

Program	2017 Budget	2017 Expend.	Percentage	2017 Goal	2017 Actual	Percentage
Residential	\$1,441,663	\$1,776,852	123%	323,878	297,216	92%
Commercial/ Industrial	\$1,582,149	\$1,414,447	89%	515,998	260,176	50%
Low Income	\$393,911	\$179,472	46%	15,000	5,564	37%
Portfolio Total	\$3,417,723	\$3,370,771	99%	854,876	562,956	66%

As Table 1 demonstrates, for 2017, Cascade’s conservation portfolio conserved 562,956 therms at a cost of nearly \$3.4 million. While this represents a 39 percent increase in savings over 2016, it also represents just 66 percent of the 2017 annual goal.

Cascade achieved 92 percent (297,216 therms) of its residential conservation goal in 2017. The company’s report notes that it had enough residential applications in its processing queue (estimated at 60,000 therms) at the end of the year to exceed the residential goal had those applications been processed prior to the end of 2017.<sup>8</sup> Cascade’s commercial and industrial (C/I) results also fell short of expectations, achieving just 50 percent (260,176 therms) of the company’s goal. The low-income program saved 5,564 terms (37 percent of the targeted therm savings).

Table 2 below shows the company’s performance against its goals in 2016 and 2017, as well as its goals for 2018:

**Table 2: Cascade conservation goals and achievement, 2016-2018**

	Residential			Commercial/Industrial			Portfolio <sup>9</sup>		
	Goal	Actual	%	Goal	Actual	%	Goal	Actual	%
2016	409,975	171,620	42%	565,940	222,194	39%	975,915	405,557	42%
2017	323,878	297,216	92%	515,998	260,176	50%	854,876	562,956	66%
2018	238,627	N/A	N/A	377,640	N/A	N/A	616,267	N/A	N/A

<sup>7</sup> Does not include Northwest Energy Efficiency Alliance (NEEA) Gas Market Transformation costs of \$313,124, or one-time software implementation costs of \$43,990.

<sup>8</sup> The company made a process change in 2016, when it began tracking savings based on the date the rebate is paid, rather than the measure installation date as it had done before. Therefore, any 2017 installations remaining in the queue at the end of the year are recorded in 2018.

<sup>9</sup> Including low income.

In 2017, Cascade's conservation program remained cost effective using a Utility Cost Test (UCT) measure. The residential program UCT ratio was 1.6, while the commercial/industrial ratio came in at 1.2, for a portfolio UCT ratio of 1.4. Using a Total Resource Cost (TRC) test, the program's cost-effectiveness ratios were 1.0 for the residential program, 0.9 for the C/I program, and 0.9 for the portfolio. Staff worked with all gas utilities in 2017 to devise a direct benefit to customers (DBtC) ratio as an additional measure of program performance.<sup>10</sup> The goal for each company is to achieve a 60 percent DBtC. In 2017, Cascade fell short of this target, with a 56 percent DBtC.

*2018 Progress to Date:* Cascade sends staff monthly updates on its conservation progress, and through June, the company's 2018 results have shown significant improvement. Cascade's June update shows the company at 42 percent of its 2018 C/I goal based on paid rebates, with enough rebates awaiting processing to bring that total above 58 percent. Based on historical averages and increased outreach, the company's most recent forecast showed it achieving 96 percent of its C/I goal by year's end. On the residential side, Cascade had already achieved 85 percent of its annual target by the end of June, and was forecasting meeting its annual target by early August. The company also reported significant year-over-over increases in the number of residential rebate applications received from April through June. As these three months historically have seen fewer applications than the January-March period, these results are encouraging.

## **Conclusion**

While Cascade's 2017 conservation results demonstrate that it continues to fall short of expectations, the company made substantial progress in 2017 compared to 2016. That progress has thus far continued in 2018. Staff believes the company's 2017 performance is not up to standard, but given that the commission did not establish binding conservation targets for 2017 or 2018,<sup>11</sup> the positive trajectory compared to 2016, and the positive early returns for 2018, staff recommends no punitive action at this time. Staff recommends allowing the company additional time to build on this progress. Staff believes Cascade must achieve 100 percent of its conservation target established in its conservation plan for 2019, the first year that its conservation target will be based on its new modeling software, or be considered out of compliance with the settlement agreement.<sup>12</sup>

## **Recommendation**

Staff recommends the commission acknowledge the Cascade Natural Gas Corporation's 2017 annual conservation achievement report.

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<sup>10</sup> UG-161253, Open Meeting Memo (March 16, 2017).

<sup>11</sup> UG-170929, Exh. JES-1T at 4: 13-14: "The Commission did not adopt a specific target for either 2017 or 2018, nor did Staff recommend that they do so."

<sup>12</sup> See UG-170929, Exh. JES-1T at 5: 14-16; RCW 80.04.380.