

Agenda Date: January 26, 2017
Item Number: A6

Docket: UG-161259
Company: Northwest Natural Gas Company

Staff: Kyle Frankiewicz, Regulatory Analyst
Jennifer Snyder, Regulatory Analyst

Recommendation

Take no action, thereby allowing the proposed tariff revisions to go into effect by operation of law on January 27, 2017, and acknowledging receipt of Northwest Natural Gas Company's 2017 Energy Efficiency Plan in Docket UG-161259.

Background

Northwest Natural Gas Company (NW Natural or company) operates its energy efficiency programs under a settlement stipulation approved by the Washington Utilities and Transportation Commission (commission) in Order 04 of Docket UG-080546. The programs are administered by the Energy Trust of Oregon (ETO) and reviewed and monitored by the company's Energy Efficiency Advisory Group (EEAG) in compliance with the stipulated agreement. Each year, NW Natural revises its Energy Efficiency (EE) Plan to reflect program modifications, a revised budget and performance metrics for the upcoming calendar year.

On December 1, 2016, the company timely submitted its annual EE Plan to the commission. The EE Plan provides 2017 calendar year program goals and budget figures, and updates avoided cost calculations to reflect new natural gas price forecasts as well as an uncertain carbon pricing policy.

NW Natural serves approximately 70,000 gas customers in Clark, Skamania, and Klickitat counties.

Discussion

Budget changes for 2017

The tables below compare conservation program budgets and savings estimates for 2016 and 2017. In 2017, the company expects to acquire at least 247,478 therms for no more than \$2.27 million, a 22 percent increase in spending compared to the program's 2016 budget.¹ The residential and commercial savings will be delivered by the ETO. The low-income savings will be delivered by Clark County Community Action Agency (CCCAA) through the Washington Low Income Energy Efficiency program (WALIEE).

¹ NW Natural uses a range of savings targets and budgets. For ease of analysis, staff uses the minimum savings and the maximum spending.

There are two main drivers for the substantial budget increase:

- An increase in program costs for ETO.
- Growth in new home construction paired with new residential building codes which increase the efficiency baselin, thereby increasing per-therm savings costs.

While NW Natural's 2017 conservation budget is quite a bit higher than their 2016 budget, it is similar to 2016 actual spending due to the growth in new home construction.

Table 1. Comparison of Budgets from 2016 and 2017

Program Budgets	2016 Projected Budget	2017 Projected Budget	2016-2017 Change (%)
<i>Commercial Retrofit</i>	\$703,629	\$847,499	20%
<i>Residential Retrofit</i>	\$488,439	\$534,924	10%
<i>Residential New Homes</i>	\$409,349	\$592,788	45%
ETO program subtotal	\$1,601,417	\$1,975,161	23%
<i>WALIEE</i>	\$160,500	\$186,638	16%
NW Natural program subtotal	\$1,761,917	\$2,161,799	23%
<i>NEEA Pilot Program</i>	\$94,134	\$108,564	15%
All programs total	\$1,856,051	\$2,270,363	22%

Energy savings changes for 2017

NW Natural is proposing an 8.1 percent increase in its 2017 therm savings goal relative to 2016, forecasting that it will acquire at least 240,158 therms in 2017 from its residential and commercial programs administered by ETO. This is a 7.4 percent increase over its updated 2016 savings projection of 228,852 therms, which it expects to achieve based on the most recent quarterly report. NW Natural's projections estimate that Utility Cost Test and Total Resource Cost ratios will both stay above 1.0 at the portfolio level for 2017.

Table 2. Comparison of Energy Savings from 2016 and 2017

Program Energy Savings	2016 Projected Savings	2017 Projected Savings	2016-2017 Change (%)
<i>Commercial Retrofit</i>	128,398	133,046	3.6%
<i>Residential Retrofit</i>	46,796	58,015	24.0%
<i>Residential New Homes</i>	48,513	49,097	1.2%
ETO program subtotal	223,707	240,158	7.4%
<i>WALIEE</i>	5,145	7,320	42.3%
NW Natural program subtotal	228,852	247,478	8.1%
<i>NEEA Pilot Program</i>	n/a	n/a	n/a
All programs total	228,852	247,478	8.1%

Program changes for 2017

New Homes: NW Natural's service area in Washington is enjoying a housing construction boom, which means that this program has been growing quickly. However, while there are more new homes to achieve savings, the savings opportunities that can be achieved per home will result in lower and more expensive total savings due to increasing code requirements. The result is a 45 percent increase in budget, but a relatively flat savings projection. Programmatically, ETO has updated its energy savings calculation methodology for new homes, using an energy performance score (EPS) system that offers incentives based on tiered efficiency "paths." More efficient paths are paired with increasing incentives for builders.

Commercial: Savings in this program have stalled since 2015. ETO's 2015 annual report stated that many commercial projects were delayed in 2015, presumably to be completed in 2016, so it's surprising that the commercial program figures for 2016 are thus far still underwhelming.² NW Natural and ETO both recognize that this is an area of underperformance. NW Natural has hired a new employee with a background in commercial energy efficiency, and ETO is planning a suite of marketing, outreach, and other efforts to improve participation and savings in 2017.

WALIEE: NW Natural is increasing both the budget and the expected energy savings for this program. The company is planning to serve at least 20 homes, up from a goal of 15 homes in 2016. CCCAA has signaled that average per-home costs for health and safety improvements have exceeded the current \$440 cap, so there will likely be a request to increase that cap in the future.

NEEA: NW Natural will continue its participation in the Northwest Energy Efficiency Alliance's (NEEA) gas market transformation efforts. As this work is in its third year of a long-term market transformation effort, NEEA does not forecast any energy savings for 2017, and as a result NW Natural is not including this expense in its cost effectiveness analyses.

Pilots: NW Natural will continue its automated thermostat optimization pilot, which started in June 2016. They plan to file new measures later this year.

Tariff revisions for 2017

Schedule G, Sheet G.1: Updates the program year from 2016 to 2017.

Schedule I, Sheet I.1: Removes a one-time cost reimbursement arrangement for increased administrative expenses and outreach efforts in 2016.

Progress in 2016

Per its third quarter 2016 report, NW Natural's ETO programs saved 155,370 therms from January through September, at a cost of \$1,059,189.³ The energy savings are roughly 59 percent of the high end of its target savings range for the 2016 program year, while the expenditures

² 2015 Annual Report filed under Docket [UG-143895](#). 2015 commercial projects discussed on p. 6.

³ 2016 third quarter report filed under Docket [UG-152349](#).

represent 62 percent of NW Natural's \$1.76 million conservation budget. NW Natural has historically achieved a large proportion of its program goals in the fourth quarter and expects to do so again in 2016.⁴ Commission staff believes that the company likely met its 2016 savings goals, but that continued underperformance in the commercial sector is a concern.

Supplemental Budget Analysis

During the 2017 annual conservation plan cycle, staff identified a need to analyze 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 customers⁵ (DBtC) ratio along with an explanation of why the ratio was appropriate for the 2017 conservation program.

Commission staff recommends that all conservation programs spend 60 percent or more of their total conservation budgets to provide direct benefits to their customers. NW Natural filed supplemental materials clarifying its 2017 budget, and provided some historical budget figures. After applying standardized estimates about NEEA and WALIEE so that NW Natural's metrics could be compared with other companies, staff determined that the company's metric for 2017 is 48.4 percent, meaning that it will *not* meet staff's recommendation for the 2017 program year.

In NW Natural's supplemental filing, ETO contends that the 60 percent DBtC goal may not be appropriate for its particular circumstances for a number of reasons: the small size of its Washington service area; maturation of a new conservation program; lack of economies of scale; lack of partner program to pool shared costs; low gas prices, which cause many conservation measures to be less than cost-effective; and increased evaluation costs for ETO to develop Washington-specific avoided cost calculations.

Staff will continue working with NW Natural to better define expenses, and to find efficiencies that will improve the company's direct benefit to customer metric. Staff also sees value in coordinating with the company and advisory group to establish a suite of well-defined metrics for judging the health of the conservation program.

Conclusion

Take no action, thereby allowing the proposed tariff revisions to go into effect by operation of law on January 27, 2017, and acknowledging receipt of Northwest Natural Gas Company's 2017 Energy Efficiency Plan in Docket UG-161259.

⁴ Fourth quarter savings accounted for roughly 60 percent of savings for the program years of 2013 and 2014, when NW Natural met its target. 2013 Annual Report filed under docket UG-121886; 2014 Annual Report under UG-132147.

⁵ Direct benefits to customers includes but is not limited to: customer incentives, rebates, bill credits, credits on purchases, payments to community action agencies, free efficiency measures, and upstream incentives to partners or trade allies.