

Agenda Date: December 18, 2013  
Item Number: D2

**Docket: UE-132045**

Company: **Avista Corporation**

Staff: Chris McGuire, Regulatory Analyst  
Brad Cebulko, Regulatory Analyst

### **Recommendation**

Issue an order approving Avista Corporation's (Avista or company) 10-year conservation potential of 404,736 megawatt-hours and a revised biennial conservation target of 65,131 megawatt-hours, subject to the conditions in Attachment A. In addition, by January 31, 2014, Avista must submit a revised business plan that describes the company's plan to implement conservation programs and demonstrates that the business plan has been developed to meet or exceed the biennial target.

### **Background**

On November 1, 2013, Avista filed its 2014-2015 Biennial Conservation Plan (BCP) with the Washington Utilities and Transportation Commission (commission) under Docket UE-132045. The BCP identifies a 2014-2023 achievable conservation potential of 404,736 megawatt-hours (MWh), a 2014-2015 biennial conservation target of 58,231 MWh, and business plan to implement conservation programs to achieve that target. Staff filed responsive comments on the BCP on December 3, 2013.

Avista serves approximately 237,000 electric customers in Adams, Asotin, Ferry, Franklin, Grant, Lincoln, Spokane, Stevens, and Whitman counties, and approximately 149,000 natural gas customers in Adams, Asotin, Ferry, Franklin, Grant, Klickitat, Lincoln, Skamania, Spokane, Stevens, and Whitman counties.

### **Biennial Conservation Target and Portfolio Savings**

As described in staff comments, Avista identified a 2014-2023 achievable conservation potential of 404,736 MWh and a 2014-2015 two-year achievable conservation potential of 67,137 MWh. To derive the target, shown in Table 1 below, Avista adjusts the two-year potential in two ways. First, Avista subtracts the savings associated with the Northwest Energy Efficiency Alliance (NEEA), in a manner consistent with the joint proposal filed on October 31, 2012, in Docket UE-100176. Avista then adds the savings it expects to achieve from its generation and distribution efficiency opportunities. The effect of these adjustments is shown in Table 1, below.

**Table 1. Development of Avista’s 2014-2015 Biennial Conservation Target**

<b>Savings Category</b>	<b>Savings (MWh)</b>
End-Use Efficiency Measures (CPA)	67,137
Less NEEA	(11,130)
End-Use Efficiency Measures Subtotal	56,007
Plus Distribution Efficiency	2,061
Plus Generation Efficiency	163
<b>2014-2015 Biennial Conservation Target</b>	<b>58,231</b>
Plus Opower Home Energy Reports	6,900
<b>Staff recommended target</b>	<b>65,131</b>

Staff explains its recommended target below, which includes savings from Opower’s Home Energy Reports program.<sup>1</sup>

**Biennial Budget and Cost-Effectiveness**

The 2014 DSM Business Plan, provided as Appendix A to the BCP, provides budget details regarding Avista’s plan for achieving the savings identified in its biennial conservation target and total portfolio. Although the DSM Business Plan focuses predominantly on 2014 acquisition, Avista provided additional details on projected biennial savings and expenditures through informal information requests. A summary of these details is provided in Table 2 below.

**Table 2. Comparison of Savings and Budgets from Avista’s 2012-2013 and 2014-2015 BCPs.**

<b>Program</b>	<b>2014-2015 Projected Savings (MWh)</b>	<b>2014-2015 Budget</b>	<b>2012-2013 Projected Savings (MWh)</b>	<b>2012-2013 Budget</b>
Residential prescriptive	16,389	\$2,522,000	28,247	\$2,783,000
Home Energy Reports	6,900	\$843,000	5,189	\$361,000
Low Income	1,599	\$1,618,000	3,502	\$3,360,000
Non-Residential	8,186	\$1,156,000	35,581	\$3,291,000
Site-specific incentives	31,047	\$3,714,000	43,179	\$4,919,000
Cascade SEM	1,098	\$252,000	-	-

<sup>1</sup> The Home Energy Reports program is a residential behavioral program built on mailing peer comparison reports. Avista launched this program in June of 2013.

NEEA	11,130 <sup>2</sup>	\$2,911,000	19,622 <sup>3</sup>	\$3,028,000
Administration/Other	-	\$8,522,000	-	\$9,399,000
<b>Total</b>	<b>73,350</b>	<b>\$21,537,000</b>	<b>135,319</b>	<b>\$27,140,000</b>
Less NEEA	(11,130)			
Less Fuel Efficiency	(2,382)			
<b>Total (eligible toward target)</b>	<b>59,838</b>			

Avista's 2014-2015 budget is \$21.5 million, which is approximately 21 percent lower than the budget for the 2012-2013 biennium. For comparison, Avista's expected total portfolio savings for 2014-2015 are 33 percent lower than the 2012-2013 biennium. The decline in savings is due to factors including increased saturation levels, lower avoided costs and updated unit energy savings (UES) values for certain measures. Avista's portfolio achieves a Total Resource Cost (TRC) ratio of 1.1 and a Utility Cost Test (UCT) ratio of 2.3, indicating that the portfolio remains cost-effective.<sup>4</sup>

The total 2014-2015 projected savings of 73,350 does not necessarily reflect the expected savings acquisition that is eligible to be applied toward the biennial target. For example, as described in more detail below, NEEA savings are removed from both the target and the savings eligible to be applied toward the target. After adjusting projected savings to reflect only those savings eligible to be applied toward the biennial target, Avista's eligible savings estimate for the biennium is 59,838 MWh. This savings projection falls short of Avista's biennial target of 65,131 MWh, as proposed by staff and shown on Table 1. Therefore, if the commission approves staff's proposed target, staff recommends that the commission also require Avista to submit a revised Business Plan that has been developed to meet or exceed the biennial target.

## NEEA

As discussed in the staff comments filed December 3, 2013, staff supports the company's general approach for the treatment of NEEA savings for the purposes of this biennium. Staff supports Avista's implementation of the joint proposal and accepts that 11,130 MWh of NEEA savings is the appropriate level of savings to be removed from the company's biennial target. Avista will not count NEEA savings toward its biennial target but will continue to pursue regional savings acquisition pursuant to Condition 6(h) described in Attachment A of this memo.

<sup>2</sup> This is the projected NEEA savings identifiable to the CPA. NEEA's total projected savings for the biennium for Avista's service territory is 28,971 MWh.

<sup>3</sup> This is the projected NEEA savings prior to the proposal to identify and remove CPA-specific NEEA savings. Therefore, the 2012-2013 projected NEEA savings is not directly comparable to the 2014-2015 projected NEEA savings identified in this table.

<sup>4</sup> UE-132045, Avista 2014 DSM Business Plan, page 60.

### **Home Energy Reports (HER)**

In its CPA Avista estimated the savings potential for the HER program over the first two years of the biennium (2014-2015) to be zero and, as a result, Avista's target includes zero MWh of HER savings potential. However, subsequent to the development of the CPA, Avista worked with Opower on program design and renegotiated costs such that Opower can now offer a program to a subset of Avista's customers in a cost-effective manner, and Avista proposes to claim those savings against the biennial target. Thus, Avista would apply HER savings against a biennial target that does not contain economically achievable behavioral savings.

Staff believes that the lack of economic potential in 2014-2015 for the HER program is due primarily to a difficulty in modeling behavior programs within the CPA. In Avista's CPA, expected behavioral savings were modeled as average-expected savings across all customers, whereas in reality the HER program is offered to a subset of higher-use customers with an above-average savings potential. In other words, there is no standard UES that can be used evaluate behavioral programs within a CPA. Due to this modeling difficulty, behavior programs should not be modeled within the CPA. Rather, expected behavioral savings should be treated as an add-on to the target after the two-year potential is derived from the CPA. This issue is unique to behavioral programs, and the treatment of behavioral savings in relation to the CPA and the target-setting process should not be precedential for other types of measures.

Staff believes that Avista's current projected biennial savings from its HER program is a reasonable proxy for the amount that would have been included in the two-year potential if a finer granularity of HER savings had been defined within the CPA model. Therefore, staff recommends that the commission approve a target of 65,131 megawatt-hours which includes 6,900 MWh of projected HER savings for the 2014-2015 biennium.

### **Locked UES values**

As described in staff's comments, staff supports Avista's proposal to use "locked" UES values for reporting progress toward the biennial target. These locked UES values are for reporting purposes only; Avista must still manage its programs with the best available information which may require incorporating updated UES values into its ongoing program management.

In response to requests from staff and Public Counsel, Avista filed a UES compendium into Docket UE-132045 on December 10, 2013. This compendium lists the UES values Avista is proposing to lock, and provides information on the source of each UES value. Staff was not able to review this document prior to writing this memo but anticipates that it will be able to do so prior to the December 18, 2013, Open Meeting. Staff expects it will be able to move forward with its recommendation at that time.

### **Conditions List**

As in previous biennia, Staff worked with Avista, as well as Public Counsel, to develop a set of conditions for Avista's conservation programs in the 2014-2015 biennium. The resulting conditions list is included in Attachment A.

### **Stakeholder Comments**

In its comments filed in Docket UE-132045 on December 3, 2013, Public Counsel identified two primary concerns. First, Public Counsel noted its concern with the lack of specificity around the UES values Avista was proposing to "lock" for the biennium. Like staff, Public Counsel believed it could provide a recommendation regarding the biennial target once Avista provided a list of locked UES values and the sources of those UES values. Second, Public Counsel states its belief that Avista's intent to claim savings for the Opower program toward the biennial target is not consistent with the development of the target. Staff shares both of Public Counsel's concerns and has developed its recommendations herein to address those concerns.

### **Conclusion**

Issue an order approving Avista Corporation's ten-year conservation potential of 404,736 megawatt-hours and a revised biennial conservation target of 65,131 megawatt-hours, subject to the conditions in Attachment A, and subject to the submission of a revised business plan, by January 31, 2014, that describes the company's revised plan to implement conservation programs and demonstrates that the business plan has been developed to meet or exceed the biennial target.

Attachment