Agenda Date: December 21, 2012
Item Number: D8

Docket: UG-121119
Company: Avista Corporation

Staff: Eric Russell, Regulatory Analyst

Recommendation

Take no action, thereby allowing the tariff revision filed by Avista Corporation in Docket UG-121119 to take effect January 1, 2013, by operation of law.

Background

On June 29, 2012, Avista Corporation (Avista or company) filed with the commission a request to revise Tariff WN U-29, Schedule 190, Natural Gas Efficiency Programs. The purpose of the tariff revision is to temporarily discontinue the company's natural gas conservation programs due to new natural gas avoided costs that have been released as part of Avista's Integrated Resource Plan (IRP) process.[1]

As part of its annual conservation business planning process last fall, Avista identified the need to monitor natural gas avoided costs to optimize and maintain the cost effectiveness of its natural gas conservation portfolio.[2] This optimization was further analyzed and discussed in a report filed with the commission on February 29, 2012.[3]

The updated analysis was based on future natural gas avoided costs that were expected to be 25 percent lower than existing avoided costs. Further, this analysis concluded that a smaller portfolio of natural gas programs could and would be offered later in 2012. This changed, however, with the June 9, 2012, release of natural gas avoided costs that are now approximately 50 percent lower than the avoided costs from those in November 2011. Avista's natural gas IRP was released on August 31, 2012, and confirmed these lower avoided costs.

Related filings include UG-120788, Avista's current natural gas conservation tariff rider, currently suspended with rates temporarily in effect, subject to revision, and UG-060518, Avista's natural gas decoupling mechanism, which is tied to the natural gas conservation portfolio.

An inquiry into natural gas conservation was initiated on July 20, 2012, in Docket UG-121207. The commission considered the discontinuance of Avista's natural gas conservation programs at the September 27, 2012, open meeting. At that time, the commission requested the company

[1] Docket UG-111588, 2012 Natural Gas Integrated Resource Plan, filed August 31, 2012.
[2] Docket UE-111882, Annual DSM Business Plan, filed November 1, 2011.
[3] Docket UE-111882, Review of Prospects and Strategies for the 2012 Avista Regular Income Natural Gas DSM Portfolio, filed February 29, 2012.

extend the effective date to December 1, 2012, to allow time for additional review, and for staff to evaluate comments and other information submitted by the interested parties into the gas conservation docket. As part of the inquiry in UG-121207, commission staff considered written comments filed by interested parties, as well as oral comments at the November 16, 2012, workshop held in Olympia. Following the workshop, Avista extended the effective date of the natural gas conservation discontinuance to January 1, 2013.

Following discussion with staff, on December 18, 2012, the company filed a revised Schedule 190 in this docket to discontinue all programs with the exception of the low income weatherization program. Details regarding the company's proposal, and staff's recommendation, are outlined later in this memo.

Discussion

As part of the natural gas conservation program inquiry, staff evaluated Avista's avoided cost inputs, as well as those of the other three natural gas utilities regulated by the commission. Avista's avoided cost calculations include: the basin weighted cost of gas, avoided distribution capacity costs, avoided pipeline transmission costs, avoided pipeline capacity costs, a pipeline fuel reimbursement cost, and a 10 percent conservation preference adder. Staff found the four companies' inputs to the avoided cost calculations to be reasonably similar.

Staff also evaluated the cost tests currently used by the companies, and the inputs into the tests. As an outcome of the inquiry and workshop, staff believes that the total resource cost test (TRC) remains the appropriate test for determining cost effectiveness at the portfolio level. The TRC, when appropriately applied, evaluates all costs and benefits of conservation programs, regardless of who pays for them.

The program administrator cost test, also known as the utility cost test (UCT), is used to evaluate the costs and benefits borne solely by the utility. Because the incremental costs of the measure paid by the customer are much larger than the incentive costs borne by the utility, the TRC will typically yield a lower ratio than the UCT. Although the TRC is applied at the portfolio level, the UCT is useful at the measure level to set the incentive amounts paid by the utility on a particular measure.

As previously discussed in Staff's September 27, 2012, open meeting memo in this docket, one of the major determining factors in evaluating this proposed tariff revision is the cost effectiveness of the company's natural gas conservation portfolio, which is directly related to the avoided cost of natural gas. As calculated, the company was not able to generate a TRC ratio over 0.70, despite using various scenarios.

Scenarios considered by the company included:

- The addition of a carbon cost adder for 2013-2019, above and beyond the carbon cost that is incorporated into the avoided cost itself for 2020 and beyond.
- Various alternative categorizations of realization rates by programs.
- Different means of allocating non-incentive utility costs across programs.

Staff also requested that the company check current long term gas price forecasts. On December 11, 2012, the company confirmed that the price forecasts used in the avoided cost calculations provided in this docket are still accurate.

Staff believes that since the company has experienced employees who work on both natural gas and electric conservation, the existing company infrastructure will allow the reinstatement of programs in a rapid fashion when the portfolio can again be shown cost effective.

Avista's Timeline for Program Ramp-down

The following breakout represents Avista's plan and schedule to ramp down its natural gas conservation programs, effective January 1, 2013:

Site Specific Programs

Avista will honor all terms and conditions of contracts and agreements that are fully executed prior to January 1, 2013. Such contracts and agreements must be signed by both the company and the customer.

Natural gas energy efficiency projects without fully executed contracts will be honored by the company under the following conditions:

1. The company has already conducted an analysis of a proposed natural gas energy efficiency measure. If the company has not already conducted an analysis of a proposed natural gas energy efficiency measure, customers seeking incentive funding will submit an overview of their proposed natural gas energy efficiency project to the company in writing or via email by January 31, 2013.
2. All material documentation required for Avista to conduct an analysis to determine energy efficiency savings and potential incentive funding must be received by the company by March 1, 2013. The company has the sole discretion to determine if such documentation is sufficient for analysis, and if the documentation is not sufficient, will reject the project from incentive funding consideration.
3. Customers who wish to proceed with any natural gas energy efficiency measure which has been evaluated by the company subject to the terms and conditions of this tariff must sign an energy efficiency agreement with the company by May 31, 2013.
4. Customers must complete any contracted projects by May 31, 2014, unless otherwise agreed to in certain contracts executed prior to January 1, 2013.

Residential and Non-Residential Prescriptive Rebate Programs

Qualifying customers in the company's Residential and Non-Residential Prescriptive Rebate Programs must send to Avista all required rebate forms and other required documentation postmarked by March 1, 2013, to be eligible for payment. Any requests postmarked after March 1, 2013, will not be eligible for payment.

Ongoing Monitoring

Avista remains committed to a continual re-evaluation of the prospects for the natural gas conservation portfolio. Should natural gas costs, technologies or delivery methods change in such a manner to allow for cost effective opportunities in the future, the company will move to return all or portions of the natural gas conservation portfolio to the company's overall conservation strategy.

Staff recommends that Avista informally provide staff with quarterly updates to the avoided cost analysis to re-evaluate the ongoing cost effectiveness status of this portfolio. Should the avoided costs rise to the point where a TRC result above 1.0 is reached, then the company will file a tariff revision within 30 days to reinstate their natural gas conservation programs.

Low-Income Programs

Avista originally proposed to discontinue low-income conservation measures effective January 1, 2013. On December 18, 2012, Avista filed a revised tariff retaining low-income conservation measures. In the written comments received during the natural gas conservation inquiry, Docket UG-121207, as well as the oral comments at the November 16 workshop, interested parties were nearly unanimous in regard to the importance of low-income programs. It is generally agreed that the provision of conservation services to the low-income and vulnerable customer segment contributes towards the achievement of objectives that are beyond mere resource acquisition.

Avista has historically delivered conservation services to low income customers through a cooperative agreement with Community Action Program Agencies (Agency) that perform individualized assessments of each installation in compliance with state and federal guidelines regarding savings-to-investment ratios (SIR). Staff believes it is appropriate to use these savings-to-investment ratios to evaluate the cost-effectiveness of low-income conservation programs, consistent with the federal Weatherization Assistance Program. Staff believes this approach is in the public interest, and applies energy-efficiency expertise and resources to this customer segment to minimize the adverse impact of increasing energy costs and a generally more challenging economic environment.

Because the objectives of the low-income portfolio are considerably wider than those of traditional conservation resource acquisition programs, it is further recognized that the TRC test does not recognize the unique program design of low-income conservation programs. The application of the TRC test is not relevant to an evaluation of prudent delivery of low-income conservation services.

Staff recommends that future company efforts for the delivery of energy-efficiency services to the low-income and vulnerable customer segment should be guided by the following range of metrics:

1. Continued funding for homes treated after an individual savings-to-investment ratio (SIR) assessment by an Agency in compliance with accepted state and federal SIR metrics,
2. Providing the Agencies with a reasonable opportunity to expend contracted funds in a flexible manner across both electric and natural gas utility services to meet the needs of the customers identified and targeted by the Agency,
3. Funding designed to improve the safety and convenience of the use of utility services by the customer,
4. Funding designed to secure the long-term habitability of the dwelling through the provision of energy-efficiency and related health and human safety measures services and,
5. The continued expectation of innovation and creativity in optimizing the program to meet the broad objectives contained within this statement as well as those understood by Avista stakeholders.

Based on the input of the interested parties during the inquiry process, and the rationale outlined above, staff recommends that Avista continue to offer low-income natural gas conservation programs, and that the cost-effectiveness of these programs be evaluated by the SIR assessments used by the agencies who administer the programs for Avista.

Conclusion

Take no action, thereby allowing the tariff revision filing made by Avista Corporation, in Docket UG-121119 to take effect January 1, 2013, by operation of law.