

Agenda Date: January 26, 2017

Item Numbers: A1 and A4

**Dockets: UE-152058
UG-152075**

Company: **Puget Sound Energy**

Staff: Jennifer Snyder, Regulatory Analyst

Recommendation

Take no action, acknowledging timely receipt of the 2017 Annual Conservation Plan on November 14, 2016, in Dockets UE-152058 and UG-152075.

Background

Puget Sound Energy (PSE or company) currently operates its electric energy efficiency programs under conditions approved by the Washington Utilities and Transportation Commission (commission) pursuant to RCW 19.285 and WAC 480-109,¹ and operates its natural gas conservation programs under a previous settlement.² The company's 2016-2017 biennial electric conservation target is 537,078 MWh and 2016-2017 biennial natural gas target is 6.96 million therms.³

On November 14, 2016, PSE timely filed its "2017 Annual Conservation Plan" (ACP or Plan) with the Washington Utilities and Transportation Commission under Dockets UE-152058 and UG-152075. Although PSE is only required to file its annual electric ACP by December 1 per commission order, the company filed a combined electric and natural gas ACP to support consistent review of both portfolios.

PSE serves approximately 1.1 million electric customers in Island, King, Kitsap, Kittitas, Pierce, Skagit, Thurston and Whatcom counties and approximately 790,000 natural gas customers in King, Kittitas, Lewis, Pierce, Snohomish and Thurston counties.

¹ *In the Matter of Puget Sound Energy Report Identifying its 2016-2025 Ten-Year Achievable Electric Conservation Potential and Its 2016-2017 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-152058, Order 01 (December 17, 2015).

² *WUTC v. Puget Sound Energy, Inc.*, Docket UE-011570 and UG-011571 (consolidated), Twelfth Supplemental Order, Exhibit F to Settlement Attachment (June 20, 2002).

³ *In the Matter of Puget Sound Energy Report Identifying its 2016-2025 Ten-Year Achievable Electric Conservation Potential and Its 2016-2017 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-152058, Order 01 (December 17, 2015).

Discussion

Electric Conservation Budget. PSE proposes a 5 percent increase in its annual electric conservation budget, increasing from \$98.6 million to \$103.5 million. The table below summarizes the 2016 and 2017 budgets by program.

Electric Program Budgets	2016 Budget	2017 Budget	2017 Change
Residential	\$45,475,966	\$43,032,312	-5%
<i>Low-income</i>	\$3,386,625	\$3,735,428	10%
Commercial	\$35,930,334	\$42,546,414	18%
Pilots	\$976,899	\$978,291	0%
Regional Programs	\$5,200,000	\$5,200,000	0%
Portfolio Support	\$6,096,731	\$6,471,427	6%
Research and Compliance	\$3,154,491	\$3,656,980	16%
Other Electric Programs	\$1,765,586	\$1,567,778	-11%
Total	\$98,600,007	\$103,453,202	5%

A decrease in product prices, especially concerning LEDs, has allowed some incentives to be adjusted downward. Due to reductions in unit energy savings values (UES) for a variety of measures, including LED lamps, showerheads, certain appliance types and HVAC measures, some measures are no longer as cost-effective as expected. The adoption in June 2016 of the Washington 2015 Non-Residential Energy Code resulted in several measures in the multifamily and commercial/industrial new construction programs no longer being cost-effective.

The increase to the research and compliance budget is driven by PSE’s intention to participate in a regional end use load study as well as an additional residential saturation study within PSE’s service territory. The regional study will be an ongoing expense for five years. For 2017, the anticipated expenditures for both studies total \$535,000. Staff finds the Pacific Northwest End Use Load Research study to be an efficient means to fill significant gaps in existing data for the region.

Other Electric Programs PSE has included \$322,000 of demand response funding in the 2017 ACP. This amount represents program development costs PSE intends to allocate to the conservation rider. If the company decides to recover these funds in Schedule 120, they must first submit a petition for accounting order to the commission. It is staff’s position that these expenses are more appropriately recovered via the general rate case.

The electric vehicle charger pilot program was extended past 2016 for the sake of program continuity while the company anticipates the approval of an electric vehicle policy statement by the commission. On November 10, 2016, the six month extension until April 2017 was allowed

to become effective in docket UE-161156 and accounts for \$295,000 that was not in the original 2017 budget.

Electric DSM Savings. PSE projects a 5 percent increase in its projected year-over-year savings acquisition, increasing from 294,507 MWh to 309,932 MWh. The table below summarizes projected 2016 and 2017 electric savings by program.

Projected Electric Savings (MWh)	2016	2017	2017 Change
Residential	133,049	120,762	-9%
<i>Low-income</i>	1,560	1,836	18%
Commercial	133,570	166,755	25%
Pilots	17,347	5,323	-69%
Regional Programs	10,541	17,093	62%
Total	294,507	309,932	5%

Despite the reductions in energy savings values mentioned above, PSE has adaptively managed its program to maintain its expected level of savings. These adjustments include expanding the number of small business “blitzes,” enhancements of the business lighting grant application process, and creating an indoor agricultural website. The decrease in pilot savings reflects PSE’s decision, in consultation with the Conservation Resource Advisory Group (CRAG), to discontinue the small-to-midsize business energy report pilot due to poor initial results.

It is noteworthy that, in a departure from its standard annual UES value adjustment, PSE voluntarily adjusted the residential LED UES values retroactively for the 2016 reporting period to the 2017 values. The savings impact of this adjustment was significant enough that PSE took this extraordinary step in order to not only ensure a high degree of savings reporting accuracy but to lessen the impact on the company’s power planning forecasts.

Hard-to-Reach Customers In order to ensure all cost effective measures are acquired in accordance with action item MCS-1 in the Seventh Power Plan, the Northwest Power and Conservation Council recently kicked off their hard-to-reach market initiative. PSE plans to continue enhancing their programs to identify and increase participation of underserved markets.

M&V 2.0 Also known as advanced M&V, M&V 2.0 is a set of tools and principles to leverage data in the measurement and verification process. PSE is designing a pilot program using M&V 2.0 concepts, and plans to assess their advantages and disadvantages compared to traditional M&V. This pilot is expected to commence in the first half of 2017.

The benefit-to-cost ratio for PSE’s electric portfolio under the total resource cost test (TRC) is projected to be 1.7 for 2017.

Natural Gas DSM Budget. PSE proposes no significant change in its annual natural gas conservation budget. The table below summarizes the 2016 and 2017 budgets by program.

Natural Gas Program Budgets	2016 Budget	2017 Budget	2017 Change
Residential	\$7,359,528	\$6,831,311	-7%
<i>Low-income</i>	\$283,479	\$183,600	-35%
Commercial	\$4,748,313	\$4,775,232	1%
Pilots	\$181,029	\$190,369	5%
Regional Programs	\$1,086,677	\$1,389,079	28%
Portfolio Support	\$829,632	\$921,598	11%
Research and Compliance	\$508,537	\$580,024	14%
Total	\$14,713,716	\$14,687,614	0%

PSE's 2017 natural gas conservation budget is partially driven by the continued low natural gas prices and the reduction of certain unit energy savings values. The natural gas low-income weatherization program budget is approximately \$100,000 lower largely due to a drop in agency applications for qualifying residences. It is important to note that although the natural gas low-income budget is lower, the electric low-income weatherization budget is more than \$348,000 higher than originally planned.

Natural Gas DSM Savings. PSE projects an 11 percent decrease in its projected year-over-year savings acquisition, decreasing from 3,963,462 therms to 3,527,457 therms. The table below summarizes projected 2016 and 2017 natural gas savings by program.

Projected Gas Savings (therms)	2016	2017	2017 Change
Residential	1,858,637	1,558,907	-16%
<i>Low-income</i>	18,641	8,786	-53%
Commercial	1,674,296	1,651,665	-1%
Pilots	430,529	316,885	-26%
Regional Programs	n/a	n/a	-
Total	3,963,462	3,527,457	-11%

The reduction of residential and low-income weatherization savings are largely due to the revision of unit energy savings values, particularly for showerheads and space heat. On the natural gas side, there are fewer measures available to balance these savings reductions. These issues were anticipated in the biennial plan and a goal of 3,463,033 therms was planned for 2017, a nearly thirteen percent year over year decline. However, web-enabled thermostats had a higher than expected adoption rate in 2016 and are expected to provide an increase from the savings originally anticipated in 2017.

Another major driver behind the significant drop in projected low-income gas budget and savings is that, in 2016, a key partnering agency terminated its agency weatherization agreement. This is one of several reasons for the drop in agency applications mentioned above. PSE is actively working with community action agencies to increase natural gas production and find new opportunities.

The TRC benefit-to-cost ratio for PSE's natural gas portfolio is projected to be 1.5 for 2017, including the budgeted expenditures for the NEEA natural gas pilot.

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 customers⁴ (DBtC) ratio along with an explanation of why the ratio was appropriate for the 2017 conservation program.

PSE regularly provides information on DBtC in conservation filings. In the requested supplemental filing, PSE provided useful background concerning the company's use of the DBtC metric in addition to their explanation of why the current ratio is appropriate. In 2017, PSE plans to spend \$70,374,299 and \$8,486,298 with DBtC in the electric and natural gas programs, respectively. Compared with the total amount budgeted for their efficiency programs, this results in a 69 percent DBtC ratio for electric programs and a 64 percent DBtC ratio for natural gas programs, comfortably above the 60 percent minimum threshold recommended by staff.

While staff has no issues with PSE's budget allocations for 2017, staff 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.

Stakeholder Comments

In comments filed on January 20, 2017, Utility Conservation Services, LLC (UCONS) supported efforts to acquire conservation in hard-to-reach markets, specifically manufactured homes. In addition to urging the Commission to reinforce these efforts, UCONS suggests requiring reporting savings by sector alongside the conservation potential for each sector. UCONS also submitted a detailed proposal of a pilot program designed to reach manufactured homes customers in Pierce and Thurston counties.

Staff encourages PSE to evaluate the merits of the proposed pilot for inclusion in their energy efficiency program.

⁴ 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.

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Conclusion

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