Agenda Date: January 10, 2019
Item Number: A4

Docket: UG-180990
Company: Cascade Natural Gas Corporation

Staff: Andrew Rector, Regulatory Analyst

Recommendation

Take no action, acknowledging timely receipt of the 2019 Annual Conservation Plan submitted on November 30, 2018, in Docket UG-180990.

Background

Cascade Natural Gas Corporation (Cascade or company) operates its natural gas conservation programs under the requirements of the joint settlement agreement and order approved in Docket UG-152286.[1] As outlined in the order and agreement, the company must submit an Annual Conservation Plan (ACP or Plan) to the Washington Utilities and Transportation Commission (commission) by December 1 for the subsequent year and project its conservation target. On November 30, 2018, Cascade timely filed its 2019 ACP in Docket UG-180990.

Cascade Natural Gas serves approximately 214,000 customers in smaller, rural communities in western and central Washington, including service to the following counties: Adams, Benton, Chelan, Cowlitz, Douglas, Grant, Franklin, Grays Harbor, Island, Kitsap, Mason, Skagit, Snohomish, Walla Walla, Whatcom, and Yakima. The company also serves 68,000 customers in central and eastern Oregon.

Discussion

2016 joint settlement agreement. Cascade agreed to a number of provisions in the joint settlement agreement signed in 2016. These provisions include a regular reporting schedule, quarterly conservation advisory group (CAG) meetings, and advanced review of all regulatory filings by the CAG.[2] Additionally, according to the terms of the settlement, “Cascade must achieve at least 100 percent of its annual conservation target.”[3] The settlement agreement did not specify any penalties for non-compliance with these provisions.

Additionally, with the 2016 Conservation Plan acknowledgement, the company agreed to a schedule of steps to change the way it develops a conservation potential assessment (CPA), and how it incorporates the CPA into the integrated resource planning (IRP) process.[4] The company issued a request for proposals (RFP) for a new CPA, with the winning bid going to Applied Energy Group (AEG). The new CPA was completed in April 2018, and is incorporated into Cascade’s 2018 IRP.[5]

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[1] UG-152286, Order 04, ¶10 (July 7, 2016).
[2] Ibid. ¶20-26.
[3] Ibid. ¶19.
[4] UG-161253, Open Meeting Memo Table 3 (March 16, 2017).
[5] UG-171186.

2016-2018 conservation achievement. Cascade failed to reach its conservation targets set in 2016 and 2017. In 2016, the company achieved just 41 percent of its expected therm savings, while in 2017 that number rose to 66 percent. Both conservation targets were set using the company's old CPA modeling software, which found savings potential far above what the company had historically achieved. Neither the 2016 nor the 2017 conservation goals were binding, so staff did not recommend any corrective action for missing them.

As of the end of November 2018, the company had already far exceeded its 2018 residential and overall therm savings targets, though anticipated falling approximately 6 percent short of its non-residential savings goal. The 2018 goal was also set using the company's previous modeling software, and as with the 2016 and 2017 targets, the 2018 savings goal is non-binding. Staff commends Cascade for its successful 2018 conservation program implementation.

Natural Gas Conservation Budget. Cascade proposes a substantial 20.7 percent increase in its natural gas conservation budget from 2018 to 2019, from $5.1 million to $6.1 million. Table 1 summarizes the budgets by expense category.

Table 1

Natural Gas Program Budgets	**2018 Budget[6]**	**2019 Budget**	**2019**
Incentive Payments			
Residential	$1,523,459	$1,920,000	26.0%
Non-Residential	$1,021,089	$950,000	-7.0%
Low-income	$190,000	$515,000	171.1%
Non-Incentive Expenses			
Labor	$349,532	$683,047	95.4%
Outreach	$160,800	$288,100	79.2%
Third Party	$1,080,000	$904,750	-16.2%
Other	$95,611	$150,131[7]	57.0%
Excluded Non-Incentive Expenses			
NEEA	$452,285	$548,804	21.3%
Software Implementation	$10,000	n/a	
Annual Software Fees	$150,000	$185,000	23.3%
CPA & Model Development	$70,000	n/a	
Total	**$5,089,333**	**$6,144,832**	**20.7%**

[6] UE-161253, CNGC 2016 Conservation Plan (December 14, 2015), Table 1.
[7] Since submitting the plan, the company has removed $108,500 earmarked for a potential office expansion from its budget, making the new total for the "Other" budget category $41,631.

Cascade expects to boost its residential program incentive spending in 2019. This increase is commensurate with an increase in forecasted therm savings from this sector. It also reflects a number of new programs (such as windows, duct sealing, and duct insulation), as well as increased incentives for several measures that the company has adaptively managed to increase uptake. Of particular note is a substantial increase in the budget for the company's low-income conservation program. This is driven largely by changes the company made to its Weatherization Incentive Program (WIP) and Enhanced Weatherization Incentive Program (EWIP) in August 2018 that resulted in higher rebates for participating agencies. Finally, the company has updated many measures in the commercial program as well, though on the whole incentive spending on the commercial program is expected to decrease slightly.

Among non-incentive expenses, Cascade intends to significantly increase its outreach budget, primarily to support additional outreach to contractors and trade allies. The company's labor budget will also grow as a result of increased staffing. Cascade's commitment to the Northwest Energy Efficiency Alliance (NEEA) natural gas market transformation pilot has grown by nearly $100,000; that pilot program ends in 2019, though NEEA intends to further its reach into the natural gas sector beyond 2019.

The company projects that the cost effectiveness for this plan will result in a Total Resource Cost (TRC) ratio of 1.1 and a Utility Cost Test (UCT) ratio of 1.4.

Natural Gas Conservation Savings. Cascade projects a 16.7 percent increase in its year-over-year savings acquisition, increasing from 616,267 therms to 719,011 therms. Table 2 compares the 2018 and 2019 natural gas savings by program.

Table 2

Projected Gas Savings (therms)	**2018**	**2019**	**2019 Change**
Residential	238,627	333,424	39.7%
Low-income	5,000	15,000	200%
Non-residential	377,640	370,587	-1.9%
Total	**616,267**	**719,011**	**16.7%**

Cascade has set a significantly higher goal for residential therm savings in 2019 than in 2018. This is appropriate, as the company's residential conservation savings has seen marked improvement over the last two years. Included in this increased goal is an expectation that low-income conservation will also experience a significant uptick. Finally, the company has put a great deal of effort into improving its non-residential conservation program; the 2019 non-residential target is more in line with what Cascade expected to achieve in 2018 as of November.

Conclusion

As staff noted when recommending acknowledgement of Cascade's 2017 annual conservation report,[8] the company made substantial progress in improving its conservation program in 2017. That progress has continued into 2018, and thus the program seems poised for success in 2019. Given this progress and the fact that the 2019 plan is based on an improved CPA, staff believes Cascade must achieve 100 percent of its conservation target for 2019, or be considered out of compliance with the settlement agreement.[9]

Recommendation

Take no action, thus acknowledging receipt of Cascade Natural Gas Corporation's 2019 Annual Conservation Plan filed on November 30, 2018, in Docket UG-180990.

[8] UG-161253, Open Meeting Memo (August 9, 2018).
[9] *See* UG-170929, Exh. JES-1T at 5: 14-16; RCW 80.04.380.