

Agenda Date: January 15, 2015
Item Numbers: A1 and A2

**Dockets: UE-132045
UG-143917**

Company: Avista Corporation
Staff: Chris McGuire, Regulatory Analyst

Recommendations

Take no action, acknowledging timely receipt of the 2015 Demand-Side Management business plan on October 31, 2014, in Dockets UE-132045 and UG-143917.

Background

Avista is currently operating 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 The company's biennial 2014-2015 electric conservation target was originally established at 64,956 MWh.² However, per the terms of the settlement agreement in Docket UE-140188, the Company must achieve at least 105 percent of its biennial conservation target. Therefore, Avista's adjusted 2014-2015 biennial target is 68,204 MWh.³

On October 31, 2014, Avista timely filed its 2015 Electric Demand-Side Management (DSM) Business Plan (Business Plan) in Docket UE-132045. Although Avista is only required to file its annual electric DSM business plan by November 1 per commission order,⁴ the company also submits its annual natural gas business plan concurrently. Avista's 2015 Natural Gas DSM Business Plan was filed on October 31, 2014, in Docket UG-143917. Avista's 2015 natural gas conservation target, as established in its 2014 IRP, is 1,287,000 therms.⁵

Discussion

Electric DSM Budget. Avista is projecting a 4 percent increase in its annual electric conservation budget, increasing from \$10.8 million to \$11.3 million. The table below summarizes the 2014 and 2015 budgets by expense category.

¹ *In the Matter of Avista Corporation's 2014-2023 Ten-Year Achievable Conservation Potential and 2014-2015 Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-132045, Order 01 (December 19, 2013).

² *Id.* at ¶ 28.

³ *Utilities and Transp. Comm'n v. Avista Corp.*, Dockets UE-140188/UG-140189, Order 05 at 12-13, ¶26 (November 25, 2014).

⁴ *In the Matter of Avista Corporation's 2014-2023 Ten-Year Achievable Conservation Potential and 2014-2015 Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-010*, Docket UE-132045, Order 01, Attachment A, Condition 8(a), (December 19, 2013).

⁵ *Avista Corporation*, 2015 Natural Gas Integrated Resource Plan, Docket UG-131621, Table 3.4, Page 7 (August 29, 2014). The annual target is generated through a system-wide, third party conservation potential assessment.

Electric Program Budgets	2014 Budget⁶	2015 Budget	2015 Change
Incentive Payments			
<i>Residential</i>	\$1,005,578	\$2,408,713	140%
<i>Nonresidential</i>	\$2,710,181	\$2,704,736	0%
<i>Low Income</i>	\$1,043,901	\$1,803,625	73%
Non-Incentive Expenses			
<i>Labor</i>	\$1,875,761	\$1,517,664	-19%
<i>Outreach</i>	\$384,490	\$364,000	-5%
<i>EM&V</i>	\$425,700	\$145,500	-66%
<i>NEEA</i>	\$1,512,000	\$961,252	-36%
<i>Third Party</i>	\$1,022,256	\$443,160	-57%
<i>Other</i>	\$863,982	\$335,862	-61%
Total	\$10,843,848	\$11,263,909	4%

For 2015, Avista proposes to substantially reduce its non-incentive expenses while increasing its incentive payments. Year-over-year non-incentive expenses will decrease from \$6,084,188 to \$4,346,835 (a 29 percent decrease) while incentive payments will increase from \$4,759,660 to \$6,917,074 (a 45 percent increase).

The overall increase in incentive payments is driven largely by an increase in incentive payments for residential electric-to-gas fuel conversions and a shift in low income funding from natural gas to electric programs. The shift in low income funding was precipitated by a lack of cost-effective gas measures. The cumulative (gas plus electric) low income budget remains stable between 2014 and 2015 at \$2.0 million.

Electric DSM Savings. Avista is projecting a 15 percent decrease in its projected year-over-year savings acquisition, decreasing from 37,184 MWh to 31,540 MWh. The table below summarizes projected 2014 and 2015 electric savings by program.

Projected Electric Savings (kWh)	2014	2015	2015 Change
Residential	11,145,120	8,459,504	-24%
Non-Residential	6,315,713	10,533,088	67%
Site Specific	14,138,289	10,211,613	-28%
Low Income	196,512	412,361	110%
Cascade SEM	225,000	1,185,000	427%

⁶ Avista Corporation, Docket UE-132045, Revised 2014 DSM Business Plan (April 23, 2014) at page 18.

Opower	5,163,522	738,487	-86%
Total	37,184,156	31,540,053	-15%

The total projected electric savings for the 2014-2015 biennium is 68,724 MWh. Avista therefore projects that it will meet its biennial target of 68,204 MWh as first established in Order 01 of Docket UE-132045 and revised in Order 05 of Docket UE-140188/UG-140189. The TRC benefit-to-cost ratio for Avista’s Washington electric portfolio is projected to be 1.12 for 2015.

The increase in non-residential (prescriptive) savings and the decrease in site-specific savings is due primarily to the fact that some measures that were previously offered as site-specific measures are now offered as standard, prescriptive, non-residential measures. The increase in low income savings corresponds to the large (73 percent) increase in electric low income funding. The increase in Cascade Strategic Energy Management savings is occurring because 2015 is the first full year where the two participating customers will be benefiting from the program. The decrease in Opower savings is due to the fact that only those savings that are incremental to the first year’s (2014) savings may be claimed for purposes of complying with the Energy Independence Act (EIA).

It should be noted that these savings only represent those that are claimable toward EIA compliance. Avista projects to achieve an additional 5,052,527 kWh of savings in 2015 for electric-to-gas fuel conversions which may not be claimed in the 2014-2015 biennium toward meeting the biennial target.

Natural Gas DSM Budget. Avista is projecting a 7 percent decrease in its annual natural gas conservation budget, decreasing from \$3.24 million to \$3.02 million. The table below summarizes the 2014 and 2015 budgets by expense category.

Natural Gas Program Budgets	2014 Budget⁷	2015 Budget	2015 Change
Incentive Payments			
<i>Residential</i>	\$498,382	\$872,662	75%
<i>Nonresidential</i>	\$598,845	\$621,148	4%
<i>Low Income</i>	\$956,099	\$196,148	-79%
Non-Incentive Expenses			
<i>Labor</i>	\$735,040	\$767,135	4%
<i>Outreach</i>	\$214,781	\$130,000	-39%
<i>EM&V</i>	\$150,300	\$115,000	-23%
<i>NEEA</i>	\$0	\$99,781	N/A%
<i>Third Party</i>	\$242	\$108,213	N/A%

⁷ *Id.*

<i>Other</i>	\$83,564	\$111,900	34%
Total	\$3,237,252	\$3,022,214	-7%

The largest year-over-year change is the reduction in natural gas low income funding from \$956,099 in 2014 to \$196,148 in 2015. As mentioned above, Avista is not decreasing overall low income funding, it is simply categorizing more funding as electric. The Community Action Partner (CAP) agencies (which deliver the low income programs) may spend their annual allocated funds on either electric or natural gas efficiency measures at their discretion.

Natural Gas DSM Savings. Avista is projecting a 5 percent decrease in its projected year-over-year savings acquisition, decreasing from 637,042 therms to 602,011 therms. The table below summarizes projected 2014 and 2015 natural gas savings by program.

Projected Gas Savings (therms)	2014	2015	2015 Change
Residential	212,936	291,650	37%
Non-Residential	102,760	64,477	-37%
Site Specific	218,215	216,586	-1%
Low Income	18,426	29,298	60%
Opower	84,704	0	-100%
Total	637,042	602,011	-5%

Unlike Avista's electric target which is established by order on a biennial basis, Avista's natural gas target is an annual, non-binding target that is established in the conservation potential assessment of the company's most recent IRP. Avista's 2015 natural gas conservation target is 1,287,000 therms. Given Avista's projected acquisition of 602,011 therms in 2015, the company will fall substantially short of its target. This mismatch between CPA-generated achievable potential and business planning acquisition is addressed in the following section.

The changes in year-over-year savings expectations are relatively minor. The 100 percent decrease in Opower savings is due to the expectation that all savings will have occurred in 2014 and no incremental savings will be achieved in 2015.

The UCT benefit-to-cost ratio for Avista's Washington natural gas portfolio is projected to be 1.16 for 2015.

Conservation Potential Assessment (Natural Gas)

Avista filed its natural gas Conservation Potential Assessment (CPA) on August 29, 2014, with its 2014 IRP in Docket UG-131621. Typically, a CPA informs the company on the quantity of cost-effective conservation savings that is achievable in its service territory. The company will then design an annual portfolio in pursuit of all cost-effective conservation which should be in alignment with the annual, pro rata level of achievable conservation in the CPA. However, while

Avista's CPA within the IRP determined the achievable potential for 2015 to be 1,287,000 therms, Avista's 2015 Business Plan projects to achieve only 602,011 therms in 2015.

It appears that this misalignment stems from the difference between the customer participation assumptions in the CPA and the expected customer participation used for business planning under a UCT cost-effectiveness metric. Under a UCT cost-effectiveness metric, the relatively high personal expense necessitated by a relatively low incentive level (as compared to incentives under a TRC) will contribute to lower participation levels. However, the CPA did not take this effect into consideration when estimating Avista's achievable potential. Therefore, staff believes that the expected acquisition in the company's 2015 Business Plan is a much more accurate calculation of achievable potential in 2015 than the pro rata level of achievable potential in the CPA, and represents a close approximation to what would have been the achievable potential in the CPA if the CPA had accounted for the effect of lower incentive levels.

Staff reminds Avista here of the commission's preference for use of a properly balanced TRC test when evaluating the cost effectiveness of utility conservation portfolios.^[1] Staff appreciates Avista's continued dedication to the creation of a cooperative body to evaluate natural gas efficiency programs regionally. Such a cooperative body will help our regional utilities to identify and quantify the non-energy benefits associated with natural gas conservation measures which will, in turn, aid in the development of a fully-balanced TRC test.

Conclusion

Avista has developed its electric portfolio to cost effectively meet its biennial conservation target. Therefore staff recommends that the commission take no action, acknowledging timely receipt of the 2015 Demand-Side Management business plan on October 31, 2014, in Docket UE-132045. Deficiencies in Avista's natural gas Conservation Potential Assessment should be addressed in the company's ongoing Integrated Resource Planning (IRP) Technical Advisory Group process.

^[1] *Washington Utilities and Transportation Commission*, Docket UG-121207, Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs (October 9, 2013) at ¶ 35.