Agenda Date: December 20, 2017
Item Number: D8

Docket: UG-171159
Company: Cascade Natural Gas Corporation

Staff: E. Cooper Wright, Regulatory Analyst

Recommendations

Take no action, acknowledging timely receipt of the 2018 Annual Conservation Plan submitted on December 1, 2017, in Docket UG-171159.

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 December 1, 2017, Cascade timely filed its 2018 Conservation Plan in Docket UG-171159.

On March 16, 2017, the commission acknowledged Cascade's 2017 conservation plan. However, during the plan's review by staff and Public Council, several concerns were raised focusing on how the company developed its conservation potential. To assuage those concerns, the company agreed to take specific steps that would improve their conservation program for future filings.[2] Cascade's progress in the intervening months have met staff's expectations and a description is included below.

Cascade Natural Gas serves approximately 205,000 customers in smaller, rural communities in western and central Washington, including service to the following counties: Adams, Benton, , Chelan, Clark, 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 Conservation Plan Review Progress. With the 2016 Conservation Plan acknowledgement, the company agreed to a schedule of steps to change the way they develop a conservation potential assessment (CPA) and how it fits within the integrated resource planning (IRP) process. The first step was completed earlier this year when the company issued an RFP for a CPA to replace the company's TEA-Pot Model. AEG was the winning bidder, and is currently working with Cascade to build a comprehensive model that utilizes the Northwest Power and

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[1] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04, ¶10 (July 7, 2016).
[2] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-161253, Open Meeting Memo Table 3 (March 16, 2017).

Conservation Council's four-step methodology for calculating conservation potential. After completion, the new model will be available for the 2019 Conservation Plan cycle.

The next step was completed on December 11, 2017, when a work plan for the 2018 IRP was submitted to staff. This plan outlined IRP work for the next twelve months and scheduled dates for five IRP advisory group meetings. The remaining steps include finalizing a CPA and calculating an economic potential[3] within the IRP. The most immediate implication of this process is that no reliable CPA exists to inform a rigorously supported conservation target for 2018.

Natural Gas Conservation Budget. Cascade proposes a substantial 36 percent increase in its natural gas conservation budget from 2017 to 2018. Table 1 summarizes the budgets by expense category.

Table 1

Natural Gas Program Budgets	2017 Budget[4]	2018 Budget	2018 Change
Incentive Payments			
Residential	$891,663	$1,523,459	71%
Non-Residential	$582,149	$1,021,089	75%
Low-income	$385,000	$190,000	-51%
Non-Incentive Expenses			
Labor	$345,000	$336,089	-3%
Outreach	$174,500	$160,800	-8%
Third Party	$800,000	$1,080,000	35%
Other	$239,411	$105,611	-56%
Excluded Non-Incentive Expenses			
NEEA	$313,174	$452,285	44%
Software Implementation	$35,000	$10,000	
Annual Software Fees		$150,000	
CPA & Model Development		$70,000	
Total	**$3,765,897**[5]	**$5,089,333**	**36%**

Encouragingly, the budget increase is mostly allocated to conservation incentive payments. Combined, the residential and non-residential programs receive over one million dollars more in this plan as compared to last year. Low income is allocated less funding, but the reduction is commensurate with reduced expectations as participation has been gradually decreasing. Unlike

[3] The economic potential will serve as the goal for the company's 2019 Conservation Plan.
[4] *2017 Washington Conservation Plan,* Docket UE-161253, CNGC 2016 Conservation Plan (December 14, 2015), Table 1.
[5] *Id*.

the two former programs, the low-income program budget is dependent upon participation and should participation exceed expectations the company will adjust spending to meet demand.

About a quarter of the budget increase is allocated to non-incentive expenses. Labor and outreach expenses for this plan are largely static, but the $280,000 increase in third party funding is intended to improve outreach for the commercial program. The commercial program has consistently lagged behind expectations and, with consultation from the advisory group, the company has negotiated with Lockheed Martin to increase visibility. That increased profile could include billboards, commercial-focused radio spots, YouTube advertising, video case studies and social media.

The remaining costs are due to self-administering the residential conservation program and Northwest Energy Efficiency Alliance (NEEA) contributions. Cascade is a principle participant of the NEEA natural gas 5-year pilot program and their contributions to that program are on an annually increasing schedule. Next year the NEEA budget will be 21 percent higher than this year.

The company projects that the cost effectiveness for this plan will result in a Total Resource Cost (TRC) ratio of 1.6 and a Utility Cost Test (UCT) ratio of 1.7.

Natural Gas Conservation Savings. Cascade projects a 27 percent decrease in its year-over-year savings acquisition, decreasing from 854,876 therms to 616,267 therms. Table 2 compares the 2017 and 2018 natural gas savings by program.

Table 2

Projected Gas Savings (therms)	**2017**	**2018**	**Change**
Residential	323,878	238,627	-26%
Low-income	15,000	5,000	-67%
Non-residential	515,998	377,640	-27%
Total	**854,876**	**616,267**	**-27%**

Table 2 is a typical comparison conducted by staff when reviewing conservation plans. In each plan, the new year is measured against the previous year to gauge how the program is developing. However, as mentioned above, the 2017 conservation plan used the now-discarded TEA-Pot model, and plans for a more appropriate conservation potential in 2019 are underway. The 2018 Conservation Plan, then, is the bridge that links the two eras. These issues make a year-to-year comparison a less useful method of assessing the new plan’s goal.

To link the TEA-Pot model and the CPA due in late 2018 for the IRP, Cascade consulted their conservation advisory group on possible paths forward. Few alternatives were identified so, lacking a better alternative, the company settled on reusing the TEA-Pot model with significant changes. The company increased the life span of some measures, reassigned adoption curves for others, shifted some incremental cost assignments, and adjusted incentive levels to match tariff changes from earlier in the year. These changes were warranted, but it is not possible to be confident in any target set by TEA-Pot.

To corroborate the augmented TEA-Pot target and gain confidence that the company is pursuing conservation that is cost effective, reliable and feasible, staff reviewed the average annual conservation achieved by the company. Since 2008, the company has averaged 563,600 therms per year. Using the historical conservation achievement average supports the augmented TEA-Pot model and indicates that the 2018 goal of 616,267 therms is a fitting estimation. However, this evaluation is only acceptable to staff for this specific set of circumstances and staff expects a goal supported by a more robust analysis next year. Lastly, when it is available, Cascade plans to compare this 2018 plan with one from the new model and share the results during an advisory group meeting.

In Review. While their potential assessment process is in transition, it is important that the company adheres to other elements of a prudent conservation program. The company has done that by scheduling four conservation advisory group meetings in 2018 to provide a venue for stakeholder involvement and by interacting with efficiency organizations like Oak Ridge National Laboratories and NEEA. Further, the company has exhibited adaptive management by increasing conservation incentives this past spring and participating in the Gas Technology Institute (GTI) Emerging Technology Program. However, one avenue for growth is for Cascade to be more collaborative with neighboring utility conservation programs. On balance, staff is satisfied that this plan is in the public interest.

Conclusion

Take no action, acknowledging receipt of the 2018 Annual Conservation Plan filed on December 1, 2017, in Docket UG-171159.