Agenda Date: August 9, 2018
Item Numbers: A4 and A5

Dockets: UE-152076 and UG-152077
Company: Avista Corporation

Staff: Kathi Scanlan, Regulatory Analyst
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Recommendation

Issue an Order in Docket UE-152076 finding that:

(1) Avista Corporation has complied with reporting requirements pursuant to WAC 480-109-120 and RCW 19.285.070.
(2) Avista Corporation has complied with Order 01 in Docket UE-152076.
(3) Avista Corporation has achieved 139,450 megawatt-hours of conservation during the 2016-2017 biennium.
(4) Avista Corporation has applied 3,631 megawatt-hours of conservation during the 2016-2017 biennium towards satisfying its decoupling conservation commitment.
(5) Avista Corporation has achieved 63,193 megawatt-hours of excess conservation during the 2016-2017 biennium.

Take no action in Docket UG-152077, thus acknowledging the company's compliance with UG-121026 and UG-110877.

Discussion

On June 1, 2018, Avista Corporation (Avista or company) filed its 2016-2017 Biennial Conservation Report (BCR or report) with the Washington Utilities and Transportation Commission (commission), as required by Order 01 in this docket, RCW 19.285.070(1), and WAC 480-109-120(4).

Natural gas conservation goal

As Avista's electric and natural gas conservation programs are operated as a single, combined conservation portfolio; the company also submits its natural gas planning and reporting documents along with the electric filing requirements. As a result, Avista's BCR is cross-docketed in Dockets UE-152076 and UG-152077. Avista's natural gas goal is non-binding and includes no additional commitment for decoupling. The company's *Impact Evaluation of Washington Natural Gas 2016-2017 Energy Efficiency Programs* indicates that the company exceeded its combined 2016 and 2017 natural gas conservation business plan targets of 1,187,963 therms (567,653 in 2016 and 620,310 in 2017), achieving a total of 1,669,374 therms

savings, which excludes the impact of fuel conversions.[1] Avista calculates the total portfolio negative therms impact of fuel conversions for the biennium as (911,874).

In 2017, Avista achieved 1,046,356 therms of natural gas savings, 169 percent greater than the target, with total expenditures of $4,281,770, 123 percent more than planned. [2]

Adjustments to claimed electric savings

Avista's initial report indicated that the company had achieved 141,331 megawatt-hours of savings during the 2016-2017 biennium and had exceeded its biennial target of 72,626 megawatt-hours, including the company's decoupling commitment.[3]

With the addition of generation and distribution savings, Avista initially reported total Washington electric savings of 141,331 MWh. During staff's review of electric savings, it became clear that Avista needed to revise its BCR. Avista incorrectly categorized four (4) projects under the site-specific program as EIA-eligible savings projects—when they were undeniably site-specific fuel conversion projects. Since the first order issued under the EIA, Avista has been expected to hold its fuel conversion program separate from its conservation program.[4] After receiving guidance from staff, the company agreed to back-out the four ineligible non-residential fuel conversion project savings, which totaled 1,881 MWh.

At the request of staff, on July 24, 2018, Avista refiled its BCR and further adjusted its savings achievement and excess savings totals in-line with staff's recommendations. The company's revised report indicated that Avista achieved 139,450 megawatt-hours of savings during the 2016-2017 biennium, exceeding its total penalty target. Staff agrees with the company's savings adjustments, as shown in its revised BCR filed on July 24, 2018, totaling 139,450 MWh at a cost of $24.6 million dollars, as shown in Table 1. The overall portfolio cost-effectiveness ratio is 2.15.[5]

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[1] While Avista does not currently have a formal biennial natural gas conservation target, the 2016 annual of 567,653 therms is found on page 27 of the 2016 DSM Business Plan, filed October 30, 2015, cross-docketed in UE-152076 and UG-152077. The 2017 annual target of 620,310 therms is found in Appendix F of the 2017 DSM Business Plan, filed December 16, 2016, cross-docketed in UE-152076 and UG-152077.

[2] *Avista's 2017 DSM Annual Conservation Report & Cost Effectiveness Analysis*, Docket UG-152077, identifies that the company achieved a total resource cost (TRC) of 0.64 and a utility cost test (UCT) of 2.46 (including low-income programs) in the natural gas program, Page 13. During 2017 the fuel conversion program reported 790,176 therms of increased usage, Page 26, 36, and 42. Looking at the two programs combined would yield 256,180 therms of savings, 41 percent of the 2017 target for gas savings.

[3] *WUTC v. Avista Corporation*, Docket UE-140188, Order 05 at ¶26 (November 25, 2014).

[4] *In the Matter of Avista Corporation's Ten-Year Achievable Conservation Potential And Biennial Conservation Target Under RCW 19.285.040 and WAC 480 109 010*, Docket UE-100176, Order 01, ¶ 53 (May 13, 2010).

[5] Avista's 2016-2017 TRC ratio for the regular income portfolio is 2.2, with its low-income portfolio ratio at 0.53, with an overall portfolio cost-effectiveness ratio of 2.15. See Docket UE-152076, *Avista's 2016-2017 Biennial Conservation Report, at Page 5* (revised July 23, 2018).

Excess conservation savings

Utilities are allowed to use conservation savings achieved in excess of their biennial target (excess savings) to meet shortfalls in the next two biennia. Avista updated its excess savings total in its revised BCR.[6]

Table 1: Actual 2016-2017 Results vs. Biennial Conservation Plan

	Savings (MWh)	**Expenditures[7]**
Actual 2016-2017 Results	139,450	$24,583,483
Biennial Conservation Plan *(including EIA penalty target and 5% decoupling commitment)*	76,257	$19,866,000[8]
Excess savings achieved	63,193	

In keeping with current practice and with guidance provided by the commission in Order 01 of UE-152076, targets and savings figures do not include savings achieved through the Northwest Energy Efficiency Alliance (NEEA).[9] Staff calculated Avista's excess savings by subtracting both the EIA penalty target and the decoupling penalty target from the total savings achieved by the company. This results in a slightly lower excess amount than Avista calculated, as the company did not subtract the amount of savings applied to the decoupling target. Staff maintains that counting savings towards both the decoupling target and as excess savings would constitute double counting.

Since Avista achieved savings far beyond both the EIA penalty target and the decoupling penalty target, additional excess savings will be available to meet a potential shortfall in upcoming biennia, as shown in Table 2.

[6] RCW 19.285.040(c)(i)"Except as provided in (c)(ii) and (iii) of this subsection, beginning on January 1, 2014, cost-effective conservation achieved by a qualifying utility in excess of its biennial acquisition target may be used to help meet the immediately subsequent two biennial acquisition targets, such that no more than twenty percent of any biennial target may be met with excess conservation savings."
[7] Excludes expenses related to fuel conversion programs and NEEA.
[8] Docket UE-152076 Order 01 at 2.
[9] In comments on Avista's 2018-2019 Biennial Conservation Plan, filed in Docket UE-171091 (December 1, 2017) Staff recommended that the EIA conservation target should include all potential savings, including market transformation, and should include savings achieved through all pursued venues. This method would recognize all savings that were purchased by ratepayers during the biennium, and would more accurately reflect the achievement reported on a statewide basis by increasing consistency between investor-owned and consumer-owned utilities.

Table 2: Excess Savings (MWh) Available in Future Biennial Periods

	Excess available for 2016-2017 shortfall (MWh)	Excess available for 2018-2019 shortfall (MWh)	Excess available for 2020-2021 shortfall (MWh)	Excess available for 2022-2023 shortfall (MWh)
2014-2015	2,489	2,489	-	-
2016-2017	-	63,193	63,193	-
Total Available Excess	2,489	65,682	63,193	-

Trend of exceeding savings targets

In the last four biennia, Avista consistently exceeded its penalty targets.[10] For 2016-2017, Avista's total penalty target is 76,257 megawatt-hours, yet the company amassed a total of 139,450 MWh savings in conservation program savings, achieving 183 percent of their entire penalty target. Avista's non-residential lighting program was the primary driver for its conservation program savings, leaving the company with *significant* excess savings to carryover to future biennia.

As required by rule, staff acknowledges that the company should pursue all cost-effective conservation throughout the biennium, regardless of its target. However, the company must ensure its target is reasonable and defensible year-over-year. For future BCR's, staff recommends the company include a comparison section with trend and variance analysis pertaining to actual versus target savings achievement.

Staff will continue working with the company to ensure its conservation goals are commensurate with backward-looking actual savings and prospective savings achievement. In conjunction with Avista's Conservation Advisory Group (Advisory Group), staff recommends Avista dedicate future Advisory Group discussions on its conservation potential assessment (CPA) and target-setting methodology for the next biennium.

[10] Docket UE-132045 Order 03 at 4; Docket UE-111882 Order 02 at 4; Docket UE-100175 Order 03 at 11.

Table 3. Avista's biennial conservation targets and savings achieved

	2014-2015	2016-2017	2018-2019
Total penalty target (MWh)[11]	68,204	76,257	84,274
Total conservation achieved	70,693	139,450	n/a
Excess achieved	2,489	65,682	n/a
Biennia eligible to use excess savings for shortfall	2016-2017 and 2018-2019	2018-2019 and 2020-2021	2020-2021 and 2022-2023

In its comments, filed on July 19, 2018, staff noted difficulty untangling Avista's fuel conversion projects from Avista's report. While the fuel conversion program is not electric conservation, staff takes this opportunity to update the commission on the comparison of the fuel conversion program budget to actual spending. Avista exceeded its budgeted expenditures for the company's residential fuel conversion program. Planned expenditures for the program were only $719,400 in 2017. But program expenditures exceeded budget by $2,644,115, totaling $3,363,515, nearly 5 times the initial residential budget.[12]

Most recently, the commission's general rate case order for Avista directed the company to begin the process of moving fuel conversion projects from its electric conservation rider to its natural gas conservation rider.[13] Staff is currently working with the Advisory Group on this issue and will continue meeting with the company throughout the summer and the fall of 2018, culminating in a fuel conversion plan submitted to the commission no later than October 26, 2018.

Staff also takes this opportunity to highlight Avista's participation in the Small-Medium Business Program, which targets hard-to-reach small business customers. Avista extended its initial 2015 contract with SBW Consulting (SBW) through 2017, continuing its focus on hard-to-reach markets. In addition, Avista also hired SBW to perform the company's new Multifamily Direct Install Pilot Program. This pilot was specifically designed to target a hard-to-reach segment of rental customers living in complexes of four or more units. Staff is pleased that Avista is targeting this demographic, which has been underserved in Avista's region.

[11] Total penalty target includes five percent decoupling commitment when applicable and does not include adjustments to the target such as NEEA savings. Targets established in dockets UE-132045, UE-152076, and UE-171091.
[12] For the 2016-17 biennium the planned budget for residential fuel conversion was $2,550,040, actual expenditures totaled $6,497,105. That is $3,947,065, or 2.5 times the initial budget for the biennium.
[13] *Wash. Utils. & Transp. Comm'n v. Avista Corporation*, Dockets UE-170485 and UG-170486, cons, Order 07, ¶ 285 (Apr. 26, 2018).

Stakeholder Comments

In addition to staff,[14] the NW Energy Coalition and Renewable Northwest, filed joint comments on July 19, 2018. The comments centered on two issues: Avista's conservation target and fuel conversion information. The parties noted that Avista has a history of, "handily achieving its target shown in this and past filings," and encourages the company to aim high in setting strong conservation goals, focusing future efforts on residential weatherization and HVAC. Similar to staff's comments above, the parties also noted that Avista's report was presented in such a way that it was hard to distinguish its cost-effective acquisition of conservation from its fuel conversion efforts.

Conclusion

In its review, staff concluded that the company has met its reporting requirements, complied with the commission's target-setting order and associated conditions in this docket, exceeded its biennial target, and responded appropriately to staff's requests for additional analysis and savings adjustments. Therefore, staff recommends that the commission issue an order in Docket UE-152076, as described in the recommendation section above.

[14] Commission Staff Comments Regarding Electric Utility Conservation Achievements Under The Energy Independence Act, RCW 19.285 And WAC 480-109 (2016-2017 Biennial Conservation Reports) (July 19, 2018).