

Agenda Date: December 13, 2018
Item Numbers: A1, A2 and F17

Dockets: **UE-171087**
 UG-171088
 UE-180954

Company: **Puget Sound Energy**

Staff: Andrew Rector, Regulatory Analyst

Recommendation

Take no action, acknowledging timely receipt of the 2019 Annual Conservation Plan on November 15, 2018, in Dockets UE-171087 and UG-171088, and allowing the tariff revisions to Schedule 258 filed November 15, 2018, in Docket UE-180954 to take effect on January 1, 2019, by operation of law.

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 2018-2019 biennial electric conservation target is 448,109 MWh and 2018-2019 biennial natural gas target is 6.2 million therms.³

On November 15, 2018, PSE timely filed its 2019 Annual Conservation Plan (ACP or Plan) with the Washington Utilities and Transportation Commission under Dockets UE-171087 and UG-171088. 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.

Also on November 15, 2018, PSE filed revisions to its Schedule 258 tariff sheets. Schedule 258 governs the company's Large Power User Self-Directed Program, through which PSE works with large power users to design and implement conservation projects. Funding for this program operates on a four-year cycle, with the current cycle ending December 31, 2018. The revisions update the program dates to reflect the 2019-2022 program cycle.

PSE serves approximately 1.1 million electric customers in Island, King, Kitsap, Kittitas, Pierce, Skagit, Thurston, and Whatcom counties and approximately 825,000 natural gas customers in King, Kittitas, Lewis, Pierce, Snohomish, and Thurston counties.

¹ *In the Matter of Puget Sound Energy Report Identifying Its 2018-2019 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-120*, Docket UE-171087, Order 01 (January 12, 2018).

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 2018-2019 Electric Biennial Conservation Target Under RCW 19.285.040 and WAC 480-109-120*, Docket UE-171087, Order 01 (January 12, 2018).

Discussion

Electric Conservation Budget. PSE proposes a 15.4 percent decrease in its annual electric conservation budget, decreasing from \$99.1 million to \$83.8 million. The table below summarizes the 2018 and 2019 budgets by program.

| Electric Program Budgets | 2018 Budget | 2019 Budget | 2019 Change |
|---------------------------------|---------------------|---------------------|--------------------|
| Residential | \$39,192,947 | \$37,607,325 | -4.0% |
| <i>Low-income</i> | <i>\$4,005,025</i> | <i>\$4,688,441</i> | <i>17.1%</i> |
| Commercial | \$43,164,049 | \$29,294,509 | -32.1% |
| Pilots | \$84,000 | \$244,130 | 190.6% |
| Regional Programs | \$5,200,000 | \$5,200,000 | 0% |
| Portfolio Support | \$6,616,520 | \$7,238,304 | 9.4% |
| Research and Compliance | \$3,755,486 | \$3,117,702 | -17.0% |
| Other Electric Programs | \$1,063,890 | \$1,091,698 | 2.6% |
| Total | \$99,076,892 | \$83,793,668 | -15.4% |

The significant budget decrease from 2018 to 2019 is driven primarily by the company's Large Power User Self-Directed Program. This program operates on a four-year cycle. The current cycle ends December 31, 2018, with 2019 representing the first year of a new cycle.

Historically, the company has seen little savings accumulate in the first year of a new cycle, as customers focus on developing projects, with savings accumulating later in the cycle. The program's budget reflects this pattern, as the company is expected to spend just \$1.9 million on the program in 2019, compared to \$15.7 million in 2018.

In the residential sector, revised unit energy savings (UES) values and market saturation has rendered several home appliance conservation measures not cost effective, and the company has adjusted its incentives and program offerings accordingly. In its 2018-2019 biennial conservation plan, PSE inadvertently omitted the costs associated with its home energy report program (\$325,000) and customer awareness tools initiative (\$600,000; reported under "Portfolio Support"); PSE has corrected these omissions in the ACP budget. Finally, the company shifted some of its residential program evaluation work that had originally been planned for 2019 into 2018.

Electric DSM Savings. PSE projects an 18.7 percent decrease in its projected year-over-year savings acquisition, decreasing from 281,329 MWh to 228,772 MWh. The table below summarizes projected 2018 and 2019 electric savings by program.

| Projected Electric Savings (MWh) | 2018 | 2019 | 2019 Change |
|---|----------------|----------------|--------------------|
| Residential | 121,209 | 100,814 | -16.8% |
| <i>Low-income</i> | <i>2,066</i> | <i>1,956</i> | <i>-5.3%</i> |
| Commercial | 146,003 | 114,408 | -21.6% |
| Pilots | 840 | 750 | -10.7% |
| Regional Programs | 13,277 | 12,800 | -3.6% |
| Total | 281,329 | 228,772 | -18.7% |

The revision in UES values mentioned above has impacted savings estimates for many measures offered through PSE's residential conservation program, including home appliances and web-enabled thermostats (WET). While the company expects a reduction in total savings from home appliances, it anticipates an increase in overall savings from WET installations, which have proven very popular with customers. In response, PSE has adaptively managed its WET initiative by expanding the number of programs that offer web-enabled thermostats. The company has also adaptively managed the realignment of the multifamily new construction program, which starting in 2019 will offer incentives based on a whole-building approach instead of individual measures.

Pilots. PSE will manage one pilot program in 2019. The company began its pay for performance pilot in 2018, but has seen little uptake thus far, with only one customer enrolled in the program. The company plans to broaden its outreach strategy to increase participation, but has also cut its expectations for 2019. Meanwhile, the company has converted its 2018 commercial upstream pilot to an ongoing commercial midstream program in 2019.

Conservation Voltage Reduction (CVR). In its comments on PSE's 2016-2017 biennial conservation report, staff requested that the company work with its conservation advisory group to improve the implementation of its CVR program.¹ PSE has subsequently completed three CVR projects in 2018, with three additional projects in progress and expected to be completed in late 2018 or early 2019 (with savings being claimed in 2019). The company is also planning to increase the rate at which it completes CVR projects, in conjunction with its advanced metering infrastructure (AMI) and substation automation projects.

Hard-to-Reach Markets (HTR). In its "Seventh Northwest Conservation and Electric Power Plan," the Northwest Power and Conservation Council identified several HTR markets that typically participate in conservation programs at lower rates than other sectors.² One of these markets is manufactured homes. While PSE has numerous conservation programs aimed at the manufactured home sector, staff continues to work with PSE to adaptively manage its manufactured home conservation efforts. Staff has recently suggested that the company take two specific actions directed at this sector: discuss its manufactured home conservation efforts with

¹ See Docket UE-152058, "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).

² Northwest Power and Conservation Council, "Seventh Northwest Conservation and Electric Power Plan," 17-4.

its Conservation Resource Advisory Group (CRAG) and consider any suggestions for improvement from CRAG members, and consider examination of the manufactured home sector in its program evaluations. PSE has agreed to the first suggestion and will consider the feasibility and applicability of the second.

The benefit-to-cost ratio for PSE's electric portfolio under the total resource cost test (TRC) is projected to be 1.4 for 2019.

Natural Gas DSM Budget. PSE proposes a 9.5 percent increase in its annual natural gas conservation budget, increasing from \$14.5 million to \$15.9 million. The table below summarizes the 2018 and 2019 budgets by program.

| Natural Gas Program Budgets | 2018 Budget | 2019 Budget | 2019 Change |
|------------------------------------|---------------------|---------------------|--------------------|
| Residential | \$7,819,367 | \$7,961,748 | 1.8% |
| <i>Low-income</i> | <i>\$289,079</i> | <i>\$656,080</i> | <i>127.0%</i> |
| Commercial | \$3,201,280 | \$3,929,174 | 22.7% |
| Pilots | \$11,925 | \$10,000 | -16.1% |
| Regional Programs | \$2,006,136 | \$2,434,244 | 21.3% |
| Portfolio Support | \$1,040,727 | \$1,219,332 | -17.2% |
| Research and Compliance | \$456,631 | \$356,012 | -22.0% |
| Total | \$14,536,066 | \$15,910,511 | 9.5% |

PSE's 2019 natural gas conservation budget is partially driven by the continued low natural gas prices and the reduction of certain UES values. The natural gas low-income weatherization program budget is significantly larger due to the reinstatement of a community partner working in the multifamily sector. Otherwise, the drivers behind the company's natural gas conservation budget are similar to the electric conservation budget, including fixing the omission of home energy report and customer awareness tool funding.

Natural Gas DSM Savings. PSE projects a 1.0 percent increase in its projected year-over-year savings acquisition, increasing from 3,115,728 therms to 3,147,391 therms. The table below summarizes projected 2018 and 2019 natural gas savings by program.

| Projected Gas Savings (therms) | 2018 | 2019 | 2019 Change |
|---------------------------------------|------------------|------------------|--------------------|
| Residential | 1,805,369 | 1,584,254 | -12.2% |
| <i>Low-income</i> | <i>9,770</i> | <i>16,080</i> | <i>64.6%</i> |
| Commercial | 1,302,859 | 1,561,137 | 19.8% |
| Pilots | 7,500 | 2,000 | -73.3% |
| Regional Programs | n/a | n/a | - |
| Total | 3,115,728 | 3,147,391 | 1.0% |

The reductions in UES values discussed in the electric conservation section are expected to impact natural gas conservation as well. For web-enabled thermostats, the company expects the

UES value reduction to outweigh an increase in expected units installed, resulting in overall lower natural gas savings. PSE anticipates an increase in natural gas savings from showerheads after major big-box retailer added a showerhead model to its inventory.

The TRC benefit-to-cost ratio for PSE's natural gas portfolio is projected to be 1.3 for 2019, including the budgeted expenditures for the NEEA natural gas market transformation study.

Schedule 258 Revisions. Schedule 258 governs the company's Large Power User Self-Directed Program, through which PSE works with large power users to design and implement conservation projects. Funding for this program operates on a four-year cycle, with the current cycle ending December 31, 2018. The proposed revisions to Schedule 258 make no substantial change to the program's operations. Rather, they are programmatic changes that do not affect rates. The revisions update the current cycle dates to reflect the 2019-2022 program cycle. Staff has reviewed these changes and finds that they are appropriate.

Conclusion

Take no action, acknowledging timely receipt of the 2019 Annual Conservation Plan on November 15, 2018, in Dockets UE-171087 and UG-171088, and allowing the changes to Schedule 258 filed November 15, 2018, in Docket UE-180954 to take effect on January 1, 2019, by operation of law.