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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF AVISTA CORPORATION'S APPLICATION TO REVISE NATURAL GAS EFFICIENCY PROGRAMS AND RIDER ADJUSTMENT, SCHEDULES 190 AND 191.	**CASE NO. AVU-G-12-03** **AVU-G-12-06** **COMMENTS OF THE COMMISSION STAFF**

The Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Karl Klien, Deputy Attorney General, in response to the Notice of Application and Notice of Modified Procedure (Order No. 32618) submits the following comments.

BACKGROUND

On June 29, 2012, Avista Corporation dba Avista Utilities applied to the Commission for an Order allowing Avista to revise Schedule 190, "Natural Gas Efficiency Programs," to suspend its natural gas demand-side management (DSM) programs. *See* Application in Case No. AVU-G-12-03. The Natural Gas Efficiency Programs described in Schedule 190 are funded from Schedule 191 (the Energy Efficiency Rider Adjustment) revenues. Consequently, on July 31, 2012, Avista also applied for an Order allowing it to decrease its Schedule 191 rates. *See* Application in Case No. AVU-G-12-06.[1]

Although Avista filed AVU-G-12-03 and AVU-G-12-06 as separate cases, Avista and Commission Staff subsequently determined that these related cases should be processed together. Consequently, the Company changed the requested effective date to October 1, 2012 from the September 1, 2012 effective date originally requested in the Company's AVU-G-12-03 Application to coincide with the effective date requested in Case No. AVU-G-12-06. Accordingly, the Company now asks that both cases be processed under Modified Procedure, and that the changes requested in both cases take effect on October 1, 2012.

Application in Case No. AVU-G-12-03

With the Application in Case No. AVU-G-12-03, Avista seeks to revise Schedule 190 to suspend its natural gas DSM programs. Avista claims it must revise Schedule 190 due to new natural gas avoided costs that were released as part of its integrated resource planning (IRP) process. *See* Application in Case No. AVU-G-12-03 at 1. Avista says the new avoided natural gas costs are about 50 percent lower than existing avoided costs and that these lower avoided costs render the natural gas energy efficiency portfolio cost-ineffective going forward. *Id.* at 2.

Avista says it typically re-files avoided costs *after* it releases its natural gas IRP, which is set to be released on August 31, 2012, but it is opting to begin phasing out the natural gas DSM programs now because it already knows about the lower avoided costs. *Id.*

Avista says it tested whether different DSM portfolio calculations and avoided cost modifications might yield a cost-effective DSM portfolio under the Total Resource Cost (TRC) test. *Id.* However, the Company maintains that no tested scenario resulted in a cost-effective DSM portfolio.[2] *Id.* at 3. Avista states that it will continue evaluating the natural gas DSM portfolio and will move to return all or part of the natural gas DSM portfolio to its overall energy-efficiency strategy if natural gas costs, technologies, or delivery methods change to make the portfolio cost-effective. *Id.* at 3.

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[1] Avista filed a single, combined Application in Case Nos. AVU-G-12-06 and AVU-E-12-07.

[2] Major tested scenarios involved adding a carbon cost adder for 2013-2019; including a natural gas distribution capacity cost value; interpreting the TRC test on a gross rather than net basis; re-categorizing program net-to-gross ratios and realization rates; re-allocating non-incentive utility costs across programs. *Id.* at 2.

Avista says its proposed tariff revision would suspend its natural gas DSM programs while accounting for its outstanding contractual obligations. The Company's proposed tariff revisions address its three natural gas DSM portfolios as follows:

1. Site Specific Programs. Avista will honor all agreements that are fully executed before September 1, 2012. Avista also will honor natural gas energy efficiency projects it knows about before September 1, 2012, even if those projects lack fully executed contracts, if Avista already has analyzed a proposed natural gas energy efficiency measure. If Avista has not already analyzed such a measure, then customers seeking incentive funding must submit a written (or e-mailed) overview of the proposed project to Avista by September 1, 2012. Avista maintains that projects must have material documentation by October 15, 2012, and an energy efficiency agreement must be signed by January 15, 2013. *Id.*

2. Residential and Non-Residential Prescriptive Rebate Programs. Avista customers who qualify for these programs will be eligible for payment if they send Avista all required rebate forms and documentation postmarked by November 1, 2012. Requests postmarked after November 1, 2012, will be denied payment. *Id.*

3. Limited Income Programs. Avista will honor all existing, 2012 Community Action Partnership contracts with natural gas incentives, but it will not fund any more natural gas measures as of January 1, 2013. *Id.*

Avista states that in a future electric efficiency filing, it will propose increasing incentives to convert end-use equipment from electricity to natural gas. Avista says this increase would benefit customers by encouraging efficient fuel-use, supporting the trade ally network, and keeping the efficiency message in the marketplace. *Id.* at 4.

Application in Case No. AVU-G-12-06

With its Application in Case No. AVU-G-12-06, Avista requests authority to adjust the DSM portion of Schedule 191 ("Energy Efficiency Rider Adjustment"). The Company maintains that this will reduce billed natural gas rates by 2.6 percent. Application in Case No. AVU-G-12-06 at 1.

Avista states that for 2010-2011, its energy efficiency programs and measures resulted in 734,056 therms of natural gas savings (or 54 percent of the IRP goal) in Idaho. *Id.* at 2.

Avista also states that the revenue expected to be generated by the Schedule 191 surcharge at its present level would exceed the requirements necessary to fund the DSM activities during the next 12-month cycle, including adjustments for the disposition of rider imbalances. Through June 2012, Avista's Idaho natural gas DSM tariff rider balance was $1,355,023 (Company owes ratepayer). *Id.* at 3.

The Company says its proposed timeline to suspend its natural gas DSM operations adequately notifies customers and honors existing in-process and contracted commitments while meeting the Company's stewardship obligations for customer funds. The Company estimates a total expenditure of $1,127,000 from July 1, 2012, until the last contractual obligation has been met. The Company says the balance of the natural gas DSM tariff rider at the close of June 2012, is $1,335,023. *Id.* at 3.

The Company projects that the existing natural gas tariff rider balance and the revenues projected to be acquired through the end of September 2012, is sufficient to fully fund 132 percent of the total future expenditures based upon the anticipated timeline for suspending natural gas DSM operations. The Company thus asks to adjust its tariff rider rate to $0.00000 per therm. The Company says that as natural gas DSM operations cease, it will work with Staff to refund any remaining tariff rider balances to customers based upon actual natural gas DSM expenditures. *Id.* at 4.

The Company revised its reported cost-effectiveness from its 2011 natural gas DSM portfolio with TRC and Program Administrator Cost (PAC) ratios of 0.85 and 2.84. *Id.* at 6-7.

The Company says the proposed reduction to Schedule 191 rates and charges will decrease the Company's estimated annual revenue by $1,737,000 (a decrease of 2.6 percent of billed rates). The Company states that the proposed natural gas rate decrease will have an average monthly bill impact to residential customers using 60 therms of $1.61. *Id.* at 7.

STAFF REVIEW

Staff recognizes that several factors, including the slower evolution and passive nature of natural gas DSM technologies, the absence of generation infrastructure, and the ability to store fuel, make providing cost-effective natural gas DSM significantly more difficult than electric DSM. The recent reduction in natural gas commodity prices resulted in a 50 percent decrease in the avoided cost of natural gas programs. For natural gas DSM programs that were only marginally cost-effective before the avoided cost reduction, it is not surprising that they are shown to be not cost-effective today.

Staff thoroughly reviewed Avista's cost-effectiveness calculations including its attempts to construct a more cost-effective gas DSM portfolio under the reduced avoided costs. Even under multiple and varied calculation methodologies used in an attempt to retain its gas DSM programs, Avista was unable to generate a TRC portfolio ratio greater than 0.70.

Staff agrees that the dramatic reduction in avoided costs rates prevent gas DSM from passing the TRC. In fact, the portfolio TRC ratio was only 0.51 when more traditional cost-effectiveness analysis was used. Nevertheless, Staff does not support suspending gas DSM programs based solely on the results of one cost-effectiveness perspective. Another option that Staff strongly considered was continuing natural gas DSM based on the results of the PAC rather than the TRC cost-effectiveness test. Because DSM is a resource utilities purchase in order to meet customer demand, and the PAC measures the benefits and costs that accrue to the utility and therefore its customers, a program that passes the PAC can demonstrate a cost-effective investment even if it does not pass the TRC. However, Staff's analysis shows that the PAC for Avista's existing natural gas portfolio under the new avoided costs and assuming continuation of stable program participation is at best 0.93.

During review of this case, Staff discovered that the natural gas Residential Weatherization program appeared to be cost-effective under the PAC even when reduced avoided costs were used. In exploring the possibility of maintaining this program, Staff also discovered that it is only cost-effective when Avista's fixed natural gas DSM administrative expenses are spread over a much larger portfolio of programs. Consequently, Residential Weatherization would not be cost-effective if all other gas programs were cut and it was forced to bear significantly increased administrative expenses.

Further, the cost-effectiveness calculation for the natural gas Residential Weatherization program includes *electric* kWh savings that significantly exceed the natural gas therm savings. This indicates that measures installed as part of this program may be more appropriately included in an electric DSM program. None of the remaining natural gas DSM programs were cost-effective by any measure.

Furthermore, Staff anticipates that customer demand for natural gas DSM programs will decrease as retail gas prices fall and customer bills become more affordable. Expiring federal tax credits and rebates for energy efficiency offered through the American Reinvestment and Recovery Act of 2009 (ARRA) are also expected to decrease future participation because many customers purchased energy efficiency measures sooner than they would have absent the federal incentives. Lower program participation reduces cost-effectiveness by spreading fixed overhead expenses over fewer saved therms.

Staff recognizes that suspending DSM programs during periods of reduced avoided costs will likely increase the expense of ramping up program infrastructure in the future when natural gas avoided costs rebound. If reduced avoided costs were only expected in the short-term, Staff would have considered maintaining the programs if the increased expense to rebuild the programs exceeded the cost savings of a temporary suspension. This is not the case. Industry forecasts indicate that the wholesale price of gas, which is closely linked to Avista's natural gas avoided cost, will remain near the current low prices for the foreseeable future. Under these conditions, it is more beneficial for customers to suspend cost-ineffective DSM until avoided costs increase.

During similar circumstances in 1997, Avista received Commission approval to suspend its gas DSM programs when avoided costs declined. When gas prices skyrocketed four years after the suspension, Avista successfully revived its gas DSM portfolio within a year. While the 1997 gas portfolio was significantly smaller than the Company's current offering, Staff believes that the company's experienced electric DSM department will maintain Avista's DSM infrastructure and will allow gas DSM programs to be reinstated when necessary.

As a duel-fuel utility with low natural gas avoided costs, it has become extremely cost-effective for Avista to incent electric to gas fuel conversions for space and water heat. Since conversions reduce electrical consumption, these measures are funded from Avista's electric tariff rider, which remains in place. Funding fuel conversions allows Avista to help its customers decrease their bills while retaining relationships with natural gas trade allies and industry partnerships. These continuing interactions will keep Avista connected to the natural gas efficiency industry in preparation for reimplementation of gas DSM programs when avoided costs sufficiently increase. Avista has stated that it will propose to increase incentives for fuel-conversions in a future filing.

Staff is particularly concerned with the impact of gas DSM program suspension on Avista's low income customers. While all three investor-owned utilities in Idaho fund electric low income weatherization programs, Avista is the only company that also funds weatherization measures for gas-heated homes. When gas DSM funding was previously suspended, the gas component of the low income weatherization program was virtually non-existent (no gas homes were being weatherized).

Circumstances have changed, however, and suspension of gas funding will have a significant impact on this program. Over the past five years, almost half of all homes funded under Avista's low income weatherization program were gas. In 2011, $276,170[3] (39 %) of the $700,000 authorized by the Commission for program funding was spent on gas low income weatherization. Of the 222 homes weatherized in 2011, 105 (47%) were funded under the gas portfolio.

In a separate proceeding, Case No. GNR-E-12-01, Staff is exploring solutions to the cost-effectiveness challenges of low income weatherization programs. In that case, Staff identified that while still not above a TRC ratio of 1.0, the cost-effectiveness of Avista's low income gas program improved substantially between 2010 and 2011. Additionally, a third-party process evaluation of the program identified several implementation deficiencies, which if corrected, would improve cost-effectiveness. In addition to implementation improvements, Staff is researching modifications to low income cost-effectiveness calculations to improve the accuracy of these tests.

Staff considered carving out a temporary exception to the natural gas program suspension request for the low income gas program so that these important questions could be addressed separately from decisions regarding the entire gas portfolio. However, applying the new avoided cost rate to the 2011 cost-effectiveness calculations for the low income program reveals a TRC of 0.43 and a UCT of 0.29. Even with improved implementation and the cost-effectiveness recommendations being considered for low income weatherization in Case No. GNR-E-12-01, it is extremely unlikely that this program would pass the TRC or PAC cost-effectiveness tests.

Staff therefore supports Avista's request to suspend its entire natural gas DSM portfolio. Staff believes that Avista's proposed schedule for ramping down its gas DSM activities strikes a reasonable balance between honoring current and pending contracts while minimizing expenditures on projects that are not cost-effective.

The deferral balance owed to customers in the Schedule 191 tariff rider account as of July 31, 2012 is $1,286,099. The Company will continue to collect rider revenue through September 2012, and incur additional expenses until the last contractual obligation has been met. The following table illustrates the approximate expenses the Company expects to incur and the

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[3] $276,170 includes the cost of installing weatherization and health and human safety measures, making necessary repairs related to weatherization work performed, and reimbursement of the community action agency's administrative expenses associated with projects funded by Avista. It does not include Avista's administrative costs or the cost of program evaluation, measurement and verification (EM&V) performed by Avista or third-parties.

approximate remaining deferral balance due customers once all natural gas DSM projects are completed and programs are fully suspended.

Natural Gas DSM Deferral Balance Owed to Customers as of 7/31/12	$1,286,099
Estimated August Natural Gas DSM Rider Revenue	$41,366
Estimated September Natural Gas DSM Rider Revenue	$50,537
Estimated Expenditures to Wind Down Natural Gas DSM	$(987,580)
Estimated Remaining Deferral Balance Owed to Customers	$390,422

The deferral balance subject to refund is estimated to be $390,422, excluding carrying charges at the Company's overall rate of return. Avista has not proposed in its Application a manner in which to refund the remaining deferral balance to customers, but states that it will work with Staff to determine the most appropriate method of refund once the actual natural gas DSM deferral balance is known. Staff agrees with the Company's approach to completing existing gas DSM projects, the proposed timeline for suspending gas DSM programs and the estimate of remaining deferral balance. Staff also agrees to work with the Company to assure timely credit to customers of the actual remaining deferral balance.

STAFF RECOMMENDATION

Staff recommends that the Commission approve Avista's request to suspend natural gas DSM and the associated request to decrease the natural gas tariff rider to $0.00000 per therm.

Respectfully submitted this 10th day of September 2012

Karl T. Klein
Deputy Attorney General

Technical Staff: Stacey Donohue
Donn English
Beverly Barker

i:umisc/comments/avug12.3_avug12.6kksddecmctbabnk comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10^{TH} DAY OF SEPTEMBER 2012, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. AVU-G-12-03/AVU-G-12-06, BY E-MAILING AND MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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