DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER SMITH
COMMISSIONER RAPER
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **BRANDON KARPEN**
DEPUTY ATTORNEY GENERAL

DATE: **NOVEMBER 13, 2015**

SUBJECT: **AVISTA'S APPLICATION TO RESUME ITS NATURAL GAS EFFICIENCY PROGRAMS, CASE NO. AVU-G-15-03**

On October 28, 2015, Avista Corporation dba Avista Utilities filed an Application for authority to: (1) resume natural gas energy efficiency programs and projects to residential (including low income), commercial and industrial natural gas customers under Schedule 190 (Natural Gas Efficiency Programs); and (2) fund these programs by increasing its "Energy Efficiency Rider" rates in tariff Schedule 191. Application at 1. Avista proposes that the gas DSM programs "be offered through prescriptive rebates to customer segments for eligible weatherization and high efficiency equipment measures as well as custom incentives for 27 non-residential projects." *Id.* Avista asks that the case be processed by Modified Procedure, and that new Schedule 191 Rider rates take effect on January 1, 2016.

BACKGROUND

In 2012, Avista filed and the Commission approved an Application to suspend Avista's natural gas DSM programs. In its 2012 Application, Avista advised the Commission that new natural gas costs were about 50% lower than existing avoided costs and that these lower gas costs render the "natural gas energy efficiency portfolio cost-ineffective going forward." Order No. 32650 at 1. After recently evaluating a number of cost-effectiveness tests, Avista now seeks to re-establish its gas DSM programs.

THE APPLICATION

Avista's approach to the DSM programs has changed since it suspended the program in 2012. One major change is the metric Avista is using to evaluate cost-effectiveness. The Company

claims that its historic method of measuring cost-effectiveness, the Total Resource Cost test (TRC), has a potential for bias against conservation programs. *Id.* at 2. Accordingly, in its Application, the Company instead uses the Utility Cost Test (UCT) to measure cost-effectiveness.[1]

Further, Avista also proposes three changes to its historic avoided cost methodology for natural gas:

1. Total Cost of Delivery: Avista claims that "the demand portion of Schedule 150 is a more accurate representation of the total costs to deliver natural gas from the wellhead to the customer meter, and therefore, that should be a component of the natural gas avoided cost calculation." *Id.* at 4-5. Thus, Avista is including a $2.69/MWh long term firm wheeling charge, based on the electric forward market prices of the Mid-C market hub in its avoided cost calculation. *Id.*

2. Future Carbon Cost Assumptions: Avista seeks to include future carbon costs, but states it is unable to come up with an accurate future carbon cost assumption. Avista notes that there are a range of legitimate projections of $0/metric ton to over $240/metric ton. Facing this ambiguity, the Company chose to use $10/metric ton starting in 2020 with a 3% annual escalation.

3. Discount Rate: Avista argues that the most appropriate method of measuring the cost-effectiveness of its conservation programs is its Weighted Average Cost of Capital (WACC). However, the Company also claims that the tax benefits of debt financing and inflation adjustment should also be included in any discount rate. Accordingly, Avista has moved from a nominal WACC to a real WACC in calculating its avoided cost.

Application at 4-5.

With regard to execution of the DSM programs, Avista proposes to revise Schedule 190 to "provide customers with a levelized incentive of $3.00 per first year therm savings for any project with a simple payback less than 15 years and capped 70% of the project cost. *Id.* at 8. Avista further requests the Commission approve an increase in rates and charges in Schedule 191. Avista estimates this will result in an annual revenue change of approximately $1.25 million for natural gas Schedule 191, or an increase of 1.7% in overall billed rates. The proposed rate increase will have an average monthly bill impact of $1.11 to residential natural gas customers using 61 therms.

[1] The Company uses analytical tools such as the TRC and UCT to "test" the cost-effectiveness of its DSM programs. In summary, the TRC compares program administrator costs and customer costs to utility resource savings, and assesses whether the total cost of energy in a utility's service territory will decrease. The UCT compares program administrator costs to supply-side resource costs, and assesses whether utility bills will increase. Under these tests, a program or measure is deemed cost-effective if it has a benefit/cost ratio above 1.0. In this Application, Avista explains it prefers to emphasize the UCT over the TRC when evaluating its DSM programs because the TRC "typically includes the full costs, but not the full benefits to customers because the risk reduction value of conservation and many non-energy benefits are difficult to quantify." Application at 2.

The Company's Application did not include a copy of press release(s) or customer notice, as required by IPUC Rule 125.05 ("A copy of the press release and customer notice shall be filed with the application,"). However, on November 13, 2015, Avista submitted those materials for the Commission to consider.

STAFF RECOMMENDATION

Although Staff does not object to the Company's request to process the case through Modified Procedure, Staff is concerned that there is not sufficient time to process the case and issue a final Order before January 1, 2016. Consequently, Staff recommends the Commission suspend the proposed effective date for a period of 60 days pursuant to *Idaho Code* § 61-622, or until March 1, 2016, and note that Staff will nonetheless attempt to process the Application and present the matter to the Commission for a final determination prior to January 1, 2016. Staff also recommends the Commission set a December 10, 2015, comment deadline, and a December 17, 2015, reply deadline.

Staff has communicated this schedule and the 60-day suspension with Avista, and it has no objection to this recommendation.

COMMISSION DECISION

1. Does the Commission wish to process this case through Modified Procedure with a comment deadline of December 10, 2015, and a reply deadline of December 17, 2015?

2. Does the Commission wish to suspend the case for a period of 60 days, until March 1, 2016, unless the Commission issues a final Order in this matter before March 1, 2016?

Brandon Karpen

Brandon Karpen
Deputy Attorney General

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