

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF AVISTA)
CORPORATION’S APPLICATION TO) CASE NOS. AVU-G-12-03
REVISE NATURAL GAS EFFICIENCY) AVU-G-12-06
PROGRAMS AND RIDER ADJUSTMENT,)
SCHEDULES 190 AND 191.) ORDER NO. 32650
)**

On June 29, 2012, Avista Corporation dba Avista Utilities applied to the Commission for an Order allowing it to suspend its natural gas demand-side management (DSM) programs by revising Schedule 190, “Natural Gas Efficiency Programs.” See Application in Case No. AVU-G-12-03. The Natural Gas Efficiency Programs described in Schedule 190 are funded from Schedule 191, “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

On August 15, 2012, the Commission issued a Notice of Application and Notice of Modified Procedure that consolidated the two cases and solicited public input on the Applications. Order No. 32618.² The Commission allowed Staff and interested persons to file written comments until September 10, 2012, and the Company to file reply comments (if necessary) until September 17, 2012. *Id.* The Idaho Conservation League intervened in the case, Staff filed the only comments, and the Company did not reply.

With this Order, we grant the Company’s Applications.

THE APPLICATIONS

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

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

² Avista separately filed AVU-G-12-03 and AVU-G-12-06 and respectively requested September 1, 2012 and October 1, 2012 effective dates. Avista and Commission Staff subsequently decided that the two cases should be processed together under Modified Procedure seeking a common, October 1, 2012 effective date. See Order No. 32618.

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.³ *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.

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.*

³ 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 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 COMMENTS

Staff reviewed the Company's Applications and recommended that the Commission grant them because Avista's natural gas DSM programs are cost-ineffective and will likely remain cost-ineffective for the foreseeable future. According to Staff, the gas DSM programs are cost-ineffective because the low, wholesale price of gas is closely linked to Avista's low natural gas avoided costs. Staff said wholesale gas prices will remain low for a long time. Staff Comments at 4-6. Staff noted that 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. *Id.* at 4-5.

Staff said Avista assessed whether it could retain its gas DSM programs by analyzing those programs using multiple calculation methodologies. Nevertheless, Staff said the Company could not "generate a TRC portfolio ratio greater than 0.70" and that low avoided cost rates prevented the Company's gas DSM from passing the TRC. *Id.* Staff also determined that Avista's gas DSM would be cost-ineffective under tests like the PAC. *Id.* at 5. Further, Staff expects customer demand for natural gas DSM programs to decrease as retail gas prices fall and customer bills become more affordable. Moreover, Staff expects expiring federal tax credits and rebates for energy efficiency to decrease participation in gas DSM programs because many customers purchased energy efficiency measures sooner than they would have without the federal incentives. Staff observed that decreased program participation will further reduce program cost-effectiveness by spreading fixed overhead expenses over fewer saved therms. *Id.*

Staff explained that the Company's experienced electric DSM department will likely maintain Avista's DSM infrastructure and will allow gas DSM programs to be reinstated when necessary. *Id.* at 6. As a dual-fuel utility with low natural gas avoided costs, it is extremely cost-effective for Avista to incent electric to gas fuel conversions for space and water heat. *Id.*

Because 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 the natural gas efficiency industry in preparation for re-implementation of gas DSM programs when avoided costs sufficiently increase. Staff noted that Avista says it will propose to increase incentives for fuel-conversions in a future filing. *Id.*

For these and other reasons, Staff 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. *Id.* at 7.

Staff said the deferral balance owed to customers in the Schedule 191 account as of July 31, 2012 is \$1,286,099. *Id.* Staff observed that the Company will continue to collect rider revenue through September 2012, and will incur additional expenses until the last contractual obligation has been met. According to Staff, the Company's expected expenses and remaining deferral balance due customers once all natural gas DSM projects are completed and programs are fully suspended are:

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 ⁴

Id. at 7-8.

Staff said Avista has not proposed how to refund the remaining deferral balance to customers, but that Avista says 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. *Id.* at 8.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Avista Corporation, a public utility, and the issues involved in this case pursuant to Title 61 of the Idaho Code, and more specifically, *Idaho*

⁴ The estimated \$390,422 deferral balance subject to refund excludes carrying charges at the Company's overall rate of return.

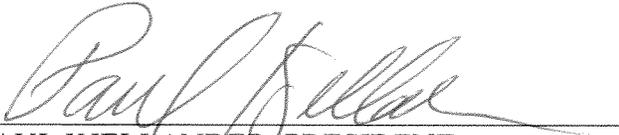
Code §§ 61-117, 61-129, 61-307, 61-501, and 61-502, along with the Commission’s Rules of Procedure, IDAPA 31.01.01.000, *et seq.* We have reviewed the Applications, comments and other matters of record in this case. Based on that review, we find that the Company’s natural gas DSM programs are cost-ineffective and that they will likely remain cost-ineffective into the foreseeable future. Accordingly, we find it fair, just, and reasonable to grant the Company’s Applications and to authorize the Company, effective October 1, 2012, to: (1) suspend its natural gas DSM programs by revising Schedule 190, “Natural Gas Efficiency Programs”; and (2) decrease its Schedule 191 rates to \$0.00000 per therm. We direct the Company to work with Staff to assure timely credit to customers of the actual remaining deferral balance in Schedule 191, once that balance is assessed. We will expect the Company to seek to re-implement its gas DSM programs when avoided costs sufficiently increase to make such programs cost-effective.

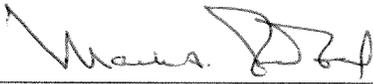
ORDER

IT IS HEREBY ORDERED that the Company’s Applications in AVU-G-12-03 and AVU-G-12-06 are granted. The Company may revise Schedule 190, “Natural Gas Efficiency Programs - Idaho,” and Schedule 191, “Energy Efficiency Rider Adjustment - Idaho,” consistent with the body of this Order. The revised Schedule 190 and Schedule 191 are approved as filed, with such revisions to take effect October 1, 2012.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in Case Nos. AVU-G-12-03 and AVU-G-12-06 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in these cases. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

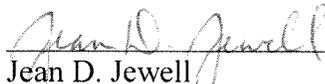
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 25th
day of September 2012.


PAUL KJELLANDER, PRESIDENT


MACK A. REDFORD, COMMISSIONER


MARSHA H. SMITH, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

O:AVU-G-12-03_AVU-G-12-06_kk2