COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 29, 2016

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY

CASE NO. PUE-2015-00138

For authority to amend its natural gas conservation and ratemaking efficiency plan

FINAL ORDER

On March 26, 2010, the State Corporation Commission ("Commission") entered an Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan in Case No. PUE-2009-00064, which approved a three-year Conservation and Ratemaking Efficiency ("CARE") plan for the residential customers of Washington Gas Light Company ("WGL" or "Company") effective May 1, 2010, pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) ("CARE Act") of the Code of Virginia ("Code").[1] On April 2, 2013, the Commission approved amendments to the Company's CARE plan in Case No. PUE-2012-00138 ("Current CARE Plan").[2]

On December 31, 2015, WGL filed an application ("Application") for authority to amend and extend its Current CARE Plan ("Amended CARE Plan"). The Company proposes to revise and expand its portfolio of programs for Residential, Commercial and Industrial ("C&I"), and Group Metered Apartment ("GMA") customers receiving service under Rate Schedule Nos. 1,

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[1] *Application of Washington Gas Light Company, For approval of natural gas conservation and ratemaking efficiency plan including a decoupling mechanism*, Case No. PUE-2009-00064, 2010 S.C.C. Ann. Rept. 354, Order Approving Natural Gas Conservation and Ratemaking Efficiency Plan (Mar. 26, 2010).

[2] *Application of Washington Gas Light Company, For authority to amend its natural gas conservation and ratemaking efficiency plan,* Case No. PUE-2012-00138, 2013 S.C.C. Ann. Rept. 335, Order Approving Amended Natural Gas Conservation and Ratemaking Efficiency Plan (Apr. 2, 2013) ("2013 Order").

1A, 2, 2A, 3, and 3A. WGL also proposes to increase funding to provide additional home-energy audits and weatherization projects to low-income customers.

For residential customers, the Company's Application seeks approval of the following programs: (1) a revised Residential Equipment Program, which continues the High-Efficiency Gas Furnace (>90% AFUE) measure and adds new WiFi-Enabled Thermostat, Storage Water Heater, and Tankless Water Heater measures; (2) a new Web-based Home Energy Audit with Energy Conservation Kits Program ("Home Energy Audit Program"); (3) a revised Low-Income Home Energy Audit and Weatherization Program ("Residential Low-Income Program"); (4) a new Residential Weatherization Program; and (5) an expanded Home Energy Reporting Program ("Opower HER Program").[3]

Additionally, the Company proposes two commercial programs for eligible C&I and GMA customers: (1) a new Direct Install Program; and (2) a revised Heating Equipment Program.[4] The Company proposes to discontinue the following currently approved commercial program measures: (1) Direct Contact Water Heater; (2) Infrared Heater; (3) Programmable Thermostat; (4) Boiler Turbulator; (5) Boiler Cut Out Control; (6) Boiler Outdoor Air Reset; (7) Commercial Combination Oven; (8) Commercial Rack Oven; (9) Commercial Conveyor Oven; (10) Commercial Steam Cooker; and (11) Low-Flow Spray Rinse Valve.[5]

In its Application, the Company proposes a total budget of $12,342,505[6] for its Amended CARE Plan for a three-year period to be effective from the first day of the May 2016 billing

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[3] Application at 3; Pre-Filed Direct Testimony of Sean Skulley ("Skulley Direct") at 6-18, Exhibit SDS-1.

[4] Application at 3; Skulley Direct at 26-29, Exhibit SDS-1.

[5] Application at 5; Skulley Direct at 26-27, Exhibit SDS-1.

[6] Application at 1. As proposed, $10,600,244 of the total budget is targeted for residential programs, and $1,742,261 is targeted for commercial programs. *Id.* at 3. As proposed, the Amended CARE Plan budget is $10,042,505 over the Current CARE Plan budget of $2,300,000.

cycle.[7] If approved, these expenses will be recovered monthly through a CARE Cost Adjustment ("CCA") applied to all residential and eligible C&I and GMA customers' bills. The Amended CARE Plan also includes a CARE Ratemaking Adjustment, which adjusts the actual non-gas distribution revenues per customer to the allowed level of distribution revenues per customer approved in the Company's most recent rate case before the Commission, Case No. PUE-2010-00139.[8] Based on the Company's proposed expenditures, the Company's projections for the CCA for Virginia customers in the first year of the Amended CARE Plan are as follows: (i) $6.75 for a typical residential customer using 735 therms per year; (ii) $17.54 for a typical small C&I heating customer using 5,326 therms per year; and (iii) $53.76 for a typical GMA heating customer using 16,315 therms per year.[9]

On January 21, 2016, the Commission issued an Order for Notice and Comment that, among other things, docketed the Company's Application; directed the Company to provide public notice of its Application; allowed interested persons to file comments and request a hearing on the Application; directed the Commission's Staff ("Staff") to investigate the Application and to file a report ("Staff Report" or "Report") containing the Staff's findings and recommendations; and allowed the Company to file a response ("Response" or "Company Response") to the Staff Report and any comments filed by interested persons.[10]

On April 8, 2016, Staff filed its Report on the Company's Application. Among other things, the Staff Report summarized and examined the cost-effectiveness of the Company's

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[7] The Company notes that the first day of the May 2016 billing cycle will be April 29, 2016. *Id.* at 1.

[8] *Application of Washington Gas Light Company, For a general increase in rates and charges and to revise its terms and conditions for gas service*, Case No. PUE-2010-00139, 2012 S.C.C. Ann. Rept. 229, Order (July 2, 2012).

[9] Application at 9-10; Pre-Filed Direct Testimony of David G. Mencarini, Exhibit DGM-3, Attachment A, page 1.

[10] Comments in support of the Application were filed by Advanced Energy Economy; the Virginia Department of Mines, Minerals and Energy; and Arlington County Board.

proposed Amended CARE Plan. In Part I of the Staff Report, Staff from the Division of Energy Regulation expresses concerns regarding WGL's estimate of the Company's avoided costs and states that "Staff does not believe that either of the avoided cost methodologies presented by the Company . . . are appropriate for estimating the avoided cost of natural gas to be utilized in WGL's cost/benefit analysis of the Company's proposed programs."[11] Specifically, Staff disagrees with the Company's methodologies as they include distribution and other costs that are not avoided by the implementation of conservation and energy efficiency programs.[12]

Incorporating Staff's estimate of the Company's avoided costs (which followed WGL's avoided cost methodology used in previous CARE Plan applications), Staff determined that the proposed amended Residential Equipment Program and Opower HER Program are not cost-effective.[13] Staff believes that, should the Commission decide to include the Residential Equipment Program in the proposed Amended CARE Plan, the Storage Water Heater and Tankless Water Heater measures should not be included due to low cost/benefit test results.[14]

Staff also stated that WGL's natural gas savings assumptions of the Residential Weatherization Program are "inappropriately high" and, therefore, the Company has not shown the Residential Weatherization Program to be cost-effective.[15] Staff believes that should the Commission decide to include this program in the proposed Amended CARE Plan, the Low-E

[11] Staff Report (Part I) at 11.

[12] *Id.* at 12.

[13] *Id.* at 17-18, 20.

[14] *Id.* at 21.

[15] *Id.* at 18-19, 21.

Windows measure should not be included in the program given the low cost/benefit test results of that measure.[16]

In Part II of the Staff Report, Staff from the Division of Utility Accounting and Finance ("UAF") summarizes UAF's audit of the compliance and internal control aspects of the Company's Current CARE Plan, and the Company's costs, recoveries, and deferral balance. UAF Staff makes the following recommendations: (1) the Company should be required to obtain post-installation photographs of high-efficiency natural gas furnaces associated with the Company's Residential Equipment Program;[17] (2) the Company should be required to remove from the CCA deferral a $10,000 charge applicable to the Maryland jurisdiction and refund this amount to Virginia jurisdictional ratepayers in the next CCA reconciliation factor;[18] (3) if the Commission finds the Opower HER Program should be continued, the Company should be required to (a) implement policies to verify that its customers are receiving the required Home Energy Reports, and (b) conduct customer satisfaction surveys for the Opower HER Program;[19] (4) if the Commission finds the Opower HER Program should be continued, the Company should be required to implement procedures to ensure it does not exceed the participation cap as ordered by the Commission;[20] (5) the Company should be required to obtain post-installation photographs of work performed by Community Housing Partners for the Residential Low-Income Program;[21] and (6) the Company should remove from the CCA deferral the $6,343 of

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[16] *Id.* at 21.

[17] Staff Report (Part II) at 12. Staff also recommended that the Commission consider requiring post-installation photographs in some or all newly approved commercial programs. *Id.* at 17.

[18] *Id.* at 19.

[19] *Id.* at 20.

[20] *Id.* at 19.

[21] *Id.* at 24.

unassignable overhead costs incurred during Program Year 5,[22] and this amount should be refunded to Virginia ratepayers in the next CCA reconciliation factor.[23] UAF Staff notes that relative to the $150,000 spending cap for Program Administration costs authorized by the Commission in the 2013 Order,[24] the Company has $8,073 remaining to flow through the CCA factor for Program Year 6,[25] and that the $181,982 of incurred costs, including those not flowed through the CCA factor, already exceed the $150,000 found reasonable by the Commission.[26]

On April 15, 2016, the Company filed its Response to the Staff Report. The Company states it does not object to the recommendations made by UAF Staff with the exception of the recommendation relating to the cap on the number of participants for the Opower HER Program.[27] The Company also objects to UAF Staff's statement that the Company has exceeded its approved three-year budget of $150,000 for Program Administration costs.[28]

The Company objects to Staff's determination that the Company's estimate of avoided costs is overstated due to the inclusion of distribution charges.[29] WGL maintains its cost estimates are reasonable and consistent with the approach and results widely accepted by regulatory authorities.[30] WGL notes that Staff's recommendation of the elimination of the

[22] Program Year 5 is the timeframe between May 1, 2014, and April 30, 2015.

[23] Staff Report (Part II) at 28.

[24] 2013 S.C.C. Ann. Rept. at 339.

[25] Program Year 6 is the timeframe between May 1, 2015, and April 30, 2016.

[26] Staff Report (Part II) at 27.

[27] Company Response at 2.

[28] *Id.* at 24.

[29] *Id.* at 2.

[30] *Id.* at 2-3.

Opower HER Program, the Residential Equipment Program, and the Residential Weatherization Program is primarily due to Staff's disagreement with WGL's estimate of avoided cost.[31] WGL proposes revisions to these programs, which eliminate certain measures and incorporate Staff's avoided cost estimates as well as decreased program costs and/or number of participants.[32] The Company states that with these revisions, the programs are cost-effective and should be approved as part of the Company's Amended CARE Plan.[33]

NOW THE COMMISSION, upon consideration of this matter and based on the record herein, is of the opinion and finds the Company's Amended CARE Plan, as modified in accordance with the findings made herein and subject to the requirements in this Order, satisfies the statutory provisions of the CARE Act and is therefore approved.

In evaluating WGL's Application, we have considered, among other factors, the net present value ("NPV") of the benefits and the NPV of the costs under the Total Resource Cost Test, the Program Administrator Test, the Participant Test, and the Ratepayer Impact Measure Test, as required by the CARE Act. We do not base our decision herein on a single cost/benefit test but, as we stated in the 2013 Order and previous CARE plan orders, we must consider the impact of the proposed Amended CARE Plan on all customers, whether participating or not, in the affected rate classes.[34]

We considered Staff's concern that WGL's estimate of the Company's avoided costs is overstated and accept Staff's estimate of the Company's avoided costs for the purposes of the

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[31] *Id.* at 3.

[32] *Id.* at 13-16.

[33] *Id.*

[34] *See* 2013 Order, 2013 S.C.C. Ann. Rept. at 338; *Application of Columbia Gas of Virginia, Inc., For authority to amend and extend its natural gas conservation and ratemaking efficiency plan*, Case No. PUE-2012-00013, 2012 S.C.C. Ann. Rept. 395, 399, Final Order (Aug. 6, 2012).

cost/benefit analysis in this case. We approve the following programs, as proposed in the Application: (1) Home Energy Audit Program; (2) Residential Low-income Program; (3) Commercial Direct Install Program; and (4) Commercial Heating Equipment Program.

We approve the Residential Equipment Program as revised in the Company's Response, which includes the removal of the Storage Water Heater and Tankless Water Heater measures and the reduction of program overhead expense.[35]

We deny the proposed Residential Weatherization Program. Staff questions the appropriateness of the natural gas savings assumptions of this program as appearing inappropriately high.[36] WGL did not address this criticism or provide new natural gas savings assumptions in the revised proposal for the Residential Weatherization Program. As this information was not provided by the Company, we cannot make a determination as to the cost effectiveness of the program.

We approve the Opower HER Program as revised herein. First, we find that the number of participants should be limited to 30,000 participants. Such a reduction in the number of participants appears to make the Opower HER Program sufficiently cost-effective.[37] Further, we agree with Staff that the Company should implement procedures to ensure that it does not exceed the participation cap of 30,000 for the three-year period, as approved herein. We remain concerned by the lack of data available for this program based on actual experience by either WGL or by a Commission-regulated Virginia utility, and we still have concerns that the scores claimed for this program under the four cost benefit tests, as well as the claimed NPV

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[35] Company Response at 13.

[36] Staff Report (Part I) at 18.

[37] The Opower HER Program targets WGL's residential customers with the highest consumption of natural gas. Therefore, by limiting the number of participants, the cost of the program is reduced but the potential benefits to be gained from this program are increased. *See* Staff Report (Part I) Table 2 at 17 and Response at 18.

calculations, can best be described as speculative. By increasing the number of participants in the Opower HER Program from the currently approved 14,000 to 30,000, WGL should be able to gather experiential data. Additionally, we share Staff's concerns regarding the internal controls of the Opower HER Program.[38] Therefore, we find that the Company should implement policies to verify that its customers are receiving the specified number of Home Energy Reports required as part of the Opower HER Program. We also find that the Company should conduct annual customer satisfaction surveys for the Opower HER Program. The results of the customer satisfaction surveys should include data that verifies that any reduction in natural gas consumption on the part of a participant in the Opower HER Program is actually tied to the Opower HER Program. We direct the Company to reduce the costs of this program by a proportionate amount.[39]

Excluding the proposed costs for the Residential Weatherization Program and incorporating the proposed budget reductions for the Opower HER Program, as well as the proposed cost reductions due to the elimination of the two water heater measures from the proposed Residential Equipment Program, the proposed budget for the Company's Amended CARE Plan should be capped at $6,099,000.

We adopt the recommendations of UAF Staff with regard to the programs approved herein, as set forth above. In addition, the Company shall be required to obtain post-installation photographs of the High-Efficiency Furnace measure in the proposed Commercial Heating Equipment Program. We further find that the Company shall not be permitted to include more than $8,073 of Program Administration costs in the CCA reconciliation factor for Program

[38] Staff Report at 19.

[39] In its Response, the Company proposed a budget of $1,460,000 for 100,000 participants. We have reduced the number of participants by 70%, which results in a spending limit of $438,000. WGL may file to increase these limits with its own experiential data.

Year 6, and any Program Administration costs incurred by the Company in Program Years 4 through 6 that exceed $150,000 shall not be recovered in base rates.

On or before August 1, 2016, and each August 1 thereafter, the Company shall file an annual report that includes independently measured and verified actual results of its CARE Plan. As required by § 56-602 E of the Code, such reports also shall show "the year over year weather-normalized use of natural gas on an average customer basis, by customer class, as well as the incremental, independently verified net economic benefits created by the utility's cost-effective conservation and energy-efficiency programs during the previous year." The annual reports required herein shall provide significant information in evaluating whether certain programs are cost effective and warrant continuation or modification thereof. In addition, the annual reports shall include information about the Company's controls and procedures for rebate, incentive and/or vendor payments for each CARE program, as recommended by UAF Staff.

Further, the annual reports for existing programs and measures shall utilize Company-specific data to analyze the cost-effectiveness and natural gas savings for each measure, program, and the overall portfolio. For new programs and measures, if Company-specific data is not available, the Company shall substitute such data with Virginia-specific data to analyze the cost-effectiveness and natural gas savings for each measure, program, and the overall portfolio and shall explain why Company-specific data is not available for evaluation, measurement, and verification ("EM&V") purposes. If neither Company- nor Virginia-specific data is available for purposes of EM&V reporting, the Company shall state with specificity why such information is not available, and it shall utilize alternative data and support the validity of such alternative information.

In addition, the Company shall maintain strict and detailed identification and accounting of its program-specific and common costs and shall identify program-specific benefits as well. For example, the Company shall specifically identify how – and what portion of – the costs of the Residential Equipment Program are achieving actual, verifiable energy use reductions in the homes of residential customers. Moreover, all costs should be scrutinized to ensure that such expenditures are closely and definitely related to the programs and measures approved herein and are not used, for example, to serve general marketing or public relations purposes. In addition, the annual report shall identify the number of participants in each of the programs and measures approved herein. In future CARE Plan applications, WGL shall directly assign program costs among program measures in its cost benefit calculations, whenever possible.

Finally, any subsequent request by WGL to amend the CARE Plan approved herein, or to implement a new CARE Plan, shall: (a) incorporate the results from the annual reports required herein; (b) provide measured and verified evidence of energy savings to support any request to continue or modify programs designed for low-income or elderly customers; and (c) provide evidence of the incremental, independently verified net economic benefits created by the Company's CARE Plan approved herein to support any request to continue or modify other programs approved in this case. Any application to which this filing requirement applies may be deemed incomplete, pursuant to Rule 5 VAC 5-20-160 of the Commission's Rules of Practice and Procedure, if the information directed herein is not included in such application.

Accordingly, IT IS ORDERED THAT:

(1) The Company's Application for approval to amend its CARE Plan is approved in part and denied in part, as set forth in this Final Order, and shall be effective May 1, 2016.

(2) The Company shall file revised tariffs and terms and conditions of service with the Commission's Division of Energy Regulation within thirty (30) days of the entry of this Final Order.

(3) Consistent with the findings made herein, WGL must file for approval to extend, modify, or renew its CARE Plan beyond April 30, 2019, or the CARE Plan will terminate.

(4) This matter is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Leslie T. Thornton, Esquire, Donald R. Hayes, Esquire, and Meera Ahamed, Esquire, Washington Gas Light Company, 101 Constitution Avenue, NW, Washington, D.C. 20080; and C. Meade Browder, Jr., Senior Assistant Attorney General, Division of Consumer Counsel, Office of the Attorney General, 900 East Main Street, Second Floor, Richmond, Virginia 23219; and a copy shall be delivered to the Commission's Office of General Counsel and Divisions of Energy Regulation and Utility Accounting and Finance.