COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 30, 2019

APPLICATION OF

WASHINGTON GAS LIGHT COMPANY

CASE NO. PUR-2018-00193

For approval of an amendment to its natural gas conservation and ratemaking efficiency plan

FINAL ORDER

On April 29, 2016, the State Corporation Commission ("Commission") entered a Final Order in Case No. PUE-2015-00138,[1] which approved a three-year Conservation and Ratemaking Efficiency Plan ("CARE Plan") for Washington Gas Light Company ("WGL" or "Company"), effective May 1, 2016, pursuant to Chapter 25 of Title 56 (§§ 56-600 *et seq.*) of the Code of Virginia ("Code") (the "CARE Act").

On January 11, 2019, WGL filed a completed application ("Application") for approval 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, 1A, 2, 2A, 3, and 3A.[2] WGL also proposes to increase funding to provide additional weatherization projects to low-income customers.[3]

---

[1] *Application of Washington Gas Light Company, For authority to amend its natural gas conservation and ratemaking efficiency plan,* Case No. PUE-2015-00138, 2016 S.C.C. Ann. Rept. 338, Final Order (April 29, 2016) ("2016 Order").

[2] Application at 1-2.

[3] *Id.* at 2.

The Company requests approval of the following revised residential programs: (1) Residential Home Equipment Program; (2) Online Home Energy Audit with Energy Conservation Kits Program; (3) Low-Income Weatherization Program; and (4) Behavioral Program.[4] For the eligible C&I and GMA customers, WGL seeks approval of three programs: (1) a revised Direct Installation Program; (2) a new Food Service Equipment Program; and (3) a revised Heating Equipment Program.[5]

The Company requests approval of a total budget of $8,500,000[6] for its Amended Care Plan for a three-year period to be effective from the first day of the May 2019 billing cycle.[7] The Company plans to recover the incremental costs of the Amended Care Plan program through a monthly CARE Cost Adjustment ("CCA") applied to customers' bills.[8] Additionally, WGL plans to implement a decoupling mechanism called the CARE Ratemaking Adjustment ("CRA").[9] The Company indicates that both the CCA and the CRA will be calculated and implemented using methodology previously approved by the Commission.

The Company represents that for the CCA in the first year of the Amended CARE Plan (i) a typical residential customer using 750 therms per year will experience a $4.12 increase; (ii) a typical C&I heating customer using 5,672 therms per year will experience a $17.61

[4] *Id.* at 3.

[5] *Id.*

[6] *Id.* at 1. The Company states that of the total budget request, approximately 78% is targeted for the residential programs, and approximately 22% is targeted of the commercial programs. *Id.* at 2-3.

[7] The Company indicates that the first day of the May 2019 billing cycle will be April 29, 2019. *Id.* at 1.

[8] *Id.* at 2.

[9] *Id.* at 10.

increase; and (iii) a typical GMA heating customer using 16,803 therms per year will experience a $52.18 increase.[10]

On January 16, 2019, 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 to the Staff Report and any comments filed by interested persons.[11]

On March 27, 2019, the Staff filed its Report on the Company's Application. Among other things, the Staff Report summarizes and examines the cost-effectiveness of the Company's proposed Amended CARE Plan.

In Part I of the Staff Report, Staff from the Division of Public Utility Regulation analyze the general assumptions and structure of WGL's cost/benefit model as well as the individual modifications proposed in the Application. Staff states that there is uncertainty regarding the verification of the natural gas savings inputs used in the cost/benefit analysis.[12] Staff notes that the Company's natural gas savings estimates for the existing measures provided by the Company's independent consultants in the 2018 Annual CARE Report were based on estimated savings inputs rather than Company specific measurements. Staff believes that this does not

[10] *Id.* at 2, 9.

[11] No comments, notices of participation, or requests for hearing were received.

[12] Staff Report (Part I) at 15-16.

comply with the Commission's directive in the 2016 Order that the Company incorporate independently measured and verified estimates of natural gas savings.[13]

In analyzing the proposed programs, Staff relied on the data provided by the Application.[14] Staff did not oppose continuing the Residential Home Energy Reporting Program[15] and the Residential Low-Income Program.[16] While expressing concerns that the impact data was not based on Virginia-specific utility data, Staff acknowledged that the Residential Online Energy Audit and Energy Conservation Kit Program were popular.[17] Ultimately, Staff did not oppose or support these programs.[18]

Staff found that neither the Commercial Equipment Program or the Commercial Direct Install Program complied with the 2016 Order to use measured and verified utility specific data.[19] Instead, WGL relied on the Mid-Atlantic Technical Resource Manual ("TRM") for estimates. Because of the use of the data from the Mid-Atlantic TRM, Staff could not support these two programs.

---

[13] *Id.* at 17. *See* 2016 Order, 2016 S.C.C. Ann. Rept. at 341 ("[A]ny subsequent request by WGL to amend the CARE Plan approved herein, or to implement a new CARE Plan, shall . . . (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.")

[14] *Id.* at 17.

[15] *Id.* at 19. Staff notes that the proposed program would pass the cost/benefit tests at 40,000 participants as well as the overall incremental costs by $150,000 compared to the 50,000 participants as proposed by the Company.

[16] *Id.* at 21.

[17] *Id.* at 20.

[18] *Id.* at 25.

[19] *Id.* at 22-23.

Staff found that the Commercial Food Service Program was not a credible option given the difficulties that the Company experienced with a similar program that the Company had previously discontinued.[20] Staff did not support this program.

Staff noted that the Company is currently under-budget with its current CARE Plan. Staff raised the question of whether the Company's proposed CARE Plan budget increase was necessary.[21] Further, Staff did not support the proposed budget increase.

In Part II of the Staff Report, Staff from the Division of Utility Accounting and Finance summarizes Staff's audit of the compliance and internal control aspects of the Company's current CARE Plan, and the Company's costs, recoveries, and deferral balances.

Generally, Staff noted no issues with the Company's compliance with internal controls for its CARE Plan programs and notes that the costs incurred by the Company during the audit period appear to be reasonable and prudent.[22] Staff also noted no significant issues with administrative costs associated with rebate processing or with the portfolio level evaluation, measurement and verification ("EM&V") costs. Staff found one issue with the CCA deferral balance.[23] Specifically, Staff determined that the Company may have made an inadvertent formula error of transposing costs and recoveries when calculating the CCA for commercial customers. Staff recommends that WGL correct the book deferral for this error, report on such correction within 30 days of the entry of the Final Order in this proceeding and incorporate such

---

[20] *Id.* at 22.

[21] *Id.* at 23, 25.

[22] *See* Staff Report (Part II) at 7-19.

[23] *Id.* at 19.

correction in the next CCA reconciliation factor.[24] Staff additionally recommended that the Company should record CCA carrying charges to the CCA deferral. Staff further recommended that the Company should provide a reconciliation of the book deferral balance with the over/under-recovery amount incorporated in the CCA reconciliation factor, including reporting on the treatment of carrying charges, in each annual CCA reconciliation filing.[25] Staff found no issues with the Company's accounting methodology and deferral balances for the CARE Program Cost Recovery Adjustment and Revenue Normalization Adjustment.[26] Staff, however, did recommend that the Company provide CRA reporting as of April 30 of each year that includes a reconciliation of the book deferral balance with the over/under-recovery amount incorporated in the CRA reconciliation factor.[27]

On April 3, 2019, the Company filed its Response to the Staff Report ("Response"). WGL's Response asserts that all of the proposed programs have cost/benefit assumptions that are reasonable and consistent with industry standards.[28] With regard to compliance with the 2016 Order, the Company urges the Commission to approve the proposed programs because WGL incorporated incremental, independently verified net economic benefits for programs where utility specific data was not available.[29]

---

[24] *Id.*

[25] *Id.* at 19-20.

[26] *Id.* at 22-24.

[27] *Id.* at 24.

[28] Response at 3.

[29] *Id.*

With regard to the proposed Residential Home Equipment Program, and the Commercial Direct Install and Commercial Heating Equipment Programs, the Company asserts that it needs more time to collect EM&V data.[30] The Company states that when incremental independently verified net economic benefits are not available, it is appropriate to use industry standard assumptions, such as the Mid-Atlantic TRM, as a proxy.[31] The Company asserts that it used reasonable industry resources for the cost and incentive information for these programs, that the cost/benefit analysis shows that the programs are cost beneficial, and thus they should be approved.[32]

For the Commercial Service Program, the Company takes issue with Staff's conclusion that it is not a credible option.[33] WGL claims that the program education and outreach will be performed in a better way compared to the previous program.[34] The Company also asserts that it has been successfully running a similar incentive program in its Maryland service territory since 2015.[35]

WGL also asserts that the Home Energy Reporting Program passes the cost/benefit tests at the proposed 50,000 participants and should be approved.[36]

---

[30] *Id.* at 4.

[31] *Id.*

[32] *Id.*

[33] *Id.* at 10.

[34] *Id.*

[35] *Id.*

[36] *Id.* at 11.

NOW THE COMMISSION, upon consideration of this matter and based on the record herein, is of the opinion and finds that 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.

The 2018 Session of the Virginia General Assembly enacted legislation, which revised the definition of "Cost-effective conservation and energy efficiency program" in § 56-600 of the CARE Act to state, in part (emphases added):[37]

> a program approved by the Commission that is . . . determined by the Commission to be cost-effective if the net present value of the benefits exceeds the net present value of the costs *as determined by not less than any three of* the following four tests: the Total Resource Cost Test, the Program Administrator Test (also referred to as the Utility Cost Test), the Participant Test, and the Ratepayer Impact Measure Test. Such a determination shall include an analysis of all four tests, and a program or portfolio of programs *shall be approved if the net present value of the benefits exceeds the net present value of the costs as determined by not less than any three of the four tests.*

As required by the CARE Act, in evaluating WGL's Application, we have considered the net present value ("NPV") of the benefits and the NPV of the costs under the four tests listed above.

The Commission approves the following programs as proposed in the Application: (1) the Home Energy Reporting Program, (2) the Residential Energy Conservation Kit Program, and (3) the Residential Low-Income Program.

We considered Staff's concern that there is a degree of uncertainty concerning the accuracy of the Company's natural gas savings because they appear to be based, at least in part, on estimates or assumptions rather than independently measured and verified data. While non-

[37] Chapter 296 of the 2018 Acts of Assembly.

utility specific Virginia data can be appropriate in certain circumstances,[38] we find that the Company has failed to justify doing so with some of the proposed revised programs under the limited circumstances of this proceeding. Because Company-specific data from the currently existing programs was not used, as required by the 2016 Order, we find that the underlying data and inputs for the cost/benefit tests are not credible or reasonable for this purpose. Therefore, we deny WGL's request to implement three of the proposed Amended CARE Plan programs for that reason: (1) the Commercial Heating Equipment Program, (2) the Commercial Direct Install Program, and (3) the Residential Home Equipment Program.

Additionally, we share Staff's concern with the proposed Commercial Food Service Program based upon the difficulty the Company experienced with a previously approved similar program. WGL experienced little interest with that program[39], and the Company has not provided sufficient information to support its claim that there is sufficient interest in this program to achieve the participation levels. The request for the proposed Commercial Food Service Program is therefore denied.

We find that WGL should correct the formula error in the calculation of the CCA for commercial customers that Staff found during its audit of the deferral balance. The Commission adopts Staff's recommended CRA and CCA reporting requirements.

We also approve a total budget of $5,172,311 for the three-year Phase 4 CARE Plan.

On or before August 1, 2019, and each August 1 thereafter, in accordance with the Commission's Rules Governing the Evaluation, Measurement, and Verification of the Effects of

[38] 2016 Order at 341.

[39] WGL acknowledges that participation for the previous program did not meet its forecasts. Response at 10.

Utility-Sponsored Demand-Side Management Programs,[40] the Company shall file an annual report that measures and verifies the 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.

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 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. 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

---

[40] 20 VAC 5-318-10, *et seq.*

identify the number of participants in each of the programs and measures approved herein. In future CARE Plan applications, WGL shall allocate program costs among program measures in its cost benefit calculations, when directly assignable.

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 measured and verified *evidence* of energy savings and cost-effectiveness to support any request to continue or modify other programs approved herein and in the currently-approved CARE Plan. For clarification, the third requirement above means the Company shall use independently verified net benefits, including natural gas savings, as *inputs* in the Company's cost/benefit analysis for any request to continue or amend an existing CARE program. If the Company is not able to use independently verified net benefits as inputs in the Company's cost/benefit analysis in future CARE Plan filings, 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. 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, 2019, for a period of three (3) years.

(2) Within thirty (30) days of the entry of this Final Order, WGL shall correct the formula error in the book deferral for the calculation of the CCA for commercial customers and file a report on such correction. Such correction shall be incorporated into the next CCA reconciliation factor, along with CCA carrying charges to the CCA deferral, and included in each annual CCA reconciliation filing.

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

(4) This matter is dismissed.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to: Karen Hardwick, Esquire, Robert C. Cain, II, Esquire, and Meera Ahamed, Esquire, Washington Gas Light Company, 1000 Maine Avenue, SW, Suite 600, Washington, D.C. 20024; and C. Meade Browder, Jr., Senior Assistant Attorney General, Office of the Attorney General, Division of Consumer Counsel, 202 N. 9th Street, 8th Floor Street, Richmond, Virginia 23219-3424. A copy also shall be delivered to the Commission's Office of General Counsel and Divisions of Public Utility Regulation and Utility Accounting and Finance.