

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)	
CORPORATION TO EXTEND ITS DEMAND-)	
SIDE MANAGEMENT PROGRAM, AS)	CASE NO.
AMENDED, AND COST RECOVERY)	2017-00424
MECHANISM, AS AMENDED FOR THREE (3))	
YEARS)	

ORDER

On October 31, 2017, Atmos Energy Corporation (“Atmos”) submitted an application to extend its Demand-Side Management (“DSM”) program for three years beyond the April 30, 2018, scheduled termination date. It also proposed to update the Annual DSM Cost Recovery Component rates for both residential and commercial customers, including the DSM Cost Recovery-Current (“DCRC”); the DSM Balance Adjustment (“DBS”); the DSM Lost Sales Adjustment (“DLSA”); and the DSM Incentive Adjustment (“DIA”) set out in its tariffs for both customer classes. Atmos proposed to continue all existing DSM programs with some modifications. There are no intervenors in this proceeding. This case now stands submitted for a decision based on the evidentiary record.

BACKGROUND

The Commission approved Atmos’s current programs on April 29, 2015, in Case No. 2014-00382.¹ Atmos’s residential DSM program consists of a low-income

¹ Case No. 2014-00382, *Application of Atmos Energy Corporation to Extend its Demand-Side Management Program as Amended and Cost Recovery Mechanism as Amended for Three (3) Years* (Ky. PSC Apr. 29, 2015).

weatherization component, rebate programs for high-efficiency space- and water-heating appliances and programmable thermostats, and an education component. Atmos's commercial DSM program includes high-efficiency space- and water-heating appliances and programmable-thermostat rebate programs, as well as a rebate program for high-efficiency commercial cooking equipment.

Currently, the funding for the weatherization program is based on 125 participants with a cost of up to \$3,000 per low-income customer served and is capped at \$375,000. Administration of the program is conducted by community action agencies and Atmos is invoiced for reimbursement. Atmos proposes to continue this program at the existing funding level of up to \$3,000 per household but with a reduction in the budget to \$180,000² based on recent historical participation levels.

Atmos is proposing to continue offering its space- and water-heating and thermostat rebate program to residential and commercial customers and a commercial cooking equipment rebate program for commercial customers. Administration of rebate disbursement is proposed to continue through a third party vendor.

The education program is designed to reach all levels of students as well as adults. Atmos is proposing to increase the funding for this program to increase student outreach efforts by engaging with the National Energy Foundation. Atmos proposes to continue to administer any adult outreach with its own personnel.

² Application, Tab #3. While Tab #1, Program Overview at 3 indicates that Atmos proposes to reduce the cap to \$200,000, Tab #3 at 1 and 4 indicate proposed Weatherization program costs of \$180,000.

DISCUSSION

Atmos included with its application a Program Overview describing the history, benefits, and attributes of its DSM programs. The Program Overview includes a mission statement which describes the DSM program as follows:

It is the desire of Atmos energy . . . to promote the prudent use of natural gas as one of our most valued domestic natural resources. The promotion and implementation of conservation measures by the consumer are an intricate part of our strategy and a sound national energy policy. In accordance with that policy and philosophy, we would prefer to continue our existing program to benefit our customers and bring attention to the importance of conservation.³

Atmos noted that its DSM programs are designed to address the concerns of its residential and commercial customer base relating to decreasing consumption through conservation and efficiency. It stated that Atmos benefits from having more satisfied customers and that the general population benefits from the preservation of natural gas for future use.⁴

Atmos also attached to its application supporting cost schedules for the cost recovery. Atmos proposed to continue supporting two recovery components, one for the residential and one for the commercial class so that each class does not subsidize the other. The cost recovery components include the DCRC, the DLSA, and DIA, and the DBA. The DCRC includes all actual costs associated with the program including rebates, educational supplies, planning, development, implementation, monitoring, and evaluation. The DLSA components recover the annual lost sales attributable to the conservation or efficiency created from the DSM implementation. The DIA, or incentive

³ Application, Tab #1 at 3.

⁴ Id., at 5.

adjustment, is 15 percent based on the net resource savings of the DSM program participants and is included to incentivize Atmos to devote monetary and physical resources to DSM initiatives. The fourth component, DBA, is the balancing adjustment which adjusts current rates for any over or under collection from the previous year's DSM rates.

In compliance with the Commission's directive in Case No. 2014-00382, Atmos provided cost-effectiveness tests by class for each DSM program to support its request for a further extension of each program.⁵ The results are as follows:⁶

	<u>Weatherization</u>	Residential <u>Rebate</u>	<u>Education</u>	Commercial <u>Rebate</u>	Program <u>Total</u>
Participant Test	N/A	1.47	N/A	1.47	1.54
Program Admin Test	0.20	1.33	N/A	1.33	1.00
Rate Payer Impact Test	0.16	0.47	N/A	0.47	0.42
Total Resource Cost Test	0.20	0.67	N/A	0.67	0.59

The Commission has traditionally evaluated DSM effectiveness by focusing on the Total Resource Cost ("TRC") results. A TRC score of less than one indicates that the costs of the program outweigh the benefits. For each of Atmos's DSM programs, the TRC score is less than one and the overall program score is 0.59, with a net present value of \$(502,704), which means that the cost of the DSM programs exceeds the marginal cost of increasing supply.⁷ The Commission recognizes Atmos's desire to offer DSM

⁵ Application, paragraph 11.

⁶ Application, Tab #2, Tab #3 at 1, Tab #4, Tab #5, Tab #6 at 1.

⁷ Application, Tab #2 at 25.

programs to its residential and commercial customers, but due to the relatively low market price of gas, which is the basis for the calculation of program benefits, it is difficult to justify gas DSM programs based on costs and benefits. Based on the cost-benefit results included with Atmos's application, we find that all DSM programs, except for the Low-Income Weatherization Program, impose an unreasonable financial burden on non-participating customers and should be discontinued.

The Commission recognizes that low-income weatherization programs provide valuable assistance to income-eligible customers by reducing their heating bills, and has consistently approved such programs despite unfavorable TRC scores. The Commission, therefore, finds that Atmos should cease offering all DSM programs except its low-income residential weatherization program until market conditions change so that the cost-benefit tests exhibit a positive net present value based on gas cost savings. The DSM rates approved today are designed to allow for recovery of costs of the residential low-income weatherization program, plus incentives from residential customers, plus the balancing adjustments to reconcile past under/over-recoveries of program costs from both residential and commercial customers.

Any future application seeking to expand Atmos's DSM program offerings should be supported by detailed cost-benefit analyses along with support for the need for the proposed DSM programs. Additionally, future DSM programs should include robust targeted programs that assist participation by low-income customers.

IT IS THEREFORE ORDERED THAT:

1. Atmos's request to extend and revise its DSM Programs other than the Low-Income Weatherization Program is denied.

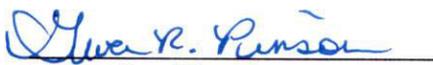
2. Atmos's proposed residential and commercial DSM rates are denied.
3. Any future DSM applications filed by Atmos shall include the information as described in the findings above.
4. Atmos's Low-Income Weatherization Program is approved through April 30, 2021, at the proposed budget of \$180,000 with a funding level of up to \$3,000 per qualifying low-income household.
5. The DSM rates in the Appendix to this Order are approved for final meter readings on and after May 1, 2018.
6. Within 20 days of the date of this Order, Atmos shall file with this Commission, using the Commission's electronic Tariff Filing System, revised tariff sheets setting out the rates approved herein and reflecting that they were approved pursuant to this Order.
7. Atmos shall be allowed to recover any lost revenues and authorized incentives associated with any Commission-approved DSM program consistent with KRS 278.285. Recovery of lost revenues shall be limited to no more than three years, but will be reset to zero upon Commission approval of rates in Atmos's pending base-rate case,⁸ and shall not exceed claimed savings over the life of the specific DSM measure.

⁸ Case No. 2017-00349, *Electronic Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (filed Sept 28, 2017).

By the Commission



ATTEST:


Executive Director

Case No. 2017-00424

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2017-00424 DATED **APR 27 2018**

The following rates and charges are prescribed for the customers in the area served by Atmos Energy Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

DSM Cost Recovery Component (DSMRC-R)

DSM Cost Recovery - Current	\$ 0.0160 per Mcf
DSM Lost Sales Adjustment	\$ 0.0000 per Mcf
DSM Incentive Adjustment	\$(0.0020) per Mcf
DSM Balance Adjustment	<u>\$ 0.0028 per Mcf</u>
DSMRC Residential Rate G-1	\$0.0168 per Mcf

DSM Cost Recovery Component (DSMRC-C)

DSM Cost Recovery - Current	\$0.0000 per Mcf
DSM Lost Sales Adjustment	\$0.0000 per Mcf
DSM Incentive Adjustment	\$0.0000 per Mcf
DSM Balance Adjustment	<u>(\$0.0129) per Mcf</u>
DSMRC Commercial Rate G-1	(\$0.0129) per Mcf

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