

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ATMOS ENERGY)	
CORPORATION TO EXTEND ITS DEMAND-SIDE)	CASE NO.
MANAGEMENT PROGRAM, AS AMENDED, AND)	2014-00382
COST RECOVERY MECHANISM, AS AMENDED)	
FOR THREE (3) YEARS)	

ORDER

On October 29, 2014, Atmos Energy Corporation (“Atmos”) submitted an application to extend its Demand-Side Management (“DSM”) program for three years beyond the April 30, 2015 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 (“DBA”); the DSM Lost Sales Adjustment (“DLSA”); and the DSM Incentive Adjustment (“DIA”) set out in its tariffs for both customer classes. Atmos proposed no change to its existing DSM programs for residential and commercial customers. There are no intervenors in this proceeding. Atmos responded to two Commission Staff (“Staff”) requests for information. This case now stands submitted for a decision based on the evidentiary record.

BACKGROUND

The Commission approved Atmos’s current programs on April 27, 2012, in Case No. 2011-00395.¹ Atmos’s residential DSM program consists of a low-income

¹ Case No. 2011-00395, *Application of Atmos Energy Corporation to Extend Its Demand-Side Management Program as Amended and Cost Recovery Mechanism as Amended for Five (5) Years* (Ky. PSC Apr. 27, 2012).

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

Residential Low-Income Weatherization Program

Atmos proposed to continue to include funding for weatherization at the existing weatherization program cap of \$375,000, based on an estimated 125 participants with a cost of \$3,000 per low-income customer served. Atmos has averaged approximately 114 homes weatherized per year over the 15 years since its program inception, with a high of 156 homes in 2001 and a low of 69 homes in 2013 and 2014.² In the Final Order in Case No. 2011-00395, the Commission stated, "If the estimated participation level does not materialize . . . the cost recovery component for weatherization will obviously be in excess of what is required in the residential rate component." Although Atmos stated in Case No. 2011-00395 that it believed it would see an increase in its weatherization program participation due to the expected expiration of funds provided by the American Recovery and Reinvestment Act of 2009, it confirmed in response to a Staff request for information that no increase in participation occurred.³ Atmos stated that it has discussed weatherization program participation levels with the local help agencies that administer the program, and that they indicated that their staffing levels

² Updated Atmos Cares Report, Response to Staff's Second Request for Information ("Staff's Second Request"), Item 1.

³ Response to Staff's First Request for Information ("Staff's First Request"), Item 4.

sometimes create a challenge in the low-income home weatherization process. Atmos further stated that it plans to meet with those agencies again this spring, making participation levels the main discussion item.

Atmos stated that it had not considered reducing the weatherization program funding level included in the proposed rate component, but that it would be amenable to using a lower participation estimate than the current projection of 125 homes. It suggested the continuation of the per-household funding level of \$3,000, and the continuation of the \$375,000 cap.⁴

Appliance Rebate Programs

Atmos proposed to continue offering its space- and water-heating rebate program to residential and commercial customers. Atmos tiers the rebates so that higher rebates are offered for the purchase of appliances with relatively higher efficiency. Atmos's heating-appliance rebates for both residential and commercial customers are:

Space heating

- \$250 rebate to new or existing customer purchasing a new forced-air furnace with 90 to 93 percent efficiency;
- \$325 rebate for a forced-air furnace with 94 to 95 percent efficiency;
- \$400 rebate for a forced-air furnace with 96 percent or greater efficiency;
- \$250 rebate for a boiler with greater than 85 percent efficiency; and
- \$25 rebate for a programmable thermostat.

⁴ Response to Staff's Second Request, Item 2.

Water Heating

- \$200 rebate for a new high-efficiency .62 to .66 energy factor, 40-gallon or greater tank model water heater;
- \$300 rebate for a new high-efficiency .67 or greater energy factor, 40-gallon or greater tank model water heater; and
- \$400 rebate for a new .82 or greater energy factor tankless model water heater.

Atmos proposed that its third-party vendor, Energy Federation, Inc., continue to manage rebate disbursements, with no increase in cost per rebate.

In addition to the space- and water-heating appliance-rebate program, Atmos is proposing to continue without modifying its existing rebate program for commercial cooking appliances. Atmos offers \$500 rebates to existing or new commercial customers that change their current fryer, griddle, oven, or steamer to an EnergyStar model. Atmos stated in response to a Staff request for information that the commercial rebate programs have not been as successful as originally envisioned. Although Atmos estimated in Case No. 2011-00395 that 1,130 commercial customers would participate in its rebate programs, the total cumulative participation since the July 2012 inception of the commercial programs has been 306.⁵ In Case No. 2011-00395, Atmos indicated a willingness to consider tiering rebates for levels of appliance efficiency, as it had proposed, and the Commission approved, in that proceeding for space- and water-heating rebates. The Commission found in its Final Order that Atmos should explore the possibility of offering tiered rebates for commercial cooking appliances and should provide a proposal for their inclusion, or explain why it is not proposing tiered rebates, in

⁵ Updated Atmos Cares Report, Response to Staff's Second Request, Item 1.

its next DSM program extension application. Atmos stated in its Application in this proceeding that it chose not to propose tiered rebates for commercial cooking equipment due to the lack of energy-efficiency standards for such equipment. Any tiered rebate proposal for commercial cooking equipment would therefore be arbitrary, in Atmos's opinion.⁶

Education Program

In Case No. 2011-00395, the Commission approved Atmos's proposal to expand its targeted elementary school education program to include all grade levels as well as adult literacy, with the intention of expanding awareness leading to changed usage patterns. Atmos is not requesting additional funding for the expanded program beyond the previously approved \$20,000 budget. Despite the increase in presentations and numbers of students and adults reached, the updated Atmos Cares Report shows that annual expenses for this program have been significantly below the funding included in its current and projected cost. In response to a Staff request for information, Atmos indicated it would be willing to use a lower amount for projected spending, and that it believes \$5,000 per year would be an appropriate funding level for the program.⁷

DISCUSSION

The record reflects that Atmos has spent much less than the \$375,000 included as program cost for the Low-Income Weatherization Program. However, since it previously has had as many as 156 participants in a single year, and spent an average

⁶ Response to Staff's First Request, Item 1.

⁷ Response to Staff's Second Request, Item 3.

of \$2,400 per household over the last three years,⁸ the \$375,000 program cap continues to be reasonable. Nevertheless, based on Atmos's inability to realize higher participation levels more recently, and on the relatively low level of weatherization of low-income households in 2013 and 2014, the Commission finds that, as Atmos suggests, the \$3,000 estimated cost per household should be applied to a participation level lower than 125. Using the 15-year average participation level of 114 produces a projected Weatherization Program cost of \$342,000. The Commission notes that if Atmos experiences higher participation levels for this program, it can use the DBA for any short-fall in recoveries up to the \$375,000 annual cap. Otherwise, the Low-Income Weatherization Program should be approved to continue as proposed.

Likewise, Atmos's proposed residential and commercial appliance rebate programs should be approved as proposed. Atmos's decision not to offer tiered rebates for commercial cooking appliances based on the lack of efficiency standards appears reasonable, especially in light of the low levels of commercial customer participation for the first three years of the programs. Atmos's rebate program cost projections appear reasonable and should be approved for the calculation of the DSM rates for each class.

Atmos's proposal to continue its existing education program should be approved, with the cost included for the education component reduced to \$5,000, based on its historical annual spending level and as suggested by Atmos. The supply expense of \$10,000 allocated between residential and commercial customers in the amounts of \$6,700 and \$3,300 should also be reduced to \$5,000 and allocated in the same relative amounts, with \$3,350 included in the residential rate calculation and \$1,650 included in the commercial rate calculation.

⁸ Updated Atmos Cares Report, Response to Staff's Second Request, Item 1.

In order to provide information concerning the cost-effectiveness of its DSM program, and as required by the Commission's Final Order in Case No. 2011-00395, Atmos provided in its Application the California Standard tests – the Participant Test, the Program Administrator Test, the Ratepayer Impact Measure ("RIM"), and the Total Resource Cost Test ("TRC") for its DSM program as a whole, and for individual program components by customer class. The results of its tests showed that Atmos's DSM program in total had results greater than one for the Participant and Program Administrator tests, which indicates that the programs are cost-effective, and less than one for the RIM and TRC test, which indicates that the programs are not cost-effective. The Commission notes that the reduction in the residential weatherization and education program costs required herein would cause the result of the TRC test to improve to greater than one. The results for the California Standard tests for the rebate programs showed results greater than one, except for the RIM tests. The Low-Income Weatherization Program produced test results of less than one for all tests, although the results would be improved by reducing the weatherization funding as found reasonable herein. No tests were performed for the Education Program, for which no savings were quantified.

Atmos stated in response to a Staff request for information that continued lower gas prices will tend to prevent gas DSM programs from passing cost-effectiveness tests. It fears that offering only programs that pass cost-effectiveness tests, which would exclude low-income weatherization and education programs, would result in no programs for customers with the greatest need and an uninformed customer base

having no information on how to comfortably and effectively reduce natural gas consumption.⁹

As the Commission stated in its Final Order in Case No. 2011-00395, the results of cost-effectiveness tests will be considered as part of the Commission's overall evaluation of Atmos's DSM program as a whole and in all its parts, and will not be the sole deciding factor in the Commission's deliberations. Atmos should file the same tests with its next application for continuation of its DSM programs.

With regard to the calculation of the DLSA, Atmos acknowledged in response to a Staff request for information that previous lost sales included in its last rate case, Case No. 2013-00148,¹⁰ should be excluded from the calculation of DSM rates, and the DLSA rate should be reduced accordingly to \$0.0020 per Mcf for residential customers and to \$0.0010 per Mcf for commercial customers.¹¹

Atmos's DSM programs and cost recovery as proposed or as developed through the process of discovery and as revised herein are reasonable and should be approved.

SUMMARY

After reviewing the record in this proceeding and being otherwise sufficiently advised, the Commission finds that:

1. Atmos's request to continue all its DSM programs with no revision for three years up to and including April 30, 2018, should be approved.

⁹ Response to Staff's Second Request, Item 6.

¹⁰ Case No. 2013-00148, *Application of Atmos Energy Corporation for an Adjustment of Rates and Tariff Modifications* (Ky. PSC Apr. 22, 2014).

¹¹ Response to Staff's Second Request, Item 5.

2. Atmos's request to continue the current funding levels of \$375,000 for its Low-Income Weatherization Program, \$20,000 for its Education program, and \$10,000 for Supplies should be denied. Those levels should be reduced to \$342,000 for the Low-Income Weatherization Program, \$5,000 for the Education program, and \$5,000 for Supplies, to be allocated \$3,350 to residential customers and \$1,650 to commercial customers. Atmos's request with regard to all other program cost should be approved. This results in a revised Total DCRC of \$917,898 for residential customers and \$79,004 for commercial customers, which produces a revised DSM cost-recovery rate of \$0.0830 per Mcf for residential customers. There is no effect on the proposed commercial DSM cost-recovery rate.

3. The reduced Total DCRC for residential customers results in an increased Net Resource Savings of \$579,658 and DIA recovery amount of \$86,900 for residential customers, producing an increased DIA Adjustment of \$0.0080 per Mcf. The commercial DIA Adjustment remains unchanged by the increase in DIA recovery amount to \$12,200.

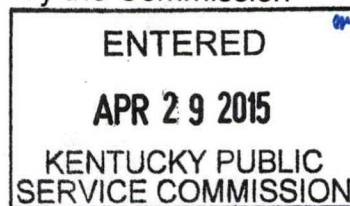
4. Atmos should file its next application for further extension of its program no later than October 31, 2017.

5. Atmos's next application for further extension of its program should include California tests plus any other cost-effectiveness tests desired by Atmos for each DSM component individually, by class, as well as for the program as a whole. The test results will be considered as part of the Commission's overall evaluation of the program as a whole and in all its parts and will not be the sole deciding factor in the Commission's deliberations.

IT IS THEREFORE ORDERED that:

1. Atmos's DSM Program shall be approved as set out herein effective on and after May 1, 2015, through April 30, 2018.
2. Atmos's proposed residential and commercial DSM rates are denied.
3. The DSM rates in the Appendix to this Order are approved for final meter readings on and after May 1, 2015. The residential and commercial DBA rates are those proposed by Atmos at the time it filed its Application.
4. Atmos shall include cost-effectiveness tests as set out in finding paragraph 4 above with its next application, due no later than October 31, 2017, for further extension of its DSM programs.
5. 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.

By the Commission



ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2014-00382 DATED **APR 29 2015**

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 authority of the Commission prior to the effective date of this Order.

DSM Cost Recovery Component (DSMRC-R)

DSM Cost Recovery – Current	\$0.0830 per Mcf
DSM Lost Sales Adjustment	\$0.0020 per Mcf
DSM Incentive Adjustment	\$0.0080 per Mcf
DSM Balance Adjustment	<u>(\$0.0223) per Mcf</u>
DSMRC Residential Rate G-1	\$0.0707 per Mcf

DSM Cost Recovery Component (DSMRC-C)

DSM Cost Recovery – Current	\$0.0180 per Mcf
DSM Lost Sales Adjustment	\$0.0010 per Mcf
DSM Incentive Adjustment	\$0.0030 per Mcf
DSM Balance Adjustment	<u>(\$0.0770) per Mcf</u>
DSMRC Residential Rate G-1	(\$0.0550) per Mcf

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