CASCADE NATURAL GAS CORPORATION
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Comments from Cascade Natural Gas Corporation Regarding
Washington Utilities and Transportation Commission Docket UG-121207
Commission Investigation into Natural Gas Conservation Programs.

Thank you for the opportunity to submit comments regarding Washington Utilities and Transportation Commission Docket UG-121207, Commission Investigation into Natural Gas Conservation Programs. As stated in prior comments submitted in this docket, Cascade Natural Gas Corporation remains interested in maintaining robust, and cost effective, natural gas conservation efforts in the State of Washington. We believe such efforts are highly valuable from both a long and short term perspective, and offer a vehicle for consistent, positive energy use behavior by consumers.

It is important to maintain a consistently inclusive offering of natural gas conservation incentives. Energy conservation and consumption decisions made in homes and buildings today have long term impacts. A lower efficiency furnace or water heater is a 20-30 year “lost opportunity” for deeper therm savings potential. It would also be decades before a home built below the Energy Star standard is eligible for retrofits. Incentives from natural gas utilities to build to a higher standard of efficiency capture conservation opportunities and technologies available today and provide a higher bar for future retrofit activities.

To this end, the Company sees the maintenance of natural gas conservation efforts as critical to maximizing the potential of its Demand Side Management efforts and benefits from both a utility and environmental standpoint. We believe it would be shortsighted to discontinue natural gas conservation efforts based solely upon a singular cost-test, without looking at the broader value and benefits of such programs.

Below you will find the Company’s responses to the five questions being posed by the Commission regarding natural gas conservation programs. Again, we appreciate the opportunity to provide our view on these matters:

Question 1: Should Commission continue to use the Total Resource Cost (TRC) or switch to using the Utility Cost Test (UCT) to evaluate the cost-effectiveness of the portfolio of natural gas conservation programs?

Cascade Natural Gas Corporation recognizes the Total Resource Cost Test to be but one of several approaches to measuring the value and benefits of natural gas conservation efforts. It is important to note the actual inputs utilized in the TRC can vary from jurisdiction to jurisdiction. This means depending on where you are in the United States or Canada, the TRC may include different discount rates and energy/non-energy benefits depending on regulatory parameters and who is administering the test.

The Utility Cost Test is considerably more straightforward and ensures the Company's investment in Demand Side Management is prudent and that rebate levels are reasonable and cost-effective. This test should serve as the "last line of defense" for natural gas conservation programs, since it is more consistent and less subject to variation of structure and interpretation. In other words, a program should only be removed if it fails from both a TRC or other cost test *and* from the UCT perspective. The Company respectfully recommends this be considered particularly during times of low gas costs, in order to avoid lost opportunities for greater natural gas savings as described earlier in these comments.

That being said, in its latest tariff filing to update the program offerings in its residential conservation portfolio, the Company decided to utilize an inclusive version of the TRC allowing for a more societal focused discount rate, as well as a measure-by-measure quantification of non-energy benefits. The residential portfolio is under 1.0 from a TRC cost benefit test, but is over 1.0 from a Utility Cost Test. Management of administrative expenses will help make the residential programs more viable from a TRC perspective, and the programs will almost certainly be cost effective from a TRC at the portfolio level (commercial + residential programs).

In short, while we believe the Total Resource Cost Test can provide some perspective on the value of natural gas conservation efforts, the label of a 1.0 cost benefit from a TRC perspective does not alter the reality of the value of these programs and should not preclude otherwise valuable natural gas conservation efforts from taking place, as long as measures are able to pass the Utility Cost Test.

Question #2: What Criteria Should be Met Before Stopping a Portfolio of Programs?

Cascade agrees stopping and restarting conservation programs can have a variety of unintended consequences, and risks lost opportunities for conservation and carbon mitigation efforts that would not be taking place if rebates and other incentives encouraging the optimized use of natural gas were discontinued.

As the Company engaged in its 2012 Integrated Resources Plan, it was impossible to ignore the potential impacts of the reduced projected cost of natural gas to the overall cost effectiveness of our conservation programs. We understood reductions to avoided costs had the potential to reduce the viability of our natural gas conservation/demand side management efforts. We also understood extreme alterations or reductions to our efforts would result in impacts to our DSM efforts, our customers, our trade allies, and our future ability to effectively deliver energy conservation programs.

This prompted Cascade staff to carefully review our Residential and Commercial conservation portfolios to determine if any changes or reductions would be needed in light of lowered avoided costs. What the Company found was that only minor adjustments would be needed to our Commercial/Industrial programs. However, we realized the Residential Conservation portfolio would require closer examination. While the Residential Conservation Incentive Programs looked viable from a UCT and TRC perspective under the avoided costs from the 2010 IRP, the program did not fare as favorably under the TRC with the lowered avoided costs. We also reviewed studies from the Energy Trust of Oregon that suggested some natural gas insulation and duct sealing measures were in need of downward adjustment. We asked ourselves a few questions regarding this portfolio in order to better understand what was taking place. Our internal questions included the following:

- Are our underlying assumptions for the measures in our portfolio accurate in light of newly available data regarding measure costs and changes in incremental savings?

- Is a blanket 10% adder for non-energy benefits the best approach, or should such benefits be evaluated at a measure-by-measure basis to ensure a more accurate assessment of their value before considering elimination?

- Is the method we are using to deliver our programs still viable in light of a lowered cost-effectiveness threshold? Are there other creative or innovative forms of program delivery that might be more cost-effective?

- Are we measuring our conservation efforts by the correct criterion? What is the most appropriate way to measure the health and value of our natural gas conservation efforts?

- What would the consequences and lost opportunities be in the event we discontinued our natural gas conservation programs? Have we reached the point where the harm of continuing with such programs outweighs the immeasurable good they provide?

After asking ourselves these questions, we decided discontinuation of our residential portfolio would not be a wise option at this juncture while other program modification options still existed.

We took a careful look at each individual measure, updated assumptions as appropriate and did a more focused evaluation of the non-energy benefits. We also consulted with our Conservation Advisory Group regarding program delivery options, and determined a three-fold approach would be most appropriate to ensuring the continuation of our conservation efforts.

This approach included (a) issuing an RFP for a Washington-focused reassessment of our conservation potential (b) making immediate updates to each measure based on available data and industry best practices and (c) identifying a cost effective method combining both an in-house and vendor-supported approach to deliver our residential programs.

These are the criteria Cascade Natural Gas Corporation set for itself before making any decisions regarding the continuation of its programs. In the event that the cost of natural gas continues to drop, or that the Commission decides a conservation TRC approach must govern, we would anticipate having to reassess our decision and make cuts to our offerings under such circumstances. In such a case we would not be opposed to undergoing the process described under Question 2, but would seek assurance that we would not be penalized for operating programs that did not pass the Total Resource Cost test during the time in which we were gathering the information/evidence needed to justify discontinuation of the programs.

Question #3: Accounting for Program Start and Stop Costs in the Cost Effectiveness Test

Cascade agrees it is important to consider the costs associated with stopping and restarting natural gas conservation programs and that the benefits of maintaining the programs from a "large picture" perspective might be appropriately included within the parameters of a cost test.

That being said, this level of complexity would not be necessary if the WUTC allowed the use of the Utility Cost Test to be the governing criteria.

Question #4: Market Transformation Programs/Northwest Energy Efficiency Alliance (NEEA)

While Cascade supports the concept of market transformation applied to natural gas conservation efforts, we would *strongly* caution against mandating financial support of NEEA's efforts to establish a pilot market transformation program.

As stated in our response to earlier questions, as well as in statements in our Integrated Resources Plan and to our Conservation Advisory Group, the Company is making all possible efforts to continue offering a prudently developed and cost-effective offering of natural gas equipment and weatherization incentives to its customers throughout Washington State. We have gone to great lengths to ensure the reduction of administrative expenses in 2013 and in future program years. Based on our careful plans and calculations, we should be able to offer a *growing* portfolio of actual, physical, deep-savings measures that can be measured in a quantifiable manner. We will also soon be investing in an equipment discount program that will lower the cost of high-efficiency natural gas conservation measures for our Trade Allies. This program is another means of helping to achieve greater proliferation of high efficiency equipment on the local market.

In Cascade's specific case, if we were mandated to support NEEA's marketing transformation programs, the cost-effectiveness of our portfolio would diminish and we would be forced to sacrifice innovative customized approaches as well as "hard" conservation measures for the reduced certainty of market transformation. This is not to disparage the efforts of NEEA, or the value of market transformation, but it should be the individual choice of a natural gas utility's Conservation Management team as to whether or not financing NEEA efforts should be part of their overall conservation strategy.

That being said, in the event *no other natural gas conservation options* were found to be cost effective by an LDC, it would perhaps be reasonable to mandate support of NEEA, or a similarly minded organization such as Washington State University's Energy Extension Program, as long as the efforts were pre-designated as cost-effective by the WUTC.

Question #5: Apply the Savings to Investment Ratio Test for Low Income Programs

Cascade Natural Gas strongly supports the Weatherization Assistance Program and agrees providing energy efficiency services to low income customers is in the public interest, and should not be evaluated through the traditional criteria utilized for other utility conservation programs.

The Company supports accepting the TREAT or REMRATE report provided by the Community Action Agencies delivering the weatherization projects eligible for a natural gas utility incentive, as proof a measure is cost-effective. Additionally, Cascade supports the use of the Priority List of Weatherizaton Measures provided to the Community Action Agencies by the Washinton Department of Commerce in the determination of which specific measures are cost effective.

Thank you again for the opportunity to submit comments in this docket. Please direct questions to Allison Spector, Manager of Energy Efficiency and Community Outreach or Michael Parvinen, Director of Regulatory Affairs.

Sincerely,

Allison Spector

Manager of Energy Efficiency & Community Outreach
Cascade Natural Gas Corporation