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April 8, 2013

**VIA ELECTRONIC FILING**

David W. Danner, Executive Director & Secretary  
Washington Utilities and Transportation Commission  
1300 S Evergreen Park Drive SW  
Post Office Box 47250  
Olympia, Washington 98504-7250

Re: UG-121207 - NW Natural's Reply Comments in the Commission's Investigation into Natural Gas Conservation Programs

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural (NW Natural or the Company), submits its responses below to the questions and issues presented by the Commission in its March 22, 2013, Notice of Opportunity to file Written Comments in the subject docket.

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

NW Natural believes that the appropriate cost effectiveness standard for energy efficiency programs is the TRC test applied at the portfolio level.<sup>1</sup> By using the test at the portfolio level, a utility is allowed the discretion of offering a balance of measures that are on the cusp of being cost effective with others that have a TRC greater than 1. With this standard, a utility is able to influence the market transformation of measures that are likely to come down in cost as adoption rates increase over time, and overall, all customers are getting cost effective savings.

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<sup>1</sup> In these comments, the Company uses the term "portfolio" to refer to the compilation of many incentive measures that are organized and offered under various conservation programs that are offered to multiple customer sectors.

Further, NW Natural believes the TRC is the appropriate tool when comparing demand-side management with supply-side resources as Washington utilities are required to do for least cost planning per WAC 490-90-238.

Applying the UCT at the portfolio level would be extremely permissive. The UCT does not consider the full costs of the energy savings being acquired and may result in customers overpaying for those savings.

For these reasons, the Company recommends that cost effectiveness be determined by applying the TRC at the portfolio level.

2. What criteria should be met before stopping a portfolio of programs?

The Company believes the appropriate criteria for a program is the application of the TRC at the portfolio level to ensure the program is cost effective. However, in the Notice to File Written Comment, the Commission's remarks following this question focus not on criteria, but on recommended actions to precede filing to stop a portfolio of energy efficiency programs. In some instances, the recommended actions may serve a purposeful objective, but in aggregate they may have the consequence of delaying or inhibiting the cessation of a non-cost effective program that continues at the ratepayer's expense. Overall, NW Natural believes these recommended actions for a utility stopping a portfolio of programs are burdensome, may not obtain the intended objective, and will incur costs that parties may argue are not recoverable. The Company will address each recommended action below:

**A. Communication with other utilities**

Staff recommends a forum for communicating cost test inputs with other utilities. The Company believes this suggested forum may resemble the regional technical forum (RTF), which was formed in 1999 to develop standards to qualify, verify and evaluate electric energy conservation savings for Northwest Power Planning and Conservation Council, the Bonneville Power Administration, and the region's electric utilities. The Company's program administrator, Energy Trust, participates in the RTF and confirms that the process of collaborating and agreeing on assumptions for measures is useful towards achieving nonbiased savings assumptions for measures, but that the process is time consuming. In order for a forum to provide the useful end of assessing data and determining what savings estimates should be applied, it must be meeting consistently on an ongoing basis. This is not a process that can be developed to challenge or change the assumptions when a utility is filing to stop a non-cost-effective program.

Overall, it is an interesting suggestion that would remedy any concern regulators or parties may have regarding the use of utility evaluation, valuation, and monitoring data for the prudence review of those utilities' program costs. But this is a big undertaking that requires more definition and significant discussion and design work among stakeholders. The Company would caution the Commission against trying to initiate too many wholesale changes at one time.

**B. Consult with advisory group**

In compliance with the process outlined in its Energy Efficiency Plan, NW Natural consults with its advisory group before filing any tariff change and would expect to do so if it were to request to cancel its programs.

**C. Issue an RFP for a conservations services provider**

NW Natural recognizes the value of RFPs but opposes the proposal that issuing an RFP would be required when a portfolio of programs is found to be non-cost-effective. The RFP process would likely be costly and time consuming, and might not result in useful, if any, bids for the delivery of cost effective conservation programs.

Further, receiving bids may not prove that the utility's delivery costs are too high because for most commonly employed, practical program contracts, the bidder's final costs are not known until later in the delivery process. Pay-for-performance contracts are a notable exception, but the added costs to the contractor for guaranteed delivery, and the management systems and financial backing associated with that, can significantly increase bid costs. Infrastructure costs to solicit, review, contract, and oversee services for a performance-based contract can be significant, particularly for a utility with a small service territory. Unless the contract is restricted to "deemed" measures without evaluation (which would create significant performance uncertainty), oversight of savings validation is particularly labor and expertise intensive. Overall, the Company believes it would be a mistake to require this approach.

If a utility were to consider issuing an RFP as suggested, it would be useful to understand if the Commission would allow a utility to recover the costs associated with the RFP process as well as the costs for delivering its non-cost-effective portfolio, and potentially, the non-cost-effective portfolio delivered by the third party.

**D. Restart Plan**

The recommendation that a utility forecast the date when DSM would be a cost-effective resource is sound, but the Company believes this is already required as

part of the Integrated Resource Planning (IRP) process, wherein utilities compare demand- and supply-side resources on an equal basis and establish the resources needed to meet customer demand for a timeframe of no less than ten years. NW Natural believes that the current IRP process would require a utility that has ceased offering conservation programs to define at what point DSM would again be a least cost resource. NW Natural does not believe this analysis should be duplicated outside of the IRP.

**E. Request to discontinue Plan in the Company's Energy Efficiency Plan**

NW Natural acknowledges that its Energy Efficiency Plan would have to be modified if the Company were to request to cease offering its programs. The Company expects it would work with its advisory group and would provide a tariff filing with the requested content.

Again, NW Natural notes that A through E define actions a utility would take if the criteria defined for establishing cost effectiveness is not met. NW Natural advocates against the addition of time consuming and costly activities that would prolong the delivery of a non-cost-effective portfolio. NW Natural continues to believe that it would be more direct and appropriate for the Commission to make it policy that weatherization measures are a required utility offering and, as such, not included in the portfolio-level cost-effectiveness test. As stated in its comments submitted in the subject docket and dated October 5, 2012, the Company continues to advocate that the upper end of a utility's investment in weatherization measures should be defined at the program level by the Participant Test (PT), which measures the economics from the perspective of the customer installing DSM measures.

3. Accounting for program start and stop costs in the cost effectiveness test.

The Commission suggests that a utility include costs for starting and stopping its program in its avoided cost. The Company believes this is a fundamentally flawed suggestion. It might theoretically make sense to include the avoidance of these costs as a benefit in a cost benefit analysis. One way to do so is to depict them as a purchasable option which creates value by making efficiency more affordable should avoided costs go up in the future. This option would allow purchase of efficiency instead of gas in scenarios where gas costs are high. However, these costs do not belong in the avoided cost because they are not, literally, an alternative to efficiency costs. Incorporating them in this way would skew least cost planning analysis.

Even if there is an appropriate way to include this cost, or value, in least-cost planning, the idea of quantifying the cost in any generalizable way is extremely problematic. In short, it would be a significant, complex study to estimate these costs in a single situation; the estimates would not be very accurate; some of the

resulting impacts can only be described; and the impact estimates could not be generalized to other situations.

Start and stop costs vary dramatically between different types of programs. For example, a shower head mail-out program may be relatively easy to start and stop because the transaction is simple, the supply chain is short, quality control issues are few and easily addressed, and many contractors are available nationally who will come to a service territory and provide that type of service. By contrast, a simple rebate-based weatherization program open to all contractors has a large and complex supply base, a complex mix of transactions, quality control issues that can be managed best by long-term relationships, and a sales force that is not as directly tied to a contract with the utility.<sup>2</sup> In this situation, start and stop costs, and damage to the ability to accelerate markets are many and complex. The difficulty also depends on the length of the lag, the maturity of the market and program, and many other factors. Furthermore, in any single situation, the costs are difficult to pin down with any reliability, and the impacts on marketing can only be estimated.

This suggestion might delay or deflect decisions by utilities to discontinue programs, but without regard to the merits of the situation.

As stated in its prior comments, NW Natural believes it would be to each interested parties' benefit if the Commission were to mandate that gas utilities deliver weatherization programs rather than imposing questionable analysis that tries to tip the scales towards a policy but will leaves the utility with costs that it may not be able to recover.

4. Utilities should financially support NEEA's effort to establish a pilot market transformation program for natural gas conservation.

NW Natural supports the proposal for gas utilities to consider financially contributing to NEEA. The Company recognizes the benefit of having an entity upstream of the conservation programs that would work on market transformation. This role has been missing for natural gas appliances and technologies. Since NEEA has historically focused on the electric market, the Company recommends that gas utilities consider investing in NEEA for a defined pilot timeframe, during which gas utilities could explore how well this organization could adapt its skills to gas technologies. For this pilot, NEEA would need to assemble a board of gas experts that were not biased towards electric technologies. The Company does not recommend implementing this suggestion simultaneously with the RTF-like forum

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<sup>2</sup> The utility provides supplemental funding for a type of work that is part of the contractor's portfolio.

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suggested under No. 2(A) of the Commission's comments, as both would be large undertakings by themselves.

5. Apply the savings-to-investment ratio test for low-income programs.

NW Natural agrees that low income conservation programs provide an important public service, and the Company supports a policy or cost-effectiveness standard that allows utilities to continue providing these valuable services to applicable customers.

NW Natural appreciates the opportunity to respond to this inquiry and looks forward to participating in the open meeting scheduled April 11, 2013.

Please contact me at (503)226-4211, extension 3590, if you have any questions.

Sincerely,

*/s/ Jennifer Gross*

Jennifer Gross  
Rates and Regulatory Affairs