



Rob McKenna
ATTORNEY GENERAL OF WASHINGTON

800 Fifth Avenue #2000 • Seattle WA 98104-3188

September 18, 2009

SENT VIA E-MAIL AND ABC/LMI

David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: NW Natural's Tariff Revision Introducing a New Energy Efficiency Program and
Revising the Low-Income Energy Efficiency Program
Docket No. UG-091044

Dear Mr. Danner:

Public Counsel submits this letter in advance of the Commission's September 24, 2009 Open Meeting with regard to NW Natural's proposals to implement a new energy efficiency program and to revise the low income energy efficiency program.

Public Counsel has been an active participant in NW Natural's Energy Efficiency Advisory Group (EEAG). As stipulated in Order 04 in UG-080546, the EEAG will oversee the development of the Company's Washington energy efficiency or demand side management (DSM) programs in consultation with NW Natural and the Energy Trust of Oregon (ETO). The ETO has been tasked with the development and administration of NW Natural's Washington DSM programs for a one-year pilot period. The results of these planning efforts are set forth in NW Natural's Washington Energy Efficiency Plan (the Plan) filed in Docket UG-091044.

These comments discuss what Public Counsel believes are some of the positive aspects of the Plan, as well as our view that at the conclusion of the pilot it will be critical to closely examine whether the ETO can deliver NW Natural's DSM programs cost-effectively. Public Counsel is particularly pleased by three modifications NW Natural made to the Plan, following the advice of the EEAG, as described below.

(1) First Year Metrics. The Plan, in its draft stages, originally included only "performance indicators" such as the number of residential customers receiving Home Energy Reviews (HERS) in the first program year. While these performance indicators remain in the plan, the Company also agreed to include more quantitative first-year performance metrics such as: targets for therm savings, total program costs, costs per-therm, and the percentage of total costs dedicated to customer incentive pay-outs. The

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ETO will also utilize the benefit cost ratio tests to determine program cost effectiveness. Public Counsel believes the inclusion of these metrics will provide a means to thoroughly evaluate program cost-effectiveness and performance and will thus assist in determining the success of the pilot.

(2) Cost Comparison of DSM Delivery Options. At the end of the pilot period, the Company will provide a report documenting the ETO's achievement of its first-year metrics and the cost-effectiveness of the program using the benefit cost ratio tests. Public Counsel strongly believes that an evaluation of the cost effectiveness of the ETO's service must include a comparison of estimated costs for other DSM program administration and delivery options that the Company could pursue, such as administering DSM programs in-house or using a third-party administrator located in Washington. NW Natural was amenable to performing this analysis and agreed to provide the EEAG with a paper benchmarking ETO-delivered programs against other Washington utility delivered DSM programs.¹ This report will be presented in conjunction with the first-year final report.²

(3) Amortization of Start-Up Costs. In its initial filing, the Company requested that an accounting order be issued to allow for the deferral and five-year amortization of DSM program start-up costs, estimated to be \$150,000. Public Counsel expressed concern that a five-year amortization seemed rather long, particularly for a one-year pilot. An analysis of the rate impact of recovery of start-up costs over one year, as compared to five years, showed that the average monthly bill impact for residential customers would increase from \$0.89 to \$1.00. It was subsequently determined by all EEAG participants that the amortization of start-up costs over one year was more appropriate.

As stated in the Plan, the ETO predicts that the per-therm costs and the average levelized costs for providing DSM programs in Washington will be somewhat higher than in Oregon. The ETO has indicated this is due in part to some significant differences between the DSM markets in Clark County and the ETO's Oregon service territory. For example, there is a smaller industrial sector in Washington that the Company does not intend to serve in the first program year, and a residential retrofit sector characterized by newer homes in Clark County where savings may be harder to achieve and more costly.³ The ETO also does not plan to deliver new construction

¹ NW Natural's Energy Efficiency Plan for Washington, WUTC Docket No. UG-091044, Substitute Filing, Schedules G, H and I, Energy Efficiency Programs, p. 2 (filed August 28, 2009).

² This is also consistent with the Company's commitment to perform such an analysis, as stated in their comments submitted in regard to their 2009 IRP. "After that one-year pilot, the EEAG will evaluate the cost-effectiveness of the Energy Trust's work. The EEAG will then determine if the Energy Trust should continue being the delivery arm for the Company's program or not. As Public Council notes, that review will provide a more "rigorous and thorough analysis" of various program delivery options and the cost-effectiveness of those options." NW Natural's Comments in the proceeding on its 2009 Integrated Resource Plan (IRP), WUTC Docket No. UG-080912, p. 10. (filed June 9, 2009).

³ NW Natural's Energy Efficiency Plan for Washington, WUTC Docket No. UG-091044, Substitute Filing, Schedules G, H and I, Energy Efficiency Programs, p. 7 (filed August 28, 2009).

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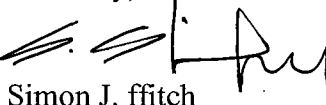
programs in the first year, based on census data for Clark County indicating that new construction starts have diminished significantly in 2008 as well as the additional costs that would be incurred to launch this program.⁴ We believe the Company's pledge to consider adding an industrial energy efficiency program after the residential and commercial markets are well established and to begin offering residential new construction programs when new housing starts justify the cost, are both positive commitments.

The development of NW Natural's Energy Efficiency Plan has been a collaborative process with many positive outcomes which we believe will assist in the effective review of the pilot program. As stipulated in the Settlement Agreement adopted by the Commission, "following this pilot period, the Company will, in consultation with the EEAG, evaluate the cost-effectiveness of continued use of ETO for delivering the Company's energy efficiency programs in Washington."⁵ We are hopeful that the metrics established in the Plan, developed in conjunction with the EEAG, will serve as the framework for a rigorous review and ultimately provide the important information that will enable the Commission to determine whether the ETO is the most cost-effective option for administration and delivery of NW Natural's Washington DSM programs.

As a member of the EEAG, we look forward to working with the Company and the ETO on implementation issues during the coming year. At the conclusion of the pilot period, we will examine the results of pilot, and lessons learned, along with other stakeholders. In addition, by that time, we may have learned more about other models for administration and delivery of utility DSM programs. For example, Cascade Natural Gas has also recently expanded their DSM programs but has chosen a different model for program administration and delivery. Cascade administers the DSM programs in-house, although the Company has contracted out the program delivery.⁶

Lea Daeschel of Public Counsel will attend the September 24, 2009 Open Meeting and will be available for questions.

Sincerely,



FAE
Simon J. Ffitch
Senior Assistant Attorney General
cc: Jennifer Gross, NW Natural (E-mail)
Anne Solwick, UTC Staff (E-mail)
Deborah Reynolds, UTC Staff (E-mail)

⁴ NW Natural's Energy Efficiency Plan for Washington, WUTC Docket No. UG-091044, Substitute Filing, Schedules G, H and I, Energy Efficiency Programs, p. 3 (filed August 28, 2009).

⁵ *WUTC V. Northwest Natural Gas Company*, Order 04, Docket No. UG-080546, Appendix A, Settlement Stipulation, ¶ 19.

⁶ Cascade has two contractors, one delivers the residential DSM programs, and the other the commercial programs.