CASCADE NATURAL GAS CORPORATION
A Subsidiary of MDU Resources Group, Inc.

222 FAIRVIEW AVENUE N., SEATTLE WASHINGTON 98109-5312
PHONE 206-624-3900 FACSIMILE 206-654-4039
WWW.CNGC.COM

June 18, 2010

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

RE: Docket U-100522 Cascade Natural Gas Corporation's Reply Comments Regarding "Investigation of Conservation Incentives"

Dear Mr. Danner:

Cascade Natural Gas Corporation ("Cascade" or the "Company") appreciates the opportunity to submit the following reply comments in response to Docket U-100522.

Cascade's reply comments will focus on the following five areas that have emerged from this docket:

(a) the exploration, necessity, and structure of recovery mechanisms (whether decoupling or lost margin recovery)
(b) the consideration of an independent entity to deliver conservation on behalf of WA utilities
(c) the development of uniform standards and protocols for EM&V
(d) the consideration of low income customer impacts
(e) the discussion of Purchase Gas Adjustment incentive mechanisms

Cascade concurs with other stakeholders to this proceeding that the terms "incentive mechanism" and "recovery mechanism" have sometimes been used interchangeably without proper differentiation between these terms. Cascade and other parties have defined an incentive mechanism as one that provides a financial reward to a utility for conservation achievements. The Company believes that an incentive mechanism cannot adequately address losses resulting from reductions in customer usage and therefore cannot fully break the link between usage and the recovery of a utility's fixed costs. Conversely, a recovery mechanism eliminates the relationship between volumetric sales and recovery of a utility's previously deemed prudent fixed costs. Such a mechanism is essential to removing a utility's disincentive to promote conservation. The Company agrees with other stakeholders that the benefits of an incentive mechanism are limited and must not supplant a properly designed recovery mechanism.

The Company maintains its position that individual utilities are unique and that any rules resulting from this inquiry should be flexible enough to address individual needs as well as the significant differences between the gas and electric industries as a whole. We would therefore advocate for rules and guidance that more effectively enable rate recovery mechanisms but do not prescribe to a "one size fits all" approach.

Recovery Mechanisms

Cascade agrees with other stakeholders' comments that a recovery mechanism should be measurable, transparent, reasonably simple to administer, and easily explained to customers. Cascade agrees with NEEA and other stakeholder comments that any decline in customer usage should be subject to recovery and that differentiating what reductions result from a company's conservation programs versus other measures is difficult to quantify and potentially counterproductive to the achievement of the region's energy efficiency goals.

Cascade also agrees with other parties' comments that the reasons for declining usage are interconnected. For example, if a utility is aggressively marketing specific conservation measures throughout its service territory, customers may decide to engage in the desired behavior (i.e. installing a high efficiency furnace) but may not apply for a company's conservation rebate. Likewise, a customer might be influenced by utility sponsored conservation messaging in a general sense, such as turning back their thermostat. In both cases, the utility would not be able to claim the energy savings but would nevertheless be impacted by the decline in usage. Additionally, if a company knows that they will be made whole from reductions resulting from code changes and higher efficiency standards they have a greater incentive to become more positively engaged in these matters.

Several parties propose to parse out the savings and are concerned about the potential for double counting or over-recovery by the utilities. A simple way to address their concerns would be to adopt a mechanism similar to Cascade's that compares the baseline usage/customer established in the utilities last rate case to the actual usage per customer figures. This approach is transparent, simple to administer and provides the least opportunity for double counting. This type of simple mechanism also addresses the concerns regarding increased load due to new or additional end uses.

Cascade disagrees with Public Counsel's position that a recovery mechanism reduces the incentive for a utility to control costs and improve customer satisfaction. As stated in our original comments, a utility always has an incentive to control its costs or it is at risk of not earning its authorized rate of return. Natural gas is a fuel of choice and if the utility's costs are too high, its rates will not be competitive, and customers will have the choice to leave our system and chose an alternate fuel.

To address concerns that a decoupling mechanism could lead to overearnings, Cascade could support an earnings sharing mechanism where a portion of earnings above a threshold are shared with customers. Utilizing an earnings sharing mechanism as opposed to an absolute earnings cap would provide benefits to ratepayers, as well as an incentive to the utility to continue to control their costs and operate below general rate case baseline expense levels.

The Energy Project has argued that an earnings test needs to be performed in the context of a full general rate case thus defeating the purpose of any mechanism. However, Cascade along with the other Oregon LDCs have been successfully operating under an annual earnings test outside of a rate case for several years. The utilities employ the normalizing adjustments agreed upon from the last rate case, which are part of the annual commission basis report filed annually with the Oregon Commission. We believe this approach provides an adequate earnings test.

Energy Trust Model

Several stakeholders to this proceeding have suggested that the WUTC consider implementation of a third party entity (similar to the Energy Trust of Oregon) that would be responsible for achieving conservation on behalf of the utilities. Several of the utilities in this proceeding are participants in the Energy Trust of Oregon (ETO) and may be able to provide valuable feedback based on their firsthand experience should the adoption of such a model be considered.

Several stakeholders reference Cascade's partnership with the ETO as well as the Company's 0.75% contribution to public purpose funding. Cascade's agreement to partner with the ETO was in conjunction with an overall settlement agreement that allowed the Company to implement its full decoupling mechanism. Without such a mechanism, Cascade likely would not have entered into a relationship with the ETO nor would the Company have been required to do so.

The characterization that Cascade simply "transferred conservation responsibilities" to the ETO is an oversimplification. The Company actively participates and collaborates with the ETO in their Strategic Utility Roundtable, the Conservation Advisory Council, and ongoing program delivery.

Cascade would not necessarily be opposed to the development of a statewide collaborate but we do believe that any such initiative:

(a) Must begin as a pilot, developed with input from all utilities and include their active participation and oversight;

(b) Must meet or surpass the cost effectiveness of utilities' currently offered conservation programs;

(c) Must equally serve the conservation needs of *all* utility customers including both those in urban and rural areas;

(d) Must include utility staff as critical participants in the Trust, with full participation on any resulting Board of Directors;

(e) Must include data sharing protocols with regular reporting to utilities to include (but not be limited to) a monthly report of customers served, measures installed, and deemed therm savings.

(f) Must be a unique entity designed to address the specific needs of Washington state utilities.

It is also important to recognize that Washington utilities are already engaged in aggressive conservation efforts and often engage in collaborations and partnerships that strengthen their ability to provide conservation services to their customers. For example, Cascade Natural Gas, PSE and PacifiCorp are actively involved in partnership with community based organizations that have received ARRA funding to help facilitate energy conservation in low-to-middle income households. The utilities often independently chose to collaborate with each other in order to leverage efforts and ensure customers have access to as many conservation opportunities as possible. Additionally, Cascade has found that even in Oregon, customers are more receptive to messaging from the company than from a third party, as the utilities are often seen as the “energy experts”.

Therefore Cascade would recommend that the WUTC work closely with the utilities to consider the development of a multilateral working group to further streamline opportunities for collaboration between the utilities (with improved “one stop shop” access for customers) and only implement a Trust model if it is deemed prudent after careful examination of all issues, strong input from utilities and assurance that programs would be delivered as- or more- cost effectively than is currently provided through the utilities. It is also important to remember that the ETO model only includes the IOUs and excluding Public Utility Districts and municipalities could leave a large gap in achieving the overall state goals.

Some stakeholders claim that there is “very little regulatory oversight or accountability” in the current system in which utilities deliver their own conservation efforts. Cascade would counter that in addition to their own internal oversight and due diligence, the utilities experience a significant level of oversight of their current conservation activities. Cascade participates in two critical oversight/advisory groups including a Technical Advisory Group (TAG) and Conservation Advisory Group (CAG). There are similarly structured oversight and advisory committees for the other utilities. In addition, under the stipulation of its current decoupling mechanism resulting from Docket UG-060256 Orders 5 – 7, Cascade is held to aggressive conservation targets and is mandated to provide annual reporting of all achievements by program and individual measure. Therefore we are confident that utility conservation programs are held to high standards and that a third party model such as the Energy Trust of Oregon is not critical as a “corrective” measure.

Evaluation, Measurement &Verification

Much stakeholder discussion has taken place regarding the implementation of universal Evaluation, Measurement and Verification (EM&V) standards and protocols and the impact on both recovery and incentive mechanisms. The Company would support transparent, standardized methods and guidelines for the assessment of measure efficiency and cost effectiveness, and believes that the development of "deemed therm savings" may be best addressed at the state level, particularly if a third-party entity similar to Oregon's ETO model was adopted. The Company however does not believe that the results of such post-mortem EM&V should be used to determine whether or not the utility should be allowed to recover costs or for purposes of an incentive mechanism.

It is also critical that costs are either fully recoverable by utilities or covered by the state. The Company believes that it is important that M&V costs should be included in the evaluation of the cost-effectiveness of the portfolio just like any other administrative cost associated with delivering and achieving conservation. To ignore such costs may result in the utilities promoting measures that are not truly cost effective. Additionally, while some utilities are already being mandated to approach M&V expenditures as a mandated percentage of their budgets, we believe it may be more appropriate to first assess the needed tasks associated with an effective M&V efforts and build costs accordingly.

Low Income Impacts

The Company would like to emphasize the active participation of many utilities, including Cascade, in low income conservation programs that provide *significant* funding to Community Action Agencies to deliver conservation services to low income households. These efforts are delivered via the same network of agencies operating the Low Income Weatherization Assistance Program, which over the past few years has received a near-overwhelming amount of funds though both the Department of Energy and the American Recovery and Reinvestment Act. The Washington Energy Matchmakers program allows the agencies to blend utility conservation funds with ARRA and DOE funds to serve even more qualified households.

Unfortunately, while utilities actively partner with agencies to serve low income households, they cannot hold the agencies accountable to formal targets nor force them to serve low income households. These agencies are independent, non-profit, entities that operate under specific state and federal guidelines in the delivery of these programs. Some agencies serving selected Washington counties are extensions of the local city or county government. Therefore we believe that as long as the utility is acting in good faith to provide conservation services to low income customers, we should be able to recover costs from these customers as appropriate.

Additionally, it is critical to note that the Company does not track customers by income status and would therefore have difficulty implementing a separate billing structure for this subsection of customers. And since low income status reflects a point in time status, isolating this subsection of customers would require intrusive updates of customer's personal information. Furthermore, the Company is consciously and actively investing conservation dollars in low-to-middle income energy efficiency coalitions that further leverage our ability to serve populations of CNGC customers who might otherwise be unable to afford the up-front costs of conservation.

Purchase Gas Adjustment Incentive Mechanisms

Some stakeholders have suggested that the existing Purchase Gas Adjustment (PGA) mechanisms provide no incentive for the utilities to reduce gas costs and that eliminating the customer's share of the PGA or implementing a gas purchasing incentive mechanism would be the best way to incent utilities to manage their gas costs. The Company strongly disagrees with the assumption that utilities have no incentive to manage their gas costs. As mentioned earlier in the Company's comments, natural gas is a fuel of choice and as such we must be competitive with alternate fuels or customers will leave our system. Additionally, the assumption that natural gas utilities can "control" the market is incorrect. Differences in gas costs are primarily the result of market factors which are completely outside an LDC's control and on the uncertainties and complexities inherent in forecasting prices. Unlike our electric counterparts, who have several options for generating the energy commodity, natural gas utilities do not produce their supplies and must purchase natural gas in order to meet their core load requirements.

Under a sharing mechanism such as the one currently used in Oregon, the LDC's are responsible for sharing differences between the commodity rates established at the time of the PGA and the actual per therm commodity costs that the utility pays. This type of mechanism provides positive or negative sharing solely as a result of market fluctuations and has nothing to do with how well the LDC procured supplies for its customers. For example, in times of rising prices, the Company could purchase supplies below market price, however because pricing is higher than that forecasted at the time of the PGA, the utility would be negatively impacted by the sharing mechanism. Likewise, when actual costs are lower than the estimate, a sharing mechanism deprives customers of receiving the full benefit of the lower costs.

Cascade appreciates the Commission's consideration of our comments in this docket and looks forward to participating in the upcoming workshop.

Sincerely,

Katherine J Barnard

Katherine J. Barnard
Manager,
Regulatory Affairs & Gas Supply