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May 29, 2009

VIA ELECTRONIC FILING & ABC/LMI

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

Re: Northwest Natural Gas Company
2009 Natural Gas Integrated Resource Plan
Docket No. UG-080912

Dear Mr. Danner:

Enclosed please find an original copy of the Comments on behalf of Public Counsel for filing in the above-entitled docket. For confirmation of receipt, I have enclosed a copy to be date-stamped and sent back to us with the ABC Legal Messenger. A copy was also sent via e-mail on May 29, 2009.

Sincerely,

for

Simon J. ffitch
Senior Assistant Attorney General
Public Counsel Section
(206) 389-2055

SJf:gs
Enclosures

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Northwest Natural Gas Company 2009 Natural Gas Integrated Resource Plan	DOCKET NO. UG-080912

INITIAL COMMENTS OF PUBLIC COUNSEL

May 29, 2009

I. INTRODUCTION

1. On March 31, 2009, Northwest Natural Gas Company (NW Natural or Company) filed with the Washington Utilities and Transportation Commission (WUTC or Commission) its 2009 Integrated Resource Plan (2009 IRP). On April 8, 2009, the Commission issued a Notice of Opportunity to File Written Comments and Notice of Recessed Open Meeting for review of the 2009 IRP. As a member of NW Natural's Technical Advisory Committee, Public Counsel has had the opportunity to provide the Company with feedback and written comments on prior drafts of the 2009 IRP. After review, we respectfully request that the Commission not acknowledge receipt of NW Natural's 2009 IRP in its current form and order the Company to address the specific concerns identified in our comments below.

II. COMMENTS

2. These comments are limited to a discussion of Chapter 4 of the 2009 IRP which deals with demand side resources and demand side management (DSM). At both the recessed open meeting on September 11, 2008, and in a letter and attached comments provided to the Company

dated October 9, 2008, the Commission expressed particular concern regarding the DSM section of the Company's previous IRP. In particular, the Commission expressed concern regarding the Company's failure to examine any alternative to the Energy Trust of Oregon as a conservation program administrator and its failure to evaluate 'new policies and programs' in the absence of decoupling. The Commission stated that they expected NW Natural to address these matters in its next IRP.[1] Public Counsel also submitted comments on the 2007 IRP which highlighted similar concerns.[2] While we believe the Company has begun to take steps to address these issues, the DSM chapter of 2009 IRP continues to suffer from the same serious flaws identified by the Commission in the previous IRP and is not sufficient. Given the severity of these flaws, Public Counsel is requesting the Commission not acknowledge receipt of the 2009 IRP in its current form and order the Company to address the specific concerns identified below.

A. The IRP Inappropriately Discusses Decoupling and Other Rate Tracker Mechanisms

3. NW Natural devotes a substantial section of Chapter 4 to discussing decoupling and other rate tracker mechanisms that could be used to recover the costs associated with DSM programs. Including such a discussion in an IRP is not only inappropriate but also detracts from a more substantive discussion and evaluation of DSM programs and conservation potential. In comments to the Company in its previous IRP the Commission stated that, "the failure to evaluate 'new policies and programs' in the absence of decoupling w[as] notable, especially in

[1] Letter from UTC Executive Director and Secretary David Danner to Inara K. Scott, Northwest Natural Gas Company, RE: NW Natural's 2007 Natural Gas Integrated Resource Plan, WUTC Docket No. UG-070619, (filed October 9, 2008) (hereinafter 2007 IRP Letter).

[2] Initial Comments of Public Counsel on Northwest Natural Gas Company's 2007 Integrated Resource Plan, WUTC Docket No. UG-070619, (filed September 2, 2008).

comparison to the robust analyses of demand forecast and supply side resources."[3] Despite the Commission's comment, the Company has actually *increased* the discussion of rate tracker and lost margin recovery mechanisms in the 2009 IRP, thereby further reducing, in proportion, its discussion of DSM savings potential and programs.

4. The Company considers and discusses a range of different rate tracking and lost margin recovery mechanisms that generally provide additional revenue to the utility, often in between rate cases. Specifically, the IRP includes a discussion of each of the following: (1) decoupling; (2) lost margin adjustment schedule; (3) fixed variable rate design; and, (4) performance based rate-making. The Company's discussion of such mechanisms and alternatives is both premature and does not fall within the appropriate context of an IRP. The IRP, by definition, should be "a plan describing the mix of natural gas supply and conservation designated to meet current and future needs at the lowest reasonable cost to the utility and ratepayers."[4] Public Counsel is not aware of any other Washington gas utility that includes discussions of cost recovery and/or lost margin mechanisms in its IRP DSM analysis. The focus of the Company's DSM chapter should be centered on the analysis of DSM programs and savings potential, not the recovery of possible lost margins associated with these programs or due to other factors altogether such as improved building codes and appliance standards.

5. Moreover, the Settlement Stipulation signed by all parties and approved by the Commission in the Company's 2008 general rate case prohibits NW Natural from seeking approval of a mechanism to recover lost margins associated with reduced usage directly attributable to energy efficiency until at least six (6) months have elapsed after approval of any

[3] 2007 IRP Letter.
[4] WAC 480-90-238.

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tariff filings implementing such programs.[5] As part of the Settlement Stipulation, Parties also agreed to convene an Energy Efficiency Advisory Group "EEAG," to develop energy efficiency programs in consultation with the Company.[6] The Company has not yet filed tariffs to implement energy efficiency programs, but as a member of the EEAG we understand the Company anticipates to file tariffs by June 30, 2009 and therefore, given this date estimate, may not request any lost margin recovery mechanisms, including decoupling, until after December 30, 2009.

6. The IRP is also not the appropriate venue for an extensive discussion on cost recovery for the Company's Washington DSM programs. The Settlement Stipulation to the Company's 2008 general rate case says the Company will begin funding its Washington DSM programs by deferring its cost for future amortization in rates. The Company states in it's 2009 IRP that after these initial decisions are reviewed, the Company may consider collecting the money "upfront" rather than deferring costs, and notes that any such decision will "need to be agreeable to parties to the Company's UG 080546 Washington rate case."[7] The Company then goes on to describe various cost-recovery methods, including: (1) a public purpose charge; 2) deferring costs until the next rate case; (3) including the costs in rate base; and, (4) flowing costs through an adjustment mechanism. While the Company may consider and formally petition to pursue various new methods of cost recovery associated with financing their DSM programs, the IRP is

[5] *WUTC v. Northwest Natural Gas Company,* WUTC Docket No. UG-080546, Final Order Approving and Adopting Settlement Stipulations; Authorizing and Requiring Compliance Filing (Order 04), ¶26.

[6] *Id.* at ¶24.

[7] NW Natural 2009 Integrated Resource Plan, WUTC Docket No. UG-080912, p. 4-19 (filed March 31, 2009.

not the proper place for such a discussion and detracts from the proper tasks and goals associated with integrated resource planning.

B. The IRP Fails to Sufficiently Discuss the Results of the Technical Potential Study

7. In contrast to the extensive discussion of various rate tracking mechanisms and approaches for DSM cost recovery, the 2009 IRP devotes substantially less attention to analyzing the results of the DSM savings potential. This is particularly true for the discussion of technical potential and costs by measure for the residential sector.

8. Section II of Chapter 4, "Methodology—Demand Side Management," provides a summary of the technical and achievable potential for gas conservation by customer class as well as the technical potential and costs of gas conservation savings by measure for the industrial, commercial and residential customer classes. The achievable potential study finds that by 2027 the Company's Washington service territory has an achievable potential of 11 million annual therms of gas savings, 7 million, or approximately two-thirds of which are attributable to the residential class.[8] Overall, the description and discussion surrounding the results of the technical potential study by customer sectors is cursory and lacking in any substantive discussion or results analysis. In addition, the Company fails to provide the same level of detail in results for the residential sector that is provided for the commercial and industrial classes. The Company provides tables with measure-by-measure therm savings potential and associated costs for both the commercial and industrial classes but includes no such specific measure savings or associated costs for the residential class. Instead, the Company provides a short paragraph that generally states the areas of greatest opportunity for residential customers, and refers to

[8] *Id.* at p. 4-4.
[9] *Id.* at p. 4-14.

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Appendix 4 in the IRP which contains measures evaluated for each customer class. The level of detail provided for each class should be congruous in the body of the report, especially given that the residential class represents approximately two-thirds of the achievable savings potential. In addition, the overall amount of discussion regarding these the technical potential savings for all classes should be further developed and explained in Chapter 4.

C. The IRP Provides a Limited Analysis of Conservation Program Delivery Options

9. As the Company notes in its 2009 IRP, the Settlement Stipulation signed by all parties and approved by the Commission in the Company's 2008 general rate case, permit the Company to retain the Energy Trust of Oregon to deliver the Company's energy efficiency programs for a one-year period on a pilot basis.[9] The Company also recognizes that it will need to continue to consider the best and most cost-effective delivery channels for energy efficiency and accordingly provides an analysis of possible options. These include a discussion and cost comparison of company-delivered DSM programs and DSM delivered by a third-party administer such as the ETO.

10. Public Counsel, however, does not believe the discussion provided in the 2009 IRP is sufficient in this regard. The Company states that the ETO procures energy savings for $5 per therm in Oregon and then compares this to projected costs per therm for Cascade Natural Gas, as well as their own estimate of costs per therm for in house DSM delivery.[10] This kind of comparison is not helpful and could be misleading because it compares ETO costs to procure energy savings for Oregon, not Washington. These costs may vary between states. In addition, the Company limits its comparison of costs associated with in-house delivery of DSM programs

[10] *Id.* at p. 4-16.

and associated costs to a single natural gas utility, Cascade Natural Gas, a company with a relatively new conservation program. The Company would do better to include additional comparisons of Washington utilities' in-house conservation programs in their program delivery analysis.

11. Finally, the Company's comparison of delivery options does not provide a thorough demonstration of how calculations were made comparing cost per therm to deliver DSM to Washington customers via in-house delivery, versus a third-party administer such as the ETO. For example, the Company states that they estimate it would cost $18 per therm to deliver DSM to its Washington customers, but provides no evidence or analysis to support this assertion. We expect a much more rigorous and thorough evaluation of various program delivery options will be considered by NW Natural in consultation with the EEAG during review of the Company's one-year pilot permitting ETO to deliver NW Natural's energy efficiency programs.[11]

III. CONCLUSION

12. For the reasons set forth herein, Public Counsel respectfully requests the Commission not acknowledge receipt of Northwest Natural's 2009 IRP as filed on March 31, 2009 and order the Company to address the specific concerns identified in the comments above. Public Counsel appreciates the opportunity to submit comments in this docket and looks forward to participating in the June 11, 2009 Recessed Open Meeting. Lea Daeschel of Public Counsel will be attending this meeting for Public Counsel and will be available to discuss these comments at that time.

[11] *See WUTC v. Northwest Natural Gas Company,* WUTC Docket No. UG-080546, Final Order Approving and Adopting Settlement Stipulations; Authorizing and Requiring Compliance Filing (Order 04), ¶24.