CASCADE NATURAL GAS CORPORATION
A Subsidiary of MDU Resources Group, Inc.
In the Community to Serve®

8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166
TELEPHONE 509-734-4500 FACSIMILE 509-737-7166
www.cngc.com

Comments from Cascade Natural Gas Corporation Regarding Docket UG-121207
Commission Investigation into Natural Gas Conservation Programs

Submitted on August 31, 2012

Thank you for this opportunity to provide written comments regarding the Washington Utility and Transportation Commission's (WUTC) Investigation into Natural Gas Conservation Programs. Since 2002, Cascade Natural Gas Corporation has offered basic incentives for high efficiency natural gas equipment for residential customers. In 2008, the Company significantly expanded its Conservation Programs as part of UG-060256 as one of the conditions associated with receiving revenue decoupling. This expansion included more comprehensive rebates for Community Action Agencies delivering weatherization services to low income natural gas customers; expanded conservation rebate offerings for Residential customers on RS503, and a Commercial Conservation Program with custom and prescriptive rebates available to customers on rate schedules 504, 505, 511, 570, & 577. The Company's decoupling pilot has since expired, but Cascade remains engaged in the delivery of incentives for cost effective natural gas conservation solutions for our customers.

Since our program expansion in 2008, Cascade's conservation efforts have evolved significantly in terms of approach, delivery, and cost-effectiveness. Working through a single Program Management Contractor (PMC) and three dedicated in-house program staff have allowed the Company to minimize program costs and pursue a wide range of natural gas conservation incentives while steadily increasing program cost effectiveness. Most measures within the CNGC residential and commercial conservation portfolios easily pass the Utility Cost Test and Total Resource Cost Test before admin is included. Even with the inclusion of admin, many measures remained cost effective (particularly in the C&I portfolio), and the portfolio as whole remained viable in Program Year 2011. This suggests that there is still an opportunity to make further adjustments to program delivery costs to help maintain cost effectiveness even as the projected cost of natural gas continues to decline.

Cascade Natural Gas believes that maintaining cost-effective natural gas conservation programs in Cascade's service territory is a worthwhile and attainable goal. Therefore, we are pleased to provide the

following thoughts regarding the questions put forth by the Washington Utilities and Transportation Commission below:

What are the appropriate assumptions or factors to include in natural gas avoided cost calculations?

Cascade believes that the electric and natural gas industries are distinct from each other when it comes to conservation. The stakeholders to this investigation should consider viewing conservation as a pure demand side resource. In this context, avoided cost would only be based on capacity-related costs, both pipeline and distribution system. The avoided cost would then be much more consistent among the companies as it would it would be based on the construction of additional pipeline, the construction of additional distribution system, and inflation of those costs over time.

Gas supply or the utility's commodity cost should not be factor into the avoided cost equation for several reasons; First, the companies have no control over the market or the price; Second, gas cost is a pass through therefore not a cost avoided by change in usage, and Third, the conservation programs ultimately have no impact on the price.

If the avoided cost is based on the capacity factors described above then conservation incentive or "demand side management" incentives should be calculated using a Utility Cost Test (UCT). The utility would pay incentives up to what it would otherwise cost the utility add capacity.

It would be better and produce more consistent results if an LDC did not consider gas costs (commodity) as part of the calculation (which a TRC does) because of the volatility in price over the years, and the fact that gas costs are a pure pass through to customers. Customers will roll in actual gas costs when deciding whether to make an investment regardless of whether gas supply or commodity costs are redundantly built into the equation. It would therefore be counterintuitive to constantly change measures and incentive based on gas costs which the company doesn't really "avoid" anyway.

The use of the UCT provides a more uniform, consistent, and less controversial methodology and outcome that would be much less volatile than incorporating a guess as to what natural gas prices are going to be sometime in the future. The use of the UCT also removes from cost effective calculation other unknowns and other immeasurable items commonly referred to as non-energy benefits/costs.

Cascade recognizes that although the above-described approach would be *optimal* for the calculation of avoided costs for a natural gas utility, such an adjustment will take time and may not hold universal appeal for all stakeholders.

As an alternative to the above approach, below are some additional proposed revisions to the current policies and procedures governing utility run natural gas conservation programs, and notes addressing the WUTC's question "**Should companies use a combination of cost tests in evaluating the cost-effectiveness of natural gas conservation programs?**"

There are several valuable ways to determine the cost-effectiveness of natural gas conservation programs. Cascade utilizes two WUTC-approved methods; the Total Resource Cost (TRC) Test, and the Utility Cost Test (UCT).

- The Total Resource Cost Test takes into account the *total installed cost* of a particular conservation measure for the consumer and weighs this against the projected (discounted) energy savings over the duration of the measure's lifespan. The test also may take some limited non-energy benefit into account as a value to the consumer.

- The Utility Cost Test considers the total *incentive* paid by the utility to a consumer for installing a particular measure, and weighs *this* against the projected (discounted) energy savings over the duration of the measure's lifespan. This test does not consider non-energy benefit as part of the equation.

Both the Total Resource and Utility Cost tests offer insight into the economic value of a natural gas utility's energy efficiency efforts. The TRC does an excellent job of identifying energy conservation measures with strong payback for consumers, but it is dependent upon consistent updates to ever-fluctuating variables such as equipment costs and incremental savings in order to remain valid. The TRC also unfortunately limits the inclusion of measures that may hold great promise from an energy reduction standpoint, but are "prohibitively" expensive due to a lack of maturation in the market. Meanwhile, the UCT embraces a wider range of innovative natural gas conservation measures, eliminates the equipment cost variables and readily allows utilities to identify the cap at which an incentive amount should be set. However, the test does not consider the costs or payback to the consumer, and thus a program governed solely by the UCT risks driving customer purchases based on high-impact measures that may have long payback periods.

The Company proposes that as an alternative to using the UCT as a standalone test, the cost effectiveness of natural gas energy efficiency programs should be determined by averaging together the portfolio-level outcomes of the UTC and TRC test.

This averaged number would provide a significantly more balanced assessment of the value of natural gas energy conservation programs which takes into about both *economic and environmental* benefits of such conservation efforts and would allow for the inclusion of visionary and transformative measures while tempering innovation with tried-and-true measures with well documented energy savings and payback for our ratepayers. Combining the outcomes of the Utility and Total Resource Cost tests for the sake of program reporting and evaluation would not be complicated and would simply acknowledge the value already given to both measurements.

Since the WUTC has previously indicated that the Total Resource Test should govern, we might alternatively recommend weighting the test 60/40 favoring the TRC. This would still give appropriate gravity to the importance of encouraging measures with strong economic return for customers, while acknowledging that the environmental benefits of high efficiency natural gas conservation measures are often an important factor to driving energy efficient purchases, and should be seen as an end unto itself.

Incentives directed towards cutting edge natural gas conservation measures that have high upfront costs due to currently low market penetration or other factors, would help customers who wish to make a positive impact on their energy consumption, but cannot afford the up-front costs of innovative

conservation upgrades. These rebates would also help worthy measures make it into the market, save significant levels of natural gas, and help mitigate carbon while meeting the intent of Washington's energy goals.

However by balancing the cost-effectiveness criteria with the Total Resource Cost Test, the Company would still be extremely mindful of maintaining a *balanced* portfolio that places a worthy focus on the economic payback for the ratepayers participating in utility-encouraged natural gas conservation efforts. In this way, a natural gas conservation portfolio would be less sensitive to declines in the costs of natural gas, but not entirely detached from the realities of the market.

In short, natural gas conservation programs measured under a combined TRC/UC average would not need to face the "yo-yo" effect of having to continuously ramp up with the IRP cycle, and would instead be more stabilized allowing gradual changes and adaptation to economic conditions as appropriate. Both the UCT and TRC take into consideration the avoided cost of gas for the company, but each addresses this consideration slightly differently. Combining approaches allows for a gradual but healthy program evolution that is essential in light of the State's long term carbon reduction goals and the difficulties of reconstituting conservation programs once they have been dismantled. A holistic and combined approach is particularly critical for a small utility like Cascade Natural Gas who has a maturing energy conservation program that has just begun to receive increased momentum /participation in its programs. Allowing Cascade and the other natural gas utilities in Washington State to take a blended cost test approach will encourage further creativity and innovation which will result in long term, valuable energy savings for our customers. We truly believe that there remains a significant amount of conservation potential in our programs and look forward to maintaining these critical DSM programs for years to come.

Thank you for this opportunity to provide comment on these matters. If you have any questions, please feel free to direct them to Allison Spector (360) 788-2356 (Allison.spector@cngc.com) or Mike Parvinen (509) 734-4593 (michael.parvinen@cngc.com).

Allison Spector
Conservation Manager
Cascade Natural Gas Corporation