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VIA ELECTRONIC FILING RECORDS@UTC.WA.GOV

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

Re: Conservation Incentive Inquiry
U-100522
Closing Comments of the Northwest Industrial Gas Users

Dear Mr. Danner:

In response to the Washington Utilities and Transportation Commission's (Commission) July 2, 2010 *Notice of Opportunity to File Written Comments*, the Northwest Industrial Gas Users (NWIGU) submit these comments. In this rulemaking, the Commission will consider, among other things, whether new regulations are needed to govern conservation incentive mechanisms or to address declines in revenues due to company-sponsored conservation or other causes of conservation.

As described in NWIGU's previous comments and at the two workshops, NWIGU continues to believe that it is unnecessary to create new rules to govern conservation incentive mechanisms or to address declines in revenues for Washington's natural gas utilities. The existing rules are sufficient to address these types of programs. In fact, these types of programs already exist in Washington. If new rules are contemplated as a result of this docket, a separate rulemaking should be conducted to address gas issues separately because there are significant differences between the gas and electric industry that must be addressed. Finally, if new rules are to be adopted, the new rules should be flexible enough to accommodate the differences between each utility, customer class and program.

In the July 2 Notice, the Commission requested comments on whether parties supported, opposed or are neutral to specific topics addressed in this docket. Consistent with NWIGU's previous comments, NWIGU will only address the questions to the extent that they relate to the gas industry.

1) Full decoupling, including all declines and all increases in sales from any source.

As this question is framed, NWIGU would oppose full decoupling. It is not sufficient structure from NWIGU's perspective to support full decoupling for gas utilities because new revenue is used in the calculation. NWIGU has supported or not opposed appropriately structured, narrow decoupling programs that have been properly designed in scope to residential and commercial customers and that feature important ratepayer protections, such as an annual earnings review or cap, excess earnings sharing, offsets for other causes of lost margin, return on equity considerations for the reduced risk to shareholders, and a rate case moratorium. However, a blanket position on decoupling cannot be given. Each program must be independently considered in the context of the specific utility regulatory framework and program details. NWIGU respectfully suggests that the Commission consider the NW Natural and Cascade decoupling experiments as mentioned in NWIGU's prior comments as they are limited in scope to residential and commercial customers and contain many of the ratepayer protections that are critical to ensure that these types of programs are better balanced.

As applied to industrial customers, decoupling mechanisms are inappropriate. Such a mechanism would capture load changes due to a variety of factors, including market demand and pricing of particular products, changes in input prices for products and changes in the economy. Utilities should not be made whole for such changes in the economy. Imposing decoupling on industrials would dramatically skew the earnings and risks in favor of the utility. NWIGU opposes any program or rule that would subject industrial customers to decoupling.

2) Lost margin adjustment for declines in sales due only to company sponsored conservation efforts.

As this question is framed, NWIGU would oppose a blanket rule that provides for a lost margin adjustment for declines in sales due only to company sponsored conservation efforts. Again, NWIGU has supported or not opposed such a mechanism that is properly structured and limited in scope to residential and commercial customer classes and includes ratepayer protections. But if a mechanism adopted to address lost revenue from conservation programs makes it possible for a utility to adjust its rates upward for one factor, lost revenue due to decreased customer usage from legitimate conservation, without customers benefiting from productivity improvements, increased efficiencies, increased revenue from customer growth, cost controls and lower cost of capital, then ratepayers are harmed by the mechanism. This amounts to single issue rate making and, if allowed, would skew the regulatory compact in favor of the utility. In order to be equitable, any mechanism intended to address declining revenue from conservation must balance the interests of ratepayers and shareholders. A fair mechanism must take into account productivity improvements and customer growth because these factors offset decreases in usage per customer.

3) Attrition adjustment based on the results of an attrition study.

As this question is framed, NWIGU would oppose a blanket rule providing for an attrition adjustment based on the results of an attrition study. Whether NWIGU would support, oppose or remain neutral to a particular attrition adjustment would depend on the results of the attrition study and the overall results and operations of the specific gas utility.

4) An independent conservation provider (*i.e.* similar in concept to the Energy Trust of Oregon).

NWIGU does not have enough information at this time to take a position on whether Washington gas utilities should be required to use an independent conservation provider similar to the Energy Trust of Oregon model. Hopefully the current pilot of the Energy Trust of Oregon in NW Natural's Washington service territory will provide some comparative analysis for future study of this structure. In order to support or not oppose an independent conservation provider concept, there would need to be proven efficiencies and a reduction in overall administrative expenses for gas utility sales customers. Further, any independent conservation provider should only apply to gas sales customers (which is the structure established with the Energy Trust of Oregon offerings to Oregon natural gas customers as well).

NWIGU recognizes and supports the offering of all cost effective conservation programs for sales customers and in particular recognizes that residential and commercial customers need and benefit from prescriptive conservation offerings by their utilities. Under no circumstances, however, should these programs be applied to transportation customers. Gas utilities do not purchase gas for transportation customers, as they only purchase gas for their sales customers for whom they should pursue all cost effective conservation whether that is accomplished through utility administered or independent provider programs. Transportation customers purchase their own gas and pursue cost effective conservation because it impacts their bottom line. Accordingly, it is fundamentally unfair to impose these programs on transportation customers.

If the Commission is concerned that sales customers of the gas utilities should have access to the same program opportunities for cost-effective conservation no matter which utility they are behind, NWIGU suggests that the Commission regularly request the utilities to evaluate whether other utilities' program offerings may be suitable for their program inclusion, which can readily be accomplished without the need for an independent program provider.

NWIGU appreciates the opportunity to submit these closing comments. NWIGU respectfully reserves the right to address any other issues raised in this docket.

Very truly yours,

Chad M. Stokes

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