



STATE OF WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION
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July 24, 2017

Nicole Kivisto
President and CEO
Cascade Natural Gas Corporation
400 North 4th Street
Bismark, ND 58501-4092

**Re: Cascade Natural Gas Corporation's 2016 Integrated Resource Plan
Docket UG-160453**

Dear Ms. Kivisto:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2016 Integrated Resource Plan (IRP or Plan) filed by Cascade Natural Gas Corporation (Cascade or Company) on December 14, 2016, and presented to the Commission at the March 29, 2017, Recessed Open Meeting, and finds that it meets the minimum planning requirements of Washington Administrative Code 480-90-238.

While the Commission recognizes the improvement the Company has made to this IRP in the timeframe set forth, it notes that serious concerns still remain. Because of the number of issues raised throughout the process, the Commission's acknowledgment of this Plan is contingent on the Company submitting three quarterly progress reports. Each progress report must be received by the Commission no later than the final business day of each fiscal quarter, beginning in Quarter 3 of 2017. The progress reports should address the issues identified in this letter, attachment, and its 2016 IRP Two-year Action Plan. The Commission expects the demand forecast issues discussed herein to be resolved prior to the first Technical Advisory Group meeting for the 2018 IRP.

Acknowledgment does not signal pre-approval for ratemaking purposes of any course of action identified in the IRP, and does not constitute Commission acceptance of underlying information, methodologies, analyses, or strategies. The Commission reviews company actions for prudence at the time of any future request to recover costs in customer rates. This includes, but is not limited to: the need for the resource, evaluation of alternatives, communication with and

involvement of the company's board of directors (and advisory groups, as applicable), and thorough documentation.

Consistent with previous IRPs, the Commission expects that any final decisions on the economic viability of any specific course of action described within Cascade's next IRP will not be made within the context of the IRP.

While specific comments regarding Cascade's filed IRP are attached, the Commission provides the Company with the following summary guidance and requests:

1. *Demand Forecast*: For projecting customer growth, Cascade should use a regression model to more accurately gauge the correlation between demographic and employment growth and Cascade's load growth. The Company should also test the validity of its load forecasting model by conducting a back-cast with actual, observed data. For temperature data, the Commission prefers the use of National Oceanic and Atmospheric Administration (NOAA) data. If Cascade chooses to rely on weather data from another source, it should provide detailed justification for doing so and verify the reliability of this data. Further, similar to other regulated utility IRPs, the Company should modify the regression models to account for seasonal differences in customers' weather sensitivity and use an autoregressive model to forecast load, when appropriate.
2. *Stochastic Analysis*: The Commission requests that Cascade expand its stochastic analysis to include probability distributions of costs, such as system costs and resource mix, for multiple portfolios. The Company should run simulations to "stress test" different resource mix alternatives, including mixes with increased investment in conservation resources, which will provide more data and results for portfolio optimization.
3. *Conservation Potential Assessment (CPA) and Model*: In consultation with its advisory group, Cascade should develop a request for proposal for a new CPA and new (or modified) model using the Northwest Power and Conservation Council's methodology for calculating conservation potential. The Company should continue to coordinate with the Northwest Energy Efficiency Alliance to include non-energy benefits in the CPA.
4. *Clean Air Rule (CAR)*: While we acknowledge that the CAR is currently the subject of litigation by Cascade and others, WAC 173-441 and 173-442 are in force in Washington state unless and until a court decides otherwise. In its 2018 IRP expected case, Cascade should model specific CAR impacts. Moreover, Cascade should consider the costs and risks of additional environmental regulations, including a possible carbon tax (\$/ton of carbon dioxide equivalent).
5. *Avoided Costs*: The Company should expand its analysis of avoided energy and capacity costs (on and off peak), by year and end use, quantifying the following cost streams: carbon-inclusive price and transport, capacity (supply resource), capacity (distribution system), emissions with expected case adder of incremental carbon policy (CAR analysis), and a ten percent conservation adder. The Commission recommends the Company provide additional information with regard to its avoided cost calculation methodology, clearly delineating carbon costs included in the price of natural gas and external costs related to state-specific carbon policies, including but not limited to Washington's Clean Air Rule.

6. *Distribution System Enhancements*: As the Commission promulgates new rules related to IRP transmission and distribution system planning, the Company will need to provide more analysis on distribution system enhancements in future IRPs.
7. *Resource Cost Assumptions*. The Commission strongly reminds the Company to regularly update its analyses based on new information and ensure that resource acquisition decisions are based on updated analyses using the most current data available.
8. *Quarterly Reports on Action Plan*: Cascade should submit quarterly reports, beginning in Quarter 3 of 2017, explaining progress made towards resolution of the issues identified in the 2016 IRP Action Plan and issues identified in this letter and attachment. Each progress report must be received by the Commission no later than the final business day of each fiscal quarter.

We commend the Company for continuing to work with its Conservation Advisory Group to improve its conservation potential assessment and target calculation methodology. The Company's 2016 IRP includes an annual conservation potential of 839,876 therms. Its 2017 Annual Conservation Plan identifies a target of 854,876 therms, which adds 15,000 therms for low-income programs to that conservation potential.

The IRP touches every aspect of the Company's operations and provides essential public participation opportunities for stakeholders to assist in the development of an effective plan. This participatory process is the cornerstone of the utility's planning and operations and should remain accessible as well as transparent. Overall, Cascade must continue to strive for better situational awareness of emerging industry best practices and analytics supporting integrated resource planning. The Commission expects to see successful progress and significant improvement in Cascade's 2018 IRP.

That said, the Commission notes the improvement the Company has already made to its IRP processes. Commission staff will continue to provide additional input throughout the IRP process. The Company should file its next natural gas IRP work plan on or before December 14, 2017, and its next natural gas IRP on or before December 14, 2018.

If you have questions about this letter or your 2016 IRP, please contact Kathi Scanlan at kscanlan@utc.wa.gov or 360-664-1267.

Sincerely,

STEVEN V. KING
Executive Director and Secretary

Attachment

