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August 31, 2012

VIA ELECTRONIC FILING (records@utc.wa.gov)

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

Re: Commission Investigation into Natural Gas Conservation Programs
Docket UG-121207

Dear Mr. Danner:

The Northwest Industrial Gas Users (“NWIGU”) hereby submit Opening Comments in the above captioned rulemaking docket regarding natural gas conservation programs. All future communications in this docket should be sent to the following individuals:

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Executive Director
Northwest Industrial Gas Users
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NWIGU is a non-profit association comprised of thirty-eight large volume end-users of natural gas with major facilities in the states of Washington, Oregon and Idaho. NWIGU members cover diverse industrial interests, including food processing, pulp and paper, aluminum, wood products, steel, chemicals, electronics, electric generation and aerospace, and includes members with both sales and transportation service from gas utilities in Washington. The association provides an informational service to its members and participates in various regulatory matters that affect member interests, including proceedings before the Federal Energy Regulatory Commission and the Washington Utilities and Transportation Commission (“Commission”).

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NWIGU applauds the Commission for examining how natural gas avoided costs are calculated and the Commission's willingness to discuss the appropriate assumptions or factors that should be included in natural gas avoided cost calculations. NWIGU urges the Commission to protect the interests of natural gas consumers by allowing a natural gas utility to recover gas efficiency program expenditures only when such programs are cost effective for the utility's sales customers using current measures of avoided cost. Current natural gas market conditions should not cause the Commission to change the avoided cost methodology.

The funding of natural gas demand side management ("DSM") expenditures should only be done on a cost-effective basis. Because of the economic challenges faced by consumers, it is critical that natural gas ratepayers' dollars be utilized to fund only programs that are cost effective. The historically low cost of natural gas is in fact a substantial economic benefit for all natural gas and electric consumers. The cost of the portfolio of natural gas used by local distribution companies ("LDCs") to serve the needs of their sales customers is much less expensive than just a few years ago. *See* Attachment A, Bentek Energy LLC Presentation, *Which Way Do We Go? North American Natural Gas Market Update* ("Bentek Energy Presentation"), "Natural Gas \$ Pinched" (accessed through <http://www.nwga.org>). NWIGU recognizes that lower natural gas prices will create challenges to natural gas DSM programs in the next few years. But the focus should remain on whether or not a program is cost effective. Alterations to avoided cost calculations could mask or skew the cost-effective basis of those programs and, therefore, run the risk of preventing all utility customers from realizing the economic benefits of the current market conditions.

DSM measures currently available to customers were developed when prices were much higher and do not reflect today's market realities. Natural gas supplies experienced a paradigm shift beginning in 2008 and 2009 with the discovery of vast shale gas supplies in North America. Production in the United States is up from 55.1 Bcf/day in 2009 to an expected level for 2012 of 63.6 Bcf per day. *See* Attachment B, Bentek Energy Presentation, "US Production Up, Although Growth Has Slowed". Since 2009, the production of shale has become even more efficient in the United States and Canada due to production and technology improvements. The commodity cost of natural gas has responded to the increase in supplies by dropping to the lowest point in a decade. Opal and Sumas natural gas prices have declined 43 percent during the first half of 2012 compared to the first half of 2011. *See* Attachment C, U.S. Energy Information Administration, "Today in Energy" (August 9, 2012). Gas consumers are now benefitting from ample supplies in the United States and Canada and thus lower prices.

NWIGU agrees that the Commission should undertake in this rulemaking an examination of how natural gas avoided costs are calculated for DSM planning purposes. The Commission, however, should be transparent when it acts. Natural gas ratepayers would not benefit from the low market prices if the Commission were to apply an arbitrary adder that artificially deems some DSM measures to be cost-effective when they are not.

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NWIGU agrees with the historic usage of the total resource cost test for an LDC's portfolio so that the overall portfolio of programs is itself cost effective. This method has allowed some programs, including pilot programs, to be deployed even when they were more expensive because the overall portfolio was spent in a cost effective manner. This is a responsible way to keep pilot programs going in today's natural gas markets.

NWIGU's members continue to experience an economy that is still digging out of the throes of a recession. Part of why natural gas prices are so low is that demand for gas has declined at the same time that North American gas supplies have become so abundant. NWIGU does not see the need for any change to the appropriate assumptions or factors to be included in natural gas avoided cost calculations. No new cost tests are needed at this time. The current method of calculating avoided cost will reflect changes in the price of natural gas. Should prices rise in the future due to changes in the balance of supply and demand, the avoided cost calculations using the current methodology will capture those increases as well.

NWIGU does recommend that the Commission explore and support the direct use of natural gas and combined heat and power systems with electric utility operations. Direct use of natural gas could lower carbon dioxide emissions and lower overall energy costs for all consumers. Just yesterday, the White House issued an Executive Order encouraging more investments to reduce energy use through the expanded use of combined heat and power as a method to ensure more efficient manufacturing processes and facilities. *See Attachment D, Executive Order -- Accelerating Investment in Industrial Energy Efficiency (August 30, 2012).*

NWIGU also urges the Commission to require LDCs to monitor the cost-effectiveness of their natural gas DSM programs on a semi-annual basis with reports to the Commission. The semi-annual reports should take note of the technological developments, cost changes in the price of natural gas commodity, and program delivery options.

NWIGU has not identified at this time any proposed issues for the Commission to address beyond the two noted by the WUTC in its request for comments. NWIGU looks forward to reviewing and commenting on the issues proposed by other parties and reserves the right to identify additional issues in its Reply Comments as necessary.

Respectfully submitted,

A handwritten signature in blue ink, appearing to be "Chad Stokes" and "Tommy Brooks" combined.

Chad Stokes
Tommy Brooks