

**Exhibit No. \_\_\_T (KJB21-T)  
Docket No. UG-060256  
Witness: Katherine J. Barnard**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**CASCADE NATURAL GAS  
CORPORATION**

**Complainant,**

**v.**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**Respondent.**

**DOCKET NO. UG-060256**

**REBUTTAL TESTIMONY OF**

**Katherine J Barnard**

**STAFF OF  
Cascade Natural Gas Corporation**

**(Various Proforma Adjustments, Low-Income Proposal and the Company's  
Conservation Program)**

**September 12, 2006**

1           **PREPARED REBUTTAL TESTIMONY OF KATHERINE J. BARNARD**  
2                   **(Various Proforma Adjustments, Low-Income Assistance Proposal and**  
3                   **the Company's Conservation Program)**  
4

5    Q.    Please state your name and address.

6    A.    Katherine J. Barnard, 222 Fairview Avenue North, Seattle, Washington 98109.

7    Q.    Are you the same Katherine J. Barnard who submitted prefiled direct testimony on behalf  
8           of the Company in this case?

9    A.    Yes.

10   Q.    What is the purpose of your rebuttal testimony?

11   A.    I will discuss the Company's response to Staff witness Parvinen's testimony regarding  
12           various proforma rate base adjustments. In addition, I provide additional support for the  
13           Company's proposal in this proceeding for low-income assistance, and I describe the  
14           Company's conservation programs as they relate to the proposed implementation of the  
15           Conservation Alliance Plan.

16                                   **PROFORMA ADJUSTMENTS**

17   **Proforma Gas Management & Risk Management Software**

18   Q.    Staff witness Parvinen recommends rejection of the Company's proposed adjustment for  
19           the upgraded software on the basis that (1) it does not consider offsetting factors, and  
20           (2) is not a material item. Do you agree with his recommendation?

1 A. No. First of all, Parvinen states that the Company ignored the offsetting benefits gained  
2 from the purchase of the software and therefore the adjustment should be rejected. In  
3 support of his conclusion he cites the Company's response to Staff's Data Request Nos.  
4 123 and 124. Neither of the data request responses, however, indicates that the benefits  
5 would result in expense reductions. Rather, the benefits identified relate to the ability for  
6 the software to provide less processing time, provide additional "controls" in terms of  
7 Sarbanes-Oxley (SOX) compliance, and the ability to have additional analyses to support  
8 the Company's decision making processes. While all of these do in fact provide a benefit  
9 as Mr. Parvinen states, the benefits do not create an offsetting cost reduction and  
10 therefore the Company believes that the adjustment as originally proposed is a proper  
11 proforma adjustment.

12 Q. How do you address Staff witness Parvinen's concern that the adjustment is not material?

13 A. The Company disagrees with Parvinen's materiality threshold. Parvinen concludes that  
14 the adjustment is not material based on one of the criteria listed in one of the  
15 Commission's rules, WAC 480-07-505, defining a general rate proceeding. (Parvinen  
16 page 18, lines 1 and 2). However, the Company is not aware of any rule that requires a  
17 proforma adjustment to meet a threshold of 3% of gross revenues before it can be  
18 included in a general rate proceeding. This seems like an extremely high threshold that  
19 was established for a purpose unrelated to determining materiality. The proforma  
20 adjustment is the result of investing in a \$315,000 upgrade in non- revenue producing  
21 plant, which Cascade does not consider to be an immaterial amount. The proforma

1 adjustment to Washington rate base of \$211,255 is, in Cascade's view, sufficient to  
2 warrant an adjustment.

3 **Proforma Adjustment for Integrated Resource Planning Costs**

4 Q. Is Staff witness Parvinen proposing to reject the Company's proforma adjustment for  
5 integrated resource planning costs for the same reasons?

6 A. Yes, he claims that the adjustment is immaterial in amount. Additionally, he  
7 recommends rejection of the costs of the conservation potential study on the basis that it  
8 is a one-time expense and that there is no proof that the \$45,000 exceeds the current level  
9 of test period outside service expenses of \$2,133,588. Again, we disagree with  
10 Parvinen's conclusion. The proposed adjustment relates directly to additional  
11 requirements, which flow from recommendations from the Commission Staff during the  
12 integrated resource planning process. Although the addition to rate base is small, the  
13 investment is being made into non-revenue producing plant in order to meet regulatory  
14 requirements. It is the Company's belief that these costs should therefore be included in  
15 its cost of service.

16 For the past two planning cycles, Staff has requested that the Company expand its  
17 optimization modeling to include Monte-Carlo simulation. In fact, when the Company  
18 included an action item to have such a study prepared by an outside consultant, Staff was  
19 concerned that the Company was not purchasing the software application in order to have  
20 the capability to run the Vector Gas program itself. Now that the Company is attempting  
21 to include the costs associated with the investment, Staff would exclude it on the grounds

1 that it is immaterial. This seems unfair and unreasonable. It should be noted that in  
2 quantifying the adjustment, the Company did not include the incremental time of its  
3 personnel to run the model or any other costs associated with preparing the additional  
4 analyses. Rather, only the known and measurable costs associated with the hardware  
5 investment necessary to run Vector Gas software are proposed to be included.

6 Q. What about Parvinen's claim that the conservation potential study is a one-time expense?

7 A. Again we disagree. Various parties in this docket are recommending that the Company  
8 conduct a more rigorous analysis of the conservation potential in Cascade's service  
9 territory than our current staff has been able to provide. These parties are also requesting  
10 independent third party analyses on the effectiveness of the decoupling mechanism and  
11 Cascade's efforts to acquire conservation resources. The Company believes that the cost  
12 of this particular study is representative of the annual expenses Cascade will incur on  
13 conservation-related studies and evaluations on an on-going basis.

14 Q. Is there an alternate approach to recovering the conservation potential study or other  
15 similar conservation evaluation expenses?

16 A. Yes. As an alternative, the Company could include these costs when it requests deferred  
17 accounting treatment for utility sponsored programs. Cascade currently does not have a  
18 conservation rider that collects from customers, up front and on a monthly basis, funding  
19 for conservation programs. Rather, the Company defers the actual costs (in the form of  
20 incentives paid) to customers for utility sponsored programs and then passes those costs  
21 back through its annual tracker filing. On a going forward basis, the Company could

1 defer the costs of the program evaluation along with the individual utility sponsored  
2 program costs.

3 **Proforma Adjustment for CIS Hardware Upgrade**

4 Q. Staff witness Parvinen recommends rejection of this proforma adjustment on the grounds  
5 that (1) it is an immaterial addition, and (2) there is no measurement of offsetting factors.  
6 (Parvinen page 19 lines 11 through 13) Do you agree with his assessment?

7 A. No I do not. The Company disagrees that the adjustment should be removed on the  
8 grounds of immateriality for the same reasons discussed earlier in my testimony, *i.e.*, that  
9 the Commission does not have an established materiality threshold and an investment in  
10 non-revenue producing rate base in an amount greater than \$200,000 for a company of  
11 Cascade's size should not be deemed immaterial.

12 Q. How do you address Parvinen's concerns about offsetting factors?

13 A. Parvinen states that the Company did not include the impact of the efficiencies gained  
14 from this upgrade. However, Parvinen failed to recognize that any efficiencies gained  
15 are related to the computer processing time, not Company labor. Again, while these  
16 efficiencies provide value to the Company, there are no corresponding reductions in costs  
17 as assumed by Parvinen.

18 Q. What about the retirement of the original asset?

19 A. Although the Company disagrees that there would be an impact on net rate base, the  
20 Company does believe a revision to the proforma depreciation expense and property tax

1 associated with the new rate base would be appropriate. In the Company's view, the  
2 proforma rate base impact is correct due to the fact that the retirement entry for the old  
3 hardware includes a reduction in the original costs of the asset (plant in service) and an  
4 equal reduction in the depreciation reserve. In other words, the items offset each other,  
5 resulting in no impact on net rate base. However, the retirement of the original system  
6 would reduce the proforma depreciation expense and property tax associated with the  
7 new investment. In developing the original adjustment the Company should have  
8 included only the *incremental* increase in plant in service before applying the  
9 depreciation and property tax rates. Additionally, the Company neglected to remove the  
10 maintenance costs associated with the existing hardware. Exhibit No. \_\_\_ (KJB-22)  
11 shows the necessary correction for these omissions.

#### 12 LOW-INCOME BILL ASSISTANCE

13 Q. Do you agree with Staff witness Parvinen's removal of the proposed adjustment for low-  
14 income bill assistance?

15 A. No, we do not. Although the Company admittedly did not provide detailed information  
16 regarding the implementation of its proposal, it was not due to a lack of forethought by  
17 the Company. Rather, the Company was operating under the assumption that groups  
18 such as The Energy Project and the Community Action Agencies within Cascade's  
19 service territory would need to provide input on how best to administer such a bill  
20 assistance program. Specific implementation details were therefore not available at the  
21 time the Company filed its general rate application.

1 Based on the testimony provided by The Energy Project's witness Eberdt, we  
2 maintain that there is a need for such a program. We concur with Eberdt's approach as  
3 outlined on pages 6 and 7 of his direct testimony (Exhibit No. \_\_\_ (CME-1T)).  
4 Specifically, we agree that the existing network used by the Washington Department of  
5 Community, Trade and Economic Development (CTED) for the Low Income Home  
6 Energy Assistance Program (LIHEAP) should be used. We also agree that, as suggested  
7 on page 7 lines 9 through 15 of Eberdt's testimony, that the utility and the various  
8 stakeholders should design the program so that only those Cascade households that are at  
9 or below the determined poverty level would be eligible for this program. Specific  
10 determination of the criteria used to define low-income would be determined during the  
11 implementation phase, with input from the various stakeholders, which would include  
12 Commission Staff, the Company, The Energy Project and CTED to name a few.

13 Q. How do you respond to Energy Project witness Eberdt's and NW Energy Coalition  
14 witness Weiss' proposal that the tax credit of \$107,000 be provided as additional funding  
15 to the low income assistance program?

16 A. The Company is agreeable to the proposal. The \$107,000 credit originally reduced from  
17 the cost of service, however, would need to be added back to the revenue requirement.

#### 18 THE COMPANY'S CONSERVATION PROGRAM

19 Q. Do you agree with NW Energy Coalition witness Weiss' assessment that the Company's  
20 Conservation Alliance Plan is "putting the cart before the horse"? (Exhibit \_\_\_(SDW-1T)  
21 page 14, line 14))



1 A. No, I do not. Weiss' assessment is wrong on several accounts. First, it seems to ignore  
2 that the Company implemented new conservation programs for both Washington's low-  
3 income customers and the Company's commercial and industrial customers in the  
4 Fall 2005. Both of these programs were outlined in the Company's 2004 IRP, were part  
5 of the overall least cost portfolio, and as a result included in the Company's 2-year action  
6 plan.

7 The lack of utility sponsored conservation programs during the 1995 through  
8 2000 time period was due not to a lack of evaluation, but to the fact that such resources  
9 were not cost-effective at the time based on then current long-term gas price forecasts.  
10 The Company is required to acquire *cost-effective* conservation, not conservation  
11 measures at any cost. In each of the IRPs, the Company evaluated adding additional  
12 programs as well as evaluated the cost-effectiveness of pilot programs it had performed  
13 in the 1992-1993 time period. Also in its 1993 Plan, Cascade proposed and implemented  
14 a joint pilot program with Idaho Power that targeted efficiency measures for schools.  
15 Unfortunately, the Company learned through that pilot program that it was not cost-  
16 effective due to the high cost of the underlying engineering study that was necessary to  
17 assess the conservation alternatives for each facility. That reason, along with the  
18 continuing decline in the long-term gas price forecasts, resulted in the Company not  
19 pursuing a further expansion of the pilot.

20 Q. What has Cascade done during the period since natural gas prices began increasing?

1 A. Initially, when natural gas prices sky-rocketed in the winter of 2000/2001, many experts  
2 thought the price spike was a temporary response to supply and demand and that prices  
3 would stabilize again in the \$2 range. Beginning in 2002, however, we began to see the  
4 long-term forecasts increase sufficiently to reevaluate the cost-effectiveness of  
5 conservation programs. Programs with lower administrative costs (such as equipment  
6 rebate programs which provide a rebate for installing higher-efficiency equipment) tend  
7 to be more cost-effective than those programs that require an energy audit or inspection.  
8 The Company's evaluation resulted in the implementation of the Company's high-  
9 efficiency equipment rebate program by Spring 2002 in Oregon and then 6 months later  
10 in Washington.

11 Q. How do you address Weiss' remarks that the Company's 2004 IRP performed a less than  
12 thorough review of the conservation potential?

13 A. Again I disagree with his assessment. The portion of the IRP that he sites is relating to  
14 the pre-screening of conservation measures for inclusion in hypothetical DSM programs,  
15 which are included in the resource optimization model so that they can be compared on  
16 an equal and comparable basis with supply side resources. This particular section of the  
17 text does not discuss how the Company estimated the participation levels.

18 Q. What is the purpose of screening and then developing hypothetical programs?

19 A. The administration costs associated with weatherization (shell) measure programs  
20 typically require an energy audit to determine whether opportunities for increased  
21 insulation exist. These costs can have a significant impact on the overall cost

1 effectiveness of a program, partially due to the number of audits that often must be  
2 performed compared to the number of homes that actually install conservation measures.  
3 The Company develops programs with several measures in order to minimize the  
4 administrative costs on an overall program basis. The combination of the various  
5 measures and estimated administrative costs are used to determine the "total resource"  
6 costs for the conservation resource. The Company then utilizes this information in the  
7 resource optimization model in order to evaluate both the supply- and demand-side  
8 resources on an equal and comparable basis as required by the Commission's rules.

9 The Company explains this in its IRP and discusses all of the underlying  
10 assumptions during its Technical Advisory Group meetings, in which interested parties  
11 are invited to participate. It is worth noting that during the past 3 planning cycles, neither  
12 Public Counsel nor NWECC participated, nor provided any recommendations or  
13 modifications to the way the Company evaluated conservation or supply side resources.  
14 While NW Energy Coalition had a representative attend the TAG meetings during the  
15 most recent 2004 IRP planning process, the Coalition's written comments were not  
16 submitted until well after the comment period had ended and were too late to be  
17 considered prior to filing the Final plan in order to meet the Commission's requirements.

18 It is unfortunate that we do not have greater involvement from the NW Energy  
19 Coalition during the IRP process. During Cascade's Technical Advisory group meetings  
20 in 2004, the Coalition did not identify any flaws in the Company's approach or provide  
21 additional measures or other suggestions during the meetings. This is the period when

1 the Company could have easily reviewed its approach, reviewed additional materials and  
2 updated its assessment. Only upon receipt of NW Energy Coalition's written comments –  
3 one week before the final report was due to be filed with the Commission – did the  
4 Company become aware of the Coalition's concerns regarding the Company's DSM  
5 analysis.

6 Q. Are you satisfied that the Company's analysis of conservation measures meets the  
7 requirements of the Washington rules?

8 A. Yes. The Company's evaluation of Conservation measures actually goes beyond the  
9 Commission's guidelines in this regard. Being a dual-state utility, Cascade must meet the  
10 IRP planning requirements for both Oregon and Washington. Where one jurisdiction's  
11 requirements are more stringent, the Company has applied the guidelines to all measures.  
12 In regards to the conservation resource analysis, Cascade has utilized the Oregon DSM  
13 analysis approach, which requires that the utility assume an additional 10% non-energy  
14 benefit associated with conservation programs beyond any quantifiable non-energy  
15 benefits that would be used in developing the total resource cost (TRC). Additionally,  
16 Oregon requires utilities to develop additional sensitivity analyses, which considered  
17 various levels of environmental externalities. The Company's IRP has contained such  
18 analyses since the 1993 Plan. During the mid 1990s and until the 2002 plan, none of the  
19 conservation programs were found to be cost-effective under these analyses.

20 Q. Do you believe that additional analysis is necessary in the area of assessing the  
21 conservation potential for Cascade's service territory?

1 A. Yes. For that reason, the Company hired Stellar Processes to conduct such a study for  
2 Cascade's Washington Service territory. We expect to receive a draft report from Stellar  
3 Processes by September 30<sup>th</sup>.

4 Q. What do you think about NW Energy Coalition witness Weiss' proposed requirement  
5 that a formal committee be established prior to implementation of a decoupling  
6 mechanism?

7 A. The Company believes that it has an oversight committee, its Technical Advisory Group,  
8 which provides input and guidance on the Company's integrated resource plan, which  
9 includes planning for conservation resources. However, the Company could support  
10 establishing a new Conservation Advisory Committee, such as Weiss discussed, if the  
11 Commission deems that step necessary in connection with approval of the Company's  
12 Conservation Alliance Plan.

13 Q. Do you agree that implementation of the decoupling mechanism should wait until the  
14 committee has been formed and has developed a detailed plan.

15 A. No. As I mentioned earlier, the Company believes that it has already demonstrated a  
16 commitment to conservation both through its utility-sponsored rebate programs as well as  
17 its promotion of low cost/no cost conservation to its customers for the past 10 years.  
18 While the Company believes there are additional resources that can be evaluated and is  
19 committed to pursuing cost-effective conservation, implementation of a decoupling  
20 program should not be subject to the dictates of a new committee.

1 Q. Is the Company in compliance with its 2004 acknowledged IRP, and is the Company  
2 following through with the 2-year Action plan items?

3 A. Yes. The Company's 2004 Plan identified 2 new utility-sponsored conservation  
4 programs, one for Low Income Customers and one for Commercial and Small industrial  
5 customers. The Company had both of these programs implemented by the fall of 2005.

6 In fact, the Low Income program was actually expanded after discussions with  
7 The Energy Project and representatives of several Community Action Agencies within  
8 the Company's service territory. The filing of the program had been delayed in order to  
9 allow for further discussion and, ultimately, modifications to the program originally  
10 included in the IRP. One of the major changes was to expand the program to include  
11 both Eastern and Western Washington. Additionally, the Company added infiltration  
12 measures based on additional information received after the IRP was completed. In the  
13 Company's view, its implementation of these new programs, its equipment rebate  
14 program available to all residential customers (both existing and new construction) along  
15 with its continued promotion of low cost/no cost conservation alternatives are enough to  
16 demonstrate sufficient commitment by the Company to allow immediate implementation  
17 of the decoupling mechanism. The role of a new advisory group would be to review and  
18 refine existing conservation programs and help identify additional programs that can be  
19 developed and implemented.

1 Q. What about Mr. Weiss' comparison of estimated 170,000 therms per year of conservation  
2 for Cascade to his estimate of PSE's annual achievable conservation of 5,250,000 therms  
3 per year?

4 A. I disagree with Mr. Weiss' comparison of Cascade's projected 2006 therm savings to  
5 PSE's estimated target for several reasons. First, it is premature to determine a level  
6 beyond that contained in the Company's IRP (266,000 incremental therms savings per  
7 year). Second, comparing Puget Sound Energy's estimated conservation potential to  
8 Cascade's estimated therm saving potential is an inapposite comparison. PSE has nearly  
9 three times the number of customers as served by Cascade. Moreover, it is incorrect to  
10 assume that PSE's and Cascade's housing stock are similar.

11 Q. What about Mr. Weiss' contention that the utility sponsored programs produced minimal  
12 lost margins?

13 A. We do not agree with this observation. Cascade's responses to NWECA's data requests  
14 addressed only those savings associated with utility-sponsored rebate programs, and  
15 therefore did not include therm savings associated with soft conservation or customer-  
16 initiated conservation, all which impact use per customer. The Company has been  
17 providing customer education on low cost/no-cost conservation programs since the early  
18 1990s, along with promoting the wise use of natural gas. One could speculate that such  
19 information has resulted in the additional declines in usage beyond the amounts  
20 attributed to specific utility-sponsored programs. To the extent customers take advantage  
21 of these measures on their own, without the utility's ratepayers paying for additional

1 incentive levels, these actions have benefited all ratepayers, yet have harmed Cascade's  
2 ability to recover its fixed costs.

3 Q. How do you address the concerns regarding the Company not having a definitive plan  
4 and timeline for pursuing additional cost-effective conservation?

5 A. As discussed earlier in my testimony, the Company is agreeable to establishing a new  
6 conservation advisory committee, which will be responsible for oversight of the  
7 Company's conservation analysis and acquisition, as suggested in the various parties'  
8 testimony. Additionally this committee would provide feedback during the IRP technical  
9 advisory group meetings and provide information for incorporation into the Company's  
10 integrated resource plan.

11 Additionally, as discussed in my direct testimony, the Company has procured a  
12 conservation potential study for its Washington service territory, which is being prepared  
13 by Stellar Processes. As noted earlier in my testimony, the draft of the study is expected  
14 around the end of September. Based on the results of the study, the cost-effectiveness of  
15 additional Company sponsored-programs will be evaluated and the Company would  
16 anticipate requesting Commission approval of any additional programs.

17 Q. How does the Company plan to maximize its acquisition of cost-effective conservation  
18 resources?

19 A. The Company believes the best way to maximize conservation acquisition will be to  
20 outsource the actual administration of any new conservation programs to an independent  
21 third party, similar to the process recently implemented in its Oregon service territory.



1 Q. Please explain.

2 A. With the approval of the Company's Conservation Alliance plan in Oregon, the  
3 Company transferred the administration of its conservation programs to an independent  
4 agency, Energy Trust of Oregon, with the exception of the Low Income program, which  
5 is still delivered through the local Community Action Agencies. Many of the programs  
6 currently offered by Energy Trust were similar to those offered by Cascade. For  
7 Washington, the Company has held several discussions with independent third-party  
8 vendors about opportunities to expand its residential programs. Assuming that a  
9 conservation committee is implemented in Fall 2006, the Company believes that  
10 combining the expertise of this committee, along with the results of the conservation  
11 potential study, should result in any new programs being implemented by early 2007.

12 Q. Does this conclude your rebuttal testimony?

13 A. Yes, it does.