



Rob McKenna

ATTORNEY GENERAL OF WASHINGTON

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June 8, 2011

SENT VIA E-MAIL & ABC LMI

David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

**Re: Compliance Filing on Behalf of Northwest Natural Gas Recommending Ongoing Energy Trust Administration
Docket No. UG-080546**

Dear Mr. Danner:

Public Counsel submits this letter in response to Northwest Natural Gas Company's ("NW Natural") compliance filing made on May 25, 2011. The filing presents the recommendation of the Company and the Energy Efficiency Advisory Group (EEAG) regarding the continued use of the Energy Trust of Oregon (ETO) to deliver conservation programs for NW Natural's Washington customers.

Public Counsel Recommendation:

Public Counsel joins in NW Natural and the EEAG's recommendation to allow NW Natural to continue to use the ETO to deliver conservation programs in Washington. The purpose of this letter is to provide the Commission with our basis for supporting this recommendation as well as to introduce important future issues from Public Counsel's perspective such as changing the vehicle for cost recovery of conservation program expenditures.

A. Background

The stipulation adopted by Order 04 in NW Natural's 2008 rate case, Docket No.UG-080546, permitted NW Natural to use ETO to deliver conservation programs in its Washington service territory for a one year pilot period.¹ Order 04 also required the Company to convene an energy efficiency advisory group (EEAG) which, in consultation with the Company, would evaluate the cost-effectiveness of the continued use of the ETO for delivery of the Company's conservation programs in Washington following the pilot period. The EEAG has played an active role in helping the Company develop its first year programs as well as an Energy Efficiency Plan which

¹ Order 05 in Docket No. UG-080546 amended Order 04 to permit NW Natural to continue to rely on the Energy Trust of Oregon to administer its pilot programs for energy efficiency until such time as NW Natural selects a permanent administrator for the programs.

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include metrics and goals for achievement for the pilot period.² As outlined in more detail in the Energy Efficiency Plan, the decision as to whether ETO should continue to deliver NW Natural's energy efficiency programs following the pilot period was based on the following:

- (1) The achievement of the first year metrics and cost-effectiveness of the program provided in the annual report.
- (2) The comparison of ETO-delivered program costs to the estimated costs for other conservation program delivery options. Options included internal delivery or using a third-party administrator located in Washington, as provided in the third-party benchmarking report provided by Navigant.³

B. First Year Results and Cost-Effectiveness

Below is a table from NW Natural's 2009-2010 annual report on energy efficiency acquisition which summarizes the metrics and results for the pilot period.⁴

Metrics	Goal	Q1 Results	Q2 Results	Q3 Results	Q4 Results	Total
Therms Saved	97,500-130,000	7,811	20,086	16,160	76,840	120,897
Total Program Costs	\$780,000-\$1,040,000	\$52,721	\$64,576	\$118,624	\$290,000	\$525,921
Average levelized cost per measure	Not to exceed \$.65	\$.48	\$.20	\$.51	\$.25	\$.28
Dollars spent per therm saved	Less than \$8	\$6.73	\$3.21	\$7.34	\$3.83	\$4.35
% of paid out incentives to total dollars spent*	At least 60%	42%	57%	38%	60%	53%
Utility Cost**	Greater than 1.0	N.A.	N.A.	N.A.	N.A.	3.41
Total Resource Cost**	Greater than 1.0	N.A.	N.A.	N.A.	N.A.	1.81

*Percent of incentives is calculated using the adjusted program expenditures, where total program expenditures are adjusted down by 15 percent to account for costs that a utility-delivered program would be recovering through base rates.

** Total Resource Cost and Utility Cost are reported on an annual basis. These numbers include the costs of NW Natural's Washington low-income program.

² Docket No. UG-101865, Supplementary Filing—Revisions to Schedule G, "Energy Efficiency Services and Programs—Residential and Commercial." (Dec. 6, 2010).

³ Docket No. UG-080546, Compliance Filing Recommending Ongoing Energy Trust Administration, Exhibit A, (May 25, 2011).

⁴ Docket No. UG-080546, 2009-2010 Annual Report on NW Natural's Energy Efficiency Program, Table 4, p. 11, (Jan. 25, 2011.)

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Public Counsel is pleased that the Company met its goal for annual therm savings at a total cost lower than anticipated while maintaining an overall cost-effective portfolio. Goals for all metrics were achieved with the exception of the percent of program dollars spent on incentives.⁵ While Public Counsel is supportive of minimizing overhead and administrative costs and maximizing dollars spent on incentives within a given budget, we also recognize that administrative costs may be higher in a start-up program as compared to a more mature program. We therefore believe that the percent of the budget spent on incentives will likely increase in subsequent program years as NW Natural's program matures. We also support ETO's practice of carefully monitoring the market in order to motivate customers to participate in programs without providing incentives in excess of what is required to maximize participation.

C. Results of the Third-Party Benchmarking Study

Navigant was hired to perform a study analyzing ETO's costs to deliver NW Natural's conservation programs compared to two alternatives: (1) Self-delivery of programs by NW Natural and; (2) delivery by a Washington-based contractor. The goal of this benchmarking study was to compare the costs and achievements of various conservation program delivery options to determine whether the ETO-delivery model was both cost-effective and the best delivery option for NW Natural's Washington customers. The benchmarking study presented an inherent challenge because NW Natural's program costs and savings results could not be compared to other Washington utilities on an "apples-to-apples" basis given the varying maturity of the utility programs under review. A second challenge was the relatively small sample size of the Washington utilities used in the study. In addition, comparing costs to use a Washington-based DSM contractor was challenging given that no other Washington utility currently administers programs in this manner. These challenges ultimately led to some uncertainty surrounding the results of the benchmarking study. Navigant did recognize these uncertainties but ultimately recommended that NW Natural continue to use the ETO as its conservation administrator. This conclusion was based on the study findings and analysis summarized below.

- (1) Self Delivery: Navigant concluded that NW Natural could deliver residential programs internally for a cost of \$6.00-\$6.50 per therm and \$3.70 per therm for commercial customers. The ETO-delivered costs in year one were \$7.35 per residential therm and \$3.37 per commercial therm. Navigant states that while in the near term it appears that ETO delivery of residential programs may be more expensive than self-delivery, the Company expects that residential participation will continue to increase (as stated in the IRP) and as customer participation and therm savings increase, the cost per therm to serve residential customers will continue to go down. Public Counsel will continue to closely monitor the cost to serve residential customers to ensure that participation continues to increase and costs continue to drop, as anticipated.

⁵ Total program costs were less than the budgeted goal so while this metric could be perceived as having not been met, we view this as a positive result as the Company was able to achieve more conservation savings for less expense than originally predicted.

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- (2) Washington-Based Contractor Delivery: The benchmarking study was also tasked with extrapolating the costs to use a Washington-based conservation administrator. However, no other utility in Washington uses a Washington-based conservation administrator, therefore Navigant based its comparison off of Cascade Natural Gas's (Cascade) costs to deliver programs using a non-Washington third-party contractor as a comparison. This was the closest option available for comparison.⁶ While ETO's cost per therm to deliver conservation was lower than Cascade's costs, we note the limited value of this analysis given that the actual comparison to a Washington-based contractor was not able to be performed. In addition, the benchmarking results are limited to only two utilities which does not provide the most meaningful comparison.

While the results of the benchmarking study do come with some uncertainty, our recommendation is also informed by the results of the annual report as well our experience with ETO as a member of the EEAG during the pilot year. ETO delivered cost-effective conservation programs and achieved the majority of the key metrics established during the pilot period. In addition, NW Natural has agreed to continue to file annual energy efficiency plans and reports as well as to convene quarterly advisory group meetings. For these reasons we support the recommendation made by the Company and the EEAG for ETO to continue to deliver conservation programs for NW Natural in Washington. We will continue to monitor the future costs and delivery results of the ETO as a member of the EEAG and reserve the right to make alternate recommendations in the future regarding the delivery of NW Natural's conservation programs.

D. Future Planning: Discussions on Cost Recovery, Energy Efficiency Plan Revisions and Filing Dates

Initial discussions between the EEAG and the Company on future planning for NW Natural's conservation programs have focused primarily on possible modifications to the content and filing dates for the energy efficiency plan and report and the appropriate vehicle going forward for cost recovery of program expenditures. At this time NW Natural defers conservation program costs for annual recovery through the purchased gas agreement (PGA) filing in fall. We are interested in discussing the merits of NW Natural moving to a tariff rider recovery process which we believe would provide more transparency to stakeholders and customers in the review process as well as allow the annual recovery of expenditures to sync up with the conservation program year. We anticipate this and other topics will be addressed in the months ahead by the EEAG, NW Natural and the ETO.

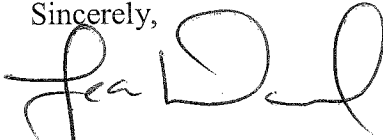
⁶ Cascade currently employs Lockheed Martin, a Maryland-based energy efficiency service provider.

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Public Counsel appreciates the opportunity to provide comments in this docket and looks forward to continuing to participate in discussions surrounding NW Natural's energy efficiency efforts as a member of the EEAG.

Sincerely,

A handwritten signature in black ink, appearing to read "Lea Daeschel". The signature is fluid and cursive, with a large loop at the end.

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