Agenda Date: December 18, 2013
Item Number: D11

**Docket: UG-132226**

Company: **Cascade Natural Gas Corporation**

Staff: Juliana Williams, Regulatory Analyst

## Recommendation

Direct staff to close the staff investigation in Docket UG-132226.

## Background

Cascade Natural Gas Corporation (Cascade or company) pursues conservation as a least cost resource through its Integrated Resource Plan (IRP), and operates its conservation program through tariff schedules initially approved in Docket UG-060256. As a result, Cascade plans its conservation program on the two-year Integrated Resource Plan (IRP) cycle. Cascade's most recent Washington IRP was filed in December 2012, in Docket UG-112165. Cascade files annual reports on conservation achievement in June of each calendar year. Cascade does not have any pending conservation filings before the Washington Utilities and Transportation Commission (commission) at this time. Staff opened an investigation as a vehicle to provide an informal update on Cascade's conservation achievements in 2013 and plan for 2014.

## Biennial Conservation Target

Cascade's 2012 IRP identified the achievable conservation potential in Cascade's Washington service territory from 2013 to 2032. Cascade then applied a 75 percent screen on the potential to develop conservation targets of 536,761 therms in 2013 and 588,650 therms in 2014. These targets are identified in Table 1 below.

**Table 1. Conservation Targets and Achievement for 2013 and 2014.**

| Program | 2013 Target | 2013 Achieved Savings (Jan.-Nov.) | 2014 Target |
|---|---|---|---|
| Residential | 189,619 therms | 102,562 therms | 226,382 therms |
| Commercial/Industrial | 320,892 therms | 174,493[1] therms | 339,768 therms |
| Low Income | 26,250 therms | 14,766 therms | 22,500 therms |
| **Total** | **536,761 therms** | **291,821 therms** | **588,650 therms** |

[1] Cascade already has approximately 114,000 therms of additional savings from ongoing projects that are expected to be completed by the end of the year.

It is important to note that many projects are completed at the end of the year, so the savings estimates as of November do not provide a completed picture of the savings Cascade expects to achieve by the end of the year. Additionally, Cascade attributes savings to the year a project was completed, rather than when the payment was processed, which means that savings from projects in progress may count toward meeting the 2013 target. So far, Cascade has achieved a greater level of savings as of November, 2013, than it had at the same point in 2012. Staff has confidence that the company is on track to meet its targets.

**Budget**

Cascade's conservation program budgets for 2013 and 2014 are identified in the table below. During the review of Cascade's 2012 IRP, staff raised concerns about the percentage of conservation program spending attributed to administrative and delivery costs. Cascade filed a revised business plan on February 14, 2013, in Docket UG-112165, and commited to reduce administrative costs through changing vendors. Previously, Cascade contracted with Lockheed Martin for third party program support for all its programs. Between May 16, 2013, and August 29, 2013, Cascade began working with the Electric and Gas Industries Association (EGIA) for residential program support. Due to this mid-year transition, Cascade's 2013 expenditures reflect the higher cost of services provided by Lockheed Martin in the first half of the year, and the lower cost of services provided by EGIA in the second half of the year. The budget ranges filed, shown in Table 2 below, addressed the uncertainty of costs associated with the change in vendors.

**Table 2. Conservation Budgets and Expenditures for 2013 and 2014.**[2]

| Program | 2013 Budget | 2013 Expenditures (Jan.-Nov.) | 2014 Budget |
|---|---|---|---|
| Residential | $720,000-850,000 | Approx. $465,000 | $800,000-950,000 |
| Commercial/Industrial | $600,000-800,000 | Approx. $518,000 | $630,000-840,000 |
| Administration | $600,000-1,400,000 | Approx. $1,500,000 | $450,000-1,300,000 |
| EM&V and Potential Assessment | $113,320 | Approx. $117,000 | N/A |
| **Total** | **$1,920,000-3,050,000** | | **$1,880,000-3,090,000** |

Staff reviewed Cascade's conservation expenditures incurred between August 1, 2012, and July 31, 2013, in Docket UG-131872. Staff expects to see further reductions in administrative costs in Cascade's next conservation cost recovery filing in October, 2014.

[2] Cascade presents its budget as a range. Staff primarily uses the maximum budget amount in its analysis of the conservation plan. However, in the budgets as filed, Cascade did not provide cost-effectiveness analysis for the range of budgets it included. Future budget estimates should include cost-effectiveness calculations.

In 2013, Cascade contracted with Nexant, Inc. (Nexant), to conduct evaluation, measurement and verification (EM&V) of Cascade's achieved savings, and develop a new conservation potential assessment with updated measure savings values. Cascade expects Nexant to complete this work between January and February, 2014. Cascade's current conservation potential assessment was developed in 2006 in coordination with the Energy Trust of Oregon, and was updated periodically with limited revisions. This expense was originally included in Cascade's budget filed February 14, 2013, and staff expects this work to provide valuable information to improve Cascade's conservation program. These expenditures will be reviewed through the next conservation recovery filing.

**Natural Gas Policy Statement Implementation**

In response to the commission's Policy Statement on the Evaluation of the Cost-Effectiveness of Natural Gas Conservation Programs (Policy Statement), in Docket UG-121207, Cascade has asked Nexant to also review the cost-effectiveness of its conservation programs using the discount rates recommended by the Policy Statement. Currently, Cascade uses a long-term real discount rate of 4.170 percent for valuing conservation savings over the life of the measures. No other natural gas company regulated by the commission uses a long term real discount rate. Nexant is evaluating the use of a discount rate within the range of the weighted average costs of capital (WACC) used by other companies, and preliminary results indicate that this change reduces the cost-effectiveness of Cascade's conservation portfolio. After Nexant completes the study, Cascade plans to consult with its Conservation Advisory Group to determine which discount rates make the most sense for Cascade to use. Staff believes it would be appropriate for the commission to invite Cascade to discuss this issue at a recessed open meeting in the spring.

**Conclusion**

Direct staff to close the staff investigation in Docket UG-132226.