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October 5, 2012

VIA ELECTRONIC FILING

David W. Danner, Executive Director & Secretary
Washington Utilities and Transportation Commission
1300 S Evergreen Park Drive SW
Post Office Box 47250
Olympia, Washington 98504-7250

Re: UG-121207 - NW Natural's Reply Comments in the Commission's Investigation into Natural Gas Conservation Programs

Dear Mr. Danner:

Northwest Natural Gas Company, dba NW Natural (NW Natural or the Company), hereby submits its reply comments in Docket No. UG-121207, the Commission's Investigation into Natural Gas Conservation Programs.

The Company uses this opportunity to refine the position presented in its comments filed in this docket on September 14, 2012, wherein the Company supported the acquisition of cost-effective demand side management (DSM). To ensure the best portfolio of least cost resources, DSM must be compared on an equal basis with supply side options. The Company believes that its avoided cost calculation as currently modeled in SENDOUT provides an accurate basis for determining the relative amount of DSM the Company should procure for the most cost-effective portfolio of resources.

Regarding the benefit cost calculations applied as part of monitoring a program's cost effectiveness, the Company acknowledges that "adders"--- such as saved water with efficient water heating or the reduced cost of laundry with ozone laundry system--- are appropriate for inclusion in the total resource cost (TRC) calculation. However, NW Natural does not support the adoption of a process that seeks to calculate and assign values to DSM benefits that are both difficult to quantify and are not the financial responsibility of utility rate payers. Examples include adders for comfort or improved housing stock.

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NW Natural has stated that it is open to discussing the possibility of increasing the 10% adder included for non-quantifiable environmental benefits. The Company believes this would be better than creating a complicated valuation process that is intended to create a clear bias for energy efficiency in a time when gas prices are low.

The Company believes that the cost effectiveness of utility DSM programs should be measured using the TRC at the portfolio level. This would allow for a balanced portfolio offering of very cost effective measures as well as those that are on the margin. This approach would prevent customers from overpaying for non-cost effective DSM, yet at the same time it would allow for the market transformation of newer measures.

NW Natural continues to believe that weatherization incentives and low income energy efficiency programs should be considered a basic customer service offered by utilities. A mandate to serve the most basic energy efficiency measures would prevent the stopping and starting of programs, which is costly to do and results in lost opportunities. The Company believes these offerings should not be included in the TRC test applied to the total energy efficiency program portfolio. Rather, to ensure that a reasonable cap is placed on spending of weatherization and low income programs, the Company advocates that the upper end of a utility's investment should be defined at the program level by the Participant Test (PT) which measures the economics from the perspective of the customer installing DSM measures. The PT is determined by dividing the costs by the benefits, when the terms are defined as follows:

- **Benefits:** Customer's utility bill savings and any other related cost savings such as reduced operation and maintenance costs
- **Costs:** The investment to install and maintain (if necessary) the DSM measure.

NW Natural appreciates the opportunity to respond to this inquiry and looks forward to participating in the Commission workshop planned for October 19, 2012.

Please contact me at (503)226-4211, extension 3590, if you have any questions.

Sincerely,

/s/ Jennifer Gross

Jennifer Gross
Rates and Regulatory Affairs