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December 15, 2014

Mr. Steven V. King
Executive Director and Secretary
Washington Utilities & Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

Re: Docket UG-143616
Comments of Cascade Natural Gas Corporation on Investigation of Natural Gas Distribution Infrastructure Expansion

Dear Mr. King:

Thank you for the opportunity to provide further comments on topics discussed at the November 3, 2014, workshop. Cascade provides a general approach as well as specific comments to each of the topics below.

As a general approach, Cascade suggests the Commission issue a policy statement identifying its specific goal, objective, or strategy to be achieved and let the utilities identify the ways and means to achieve the desired outcome using many of the tools identified in this document. To be more specific, if the Commission deems it in the public interest to maximize penetration of natural gas in Washington State and identifies boundaries such as impacts to existing customers, Cascade believes the utilities are best situated to achieve such outcomes with current Commission authority and with minimal to no legislative action.

1. ***Line Extension Tariffs.*** **Local distribution companies could file revised line extension tariffs to make line extensions more economically viable for new customers to obtain service. Revisions to line extension tariffs could consider different standards for certain underserved areas.**

Comments: The line extension tariffs are probably the single most effective tool available to achieve success. However, relaxing the criteria or financial burden for new customers will put rate pressure on existing customers as well as financial pressure on the utilities in the form of capital investment and regulatory lag. The long term benefits can far outweigh the shorter term costs. As an example, if the simple payback period is lengthened from a three or five year period to a ten or fifteen year period (or maybe even longer), then the new customer will pay less up front and thus make it more enticing to hook up to the natural gas system. However, the extension may appear uneconomic in the early years and certainly would create rate pressures in the early years. Guidance from the Commission on what is the prudent view will be extremely important.

While many of the topics below can be combined into an overarching plan, possibly a pilot program approach, Cascade must caution that rationality and rate sensibility are crucial. Cascade's service territory primarily overlaps with municipal or public utility district electric providers so Cascade must be cognizant of its ability to be price competitive in these areas.

2. ***Policy Statement.*** **The Commission could issue a policy statement clarifying its policy regarding application of prudence and "used and useful" standards for the recovery of costs for gas infrastructure in selected areas. The policy statement could address or include:**
    a. **A description of underserved areas in which considerations in the policy statement would apply, perhaps including:**
        i. **Whether the area is a non-attainment area;**
        ii. **Whether any electric energy conserved will assist the state in meeting its target under EPA rules implementing section 111(d); and**
        iii. **The demand for gas service, or the number of potential new customers (residential, commercial, and industrial).**
    b. **A suggested process by which a local distribution company may identify the geographic boundaries of underserved areas.**
    c. **A description of the criteria by which the Commission would review the prudence of capital additions in underserved areas and whether they are "used and useful." The Commission issued a policy statement on renewable energy resources in Docket No. UE-100849 (issued January 3, 2011), addressing the application of the "used and useful" standard.**

<u>Comments</u>: A policy statement providing guidance on Commission preference in identifying public interest goals versus obligations to existing rate payers would be extremely valuable. The fundamental question is how much pressure on current rate payers in the immediate future is in the public interest long term? Should current rate payers pay for long term benefits of economies of scale, green-house gas reductions, etc.

Another area for Commission policy direction is the clarification or identification of whether the advancement of natural gas as whole is in the public interest or should the advancement in only certain geographical areas be the priority.

3. ***Discounted Rates for Low Income Consumers.*** **RCW 80.28.068 authorizes the Commission to set discounted rates for low-income consumers of electric and natural gas companies. The companies and the Commission could review current low-income tariffs for the local distribution companies and, if appropriate, authorize further discounts for low income consumers. These rates then could serve as part of a strategy for recruiting customers to switch to gas from oil furnaces or woodstoves.**

Comments: Cascade is unclear how discounted rates for low-income customers could serve as a recruiting tool to switch customers from oil furnaces or woodstoves to natural gas.

4. ***Advertising Rule Changes.*** **Current rules prohibit cost recovery of promotional advertising by local distribution companies (WAC 480-90-223). The Commission could consider revising this rule to permit cost recovery of such advertising when it is directed toward encouraging connection to gas in under and unserved areas.**

Comments: Cascade agrees that advertising could be a vital method to promote encouraging natural gas connections, so it agrees a rule modification or waiver may be in order. Cascade also believes that if the Commission determines that direct use of natural gas is in the public interest that advertising in general to promote natural gas connection should also be considered and not just in specific under or unserved areas. The primary premise for this approach would be that the best time to connect to natural gas is during construction not necessarily conversion, therefore, every effort should be directed to maximizing this potential, including advertising.

5. ***On-Bill Financing.*** **RCW 80.28.065 authorizes local distribution companies to offer on-bill financing for energy conservation measures. The Commission seeks comments on whether local distribution companies are interested in pursuing on-bill financing as an option for customers to finance line extensions over a longer period of time than current tariffs allow.**

Comments: Cascade believes this is a viable option that should be explored at a utility by utility basis, again using on-bill financing as a potential tool to achieve the desired outcomes. This approach could help achieve certain goals but would also come with costs such as computer programing, credit risk, capital outlays, potential higher uncollectables, and/or other unintended outcomes.

6. ***Infrastructure Fund.*** **To the extent that installation of new infrastructure would result in incremental tax revenues (such as public utility taxes), the incremental revenues could be used to secure bond financing for some of the infrastructure.**

Comments: Cascade sees this approach as a legislative approval (if needed) to grant local area taxing authority for specific purposes. This item seems outside the scope of Commission purview.

7. ***Pilot Rules.*** **To the extent it may be necessary to develop different policies for different geographic locations, or to experiment with one or more methods or strategies discussed in this notice, it may be useful to adopt "pilot rules" under the Administrative Procedure Act, which authorizes such rules. RCW 34.05.310(2)(b); 34.05.313.**

Comments: If the intent of the Commission is a focus on under-served or unserved areas and not a more general public interest policy, then pilot line extension policies coupled with programs designed to achieve certain results would fit well with pilot or trial period type status.

8. ***Local Construction Costs and Impact Fees.*** **The Commission seeks data or specific examples from local distribution companies concerning the specific costs companies or their customers have experienced when constructing or expanding gas distribution infrastructure including impact fees and the costs of other local requirements.**

Comments: Cascade has experienced numerous local jurisdictions either implementing or increasing impact fees for services. Here is an email excerpt identifying basic costs that would apply to simple hook-up within city limits:

"Enclosed is a price list from the City of Burlington. Fees start at $400 Dollars plus whatever per foot in R/W. Only city where we need to do a Pre-Construction locate to have all the infrastructures included with the permit process. It normally averages 3 to 4 weeks before permit is approved."

9. ***Concurrent Construction Projects.*** **The Commission seeks comments on how it might assess the economic feasibility of expanding natural gas service concurrently with other utility infrastructure or construction projects.**

Comments: Cascade is unclear if the request assumes a specific scenario. However, economic evaluation could range from general evaluation such as line extension tariff reviews to specific project review in the case of a pilot project. Projects could be reviewed on a case by case basis if included in specific recover mechanisms similar to the Pipeline Recovery Mechanism. At a minimum, projects would be reviewed as part of the process during a general rate proceeding.

10. ***Other Strategies and Methods.*** **Interested parties should submit comments to the Commission concerning any other strategies or methods that would be useful to consider in taking action or developing rules to expand natural gas infrastructure to unserved and underserved areas in Washington.**

Comments: Many of the previous items mentioned could be used together in the context of a comprehensive plan of which policy direction from the Commission would be helpful to guide the utilities to develop and implement such plans.

One strategy not previously mentioned would be the use of area rates. A separate tariff for specific areas could be developed and used to pass costs to cost causers over an extended period of time. This approach could also be used in conjunction with many of the tools previously identified.

If you have any questions, please contact me at (509) 734-4593.

Sincerely,

Michael Parvinen
Director, Regulatory Affairs