

**Cascade Natural Gas Corporation**  
**Conservation and Low Income Weatherization Plan**  
For 2008 and 2009 Program Years

**SUMMARY**

Cascade is committed to ensuring that all customers have access to energy efficiency programs by offering a mix of programs that make energy efficiency services available to all customer classes throughout its diverse service territory, which encompasses 68 small cities and towns scattered across the state of Washington. This Plan specifically addresses each of the requirements necessary for the implementation of the Company's partial decoupling mechanism approved in the Commission's Order No. 5 in Docket UG-060256 and incorporates the conditions outlined in paragraph 87 of the Order.

The Company has:

- Established a Conservation Advisory Group and invited all interested parties to participate in the review of the conservation potential study prepared by Stellar Processes and the development of the Company's Conservation and Low Income Weatherization Plan
- The Plan includes specific programmatic and energy efficiency targets for Conservation and Low Income weatherization programs including benchmarks for the 2008 and 2009 program years
  - 2008 Targeted Annual therm savings range between 285,500 to 385,750
  - 2009 Targeted Annual therm savings range between 372,500 to 510,000
- The Plan includes penalties should the Company fail to meet the conservation threshold targets once the Plan is approved
- The Plan includes an earnings cap with a verifiable mechanism to determine whether or not the Company exceeds the stipulated rate of return of 8.85%
- Implementation Plan to demonstrate how the Company will propose to deliver and achieve the targets discussed above

The following sections discuss each of these items in further detail:

**CONSERVATION ADVISORY GROUP**

Consistent with paragraph 15 of the Settlement Agreement in UG-060256, the Company established an advisory group of interested parties. The Conservation Advisory Group (CAG) met on February 5, 2007, and February 26, 2007 to review the results of the conservation potential study developed by Stellar Processing for Cascade's Washington service territory and to discuss measures to be assessed and included in future conservation programs. On April 26, 2007, the CAG met again to review the Company's proposed Plan including the Company's targets and a discussion of the Company's strategy for achieving those targets.

The members invited to participate in the Conservation Advisory Group and the agencies they represent are as follows:

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|                    |   |
|--------------------|---|
| Jon Stoltz         | Cascade Sr. VP Regulatory & Gas Supply  |
| Kathie Barnard     | Cascade Sr. Director Regulatory Affairs |
| Christine Kautzman | Cascade Conservation Specialist         |
| Paul Schmidt       | Cascade Rate Analyst                    |
| Joelle Steward     | WUTC                                    |
| Doug Kilpatrick    | WUTC                                    |
| Paula Pyron        | NWIGU                                   |
| Chuck Eberdt       | The Energy Project                      |
| Steve Johnson      | Public Counsel                          |
| Judy Krebbs        | Public Counsel                          |
| Elizabeth Klump    | CTED                                    |
| Danielle Dixon     | NW Energy                               |
| Steve Weiss        | NW Energy                               |
| John Klingele      | Customer from Yakima                    |

**CONSERVATION & LOW INCOME WEATHERIZATION PROGRAMS**

The Company's energy efficiency programs are designed to achieve all savings that are not independently captured by consumer acquisition and that are cost-effective to the Company and economically feasible for consumers, taking into account incentives from Cascade. Based on input from the CAG, the Company is enhancing its energy efficiency programs to include a residential weatherization program, an Energy Star New Homes program and a custom program for firm commercial and industrial customers. These programs will be offered in addition to the existing prescriptive programs the Company currently has in place, which includes the Low Income Weatherization Program, the High Efficiency Equipment Rebate Program and the Commercial/Industrial prescriptive program (See Appendix A). The Company's proposed programs include both prescriptive measures along with a custom program for the firm commercial and industrial customers in order to provide incentives for those customers to pursue cost-effective process changes at their buildings/facilities. These proposed programs including the measures, proposed incentives, along with the estimated program costs and annual therm savings are described in detail in Appendix B & C. Appendix D includes proposed tariff sheets that would be filed upon approval of this plan to establish the conservation programs.

For the Low Income Weatherization program, the Company proposes maintaining its current program delivery and administration structure with the local Community Action Agencies (CAA). However, the Company is proposing to modify that program to allow up to 100% of the cost effectiveness limit on qualifying energy efficiency measures providing the overall program is still cost effective. Additionally, the Company fully intends to continue to support soft conservation by supplying customers with monthly bill inserts, web-updates and by asking the customer to take a whole-house approach to saving energy to help them save money and keep their home at its peak comfort level.

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**BENCHMARKS & TARGETS**

Annual Therm Savings targets for the 2008 & 2009 planning years and preliminary 2010 are shown below:

| Year | Residential and<br>Comm/Industrial Programs |           | Low Income Weatherization<br>Program |           | Total Annual Therm Savings |           |
|------|---|-----------|--------------------------------------|-----------|----------------------------|-----------|
|      | Conservative                                | Best Case | Conservative                         | Best Case | Conservative               | Best Case |
| 2008 | 275,000                                     | 370,000   | 10,500                               | 15,750    | 285,500                    | 385,750   |
| 2009 | 355,000                                     | 475,000   | 17,500                               | 35,000    | 372,500                    | 510,000   |
| 2010 | 455,000                                     | 605,000   | 21,000                               | 50,000    | 476,000                    | 655,000   |

The annual therm savings estimates are based upon implementation of the programs and their associated funding as detailed in Appendix B & C.

Therm savings targets shown in Appendix B& C do not include savings associated with the low-income weatherization program, as the Company cannot control or assure the level of savings from these programs since Cascade is completely reliant on the Community Action Agencies for delivering these programs.

**PENALTIES**

The level of annual recovery of recorded conservation deferred revenue is dependent upon the Company meeting the threshold therm savings for each program year. The penalty level reduces the amount of the deferred conservation balance when certain levels of the threshold therm savings are not met.

Actual vs Threshold Annual Therm Savings

Penalty Structure

|                  |                                      |
|------------------|--------------------------------------|
| <70%             | 100% disallowance/ 0% recovery       |
| ≥ 70% and < 80%  | 30% disallowance of deferred balance |
| ≥80% and < 90%   | 20% disallowance of deferred balance |
| ≥ 90% and < 100% | 10% disallowance of deferred balance |
| ≥ 100%           | 0% disallowance of deferred balance  |

The annual threshold is based on the conservative therm savings estimate for the residential and the commercial/industrial conservation programs. The therm savings threshold does not include savings associated with the low-income weatherization program, as the Company cannot control or assure the level of savings from these programs since Cascade is completely reliant upon the Community Action Agencies for delivering these programs.

For the 2008 program year, the threshold is 275,000 annual therm savings and 355,000 for 2009.

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**EARNINGS CAP**

The recovery of the Conservation deferred revenue is also subject to an earnings cap. The Company's annual "Commission basis report," which is filed annually in accordance with WAC 480-90-257, will be the basis for determining whether or not the Company's earnings have exceeded the earnings cap. Should the Company's Commission basis rate of return exceed 8.85% for the Company's Washington gas operations, the amount of the deferred conservation revenues will be reduced to bring the rate of return down to the 8.85%. If reducing the entire deferred conservation revenue balance from the commission basis results does not reduce the overall rate of return to 8.85%, the deferred conservation balance will be eliminated and the Company will not be permitted recovery of those amounts.

**IMPLEMENTATION PLAN TO ACHIEVE THERM SAVINGS TARGETS**

In order to maximize participation levels and the acquisition of therms savings targets identified above, the Company is planning to have a third party provide program delivery and administration of all of its conservation programs with the exception of the Low-Income Weatherization Program. Cascade is working closely with the Energy Trust to determine if their approach in Oregon may be able to be leveraged into Cascade's Washington service territory.

The Energy Trust's approach is to manage conservation programs with a small staff, delivering the majority of its programs through contracts with several providers and provides services through a network of over 450 business trade allies. Energy Trust Staff provides the following administrative services:

- Evaluation/Design of overall conservation programs
- Development and evaluation of Request for Proposal (RFP) for delivery of conservation programs
- Contract with third-party Program Management Contractors (PMC)
- Provide Trade Ally development and training
- A centralized call center and resources to assist customers with energy efficiencies

The Company has engaged the Energy Trust to prepare a detailed analysis that will determine options for delivery of Cascade's residential and commercial/industrial conservation programs. The study will assist in determining whether the Energy Trust, or a similar model, could be developed to provide such services in Washington. Details of the proposed study are included in Appendix E. The results of the study will provide Cascade with the necessary planning information needed to determine the most cost-effective way to provide administration and delivery of its conservation programs in the state of Washington. This study should be completed around the end of June, which should allow adequate time to implement the conservation programs commencing October 1<sup>st</sup>, providing the plan has received Commission approval.