

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

WASHINGTON UTILITIES AND	)	
TRANSPORTATION COMMISSION,	)	
	)	DOCKET UG-060256
Complainant,	)	
	)	
v.	)	
	)	RESPONSIVE COMMENTS OF
CASCADE NATURAL GAS	)	CASCADE NATURAL GAS
CORPORATION	)	CORPORATION
	)	
Respondent.	)	

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**I. BACKGROUND**

*I* On May 7, 2007, Cascade Natural Gas Corporation ("Cascade" or "the Company") filed a Conservation and Low Income Weatherization Plan ("Conservation Plan") in compliance with Order 05 issued by the Washington Utilities and Transportation Commission ("Commission") in this docket. Order 05, and the Settlement Agreement accepted by that Order, prescribe the following with respect to a Conservation Plan:

- The Company was required to convene a conservation advisory group ("Advisory Group") of all interested parties to meet no later than thirty (30) days after issuance of Order 05. *Settlement Agreement, paragraph 15(e)(i).*
- Not later than ninety (90) days thereafter, the Company was required to file with the Commission a Conservation and Low Income Weatherization Plan "with reasonably achievable specific programmatic and energy efficiency targets and related benchmarks for at least 2008 and 2009" based upon the conservation potential study being performed for the Company by Stellar Processes and the recommendations of the Advisory Group. *Settlement Agreement, paragraph 15(e)(ii).*

- The Conservation Plan is required to include possible penalties and incentives, and to be submitted to the Commission for approval. *Settlement Agreement, paragraph 15(e)(ii).*
- The Conservation Plan must include an earnings cap based on a stipulated overall rate of return of 8.85 percent and an appropriate and verifiable mechanism to assess how the earnings would be determined and compared to the authorized rate of return. *Order 05, paragraph 81.*
- Following Commission approval of the Conservation Plan:
  - The Company within thirty (30) days thereafter is required to issue requests for proposals, or RFPs, for third-party implementation of the Conservation Plan. Agreements with third-party contractors are required to include "specific programmatic and performance targets and benchmarks, with possible penalties and incentives, to ensure that payment is based on delivery of energy efficiency savings." *Settlement Agreement, paragraph 15(e)(iii).*
  - No later than December 31, 2007, the Company is required to demonstrate to the satisfaction of the Commission that it has the ability to meet the 2008 energy efficiency targets identified in the Conservation Plan. This demonstration may be made by showing that the Company has contracted with qualified third-party providers to be able to deliver effectively the energy efficiency programs included in its 2008 target. *Settlement Agreement, paragraph 15(e)(iv).*

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The Company respectfully submits that the Conservation Plan it filed with the Commission on May 7, 2007 fulfills the requirements of Order 05 and the Settlement Agreement accepted in that Order. Specifically:

- The Company convened a Conservation Advisory Group ("Advisory Group") for meetings on February 5 and 26 and April 26. All interested parties were invited to participate in the review of the conservation potential study prepared by Stellar

Processes, and in the development of the Conservation Plan. Commission Staff, the NW Energy Coalition ("NWECC"), and The Energy Project all participated in the Advisory Group. The Public Counsel Section of the Office of the Attorney General ("Public Counsel") declined to participate in the Advisory Group; Public Counsel expressed its continuing belief "that the decoupling mechanism outlined in the Order is not a fair or cost-effective way to achieve energy efficiency and is significantly flawed . . . [and] [f]or that reason, no purpose would be served by [Public Counsel's] participation in the [Advisory Group] at this stage."<sup>1</sup>

- The Conservation Plan includes specific programmatic and energy efficiency targets. For 2008, the range for targeted annual savings is between 285,500 to 385,750 therms. For 2009, the range for targeted annual savings is between 372,500 to 510,000 therms.
- The Conservation Plan includes penalties in the event the Company fails to meet the conservation threshold targets.
- The Conservation Plan includes an earnings cap with a verifiable mechanism to determine whether the Company exceeds the stipulated overall rate of return of 8.85%.
- The Company has developed an Implementation Plan describing how the Company proposes to deliver and achieve the conservation targets.

3 In response to the Company's filing of its Conservation Plan on May 7, comments were filed by Commission Staff, NWECC, The Energy Project, and Public Counsel. Cascade appreciates the opportunity to submit responsive comments, and responds to the various comments submitted by the parties in the sections that follow.

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<sup>1</sup> See February 7, 2007 email from Judy Krebs to interested parties, included as Attachment 1.

## II. CASCADE'S RESPONSIVE COMMENTS

4 The parties' comments can generally be categorized into the following subjects: (1) program design, (2) adequacy of annual conservation targets, (3) penalty provisions, (4) earnings cap mechanism, (5) incentives, and (6) implementation issues. These subjects are address in turn below.

### A. Program Design

5 There seems to be general support for the approach Cascade is taking with respect to its conservation and low-income weatherization programs. NWECC states that the Company "appears to be on the right track for its planned program offerings in the near-term, including a residential weatherization program, Energy Star New Homes program, and a custom program for firm commercial and industrial customers." *NWECC Comments at 3*. With respect to low-income programs, NWECC "support[s] continuation of the Company's current program delivery and administration structure for low-income energy efficiency services, and its proposal to allow up to 100% of the cost-effectiveness limit on qualifying measures." *Id. at 3-4*. Staff also "concur[s] with Cascade's approach to low-income weatherization," and "is pleased to see that Cascade proposes to fund up to 100 percent of the avoided cost for building shell measures, forced air furnace duct sealing and infiltration reduction." *Staff Comments at ¶ 2*.

### B. Conservation Targets

6 Staff takes the position that the annual benchmarks included in the Conservation Plan for captured therm savings in 2008 and 2009 "are reasonable and achievable." *Staff Comments at ¶ 3*. NWECC, however, believes the point targets for conservation achievement are "too low," and notes in particular that Cascade "assumes several years for program ramp-up." *NWECC Comments at 2*. According to NWECC, the Company's reliance on third-party delivery suggests a ramp-up time closer to two years. *Id.* NWECC also compares Cascade's conservation targets to Puget Sound Energy's and Avista's recent gas conservation savings

targets and, while acknowledging that these programs have been operating for several years, expresses concern that Cascade's customers "would miss out on an extremely large reservoir of cost-effective conservation" if Cascade's conservation targets were adopted. *Id. at 3*. Public Counsel, for its part, claims that the targets are "very low and are not supported by analysis." *Public Counsel Comments at 12-13*. The Energy Project also expresses concern that the targets are too cautious and the ramp-up period is too long. *Energy Project Comments at 1-2*.

7           The Resource Assessment conducted by Stellar Processes identified substantial potential for energy efficiency in both the residential and commercial/industrial sectors. The Company submits that the proposed targets for 2008 and 2009 are appropriate, as they represent significant increases over current activity levels. Over this time period, Cascade expects to gain important market intelligence related to customer acceptance of program offerings that will be the basis for setting longer-term goals. As needed, Cascade will periodically update its assessment of conservation potential based on its market experience to support the design and implementation of a program portfolio designed to capture as much cost-effective efficiency potential as possible. While the Conservation Plan does not present preliminary threshold targets for 2010, it is possible that the actual target will be higher if early program experience warrants.

8           With respect to the issue of the ramp-up time, although the Energy Trust of Oregon ("ETO") has a basic program delivery mechanism and infrastructure in place, the delivery of efficiency programs relies heavily on local service providers. These short-term goals consider the need, in order to accelerate programs, to engage and build relationships with a broader array of local trade allies to stock and service high efficiency technologies as well as the need to generate awareness of expanded programs amongst consumers and business customers. Past experience has shown that participation levels in new programs typically ramp up over a period of time as the trade ally network is built up and customers evaluate

whether to invest their dollars in the conservation measures. For this reason, Cascade believes that the proposed targets and ramp up period are appropriate.

9 For example, Cascade points to the Company's recent experience with the Low Income Program. Although low-income weatherization programs are not new, they were new to Cascade's service territory. During the program planning process it was estimated that 100 to 200 homes could be weatherized a year. During the first full year of the program, however, only 10 homes were weatherized. Although, as The Energy Project acknowledges, there were other issues (primarily costs) that prevented the participation levels from being as high as originally anticipated, Cascade believes that this situation is no different from a non-low income targeted program, where the Company will be relying upon individual consumers choosing to install weatherization in their homes. Even with the expanded incentives and programs proposed in the Conservation Plan, Cascade is ultimately depending upon individual consumers to purchase and install the conservation measures. Cascade will offer programs that provide financial incentives for installation of conservation measures and will continue to promote and educate customers on the benefits of conservation; however, the Company cannot force consumers to participate. In order to achieve the proposed therm savings targets, the Company will be relying on more than 2000 individual customers to participate and install measure during the first year in order to achieve the savings.

10 The Company will certainly strive to exceed the targets and possibly by year 3 (2010) will be able to establish even higher targets for the next 2-year period. There are a number of unknowns, however, that could affect Cascade's ability to achieve the initial targets. One of Cascade's proposed programs is to provide incentives for Energy Star homes in the new construction sector. Under this program, customers/builders receive incentives for installing insulation and equipment that is higher than the minimum standards. However, in the event the building codes are modified to establish the Energy Star levels as the new baseline, the

entire program and the savings associated with it would no longer be considered a utility-sponsored program. As noted in NWEC's comments, Governor Gregoire established targets to reduce global warming emissions and has convened a stakeholder process to develop strategies for achieving those targets. *NWEC Comments at 1*. Given this development, it is not unrealistic to believe that such changes to the building code could occur, and that they could happen during 2008 – 2009. In the event such a change occurs, Cascade would be required to meet the established therm savings threshold from its other programs. Cascade believes that its approach and estimated annual therm savings targets are aggressive yet reasonable as there are a number of variables beyond the utility's control.

11           NWEC also claims there should be a "fast ramp up to achieve annual therm savings in line with the 20 year cost-effective conservation identified by Stellar." *NWEC Comments at 6*. Assuming Cascade or the ETO could achieve the savings identified by Stellar during the first few years of the deployment scenario is unrealistic. A significant portion of the savings identified by Stellar come from Heat Reclaim in both new and existing commercial/industrial structures. Currently no utility in the Northwest is sponsoring a program directed at these measures, and it is therefore not realistic to assume that the therm savings targets associated with that program could be achieved in the first 2 years. All of the parties at the Company's initial Advisory Group meetings agreed that it did not make sense for Cascade to include programs and measures that were completely new. The Company has committed in its IRP to investigating these in order to implement a possible program during the 2010 period, and customers would still be eligible to propose such measures through the proposed custom program for commercial/industrial customers. In addition, Stellar's targets also assumed that 85 percent of the technical potential would be achievable. The 85 percent threshold was not considered to be realistic during the Advisory Group meetings, and therefore taking 1/20<sup>th</sup> of that achievable potential is not appropriate.

12 NWEC's comparison with PSE is based on inaccurate information. Cascade's core customer base is only 245,000, not the 279,000 customers and 278 million therms cited by NWEC, which appear to be Cascade total system figures. (The Conservation Plan addresses only Washington.) A correct analysis shows that Cascade's targets compare favorably with PSE's. Cascade has approximately 180,000 core customers (25% of the number of PSE core customers) that consume just over 200 million therms annually (18% of PSE's figure). PSE's current goal, after several years of program implementation, is 2.1 million therms per year. Cascade's preliminary goal in 2010, after 2 years of building delivery capacity and establishing market awareness, is 605,000 annual therms, or 28% of PSE's current goal. Further, nearly 70% of PSE's 2006 savings occurred with commercial and industrial customers. While Cascade recognizes that commercial and industrial customers can provide large savings at low cost, those impacts are harder to predict. Again, the early market experience of implementing expanded programs to Cascade's Washington customers will inform goals for 2010 and beyond.

13 Moreover, there are distinct differences between Cascade and the two other investor-owned gas utilities, PSE and Avista. In addition to service territory/demographic differences, PSE and Avista have the advantage of having combined electric and gas operations, which provides efficiencies in acquiring energy savings. In order for Cascade to leverage its programs, particularly in the area of new construction, Cascade will need to partner with the electric utilities in its service territory to provide the most benefit for customers. As a result, Cascade will need to partner with ten different utilities and public utility districts in order to accomplish what PSE and Avista can do by working within their own respective companies.

### **C. Penalty Provisions**

14 Staff states that "the mechanism proposed for recovery or non-recovery of the deferred conservation funding balance represents a reasonable incentive for Cascade to



assure that their program is working." *Staff Comments at ¶ 3*. As Staff describes the proposal, "the mechanism provides for zero recovery of the deferred program revenue unless conservation accomplishments equal at least seventy percent of the established benchmark each year" and "[f]ull recovery is allowed only if one hundred percent or greater of the therm savings benchmark is realized." *Id.* NWEC takes the view that "any penalty for failure to meet conservation targets should be paid by [Cascade's] shareholders, and should be separate from the deferred conservation balance due to decoupling." *NWEC Comments at 4-5*. According to NWEC, shareholders should "pay a penalty of at least as much as [Cascade] would have spent to implement the 'lost conservation.'" *Id. at 5*. Public Counsel also claims that Cascade's Plan does not include "true penalties," but simply allows for "slightly reduced financial recovery" if the Company fails to meet its conservation targets. *Public Counsel Comments at 14-15*.

15           The penalty mechanism included in the Conservation Plan is precisely that same as included in Avista's decoupling mechanism. In Docket UG-060518, the Commission approved a Settlement Agreement – to which NWEC was a party – that included a provision making deferred revenue recovery subject to a "DSM Test" which scaled the recoverability of the lost margin according to the level of DSM savings achieved.<sup>2</sup> The same approach which NWEC found acceptable for Avista should be acceptable in the case of Cascade as well. Requiring Cascade's plan to include a penalty in the form of a rate credit would be inappropriate, particularly to the extent the utility is depending upon the consumers to choose to install the measures. A penalty for "lost conservation" when that lost conservation is due to customers not choosing to spend their money on programs is not appropriate. The utility develops programs, contracts with third parties to deliver those programs, and actively promotes those programs. At the end of the day, however, it is entirely dependent upon the customer to choose to purchase and install those measures. The utility should not be

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<sup>2</sup> Docket UG-060518, Appendix A, Settlement Agreement at 6-7.

penalized for consumers not choosing to invest in conservation, so long as the utility has offered the programs and adequately promoted them.

#### **D. Earnings Cap Mechanism**

16           The Conservation Plan includes an earnings cap mechanism based on the Company's annual "Commission basis report" filed with the Commission in accordance with WAC 480-90-257. In the event that basis report shows a rate of return in excess of 8.85% for the Company's Washington gas operations, the amount of the deferred conservation revenues would be reduced to bring the rate of return down to 8.85%. If reducing the entire deferred conservation revenue balance does not reduce the overall return to 8.85%, the deferred conservation balance would be eliminated and the Company would not be permitted recovery of those amounts. This is the same approach as the Commission approved for Avista in Docket UG-060518, under the "Earnings Test" for deferred revenue recovery.<sup>3</sup>

17           Staff's comments note "affirmatively that Cascade has included an earnings cap test in the Plan." *Staff Comments at ¶ 3*. According to Staff, "[t]he test, relying on the Company's annual 'Commission basis report,' will be used to determine whether earnings have exceeded the stipulated overall rate of return of 8.85 percent." *Id.*

#### **E. Incentives**

18           NWECC states that "removing a disincentive by implementing decoupling is not the same as providing an incentive," and that the Company needs an incentive "to ensure that it will aggressively act to fund and operate conservation programs." *NWECC Comments at 5-6*. According to NWECC, "[a]pproved incentives should reward both quantity and efficiency of delivery of savings (*e.g.*, on a cost per kilowatt hour basis)." *Id. at 6*.

19           In the Company's view, it is too soon to include incentives, given that the Company is concerned about its ability to achieve the benchmarks. A consequence of including

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<sup>3</sup> Docket UG-060518, Appendix A, Settlement Agreement at 5-6.

incentives may be a tendency to impose overly aggressive conservation targets. The Company would prefer to have realistic aggressive targets/thresholds with penalties and no incentives than to have overly aggressive and quite possibly unachievable goals with incentives.

## F. Implementation Issues

20 The parties' comments raise several implementation concerns, including uncertainty as to the administration of Cascade's programs,<sup>4</sup> Cascade's reliance on ETO as a third-party provider of programs,<sup>5</sup> and whether the Company intends to issue RFPs.<sup>6</sup>

21 The planning study that Cascade has commissioned with the ETO is designed to provide a clear plan for implementing Cascade's conservation program portfolio. The study will outline the scope, strategies, infrastructure, costs, receptivity and other factors necessary for programs to be provided in Washington, whether the ETO is the direct service provider or not. Both Cascade and the ETO see this study and its outcome as a logical and necessary step toward determining any future opportunities. Clear alternatives will be developed as a part of the study, based upon the market and related findings. At this time, both organizations understand and agree that any commitment to proceed will be based upon (1) the study process and outcomes, and (2) discussion that must engage respective stakeholders in both states, including oversight organizations.

22 NWEC, for its part, does not oppose Cascade contracting with ETO for delivery of its Washington conservation programs. *NWEC Comments at 7*. NWEC describes the ETO as "a respected public purpose organization dedicated to energy efficiency and renewable energy generation," and NWEC "as worked closely with ETO in many forums." *Id. at 6*. NWEC points out that "ETO has several years experience delivering both electric and gas energy efficiency." *Id.* Again, the purpose of the study is to inform a decision-making

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<sup>4</sup> Staff's Comments at ¶ 4; Public Counsel's Comments at 7-9.

<sup>5</sup> Public Counsel's Comments at 9-11.

<sup>6</sup> Public Counsel's Comments at 11-12.

process about whether the ETO is the appropriate delivery mechanism to provide services in Washington and if so, what role Cascade could play. The ETO will examine all requirements of doing business in Washington and its resulting accountability to Cascade and to the Commission. Cascade appreciates NWEC's support and recognize the potential challenges of this delivery structure. Cascade is enthused about the success that it has had in Oregon and hope to share some of its lessons learned in the interest of supporting successful program implementation for Cascade's Washington customers.

23           There seems to be some confusion about the Company's proposed relationship with the ETO with respect to implementation of the conservation program. The Company will continue to work with the ETO to determine if its approach is the best approach for delivering conservation programs in Washington. Similar to the arrangement that the Company has with the ETO in Oregon, Cascade would work closely with the ETO in determining the measures and incentives in order to achieve the therm savings targets. Although it is true that the Public Utility Commission of Oregon ("OPUC") provides oversight and the ETO provides reporting to the OPUC regarding savings goals and achievement of those goals, the ETO is also accountable to the utilities, particularly with respect to its gas conservation programs. Both NW Natural and Cascade chose the ETO to be their program administrator and to oversee all aspects of their conservation programs. The ETO is an independent agency, however, and if, for example, Cascade determines that its Oregon ratepayers are not receiving the best value, that arrangement could be outsourced to another administrator. In the Company's view, however, the current relationship has provided value to its Oregon ratepayers, and this success can be replicated in Washington. By working with the ETO, Cascade's customers have a one-stop shop for their energy savings needs and questions.

24           In that regard, The Energy Project's comments suggest that Cascade's interest in the ETO is to avoid developing the knowledge base and staff levels necessary to implement the

Conservation programs outlined in the Plan. It should be pointed out, however, that Cascade does not have a concentrated metropolitan area but rather serves 61 smaller communities which could require even more staff than utilities such as PSE or Avista. Additionally, the ETO has relationships with many of the electric utilities and public utility districts through NEEA and other electric organizations in which the ETO has been participating since its inception. In the event Cascade proceeds independently, it would be required to develop these relationships on its own without the 5-year track record of the ETO.

25           With respect to the issuance of RFPs, Cascade is prepared to issue an RFP in parallel to the planning study conducted by the ETO. Cascade will assess the proposal received in response to determine the best course of action among the available options. Those options include, but are not limited to: (1) selection of a single Program Management Contractor ("PMC") to run all efficiency programs; (2) multiple PMCs delivering various program services; or (3) determining that it would be most cost-effective for Cascade to contract with the ETO for all services and administrative support.

26           The NWEAC also expresses concern that Cascade does not offer a "Plan B" in the event the ETO analysis suggests it would not be the appropriate entity to deliver gas conservation programs in Washington. *NWEAC Comments at 7*. As part of the Settlement Agreement adopted by the Commission in this docket, and as was re-iterated in the Conservation Plan, Cascade is committed to having the program delivery and administration being done by a third party. This is the role that the PMCs play in the ETO's model. Whether Cascade contracts with the ETO or manages these individual contract(s) itself is yet to be determined. If the Conservation Plan is approved prior to the completion of the ETO's study on the feasibility of operating in Washington, the Company is fully prepared to go out for RFPs to acquire the programs identified in the Conservation Plan within the 30-day time period committed to in the Settlement Agreement and ultimately approved in Order 05. In the event the ETO's planning study is completed prior to approval, and both the ETO and

Cascade determine that an arrangement with the ETO for Washington programs makes sense, then the Company may be able to leverage from the RFPs that the ETO will be sending out as part of its on-going process.

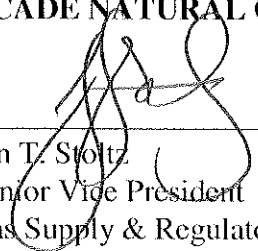
27           The parties also seem to be confused and assume that Cascade would have no involvement in the event the ETO is chosen to administer Cascade's programs. Cascade has been very involved with its Oregon program delivery since partnering with the ETO, and foresees an equally if not more involved process in the event such a relationship for Cascade's Washington service territory is determined to be beneficial.

### III. CONCLUSION

28           For the reasons stated above, the Company respectfully requests that its Conservation Plan be approved.

Respectfully submitted this 6<sup>th</sup> day of June, 2007.

#### CASCADE NATURAL GAS CORPORATION

By  \_\_\_\_\_  
Jon T. Stoltz  
Senior Vice President  
Gas Supply & Regulatory Affairs

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**Date:** 2/7/2007 2:50 PM  
**Subject:** Conservation Alliance Group

Dear Counsel:

As you know, we did not attend the first meeting of the "Conservation Alliance Group."

This letter is to advise you that Public Counsel does not intend to participate in the 90-day CAG meeting process to develop a decoupling proposal, per the Final Order in Docket No. UG-060256. While Public Counsel believes conservation is a truly worthy goal, we continue to believe that the decoupling mechanism outlined in the Order is not a fair or cost-effective way to achieve energy efficiency and is significantly flawed. For that reason, no purpose would be served by our participation in the CAG at this stage. We do expect to monitor the program, participate actively in its evaluation and ask that you keep us on your correspondence list. Please forward this email to anyone who is participating in the CAG who has not received this email.

Thank you.

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