

**Washington Utilities & Transportation
Commission vs. Cascade Natural Gas**

Docket UG-060256

**NW Energy Coalition Comments on
Cascade Natural Gas'
Proposed Conservation & Low-Income Plan**

**May 22, 2007
(Revised June 5, 2007)**

I. INTRODUCTION

The NW Energy Coalition (“Coalition”) submits the following in response to the Commission’s May 9, 2007 Notice of Opportunity to File Comments regarding Cascade Natural Gas’ (CNG) proposed conservation and low-income plan (“Plan”).

Since the Commission issued its final order (Order 05) in this case on January 12, 2007, significant additions to state policies and laws further support aggressive pursuit of cost-effective conservation. In Executive Order 07-02, Governor Christine Gregoire established targets to reduce global warming emissions and increase the number of clean energy sector jobs, and has convened a stakeholder process to develop strategies for achieving those targets. The Washington State Legislature codified those targets in SB 6001, signed into law by the Governor earlier this month. We expect efficiency in energy use and transportation will be a key tool needed to meet the targets. Because so much effort and attention in recent years has been focused on reducing carbon dioxide emissions in the electric energy sector (e.g., through passage of Initiative 937 in 2006 and the emissions performance standard in 2007), opportunities related to direct use of natural gas will be front and center in the discussions.

A party to the CNG general rate case settlement agreement on decoupling and conservation, the Coalition has since actively participated in meetings hosted by CNG to solicit input from stakeholders about its integrated resource plan (IRP, Docket No. UG-070716) and subsequent conservation and low-income plan. In keeping with the settlement agreement, CNG convened the Conservation Advisory Group (“CAG”) to consider the conservation potential study developed by Stellar and to discuss new and modified programs.

II. CONSERVATION TARGETS AND PROGRAMS

The Coalition believes the proposed Plan will lead to an increased level of cost-effective conservation pursued and achieved in CNG's service territory. In 2005, CNG acquired 109,385 therms through energy efficiency (per response to data request #7, as reflected in Exhibit 311T). (CNG's IRP does not seem to provide the total amount of conservation savings achieved in 2006.) In comparison, page 1 of the Plan establishes a range of targeted total annual therm savings for 2008 at 285,500 to 385,750, and for 2009 at 372,500 to 510,000. An additional ramp-up would occur in 2010, with a range of targeted total annual therm savings at 455,000 to 605,000.

We believe, however, that the Plan sets the point targets for conservation achievement too low. Those targets are based on the most conservative estimates of annual conservation acquisition in the residential, commercial and industrial sectors (excluding low-income). CNG also assumes several years for program ramp-up. According to CNG's IRP (p. 33), "New programs are assumed to have a slower start up in regard to participation levels since it takes time to build the network of trade allies to deliver these programs. As a result, the estimated savings are lower in the near term but ramp up significantly by year 5 of the plan." If the Company planned to implement all or most of its programs in-house, we could better understand the need for 5 years to ramp up given current staffing constraints. However, CNG assumes it will rely on third party delivery of all its conservation programs. That suggests to us a ramp-up time closer to 2 years, especially if CNG contracts with the Energy Trust of Oregon as proposed. CNG's proposed thresholds are 275,000 therms for 2008 and 355,000 therms for 2009. Those conservative targets are then linked to the proposed penalty mechanism, as discussed in section III.

In comparison, Puget Sound Energy's gas conservation savings target for 2004-2005 was 5 million therms and it achieved 6,342,680 therms. Its 2006-2007 target is 4.2 million therms, and it achieved 2,377,240 in 2006. PSE has approximately 700,000 gas customers who consumed 1.1 billion therms in 2006. (PSE draft 2007 IRP) Avista's annual target for 2006 and 2007 remained the same at 1.062 million therms for its 3-state service territory (12/06 Triple E report). Avista served approximately 297,000 core gas customers who consumed 331 million therms in 2005 (Avista's 2006 IRP). Similar to Avista, CNG serves approximately 247,000 core gas customers consuming about 278 million therms system wide. 187,000 of those customers are in Washington, using approximately 209 million therms (CNG 2007 IRP). Recognizing that PSE's gas sales are significantly higher than CNG's, PSE and Avista's gas conservation programs have been operating for several years, and CNG has invested in some conservation in its Oregon service territory, we remain concerned that CNG's Washington customers would miss out on an extremely large reservoir of cost-effective conservation that would lower substantially their energy costs if the most conservative conservation targets proposed by CNG are adopted.

Decoupling should remove the disincentive for investor-owned utilities to pursue energy efficiency, thus positively influencing corporate culture. The settlement agreement specifically ties the decoupling pilot program to conservation acquisition. Thus, we believe that the thresholds should be based on the best case end of the range for achievement in the residential, commercial and industrial sectors (or at a minimum, the middle range of expected conservation potential). We are comfortable with excluding expected low-income efficiency savings from the target for the reasons cited by CNG.

CNG 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. We also support 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.

III. PENALTIES

Commission Order 05 conditioned acceptance of the settlement agreement to establish a pilot decoupling program on approval of a conservation plan that includes penalties for failure to meet the benchmarks. The Plan proposes a penalty structure whereby CNG will be disallowed a portion of its deferred conservation balance from its decoupling program when certain levels of the threshold therm savings are not met. This concept was proposed in a memo distributed to the CAG highlighting elements of the Plan, but to the best of our recollection, was not specifically discussed in a CAG meeting.

We have concerns with this approach to the penalty mechanism.

First, the proposal suggests disallowing an increasingly larger percentage of the deferred conservation balance with increasing shortfall in meeting the annual conservation target. However, there may be years when there is little or no lost margin, depending on other events that affect usage. The penalty is rendered meaningless if no deferred conservation balance exists.

Second, as discussed in the direct testimony of Steven Weiss in this case (Exhibit 311T, page 9:6-9), decoupling adjustments can benefit customers if loads grow faster than expected due to, for example, weather, economic conditions or commodity prices, resulting in a customer

credit. The proposed penalty does not make sense in the context of a customer credit, i.e., disallowing a lowering of rates.

Consistent with Exhibit 311T (pages 19-22), we believe any penalty for failure to meet conservation targets should be paid by CNG's shareholders, and should be separate from the deferred conservation balance due to decoupling. If the Company is not delivering targeted cost-effective conservation to its customers, costs to customers will rise as they will not be served in a least-cost fashion. It is appropriate for shareholders to pay a penalty of at least as much as CNG would have spent to implement the "lost conservation," where that money would be used to hire a third party to implement the lost conservation.

Ultimately, we recognize that the level of conservation achieved will be determined by budgets as well as creative program design. We urge the Commission to approve reasonable yet aggressive budgets, recognizing that imprudent expenditures can be disallowed in future regulatory proceedings.

IV. INCENTIVES

Commission Order 05 is clear that the Plan must include a penalty mechanism. We note that any penalty can create a disincentive to strive for success, and instead create an atmosphere of trying to avoid failure. That may be the case here, given CNG's reliance on the most conservative conservation acquisition targets tied to the penalty, as discussed in Section II.

The decoupling and conservation settlement agreement refers to implementation of "possible penalties *and incentives*" (emphasis added) related to meeting the established conservation targets. Commission Order 05 is silent on the issue of incentives and the CAG did not have the opportunity to discuss possible incentive mechanisms to achieve higher levels of savings.

It is important to note that removing a disincentive by implementing decoupling is not the same as providing an incentive. Decoupling is a necessary condition for allowing for a change in corporate culture to support efforts to reduce consumption, but it is not sufficient in itself. In our opinion, the Company still needs an incentive to ensure that it will aggressively act to fund and operate conservation programs.

We believe use of the best case annual conservation savings target with a balanced approach to application of penalties and incentives would result in the best outcome for CNG and its customers. Approved incentives should reward both quantity and efficiency of delivery of savings (e.g., on a cost per kilowatt hour basis).

V. IMPLEMENTATION PLAN

The Plan proposes contracting with the Energy Trust of Oregon (ETO) to determine if it, or a similar model, could be utilized for delivery of CNG's conservation programs in Washington. ETO is a respected public purpose organization dedicated to energy efficiency and renewable energy generation. The Coalition has worked closely with ETO in many forums, including on the Board of the Northwest Energy Efficiency Alliance, and Coalition Senior Policy Associate Steven Weiss is a member of ETO's Conservation Advisory Council.

Organized in 2001 as a direct result of Oregon's SB 1149 (passed by the state Legislature in 1999), ETO initially had funding for electric energy work in the service territories of the state's two investor-owned electric utilities. ETO currently also administers gas conservation programs in Oregon for residential and commercial customers of Northwest Natural Gas (beginning in 2003) and CNG (beginning July 2006), and select programs for residential customers of Avista (beginning in September 2006).

If CNG contracts with ETO for program delivery in Washington, we would expect a fast ramp up to achieve annual therm savings in line with the 20-year cost-effective conservation potential identified by Stellar. ETO has several years experience delivering both electric and gas energy efficiency.

We feel compelled to note a few concerns we have with CNG's implementation proposal.

First, Appendix E of the Plan (April 24, 2007 letter from ETO to CNG) indicates that ETO's planning analysis would not be complete before the end of June. That analysis includes investigating "the efficacy of the expansion of Energy Trust's operations to serve Cascade's Washington customers." CNG does not offer a "Plan B" in case ETO's planning analysis suggests it would not be an appropriate entity to deliver gas conservation programs in Washington.

Second, ETO was created as a result of legislation and regulatory activities in Oregon. Its Board comprises Oregonians. We do not want to be parochial, but rather to raise the legitimate concern of long-term certainty and continuity for Washington utility investments that depend on ETO program delivery.

Third, ETO's administrative costs for CNG in Washington may be higher overall than for gas utilities in Oregon, where monetary savings accrue due to coordinated program delivery to electric and gas customers.

Finally, the settlement stipulation in this case specifies, "Within 30 days of commission approval of the conservation plan, Cascade must issue requests for proposals to implement the plan." In negotiating and signing the settlement agreement, the Coalition believed it was in the best interest of CNG's customers for the Company to pursue third-party delivery of its conservation programs. We continue to believe that to be the case. We note, however, that ETO

does not respond to RFPs because that could cause it to compete with its contractors, who may be interested in directly responding to an RFP. ETO issues its own RFPs to select its contractors.

All that said, we do not oppose CNG contracting with ETO for delivery of its Washington conservation programs, but we foresee several potential challenges.

VI. CONCLUSION

The Coalition appreciates the efforts of CNG staff to develop its proposed conservation plan in keeping with the timeline and process established in the settlement agreement and Order 05, while simultaneously finalizing its IRP. We are eager for CNG's conservation program to be up and running as expeditiously as possible. However, we also want to ensure that the Company (1) sets aggressive annual targets for conservation achievement, (2) has a penalty mechanism funded by shareholders that is balanced by an incentive to exceed the targets, and (3) has a solid "Plan B" for program delivery if ETO turns out not to be a viable choice for CNG's Washington service territory. To ensure the effectiveness of CNG's conservation programs, we recommend the Commission approve CNG's conservation filing with specific conditions to address those three key issues.