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September 27, 2007

Carole J. Washburn
Executive Secretary
Washington Utilities and Transportation Commission
PO Box 47250
Olympia, WA 98504-7250

Re: In the Matter of Cascade Natural Gas General Rate Case
Docket No. UG-060256 – September 14, 2007, Addendum to Conservation Plan

Dear Ms. Washburn:

Commission Staff (“Staff”) respectfully submits the following comments in response to Public Counsel’s September 24, 2007 letter regarding Cascade Natural Gas’s (“Cascade” or “the Company”) Addendum to its Conservation Plan and tariff sheets. Staff believes that Cascade’s proposal to begin decoupling deferrals coincident with the effective date of their conservation program tariffs (October 1, 2007) is appropriate. Further, Staff sees no difficulty with the Company’s description of margin deferrals since its approved tariff currently specifies the mechanism.

Cascade’s Deferral Proposal is Consistent with the Settlement Agreement

The Settlement Agreement accepted by the Commission with conditions anticipated decoupling deferrals beginning with the start of the Pilot Program¹. In describing the Pilot Program the settling parties agreed that it would begin with the filing of tariff sheets detailing a deferral mechanism:

“The mechanism shall expire by its terms, three (3) years from the effective date of the tariff sheets implementing the mechanism.”

Further, the Settlement Agreement ties the Company to a demonstration that it has the ability to meet the Conservation Plan targets by the end of December, 2007. If the company can make such demonstration, then it can *continue to defer* margin revenues pursuant to the decoupling mechanism². Thus, the settling parties anticipated that deferrals would have

¹ Docket No. UG-060256 Settlement Agreement paragraph 15(c) page 11

² Docket No. UG-060256 Settlement Agreement paragraph 15(e)(v)



begun, yet were subject to a form of checks and balances aimed at assuring everyone that Cascade had the capability to plan for and implement a successful program.

Cascade Has an Ongoing Conservation Program

While Public Counsel is correct that Cascade is building up its conservation programs under terms of the Commission's Order, it is incorrect to say that customers cannot participate in any meaningful way. Cascade currently offers residential customers rebates on natural gas water heating and spacing heating equipment that meet minimum efficiency requirements³. With the expanded program offerings these customers will also have the opportunity to receive incentive payments for other appliances and gas combustion equipment.

The Pilot Program is Intended to Provide Information on Whether Decoupling is Appropriate in Washington.

The Decoupling Pilot Program is an experiment of limited duration where all parties and the Commission can learn about the efficiency and effectiveness such mechanisms. In approving the Pilot Program the Commission stated that:

“The purpose of a pilot program is to better inform the Commission, the Company and stakeholders about the effectiveness of decoupling and related mechanisms⁴.”

By starting the deferral mechanism coincident with the expanded program offerings, parties may learn specific information about the effectiveness of these new programs by comparing them to the current program. Deferrals accumulated while the Company ramps up its programs will provide data that will assist all stakeholders in evaluating the decoupling mechanism and Cascade's effectiveness in developing a more robust conservation program for its customers. The Commission has put the parties on notice that:

“We will closely scrutinize the proportion of margin lost to utility-sponsored conservation relative to the amount subject to recovery in reviewing the results of Cascade's decoupling program.⁵”

Staff sees the opportunity to gain insight as useful and the risk to ratepayers as limited. If lost margin is created because customers' reductions in energy consumption are primarily associated with conservation action, then deferral amounts in the early period while conservation offerings are being ramped up should be small or possibly even negative. By starting deferrals immediately, stakeholders may gain additional understanding about the linkages between conservation programs and utility revenues.

³ <http://www.cngc.com/residential/specialprogs.asp>

⁴ Commission Order 06, Docket No. UG-060256, paragraph 35

⁵ Ibid.

The Company's Current Tariff Specifies a Deferral Mechanism

Public Counsel takes issue with a lack of detail regarding Cascade's proposed accounting and tracking of decoupling deferrals. However, the Company's current authorized tariff states that:

"Cascade will maintain a Conservation Variance deferral account as a Regulatory Asset or Liability. Each month, the Company will calculate the difference between the weather-normalized actual margin and the expected margin for rate schedules 503 and 504. Expected margin shall be the baseline average commodity margin per customer multiplied by the current customer count. The resulting dollar difference will be recorded in a Conservation Variance deferral account for rate schedules 503 and 504.⁶"

Staff intends to work with the Company on its reporting to ensure that sufficient information exists for parties and the Commission to verify that deferrals are tracked and accounted for properly. This will be part of the regular reporting on the program.

In summary, the parties to the Settlement Agreement intended the deferrals to coincide with filed tariffs, subject to proof by the Company that it had the capability to plan for and implement a robust conservation program. Finally, existing tariffs already describe a Conservation Variance account that the company will employ to track decoupling deferrals.

Sincerely,



GREGORY J. TRAUTMAN
Assistant Attorney General
Counsel for Commission Staff

⁶ Cascade Natural Gas Corporation Tariff UN U-3, Original Sheet No. 25