CASCADE NATURAL GAS CORPORATION®
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Washington Utilities and Transportation Commission
Records Center
1300 S. Evergreen Park Drive SW
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Re: UG-143616– Investigation of Natural Gas Infrastructure
Cascade Natural Gas's Comments

Cascade Natural Gas (Cascade or Company) provides the following comments in response to the Notice of Opportunity to Submit Written Comments, issued in the Washington Utilities and Transportation Commission's (WUTC's or Commission's) Investigation of natural gas infrastructure, Docket No. UG-143616.

Background
As part of the subject docket, the Company provided comments on October 6, 2015, and attended the WUTC's workshop on November 6, 2014, where parties discussed opportunities for expanding the natural gas distribution in an effort to promote economic development and efficient use of natural gas.

Comments
Below are Cascade's responses to the Commission's questions included in the August 20, 2015, Notice to File Written Comments.

Questions 1
Line extension policies are one factor that customers consider when connecting to natural gas service, or switching from electric to natural gas service. Are the costs associated with the gas line extensions recovered in whole through charges to end users requesting the line extensions?

Response
The Company's Rule 8, "Extensions of Distribution Facilities allowance" is designed to uphold the principle of cost causation by ensuring that the costs for the line extension will be recovered from the new customer incurring the costs. The Company's policy provides new customers an upfront credit that is applied against the construction costs to install a service line and or main. The credit is no more than 3.3 times the anticipated commodity margin for a service line installation or 6.6 times the anticipated commodity margin for a main extension and service line installation. This allowance is granted under

the presumption that usage over time will result in a full payback of the line extension allowance. The new customer must make an upfront payment for any construction costs that exceed the amount of the credit. If the customer's usage does not materialize within twelve months of the in-service date, the Company may bill the customer for the costs covered by the allowance.

Question 2
If not, what, if any, incentive is provided in the company's current line extension tariff for new or existing customers to connect to natural gas service? What other incentives does the company provide, if any?

Response
As mentioned in response to question 1 above, the Company's incentive to new customers is an upfront credit of either 3.3 times the anticipated commodity margin for a service line installation, or 6.6 times anticipated commodity margin for a main extension and service line installation. This is not a subsidy as the credit is paid back in full by the new customer over time.

Question 3
Is the company's current natural gas line extension tariff designed to promote a specific policy outcome or outcomes? If so, what are these outcomes, and does the company believe that its current tariff achieves these outcomes? If not, what specific changes need to be made to the company's current natural gas line extension policy? Is additional legislative direction or authority needed in order for the Commission to approve line extension policies designed to promote environmental or economic development outcomes?

Response
The Company's current gas line extension was established in 1997 when the prevailing wisdom was to uphold a very conservative approach of ensuring the principles of cost causation. The Company's tariff achieves this goal but has created the unintended consequence that converting to gas has a prohibitive first cost barrier. People often do not convert because the cost to install a service line—or worse, a main extension and a service line – is too expensive. The Company believes a corrective action needs to be made to its policy to enable more customers to access low cost, clean-burning natural gas.

Natural gas infrastructure, once installed, tends to stay in use for decades. We believe the principles of cost causation would not be compromised if the policy were revised such that the upfront credit to connect were twenty times margin instead of a conservative 3.3 or 6.6 times margin. As mentioned, once the service is installed, it is likely that the site will continue to receive gas service for decades regardless of changes in property ownership. With a policy change, the new customer would still pay back the capital costs for the pipe and would begin contributing to administrative and general costs long before the pipeline is fully depreciated. A more generous upfront policy such as this would support conversion to natural gas for both economic and environmental outcomes and could be accomplished through a tariff filing. It would not require legislative action.

To further encourage conversion to natural gas service, the Company is considering coupling a change in policy with a promotional campaign to further entice the customer to use natural gas by providing gas water heaters to new conversion customers. This could be in combination with or a modification to the extended period of applied margin.

Such changes to our current policy would be useful but they might not be enough to prevent the trend we observe of losing opportunities to serve new developments. Our service territory has been experiencing a lot of new growth. We see new subdivisions being developed without gas service. This means we have lost the opportunity to serve those customers for quite some time if not indefinitely since cutting the pavement and putting a gas main in for one or two homes proves to be very costly and prohibitive. Ideally, the Company could be coordinated with builders and municipalities to install the gas infrastructure necessary to serve future growth prior to a street being paved. However, while this would provide future customers with more cost effective access to gas service, it would be contrary to traditional regulatory cost treatment that only allows for cost recovery after that infrastructure is "used and useful"—which is a principle that works far more smoothly for electrics because above-ground poles and wires can be installed any time after a road has been paved. The regulatory construct for the cost recovery necessary to install underground infrastructure for future growth needs consideration if we want to encourage a broader use of clean, low-cost natural gas.

Revising our line extension policy as described will also not address the issue of bringing gas to stranded or underserved areas. Running main for miles presents a cost burden that needs it a unique solution. We believe to make it possible to invest in stranded communities, we would need a mechanism that would reduce regulatory lag and would allow all customers to pay for the investment. The Company is not ready to propose a solution for this at this time.

<u>Question 4</u>

How does the company determine when it is necessary to revise its line extension tariff? How often should the company adjust line extension rates to account for changes in actual line extension costs?

<u>Response</u>

The Company is motivated to revise its line extension policy when the policy fails to achieve the intended outcomes. For instance, if costs were not being recovered, the Company would want to revise its policy. The Company is currently interested in revising its policy to remove the first cost barrier and encourage conversion to low cost natural gas.

Cascade does not believe there is an absolute answer to the question of how often a company should adjust its line extension policy. The Company's current policy is based on a formula, which is more forgiving of changes in construction costs than a policy that offers a fixed credit. A better guide to needing to change the policy is the Company's current goals and the policy's ability to achieve those goals.

Cascade believes it should change its current policy so its credit to be applied to the costs to install service line and main extensions is extensively longer than the current approach. This anticipates service being in place for the lifetime of the pipe being installed. Most customers will pay the costs to install back prior to the twentieth year of service. While this methodology temporarily transfers costs to all ratepayers upon the costs being incorporated in base rates through a general rate case, all customers benefit by having a more robust distribution system and more customers to share the burden of fixed costs.

Question 5
What, if any, impacts does the company's current natural gas line extension policy have on existing customers? What is the impact on new and existing customers if a new customer's usage is less than expected?

Response
Under the current policy, all rate payers may pay the amount initially credited to new customers to the degree those costs are incorporated into base rates at the time of a rate case but the amount credited is small and most likely offset by the new customer's contribution to fixed costs. If the new customer's load does not materialize within the first twelve months, the Company may charge that customer the costs it was credited for installing the line and/or main extension, thus holding all ratepayers harmless. The unintended impact our current policy has on existing customers is that it limits an investment in a more robust distribution system, and the potential to increase the number of customers contributing to fixed costs and using a cleaner burning fuel.

Question 6
What percentage of natural gas line extensions are installed at the request of 1) residential, 2) commercial, and 3) industrial customers? What percentage of each category is requested by developers? (Please provide data dating back to the last time the company revised its line extension policy, or for as many years as this data is readily available.)

Response
The table below provides the number of new customers per customer class that have been added each year since 2003. This is a close proxy for the number of new installed service lines.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Residential	5,341	5,626	6,467	5,138	3,891	3,156	1,113	1,998	1,845	1,645	2,580	2,043
Commercial	388	579	423	225	485	551	116	613	20	289	189	107
Industrial	(13)	(9)	(22)	(8)	(10)	(9)	(15)	(9)	2	8	28	45
Transportation	-	(2)	(5)	1	56	(60)	14	(1)	5	8	4	2

The Company does not track which of its new service requests are requested by developers.

Question 7
What information does the company make available to consumers regarding natural gas line extensions? What public outreach activities does the company conduct to encourage customers to connect to natural gas service?

Response
The Company posts on its website its tariff and information about service line extensions as well as general information about getting service and using natural gas. The Company's call center and an online form are resources available to people interested in converting to natural gas.

The Company believes it may be useful if the Commission were to grant gas utilities a waiver to allow for the recovery of promotional advertising as was suggesting in the first workshop on November 6, 2014.

Cascade appreciates the opportunity to submit comments in this docket and looks forward to participating in the workshop scheduled for September 23, 2015. If you have any questions regarding this report, please contact me at (509) 734-4593.

Sincerely,

Michael Parvinen
Director, Regulatory Affairs