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March 31, 2010

Mr. Dave Danner  
Secretary and Executive Director  
Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504-9022

RE: Decoupling Mechanism Report for CY09

Dear Mr. Danner:

In compliance with **Docket UG-060256 Order 06**, Cascade Natural Gas Corporation hereby submits its Annual Decoupling Mechanism Report for Calendar Year 2009. This report includes documentation of the Company's CY09 therm savings achievements and program expenditures. Additionally, under separate cover, the Company is filing its Commission Basis Report.

Please direct any questions to Allison Spector at 206-381-6834.

Sincerely,

Allison Spector  
Director of Conservation

*"In The Community To Serve"*

# Cascade Natural Gas Corporation Annual Decoupling Mechanism Report Calendar Year 2009

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## Background

On October 1, 2007 the Washington Utilities and Transportation Commission approved an addendum to Cascade Natural Gas's Conservation Plan, which was developed in compliance with the Commission's Order 06 in Docket UG-060256. This document included revised therm savings targets, a modified penalty mechanism, and expanded program offerings for the Commercial, Residential, and Low Income conservation programs. The document also provided additional details regarding the accounting and reporting process surrounding the penalty mechanism of the earnings cap.

Specifically, the Company agreed to submit "an annual report to the Commission on the achievement of the Calendar year therm savings target, along with its Commission Basis results of operations report for calendar 2008, no later than March 31, 2009. The same reporting and accounting process would be utilized for the 2009 program year". The entire requirement can be found on page two of the *Addendum to Cascade Natural Gas Corporation Conservation Plan Docket UG-060256 Order 06*.

Below you will find a summary of Conservation Achievements for the period of **Jan 1, 2009** through **December 31, 2009** as well as a description of Associated Program Costs, and the Company's CAP Mechanism Deferral Calculation Summary. The report also includes detailed calculations outlining the Total Resource Cost (TRC) and Utility Cost (UC) of each Conservation measure and program offered by the Company (Appendix A). Our Commission Basis report is being filed under a separate cover.

Any questions regarding this annual report should be directed to Allison Spector, Director of Conservation at 206-381-6834 or [allison.spector@cngc.com](mailto:allison.spector@cngc.com).

## Summary of Therm Achievements

As of March 1, 2010, Cascade Natural Gas Corporation has calculated a 2009 therm savings achievement of **553,813** in the State of Washington. This is over **100k** therms more than the achievement of **454,480** for CY2008. This achievement meets **125%** the annual goal of **441,250** and comprises:

- **272,936** therms saved from its Commercial Program
- **218,802** from its Residential
- **47,342** from Energy Savers Kits, and
- **14,733** through partnership with the Weatherization Assistance Program.

In 2008 achievement was:

- **191,837** therms saved from its Commercial Program
- **147,676** from its Residential
- **101,982** from Energy Savers Kits, and
- **13,985** through partnership with the Weatherization Assistance Program.

Total therm savings from all programs for calendar year 2009 can be translated into a benefit of **6.42** million pounds of mitigated CO<sub>2</sub>. This figure is based on the Company's latest Integrated Resources Plan and the EIA 2007 International Outlook, which recognizes the conversion of natural gas emissions to CO<sub>2</sub> as approximately **11.6** pounds per therm.

**Table A: 2009 Achievements**

<i>Totals</i>	<b>Residential</b>	<b>Energy Kits</b>	<b>Commercial</b>	<b>Low Income</b>	<b>Total</b>
<b>Therms Achieved</b>	218,802	47,342	272,936	14,733	<b>553,813</b>
<b>Measures Performed/Installed</b>	5,493	1,636	390	168	<b>7,687</b>
<b>Customers Served</b>	3,850	1,636	123	54	<b>5,663</b>
<b>Carbon Offset (CO<sub>2</sub> avoided)</b>	2,538,103 lbs	549,167 lbs	3,166,057 lbs	170,902 lbs	<b>6,424,229</b>

**Table B: 2008 Achievements**

<i>Totals</i>	<b>Residential</b>	<b>Energy Kits</b>	<b>Commercial</b>	<b>Low Income</b>	<b>Total</b>
<b>Therms Achieved</b>	146,676	101,982	191,837	13,985	<b>454,480</b>
<b>Measures Performed/Installed</b>	2,648	3,586	117	125	<b>6,476</b>
<b>Customers Served</b>	2,283	3,586	44	46	<b>5,959</b>
<b>Carbon Offset (CO<sub>2</sub> avoided)</b>	1,701,441 lbs	1,182,991 lbs	2,225,309 lbs	162,226 lbs	<b>5,271,967</b>

As Table A indicates, in CY2009 the program has achieved a savings of **553,813** therms, or **112,563** above the 2009 target.

It is important to note that while the low income conservation program fell short of its mandated goal of **26,250**, the amount of low income customers served by the program increased by approximately 20% from the previous year. As a result of proactive efforts by the WAP to serve more homes and meet state/national quotas, many agencies are implementing a smaller spread of measures across a wider breadth of households. This has resulted in a greater number of CNGC households served, but a lower therm savings achievement than anticipated. For perspective, in 2009 an average of **87.6** therms were saved per measure, or approximately **242.83** therms per customer. The previous year the average therm savings per measure was **113.48** therms per measure and **324.62** per customer.

While the Company has exceed its therm savings target for the second year in a row, it is uncertain whether or not the success experienced in 2009 will be easily replicated if economic conditions continue to decline. In the event of a slowed economy we can expect both residential and commercial customers find themselves reticent to make costly investments in building/home improvements. However, community wide conservation efforts sponsored by ARRA funds and operated through non-profit organizations such as Sustainable Connections and the Sustainable Living Center should help mitigate some of the economic impact through a combination of rebates (such as CNGC's), grants and financing to make conservation efforts more accessible.

The Company will continue to strive to increase customer awareness of conservation tax incentives and other opportunities to afford CNGC tariff-prescribed energy efficiency

improvements in their homes. We will also consider expanding Program offerings and rebate amounts commensurate with those of neighboring utilities.

**Summary of Costs**

The Cascade Natural Gas Conservation Incentive Program paid a total of **\$1,415,365** in incentives for conservation measures and activities outlined in its Residential, Commercial, and Low Income tariffs. Programmatic costs totaled **\$1,778,861.58**.

**Table C: 2009 Programmatic Costs and Rebates**

<i>Total Costs</i>	<b>Residential</b>	<b>Commercial</b>	<b>Low Income</b>
<b>Incentives Paid</b>	\$805,115	\$441,872	\$168,378
<b>Programmatic Costs</b>	\$1,107,534	\$596,940	\$74,387

**Table B: 2008 Programmatic Costs and Rebates**

<i>Total Costs</i>	<b>Residential</b>	<b>Commercial</b>	<b>Low Income</b>
<b>Incentives Paid</b>	\$603,481	\$217,671	\$95,344
<b>Programmatic Costs</b>	\$964,966	\$403,662	\$97,362

**Participation Summary:**

A full breakdown of therm savings, total resource costs, and utility costs by all measures and programs can be found in Appendix A.

**2009 CAP Deferrals**

The deferral for the 12 month period ending December 31, 2009, including interest, was \$97,335. As detailed in the Conservation Plan, recovery of the deferred balance is subject to an earnings test, whereby, the Company's adjusted earnings must be less than the authorized 8.85% overall rate of return set in the company's last rate case (UG-060256). The Company's Commission Basis Earnings for the Calendar Year Ending December 31, 2009 was 9.16%, and therefore the company will not be eligible to recover the CAP deferred balances.