October 19, 2012

SENT VIA E-MAIL
David Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. S.W.
PO Box 47250
Olympia, WA 98504-7250

Re: Cascade Natural Gas Annual PGA Filing, Docket No. UG-121592

Dear Mr. Danner:

Public Counsel submits this letter in response to Cascade Natural Gas Company's (Cascade's) annual purchased gas cost adjustment (PGA) filing made on October 1, 2012. The Company's PGA filing, in addition to gas cost updates, includes certain temporary rate adjustments. One such adjustment is to amortize the deferred costs of the Company's conservation programs. Our comments are limited to a discussion of the cost recovery of conservation program costs within the PGA filing, program achievement and expenditures for 2011 and our recommendations for future improvements in the delivery of the Company's programs.

Public Counsel Recommendation

Public Counsel has reviewed the rate change associated with Cascade's conservation program cost recovery and has no concerns with this component of the Company's filing. With respect to issues surrounding conservation program delivery, Public Counsel recommends that the Commission order the Company to work with its conservation advisory group to address the recommendations listed below and provide a status update on discussions to the Commission at a future open meeting, no later than January 31, 2013. We understand that the Company supports this recommendation.

(1) **Separate Conservation Cost Recovery Filing**
Beginning in 2013, Cascade should be required to make a separate filing for conservation cost recovery, outside of the PGA, as detailed further in the comments below.

(2) **Reporting Requirements**
Beginning in 2013, Cascade should be required to file a conservation business plan with the Commission that includes a budget and therm savings targets for the upcoming program year.

(3) **Evaluation, Measurement and Verification**
Cascade should develop an evaluation plan for its conservation programs which should be reviewed by the conservation advisory group (CAG).

A. Review of Cascade's Proposed Conservation Cost Recovery within the PGA.

Cascade's PGA filing seeks to recover $3,724,375 in costs associated with its conservation program for 2011. This amount reflects the current balance in the deferral account. The currently proposed rate is $0.0157/therm. The rate approved in last year's PGA filing was $.01625/therm. Therefore, this filing represents a decrease of $.00038/therm, a very slight change to customer bills related to conservation program funding. Under the proposed decrease, the average residential customer using 57 therms per month will pay $.90459 per month for conservation program costs.

B. Review of Cascade's 2011 Conservation Achievement and Expenditures.

Cascade acquired 711,383 therms in 2011, which exceeded its conservation target of 531,878 therms by approximately 35%.[1] Approximately 66 percent of the savings were acquired through the commercial program and 31% through the residential program.[2] Cascade's portfolio was also cost effective in 2011 with an overall portfolio TRC of 1.234. [3] The Company states that a critical factor that led to increased program uptake and cost-effectiveness during the 2011 program year was the decision to utilize a single vendor to administer both the residential and commercial programs. Notably, Cascade achieved 33% more savings in 2011 than in 2010 and its portfolio TRC was also improved by .304 for the residential portfolio and .311 for the commercial portfolio.

The Company's internal 2011 budget was approximately $3.46 million dollars according to information provided by the Company in discovery. Total expenditures for the 2011 program year were $3,489,685 with $1,572,380 for the residential program, $1,613,272 for the commercial program and $304,033 for the low-income weatherization program. [4]

C. Separate Filing for Conservation Cost Recovery Though the PGA.

Cascade defers conservation program costs and recovers these on annual basis in conjunction with its PGA filing in the fall. Currently, Cascade is the only Washington investor-owned utility that does not make a separate cost recovery filing for its conservation program costs. NW Natural, which also recovers conservation program costs through the PGA, recently modified its cost recovery filing process to allow for a separate, individual filing for conservation program cost recovery. This filing, which is separately docketed from the PGA filing, provides the

[1] Cascade 2011 Annual Report on Conservation p. 2, Docket No.UG-060256, June 26, 2012.
Cascade's conservation target is 75% of the Company's "Estimated Achievable Therm Savings" which is included as part of the Demand Side Management section of Cascade's Integrated Resource Plan.
[2] Cascade 2011 Annual Report on Conservation, p. 1.
[3] Cascade 2011 Annual Report on Conservation, p. 2.
[4] Cascade 2011 Annual Report on Conservation, p. 2.

proposed rate changes specifically associated with the annual conservation program on a stand-alone basis, as well as the following components:

- Information about program expenditures compared to budget for the program year as well as background on the Company's energy efficiency programs and cost recovery process.
- The annual conservation report for the prior year which includes cost effectiveness results, total program savings, evaluation results and achievement of program metrics.
- The average monthly bill impact of the proposed rate for customers and workpapers demonstrating the analysis behind the collection rate.[5]

A separate cost recovery filing for conservation program costs increases transparency related to the costs of conservation and the impact on customer rates and should also provide information related to the conservation results for the year. We recommend that Cascade be required to make a separate conservation cost recovery filing beginning in 2013 and follow the same requirements developed for NW Natural listed above.

D. Need for Enhanced Conservation Reporting Requirements.

Cascade does not engage its conservation advisory group in its conservation budget setting process nor does the Company file an energy efficiency business plan with the Commission, unlike all other Washington investor owned utilities. Instead, the Company internally develops a conservation program budget that is based on the Company's best estimates of therm savings potential for the calendar year as expressed in the Company's IRP. Beginning in 2013, Public Counsel recommends that Cascade be required to file an energy efficiency business plan with the Commission that includes a budget and therm savings targets for the upcoming program year. This is consistent with reporting requirements applicable to other Washington investor owned utilities.

E. Need for Evaluation of Cascade's Conservation Programs.

Evaluation, measurement and verification provides evidence of energy efficiency savings achievement and is a necessary activity to ensure ratepayer dollars are used in a prudent and responsible manner. Cascade does not currently conduct any third-party evaluation, measurement or verification of its programs.[6] In contrast, every other Washington investor-owned utility conducts third-party evaluation of its conservation programs. We believe Cascade's conservation programs would benefit from an appropriately scaled evaluation effort, recognizing the smaller size of the Company's conservation portfolio compared to some other

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[5] Docket UE-112068, Re: Schedule G, "Energy Efficiency Services and Programs—Residential and Commercial," December 1, 2011.

[6] Cascade does perform "quality control" inspections on approximately 5% of conservation projects receiving an incentive from the Company and every project requesting an incentive of $5,000 or more.

Washington IOU's.[7] This recommendation is also supported by the third-party evaluation of Cascade's since-expired natural gas decoupling pilot, conducted by Gil Peach and Associates. That report specifically noted that Cascade performs no third-party evaluation of its conservation programs and makes a recommendation that the Company do so in the future. The report states:

> No independent evaluation was required for the Cascade Washington decoupling pilot, other than the current study. In general, energy conservation programs should be subject to independent evaluation inclusive of "due diligence" savings verifications with on-sites. In any future energy conservation effort, provision for periodic independent evaluation of energy savings claimed by the Company and/or delivery agent should be included in project design. This evaluation should include an on-site inspection component.[8]

Public Counsel recommends that the Commission require Cascade to develop a draft proposal for evaluation of its conservation programs for discussion and review with its advisory group and report back to the Commission its progress on this initiative.

I will attend the Commission's October 25th, 2012, Open Meeting to address any questions regarding these comments.

Sincerely,

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[7] We are also sensitive to the fact that evaluation efforts will require the programs to absorb additional costs at a time when natural gas conservation programs are struggling to remain cost-effective. We are therefore supportive of an evaluation effort that focuses on major programs at this time.

[8] Independent Examination of Cascade Natural Gas Corporation's Washington Decoupling Mechanism, pp.58-59, Docket UG-060256, July 11, 2011.