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ATTORNEY GENERAL OF WASHINGTON

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October 24, 2014

VIA UTC E-FILING PORTAL

Steven King
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 PGA CPA (Conservation Program Adjustment) Annual Filing, Docket UG-143596

Dear Mr. King:

Public Counsel submits this letter in response to Cascade Natural Gas Corporation (Cascade's) 2013 conservation program adjustment filing submitted on September 27, 2014. These comments address Public Counsel's review of the Company's filing and memorialize an agreement reached by Cascade, Public Counsel and Commission Staff to remove certain costs from the conservation deferral account and to develop a process going forward to further support expenditures relating to the promotion of Cascade's conservation program.

Public Counsel Recommendation

Take no action, thereby allowing the tariff filing made by Cascade Natural Gas to become effective on November 1, 2014. Public Counsel, Commission Staff and Cascade have reached an agreement whereby Cascade will remove \$585 associated with membership dues not appropriate for recovery through the Company's conservation program adjustment. In addition, Cascade agrees to work with its conservation advisory group to develop a process to further document and support expenditures relating to the promotion of Cascade's conservation program.

A. Summary of Filing.

Cascade's filing seeks to amortize a balance of \$2,885,798 associated with its energy efficiency program for 2013. This results in an overall proposed decrease of \$251,558 to customers, or a decrease in annual revenue of .1 percent. Under the proposed decrease, the average residential customer using 56 therms per month will pay 6 cents less per month for a total average monthly bill of \$57.60. Public Counsel reviewed the workpapers associated with the Company's filing, including monthly deferral amounts and the detailed support behind the deferrals and did not

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identify any issues with the development of the rate adjustment with the exception of the membership dues previously mentioned.

B. Conservation Program Expenditures Audit and Agreement.

Public Counsel participated in an audit of Cascade's conservation expenditures for the 2013 program year. This included reviewing a list of all energy efficiency related transactions for the program year as well as invoices and receipts for a select list of transactions. During this process, Public Counsel identified an expenditure associated with membership dues for a chamber of commerce which we believe is not appropriate for recovery in rates. Cascade has agreed to remove this expense which totals \$585 and will adjust the deferral balance for the next period to reflect this disallowance. This disallowance does not change rates in this filing.

In addition, Public Counsel and Staff identified a number of transactions that relate to the promotion of Cascade's conservation programs. These included costs for the sponsorship of events and participation in exhibits at public events where Cascade promotes its conservation program and provides information on rebate offerings.¹ Public Counsel believes that the sponsorship costs Cascade has included in rates in this filing are appropriate because they provide targeted messaging related to the conservation program for the purpose of driving additional participation in the program. In this way, these costs are more similar to advertising/messaging costs. However, sponsorship costs are not traditionally allowed in rates because they are viewed as charitable contributions that are not related to the provision of utility service.² For this reason, Public Counsel believes it is important for Cascade to provide additional support for expenditures related to sponsorships that promote the conservation program. Cascade, Commission Staff and Public Counsel agree to work together to develop a process to further document and support conservation sponsorship costs.

C. Review of Cascade's 2013 Conservation Achievement Results.

Cascade acquired a total of 467,826 therms in 2013 which represents 94 percent of its 2013 conservation portfolio target for 2013 identified in its Integrated Resource Plan (IRP).³

¹ For example, Cascade participated in the annual business expo for the Economic Development Association of Skagit County providing information about its commercial incentive programs to businesses and providing information related to the residential conservation program to local residents.

² In *Jewell v. Washington Utilities and Transportation Commission*, the Washington State Supreme Court held that the Commission lacks statutory authority to allow a regulated utility to recover charitable contributions as an expense for ratemaking purposes. This was recently affirmed by the Thurston County Superior Court. *Wash. State Attorney General's Office Pub. Counsel Section v. WUTC and Avista Corp.*, Case No. 09-2001721-2, Order Affirming Final Order of WUTC in all Respects but Two, and Reversing and Remanding in Part, Thurston County Superior Court (February 2, 2010) (holding that the UTC erred in allowing Avista to recover costs of charitable contributions).

³ The Company separately tracks savings and expenditures associated with its low income program because the cost-effectiveness of the low-income program is measured on a separate basis. The Company's low-income program achieved savings of 14,960 therms in 2013 and total expenditures were \$176,537.

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Approximately 38 percent of the savings were acquired through the residential program and 62 percent through the commercial program. Cascade reports an overall Total Resource Cost (TRC) for its gas portfolio of .882 and under the Utility Cost Test (UCT) test achieves a benefit cost ratio of 1.283.⁴ The Company's budget for the 2013 conservation program was presented as a range from \$1,920,000-\$3,050,000. Total expenditures for the 2013 program year were \$2,329,992.⁵

Cascade did not meet its conservation target for 2013. This was due in part to decreased savings in the commercial sector which the Company attributes to natural fluctuations in the number of large active conservation projects initiated by its Commercial & Industrial customers during the program year.

I will attend the Commission's October 30th, 2014, Open Meeting to discuss these comments and address any questions the Commission may have.

Sincerely,



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cc: Juliana Williams (E-mail)
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⁴ Cascade Natural Gas Corporation Annual Conservation Achievement Report Calendar Year 2013, Appendix A, Docket UG-060256. Including costs associated with the Nexant Potential Study and EM&V Report, the TRC is .798 and the UCT is 1.226. See: Addendum to Conservation Report for CY13, Docket UE-060256, (Aug. 29, 2014).

⁵ Cascade Natural Gas Corporation Annual Conservation Achievement Report Calendar Year 2013, p. 2, Docket UG-060256 (July 1, 2014).