Cascade Natural Gas CIP– December 2014

This memo is to serve as insight into the current yearly activities associated with the Cascade Natural Gas Conservation Incentive Program (CIP). Its purpose is to compare our accomplishments year-to-date with last year's status and provide background on our 2015 program goals and budgets.

Natural Gas Efficiency Services	2014 Budget	2014 Expenditures (to date)	2015 Projected Expenditures[5]
Residential Incentives	$800,000 - $950,000	Approx. $303,800	$615,000
Commercial/Industrial Incentives	$630,000 - $840,000	Approx. $256,500	$561,000
Administrative Costs	$600,000 - $800,000	Approx. $836,500	$1.2 mil
NEEA Gas Transformation Efforts	N/A	N/A	$145,848*

2014 Projected Savings[1]

The Company's CIP program year runs from January through December with application submittals required within 60 days of the end of the year. Please note, a good portion of the rebate submissions attributable to the program are handled in the last month of the year (December) and into the next three months of the following year as rebates are processed. Thus, showing current program standing through November is not reflective of total therm savings since this mid-cycle report does not provide a full sense of total year achievements. The Company anticipates additional savings for the residential program will be achieved and recorded in the annual report released in July bringing us in line with our expected savings goals for the year.

Natural Gas Efficiency Services	2014 Projected Savings[1]	2014 Achieved[2] (to date)	2015 Projected Aspirational Savings[3]
Residential Incentives	226,382 therms	96,855 therms	334,011 therms
Commercial/Industrial Incentives	339,768 therms	150,316 therms	411,623 therms
Low Income	22,500 therms	4,869 therms	5,000[4] therms

Year-to-Date Accomplishments[2]

A more accurate measure of program standing for the year can be seen through a comparison of month-to-date between the past two years. See table below for reference. The Company does not forecast for our residential incentive program past the current project completions and applications in process - which are reflected here. For the commercial incentive program, projects are often planned and in process for a longer period of time. Currently the program has achieved **150,316** therms of savings. Lockheed Martin, our commercial program delivery vendor, has identified an additional **306,332** therms yet to be recorded. These projects are expected to complete prior to the end of 2014 and will allow the company to surpass our commercial/industrial savings goals for 2014.

Program Status as of November				
Residential	2013		2014	
Year to Date total	Therms	Incentives	Therms	Incentives
	102,562	$307,919	96,855	$303,817

Commercial	2013		2014	
	Therms	Incentives	Therms	Incentives
Year to Date total	174,493	$272,666	150,316	$256,470
Forecasted & YTD	288,629	$434,339	434,628	$477,719

As demonstrated, the commercial program is set to surpass the savings goals for 2014. The residential program is slightly down from November of 2013, but this will likely change as additional projects come in throughout the end of the program year.

Estimated 2014 Expenditures

Note: expenditures have been rounded and are based on a January – November 2014 Calendar Year.

2015 Projected Program Savings[3]

Program savings estimates are based on the Company's Nexant potential study and associated TEAPOT modeling tool. The Company developed goals for the residential and commercial/industrial program commensurate with our potential study.

Residential goal – The TEAPOT model provides an estimate of the achievable potential for the Company's residential portfolio. Please note, the potential provided through TEAPOT is an estimated aggressive goal that does not take into account actual programmatic realities (influenced by regulatory policy and company budgets/tariffs as well as marketplace influences and the state of the economy). TEAPOT provides us with an aggressive target based on a precise subset of measures. The Company has taken the aggressive potential and has implemented a 25% downward adjustment to compensate for programmatic savings and has provided that goal as an *aspirational* target here for reference. It's likely the programmatic goals should be reduced more than 25% from the TEAPOT achievable targets, but they are being listed here for reference.

Commercial/Industrial Goal – The Company used the TEAPOT model to develop our 2015 goals for our prescriptive commercial program. The TEAPOT model is applicable to prescriptive programs (historically 35% of the commercial/industrial portfolio). The Company's trends have shown 65% of the Commercial/Industrial program is custom savings based. We assume approximately **192,000** therms for prescriptive measures and after adding the custom savings potential assumptions we get to an

aggressive goal of **411,623** therms. Note – the Nexant Achievable potential was adjusted downward by 25% as was the case for the residential, to compensate for programmatic savings potentials.

2015 Projected Low Income Program Savings[4]

Note the decrease in expected savings from previous years' projections under the Low Income Weatherization program. This decrease is a reflection of program achievements for 2014 and a more realistic goal based on new evidence related to current client prioritization performed by the Community Action Agencies for natural gas heated homes. The U.S. Department of Energy Weatherization Assistance Program (DOE-WAP) requires if the Community Action Agencies use DOE-WAP funds, all rules and guidelines for utilization of their funds be met – including their prioritization guidelines.

These guidelines instruct agencies to develop an "actual waiting list" to determine which households are served next for weatherization services. Priority is given by age, disabilities and homes with children age six or younger. Priority can also be given to high residential energy users and households with a high energy burden. Currently, agencies are serving those homes with the largest Heat Cost Burden (percentage of clients' income dedicated to paying for heat) and by their large Energy Cost (total dollars being spent annually on baseload and space heat). Due to the low cost of natural gas and the commensurate higher electric heating bills, client homes heated with electricity are being served first. In the current energy-price environment, natural gas customers are at a distinct disadvantage for getting assistance with weatherization services regardless of their need. In fact, some agencies are planning on less than 10% of the homes they weatherize for 2015 to be customers with natural gas heated homes. This is why our 2015 therm savings projection is nearly identical to our 2014 therm savings achieved.

Cost Effectiveness

The Company does not run mid-year cost effectiveness analysis, so it is difficult to provide a cost effectiveness calculation to staff at this point in our program cycle. The Company waits to calculate cost effectiveness until all program rebate applications and associated expenses have been submitted and processed (April – May of the following year). Thus, a calculation of cost effectiveness at this phase in the year would not offer an accurate picture of program UCT/TRC outcomes and would not provide a complete picture of cost-effectiveness.

A preliminary breakdown of cost effectiveness is provided below for reference *only*. Assuming program achievements are commensurate with planning performed last year, the programs should calculate out cost effective and currently appear on track.

2014 Portfolio TRC/UCT – Cost effective, commensurate with avoided costs and utilizing the Utility Cost Test as per direction from UG-121207.

2015 Portfolio TRC/UCT - The program will be cost effective assuming the following criteria are met: Residential program administrative costs run around $500,000 and program achieves at minimum 138,000 therms in savings based on the existing portfolio. Additional savings achieved beyond this figure will make the conservation programs even more cost effective, maximizing the value of participation for the Company and Ratepayers. Commercial program administrative costs should run around $800,000 and will pass the TRC & UCT if the target is met and the custom loaded levelized cost is $0.40 or less.

2015 Budget Estimates (Projected Expenditures)[5]

All estimates on expected expenditures throughout the year are tentative figures and have been provided at the request of Staff. The company traditionally performs all Conservation Planning, including goal setting and budgeting through our Integrated Resource Plan, which is set to be updated and completed by May of 2015. In the meantime, we have established the attached budget as a guideline until the final budget is released as part of the Demand Side Management portion of the Company's IRP. All numbers were developed in good faith and were based on currently available information gleaned from program experience and insights from our TEAPOT model. Numbers are subject to change commensurate with available conservation technologies, increases or reductions to the avoided costs of natural gas, customer interest and program participation levels, as well as unforeseen external factors that have a direct impact on expenditures associated with the programs.

Note* The Company has also added in the expected costs associated with the NEEA Gas Market Transformation efforts being implemented in Q1 of 2015. Funding agreements are in process and have not yet been signed by the Company.