

REQUEST FOR PROPOSALS

Independent Third-Party Evaluation of Cascade Natural Gas Corporation's Washington Decoupling Mechanism

1.0) Introduction and Background

On August 16, 2007 the Washington Utilities and Transportation Commission (Commission) issued a final order approving a Stipulation granting Cascade Natural Gas Corporation's (Cascade) request for approval of its Conservation Alliance Plan (CAP) which included a partial natural gas decoupling mechanism, subject to certain conditions, in Docket UG-060256 Orders 5 – 7 (Attachment A) . This mechanism, which became effective on October 1, 2007, was implemented as a three-year pilot to exclude weather, include an earnings cap, and provide penalties for failure to meet targets and benchmarks. Under the terms of the Settlement, the parties agreed that the company would, in consultation with Staff and a Conservation Advisory Group (CAG), select a third party entity to conduct an independent study of the mechanism to evaluate the effectiveness of the CAP and submit the results within one year following the end of the pilot (October 1, 2011). The Scope of Examination (Attachment B) was developed by the CAG, Company, and Staff as part of a collaborative process, pursuant to the Stipulation.

1.1) Description of Company's Decoupling Mechanism

The purpose of Cascade Natural Gas's CAP Mechanism is to establish procedures for the tracking of differences associated with changes in use per customer (excluding weather) for its rate schedules 503 & 504 customers. The mechanism establishes the procedures for calculating the differences experienced between actual average residential and commercial use per customer, and the amount estimated at the time the margin rates were established.

Cascade maintains a Conservation Variance deferral account as a Regulatory Asset or Liability. Each month, the Company calculates the difference between the weather-normalized actual margin and the expected margin for the rate schedules 503 and 504. Expected margin is calculated as the baseline average commodity margin per customer multiplied by the current customer count. The resulting dollar amount difference is recorded in a Conservation Variance deferral account for rate schedules 503 and 504.

As described in the Company's Conservation Alliance Plan (Tariff Sheet No. 25) (Attachment C) the Company imputes and records interest on the deferred balance on a monthly basis utilizing the interest rate published quarterly by the FERC. The calculation is made consistent with the current deferred accounting procedures detailed in WAC 480-90-233. Recovery of any interest does not occur until after the company files and the

commission has approved amortization of the Conservation Variance account (outlined below) through the annual Temporary Technical Adjustment.

To the extent the Company meets the conditions outlined below, Cascade would include with its annual Temporary Technical Adjustment filing a temporary adjustment amount designed to amortize any balance in the Conservation Variance accounts calculated separately for rate schedules 503 and 504. Temporary surcharges and/or refund increments are applied to the Margin Commodity Rate over the following 12 months or any other appropriate amortization period.

Consistent with the Commission's Order UG-060256, the Company has implemented annual therm savings targets of 335,625 therms for CY08, 441,250 for CY09, and a target of 565,500 for CY10. These targets were based on the midpoint of the originally filed range of therms savings targets and include those savings associated with the Low-Income Weatherization Program. The Conservation Alliance Plan includes penalties for the Company's failure to meet these conservation targets and benchmarks. In addition, to provide a safeguard against potential over-earning, the WUTC conditioned approval of the plan on the inclusion of an earnings cap based on the authorized overall rate of return of 8.85 percent and an appropriate and verifiable mechanism to assess how the earnings would be determined and compared to the authorized rate of return. Per Commission order, the Company modified the proposed penalty structure such that the maximum level of recovery of recorded annual deferred conservation revenues is 90%. The modified Penalty structure is as follows:

<u>Actual vs. Threshold Annual Therm Savings</u>	<u>Penalty Structure</u>
<70%	100% disallowance / 0% recovery
≥70% and <80%	30% disallowance of deferred balance
≥80% and <90%	20% disallowance of deferred balance
≥90%	10% disallowance of deferred balance

For further details, please refer to Attachment A and Rule 22, Conservation Alliance Plan (CAP) (Tariff Sheet 25) (Attachment C).

2.0) Purpose of this RFP

Cascade has issued this RFP to, in consultation with Staff and other parties, seek a qualified independent entity to complete an objective, independent evaluation of the decoupling mechanism as further detailed in the Plan attached as Attachment B. The completed study is to be submitted to the Company, Commission Staff and CAG no later than September 30, 2010 and filed with the Commission no later than October 1, 2011.

3.0) Conservation Advisory Group

Cascade Natural Gas Corporation has a Conservation Advisory Group comprised of representatives from the Company, Commission Staff, Northwest Industrial Gas Users, Northwest Energy Coalition, the Energy Project, The Washington Department of Community, Trade, and Economic Development (now Commerce), the Washington State University Energy Extension Program and Public Counsel. Per the Narrative Statement to the Settlement Agreement in Docket UG-060256, the evaluator will conduct this evaluation as an independent consultant retained by the Company after consultation with interested parties. These parties, hitherto known as the Conservation Advisory Group (CAG), helped to develop the Evaluation Plan included as attachment B.

4.0) Qualification Requirements of Potential Bidders

Cascade Natural Gas Corporation seeks a qualified, independent evaluator to perform an examination of the Company's decoupling mechanism. To this end, firms or persons submitting a proposal, including any subcontractors, shall meet the following qualifications:

- a) An ability to demonstrate relevant experience with qualitative and quantitative data analysis,
- b) The preferred bidder will be capable of objectively analyzing the Company's decoupling mechanism. Potential bidders (including all individuals assigned to the project) are asked to describe their previous working history with the above named parties, including a description and dates of all work done.
- c) An ability to analyze energy consumption and utility accounting data and methodologies as well as DSM data.

5.0) Information to Submit in a Proposal to Respond to this RFP

Firms or persons submitting a proposal shall provide the following information:

- a) Cover page with the following summary information
 - Name of Person or Firm
 - Address
 - Point of contact for Proposal, including e-mail and telephone number
 - Total cost of Proposal
 - List of any subcontractors and their addresses.
- b) Project narrative – limited to 30 pages, double spaced, 12 point font. This narrative should address the approach contemplated for the evaluation of the decoupling mechanism and a description of the process the evaluator will use to analyze and validate changes in impact to usage resulting from the Company's

DSM programs (as well as a description of the necessary data to perform such an analysis), within the guidelines established in the Plan attached hereto as Attachment B. The narrative should also address items (c) through (g) below.

- c) Proposed budget and budget narrative
- d) A description of ability to meet the proposed timelines for project completion, including submitting Preliminary and Final Evaluation reports, as well as a proposed timeline of key activities culminating in project completion.
- e) Description of the extent to which the firm meets the key qualifications described above in Section 4.0. Bidders, and any subcontractors (including all individuals assigned to the project) are asked to disclose any past experience related to decoupling, including any reports, studies, statements, presentations, analyses, positions taken either in favor or against decoupling or recommendations and the dates of each instance.
- f) Description of any experience conducting work on behalf of multiple stakeholders and the firm or person's approach to conducting work under such circumstances
- g) Staff who would work on the proposal, including lead author(s), and description of their qualifications.
- h) Description of relevant work experience for organizations (minimum of 3). Please provide sample reports,
- i) List of any association or memberships, and the date you became a member
- j) Any relevant attachments, including but not limited to items (g) through (i) above, as well as any documents regarding past experience related to decoupling or any work performed for Cascade as described in response to item (e).

6.0) Pricing

Proposals shall include a proposed budget and budget itemization, identifying labor, travel, and other relevant expenses, for the bidding firm and separately any subcontractors, in categories that include project planning, data collection, analysis, and reporting. The fee estimate should include all anticipated expenses, including travel to project initiation meetings and hearings as well as a final presentation to the Company, WUTC, and CAG as well as any other expenses required to perform a competent and complete evaluation. The Company expects travel expenses to be submitted at face value with no mark-ups. For all labor costs, please report the estimated number of hours and billing rate for each individual who will be working on the project. Preference will be given to Fixed Cost / Not-To-Exceed Proposals.

7.0) Data Availability

The Evaluator will utilize the following data:

- a) Data will be provided by Cascade to the Evaluator and Staff including but not limited to accounting, sales volumes, margin revenues, and energy efficiency data for 2005 to 2009.
- b) Additional data to determine the impact of the decoupling mechanism on Cascade's Low Income Customers including, but not limited to Census data, data from company bill-assist and weatherization programs.

The Evaluation Plan, included as Attachment B, provides a more detailed description of the type and range of data to be analyzed.

8.0) Independent Nature of Evaluation

The evaluator selected as a result of the RFP process will perform the evaluation at the direction of the Company in consultation with the Conservation Advisory Group. Nothing within the selection or contractor procedures contained within this process shall compromise this independence. All correspondences to and from the Contractor, Company, and Conservation Advisory Group shall be cc'd to all parties and sent from a separate email account created for this purpose.

9.0) Timeline

The timeline for the RFP process, selection of the evaluator and completion of the Evaluation Plan is set forth in the Evaluation Plan, provided as Attachment B.

10.0) Submittal of Proposal

Please submit one (1) hard copy of your Proposal to the email address listed in Section 10.0 below. Please submit eight (8) hard *or* electronic (CD-ROM) copies of your written Proposal via certified mail to:

Cascade Natural Gas Corporation
Attn: Allison Spector, Director of Conservation
222 Fairview Avenue N.
Seattle, Washington 98109

The written Proposal for the services identified under this RFP must be received on or before **5:00 p.m. PST on Thursday, January 15, 2010** (the "Due Date") and clearly marked "**Response to Decoupling Evaluation RFP**".

No oral or telephoned Proposals will be considered. Proposals sent by e-mail before the deadline will be accepted for evaluation; however, hard copies of such

Proposals must be received by mail or delivery, no later than three business days after the due date.

It is the responsibility of the Bidder to see that its Proposal is received by the date stated herein. Any Proposal received after the stated Due Date may not be considered. Hard copies of Proposals previously sent by facsimile or e-mail must be identical to the original submittals or they will not be considered.

11.0) Inquiries

Bidders may submit inquiries regarding any aspect of this RFP, in writing, to Cascade at the following email address: allison.spector@cngc.com.

All questions will be logged and responded to by Cascade. All Bidder Inquiries and Responses will be provided in writing and posted at the following website (http://www.cngc.com/WA_decoupling_examination.asp) and thus available to all potential bidders. Interested Bidders may ask questions at any time prior to January 8, 2010.

In order to provide transparency all questions and data going to and from the utility and the selected contractor or between the contractor and any of the study workgroup participants will be copied to the distribution list on e-mail.

12.0) Proposal Requirements

The written Proposal shall fully address the Evaluation Plan attached as Attachment B and all items described in Section 5 above. Failure to meet this requirement may result in disqualification.

13.0) Proposal Acceptance

The Proposal shall include a statement that it will remain valid for acceptance for a period of sixty (60) days following the closing time stated in Section 9 herein,

14.0) Modifications or Withdrawal of Proposal

14.1 By Bidder

A bidder may modify or withdraw its Proposal by written request, provided that the request is received by Cascade at the address and prior to the time specified in Section 9.0 above. Following withdrawal of its Proposal, a Bidder may submit a new Proposal, provided that such new Proposal is received by Cascade at the address and prior to the time specified in Section 9.0.

14.2 By Cascade

Cascade, in consultation with the Conservation Advisory Group, may modify any provision of the RFP at any time prior to the time specified in Section 9.0 above, for the submission of Proposal. Subsequent to the issuance of a bid, any changes to the scope of work will be the subject of an addendum.

15.0) RFP Terms and Conditions

This RFP does not constitute an offer to enter into a contract with Cascade Natural Gas, nor does it commit Cascade to enter into a contract or similar undertaking with the Bidder(s) or any organization associated with the Bidder(s), nor does it constitute an offer by Cascade to pay or reimburse the bidder(s) for any costs associated with preparing for this RFP. Any exceptions to the terms and conditions or any additions, which the Bidder(s) may wish to include in the RFP should be made in writing and included in the form of an addendum to the applicable section in the RFP.

16.1 Treatment of Proposals and Confidential Information

A bidder must clearly designate which portions, if any, of its proposal are confidential, and Cascade will use its best efforts to protect the same from public disclosure prior to the award or the bid. Thereafter, the terms and conditions of the winning bid may be made public.

16.2 Process of Selection and Basis of Any Award

Cascade will compare all Proposals against all other proposals submitted under this RFP. The contract(s), if awarded by Cascade with agreement of Staff, will be awarded on the basis of Proposals received and after consideration of Bidder's ability to provide the required services, complete the project, quality of personnel, extent and quality of relevant experience, price and any other factors deemed pertinent.

17.0) Rights

Subject to Section 14.2, Cascade reserves the right to reject any or all Proposals, and to award multiple contracts, at its sole discretion. In submitting a Proposal, the Bidder(s) understands that Cascade will determine which proposal, if any is accepted. Bidder(s) waives any right to claim damages of any nature whatsoever based on the selection process, final selection, and any communications associated with the selection.

18.0) Proposal Evaluation and Pre-award Interviews

Cascade will review proposals and may conduct interviews with candidates. In the event a pre-award with the Bidder's key team members is required, the interviews will be scheduled in Seattle the address noted in 9.0 above.

19.0) Pre-award Expenses

All expenses incurred by the Bidder to prepare a Proposal and participate in required pre-bid and pre-award meetings, visits and the interviews shall be borne by the Bidder.

20.0) Documentation

Prior to execution of the contract, the Bidder to whom the contract is awarded (the “Successful Bidder”) must deliver to Cascade certificates of insurance and any other documents required by the RFP or proposed Agreement.

21.0) Preparation and Endorsement

It is the intent of Cascade that, after the successful Bidder(s) has been selected, Cascade and the selected Bidder(s) will enter into contract negotiations containing all terms and conditions of the proposed product and services. Any acceptance of a quote is contingent upon the execution of a written contract and Cascade shall not be contractually bound to any Bidder prior to the execution of such a written contractual agreement. Cascade expects that appropriate sections of the Bidder response may, or will be requested, to be included, word for word, in the contract. If requested by Cascade, a Bidder(s) must assist and cooperate with Cascade in preparing a formal contract agreement. Within ten (10) working days after a presentation of a formal agreement, contractor must duly execute the same and return for execution by Cascade. Failure to duly execute and return the contract and any other required documentation will constitute a breach of contract by the Bidder(s) and entitle Cascade, in addition to all other rights and remedies available to it, to award a contract to another Bidder(s).

22.0) About Cascade Natural Gas

Cascade is an energy company involved in the purchase, transmission and distribution of natural gas, providing service to about 250,000 customers and 96 cities and towns in Oregon and Washington. Cascade is a subsidiary of MDU Resources Group, Inc. For more information about Cascade, please visit www.cngc.com.

END OF PROPOSAL INSTRUCTIONS

ATTACHMENT A: Commission Order and Stipulation

ATTACHMENT B: Scope of Examination/Workplan

ATTACHMENT C: Conservation Alliance Plan Tariff Sheet 25