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January 28, 2008

Public Utility Commission of Oregon
Attn.: Filing Center
550 Capitol Street NE #215
Salem, OR 97310-1380

Re: **UM 1286** – In the Matter of THE PUBLIC UTILITY COMMISSION OF OREGON Investigation into the Purchased Gas Adjustment (PGA) Mechanism Used by Oregon's Three Local Distribution Companies.

Dear Filing Center:

Enclosed for filing please find Cascade Natural Gas Corporation's reply comments in Phase 1 of docket UM 1286.

Thank you for your assistance.

Sincerely,

/s/ Curt Lulias

Curt Lulias
Regulatory Affairs

Enclosure

cc: UM 1286 Service List

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1286

Investigation into the Purchased Gas Adjustment (PGA) Mechanism Used by Oregon's Three Local Distribution Companies	Cascade Natural Gas Corporation Reply Comments

Cascade Natural Gas Corporation ("Cascade" or the "Company") appreciates the opportunity to submit these Reply Comments. The Company maintains that its position to pass through 100% of prudently incurred gas costs is appropriate as stated in the Company's opening comments. This position is consistent with both the positions of Staff and Avista Utilities in their opening comments and as a result, Cascade believes that the Commission should adopt this approach.

Although Cascade believes that an incentive mechanism is not necessary, of the mechanisms proposed in the opening comments, the Company believes that an approach similar to that proposed by Staff is a far better approach than the mechanism in place today, or a deadband approach like that proposed by the Citizens Utility Board (CUB). Although Staff's proposed mechanism needs several elements to be further developed, which could be done in Phase II of this docket, the basics proposed by Staff address many of the flaws associated with the existing mechanism. Staff's proposed mechanism applies incentives/penalties on unhedged supplies by comparing a benchmark based on actual index prices to the Company's actual costs. The Company believes that any incentive mechanism must reward or penalize based on differences between actual market prices and the prices paid by the utility, not how well the utility "forecasted" those market prices at the time of the PGA, which is essentially the mechanism that is in place today.

In their opening comments, NW Natural has proposed that only the level of sharing be changed and essentially advocates that the current mechanism is functioning properly. Cascade disagrees with this position for the reasons stated in its initial comments, primarily that it rewards/penalizes the utility solely based upon market fluctuations that cause the actual prices to be different from the estimated prices, which may have nothing to do with how well the LDC procured supplies for its customers. The fact that the current mechanism does not adjust for differences between the actual indices and those forecasted in the PGA is a fatal flaw. Any incentive mechanism must adjust for the indices on the un-hedged balances.

The deadband mechanism proposed by CUB in their opening comments is also flawed for the reasons set forth below. CUB relies on the fact that since a deadband approach is appropriate for the electric utilities, it must be appropriate for the LDCs as well. CUB's proposal does not adequately acknowledge the

fundamental differences between the electric utilities and the LDC's. CUB's opening comments do mention that the electric utilities have different alternatives besides natural gas to generate electricity; however they seem to equate access to multiple generation resources with the ability of natural gas to be stored. What CUB fails to recognize is that many of the generation alternatives available to the electrics are owned and operated by the utility and, therefore, the electric utilities have far more control over the costs of generation. CUB advocates that volatile natural gas prices are similar to differences in hydro levels and that these are just part of the normal business risk for an energy utility. However, again, CUB has failed to recognize that the electric utility's portfolio is not entirely made up of hydro and therefore they benefit from a blend of resources. Moreover, their ownership of many of those resources provides a return on that investment, as well as the ability to choose the blend of resources at any given time. Thus, while CUB purports to align the risks of price fluctuations with a utility's ability to manage costs, CUB vastly overstates an LDC's ability to control the variance between a utility's forecast and actual gas costs without the use of hedging.

The LDC's, on the other hand, do not own or produce the natural gas supplies, nor do we have the blend of resources to choose from to meet our core loads. The electric utilities are not purchasing the majority of their supplies on the commodity markets, unlike the LDC's whose entire portfolio is based on natural gas commodity prices. The ability to store natural gas can provide opportunities to hedge prices for LDC's; however, for Cascade, who has limited storage resources, storage is used for peak delivery and meeting core load requirements. Moreover, gas storage is a finite resource, and the LDC's differ in their ability to access and use storage to hedge their costs.

CUB also advocates a "one size fits all" approach, based on the Commission's decision in 1989 when the mechanism was first established. As detailed at length in both Staff's and Cascade's opening comments, the natural gas markets are significantly different from those in place when the Commission initially established the existing sharing mechanism. At that time, the LDC's were predominately purchasing from the pipeline at FERC-regulated rates; therefore, a mechanism that encouraged utilities to purchase supplies in the open market was likely to result in benefits for both the utility and the customers. Today, 100% of the LDC's supplies are purchased in a natural gas commodity market that is fully deregulated and extremely volatile. Moreover, given their different access to storage, a "one size fits all" approach may unfairly reward or penalize different LDC's.

For the reasons stated above, Cascade believes that the PGA mechanism should be modified to allow 100% of prudently incurred gas costs to be passed through without any sharing. This arrangement has worked well in other jurisdictions, including Washington, while still holding the LDC responsible to purchase its gas portfolio prudently. If the Commission does include an incentive mechanism it should adopt an approach similar to that proposed by Staff which removes the impact of market /forecast variations from the mechanism and truly

rewards/penalizes utilities based on their ability to purchase supplies compared to market prices.

Regarding Staff's proposal for more frequent PGA filings, although the Company would agree with many of Staff's cited benefits, the Company does have concerns about the additional administrative burden and expense associated with more frequent filings. Should a more frequent schedule be required, the process must be streamlined from the current process. Currently, PGA filings must be made 60 days prior to the proposed effective date. Because of the 60-day time span between the initial filing and the effective date, price forecasts often change during that window, so the utilities are required to update the forecast information. If filings were to occur more frequently, Cascade would recommend that the filings require only the standard, 30-day statutory notice period.

Dated this January 28, 2008

Respectfully Submitted,

CASCADE NATURAL GAS CORPORATION

Katherine J. Barnard
Sr. Director-Regulatory Affairs

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing Reply Comments of Cascade Natural Gas Corporation in regard to Phase 1 of Docket UM 1286, by electronic mail upon all parties on the attached service list.

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DATED at Seattle, WA, this 28th day of January 2008

/s/ Curt Lulias
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