McDowell & Rackner PC

Wendy L. McIndoo
Direct (503) 595-3922
wendy@mcd-law.com

May 2, 2008

VIA ELECTRONIC FILING AND FIRST CLASS MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: Docket UM 1286 – Stipulation and Joint Direct Testimony

Enclosed for filing in the above-referenced docket are an original and five copies of the Stipulation by the Joint Parties and the Joint Direct Testimony of Ken Zimmerman, Brian Hirschkorn, Katherine Barnard, Alex Miller and Paula Pyron. Please note that some of the signature pages are a facsimile. We will file the originals as soon as we received them.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Wendy L. McIndoo

Wendy L. McIndoo
Legal Assistant

Enclosure

Phone: 503.595.3922 • Fax: 503.595.3928 • www.mcd-law.com
520 SW Sixth Avenue, Suite 830 • Portland, Oregon 97204

CERTIFICATE OF SERVICE

I certify that I have this day served the foregoing document in OPUC Docket No. UM 1286 by electronic mail and first class mail to the following parties or attorneys of parties:

DAVID J MEYER
VICE PRESIDENT & CHIEF COUNSEL
AVISTA CORPORATION
PO BOX 3727
SPOKANE WA 99220-3727
david.meyer@avistacorp.com

DAVID HATTON
ASSISTANT ATTORNEY GENERAL
DEPARTMENT OF JUSTICE
1162 COURT ST NE
SALEM OR 97301-4096
david.hatton@state.or.us

EDWARD A FINKLEA
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD LLP
efinklea@chbh.com

JON T STOLTZ
SR VICE PRES.—REGULATORY & GAS
CASCADE NATURAL GAS
jstoltz@cngc.com

LOWREY R BROWN
CITIZENS' UTILITY BOARD OF OREGON
lowrey@oregoncub.org

KATHERINE BARNARD
DIRECTOR - REGULATORY AFFAIRS
CASCADE NATURAL GAS
kbarnard@cngc.com

ROBERT JENKS
CITIZENS' UTILITY BOARD OF OREGON
bob@oregoncub.org

JASON EISDORFER
CITIZENS' UTILITY BOARD OF OREGON
jason@oregoncub.org

PAULA E PYRON
EXECUTIVE DIRECTOR
NORTHWEST INDUSTRIAL GAS USERS
ppyron@nwigu.org

CHAD M STOKES
CABLE HUSTON BENEDICT
HAAGENSEN & LLOYD LLP
cstokes@chbh.com

KEN ZIMMERMAN
PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL ST NE, STE 215
SALEM OR 97301
ken.zimmerman@state.or.us

LAWRENCE REICHMAN
PERKINS COIE LLP
1120 NW COUCH ST, 10TH FLOOR
PORTLAND OR 97209-4128
lreichman@perkinscoie.com

Dated May 2, 2008

McDOWELL & RACKNER PC

Wendy L. McIndoo

Wendy L. McIndoo
Legal Assistant

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

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	**STIPULATION**

I. INTRODUCTION

The parties to this Stipulation are Avista Corporation ("Avista"), Cascade Natural Gas Corporation ("Cascade"), Northwest Industrial Gas Users ("NWIGU"), Northwest Natural Gas Company ("NW Natural"), and Commission Staff ("Staff") (collectively, the "Parties").

By entering into this Stipulation, the Parties intend to resolve all issues addressed in Phase I of this investigative docket, as more particularly described below.

II. BACKGROUND

On November 14, 2006 , Staff issued a memorandum in which it requested that the Oregon Public Utility Commission (the "Commission") open an investigation into the Purchased Gas Adjustment mechanism ("PGA") used by Oregon's three local distribution companies ("LDCs") (hereinafter, "the Staff Memorandum" or "Memorandum"). In that Memorandum, Staff proposed a list of 9 general issues to be addressed in the investigation, including: guidelines for implementing portfolio purchasing; guidelines for hedging practices; the sharing of cost differences between the LDCs and their customers; and guidelines for documentation of purchasing decisions and practices.

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The Parties to this Stipulation intervened in the docket, as did Citizens' Utility Board of Oregon ("CUB").

A prehearing conference was held on January 11, 2007, and the Parties agreed to a proposed schedule of 8 workshops which were held between January 22 and August 23 of 2007. After the workshops concluded, the Assistant Attorney General David Hatton wrote to the ALJ on behalf of all parties to describe the parties' agreement to bifurcate the docket into two phases as follows: Phase I of the docket would address PGA mechanisms, including any proposed "incentive" arrangements. Phase II would address guidelines for implementing PGA and incentive mechanisms, and portfolio purchases of natural gas and related documentation.[1] The parties proposed that they file two rounds of comments in Phase I which were in fact filed on December 4, 2007 and January 28, 2008.

After the Comments had been filed, the Commission held a workshop which was attended by all parties to the docket. Subsequently, the parties held a settlement conference on February 7, 2008. That settlement conference was continued on February 13, 2008, this second session being held via teleconference.

As a result of these settlement negotiations, the Parties agreed to enter into this Stipulation:

III. STIPULATION

1. The Parties agreed upon a PGA mechanism that incorporates an incentive mechanism and an earnings review. The PGA is comprised of five basic components:

   (1) The annual setting of the embedded commodity WACOG in customer rates for the following PGA year;

[1] The parties may recommend that additional issues be addressed.

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(2) The selection and application of sharing levels and corresponding earnings threshold levels;

(3) The selection and calculation of a monthly benchmark against which both embedded WACOG ("Embedded WACOG") and actual monthly gas costs will be compared;

(4) The calculation of variance between the monthly benchmark and annual Embedded WACOG and between the monthly benchmark and actual monthly unhedged gas costs; and

(5) The application of a spring earnings review.

Setting Embedded WACOG

2. In the fall of each year, the LDC will file its embedded WACOG ("Embedded WACOG") that will serve as the basis for customer rates for the PGA year beginning the following November 1 and ending October 31 (the "PGA Year").

(A) The initial PGA filing ("Initial Filing") will be made on or before August 31.

(B) A mandatory update of the PGA filing ("Update Filing") will then be made no later than two weeks prior to the scheduled Public Meeting addressing the PGAs.

3. The Embedded WACOG will be set as a function of the LDC's expenses for (a) fixed price hedges; (b) storage, and (c) unhedged volumes. These components of the Embedded WACOG will be calculated as follows:

(A) Total PGA volumes will be set on a forecasted basis.

(B) Fixed price hedges and storage fill (completed by July 31 for the Initial Filing and by September 30 for the Update Filing) will be included in Embedded WACOG at 100% of cost. Additional storage refills taking place by October 31 of each year will be separately accounted for and passed through to customers at 100% of cost.

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(C) Amounts for gas supplies that are unhedged ("Unhedged Gas") as of the date of filing, as discussed in a. below, will be calculated using the following inputs:

a. Prices will be set using the basis-adjusted 60-day NYMEX strips for the PGA Year. This methodology will be used for three years (through the 2010/2011 PGA Year), after which the Commission will review its effectiveness.

(i) The Initial Filing will use the basis-adjusted NYMEX daily information from the previous 60 calendar days through July 31.

(ii) The Update Filing will use the basis-adjusted NYMEX daily information from the previous 60 calendar days through September 30.

b. Volumes will be priced using the expected percentage mix of supply basins for Unhedged Gas supply for each of the twelve months of the PGA Year. The expected percentage mix will be based on the LDC's three-year historical weighted average volumes adjusted for known and measurable changes.

Selection of Unhedged Benchmark Price

4. By August 31 of each year, the LDC will select an independent benchmark (the "Unhedged Benchmark Price"). Each year the LDC may select one of two methods for setting its Benchmark:

(A) First of Month (FOM) index, which will be weighted by the actual purchases at each basin during the month plus/minus an appropriate amount applicable for each basin for physical supplies, adjusted for each month; or

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(B) The average of the Gas Daily indices, which will be weighted by the actual purchases at each basin during the month, plus/minus an appropriate amount applicable for each basin for physical supplies adjusted for each day.

Calculation of Variances and Sharing for Deferrals

5. The Monthly Benchmark WACOG is the actual unhedged volumes at the Unhedged Benchmark Price plus the costs of fixed price hedges and storage withdrawals divided by total actual volumes.

6. The difference between the Annual Embedded WACOG and the Monthly Benchmark WACOG will be calculated each month and multiplied by total actual volumes (Monthly WACOG Variance) and deferred for later collection or refund. The Monthly WACOG Variance will be shared at 95/5, meaning that 95% of any variance will be collected from or refunded to customers.

7. The actual costs for the Unhedged Gas will be calculated each month. Differences between actual costs for the Unhedged Gas and the product of the Unhedged Benchmark Price multiplied by actual unhedged volumes (Unhedged Benchmark Variance) will be deferred for later collection or refund. The Unhedged Benchmark Variance will be shared with customers at the percentage selected by the LDC each year by August 15 at one of the following levels: 67/33, 80/20 or 90/10 (meaning that 67, 80 or 90% of any variance will be collected from or refunded to customers).

Earnings Review

8. An earnings review will be performed each spring (pursuant to OAR 860-022-0070). The 2009 earnings review will use 2008 Fiscal Year results and the earnings thresholds currently allowed by the Commission for each LDC. For subsequent years, the earnings threshold applied to each fiscal year's results will correspond to the sharing election made by the LDC the previous August, for the following PGA

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Year, as described below, e.g. the August 2008 election will apply to the 2009 Fiscal Year results which are the subject of the 2010 earnings review.

(A) For LDCs choosing to share at 67/33 (with the exception of Cascade, as provided below), the earnings threshold will be set at 175 basis points (bp) of ROE (as determined in the LDC's last rate case), further modified by 20% of any change in the risk free rate for the 12-month calendar year preceding the annual earnings review (pursuant to Commission Order No. 04-203, as modified by Order 07-019);

(B) For LDCs choosing to share at 80/20, the earnings threshold will be set at 150 bp of ROE (as determined in the LDC's last rate case) further modified by 20% of any change in the risk free rate for the 12-month calendar year preceding the annual earnings review (pursuant to Commission Order No. 04-203, as modified by Order 07-019);

(C) For LDCs choosing to share at 90/10, the earnings threshold will be set at 100 bp of ROE (as determined in the LDC's last rate case) further modified by 20% of any change in the risk free rate for the 12-month calendar year preceding the annual earnings review (pursuant to Commission Order No. 04-203, as modified by Order 07-019).

(D) By August 31, 2008, Cascade may elect 67/33 commodity sharing with an earnings threshold of 215 bp of ROE (as determined in Cascade's last rate case), further modified by 20% of any change in the risk free rate for the 12-month calendar year preceding the annual earnings review, through 2012, providing Cascade continues to meet its merger conditions. If by August 31 of any year before 2012, Cascade elects either 80/20 or 90/10 commodity sharing, and following 2012, Cascade will choose from the options listed

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Portland, OR 97204

above, and cannot return to the 67/33 commodity sharing with an earnings threshold of 215 bp of ROE.

9. Sharing percentages for earnings above the threshold will be adjusted to account for the impact of SB 408. Customers of LDCs not subject to SB 408 will receive 33% of earnings above the threshold. Based upon current federal and state tax rates, customers of LDCs subject to SB 408 will receive 20% of earnings above the threshold. This percentage is subject to change as federal and/or state tax rates change.

10. There will be no fall earnings review.

11. The sunset provision for the earnings reviews will be removed through a subsequent rulemaking.

12. The application of this agreed-upon PGA shall not alter the Commission's review of the prudency of the LDCs' actions in procuring gas supplies for their customers.

Audit Provision

13. All deferrals pursuant to this Stipulation are subject to audit and modification for a period of up to three years.

Terms of Agreement

14. The Stipulation is offered into the record of this docket pursuant to OAR 860-014-0085. The Parties agree to support the Stipulation throughout this proceeding and any appeal, to provide witnesses to sponsor the Stipulation at any hearing held in this docket and recommend that the Commission issue an order adopting the settlement contained herein.

15. The Parties have negotiated the Stipulation as an integrated document. If the Commission rejects any material portion of the Stipulation or conditions its approval upon the imposition of additional material conditions, any party disadvantaged by such action shall have the right, upon written notice to the Commission and all

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Parties within 15 business days of the Commission's order to withdraw from this Stipulation, pursue its rights under OAR 860-014-0085 and shall be entitled to seek reconsideration of the Commission's order. However, prior to withdrawal, the Party shall engage in good faith negotiation with the other Parties. No Party withdrawing from this Stipulation shall be bound to any position, commitment, or condition of this Stipulation.

16. By entering into this Stipulation, no Party shall be deemed to have approved, admitted to, or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of the Stipulation.

17. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

18. Each Party enters into the Stipulation on the date below.

OPUC STAFF

By: Bonnie B. Tatom

NW NATURAL GAS COMPANY

By:______________________

AVISTA CORPORATION

By:______________________

CASCADE NATURAL GAS CORP.

By:______________________

NORTHWEST INDUSTRIAL GAS USERS

By:______________________

Dated: May 2, 2008

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By:______________	By:______________
AVISTA CORPORATION	CASCADE NATURAL GAS CORP.
By:______________	By:______________

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By: Paula E. Pyron

Dated: May 2, 2008

McDowell & Rackner PC
520 SW Sixth Avenue, Suite 830
Portland, OR 97204