CASCADE NATURAL GAS CORPORATION

222 FAIRVIEW AVENUE N., SEATTLE, WASHINGTON 98109-5312 206-624-3900
FACSIMILE 206-654-4039

CNG/O05-10-01

October 17, 2005

Ms. Vikie Bailey-Goggins
Oregon Public Utility Commission
550 Capitol Street NE #215
P.O. Box 2148
Salem, OR 97308-2148

Dear Ms. Bailey-Goggins:

Cascade Natural Gas Corporation encloses for filing the enclosed Application for an Order Authorizing the Establishment of a Decoupling Mechanism and Deferred Accounting Treatment for Changes in Margin Due to Conservation and Due to Variances from Normal Weather.

As part of the application, the company submits the following revisions to Cascade's P.U.C. Or. No. 8 Tariffs containing an effective date of November 1, 2005:

Original Sheet No. 30
Original Sheet No. 30-A

The Company is requesting that the proposed tariff become effective with Less than Statutory Notice and has enclosed the necessary LSN application form.

Should you have any questions regarding this filing, please contact me at (206) 381-6823.

Sincerely,

Jon T. Stoltz
Sr. Vice President
Regulatory & Gas Supply

Enclosures

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON
550 CAPITOL STREET NE, SUITE 215
SALEM OR 97301-2551

IN THE MATTER OF THE APPLICATION OF	)	UTILITY L.S.N. APPLICATION
Cascade Natural Gas Corporation	)	NO. ______________
(UTILITY COMPANY)	)	(LEAVE BLANK)
TO WAIVE STATUTORY NOTICE.	)	

NOTE: ATTACH EXHIBIT IF SPACE IS INSUFFICIENT.

1. GENERAL DESCRIPTION OF THE PROPOSED SCHEDULE(S) ADDITION, DELETION, OR CHANGE. (SCHEDULE INCLUDES ALL RATES, TOLLS AND CHARGES FOR SERVICE AND ALL RULES AND REGULATIONS AFFECTING THE SAME)

Establishes Rule 19, Conservation Alliance Plan Mechanism Tariff establishes a deferred accounting type Decoupling mechanism. The application requests authorization to establish two deferral accounts: 1) tracking changes in margin due to conservation and 2) tracking changes in margin due to variances from normal weather.

2. APPLICANT DESIRES TO CHANGE THE SCHEDULE(S) NOW ON FILE KNOWN AND DESIGNATED AS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE, AND ITEM)

Not Applicable

3. THE PROPOSED SCHEDULE(S) SHALL BE AS FOLLOWS: (INSERT SCHEDULE REFERENCE BY NUMBER, PAGE AND ITEM)

Original Sheet No. 30
Original Sheet No. 30-A

4. REASONS FOR REQUESTING A WAIVER OF STATUTORY NOTICE:

The Company is requesting LSN in order to implement its Conservation Alliance Plan as quickly as possible. The Company believes its proposed Conservation Alliance Plan, through conservation promotion and education programs, will provide our customers with opportunities to use less natural gas and therefore save money through reduced utility bills.

5. REQUESTED EFFECTIVE DATE OF THE NEW SCHEDULE(S) OR CHANGE(S):

6. AUTHORIZED SIGNATURE	TITLE Sr. Vice President, Regulatory & Gas Supply	DATE 10/17/2005
PUC USE ONLY		
☐ APPROVED ☐ DENIED	EFFECTIVE DATE OF APPROVED SCHEDULE(S) OR CHANGE	
AUTHORIZED SIGNATURE		DATE

PUC FORM 260 (11000) (10-96)

RULES & REGULATIONS

(N)

RULE 19- CONSERVATION ALLIANCE PLAN MECHANISM

APPLICABLE:

The Conservation Alliance Plan ("CAP") mechanism described in this rule applies to customers served on Residential General Service Rate Schedule 101 and Commercial General Service Rate Schedule 104.

TERM: This mechanism shall terminate on September 30, 2010.

PURPOSE:

The purpose of this provision is to (a) define the procedures for the annual tracking revisions in rates due to changes in the weather-normalized use per customer associated with Rate Schedule 101 & Rate Schedule 104; and (b) to define the procedures for the deferral of differences experienced between the actual average use per customer and the amount estimated at the time the Margin Rates were established.

REVISIONS TO COMMODITY MARGIN RATES DUE TO CHANGES IN THE WEATHER-NORMALIZED USE/CUSTOMER:

1. The Company shall use the baseline weather normalized average commodity margin per customer for Rate Schedule 101 and Rate Schedule 104 as reflected in its August 15, 2005 PGA application. That application was based upon the weather normalized twelve months ended June 30, 2005.

2. For each subsequent year for the term of this provision, the Company shall file annually (CAP Filing) with the Commission to update the Commodity Margin Rate for Rate Schedule 101 and Rate Schedule 104 based upon the weather normalized usage for the 12 months ending June 30th divided into the margin requirement of each rate schedule.

3. Weather-normalized usage is calculated using the approach to weather normalization adopted in the Company's Spring Earnings Review filings, PGA Applications and other weather normalized report submittals.

4. The Total Commodity Margin Requirement of Rate Schedule 101 and Rate Schedule 104 shall be calculated by multiplying the baseline average commodity margin per customer per Rate Schedule, excluding any margin collected through the monthly Basic Service Charge, by the current twelve months ended June 30 average customer count based upon the average of the monthly bills issued.

5. The Margin Commodity Rate is calculated by dividing the Total Commodity Margin Requirement by the Total Weather Normalized Usage. Also included in the calculation of the Margin Commodity Rate is the amortization of any balance in the Conservation Variance deferral account and the Weather Variance deferral account.

DEFERRAL OF MARGIN COLLECTION DIFFERENCES:

1. The Company will maintain Conservation Variance and Weather Variance deferral accounts as Regulatory Assets or Liabilities. Each month, the Company will calculate the difference between the weather-normalized actual margin and the expected margin for rate schedules 101 and 104. Expected margin shall be the baseline average commodity per customer multiplied by the current customer count. The resulting dollar amount difference will be recorded in the Conservation Variance deferral account. The Company will also calculate the difference between non-weather normalized actual margin and the expected margin for rate schedules 101 and 104. The resulting dollar amount difference will be reduced by subtracting the dollar amount recorded in the Conservation Variance deferral account with the remainder recorded in the Weather Variance deferral account.

(N)

(Continued on the next page)

RULES & REGULATIONS

(N)

RULE 19- CONSERVATION ALLIANCE PLAN MECHANISM(Continued)

DEFERRAL OF MARGIN COLLECTION DIFFERENCES: (Continued from Previous Page)

2. The Company shall impute interest on the deferred balances on a monthly basis utilizing the Commission establish deferral account interest rate.

3. The Company will include in the annual CAP filing a temporary adjustment amount designed to amortize any balance in the Conservation Variance and the Weather Variance deferral accounts. Temporary surcharges and/or refund increments will be applied to the Margin Commodity Rate over the following 12 months or any other appropriate amortization period.

(N)

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

In the Matter of the Application of CASCADE NATURAL GAS CORPORATION for an Order Authorizing the Establishment of a Decoupling Mechanism and for Authorizing Deferral Accounting for Changes in Margin Due to Conservation and Due to Variances From Normal Weather	)	**APPLICATION FOR ORDER AND FOR AUTHORIZATION OF DEFERRAL ACCOUNTING**

Cascade Natural Gas Corporation (herein "Cascade") applies to the Oregon Public Utility Commission ("Commission") for an order authorizing the implementation of a deferred accounting type Decoupling mechanism, called Conservation Alliance Plan and the establishment of two deferral accounts for 1) tracking changes in margin due to conservation and 2) tracking changes in margin due to variances from normal weather. Additionally, Cascade is requesting approval of its **Rule 19 – Conservation Alliance Plan Mechanism** tariff sheet with Less Than Statutory Notice to become effective on November 1, 2005. As more fully explained below, Cascade's proposal contains the following elements:

1. Implementation of the Conservation Alliance Plan decoupling mechanism with no change in current rates and no change in current rate design.

2. Cascade's shareholders will provide 0.75% of current revenues as Public Purposes Funds, approximately $500,000 per year, to be distributed to the Energy Trust of Oregon and community service agencies for the pursuit of residential and commercial DSM programs and low-income DSM and bill payment assistance programs in Cascade's Oregon service areas.

3. Cascade is willing to expand Public Purposes Funds and implement a Public Purposes Funding Surcharge similar to Northwest Natural's Schedule 301 to source incremental funds beyond the first 0.75%.

4. Cascade is implementing its Conservation Alliance Plan on a trial basis with the requirements of a full general rate case review before renewal.

5. Cascade will continue to operate under the Earnings Sharing Mechanism for the entire trial period.

6. Cascade will begin its Conservation promotional advertising campaign and coordinate DSM activities with the ETO and community service agencies to target the best conservation opportunities.

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

7. Cascade will use the weather normalized consumption for the twelve months ended June 30, 2005 as reflected in its Purchased Gas Adjustment filing as the basis for the baseline average commodity margin per residential and commercial customer.

Investigative Process

Cascade introduced our proposal to Staff at a meeting held in Salem on September 22, 2005. Following that meeting, Cascade submitted a description of our proposal to all the parties that participated in NW Natural's UG163. On October 5, 2005, Staff provided a letter to Cascade that addressed Staff's issues and concerns with our proposed mechanism. Based upon the suggestion of Staff, Cascade is addressing all of their issues and concerns in this application.

To date, Cascade has not had any other party express any concerns with our proposal. The Energy Trust of Oregon (ETO), The Citizen's Utility Board (CUB), the Community Action Directors of Oregon (CADO), the other Oregon LDCs have expressed support or a high level of interest in Cascade's proposal.

Background

The cost of energy continues to rise. During the past four years, the wholesale cost of natural gas has gone from the lowest in the industrialized world to the highest. In July the US Congress passed the Energy Policy Act of 2005 that develops a comprehensive, aggressive strategy to lower the cost of natural gas by increasing supply and by managing demand. Energy efficiency and conservation are the most viable near-term tactics to influence current natural gas prices as well as a vital strategy for stabilizing the cost of gas over the long term.

On September 22, 2005, the Commission approved Cascade's Purchased Gas Adjustment (PGA) application reflecting a 13.5% increase in residential rates to reflect increases in the cost of natural gas supply. Since that PGA was filed, Hurricanes Katrina and Rita caused extensive damage to the oil and natural gas infrastructure in the Gulf of Mexico resulting in 60% of the natural gas production from the Gulf being shut in for an extensive period of time. The loss of production has increased the futures price for natural gas for the November through March period of the upcoming winter by 47%. On August 1, 2005 the forward strip at Sumas for Nov-Mar was $8.45 per MMBtu. On October 14, the same Sumas Nov-Mar strip was $12.45. Even though Cascade's Gas Procurement Strategy has locked in the price of approximately 90% of the gas supplies our customers will need this winter, we anticipate a significant under-collection of actual gas cost in our commodity deferral account. As a result, conservation and energy efficiency will have increased importance to our customers. Cascade believes that we should be able to assist our customers with the promotion of conservation and to invest in cost effective Demand Side Management (DSM) programs without the fear of failing to recover our fixed cost.

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

Cascade believes that it is our responsibility to pursue regulatory changes that will better align our interest with those of our customers. We have followed the OPUC Dockets that address Northwest Natural's decoupling and WARM mechanisms, including the recently concluded UG 163. We applaud the significant strides made by the stakeholders to Northwest Natural's service area in developing an atmosphere conducive for the promotion of conservation and Demand Side Management programs. We have closely examined the Decoupling mechanism and the WARM mechanism that Northwest Natural implemented in Oregon. Although those mechanisms appear to provide most of the desired mitigation against declining customer use and weather induced consumption, while providing benefits to the other stakeholders, we are concerned that these specific mechanisms would be difficult to implement at Cascade.

New Simplified Deferred Accounting Mechanism

Cascade believes it is appropriate to propose a simpler mechanism that would have the following attributes:

- Requires no changes to its current billing system,
- Compares actual usage and weather normalized actual usage and margin to the weather normalized usage and margin reflected in the twelve months ended June 30, 2005,
- Records monthly deferral amount to a conservation balancing account and a weather variation balancing account,
- Results in as few as a single annual rate change based on the prior year's deferral balances that could be implemented coincident with the PGA rate change.

Description

Cascade's new Conservation Alliance Plan (CAP) is a deferred accounting type decoupling mechanism that will capture changes in margin due to the conservation efforts of our customers and changes in margin due to weather that varies from normal. In its October 5 letter, Staff's first area of concern addressed the fact that Cascade's initial proposal did not follow NW Natural's DMN tariff in isolating conservation induced changes in sales volume caused by higher prices, conservation or other efforts to reduce consumption. Based upon comments submitted by Staff, Cascade will employ separate deferral accounts for conservation induced margin changes and weather induced changes.

Cascade's mechanism also preserves the current rate design and therefore will continue to send strong price signals to customers even during colder than normal weather and this mechanism will not shift revenues responsibilities between large volume customers and small volume customers within the same rate schedules.

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

Under the mechanism, the Company will annually calculate the per therm rate required to recover the authorized margin per customer on a weather normalized basis. This will be accomplished by normalizing the twelve months ended June 30 consumption for residential and commercial customers served on General Service Rate Schedules 101 and 104. This analysis will provide monthly detail of expected weather normalized therms. Our proposal reflects using the weather normalization methodology utilized in the Company's annual Spring Earnings Review filings, the annual PGA applications and other reports to the Commission that contain weather normalized data. The mechanism will also calculate the total margin required for both rate schedules by multiplying the weather normalized baseline margin per customer as reflected in the twelve months ended June 30, 2005, by the average number of customers served on Rate Schedules 101 and 104. The amount deferred under the balancing account would be added to or subtracted from the calculated margin to determine the Total Commodity Margin Requirement. This Total Commodity Margin Requirement would then be divided by weather-normalized consumption to determine the new per therm margin rate. This analysis would be prepared and filed at the same time the annual PGA application is filed with the same effective date so as to minimize the number of rate changes for our customers.

Each month the Company will weather normalize actual therms consumed by our customers on Rate Schedules 101 and 104 and compare the weather normalized actual consumption to the weather normalized consumption anticipated in the calculation of the margin commodity rate. This will be accomplished by first weather normalizing actual consumption and then calculating weather normalized total margin by rate schedule. The actual weather normalized margin is then compared to the expected margin. The expected margin is calculated by multiplying the baseline margin per customer by the current months actual customer count. The difference between actual weather normalized margin and expected margin is deferred in Conservation Variance deferral account as Regulatory Asset or Liability. Since the Company is utilizing the same customer count for both the actual and the expected margin calculations, the Company will still have an incentive to invest in new customers. Additionally, each month the Company will compare actual margin generated by our customers on Rate Schedules 101 and 104 with the expected margin to determine the total change in margin. The amount recorded in the Conservation Variance deferral account is then subtracted from this total change in margin and the remainder is recorded in the Weather Variance deferral account. Attached as Exhibit 1 is Cascade's proposed tariff describing the mechanics.

The most frequent criticism of this type of mechanism is that it is possible to create large deferral balances during a warmer than normal winter that would have to be recovered from customers during the next year. If the next year happens to be colder than normal, the customers would not only be paying for more actual gas use, but also paying a higher rate due to the amortization of the previous year's large deferral balance. This possibility can be mitigated with a couple of different approaches. One mitigation approach could be the adoption of a warmer than normal weather scenario in the forecasting model. In this way, the

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

deferral balance is almost always in the customer's favor. It is usually more palatable to the customer to amortize large credits than it is to have a large surcharge. A second mitigation approach would involve the amortization of the deferral account on a more frequent basis. For example, Cascade could calculate a monthly or a quarterly amortization rate. This approach would prevent or minimize the possibility of building a large deferral account balance. There would be a two-month time delay in establishing the amortization rates but the amortization would occur in much closer proximally to the causation than the annual calculation of the amortization rate contained in Cascade's proposed tariff. Cascade did not include either mitigation approach in its proposed tariff but is willing to adopt any approach that improves consensus amongst the stakeholders.

<u>Implementation</u>

Cascade's proposal is to implement its Conservation Alliance Plan now, without any increase in rates. We also propose to begin to provide public purpose type funds to the Energy Trust of Oregon, Inc. (ETO) and community service agencies for general and low-income DSM programs. Cascade's shareholders will provide 0.75% of current revenues from residential and commercial customers, approximately $500,000 of public purpose type funds. This amount is more than three times the amount we expected to invest in DSM through the programs identified in our current IRP. Since the ETO has not established any specific low-income DSM programs in Cascade's service area, we recommend that 20% of the public purpose funds go to community service agencies in establishing or expanding low-income DSM programs and payment assistance programs. The funds provided to the ETO will target residential and commercial conservation opportunities in Cascade's Oregon service areas. We will also turn over to the ETO the administration of all of Cascade's current DSM activities in Oregon.

In its October 5 letter, Staff expressed as its second concern that the approximate $500,000 of public purpose funds offered by Cascade should not reduce the possibility to share earnings with customers through the Earnings Sharing Mechanism. Although in today's high energy cost it is unlikely that Cascade could achieve earnings large enough to reach the earnings sharing threshold, Cascade considers Staff's proposal rather punitive. Excluding the $500,000 from consideration in an earnings sharing review is the equivalent of adjusting the earnings sharing threshold downward by over 120 basis points. NW Natural, in obtaining their DMN and WARM mechanism agreed to a 5 basis point decrease in their earnings sharing threshold. Cascade continues to believe that utilities should be encouraged, rather than penalized, for finding ways to help our customers to conserve energy and thereby helping society as a whole,. However, if we are to be penalized, the penalty should be a similar 5 basis point reduction in the earnings sharing threshold.

Cascade recognizes that 0.75% of current revenues is substantially below the 1.5% collected by NW Natural and the Oregon electric utilities for public purpose funds. We are willing to discuss expanding the amount of public purpose funds in the initial year or in future years as the ETO and community service agencies develop more DSM opportunities in Cascade's service areas. However, Cascade cannot provide additional funds out of current revenues without substantial financial harm. Additional funds would need to be collected via a Public Purposes Funding Surcharge similar to NW Natural's Schedule 301 or other rate payer funding mechanism.

As described above, we will also begin deferring changes in margin due to conservation and due to variances from normal weather based upon the weather normalization analysis on the twelve months ended June 30, 2005. Cascade had originally suggested using the weather normalized therm sales from its April 20, 2005 submittal of its Spring Earnings Review as the period for establishing the baseline average commodity margin per customer. Staff however asked in its October 5 letter if it would be more appropriate to use a more recent base line (test period) normalized margin; perhaps FY 2005 ended September 30, 2005 or the twelve months ended June 30, 2005 would make more sense. Cascade's proposed tariff is based upon the twelve month ending June 30 of each year, so it agreeable to Cascade to use the most recent twelve months ended June 30, 2005 as the appropriate period to establish the baseline average margin per therm.

Exhibit 2 develops for both residential rate schedule 101 and commercial rate schedule 104, the baseline average margin per customer for each month. These baseline margins per customer will be used for the calculations of the deferral amounts each month for the Conservation Variance and Weather Variance deferral accounts until new values are calculated in the annual August 15 Conservation Alliance Plan (CAP) filings. We propose to wait until October of 2006 before we begin to amortize the balance in the deferral accounts, provided the deferral balance does not become too large. The following table shows the monthly and total baseline average commodity margin amounts from Exhibit 2:

/
/
/
/
/
/
/
/
/
/
/
/
/
/
/
/

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

Cascade Natural Gas Corporation
Baseline Monthly Commodity Margin Per Customer
Based upon Weather Normalized Therm Sales
As Reflected In The 2005 Purchased Gas Adjustment Application
State Of Oregon

	Baseline Avg Commodity Margin/cust			Baseline Avg Commodity Margin/cust
Residential Rate Schedule 101			**Commercial Rate Schedule 104**	
Jul-04	$ 5.23		Jul-04	$ 25.77
Aug-04	$ 5.31		Aug-04	$ 27.53
Sep-04	$ 8.55		Sep-04	$ 32.00
Oct-04	$ 15.14		Oct-04	$ 46.12
Nov-04	$ 31.25		Nov-04	$ 76.60
Dec-04	$ 45.98		Dec-04	$ 130.97
Jan-05	$ 42.79		Jan-05	$ 125.48
Feb-05	$ 26.28		Feb-05	$ 82.00
Mar-05	$ 24.31		Mar-05	$ 71.47
Apr-05	$ 22.79		Apr-05	$ 65.01
May-05	$ 10.29		May-05	$ 30.46
Jun-05	$ 7.98		Jun-05	$ 28.96
Total	$ 245.90		Total	$ 742.37

The total average commodity margin per customer will continue to be the baseline annual margin per customer throughout the trial period of Cascade's Conservation Alliance Plan. These totals will be used in the calculation of revenue requirements each year in the preparation of the CAP filing. That calculation will multiply the commodity margin of $245.90 times the most recent period ending June 30 residential average customer count and multiplying $742.37 times the commercial average customer count. That new Commodity Revenue Requirement plus the balance from the deferred accounts will be divided by the weather normalized total therm sales for that period. This will result in a new margin per therm rate to become effective on the same October 1st date that the PGA becomes effective. In the CAP filing we will also develop a new exhibit similar to Exhibit 2 to be used in the monthly deferral calculations for the upcoming year.

Staff in its October 5 letter asked if it make sense to limit the DSM activities to only Schedule 101 (residential) and Schedule 104 (commercial) customers? Could Schedule 105 (general industrial) and Schedule 111 (large volume general service) customers be included? All are firm supply customers. Cascade believes that energy efficiency and conservation are the most viable near-term tactics to influence current natural gas prices as well as a vital

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

strategy for stabilizing the cost of gas over the long term. It does not matter whether the conservation comes from the residential, the commercial or the industrial customers. The market place must perceive a decline in demand relative to the available supply for any meaningful decline in price. We believe that the best conservation opportunities are within our residential and general service commercial customers. The large volume commercial and the industrial customers generally have the resources available to make their own conservation decisions. As such, these groups of customers have been reluctant to participate in utility or ETO sponsored conservation programs. We encourage our large volume commercial and industrial customers to employ all the cost effective conservation measures they can. However, we are not advocating their inclusion in our Conservation Alliance Plan at this time.

Under Cascade's proposal we will begin dispersing 0.75% of our revenue from the residential and commercial customers as public purpose funds on a monthly basis. Cascade will provide 80% of the public purpose funds to ETO and 20% to low income community action agencies for bill payment assistance and low income weatherization. Staff inquired in its October 5th letter if the company confirmed with the ETO that it will be able to develop and manage a conservation program on that amount of annual funding (e.g. $400,000). We have discussed the potential funding levels with the ETO and they are examining the processes that will need to be developed in order to facilitate DSM programs in Cascade's service areas. They have not yet affirmed that they will have the ability to utilize the funds in Cascade's service areas in a manner similar to their use of fund in Northwest Natural's service area. For this reason, Cascade has suggested that the public purposes funding level starts at half of the Northwest Natural level and evolve to the 100% level over the next several years, depending on how quickly ETO and the community action agencies can gear up to implement DSM programs.

Staff also asked how Cascade plans to administer the low income bill payment assistance and weatherization programs. Cascade's proposes to provide 20% of the public purpose funds to low income community action agencies. This will amount to approximately $100,000. We plan to work with the community action agencies to help identify DSM opportunities with our low income customers. As the Conservation Alliance Plan matures, Cascade hopes that most of the funds will be targeted toward conservation. Ultimately we would like to help the low income community action agencies develop a definitive dispersal program, perhaps in the range of 75% low income conservation opportunities and 25% bill payment assistance. However, during the first year, we do not think the agencies should be restricted as how to best meet the needs of our low income customers with the available funds.

We will be working closely with these agencies throughout the year. Cascade suggests that the Company, ETO and community action agencies in Cascade's service areas, along with assistance from Staff, file a joint budget of public purpose needs for the October 1, 2006 through September 30, 2007 period by June 30, 2006 with the Commission. Based upon the

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

approval of that budget, the Commission can determine the appropriate level of rate payer supported public purpose funds beyond the 0.75% provided by Cascade.

Additionally, we are willing to implement our mechanism on a trial basis, with a full rate case required for renewal. We seek a five year trial period. Cascade hopes to quickly develop a corporate culture within our employees that embraces in the benefits of conservation. However, we are aware that a fifty year history of believing that we only benefit if we increase sales will be difficult to overcome. A five year trial period appears to more appropriate for the measurement of cultural change.

We will continue the Earnings Sharing Mechanism at least through the trial period of our Conservation Alliance Plan. Upon implementation, Cascade will begin its conservation promotional advertising campaign and coordinate DSM activities with the ETO and community service agencies to target the best conservation opportunities.

Customer Benefits

Lastly, Staff recommended that the Company make an affirmative showing that the plan will mitigate the impact on customers of the high natural gas prices this winter and the expected high prices into the future.

Cascade's customers will benefit from our Conservation Alliance Plan this winter. Cascade's conservation and energy efficiency promotion and educational program will provide our customers with opportunities to use less natural gas and therefore save money through reduced utility bills. The approximate $500,000 Cascade will provide out of current revenues will provide for the installation of conservation measures that will permanently reduce demand over the life of the measures. That portion of the $500,000 that is distributed to the low income community action agencies will also assist those agencies in providing our low income customers with bill payment assistance and weatherization.

Our customers will be protected from over paying for the delivery of natural gas through our Conservation Alliance Plan as any incremental margin due to increased consumption during colder than normal weather will be captured in the deferral accounting associated with the plan.

Additionally, our customers' conservation and energy efficiency efforts will reduce the amount of just-in-time supplies the Company would have to purchase to meet the needs of our customers. These just-in-time supplies are currently predicted to cost more than the WACOG recently established in our PGA. To the extent that we can avoid purchasing just-in-time supplies, our customers will avoid having a large build up in the commodity deferral account.

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

It would be somewhat grandiose to claim that Cascade's Conservation Alliance Plan will, by itself, have any significant influence in the wholesale price of natural gas. However, when the reductions in demand associated with our program is included with the reductions in demand associated with Northwest Natural's program and the reductions in demand associated with all the other utilities and jurisdictions that are considering or implementing decoupling mechanisms, the accumulated results can have an impact of the wholesale price of natural gas. The approval of Cascade's Conservation Alliance Plan will expand the influence that Oregon has on the national and regional wholesale price of natural gas.

Conclusion

Cascade seeks an Order from the Commission that:

1. Allows Original Sheet No. 30 and Original Sheet No. 30-A entitled **Rule 19 – Conservation Alliance Plan Mechanism** to become effective on November 1, 2005 with Less Than Statutory Notice.

2. Authorizes the establishment of a Conservation Variance deferral account and a Weather Variance deferral account.

CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109
(206)624-3900

RULES & REGULATIONS

(N)

RULE 19- CONSERVATION ALLIANCE PLAN MECHANISM

APPLICABLE:

The Conservation Alliance Plan ("CAP") mechanism described in this rule applies to customers served on Residential General Service Rate Schedule 101 and Commercial General Service Rate Schedule 104.

TERM: This mechanism shall terminate on September 30, 2010.

PURPOSE:

The purpose of this provision is to (a) define the procedures for the annual tracking revisions in rates due to changes in the weather-normalized use per customer associated with Rate Schedule 101 & Rate Schedule 104; and (b) to define the procedures for the deferral of differences experienced between the actual average use per customer and the amount estimated at the time the Margin Rates were established.

REVISIONS TO COMMODITY MARGIN RATES DUE TO CHANGES IN THE WEATHER-NORMALIZED USE/CUSTOMER:

1. The Company shall use the baseline weather normalized average commodity margin per customer for Rate Schedule 101 and Rate Schedule 104 as reflected in its August 15, 2005 PGA application. That application was based upon the weather normalized twelve months ended June 30, 2005.

2. For each subsequent year for the term of this provision, the Company shall file annually (CAP Filing) with the Commission to update the Commodity Margin Rate for Rate Schedule 101 and Rate Schedule 104 based upon the weather normalized usage for the 12 months ending June 30th divided into the margin requirement of each rate schedule.

3. Weather-normalized usage is calculated using the approach to weather normalization adopted in the Company's Spring Earnings Review filings, PGA Applications and other weather normalized report submittals.

4. The Total Commodity Margin Requirement of Rate Schedule 101 and Rate Schedule 104 shall be calculated by multiplying the baseline average commodity margin per customer per Rate Schedule, excluding any margin collected through the monthly Basic Service Charge, by the current twelve months ended June 30 average customer count based upon the average of the monthly bills issued.

5. The Margin Commodity Rate is calculated by dividing the Total Commodity Margin Requirement by the Total Weather Normalized Usage. Also included in the calculation of the Margin Commodity Rate is the amortization of any balance in the Conservation Variance deferral account and the Weather Variance deferral account.

DEFERRAL OF MARGIN COLLECTION DIFFERENCES:

1. The Company will maintain Conservation Variance and Weather Variance deferral accounts as Regulatory Assets or Liabilities. Each month, the Company will calculate the difference between the weather-normalized actual margin and the expected margin for rate schedules 101 and 104. Expected margin shall be the baseline average commodity per customer multiplied by the current customer count. The resulting dollar amount difference will be recorded in the Conservation Variance deferral account. The Company will also calculate the difference between non-weather normalized actual margin and the expected margin for rate schedules 101 and 104. The resulting dollar amount difference will be reduced by subtracting the dollar amount recorded in the Conservation Variance deferral account with the remainder recorded in the Weather Variance deferral account.

(N)

(Continued on the next page)

RULES & REGULATIONS

(N)

RULE 19- CONSERVATION ALLIANCE PLAN MECHANISM(Continued)

DEFERRAL OF MARGIN COLLECTION DIFFERENCES: (Continued from Previous Page)

2. The Company shall impute interest on the deferred balances on a monthly basis utilizing the Commission establish deferral account interest rate.

3. The Company will include in the annual CAP filing a temporary adjustment amount designed to amortize any balance in the Conservation Variance and the Weather Variance deferral accounts. Temporary surcharges and/or refund increments will be applied to the Margin Commodity Rate over the following 12 months or any other appropriate amortization period.

(N)

Cascade Natural Gas Corporation

Calculation of Baseline Monthly Commodity Margin Per Customer
Based upon Weather Normalized Therm Sales
As Reflected In The 2005 Purchased Gas Adjustment Application
State Of Oregon

	Actual Therms	Unbilled Adjustment	Weather Adjustment	Adjusted Therms	Customers	Commodity Margin	Baseline Avg Commodity Margin/cust
Residential Rate Schedule 101							
Jul-04	785,460	(145,500)	38,666	678,626	42,366	$ 221,639.25	$ 5.23
Aug-04	628,516	(33,500)	94,845	689,861	42,446	$ 225,308.60	$ 5.31
Sep-04	850,876	280,000	(23,087)	1,107,789	42,324	$ 361,803.89	$ 8.55
Oct-04	1,412,233	574,000	31,554	2,017,787	43,536	$ 659,009.23	$ 15.14
Nov-04	2,881,643	1,311,900	61,140	4,254,683	44,472	$ 1,389,579.47	$ 31.25
Dec-04	4,704,311	961,100	705,674	6,371,085	45,255	$ 2,080,796.36	$ 45.98
Jan-05	5,523,470	(194,000)	287,294	5,616,764	42,867	$ 1,834,435.12	$ 42.79
Feb-05	4,654,733	(882,300)	(77,514)	3,694,919	45,919	$ 1,206,760.55	$ 26.28
Mar-05	4,004,823	(863,200)	285,788	3,427,411	46,056	$ 1,119,392.43	$ 24.31
Apr-05	3,229,966	(111,600)	103,222	3,221,588	46,171	$ 1,052,170.64	$ 22.79
May-05	2,007,728	(685,400)	128,744	1,451,072	46,065	$ 473,920.12	$ 10.29
Jun-05	1,424,986	(141,500)	(160,643)	1,122,843	45,975	$ 366,720.52	$ 7.98
Total	32,108,745	70,000	1,475,683	33,654,428	44,454	$ 10,991,536.18	**$ 245.90**
Average					757.06		
Commercial Rate Schedule 104							
Jul-04	802,717	(40,350)	115,558	877,925	7,713	$ 198,762.22	$ 25.77
Aug-04	778,079	182	143,713	921,974	7,583	$ 208,734.91	$ 27.53
Sep-04	838,870	238,978	10,134	1,087,982	7,697	$ 246,319.12	$ 32.00
Oct-04	1,155,075	362,999	64,645	1,582,719	7,770	$ 358,327.58	$ 46.12
Nov-04	1,934,551	686,882	44,771	2,666,204	7,880	$ 603,628.59	$ 76.60
Dec-04	3,326,967	773,676	513,866	4,614,509	7,977	$ 1,044,724.84	$ 130.97
Jan-05	4,048,328	(66,764)	203,669	4,185,233	7,551	$ 947,536.75	$ 125.48
Feb-05	3.536,962	(550,778)	(60,772)	2,925,412	8,077	$ 662,313.28	$ 82.00
Mar-05	3,049,919	(687,253)	191,470	2,554,136	8,091	$ 578,256.39	$ 71.47
Apr-05	2,373,455	(121,033)	62,078	2,314,500	8,060	$ 524,002.80	$ 65.01
May-05	1,502,791	(494,183)	73,469	1,082,077	8,043	$ 244,982.23	$ 30.46
Jun-05	1,182,219	(53,426)	(102,306)	1,026,487	8,024	$ 232,396.66	$ 28.96
Total	24.529,933	48,931	1,260,295	25,839,158	7,872	$ 5,849,985.37	**$ 742.37**
Average					3,282		