ORDER NO. 03-589

ENTERED OCT 01 2003

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 155/UM 1104

In the Matter of CASCADE NATURAL GAS Application for Tariff Revisions Related to Purchased Gas Technical Adjustments. **UG 155** Application for Reauthorization of Deferred Accounting for the PGA (Purchased Gas Adjustment) Mechanism. **UM 1104**	)))))))))))	ORDER

DISPOSITION: APPLICATIONS APPROVED

On August 15, 2003, the Public Utility Commission of Oregon (Commission) received two applications from Cascade Natural Gas (Cascade or company). A description of the filings and their procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

Based on a review of the applications and the Commission's records, the Commission finds that the applications satisfy applicable statutes and administrative rules. At its public meeting on September 23, 2003, the Commission adopted Staff's recommendation to approve the applications.

ORDER

IT IS ORDERED that:

1. Amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 155 are approved.

2. Tariff sheets associated with Advice No. CNG/O03-08-01 and supplemental replacement sheets are allowed to go into effect October 1, 2003, with approval of the company's request for an LSN (Less than Statutory Notice).

3. The reauthorization of deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2003, is approved.

Made, entered and effective ________________________________.

______________________	______________________
Lee Beyer Chairman	**John Savage** Commissioner
	______________________
	Ray Baum Commissioner

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements of OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ORDER NO. 03-589
ITEM NO.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 23, 2003

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** __October 1, 2003__

DATE: October 2, 2003

TO: Lee Sparling through Ed Busch and Bonnie Tatom

FROM: Deborah Garcia and Judy Johnson

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 155/Advice No. O03-08-01) Reflects changes in the cost of purchased gas and technical adjustments. (Docket No. UM 1104) Requests reauthorization of the PGA deferral mechanism.

STAFF RECOMMENDATION:

We recommend that the Commission allow Cascade Natural Gas Corporation's (Cascade or company) proposed tariff sheets in Advice No. CNG/O03-08-01A to become effective with service on and after October 1, 2003, with less than statutory notice. This filing increases the company's annual revenues by $1.1 million, or 1.9 percent.

We also recommend the Commission approve the company's request for reauthorization to use deferred accounting pursuant to its Purchased Gas Adjustment (PGA) balancing account.

DISCUSSION:

On August 15, 2003, Cascade submitted its annual gas cost tracking and technical adjustment filing, commonly known as its PGA filing. This filing consisted of a proposed increase in annual revenues in Advice No. CNG/O03-08-01 (docketed as UG 155), effective October 1, 2003. In a concurrent filing docketed as UM 1104, Cascade requested reauthorization of deferrals under the company's PGA mechanism.

On September 10, 2003, Cascade submitted replacement sheets in Advice No. CNG/003-08-01A, along with an application to waive statutory notice (LSN), to correct an error in the original filing.

UG 155

This application requests authority to increase rates to: (1) track increases in purchased gas costs, and (2) make technical adjustments to amortize Cascade's deferred revenue and gas cost accounts. The change in annual revenues is summarized below, and shown in Attachment A.

PGA Base Gas Cost Change	$ 1,468,263
Removal of Prior Year Temporary Credit Increment	1,531,214
Adding New Temporary Credit Increment	(1,853,743)
Total Proposed Increase	$ 1,145,734

Summary of Bill Effects

With these changes, the monthly bill of a typical residential customer using 63 therms per month will increase by $1.13, or 1.9 percent, from $58.82 to $59.95. In January, a typical residential customer's consumption of 131 therms would result in a billing increase from $119.07 to $121.43.

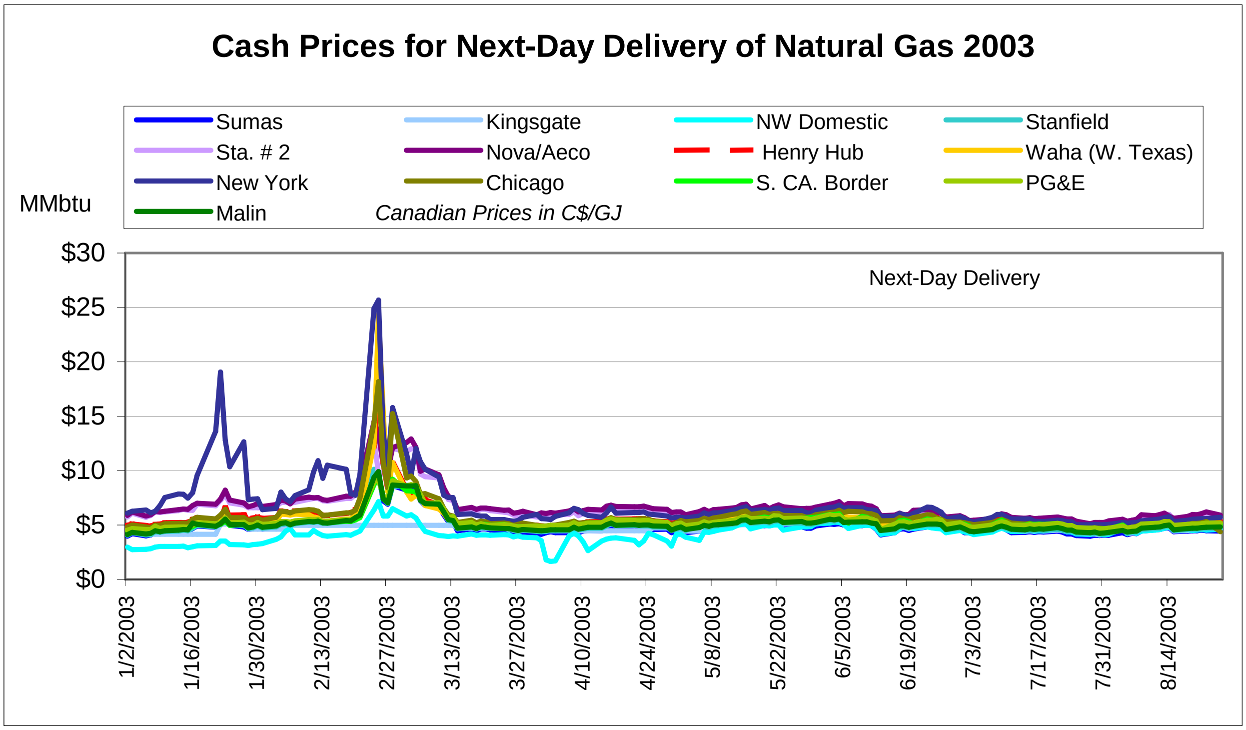
A summary of the proposed tariff and revenue changes for Cascade's major rate schedules is shown in Attachment A. A summary of the impact of the rate changes on Cascade's customers on both an annual and January basis is shown in Attachment B, along with the current rates and rate and bill impacts on Avista and NW Natural customers of their PGA filings.

Staff Review of Gas Costs

National, Region and Local Trends

Extreme volatility in wholesale natural gas prices surfaced again this past year. The long winter that hammered the Northeast increased demand and strained supplies from both production and storage, with the result that natural gas prices soared in markets east of the Mississippi. In the final week of February, the cash index price for delivery at the Henry Hub in Louisiana spiked at $18.85/MMBtu. At the same time delivery to the New York City city gate hit $25.67/MMBtu and prices for next-day flows into New England reached $35+/MMBtu.

Withdrawals from storage to supplement pipeline supplies reached record volumes. As a result, the 3,172 Bcf storage inventory of October 25, 2002 was reduced to a record low inventory of 623 Bcf by April 11, 2003.



Prices for Northwest delivery were not immune from this volatility. With the increasing interconnectivity between pipelines and markets across the country, traders found that West Coast markets are no longer isolated from eastern demand, and must compete with eastern markets for diminishing volumes of natural gas.

At the same time that prices at the New York City city gate hit $25+/MMBtu, cash-market deliveries at Sumas, which only the year before were going for $2.22/MMBtu, jumped to $9.68 and deliveries at Stanfield hit $9.37/MMBtu, compared to $2.02 the previous year.

While prices have retreated from the peaks of February and March, basis-adjusted prices for delivery to the Northwest in the coming heating-season were still running between $4.50 and $5.25/MMBtu at the end of August.

One additional factor impacting prices for natural gas delivered to Pacific Northwest points was the opening in May of the Kern River Pipeline expansion. The capacity expansion on Kern River's system effectively doubled the takeaway capacities for deliveries into the Nevada and California markets. By providing an additional outlet to the south, the Kern

River expansion effectively eliminated the production "surplus" in the region. The effect on Oregon is that the previously inexpensive Rockies gas supplies are now being priced at parity with Canadian-sourced natural gas.

Cascade's Gas Cost Situation

Currently, the majority of Cascade's Oregon core load supply is purchased under 3-year fixed price contracts that were negotiated and entered into during the spring of 2001. This was done to assure that customers would have a stable price base in an increasingly volatile market. The $4.50 to $4.70/MMBtu prices negotiated for these contracts were reasonable at the time and well within the price predictions of both the federal EIA and the major trading houses for gas prices three years out. At the end of March 2001, a 36-month strip of NYMEX futures for April 2001 through March of 2004 ran $4.565/MMbtu. At that same time, delivery at Sumas and Kingsgate were running an average 6.5-cent premium to the Henry Hub index, putting Northwest delivery in the $4.80/MMbtu range for a three-year contract. The current contracts end in October 2004. The remainder of Cascade's supply is supplied with short-term contracts that balance supply to load.

Cascade also has storage resources that include leased underground storage capacity and liquefied natural gas (LNG). Stored natural gas is utilized as a first line resource during peak usage periods, as well as an economic hedging tool. Cascade uses a combination of spot market purchases and yearly contract purchases to re-inject into storage during the summer and shoulder months.

Cascade is currently developing a financial risk policy that will provide its Gas Supply Department with the flexibility to include financial derivatives as a future hedging strategy. In addition, Cascade is developing a hedging strategy for 2005 and beyond. To mitigate rate changes for customers, Cascade plans to allocate a portion of its portfolio to 3-year fixed or hedged prices, another portion to 2-year fixed or hedged prices, another portion to 1-year fixed or hedged prices, and some small amount of the portfolio to first of the month index pricing. Cascade believes this type of strategy should provide good rate stability for the customers while minimizing the risk of being over or under hedged.

Two pipelines deliver Cascade's natural gas supply to Oregon. PG&E GT-NW serves the portion of Cascade's service area in Central Oregon with gas supplied primarily from Alberta, Canada. Williams' Northwest Pipeline serves the Eastern Oregon portion of Cascade's territory with domestic gas flowing from the Rockies area.

Due to an increase in load in Cascade's Central Oregon territory, Cascade has added new pipeline capacity on the PG&E GT-NW system, along with matching upstream capacity on

TransCanada in order to move the supplies to Kingsgate, the receipt point for the expanded capacity.

Staff's Review of Cascade's Gas Costs

Cascade, together with the other two regulated gas utilities, is required to file for rate changes related to purchased gas costs each year. In work papers submitted to Staff, Cascade shows a projected annualized gas cost of $37,462,960, which represents a 7.9% increase from the current annual cost. The annual gas cost includes both natural gas commodity and transportation costs.

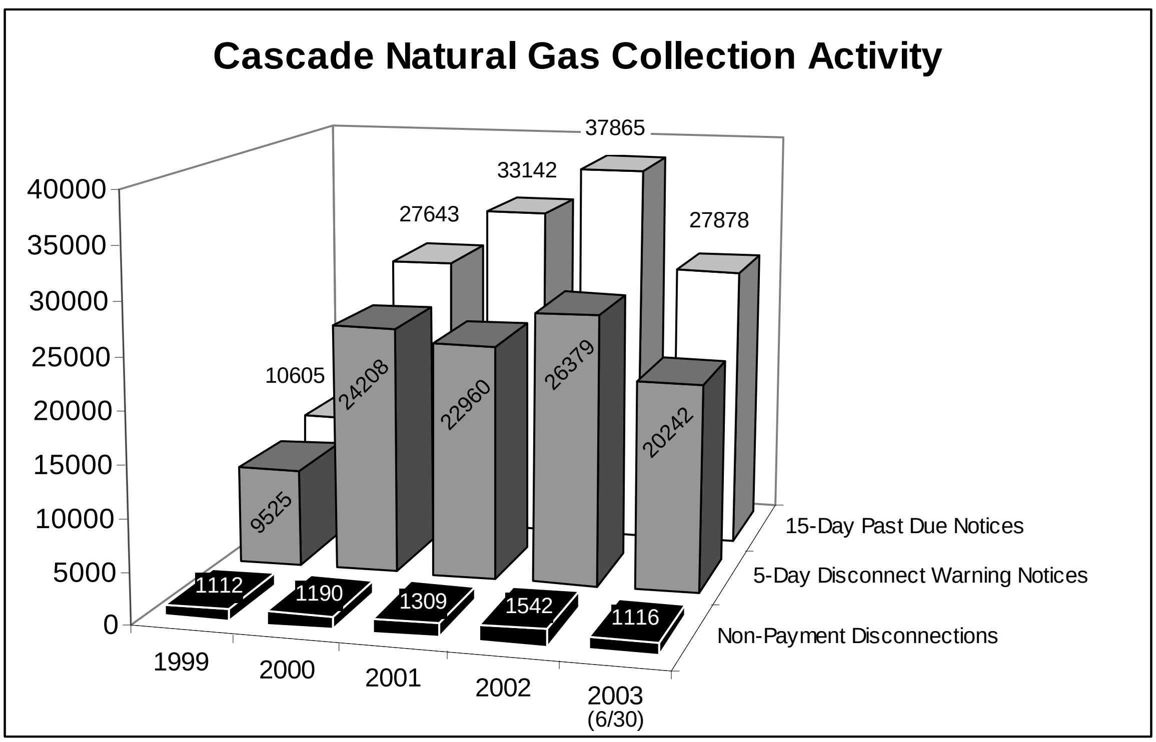
Staff closely examined Cascade's gas supply portfolio and gas cost tracking application. The company's roll-up of commodity contract costs was free of errors or defects. Cascade's filing indicates, and Staff has confirmed, that the company continues to contract with many of the same entities for its Oregon gas supply. Cascade is also replacing several contracts in its portfolio as they expire with alternative supplies that allow the company to take advantage of options that become available within current markets. Staff also verified that Cascade used accurate pipeline tariff rates in computing annual transportation costs.

Last year, Cascade contracted for volumes totaling 60,676,506 therms at a weighted average cost of gas of $0.49723. The weighted average cost of gas, or WACOG, is the annual commodity cost per therm. This year, the company has contracted with these suppliers for volumes totaling 62,981,900 therms at a weighted average cost of gas of $0.48110. The number of therms increased by 3.8%, while the WACOG decreased by 3%. Overall, Cascade's annual commodity costs decreased by $1,016,209. The demand charge costs increased 5.8% this year. These figures, when added to the adjustments for uncollectibles, city franchise fees and gross revenue fees, results in the increase in the base gas cost shown in Attachment A.

Following is a table of Cascade's Weighted Average Cost of Gas since 1993. These numbers are unadjusted for the effects of inflation. Staff concludes that Cascade's proposed WACOG of $0.48110 is an accurate reflection of the company's annual commodity cost. Staff has inspected Cascade's proposed tariff sheets and verified their accuracy.

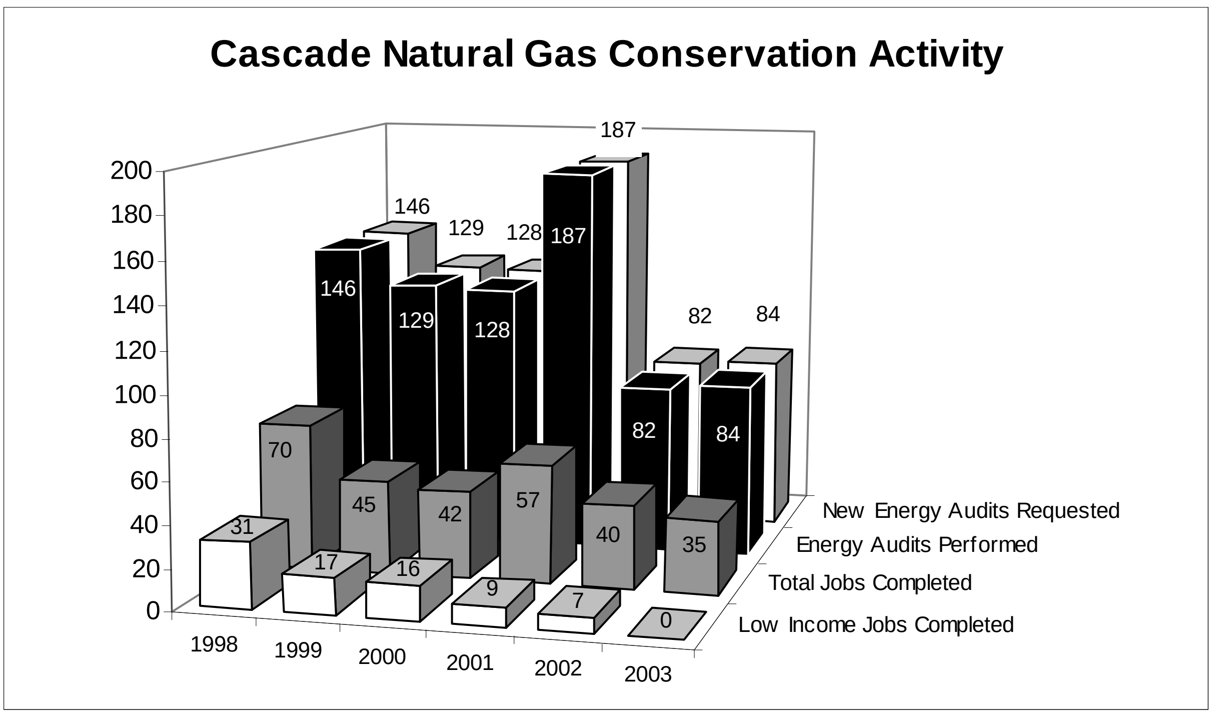
Year	WACOG	Change
1993	$0.19647	
1994	$0.18469	-6%
1995	$0.14024	-24%
1996	$0.12013	-14%
1997	$0.17771	48%
1998	$0.19751	11%
1999	$0.24576	24%
October 1, 2000	$0.42807	74%
October 1, 2001	$0.51769	21%
October 1, 2002	$0.49723	-4%
October 1, 2003	$0.48110	-3%

How does Cascade expect to work with its customers in the next year?



- Collection activity at Cascade increased in 2002. While collection activity again appears to be headed for additional increases in 2003, the majority of collection activity occurs in the first and second quarters, as winter heating bills become delinquent. To assist customers in controlling costs and meeting payment obligations, Cascade has continued several existing programs as follows:

- The company will continue mandated energy audits under its Residential Energy Conservation (Schedule 1005) and Commercial Energy Conservation Services (Schedule 1011) Programs. Performance and customer participation in these programs declined until 2001, when the volume of requests for new energy audits and the volume of actual work increased concurrent with higher energy prices. In 2002, conservation activity plummeted back into the declining track evidenced before 2001. This year, audits performed already exceed 2002's levels, but actual work performed resumed the declining pattern of earlier years.



- The company will continue to promote its *Winter Help* program, a below-the-line program that helps low-income customers pay their winter gas bills. Customers can contribute to this fund, which the company matches with shareholder dollars. Total contributions for 2003 are projected to be $62,923.

- The company will continue to offer its customers the required equal payment plans and a *Budget Payment Plan* designed to average the monthly payments for gas service of any residential customer. Participation in the company's Budget Payment Plan is down about 4% in 2003. Enrollment in the program as of June 30, 2003, was 4,361 customers.

- Cascade introduced a high efficiency furnace and water heater promotion last year to promote increased energy efficiency among its customers. Last year, 341 high efficiency furnaces were installed, and by June 30th of this year an additional 160 were online. The program for high efficiency water heaters has resulted in 75 units installed in 2002 and 64 units installed so far in 2003.

- Cascade will also provide customers the required 12-month payment arrangements on arrearages. As of June 30, 2003, 250 customers were participating in arrearage Time Payment Agreements. This represents an increase of 41% over last year's participation.

- Cascade will continue its gift certificate program that allows a customer to pay for another customer's bill.

Technical Adjustments - Deferred Accounts

Cascade's application proposes to make technical adjustments in amortizing credit and debit balances in its deferred accounts. This activity consists of the following components, as shown on Attachment A:

- Removal of the temporary credit increments currently in place, increasing revenues by approximately $1,531,214.

- Addition of new temporary increments to refund $1,853,743 in net credit balances in the company's deferred revenue and gas cost accounts. The Commission previously authorized all of the deferred amounts subject to amortization.

Staff has reviewed the company's technical adjustments and determined that the proposed amortizations are appropriate. The revised amortization increments are incorporated in the energy charge component of the company's primary rate schedules. The net revenue effect of adding the new temporary increments and removing the current increments is a decrease of $322,529 on an annual basis.

Rate History

The following table shows the rates the Commission has approved for Cascade's residential customers on Schedule 101 between 1994 and 2002, and the current proposal.

Date	Customer Charge	Rate	+/-%
December 1, 1994	$3.00	$0.65733	
December 1, 1995	$3.00	$0.61337	-6.7%
December 1, 1996	$3.00	$0.55559	-9.4%
December 1, 1997	$3.00	$0.61116	10.0%
December 1, 1998	$3.00	$0.63797	4.4%
December 1, 1999	$3.00	$0.67706	6.1%
October 1, 2000	$3.00	$0.85827	26.8%
October 1, 2001	$3.00	$0.91034	6.1%
October 1, 2002	$3.00	$0.88603	-2.7%
October 1, 2003 (Proposed)	$3.00	$0.90402	2.0%

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes. The earnings reviews were scheduled to sunset in 2002, but in Order No. 03-198 (AR 449) the Commission extended the earnings reviews for an additional four years to 2006.

In addition, Section (8) of OAR 860-022-0070 states: “An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism.” In 1997, Cascade adopted a 33 percent sharing level and thus is exempt from an earnings review associated with amortization of deferred gas costs in this PGA filing.

ORS 757.259 (6) and (7) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed three percent of the natural gas utility's gross revenues for the proceeding calendar year, unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. Cascade's proposed amortizations are below the 3 percent cap and may be implemented as proposed.

UM 1104

In this filing, Cascade requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. The PGA allows Cascade to adjust tariffs annually for known and measurable changes in purchased base gas costs and for changes in amortization rates relating to the PGA balancing account.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-027-0300. The application states that continued deferral of these cost and revenue differences minimizes the frequency of rate changes and appropriately matches costs borne and benefits received by ratepayers, consistent with ORS 757.259(2)(e). The reasons cited for reauthorization are still valid. Staff recommends the Commission approve the request for reauthorizing the PGA, effective October 1, 2003.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Corporation's request for: 1) amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 155 be approved; 2) the associated tariff sheets of Advice No.CNG/O03 -08-01A be allowed to go into effect October 1, 2003, with approval of the company's LSN; and 3) reauthorization of deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2003, be approved.

Attachments