ORDER NO. 04-572

ENTERED OCT 05 2004

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 158/UM 1161

In the Matter of	)	
	)	
CASCADE NATURAL GAS	)	ORDER
	)	
Application for Tariff Revisions Related to Purchased Gas Technical Adjustments. **(UG 158)**	)	
	)	
Application for Reauthorization of Deferred Accounting for the PGA (Purchased Gas Adjustment) Mechanism. **(UM 1161)**	)	

DISPOSITION: APPLICATIONS APPROVED

On August 13, 2004, 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 28, 2004, 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 158 are approved.

2. Tariff sheets associated with Advice No. CNG/O04-08-01 are allowed to go into effect October 1, 2004.

3. The reauthorization of deferred accounting for Cascade Natural Gas' Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2004, is approved.

Made, entered and effective ___________________________________.

BY THE COMMISSION:

____

BECKY L. BEIER
Commission Secretary

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.

ITEM NO. 3 & 4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 28, 2004

REGULAR __X__ **CONSENT** ____ **EFFECTIVE DATE** __October 1, 2004__

DATE: September 16, 2004

TO: Lee Sparling through Ed Busch, Bonnie Tatom and Judy Johnson

FROM: Deborah Garcia and Ed Durrenberger

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 158/Advice No. O04-08-01) Reflects changes in the cost of purchased gas and technical adjustments.
(Docket No. UM 1161) Requests reauthorization of the PGA deferral mechanism.

STAFF RECOMMENDATION:

We recommend the Commission allow Cascade Natural Gas Corporation's (Cascade or company) proposed tariff sheets in Advice No. CNG/O04-08-01 to become effective with service on and after October 1, 2004. This filing increases the company's annual revenues by $4.8 million, or 7.7%.

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 13, 2004, Cascade submitted its annual gas cost tracking and technical adjustment filing, commonly known as its PGA filing. 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. This filing consisted of a proposed increase in annual revenues in Advice No. CNG/O04-08-01 (docketed as UG 158), effective October 1, 2004. In a concurrent filing docketed as UM 1161, Cascade requested reauthorization of deferrals under the company's PGA mechanism.

UG 158

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 Increase	$ 4,462,240
Removal of Prior Year Temporary Credit Increment	$ 1,885,446
Addition of New Temporary Credit Increment	$ (1,557,322)
Total Proposed Increase	$ 4,790,364

With these changes, the monthly bill of a typical residential customer using 61 therms per month will increase by $4.60, or 7.9%, from $58.15 to $62.75. In January, a typical residential customer's consumption of 137 therms would result in a billing increase from $126.85 to $137.19.

A summary of the proposed tariff and revenue changes for Cascade's major rate schedules is shown in Attachment A. A summary that compares the impact of this year's proposed PGA rate changes, on both an annual and January basis, for Cascade, Avista and NW Natural residential customers is shown in Attachment B. The following table shows the rates the Commission has approved for Cascade's residential customers on Rate Schedule 101 between 2000 and 2003, and the current proposal.

Date	Customer Charge	Rate Per Therm	Percentage Change*
October 2000	$3.00	$0.85827	
October 2001	$3.00	$0.91034	6.1%
October 2002	$3.00	$0.88603	-2.7%
October 2003	$3.00	$0.90402	2.0%
October 2004 (Proposed)	$3.00	$0.97948	8.3%

Cascade offers customer assistance programs. Specific information on these programs is readily available to customers on their monthly bills, by telephone, in person at the company offices, and on the company's web site.

.... APPENDIX A
.... PAGE 2 OF 8

* The percentage change reflects only the change in the rate per therm, and does not include the effect of the monthly customer charge on the bill. In 2004, when the rate per therm is combined with the monthly customer charge of $3.00, the average customer's bill is increased about 7.9%, as shown on Attachment B.

Staff Review of Gas Costs

Regional Natural Gas Market

Wholesale cash prices for next-day delivery of natural gas to Pacific Northwest (PNW) points have averaged over $5/MMbtu ($0.50/therm) since October of 2003. Looking forward, even though current average spot prices for September Northwest delivery are in the mid-$4/MMBtu range, prices for delivery in the coming 2004 - 2005 heating season remain near $6/MMbtu. The September 8, 2004 NYMEX screen, adjusted for PNW delivery, projects natural gas prices at more than $5/MMBtu until April of 2007.

One of the factors contributing to price strength in western markets is the Kern River Pipeline expansion that was completed in 2003, allowing additional Rockies gas production to be delivered to California markets. Since then, Rockies domestic gas prices have escalated to parity with the prices for Canadian gas delivered to Pacific Northwest points.

Storage inventories in the western region, as of September 3, 2004, totaled 362 Bcf. That is 25 Bcf higher than at the same time last year, and 21 Bcf above the 5-year average inventory for the date.

According to the Northwest Gas Association's presentation at the June 24, 2004, Natural Gas Supply and Price Outlook public meeting, the Northwest is geographically well-situated between supply basins with ample gas available to meet regional needs. Assuming continued robust injections into storage and uninterrupted pipeline flows, supplies to Oregon natural gas customers, while more expensive than last year, should remain stable this winter.

Cascade's Natural Gas Purchasing Strategy

As the natural gas market evolves, increasingly similar market conditions and options are becoming available for Oregon's natural gas local distribution companies (LDCs). For example, long-term, fixed-cost supply contracts are no longer the norm; they have been replaced by fixed-year supply contracts that are priced at some index. The prices of the fixed-supply contracts can be fixed by the use of financial derivatives. Staff's review of the Oregon LDCs' natural gas portfolio purchasing practices, in conjunction with the Commission's 2004 Objectives, should be completed by the end of the year.

Cascade purchases natural gas from a variety of suppliers and transports gas supplies to its distribution system via Williams Gas Pipeline (Northwest Pipeline) and GTN-NW. Williams provides access to supply basins in British Columbia and the

Rockies, while GTN-NW provides access to Alberta sources. Over half of Cascade's Oregon load is located in Central Oregon, which requires delivery on GTN-NW facilities; therefore a majority of Oregon's load is served with gas from Alberta. The remaining load is a blend of Sumas, Rockies and Alberta gas, which is delivered on Northwest Pipeline.

For the past three years, the company's core portfolio was under 3-year fixed price contracts, which are set to expire in October 2004. Beginning with the 2004/05 portfolio, the company's ongoing hedging strategy is to fix prices in a manner so that roughly 30% of the portfolio contains 3-year fixed prices, another 30% is 2-year fixed prices, another 30% is 1-year fixed prices and the remaining 10% will be at index pricing. This means that supply for 90% of 2005, 60% of 2006, and 30% of 2007 will be fixed during this contract period. Fixed prices will be a combination of locked-in prices for physical supplies and financial derivatives with institutions (financial swaps). The exact level of each may vary from time to time based on the price of gas and any imposed credit limits by Cascade's counterparties.

Additionally, beginning with the 2004/05 portfolio, the company is implementing a programmed buying approach for locking in prices. As a guideline for the 2004/05 contract year, Cascade will lock in prices with banks and/or suppliers for 90% of the first year's supplies, 60% of the second year and 30% of the third year during three specific time periods (Spring, Summer, and Fall). In the 2005/06 contract year, Cascade plans to continue the hedging strategy outlined above, but plans to make the purchases during a total of up to five lock-in time periods (Spring, Summer, Fall, plus December and February) rather than the three periods used during the 2004/05 contract year. All five of these proposed time periods are based on historical best pricing trends, but can be flexed should Cascade's market intelligence begin to differ significantly.

Cascade's Natural Gas Costs

Cascade, together with the other two regulated gas utilities, is required to file annually for rate changes related to purchased gas costs. The annual cost of gas includes both natural gas commodity and transportation costs. The rate changes are associated with changes in the company's natural gas sales volumes, the cost of the gas, and certain transportation costs.

Last year, the weighted average cost of gas (WACOG) embedded in customers' rates was $0.49253 per therm, based on projected sales volumes of 62,981,900 therms. This year, in work papers submitted to Staff, the company's projected sales volumes total 66,283,040 therms at a WACOG of $0.58351 per therm, an increase of 18.5%.

Staff has reviewed the current PGA filing to determine the basis for the proposed gas cost changes. In the review, Staff examined the filing's work papers that include gas supply contracts, the prices paid for the gas, and the volumes of gas delivered to customers. Staff concludes that Cascade's proposed WACOG of $0.58351 is an accurate reflection of the company's annual commodity cost. In this year's PGA filings, the WACOGs proposed by each of the Oregon LDCs differ only slightly. Staff also reviewed Cascade's proposed tariff sheets and verified their accuracy.

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 temporary credit increments currently in place, increasing revenues by approximately $1,885,446.

- Addition of new temporary increments to refund $1,557,322 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 an increase of $328,124 on an annual basis.

Earnings Review and 3% Test

Until 1999, as a matter of policy, the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. The Commission then adopted OAR 860-022-0070, which requires an annual spring earnings review in lieu of an earnings review related to prospective purchased gas cost changes. In addition, Section (8) of the rule states that an earnings review is not applicable to amortization of deferred gas costs if the LDC assumes at least 33% of the responsibility for commodity cost differences in the risk sharing mechanism. Cascade’s mechanism includes a 33% sharing level, so amortization of deferred gas costs in this PGA filing are exempt from an earnings review.

ORS 757.259 (6) and (7) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed 3% 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% cap and may be implemented as proposed.

UM 1161

In this filing, Cascade requests reauthorization of deferrals pursuant to its automatic adjustment clause, the PGA mechanism. 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 deferral mechanism, effective October 1, 2004.

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 158 be approved; 2) the associated tariff sheets of Advice No. CNG/O04-08-01 be allowed to go into effect October 1, 2004; and 3) reauthorization of deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2004, be approved.

Attachments

Cascade (Docket UG 158-UM 1161)