

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 167

In the Matter of)	
)	
CASCADE NATURAL GAS)	ORDER
)	
Proposed Tariff for Gas Service.)	
Advice No. O05-10-01)	

DISPOSITION: TARIFF SHEETS SUSPENDED

On October 17, 2005, CASCADE NATURAL GAS filed tariff sheets in Advice No. O05-10-01 to be effective January 11, 2006. The terms of the proposed tariff sheets are set forth in the Staff Report dated January 4, 2006, attached as the Appendix to this order.

At its January 10, 2006, public meeting, the Public Utility Commission of Oregon found good and sufficient cause exists to investigate the propriety and reasonableness of the tariff sheets pursuant to ORS 757.210 and 757.215. The Commission ordered suspension of the advice pending that investigation.

IT IS ORDERED that Advice No. O05-10-01 filed by CASCADE NATURAL GAS is suspended for a period of time not to exceed six months from January 11, 2006, the effective date of the tariff sheets.

Made, entered, and effective JAN 1 0 2006.



BY THE COMMISSION:

Becky L Beier
Becky 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 in 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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. 1

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 10, 2006

REGULAR X CONSENT EFFECTIVE DATE January 11, 2006

DATE: January 4, 2005

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch, Judy Johnson and Bonnie Tatom

SUBJECT: CASCADE NATURAL GAS: (Docket Nos UG 167 and UM 1227/Advice No. O05-10-01) Requests authorization to establish a Decoupling Mechanism and approval of tariff sheets No. 30 and No. 30-A.

STAFF RECOMMENDATION:

I recommend that the Commission suspend Cascade Natural Gas' application to establish a decoupling mechanism and implement the tariff schedules in Advice No. O05-10-01.

DISCUSSION:

Cascade Natural Gas Corporation (Cascade or the company) made a request for approval of its Conservation Alliance Plan (Plan or decoupling mechanism) in its filing UG 167/Advice No. O05-10-01. Cascade's Plan seeks to establish a deferred accounting type decoupling mechanism which has been docketed as UM 1227. Two deferral accounts would be set up to track separately, changes in margin due to variations in weather normalized usage and changes in margin due to weather that varies from normal. Additionally, the Plan would have the company begin providing public purpose type funds to the Energy Trust of Oregon and community service agencies for general and low-income demand side management (DSM) programs in Cascade's Oregon service areas. Cascade's shareholders would provide approximately \$500,000 of public purpose type funds, equal to 0.75% of current revenues from residential and commercial customers, each year the program is in effect.

The company first briefed Staff on the Plan on September 22, 2005, and followed up the briefing with a formal proposal on October 17, 2005. The proposal was accompanied by tariffs with a requested effective date of November 1, 2005. Staff reviewed

Cascade UG 167 and UM 1227/Advice No. O05-10-01
January 4, 2006
Page 2

Cascade's Plan and after a number of data requests, responses by the company and telephone conversations, it became apparent that additional information would be needed by Staff in order to prepare its Staff Report for Commission action. At Staff's request, the company extended the effective date to December 8, 2005.

On November 10, 2005, Staff distributed a letter to the company and all interested persons (the Stakeholders), outlining several issues that needed to be addressed by the company before Staff could support the company's Plan (see Attachment A). In addition, Staff invited the company and Stakeholders to a workshop on November 17, 2005. After the workshop, and because of the number of outstanding issues, Staff did not believe that either Cascade's filed Plan or an alternative plan could be implemented by December 8, 2005. Cascade voluntarily extended the date again to January 11, 2006.

The company requested a second workshop on December 20, 2005. Staff noticed this as a workshop and settlement conference in an attempt to resolve outstanding issues with the Plan filing. The company introduced several draft proposals which, with further development, could resolve some of the outstanding DSM issues; however, no resolution was reached on Staff's threshold issues relating to the appropriate earnings for the decoupling mechanism.

There may be a misconception on Cascade's part that their Plan should be implemented and decoupling allowed, along with the company's public purpose funding proposal, if for no other reason than NW Natural's decoupling and public purpose funding mechanisms have already been approved by the Commission. Staff does not agree, and suggests that there are several critical differences between the two companies' proposals, a few of which are highlighted below. These differences support the Commission adopting Staff's recommendation to suspend Cascade's tariff filing to allow for additional review by Staff and the other Stakeholders.

One difference is simply that Cascade's filing is incomplete. Despite the fact that the company, staff and the stakeholder groups are confident that DSM and low income weatherization and bill payment assistance programs can be memorialized in tariff sheets and that draft sheets are being worked on, they are currently incomplete and are not included in the filing. This is in stark contrast to NW Natural's filing where the tariff sheets for DSM and low income weatherization and bill assistance were both detailed and complete at the time of filing.

Another difference in the proposal before you now, and the stipulation before the Commission in UG 143, is that NW Natural agreed to file a general rate case just two months (November 30, 2002) after the approval date, with an effective date no later

Cascade UG 167 and UM 1227/Advice No. O05-10-01
January 4, 2006
Page 3

than November 1, 2003.¹ The stipulated agreement specifically stated, in Article III, Paragraph 3.1, that “[n]othing in this Agreement precludes parties in this Docket from proposing (or opposing) in the general rate case an adjustment to the company’s authorized cost of capital to account for the effects of the decoupling mechanism or modifications of it as proposed in the rate case.” At the time of the stipulation, Parties did not agree on the need for a reduction in the company’s cost of capital; however, the company’s authorized level had been set three years earlier (in 1999), not 15 years ago² as is the case with Cascade. Cascade’s proposal, on the other hand, does not require a general rate case until after its proposed decoupling program has been in place for five years. Cascade’s authorized return on equity is 12.25%, while NW Natural’s is 10.20%, and Avista Utilities’ is 10.25%. Were this application to be approved as filed, Cascade would be protected from the risk of load fluctuations at a time when its earnings are already significantly higher than have been authorized recently for comparable utilities. Cascade’s regulatory-adjusted return on equity was 12.56%, 11.88% and 12.27% over the most recent three years. A decoupling proposal needs to be assessed within a general rate case proceeding in order to ensure the mechanism is in the best interest of the customers as well as the company.

A third difference is in the level of commitment on the part of other entities to provide energy efficiency services and programs on behalf of Cascade. The Energy Trust of Oregon has indicated that the level of funding proposed by the company for DSM may not be adequate even as a start-up level. The various community action agencies that provide low income bill paying and weatherization assistance appear to be committed to working with the company to provide services, but significant details about the managing of such programs still need to be worked out. For example, a transition plan to maintain a low income weatherization program during startup of the Plan needs to be detailed. And the mechanism used for low income bill assistance payments, such as the voucher system used by NW Natural, needs to be specified.

One other difference in the Plan is that the decoupling for weather that varies from normal is a mandatory part of this proposal. In the case of NW Natural’s decoupling proposal, UG 143, their weather program, WARM, is voluntary and the variances are collected or returned within the subsequent month with those who choose to participate. Certain physical limitations with Cascade’s systems prevent a similar program from being implemented and questions remain on the appropriate methodology for amortizing the weather deferral.

¹ UG 152 went into effect on the entering of Commission Order No. 03-507 on August 22, 2003.

² Cascade’s last general rate case was Docket UG 88; Order No. 90-200 rates were effective on March 1, 1990.

Cascade UG 167 and UM 1227/Advice No. O05-10-01
January 4, 2006
Page 4

Although there were many details left to work through at the time of the Commission's approval of NW Natural's decoupling mechanism, there was clearly a plan to move from conception to actual implementation. This may have been possible due to the time that elapsed between those two points and the work completed by all parties during that time. In this case Staff, the company and the Stakeholders are continuing to work cooperatively on the DSM and low income assistance issues and expect to be able to resolve all the outstanding differences.

The company has brought a proposal to the Commission that not all parties can support, since it does not include specific language that speaks to Cascade's continued high return on equity. Staff recommends the Commission suspend the tariffs in Advice No. O05-10-01. If this happens no action is necessary on the company's deferred accounting application (UM 1227) at this time.

PROPOSED COMMISSION MOTION:

Cascade's application for revised tariff schedules in UG 167/Advice No. O05-10-01, with a proposed effective date of January 11, 2006, be suspended for six months allowing for further investigation.

Cascade Advice No O05-10-01



Oregon

Theodore R. Kulongoski, Governor

Public Utility Commission

550 Capitol St NE, Suite 21

Mailing Address: PO Box 214

Salem, OR 97308-214

Consumer Service

1-800-522-240

Local: (503) 378-660

Administrative Service

(503) 373-739

November 10, 2005

JON STOLTZ, SENIOR VICE PRESIDENT
CASCADE NATURAL GAS CORPORATION
222 FAIRVIEW AVENUE NORTH
SEATTLE, WA 98109

Staff has thoroughly reviewed your Conservation Alliance Plan (Plan) proposal based on the information provided to date. Before we can support this effort before the Oregon Public Utility Commission (Commission) we will need to have the following issues fully resolved by Cascade Natural Gas Corporation (Cascade or company).

ISSUE/DESCRIPTION	STAFF PROPOSAL
<p>Net Ratepayer Benefits. Over the past few years, Cascade's regulated earnings have been well above recent Commission authorized returns on equity (ROE). Under the company's proposal, this level of earnings would be expected to continue. The company has requested a decoupling mechanism that will increase customer rates and shift risks that the company shareholders currently bear to customers without making a showing of the cost/ benefit of the proposed DSM and low income assistance and weatherization. Normally such a shift in risks would be evaluated and appropriately dealt with in a general rate case where the allowed ROE would reflect the level of risks taken.</p>	<p>(1) Staff proposes two alternatives to implementing decoupling:</p> <ul style="list-style-type: none"> a. Cascade shall be allowed to implement the Conservation Alliance Plan and decoupling for recovery of lost margin due to conservation or other non-weather related load reduction as requested according to the methodology described, provided the company agrees to file a general rate case (ORS 757.210) within six months of the Plan's effective date. Adjustment to lost margin associated with weather may be part of the rate case filing if the company so chooses but will not be allowed with the initial decoupling filing. b. Alternatively, Cascade shall be allowed to implement the Conservation Alliance Plan and decoupling mechanism including a weather adjustment, using the calculation methodology proposed but shall only be allowed to recover lost margin for an individual year if the annual Results of Operations report's adjusted ROE for that year is below 10.00%. (That is, recovery is allowed only up to that level.)

ISSUE/DESCRIPTION	STAFF PROPOSAL
<p>No Energy Trust of Oregon (ETO) or other independent entity agreement. When NW Natural proposed DSM and low income assistance to be provided by an independent entity, it also provided Staff and intervenors with a very detailed plan that included the concepts for collection and distribution of funds and likely programs. In addition, the allocation of public purpose funds was clearly supported. Cascade has not provided any evidence that the various entities, or even the company, can or will provide these services in Cascade's service territory.</p>	<p>(2) The company needs to provide draft agreements, initiate a workshop with these groups, stakeholders and the staff or, at a minimum, provide missing documentation as noted.</p>
<p>DSM programming under the Plan is limited to residential and commercial customers.</p>	<p>(3) Staff has also requested that you support DSM efforts for all firm service customers including not only residential and commercial but also industrial sales customers. Appropriate DSM needs to be explored and pursued with all Oregon customers that Cascade plans for, as required by the company's IRP analyses.</p>
<p>No structure in place for public purpose programs. It is insufficient to simply indicate that funds will be sent to various organizations that administer and deliver energy efficiency and bill payment assistance programs.</p>	<p>(4) Provide detail on the company's transition plan for terminating the existing DSM programs and implementing new DSM and low-income energy efficiency and bill payment assistance programs.</p> <p>(5) Provide tariff sheets that specify in detail the public purpose type funds that the company will be providing that include: the dates the funds will be distributed, accrual of interest on funds not distributed or spent, the amount of funds to be distributed, organizations receiving funds, and disposition of funds that are not distributed or spent.</p>
<p>Very little intervenor participation. Comments from various Oregon stakeholders indicate there may be other issues that need to be explored.</p>	<p>(6) Staff will be issuing a notice for a workshop in Salem on November 17 to discuss the Conservation Alliance Plan more fully.</p>

ISSUE/DESCRIPTION	STAFF PROPOSAL
<p>Requested workpapers not provided. In our previous discussions with you about your Plan proposal and filing we have requested that you provide workpapers with details of how the margins are to be calculated.</p>	<p>(7) Please provide this data at this time. You have yet to show cause that decoupling has/will cause harm to your financial position. We are particularly interested in how the company's margins would have been affected if this Plan was in effect October 1, 2004 through September 30, 2005.</p>
<p>Magnitude of the public purpose funding level.</p>	<p>(8) The filing needs to contain greater detail about the DSM and low income assistance and weatherization funding needs in your service territory including either:</p> <p>a. Study results that demonstrate that the amount proposed to be used for this purpose is the appropriate amount based on DSM potential and the needs for low income assistance and weatherization, or</p> <p>b. A plan with an agreed upon timetable for completing such a study to provide this information (as required by your IRP).</p>
<p>No agreement to hold company to service quality standards. In UG 143, NW Natural stipulated to a service quality measure (SQM) related to at-fault customer complaints.</p>	<p>(9) Cascade Natural Gas shall also agree to implement Service Quality Measurement C-1 (Customer At-fault Claim Reporting) as a requirement of this filing.</p>

Staff's recommendation and Staff Report are due to the Commission by November 28, 2005. We will need to have these issues satisfied, at a minimum, to support the Conservation Alliance Plan at the December 6 Public Meeting. The alternative is to request a suspension pending further investigation. If you have any questions or need clarification about what is needed, please give me a call.

Ed Durrenberger, Sr. Revenue Requirement Analyst
Rates and Tariffs
Oregon Public Utility Commission
(503) 373-1536