

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903/AR 357

In the Matter of)
)
CASCADE NATURAL GAS) ORDER
CORPORATION)
)
2007 Spring Earnings Review.)

DISPOSITION: EARNINGS SHARED

On May 1, 2007, Cascade Natural Gas Corporation (Cascade) filed its 2006 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending September 30, 2006. Cascade represented that the report was developed in a manner consistent with Commission Order No. 99-272.

At its July 10, 2007, public meeting, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report and the Commission's records, the Commission finds that the adjusted earnings rise above the earnings threshold established in docket UM 903, resulting in shared earnings of \$414,213.

ORDER

IT IS ORDERED that Staff's recommendation, as stated in Appendix A, is adopted.

Made, entered and effective JUL 16 2007 .

BY THE COMMISSION:



 Becky L. Beier
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 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. CA6

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 10, 2007**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 26, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: *in* Lee Sparling, *EB* Ed Busch, *JA* Judy Johnson

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 903/AR 357) 2007 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Cascade Natural Gas's (Cascade or company) 2006 earnings are above the earnings threshold designated in UM 903, which results in shared earnings of \$414,213.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Cascade Natural Gas Corporation, Northwest Natural, and Avista Corporation. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were scheduled to sunset in 2002, but in Order No. 03-198 (AR 449) the Commission extended the earnings reviews four years to 2006 and then, by Order No. 07-019, for an additional two years through 2008.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to PGA Filings: A general earnings review will be held each spring; if earnings are found to be above a specified return on equity (ROE) level a portion of revenues will be booked to a deferred account.

Cascade UM 903/AR 357
June 26, 2007
Page 2

- Structure of Earnings Reviews: By May 1 each year, Local Distribution Companies (LDCs) will file results of operations for the twelve months ended the prior December 31, or, in the case of Cascade, the twelve months ended September 30. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission would issue its decision on unresolved issues by August 15. By August 31, the LDCs will file annual gas cost tracking filings for November 1 rate changes. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.
- Effective Date of Rate Adjustment: Amount of over-earnings to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
- The ROE Earnings Threshold: Based on Commission Order No. 04-203 and, as modified by Order No. 07-019, the adjusted earnings threshold for Cascade Natural Gas for 2007 is 10.25 percent plus, by Order No. 06-191 (UG 167), an adjustment of 175 basis points and an additional adjustment for inflation as specified in the order. The total adjusted earnings threshold for 2007 is 12.24 percent.
- Earnings Adjustments: Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. Cascade made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.
- Earnings Performance: If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.
- Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism, there will be no earnings test in the fall prior to amortizing deferrals. For LDCs that assume less than 33 percent of the risk for commodity cost differences in the sharing mechanism, an earnings test will be applied prior to amortizing deferrals. Cascade has adopted a 67-33 percent sharing mechanism for commodity cost differences.

Cascade's Earnings Review

On May 1, 2007, Cascade submitted its 2006 earnings report for the twelve months ending September 30, 2006, which is the company's fiscal year. The company states that the

Cascade UM 903/AR 357
June 26, 2007
Page 3

report was developed in a manner consistent with Commission Order No. 99-272. The company calculates its ROE as 14.86 percent after application of all Type 1 adjustments. This is greater than the 12.24 percent threshold authorized by the Commission for 2007.

Staff has examined the company's filed earnings report and believes the company has correctly calculated its ROE at 14.86 percent. The result is excess earnings of \$1,255,192 of which 33 percent or \$414,213 will be shared with customers. The sharing of \$414,213 (approximately 0.45 percent of Cascade's annual Oregon revenues) has been deferred with interest and will be returned to ratepayers in the company's Fall 2007 PGA filing.

As required by OAR 860-022-0070(6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

PROPOSED COMMISSION MOTION:

The Commission accept Staff's finding that Cascade's 2006 earnings are above the earnings threshold designated in UM 903 which results in shared earnings of \$414,213.

Cascade UM 903 2007