ORDER NO. 07-478

ENTERED 10/30/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 179/UM 1342

In the Matters of CASCADE NATURAL GAS CORPORATION Reflects changes in the cost of purchased gas and technical adjustments and makes adjustments to base rates for various programs. (UG 179) Request for reauthorization to utilize deferral accounting for the 12-month period beginning November 1, 2007. (UM 1342)	)))))))))))))	ORDER

DISPOSITION: APPLICATIONS APPROVED

On August 31, 2007, and September 6, 2007, the Public Utility Commission of Oregon (Commission) received two applications from Cascade Natural Gas Corporation. 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 October 30, 2007, the Commission adopted Staff's recommendation to approve the applications.

ORDER

IT IS ORDERED that:

1. The amortization of deferred accounts, base gas cost changes, and rate changes as requested in docket UG 179 is approved.

2. The associated tariff sheets of Advice Nos. O07-08-02-A and O07-08-02-B are allowed to go into effect with less than statutory notice, beginning with service on or after November 1, 2007.

3. Reauthorization to use deferred accounting pursuant to Schedule 177, as requested in docket UM 1342, for one year beginning November 1, 2007, is approved.

Made, entered, and effective OCT 3 0 2007.

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 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. 7 & 8

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 30, 2007

REGULAR X **CONSENT** ____ **EFFECTIVE DATE** **November 1, 2007**

DATE: October 23, 2007

TO: Public Utility Commission

FROM: Ken Zimmerman KZ, Lynn Kittilson LK and Carla Owings

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

SUBJECT: CASCADE NATURAL GAS: (Docket No. UG 179/Advice No. O07-08-02) Reflects changes in the cost of purchased gas and technical adjustments and makes adjustments to base rates for various programs.

(Docket No. UM 1342) Requests reauthorization of the PGA deferral mechanism.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade or Company) request to waive statutory notice (L.S.N.) and allow the Company's proposed tariff sheets in Advice Nos. O07-08-02-A and O07-08-02-B to become effective with service on and after November 1, 2007. This filing increases the Company's annual revenues by approximately $0.3 million, or 0.4%.

Staff also recommends the Commission approve the Company's request for authorization to use deferred accounting pursuant to its tariff Schedule 177, Purchased Gas Cost Adjustment Provision.

DISCUSSION:

On August 31, 2007, 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 account and other deferred accounts. This filing consisted of a proposed decrease in annual revenues docketed as UG 179, Advice No. CNG/O07-08-02 and a concurrent filing docketed as UM 1342, requesting reauthorization of deferrals under the Company's PGA mechanism. In addition, the filing includes both a baseline and a temporary adjustment for the effects of the Company's Conservation Alliance Plan (CAP), Cascade decoupling mechanism—in total, $1,838,324. The filing decreased the Company's annual revenues by $0.8 million, or 0.9%.

On October 12, 2007, the Company made a substitute filing, Advice No. O07-08-02-A, along with an L.S.N. application, to make corrections to the Company's initial calculations for the effects of changes in purchased gas costs. This filing increases the Company's annual revenues by $0.3 million, or 0.4%.

On October 23, 2007, the Company made a second filing, Advice No. O07-08-02-B, to make corrections to its Tariff Schedule 194 to reflect the rate reduction to Rate Schedule 164 tailblock and to correct Exhibit 4 in the October 12, 2007, filing.

UG 179

In its filing, Cascade seeks approval to increase rates to: (1) track changes in purchased gas costs, (2) make a permanent adjustment to base rates for the Company's CAP, and (3) make technical adjustments to amortize Cascade's deferred accounts including gas costs, earnings sharing, tax kicker refund and the CAP. The change in annual revenues is summarized in Table 1 and is shown in Attachment A.

Table 1: Change in Annual Revenues

PGA Base Gas Cost Change	$955,304
Removal of Prior Year Temporary Credit Increment	$1,230,676
Addition of New Temporary Credit Increment	$(2,721,077)
Permanent Base Rate Adjustment (CAP)	$867,704
Total Proposed Increase	$332,606[1]

With these changes, the monthly bill of a typical residential customer using 60 therms per month will increase by $0.59, or 0.8 percent, from $74.94 to $75.53. In January, a typical residential customer's consumption of 113 therms would result in a billing increase from $138.49 to $139.60.

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. A graph illustrating each of the three local distribution companies' (LDCs') effective residential rates on a comparable basis is found in Attachment C. The effective residential rate is calculated as

[1] Column does not add correctly due to rounding in the Company's exhibit.

follows: the proposed residential rate multiplied by 56 therms plus the monthly customer charge, divided by 56 therms. The graph shows that Cascade's residential customers have an effective rate of $1.26241 per therm, while Avista's and NW Natural's effective rates are $1.51843 and $1.33163, respectively.

Table 2 shows the rates the Commission has approved for Cascade's residential customers on Rate Schedule 101 between 2003 and June 2007, and the current proposal.

Table 2: Residential Rates 2003 – 2007 (Proposed)

Date	Customer Charge	Rate Per Therm	Percentage Change [2]
October 2003	$3.00	$0.90402	
October 2004	$3.00	$0.97948	8.3%
October 2005	$3.00	$1.11833	14.2%
November 2006	$3.00	$1.21082	8.3%
June 2007	$3.00	$1.19900	-1.0%
November 2007 (Proposed)	$3.00	$1.20884	0.8%

Cascade implemented its CAP last year, which had been approved in Commission Order No. 06-191, entered April 19, 2006. An important element of the CAP is that Cascade's conservation programs are now provided by agreement with Energy Trust of Oregon (ETO) and low-income weatherization and bill payment assistance provided by agreement with community service agencies. 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, as well as the ETO web site.

Staff Review of Gas Costs

National and Regional Natural Gas Markets

In terms of natural gas prices and natural gas price volatility, 2006 and thus far in 2007 have been quiet.

- The winter of 2006-2007 was generally mild; no great demand was placed on existing natural gas supply;

[2] 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 2007, when the rate per therm is combined with the monthly customer charge of $3.00, the average customer's bill is increased about 0.8%, as shown on Attachment B.

- The summer of 2007 was mild in terms of the use of natural gas to generate electricity to meet cooling demand;
- No major supply interruptions have occurred to date; the hurricane season has been mild and uneventful;
- The prices of natural gas and oil have generally de-linked—rising oil prices are not currently carrying natural gas price along;
- Gas storage injections and inventory levels are at historic highs;
- The futures markets, including speculators and hedge funds traders, have generally not been able to promote any sustained increase in natural gas prices; futures prices across the country have consistently and generally declined, with particularly sharp declines in the West (e.g., Rockies);
- Domestic supply has remained steady, with no substantial decline—the number of wells being drilled for domestic natural gas has increased about 300%, helping domestic supply remain steady or even increase slightly;
- Liquefied natural gas (LNG) imports, while not growing, remain poised to increase over the next several years; and
- The development of unconventional natural gas sources (e.g., coalbed methane, tight sands, deep-water) has expanded with significant events on both the technical and financial fronts.

Of course, other potential factors may lead to increases in the price of natural gas. LNG imports into the US, while expanding, are not increasing at the rate expected. Plus, many other countries in the world are bidding for LNG supplies to help kindle their economic growth. Biggest among these are Japan, Korea, and several countries in Europe. Second, imports of natural gas from Russia to Europe, China, etc., are not growing as quickly as expected, and it appears that Russia (the single largest holder of natural gas reserves in the world) is increasingly using natural gas and oil as foreign policy tools to seek control of the actions of other nations. Third, weather can play a large part in increasing natural gas price. For example, an up tick in the severity or length of the US hurricane season or an exceptionally cold winter in either the US or Europe could lead to significant increases in prices. Fourth, any large increase in either industrial production or the use of natural gas for electric generation could potentially lead to increases in the price of the resource. Fifth, any failure in the expected level or growth in the level of domestic natural gas production, either conventional or unconventional, could lead to an increase in price. Sixth, imports of natural gas from Canada have declined since at least 2004 and declined by about two-thirds since 2005. Finally, the futures markets for natural gas, particularly the hedge funds involved in those markets, dominate both that market and the physical natural gas market in terms of money invested. With those futures markets not currently functioning in accordance with even the most expansive understanding of "market theory," the impacts of these markets on future natural gas prices cannot be understood and thus are difficult to accurately forecast. On this front there is some good news. Both the Federal Energy Regulatory Commission (FERC) and the Commodity Futures Trading Commission (CFTC) have recently opened "market manipulation" cases on one of the largest energy hedge funds, Amaranth. There is a jurisdictional dispute the courts will need to settle before either FERC or the CFTC can go forward on these cases. After that, Staff will know more about whether the FERC or CFTC, or the two together, can reign in these massive energy hedge funds.

The US Department of Energy's (DOE) Energy Information Administration (EIA) weekly natural gas update shows the history of natural gas prices on NYMEX and physically at the Henry Hub, as well as the price of West Texas Intermediate (WTI) crude oil. Figures 1 and 2 are snapshots from those numbers for the period November 2006 to September 2007. The pattern for natural gas prices is steady or declining since early in 2007, both at NYMEX and physically at Henry Hub. Since June, prices have noticeably declined. Also, these prices are overall notably lower than the prices in 2006. Figure 1 demonstrates clearly that oil and natural gas prices have de-linked. In Figure 2 (see top of next page), estimated prices for the Northwest Pacific (NWP) winter and PGA year futures strips are also depicted. Unlike the pattern for prices in the current futures months, both winter and PGA-year strips declined until July, shot up by over a dollar during August, and then declined almost a dollar in September.

Figure 1: Natural Gas and WTI Prices, Nov 2006 – Sep 2007

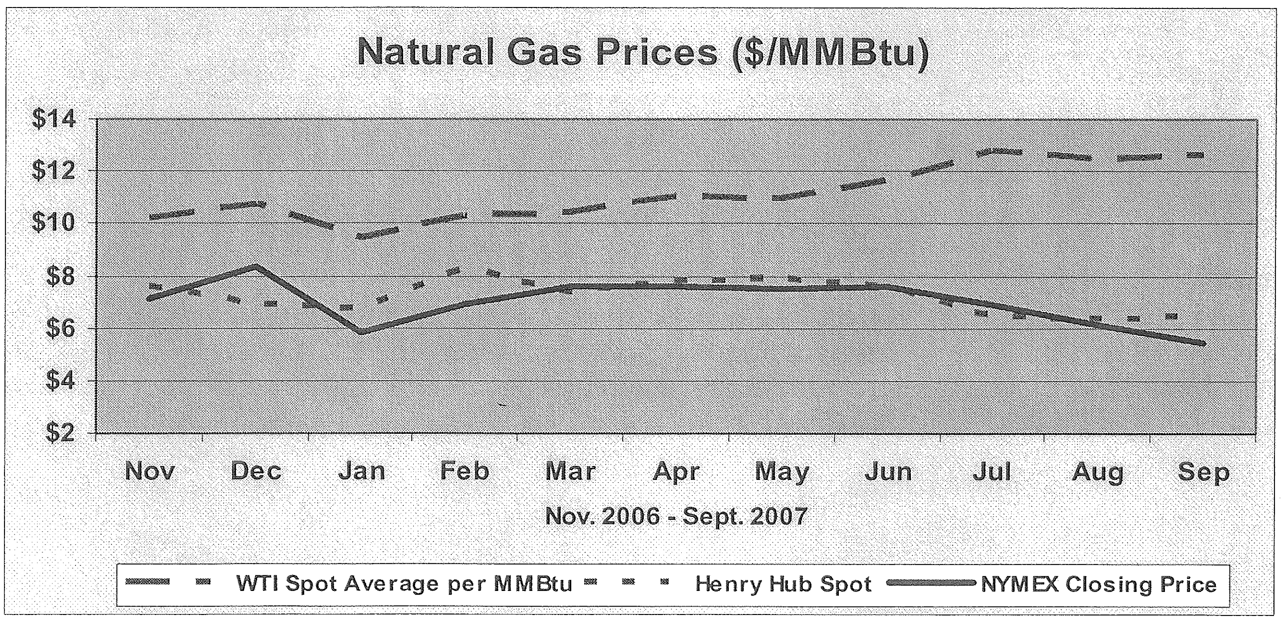
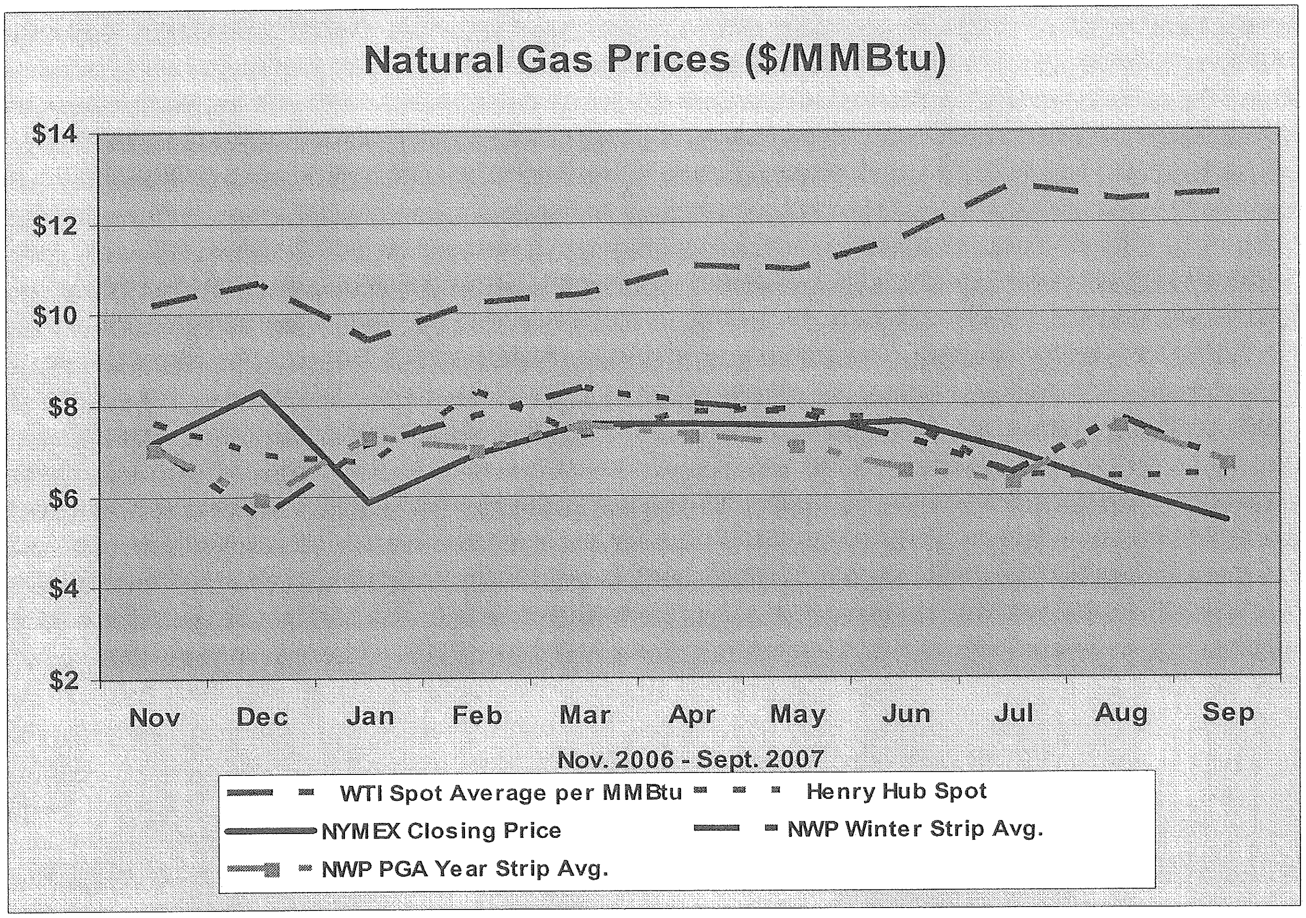


Figure 2: Natural Gas (National and NWP) and WTI Prices, Nov 2006 – Sep 2007



The EIA forecast of the natural gas price at the Henry Hub has fluctuated since January within a generally narrow range. The next 12-months EIA forecast began the year at $7.06/MMBtu. In its August 7, 2007 forecast, the EIA projected an average Henry Hub price for 2007 of $7.45/MMBtu; for the next 12-months beginning August 2007 at the Henry Hub of $7.66/MMBtu; and projected an average price for the winter season at the Henry Hub of $8.27/MMBtu. These forecasts and actual prices translate to natural gas prices, for the hubs from which Oregon LDCs purchase, of about $7.00/MMBtu for the PGA year and about $7.50/MMBtu for the winter season. Of course, all Oregon LDCs "lock-in" the price of a portion of their natural gas supply portfolio well in advance of the 2007-2008 winter season, including multi-year fixed price financial contracts, and place natural gas into storage during the off-peak season for withdrawal during the winter season. This means the overall pricing for their portfolios cannot, and properly should not, reflect only current natural gas prices and price forecasts.

Barring disturbing factors (e.g., severe hurricane damaging a large portion of Gulf Coast production, colder than expected winter), the current pattern of falling and low-volatility pricing is likely to continue at least through the winter of 2007-2008.

Natural Gas Purchasing Strategies

Staff continues to emphasize that "portfolio purchasing" has been accepted for the last two decades as the best means to deal with the risks involved in the purchasing of natural gas by LDCs. This purchasing approach requires that LDCs focus on selecting portfolios of gas supplies based on their overall risk-reward characteristics instead of merely compiling portfolios of purchases that each individually has attractive risk-reward characteristics. In a nutshell, LDCs in purchasing natural gas should select portfolios not individual supply options. Such a portfolio should display the three characteristics of balance, flexibility, and diversity, and should be based on the particular circumstances in which the purchases are made. The greater the risks of price change or supply availability, the greater the need to follow the diversity requirements of portfolio theory.

Staff emphasizes the following points about portfolio purchasing that should be applied by all three LDCs. These points have been reviewed in meetings with the LDCs throughout the past three years and were included in last year's PGA Staff Reports.

1. In specific practice, portfolio purchasing means the LDC must purchase a combination of resources, including demand-side options, to meet the needs of its customers that are balanced, diverse, and flexible. Thus it is not just the size of each resource making up the portfolio that must meet these objectives but also such elements of the portfolio as timing, duration of supply contract, location of supply, contracting form/type, pricing, etc.

2. While the current natural gas market arrangements do limit the options of LDCs in controlling the level and volatility of the price paid for natural gas, portfolio purchasing provides an array of tools to retain at least some LDC control over these pricing concerns.

3. Overemphasizing any particular resource option(s) in a portfolio is contrary to the proper application of portfolio purchasing, no matter the precise form of that overemphasis or the resource(s) to which it is applied. In 2005, all the Oregon LDCs entered into financial hedging arrangements for too large a share of their natural gas supply. In its 2006 PGA filing, Cascade reduced its use of fixed-price financial hedging, but in the 2007 filing, the Company has returned to its 2005 level.

4. Purchasing natural gas via the portfolio approach requires more attention and effort by the LDC to gather, review, interpret, and apply market intelligence in constructing the portfolio; in monitoring the actual functioning of the portfolio constructed; and in modifying the portfolio as market or operational changes require. This is hard work, especially when compared to purchasing natural gas from daily, weekly, or monthly cash markets.

5. There is no "one size fits all" in portfolio construction. Each portfolio must be designed, constructed, applied, and reviewed based on existing and expected market conditions and on the demand, supply, operational, and general economic circumstances of the LDC for whom the portfolio is being constructed.

6. Each and every portfolio decision and action must be as fully documented as possible. That is, the details behind every decision and action in making a portfolio choice must be available for review and analysis by the LDC and Staff without any extraordinary effort on the part of either the LDC or Staff.

Cascade's Natural Gas Purchasing Strategies

Last year, at the time of its PGA filing, Cascade had financially fixed the price for about 68% of its annual sales volumes. As Staff indicated at that time, this level of financial fixed-price hedging is more appropriate for Cascade than the level the Company had completed at the time of the filing of its 2005 PGA. The Company also expected to provide from storage about 6% of the volumes its customers required. That picture has changed this year, as shown in Table 3 below.

Table 3: Cascade Gas Supply Portfolio

Resource	Percentage in Portfolio
Pipeline deliveries of natural gas	89.96%
Citygate deliveries of natural gas	5.99%
Storage deliveries of natural gas	4.05%
Percentage of firm natural gas deliveries fixed via financial hedges	81.20%

It is unclear whether Cascade intends to financially fix the price of additional volumes subsequent to the 2007 PGA filing, but what is clear is that the current level of fixed price hedging is adequate. No additional hedging should be entered. In addition, last year Staff indicated that financial hedging should be spread across the entire PGA year. For its 2007 PGA, Cascade has instead completed virtually all its hedging prior to the filing of its PGA and most of those hedges were entered during a three-month period, June-August 2007. Both these circumstances are contrary to natural gas portfolio purchasing. Staff continues to believe that Cascade's circumstances (purchasing limitations and risks) justify a higher level of financial hedging, and even fixed-price financial hedging. Financially hedging (but not all in fixed-price hedges) up to about 90% of the volumes required for the PGA year is thus, in Staff's view, appropriate for Cascade. But these hedges must be completed in accordance with appropriate portfolio purchasing standards. Staff also expects that Cascade will not enter into additional financial hedges if market intelligence and reliable fundamentals forecasts indicate purchasing gas at index price in either the day or month market is a lower cost option. Staff will continue to discuss these issues with Cascade as part of the UM 1286 docket.

Cascade needs to increase its efforts to obtain additional storage for its Oregon customers. Last year, the Company's portfolio included storage volumes of just over 6%, but due to loss of storage under a recall agreement with Avista Utilities, the Company's portfolio this year includes only 4% storage. Serving about 6% of annual demand from storage would be appropriate for an LDC of the size and operating characteristics of Cascade. We recognize that there may be impediments to additional storage acquisition on behalf of Cascade's Oregon customers, but Staff will continue to work with Cascade to help improve its storage position.

Cascade's overall hedge price is approximately $7.66/Dth, which stands just above the middle of the range Staff can support as reasonable for futures pricing (see Table 4). Also, Cascade's hedging price is well above that of NW Natural ($7.36/Dth) but below that of Avista ($8.05/Dth). But Cascade's hedging process and methodology is, as described above, inconsistent with proper portfolio standards.

Table 4: Staff's Hedging Price Range for 2007 PGAs[3]

High	Low
$7.80	$7.38

Staff expects Cascade to resolve these problems quickly and be able to demonstrate that they will not re-occur in the Company's 2008 PGA filing. Staff and Cascade will continue to work on these issues, along with the other two LDCs, in the UM 1286 docket. In the meantime, Staff anticipates discussing these issues with the Company as part of our ongoing quarterly meetings.

[3] This range is based on a weighted average made up of high and low prices for the winter and PGA year Northwest Pacific winter strips combined with the averages for these strips over the period November 2006 to September 2007.

Cascade's Natural Gas Costs

For the time during which Cascade purchased gas for the period November 2007 through October 2008, the average cash (spot) price in the Northwest was approximately $6.00/MMBtu, with prices relatively stable until the most recent three months, June, July, and August, when prices declined noticeably. The NYMEX price over the period November 2006 to August 2007 averaged about $8.25/MMBtu for the PGA year and about $8.60/MMBtu for the winter period, with a similar price pattern. Over that same period the average forward prices for the hubs at which the Oregon LDCs purchase were about $6.95/MMBtu for the PGA year and about $7.30/MMBtu for the winter period, also with a similar price pattern.

At the end of June 2006, both interstate pipelines Cascade transports on filed general rate cases at FERC. Northwest Pipeline (NWPL) requested a rate increase of about $119 million, mostly related to rate base additions and an increase in its rate of return. Gas Transmission Northwest's (GTN) filing requested nearly double its current rate for firm transportation. The LDCs and Staff agreed to place the full rate increase requested by both pipelines into the filed 2006 PGAs, subject to refund based on the actual rates finally approved by the FERC. A settlement was reached in the NWPL case in February 2007 and in the GTN case in September 2007. Both settlements set rates lower than those requested by the pipelines, which had been put into place in January 2007 subject to refund. Cascade has incorporated into its PGA filing the rates agreed to in the settlements. Any difference between these settlement rates and final rates will be addressed through the deferral accounts. Cascade will pass through refunds from NWPL and GTN when those are made by the pipelines.

The commodity price and transportation demand charge Cascade proposes to pass through to its sales customers are shown in Table 5 (see next page), along with the range of prices for commodity Staff recommends as reasonable. Staff accepts the demand charge proposed by Cascade as it is established via FERC tariff. However, as explained below, Staff has made certain that the actual demand charges in effect for the upcoming year are being proposed for pass through by Cascade.

Obviously, Cascade's proposed gas costs are near the top of Staff's range of charges. Moreover, the gas costs are increases from those currently in place for the Company. The proposed commodity weighted average cost of gas (WACOG) is a 4.64% percent increase. The total gas cost (with transportation charges) is a 1.56% increase. The transportation demand charge will decline by 2.43%. This reduction in demand charge is primarily the result of the lower rates established in the just settled NWPL and GTN rates cases.

Table 5: Cascade Commodity and Demand Costs for 2007 PGA[4]

Charge ($/therm)	Cascade	Staff's Range
Commodity	$0.78594	$0.70000 - $0.80000
Commodity (revenue sensitized)	$0.80502	$0.71700 - $0.81943
Demand	$0.10872	$0.10872
Demand (revenue sensitized)	$0.11136	$0.11136
Total	$0.89466	$0.80872 - $0.90872
Total (revenue sensitized)	$0.91638	$0.82836 - $0.93079

Staff is concerned that Cascade's forecast of spot or short-term index prices for the coming PGA year is based solely on a 60-day futures strip, with no consideration of forecasts based on analysis of fundamental market variables. Cascade has access to several such "fundamentals" forecasts but has given them no weight in arriving at the Company's forecast of future spot (cash) prices for natural gas. The failure by Cascade to consider "fundamentals" forecasts in its estimates of future index (short-term) natural gas prices decreases Cascade's ability to protect itself and its customers from the consequences of gas price changes. That forecast could be applied to up to as much as 18.8% of Cascade's total gas requirements. Staff has proposed to Cascade that it amend this forecast to include at least two "fundamentals" forecasts from those to which the Company has current access. However, in its amended PGA filing made on October 12, 2007, Cascade has chosen to ignore Staff's proposal. There is no reasonable basis to ignore fundamentals forecasts in estimating future spot/short-term natural gas prices. As in the case of the other violations by Cascade of proper natural gas portfolio purchasing, listed above, Staff and Cascade will continue to seek resolution of these issues. On an ongoing basis, Staff will continue to address this topic in the context of UM 1286 and in the quarterly meetings with Cascade.

[4] The low value in Staff's range is a 60%/20%/20% weighted average of the median values for the NWP futures strips for the winter and PGA year over the period November 2006 to September 2007 in combination with the average of six selected fundamentals forecasts. The high value in Staff's range is a 60%/20%/20% weighted average of the highest values for the NWP futures strips for the winter and PGA year over the period November 2006 to September 2007 in combination with the average of six selected fundamentals forecasts. Both values are rounded to the nearing whole dollar.

Even in the context of these multiple violations by Cascade of proper portfolio purchasing practices, the Company's gas costs are reasonable. However, due to the portfolio and purchasing practices problems described above, Staff does expect to meet with the Company in the near future to discuss both near-term and long-term solutions to those problems.

The Company's workpapers support the overall natural gas commodity and transportation cost related increase in revenues proposed by Cascade of about $955,304.

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 $1,230,676.
- Addition of new temporary credit increments to refund net credit balances in the Company's deferred gas cost, earning sharing, tax kicker refund, and residual accounts decreasing revenues by $3,691,697. The Commission previously authorized all of the deferred amounts subject to amortization.
- Addition of a new temporary debit increment to collect a balance in the Company's CAP deferral account. This program began with service beginning May 1, 2006. The deferred amounts were relatively small at the time of the 2006 PGA filing, so the Company and Staff had agreed not to begin amortizing the accounts until the 2007 PGA. This adjustment will increase rates by $970,620.

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 $1,490,401 on an annual basis.

Other Base Rate Adjustment

- CAP Baseline Adjustment: Staff reviewed the Company's calculations that support the change in baseline rates associated with the decoupling mechanism. In this filing, the adjustment adds about $0.02 per therm to residential customers' rates and approximately $0.01 per therm to commercial customers' rates. The total increase to revenues is $867,704.

Earnings Review and Three Percent 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 is 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 three percent of the natural gas utility's gross revenues for the preceding calendar year, unless the Commission finds that allowing a higher amortization rate is reasonable under the circumstances. Cascade's proposed net amortization for 2007 is ($2,757,544), below the three percent of the gross revenue limit and should be implemented as proposed.

UM 1342

In this filing, the Company requests deferral for all of the gas cost differences associated with purchases of gas supplies for system requirements that differ from gas costs embedded in rates, consistent with the procedures outlined in its Schedule 177 effective for the twelve-months beginning November 1, 2007. 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 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.

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 179 be approved; (2) the associated tariff sheets of Advice Nos. CNG/O07-08-02-A and O07-08-02-B be allowed to go into effect with service on or after November 1, 2007, and the L.S.N. be approved; and (3) request for reauthorization to use deferred accounting pursuant to its Schedule 177, for one year beginning November 1, 2007, be approved.

Attachments

Cascade 2007 PGA

File: O07EX_4.xls
REVISION 2

CASCADE NATURAL GAS CORPORATION
Summary of Proposed Rates and Revenues
Effective 11/01/07

Attachment A

ORDER NO. 07-478

RATES (in Cents Per Therm)

Ln	Customer Class		Schedule	Current Tariff Commodity Rate	Current Average Total Rate /1	Proposed Changes: PGA Base Gas Cost	CAP Baseline Adj	CAP Temporary Adj: Remove 06	CAP Temporary Adj: Add New	Temporary Rate Adj: Remove 06	Temporary Rate Adj: Add New	Total Change	Proposed Average Total Rate /2	Proposed Tariff Commodity Rate	Normalized Therm Sales/Thruput
	(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)=e thru j	(l)=d+k	(m)=c+k	(n)
	CORE MARKET SERVICE														
1	Residential		101	119.900	124.939	1.405	1.693	0.000	1.538	1.810	(5.462)	0.984	125.923	120.884	36,661,929
2	Commercial		104	110.317	111.462	1.405	0.934	0.000	1.538	1.810	(5.185)	0.502	111.964	110.819	26,447,306
3	Com-Ind Dual		111	103.040	103.040	1.405	0.000	0.000	0.000	1.810	(5.010)	(1.795)	101.245	101.245	2,153,058
4	Industrial Firm		105	106.455	106.908	1.405	0.000	0.000	0.000	1.810	(5.091)	(1.876)	105.032	104.579	2,730,850
5	Industrial Interr.		170	100.732	100.732	1.405	0.000	0.000	0.000	1.810	(4.705)	(1.490)	99.242	99.242	0
	NONCORE MARKET SERVICE														
6	Distribution Transportation Schedule Nos. 163 & 164														27,426,381
		Blocking													
7	R/S 163 & 164	First 10,000		12.402		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	12.143		2,666,823
8	R/S 163 & 164	Next 10,000		11.188		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	10.929		2,258,426
9	R/S 163 & 164	Next 30,000		10.512		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	10.253		4,240,126
10	R/S 163 & 164	Next 50,000		6.456		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	6.197		3,803,712
11	R/S 163 & 164	Next 100,000		3.275		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	3.016		12,502,668
12	R/S 164 ONLY	Over 500,000		1.755		0.000	0.000	0.000	0.000	0.000	(0.259)	(0.259)	1.496		1,954,626

REVENUES (in dollars)

Ln	Customer Class	Schedule	Revenue at Current Avg Rates /1	Proposed Changes: PGA Base Gas Cost	CAP Baseline Adj	CAP Temporary Adj: Remove 06	CAP Temporary Adj: Add New	Temporary Rate Adj: Remove 06	Temporary Rate Adj: Add New	Total Change	Revenue at Proposed Avg Rates /1	Percent Change /1
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)=d thru I	(k)=c+j	(l)=k/c
	CORE MARKET SERVICE											
13	Residential	101	$45,805,101	$515,100	$620,686	$0	$563,860	$663,581	($2,002,475)	$360,753	$46,165,854	0.79%
14	Commercial	104	$29,478,599	$371,585	$247,018	$0	$406,760	$478,696	($1,371,293)	$132,765	$29,611,364	0.45%
15	Com-Ind Dual	111	$2,218,511	$30,250	$0	$0	$0	$38,970	($107,868)	($38,647)	$2,179,864	-1.74%
16	Industrial Firm	105	$2,919,510	$38,368	$0	$0	$0	$49,428	($139,028)	($51,231)	$2,868,280	-1.75%
17	Industrial Interr.	170	$0	$0	$0	$0	$0	$0	$0	$0	$0	0.00%
	NONCORE MARKET SERVICE											
18	Dist Transportation	163/164	$1,886,468	$0	$0	$0	$0	$0	($71,034)	($71,034)	$1,815,434	-3.77%
19	Other		$12,711,599	$0	$0	$0	$0	$0	$0	$0	$12,711,599	0.00%
20	Total Revenues		$95,019,788	$955,304	$867,704	$0	$970,620	$1,230,676	($3,691,697)	$332,606	$95,352,394	0.35%

1/ Reflects inclusion of monthly customer service charges, which does not change in this tracking filing. as well as division of costs by normalized therms sales.

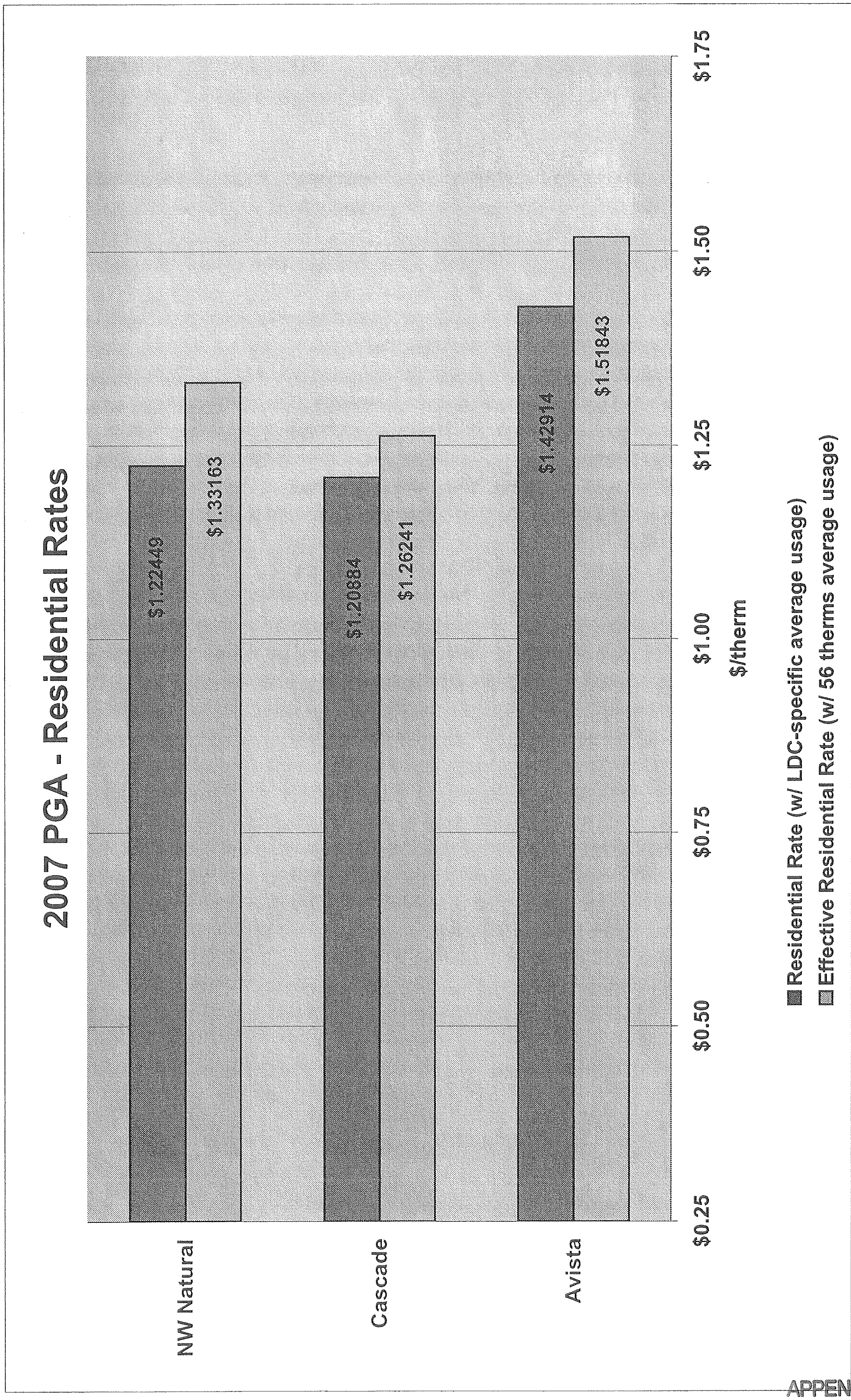
Attachment B

Comparison of Proposed Rate and Bill Increases for Oregon Local Distribution Companies by Class of Service

(November 2007 PGAs)

Class of Service	Rate Schedule	RATE IMPACTS: Current Rate per Therm	Proposed Rate per Therm	Change Rate per Therm	%-Change Rate per Therm	BILL IMPACTS: Average January Therms	Customer Charge	Current January Bill	Proposed January Bill	Change January Bill	%-Change January Bill	Annual Therms/ Month	Customer Charge	Current Monthly Bill	Proposed Monthly Bill	Change Monthly Bill	%-Change Monthly Bill
Residential																	
Avista	410*	$1.44931	$1.42914	-0.02017	-1.4%	98	$5.00	$147.03	$145.06	-$1.97	-1.3%	51	$5.00	$78.91	$77.89	-$1.02	-1.3%
Cascade	101	$1.19900	$1.20884	0.00984	0.8%	113	$3.00	$138.49	$139.60	$1.11	0.8%	60	$3.00	$74.94	$75.53	$0.59	0.8%
NW Natural	2	$1.34052	$1.22449	-0.11603	-8.7%	112	$6.00	$156.14	$143.14	-$13.00	-8.3%	56	$6.00	$81.07	$74.57	-$6.50	-8.0%
Commercial																	
Avista	420*	$1.36555	$1.34538	-0.02017	-1.5%												
Cascade	104	$1.10317	$1.10819	0.00502	0.5%												
NW Natural	3	$1.24436	$1.12149	-0.12287	-9.9%												
Industrial																	
Avista	424	$1.30913	$1.25402	-0.05511	-4.2%												
Cascade	105	$1.06455	$1.04579	-0.01876	-1.8%												
NW Natural	31	$0.92406	$0.81672	-0.10734	-11.6%												
Interruptible																	
Avista	440	$1.02031	$0.94898	-0.07133	-7.0%												
Cascade	170	$1.00732	$0.99242	-0.01490	-1.5%												
NW Natural	32	$0.84826	$0.74241	-0.10585	-12.5%												

* Rate Schedules 410 and 420 include the Margin Reduction Surcharge (in Rate Schedule 496) allowed under the approved Stipulation in Order No. 03-570.
In addition, all sales service customers' schedules include a new Glendale Surcharge (Rate Schedule 495).


2007 PGA - Residential Rates
NW Natural
Cascade
Avista
$1.22449
$1.33163
$1.20884
$1.26241
$1.42914
$1.51843
$0.25
$0.50
$0.75
$1.00
$1.25
$1.50
$1.75
$/therm
Residential Rate (w/ LDC-specific average usage)
Effective Residential Rate (w/ 56 therms average usage)