

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 46

In the Matter of

CASCADE NATURAL GAS
CORPORATION

2008 Integrated Resource Plan.

ORDER

DISPOSITION: PLAN ACKNOWLEDGED WITH MODIFICATION

INTRODUCTION

On December 18, 2008, Cascade Natural Gas Corporation (Cascade or the Company) filed its 2008 Natural Gas Integrated Resource Plan (IRP or Plan).

Jurisdiction

On April 20, 1989, pursuant to its authority under ORS 756.515, the Public Utility Commission of Oregon (Commission) issued Order No. 89-507 in Docket UM 180 adopting least-cost planning for all energy utilities in Oregon. On January 8, 2007, the Commission updated its resource planning guidelines in Order No. 07-002 (Docket UM 1056). This order was corrected in Order No. 07-047, entered February 9, 2007. Cascade is a public utility in Oregon, as defined by ORS 757.005, providing natural gas service to or for the public. Cascade filed its 2008 IRP in accordance with the Commission's integrated resource planning requirements adopted in Order Nos. 07-002 and 07-047.

Requirements for Integrated Resource Planning

The Commission requires regulated energy utilities to prepare integrated resource plans within two years of acknowledgment of the last Plan. Utilities must involve the Commission and the public in their planning process and prior to resource decision-making. Substantively, the Commission requires that energy utilities: (1) evaluate resources on a consistent and comparable basis; (2) consider risk and uncertainty; (3) make the primary goal of the process selecting a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers; and (4) create a plan that is consistent with the long-run public interest as expressed in Oregon and federal energy policies. *See* Order No. 07-002.

The Commission “acknowledges” resource plans that satisfy the procedural and substantive requirements and that seem reasonable at the time acknowledgment is given.

OVERVIEW OF CASCADE’S INTEGRATED RESOURCE PLAN

Cascade’s 2008 IRP describes the components of the Company’s planning process. The Plan includes forecasts of future customer demand and identification of resource needs over the 20-year planning period; assessments of demand-side and supply-side resource options and distribution system enhancements; consideration of planning risks and uncertainties; analysis and selection of resource options for meeting future needs; and identification of actions to be accomplished over 2009 and 2010 to carry out Cascade’s resource strategy and to complete additional planning activities. A summary of the Plan is provided below:

- Demand Forecast. Cascade developed a 20-year forecast of customers, therm sales and peak demand. Cascade’s demand forecasts were produced using econometric models to develop the core residential, commercial and industrial forecasts at the town level. These forecasts are then aggregated to the zonal level for use in the SENDOUT[®] optimization model. In order to assess the impact of weather on the demand forecast, the Company used the Monte Carlo simulation functionality contained in SENDOUT[®]. In addressing risk and uncertainty, the Company evaluated low, medium and high demand scenarios with low, medium and high supply cost and availability scenarios. Cascade then analyzed variations in inputs and subsequent demand sensitivities, pricing and resource timing and selection. Cascade chose the medium demand/medium price scenario as the most likely scenario for its planning activities. Cascade projects annual firm core market demand will grow at an annual average growth rate of 1.88 percent over the 20-year planning horizon. Peak day core market demand is projected to grow at an annual rate of 1.97 percent over the period.
- Demand-Side Resources. Since 2006, Cascade has relied on the Energy Trust of Oregon for the delivery and administration of its conservation programs in Oregon. In 2008, the study of the Company’s technical and achievable conservation potential was updated. The study provided Cascade with an estimate of the energy savings measures for the residential, commercial and industrial markets and an estimate of the costs for those measures and their potential applicability in Cascade’s service territory. A total of 59 energy efficiency measures were evaluated in the study. Based on the Company’s assumptions for deployment of resources and their costs, the cumulative therm “best case scenario” savings target for Cascade’s Oregon service territory over the 20-year planning horizon is 11,335,167 therms. As identified in its Two-Year Action Plan, the annual therm savings goals for the 2009 and 2010 period are 282,657 and 329,937 therms, respectively.
- Supply-Side Resources. Supply-side options available to gas utilities include flowing gas supplies through interstate pipelines, storage, and recallable supply arrangements. Cascade’s flowing gas supplies originate in the Canadian provinces of British

Columbia and Alberta and in the U.S. Rocky Mountain area. The Company's supplies include annual contracts, firm winter peaking contracts, and spot (mostly daily purchases) gas. Cascade contracts with Northwest Pipeline Corporation (NWP) and Gas Transmission Northwest (GTN) for interstate pipeline transportation into the Company's service areas in Washington and Oregon. The Company also contracts for underground storage and related transportation services at Jackson Prairie and has liquefied natural gas storage at NWP's Plymouth, Washington LNG facility for the benefit of its core customers. The IRP evaluated a variety of resource alternatives to meet additional capacity needs over the planning horizon including biogas to address specific shortfalls in Washington, satellite liquefied natural gas (LNG) facilities locatable in Cascade's service territory, LNG from several locations in Oregon and British Columbia, proposed pipelines and extensions for additional pipeline capacity, along with conventional existing gas supply contracts. In addition, distribution system enhancements were examined as a means to meet growth in system demand. Cascade also considered and modeled regulatory, price, and delivery risks associated with supply resources. Finally, Cascade considered and assessed various financial derivative alternatives to help ensure price stability for customers.

- Integration Strategies. Cascade's decision making tools for its integration analysis are SENDOUT[®] and Vector Gas.[™] The former provides optimization (in terms of net present value of revenue requirements) of supply-side resources under specified demand conditions (after cost effective demand-side management (DSM) is removed), while the latter provides Monte Carlo analysis for risk assessment. Cascade's IRP projects the need to acquire additional capacity resources in both Oregon and Washington beginning in 2013 based on expected load growth. In addition to existing supply resources the model chose biogas, satellite LNG, and LNG from the Kitimat LNG facility in Canada to serve future increase needs, as well as the proposed Sunstone and Blue Bridge pipelines and extensions.
- Two-Year Action Plan. Cascade's 2009-2010 Action Plan describes the near-term actions the Company will take to implement its optimal resource strategy and to support and improve IRP planning. In demand forecasting, Cascade will continue efforts to create a more accurate load forecast and research the viability of expanding the detail of the data by determining therm usage per customer per degree day by customer class, along with the non-heat sensitive baseload usage. In addition, Cascade will continue to monitor outside determinants affecting natural gas usage, as well as look into incorporation of demand elasticity in future demand forecasts. Along with normal monitoring of all available supply-side resources, Cascade will also closely monitor changes in Canadian natural gas exports, including how any reduction in such supplies affects NWP, a principal transporter for Cascade. The Company will continue to closely evaluate the proposed pipeline expansions to the west from the Rockies supply areas. Cascade also intends to refine its specific peak day resource acquisition Action Plans to address anticipated capacity shortfalls on the Wenatchee and Shelton laterals. Cascade will keep a close eye on trends in natural gas futures markets, especially as these relate to its risk mitigation plan for supply costs, and will evaluate the effectiveness of its risk management policies. Cascade

will target DSM program savings in Oregon of 282,657 therms in 2009 and 329,937 therms in 2010. Cascade will continue to evaluate the adequacy of the Oregon Public Purpose Fund and modify funding levels, if necessary, to achieve targeted therm savings. The Company will also continue to monitor the timing and costs associated with potential carbon legislation and analyze the impacts on overall portfolio costs and cost-effective DSM potential, as necessary.

Comments of the Parties

Cascade solicited initial comments from parties through its Technical Advisory Group (TAG) meetings prior to distributing a draft 2008 IRP for external review on October 6, 2008. Oregon Commission staff (staff) provided comments on Cascade's draft Plan on November 6, 2008. On December 18, 2008, the Commission received the final IRP. On June 2, 2009, Cascade filed an Oregon Addendum to its 2008 IRP. Staff distributed its draft recommendation on the Plan to the Company and interested parties on June 17, 2009, and a draft proposed order on the Plan on June 29, 2009. No comments were received.

Staff Comments. Based on its review of Cascade's 2008 IRP and accompanying Addendum and participation in the planning process, staff determined that the Plan meets the Commission's guidelines in Order Nos. 07-002 and 07-047. Procedural requirements were met as described above. Substantive IRP requirements were addressed throughout the Plan and summarized in an appendix to the Plan. Staff agrees that Cascade's IRP meets the Commission's substantive IRP requirements. Staff also concluded the demand-side and supply-side resources identified to fill the deficiencies expected in Cascade's Oregon service territory beginning in 2013 are appropriate. Staff recommends the Commission acknowledge the 2008 IRP with its addendum and Action Plan, subject to the addition of the following action item intended to better address the Commission's Guideline 2b¹ in Cascade's next planning cycle:

“For its next IRP, Cascade will incorporate the analyses, narrative and documentation included in the Company's Oregon Addendum into the IRP submitted to the Commission.”

OPINION

After review of Cascade's IRP and consideration of staff's comments, understanding that no other party provided comments on the Plan, we agree with staff's recommendations. Consequently, we acknowledge Cascade's 2008 IRP, as modified by staff's proposed action item requiring Cascade to incorporate the analysis included in the Company's Addendum in its next IRP.

¹ Guideline 2b: “. . . The utility should make public, **in its plan**, any non-confidential information that is relevant to its resource evaluation and action plan.” [Emphasis added.]

EFFECT OF THE PLAN ON FUTURE RATE-MAKING ACTIONS

Order No. 89-507 sets forth the Commission's role in reviewing and acknowledging a utility's least-cost plan as follows:

Consistency of resource investments with least-cost planning principles will be an additional factor that the Commission will consider in judging prudence. When a plan is acknowledged by the Commission, it will become a working document for use by the utility, the Commission, and any other interested party in a rate case or other proceeding before the Commission[.] Consistency with the plan may be evidence in support of favorable rate-making treatment of the action, although it is not a guarantee of favorable treatment. Similarly, inconsistency with the plan will not necessarily lead to unfavorable rate-making treatment, although the utility will need to explain and justify why it took an action inconsistent with the plan.

Order No. 89-507 at 7.

The Commission affirmed this principle in Docket UM 1056. *See* Order No. 07-002 at 24.

This order does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken pursuant to Cascade's 2008 IRP. As a legal matter, the Commission must reserve judgment on all rate-making issues. Notwithstanding these legal requirements, we consider the integrated resource planning process to complement the rate-making process. In rate-making proceedings in which the reasonableness of resource acquisitions is considered, the Commission will give considerable weight to utility actions which are consistent with acknowledged integrated resource plans. Utilities will also be expected to explain actions they take that may be inconsistent with Commission-acknowledged plans.

CONCLUSIONS

1. Cascade is a public utility subject to the jurisdiction of the Commission.
2. Cascade's 2008 IRP, along with its 2009 Addendum, as modified in this order, reasonably adheres to the principles of integrated resource planning set forth in Order Nos. 07-002 and 07-047 and should be acknowledged.

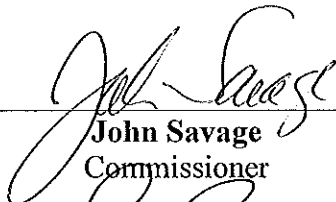
ORDER

IT IS ORDERED that the 2008 Natural Gas Integrated Resource Plan filed by Cascade Natural Gas Corporation on December 18, 2008, along with its 2009 Addendum, filed on June 2, 2009, as modified herein, is acknowledged in accordance with the terms of this order and Order No. 07-002 as corrected by Order No. 07-047. For its next IRP, Cascade will incorporate the analyses, narrative and documentation included in the Company's Oregon Addendum into the IRP submitted to the Commission.

Made, entered, and effective AUG 10 2009 .



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. 5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 28, 2009**

REGULAR X CONSENT EFFECTIVE DATE N/A

DATE: July 14, 2009

TO: Public Utility Commission

FROM: Bonnie Tatom and Lisa Gorsuch

THROUGH: Lee Sparling and Ed Busch

SUBJECT: CASCADE NATURAL GAS: (Docket No. LC 46) Staff Recommendation Regarding Cascade's 2008 Integrated Resource Plan.

STAFF RECOMMENDATION:

Staff recommends the Commission acknowledge Cascade Natural Gas Corporation's (Cascade or the company) 2008 Integrated Resource Plan (IRP or the plan) and Oregon Addendum, dated June 2009, subject to the following modification to the action plan:

"For its next IRP, Cascade will incorporate the analyses, narrative and documentation included in the company's Oregon Addendum into the IRP submitted to the Commission."

A proposed final order incorporating staff's recommendation is attached for the Commission's consideration.

DISCUSSION:

Cascade filed its 2008 IRP on December 18, 2008, in accordance with the Commission's updated integrated resource planning guidelines adopted in Order Nos. 07-002 and 07-047. The guidelines include procedural and substantive requirements that energy utilities must meet during the resource planning process and describe in their plans. Procedurally, utilities must involve the Commission and the public in their planning process prior to resource decision-making; include information in the plan that is relevant to the resource evaluation and action plan; and provide a draft IRP for public review and comment prior to filing the final plan with the Commission. Substantively, the Commission requires energy utilities to evaluate all resources on a

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July 14, 2009
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consistent and comparable basis; consider risk and uncertainty; make the primary goal of the process selecting a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers; and create a plan that is consistent with the long-run public interest as expressed in Oregon and federal energy policies. The Commission "acknowledges" resource plans that satisfy the procedural and substantive requirements and that seem reasonable at the time acknowledgment is given.

Cascade's plan was developed during a public process that included three Technical Advisory Group (TAG) meetings with Commission staff and other stakeholders. The company distributed a draft 2008 IRP for review and comment on October 6, 2008. Staff provided its comments to Cascade on the draft plan on November 6, 2008, and as noted above, the company filed its final plan on December 18. Staff, Cascade and the stakeholders met February 4, 2009, to address insufficiencies in the filed plan and discussed an alternate schedule for meeting the requirements of the Commission's IRP orders. A prehearing conference was held on February 10, 2009, to set the procedural schedule. The schedule was later extended to allow the company to file, and the parties to review, an addendum to the plan. The company filed its Oregon Addendum on June 2, 2009. Staff distributed its draft recommendation on the final plan to the company and interested parties on June 17, 2009, and a draft proposed order on June 29, 2009, requesting that comments be made by July 7, 2009. No comments were received.

A summary of the components of Cascade's 2008 IRP and Oregon Addendum is included in the attached proposed order. Appendix A-3 of the plan provides a ten-page summary of how Cascade's IRP meets each of the applicable provisions of the Commission's updated IRP guidelines.

Staff Review and Recommendation

Staff believes Cascade's 2008 IRP, together with the Addendum, meets the Commission's substantive and procedural guidelines in Order Nos. 07-002 and 07-047. The company has documented its capacity shortfalls and the resources necessary to address them. There are no near term (through 2012) capacity deficits in Cascade's system that cannot be met given the company's current contract terms and conditions for citygate deliveries and recall of long-term releases. We believe that Cascade's longer term choices for resources to fill deficiencies beyond 2012 (located in the company's Washington and Oregon service territories) are adequately documented. To meet the load requirements for 2012 and beyond, the company relies on pipeline expansion projects. As the company noted in its Addendum, staff has been concerned about the viability of the Sunstone and Blue Bridge pipeline projects. We agree with

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Cascade's plan to update its analyses based on the most current information available before relying solely on alternative choices identified in the IRP. The company shared its observations regarding future loads and resource needs, supply-side and demand-side resource options, SENDOUT[®] optimization model assumptions and results, and Cascade's conclusions about those results with staff and other members of its TAG during the collaborative public process. The IRP, together with the Addendum, provides adequate detail of the analysis the company undertook in reaching its conclusions.

Cascade utilized an appropriate integrated planning model to prepare its IRP. This model is SENDOUT-Vector Gas. This model combines a linear programming function with stochastic modeling. The model provides a "best choice" solution under static conditions, but also provides a means to probabilistically test scenarios and sensitivities. Cascade gathered sufficient and appropriate data on resources (e.g., size, timing, cost), conditions affecting Cascade's system (e.g., economic, resource availability, political events), and expected core system demand for the model. Then, Cascade appropriately input this information into the model. Cascade identified a "base case" for planning purposes and then prepared several sensitivities and scenarios around this base case, testing variations in demand, weather, resource availability and price, political events, and socioeconomic events (price elasticity).

Cascade provided the full results of the SENDOUT-Vector Gas modeling to staff, as well as the full inputs provided to the model. The results were provided in a format that allowed clean and easy comparison of base case vs. various sensitivities and scenarios in terms of net present value of revenue requirements. Cascade also clearly identified which of the SENDOUT-Vector Gas modeling results it chose as its preferred case—the basis for its two-year action plan. This choice was fully explained and was based on practicable reasoning and sufficient data.

Staff agrees with the company's proposal to monitor the effectiveness of the Oregon Public Purpose Fund to ensure the adequacy of the funds to capture achievable therm savings in Oregon and to monitor the proposed pipeline expansion projects. As the company notes in its IRP, it "has demonstrated throughout the filed plan and with the additional information included in this addendum that the portfolio results from the Basecase scenario meet the Company's stated reliability, cost and risk objectives as required."

However, staff believes the company's IRP processes can be further improved. Cascade's initial IRP did not adequately address the Commission's guidelines, requiring additional work and time to complete. We recommend the company review its deliverables regarding the IRP before submitting its next IRP so that a lengthy process to provide an addendum is not necessary. This will ensure that the company identifies

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any projected shortfalls, performs the appropriate analyses and selects the preferred portfolio to address those deficiencies in its draft and final IRPs. Staff recommends the Commission acknowledge the 2008 IRP and action plan with this added action item:

“For its next IRP, Cascade will incorporate the analyses, narrative and documentation included in the company’s Oregon Addendum into the IRP submitted to the Commission.”

PROPOSED COMMISSION MOTION:

Cascade’s 2008 Integrated Resource Plan and Addendum be acknowledged, subject to staff’s recommended modification.

Attachment

LC 46 Recommendations.doc

ORDER NO.

ENTERED

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 46

In the Matter of)
)
CASCADE NATURAL GAS) PROPOSED ORDER
CORPORATION)

2008 Integrated Resource Plan.

DISPOSITION: PLAN ACKNOWLEDGED WITH MODIFICATION

INTRODUCTION

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Jurisdiction

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(3) make the primary goal of the process selecting a portfolio of resources with the best combination of expected costs and associated risks and uncertainties for the utility and its customers; and (4) create a plan that is consistent with the long-run public interest as expressed in Oregon and federal energy policies. *See* Order No. 07-002.

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OVERVIEW OF CASCADE’S INTEGRATED RESOURCE PLAN

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exports, including how any reduction in such supplies affects NWP, a principal transporter for Cascade. The company will continue to closely evaluate the proposed pipeline expansions to the west from the Rockies supply areas. Cascade also intends to refine its specific peak day resource acquisition action plans to address anticipated capacity shortfalls on the Wenatchee and Shelton laterals. Cascade will keep a close eye on trends in natural gas futures markets, especially as these relate to its risk mitigation plan for supply costs, and will evaluate the effectiveness of its risk management policies. Cascade will target DSM program savings in Oregon of 282,657 therms in 2009 and 329,937 therms in 2010. Cascade will continue to evaluate the adequacy of the Oregon Public Purpose Fund and modify funding levels, if necessary, to achieve targeted therm savings. The company will also continue to monitor the timing and costs associated with potential carbon legislation and analyze the impacts on overall portfolio costs and cost-effective DSM potential, as necessary.

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Staff Comments. Based on its review of Cascade's 2008 IRP and accompanying Addendum and participation in the planning process, staff determined that the plan meets the Commission's guidelines in Order Nos. 07-002 and 07-047. Procedural requirements were met as described above. Substantive IRP requirements were addressed throughout the plan and summarized in an appendix to the plan. Staff agrees that Cascade's IRP meets the Commission's substantive IRP requirements. Staff also concluded the demand-side and supply-side resources identified to fill the deficiencies expected in Cascade's Oregon service territory beginning in 2013 are appropriate. Staff recommends the Commission acknowledge the 2008 IRP with its addendum and action plan, subject to the addition of the following action item intended to better address the Commission's Guideline 2b¹ in Cascade's next planning cycle:

"For its next IRP, Cascade will incorporate the analyses, narrative and documentation included in the company's Oregon Addendum into the IRP submitted to the Commission."

¹ Guideline 2b: "... The utility should make public, in its plan, any non-confidential information that is relevant to its resource evaluation and action plan."

OPINION

After review of Cascade's IRP and consideration of staff's comments, understanding that no other party provided comments on the plan, we agree with staff's recommendations. Consequently, we acknowledge Cascade's 2008 IRP, as modified by staff's proposed action item requiring Cascade to incorporate the analysis included in the Company's Addendum in its next IRP.

EFFECT OF THE PLAN ON FUTURE RATE-MAKING ACTIONS

Order No. 89-507 sets forth the Commission's role in reviewing and acknowledging a utility's least-cost plan as follows:

Consistency of resource investments with least-cost planning principles will be an additional factor that the Commission will consider in judging prudence. When a plan is acknowledged by the Commission, it will become a working document for use by the utility, the Commission, and any other interested party in a rate case or other proceeding before the Commission[.] Consistency with the plan may be evidence in support of favorable rate-making treatment of the action, although it is not a guarantee of favorable treatment. Similarly, inconsistency with the plan will not necessarily lead to unfavorable rate-making treatment, although the utility will need to explain and justify why it took an action inconsistent with the plan.

Order No. 89-507 at 7.

The Commission affirmed this principle in Docket UM 1056. *See* Order No. 07-002 at 24.

This order does not constitute a determination on the rate-making treatment of any resource acquisitions or other expenditures undertaken pursuant to Cascade's 2008 IRP. As a legal matter, the Commission must reserve judgment on all rate-making issues. Notwithstanding these legal requirements, we consider the integrated resource planning process to complement the rate-making process. In rate-making proceedings in which the reasonableness of resource acquisitions is considered, the Commission will give considerable weight to utility actions which are consistent with acknowledged integrated resource plans. Utilities will also be expected to explain actions they take that may be inconsistent with Commission-acknowledged plans.

CONCLUSIONS

1. Cascade is a public utility subject to the jurisdiction of the Commission.
2. Cascade's 2008 Integrated Resource Plan, along with its 2009 Addendum, as modified in this order, reasonably adheres to the principles of integrated resource planning set forth in Order Nos. 07-002 and 07-047 and should be acknowledged.

ORDER

IT IS ORDERED that the 2008 Natural Gas Integrated Resource Plan filed by Cascade Natural Gas Corporation on December 18, 2008, along with its 2009 Addendum, filed on June 2, 2009, as modified herein, is acknowledged in accordance with the terms of this order and Order No. 07-002 as corrected by Order No. 07-047.

Made, entered, and effective _____.

Lee Beyer
Chairman

John Savage
Commissioner

Ray Baum
Commissioner