ORDER NO. 01-834

ENTERED SEP 28 2001

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 146
UM 1031

In the Matter of CASCADE NATURAL GAS CORPORATION's 2001 Gas Cost Tracking and Technical Adjustment Filing and Application for Reauthorization to Continue Deferring Certain Revenues and Expenses.	)))))	ORDER

DISPOSITION: APPLICATIONS APPROVED

On August 15, 2001, Cascade Natural Gas Corporation (Cascade or company) submitted to the Public Utility Commission of Oregon (Commission) an annual gas cost tracking and technical adjustment filing (docketed as UG 146) and an application for reauthorization to defer certain expenses or revenues related to its Purchased Gas Adjustment (PGA) balancing account (docketed as UM 1031).

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 25, 2001, the Commission adopted Staff's recommendation to approve the applications. Staff's recommendation is attached as Appendix A and is incorporated by reference.

ORDER

IT IS ORDERED THAT Cascade Natural Gas Corporation's 2001 Gas Cost Tracking and Technical Adjustment filing (UG 146) and application for reauthorization to continue deferring certain revenues and expenses related to its Purchased Gas Adjustment balancing account (UM 1031) are approved, effective October 1, 2001, as further described in Appendix A.

Made, entered and effective ________________________________.

BY THE COMMISSION:

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Vikie Bailey-Goggins
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

ITEM NO. 12 and 13

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 25, 2001

REGULAR	X	CONSENT		EFFECTIVE DATE	October 1, 2001

DATE: September 19, 2001

TO: Phil Nyegaard through Lee Sparling, Ed Busch and Bonnie Tatom

FROM: Reed Harris and Judy Johnson

SUBJECT: Cascade Natural Gas Corporation's 2001 Gas Cost Tracking and Technical Adjustment Filing (Docket No. **UG 146**, Advice No. CNG/001-08-01), and Application for Reauthorization of the PGA Deferred Account (**UM 1031**)

SUMMARY RECOMMENDATION:

We recommend that the Commission allow Cascade Natural Gas Corporation's (Cascade or company) proposed tariff sheets in Advice No. CNG/001-08-01 to become effective with service on and after October 1, 2001. This filing increases the company's annual revenues by $3.1 million, or 5.7 percent.

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 15, 2001, Cascade submitted its annual gas cost tracking and technical adjustment filing, commonly known as its PGA filing. This filing consisted of a proposed increase in annual revenues in Advice No. CNG/001-08-01 (docketed as UG 146), effective October 1, 2001. In a concurrent filing docketed as UM 1031, Cascade requested reauthorization of deferrals under the company's PGA mechanism.

UG 146

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 at the top of Page 2, and shown in **Attachment A.**

PGA Base Gas Cost Change	$ 4,660,685
Removal of Temporary Increment	78,734
Adding New Temporary Increment	(1,600,870)
Total Proposed Increase	$ 3,138,549

Summary of Bill Effects

With these changes, the monthly bill of a typical residential customer using 61 therms per month will increase by $3.18, or 5.7 percent. A typical customer's bill would increase from $55.35 to $58.53. During January, a typical customer's usage would be 119 therms and the bill would increase from $105.13 to $111.33. A summary of the proposed tariff and revenue changes for Cascade's major rate schedules is shown in Attachment A. A summary of the impact of the rate changes on Cascade's customers on both an annual and January basis is shown in Attachment B, along with the current rates and rate and bill impacts on Avista and NW Natural customers of their PGA filings (addressed in agenda items 7 and 9).

Staff Review of Gas Costs

National/Regional/Local Trends

Natural gas prices in the Northwest have become increasingly volatile in the last several years. The trends identified last year regarding the erosion of our regional price advantage, integration of national and regional markets and corresponding price volatility and uncertainty, continue to characterize Northwest regional gas markets.

Last winter wholesale cash market prices for next-day delivery of natural gas to Northwest points went ballistic as demand outpaced supply through the limited delivery points. Spot market prices that had been in the $2.50 range rocketed to $49.95 per MMBtu in early December, stayed in the double-digits for the remainder of the month and didn't settle back below $5.00 per MMBtu until May.

The spot market alone does not tell the whole story. Spot market prices buy gas for delivery the next day. To buy gas for delivery next winter, utilities must purchase futures contracts or enter into contracts with gas marketers for future delivery. On May 1, 2001, NYMEX contracts for natural gas to be delivered in December 2001 were selling for $5.179 per MMBtu and contracts for delivery in January of 2002 were selling for $5.241 per MMBtu. A futures contract purchased on May 1st to buy the next 12 months (12-month strip) through April 2002 was selling for $4.893 per MMBtu.

During this same period, the U.S. Department of Energy/Energy Information Administration, together with the major trading houses, were predicting that the average price for natural gas in 2001 would not fall below $5. ("average" meaning that $3 gas prices in the summer, when Northwest gas demand is low, could be offset by $7+ gas in the winter, when Northwest gas demand is high.)

A primary component in the equation for predicting natural gas prices was that the new gas-fired electric generators proliferating up and down the West Coast (and the Nation) would be in direct competition with natural gas storage operators for finite gas supplies during the summer months, keeping prices uncharacteristically high. Two unforeseen factors occurred this past year to disrupt that prediction:

- A combination of high gas prices and a lagging national economy reduced industrial and feedstock demand for natural gas, loosening demands on the supply; and
- The summer weather across the country has been moderate. Together with price elasticity associated with higher electric costs the result has been lower air conditioning demand.

Consequently, natural gas has been injected into storage at a record pace, resulting in an improved supply picture and lower market prices for natural gas.

The question remains whether the current summer price levels are sustainable. The present balance that is allowing large storage injections is both precarious and fragile. A recent error in the weekly American Gas Association (AGA) storage report set off an upsurge in futures prices that saw a 10% increase in natural gas futures prices occur in less than an hour.

The two wild cards remaining in the supply/demand deck are industrial load and gas-fired electric generation. Separately or together these two have the potential to shift the balance. Compounding this demand volatility is the limitation that virtually all natural gas deliveries to the Northwest must come from one of three receipt points: Sumas, Kingsgate or the Rockies. However, given the declining forward price outlook, increasing storage levels, growing gas production, high drilling rig counts, FERC price caps and the public pressure for a national energy policy, natural gas prices could stabilize over the next twelve months.

To mitigate the demonstrated volatility of the Northwest market, Cascade has locked in prices for the majority of its Oregon natural gas delivery for the next three years through various complementary contracts for specified future deliveries. Cascade's plan also incorporates expanded use of its available storage resources.

Cascade’s Gas Cost Situation

Cascade’s natural gas supply for Oregon is delivered by two pipelines. PG&E GT-NW serves the portion of Cascade's service area in Central Oregon with gas supplied primarily from Alberta, Canada. Williams' Northwest Pipeline serves the Eastern Oregon portion of Cascade's territory with a blend of gas flowing from Canada and the Rockies. The majority of Cascade's Oregon supply is purchased using long-term contracts. These are supplemented with additional "short strip" contracts for delivery in specific time frames to balance the supply to the load. These fixed contracts are minimally supplemented with proposed judicious spot market purchases, primarily to re-inject into storage during shoulder months.

Following the wholesale natural gas price stampede on the West Coast this past winter, (particularly for Sumas delivery, where prices went over $47/MMBtu), Cascade locked in contract prices last spring for most of its contracts. This was done to assure that customers would have a stable price base in an increasingly volatile market. The prices negotiated were reasonable at the time and well within the price predictions of both the federal Energy Information Administration (EIA) and the major trading houses for gas prices during the remainder of the year.

Although these contract prices are now above the summer prices seen last week, they will probably prove to have been an excellent purchase in December and January, when Cascade's customers use the highest volumes of gas and when winter gas prices are in full swing. A large portion of the value of natural gas is having it *where* it is needed *when* it is needed. $2.50/MMBtu gas in Louisiana in August is of no value for a furnace in Bend in January.

Finally, Cascade is re-evaluating and redefining how it uses its natural gas storage resources, mainly at Jackson Prairie. This year's PGA filing reflects Cascade's storage plans that include mid-season refills into storage, consistent with satisfactory supply and pricing, to use the storage resource as an economic hedging tool as well as a peak shaving facility.

Staff's Review of Cascade's Gas Costs

Cascade, together with the other two regulated gas utilities, is required to file for rate changes related to purchased gas costs each year. In work papers submitted to Staff, Cascade shows a projected annualized gas cost of $36,189,261, which represents a 21% increase over the current annual cost. The annual gas cost includes both natural gas commodity and transportation costs.

Staff closely examined Cascade's gas supply portfolio and gas cost tracking application. The company's spreadsheets that calculate commodity contract costs were free of errors or defects. Cascade's filing indicates, and Staff has confirmed, that the company continues to contract with many of the same entities for its Oregon gas supply. Staff also verified that Cascade used accurate pipeline tariff rates in computing annual transportation costs.

Last year, Cascade contracted for volumes totaling 56,899,310 therms at a weighted average cost of gas of $0.42807. The weighted average cost of gas, or WACOG, is the annual commodity cost per therm. This year, the company has contracted with the same suppliers for volumes totaling 60,268,433 therms at a weighted average cost of gas of $0.51769. The number of therms increased by 6%, while the WACOG increased by 21%.

Overall, Cascade's annual commodity costs increased by $5,401,069. Given Cascade's stable supply mix, it is reasonable to attribute this increase in cost to inflated prices in natural gas commodity markets.

Following is a table of Cascade's Weighted Average Cost of Gas since 1991. These numbers are unadjusted for the effects of inflation. Staff concludes that Cascade's proposed WACOG of $0.51769 is an accurate reflection of the company's annual commodity cost. In addition, this filing shows demand charge decreases of $848,616 and adjustments for uncollectibles, city franchise fees, and gross revenue fees of $108,233. Adding these changes to the commodity cost increase of $5,401,069 results in the change in base gas cost of $4,660,685 which is shown in Attachment A. Staff has inspected Cascade's proposed tariff sheets and verified their accuracy.

Year	WACOG	% Change
1991	.17842	
1992	.17842	0%
1993	.19647	10%
1994	.18469	-6%
1995	.14024	-24%
1996	.12013	-14%
1997	.17771	48%
1998	.19751	11%
1999	.24576	24%
2000	.42807	74%
2001	.51769	21%

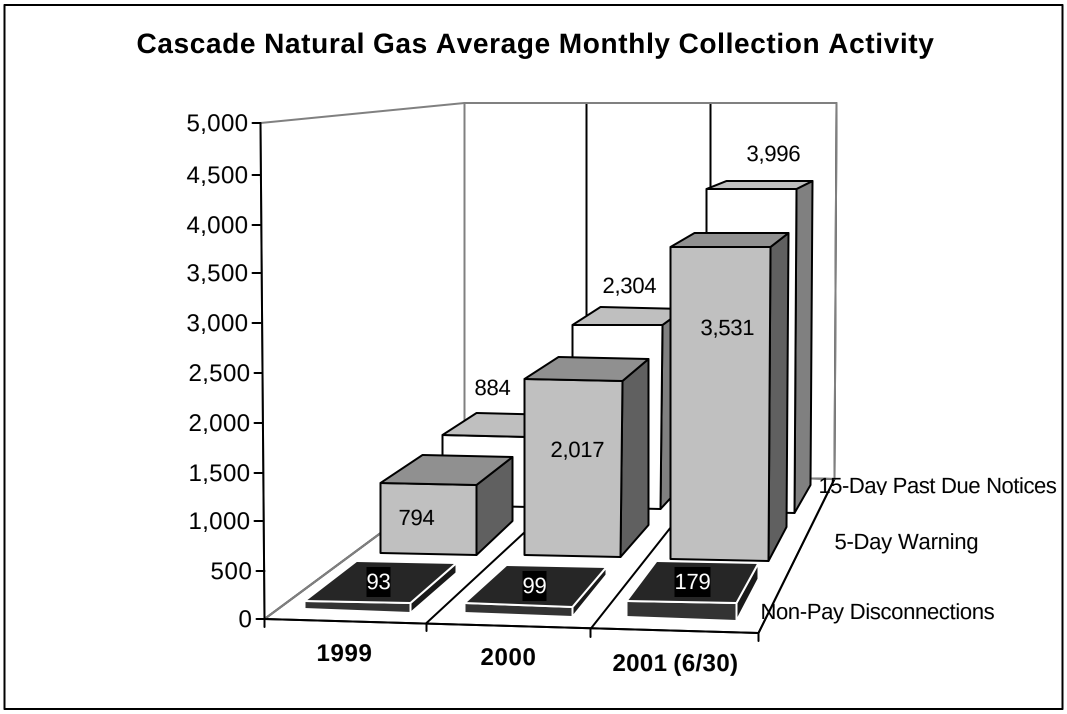
How does Cascade expect to work with its customers in the next year?

- The company will continue mandated energy audits under its Residential Energy Conservation (Schedule 1005) and Commercial Energy Conservation Services (Schedule 1011) Programs. Performance and customer participation in these programs declined until this year, when the volume of requests for new energy audits increased, and actual work completed is projected to exceed last year's level. Cascade is re-evaluating the cost-effectiveness of weatherization measures to reflect its recently acknowledged IRP.

- The company will continue to promote its *Winter Help* program, a below-the-line program that helps low-income customers pay their winter gas bills. Customers can contribute to this fund, which the company matches with shareholder dollars.

- The company will continue to offer its customers the required equal payment plans and a *Budget Payment Plan* designed to average the monthly payments for gas service of any residential customer. As of June 30, 2001, participation in the company's Budget Payment Plan was already 10% ahead of total 2000 levels.

- Collection activity at Cascade has increased the past two years due both to increased gas prices and to the general downturn of the economy (see bar graph below).



- Cascade will also provide customers the required 12-month payment arrangements on arrearages. As of June 30, 2001 customer participation in arrearage Time Payment Agreements was 162% above 2000 levels. Cascade has also identified substantial increases in the average monthly volumes of disconnect warning notices issued and in disconnections of service for non-payment.

- Cascade will continue its gift certificate program that allows a customer to pay for another customer's bill.

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 the temporary credit increments currently in place, increasing revenues by approximately $78,734.

- Addition of new temporary increments to refund $1,600,870 in net credit balances in the company's deferred revenue and gas cost accounts. This balance includes a refund of $559,317 resulting from the company's UM 903 Spring 2001 Earnings Review. 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 a decrease of $1,522,136 on an annual basis.

Rate History

Natural gas rates paid by Cascade's customers have increased at a slower pace than the commodity cost of purchased gas. The table on the top of Page 8 shows the rates the Commission has approved for Cascade's residential customers on Schedule 101 between 1994 and 2000.

Date	Customer Charge	Rate	+/-%
December 1, 1994	$3.00	$0.65733	
December 1, 1995	$3.00	$0.61337	-6.7%
December 1, 1996	$3.00	$0.55559	-9.4%
December 1, 1997	$3.00	$0.61116	10.0%
December 1, 1998	$3.00	$0.63797	4.4%
December 1, 1999	$3.00	$0.67706	6.1%
October 1, 2000	$3.00	$0.85827	26.8%
October 1, 2001 *(Proposed)*	$3.00	$0.91034	6.1%

Earnings Review and Three Percent Test

As a matter of policy, in past years the Commission conducted earnings reviews for both prospective purchased gas costs changes and PGA-related deferrals. In 1999, the Commission concluded its PGA Investigation in dockets UM 903 and AR 357. Order No. 99-284 issued in Docket No. AR 357 adopted a new rule, OAR 860-022-0070, Procedures and Standards for Reviewing Gas Utility Rates in the Context of the Purchased Gas Adjustment Mechanism. This rule enacted an annual spring earnings review to replace the earnings review related to prospective purchased gas cost changes. In addition, Section (8) of this rule states: "An earnings review will not be applicable to amortization of deferred gas costs if the LDC assumes at least 33 percent of the responsibility for commodity cost differences in the risk sharing mechanism." In 1997, Cascade adopted a 33 percent sharing level and thus is exempt from an earnings review associated with this PGA filing.

ORS 757.259 (5) and (6) (as amended by House Bill 2630) states that the overall annual average rate impact of the amortizations authorized under the statute may not exceed three percent of the 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 percent cap and may be implemented as proposed.

UM 1031

In this filing, Cascade requests reauthorization of deferrals pursuant to its automatic adjustment clause, the Purchased Gas Adjustment (PGA) mechanism. 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.

The information contained in the application is consistent with the requirements of ORS 757.259, 757.210 and OAR 860-027-300. 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, effective October 1, 2001.

STAFF RECOMMENDATIONS:

We recommend the Commission take the following action regarding Cascade Natural Gas Corporation's filings:

1. Approve amortization of deferred accounts, base gas cost changes, and rate changes as requested in Docket No. UG 146 and allow the associated tariff sheets of Advice No. CNG/000-08-01 to go into effect October 1, 2001.

2. Reauthorize deferred accounting for Cascade's Purchased Gas Balancing Account mechanism, Schedule No. 177, for one year beginning October 1, 2001.

Attachment