

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UI 278

| | | |
|--|---|-------|
| In the Matter of |) | |
| |) | |
| CASCADE NATURAL GAS |) | ORDER |
| CORPORATION |) | |
| |) | |
| Application for an Affiliated Interest |) | |
| Agreement with Knife River Corporation and |) | |
| Waiver of OAR 860-027-0040 Requirements. |) | |

DISPOSITION: APPLICATION APPROVED WITH CONDITIONS

On December 26, 2007, Cascade Natural Gas Corporation (Cascade) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-027-0040, requesting approval of an affiliated interest agreement with Knife River Corporation and waiver of the requirements of OAR 860-027-0040. A full description of the filing is contained in the Staff Report, attached as Appendix A and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on February 26, 2008, the Commission adopted Staff's recommendation.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility," and Cascade Natural Gas is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists, as defined under ORS 757.015.

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

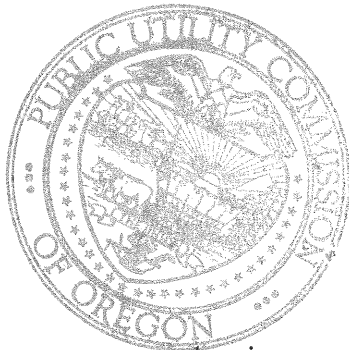
1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, as modified herein, including certain conditions.

ORDER

IT IS ORDERED that the application of Cascade Natural Gas Corporation to enter into an affiliated interest agreement with Knife River Corporation and waiver of the requirements of OAR 860-027-0040 is approved, subject to the conditions stated in Appendix A.

Made, entered, and effective FEB 29 2008.

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.

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 26, 2008

REGULAR _____ CONSENT X EFFECTIVE DATE _____ NA _____

DATE: February 11, 2008

TO: Public Utility Commission

FROM: Marion Anderson *MSA*

THROUGH: *in* Lee Sparling, Marc Hellman, and Michael Dougherty *# for 1411*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UI 278) Application for an affiliated interest agreement with Knife River Corporation and waiver of the requirements of OAR 860-027-0040.

STAFF RECOMMENDATION:

The Public Utility Commission (PUC or the Commission) should approve the application of Cascade Natural Gas Corporation (Cascade or the Company) for an affiliated interest agreement with Knife River Corporation (Knife) and waiver of the requirements of OAR 860-027-0040 with the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with affiliates.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. The Company shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

This application was filed on December 26, 2007, pursuant to ORS 757.495 and OAR 860-027-0040. Cascade and Knife are wholly owned by MDU Resources Group

Docket UI 278
February 11, 2008
Page 2

which thereby establishes the affiliated interest relationship. The annual anticipated Oregon expenditure under this contract is less than \$10,000. The application requested a waiver of the OAR 860-027-0040 requirements.

The following issues were investigated:

- Scope of the Agreement
- Transfer Pricing
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Agreement

Normal utility operations necessitate some asphalt patching services on a regular basis. Another non-affiliated service provider is sometimes used in the company's Central Oregon certificated area.

Transfer Pricing

The requirements dictated by OAR 860-027-0040 are properly waivable under OAR 860-027-0043 because the 2006 Oregon utility operating revenues figure (the most recent data available) was \$92,267,278. The projected contract annual expenditure is well below the \$92,267, 0.1 percent threshold. Further, the lower of cost or market standard under OAR 860-027-0048 is satisfied (in my opinion) by the public pricing schedules submitted for Knife and the alternate provider in the area, High Desert Aggregate & Paving, Inc.

Determination of Public Interest Compliance

Given the waiver, the contract's terms seem just and reasonable.

Records Availability, Audit Provisions, and Reporting Requirements

Staff Recommendation Condition No. 1 affords necessary access to any relevant records.

Based on the review of this application, Staff concludes the following:

1. The agreement's transfer pricing as stipulated is not unreasonable.
2. Potential transactions will not harm customers and are not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

Docket UI 278
February 11, 2008
Page 3

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Corporation's affiliated interest agreement with Knife River Corporation and waiver of the requirements of OAR 860-027-0040 be approved, subject to the recommended conditions.

UI 278