

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 903/AR 357

In the Matter of)
)
CASCADE NATURAL GAS) ORDER
CORPORATION)
)
2008 Spring Earnings Review.)

DISPOSITION: EARNINGS SHARED

On April 30, 2008, Cascade Natural Gas Corporation (Cascade) filed its 2007 earnings report with the Public Utility Commission of Oregon (Commission) for the 12 months ending December 31, 2007. Cascade represented that the report was developed in a manner consistent with Commission Order No. 99-272, as amended in Order No. 04-203. On May 23, 2008, Cascade submitted revised sheets reclassifying some of the adjustments.

At its July 8, 2008, public meeting, the Commission adopted Staff's recommendation, which is attached as Appendix A and is incorporated by reference. Based on Staff's review of the earnings report, subsequent revisions and the Commission's records, the Commission finds that the adjusted earnings rise above the earnings threshold established in docket UM 903, resulting in shared earnings of \$226,763.

ORDER

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

Made, entered and effective JUL 11 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.

ITEM NO. CA5

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 8, 2008**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: June 24, 2008

TO: Public Utility Commission

FROM: Deborah Garcia *DG*

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

SUBJECT: CASCADE NATURAL GAS: (Docket Nos. UM 903/AR 357) 2008 Spring Earnings Review.

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Cascade Natural Gas's (Cascade or Company) 2007 earnings exceed the earnings threshold designated in UM 903, thereby requiring \$226,763 to be returned to customers.

DISCUSSION:

Background

Commission Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357) established the role and structure of earnings reviews for the Purchased Gas Adjustment (PGA) for Oregon's three regulated natural gas distribution companies (LDCs): Avista Utilities, Cascade Natural Gas, and Northwest Natural. These reviews were originally scheduled to sunset in 2002, but were extended twice, first in Commission Order No. 03-198 (Docket AR 449) and then again in Commission Order No. 07-019 (Docket AR 512), which extended the spring earnings review process through 2009.

The Commission adopted OAR 860-022-0070 along with a list of issues agreed upon by the parties in a Statement of Stipulated Issues. The Commission adopted various resolutions to apply to earnings reviews. These resolutions are summarized below.

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Relationship of Earnings Review to PGA Filings

Each spring a general earnings review will be held; a portion of revenues above a specified return on equity (ROE) level will be booked to a deferred account.

For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism, there will be no earnings test in the fall prior to amortizing deferrals. For LDCs that assume less than 33 percent of the risk for commodity cost differences in the sharing mechanism, an earnings test will be applied prior to amortizing deferrals. Cascade adopted a 67-33 percent sharing mechanism for commodity cost differences.

Structure of Earnings Reviews

By May 1 each year, LDCs will file results of operations for the 12 months ending the prior December 31. Staff will complete a review and distribute summary conclusions by June 10 to all parties. Staff will present the results of the earnings review for each LDC at the first regular public meeting in July. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1 and the Commission will issue its decision by August 15. Unless otherwise directed by the Commission, LDCs file annual gas cost tracking filings by August 31 for November 1 rate changes. These rate changes include amortization of deferred credit amounts that may result from the spring earnings review.

Earnings Adjustments

Results of operations reports will be adjusted for the Type 1 adjustments set forth in Order No. 99-272. Cascade made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.

ROE Earnings Threshold

Based on Commission Order No. 04-203 and, as modified by Order no. 06-191, and as further modified by Order No. 07-220, the adjusted earnings threshold for Cascade Natural Gas is the sum of 10.1 percent plus 215 basis points and an additional adjustment for inflation as specified by order. The 2008 total adjusted earnings threshold is 12.45 percent.

Earnings Sharing

Revenue representing 33 percent of the test year earnings that exceed the threshold level will be shared with customers. There is no sharing if the adjusted earnings are below the earnings threshold.

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Effective Date of Rate Adjustment

Revenue amounts that are to be returned to customers will be booked to a deferred account with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.

Cascade's Earnings Review

On April 30, 2008, Cascade submitted its 2007 Results of Operations report for the 12 months ending December 31, 2007. The Company states that its report was developed in a manner consistent with Commission Order No. 99-272, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070. On May 23, 2008, after a discussion with Staff regarding the classification of adjustments as Type I, II, or III, Cascade submitted revised sheets reclassifying some of the adjustments. Based on the revisions, Cascade calculates its ROE as 13.70 percent after the application of its Type I adjustments. This is greater than the authorized threshold of 12.45 percent.

Staff has examined the company's filed earnings report and believes the company has correctly calculated its ROE at 13.70 percent. The result is excess earnings of \$687,161 of which 33 percent or \$226,763 will be shared with customers. This amount has been deferred with interest and will be returned to ratepayers in Cascade's 2008 PGA filing.

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

PROPOSED COMMISSION MOTION:

Accept Staff's finding that Cascade Natural Gas's 2007 earnings exceed the earnings threshold designated in UM 903, thereby requiring \$226,763 to be returned to customers.

Cascade UM 903 2008 spring earnings review