Docket No, UG-06____
Exhibit ____(JTS-1T)
Witness: Jon T. Stoltz

BEFORE THE

WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

UG-06_____

GENERAL RATE APPLICATION

OF

February 14, 2006

Prepared Direct Testimony of
Jon T. Stoltz

Summary of Rate Application
Restate Revenues and Gas Cost at current Rates
Removal of Non-Core Competitive Services Revenues and Cost
Lost and Unaccounted For Restatement
Weather Normalization Adjustment
Pro forma Industrial Contract Changes
Estimated Rate Case Expense
Revenue Requirements and Revenue Under Proposed Rates

Prepared Testimony of Jon T Stoltz

(Summary Exhibit, Restate Revenues and Gas Cost at Current Rates, Removal of Non-Core Competitive Services Revenues and Cost Lost and Unaccounted For Restatement, Weather Normalization Adjustment, Proforma Industrial Contract Changes, Estimated Rate Case Expense, and Revenue Requirements)

Q. Please state your name and address for the record.

A. Jon T. Stoltz, 222 Fairview Avenue North, Seattle, Washington.

Q. By whom are you employed and what is your title?

A. I am employed by Cascade Natural Gas Corporation ("Cascade" or the "Company") as Senior Vice President – Gas Supply and Regulatory.

Q. Would identify your responsibilities with the Company?

A. As Senior Vice President- Gas Supply and Regulatory, I am responsible for the Gas Supply and Regulatory Affairs Departments of Cascade. The Gas Supply Department is responsible for the execution of the Company's Gas Procurement Strategy, including the negotiation and purchasing of physical gas supplies and the securing of price hedges for appropriate portions of the company's core gas supply portfolio. The Gas Supply Department is also responsible for the daily, monthly and annual management of the core gas supply portfolios, including coordination of transportation and storage of gas supplies via interstate and Canadian pipelines. Cascade is a firm shipper on two U.S. interstate pipelines and two Canadian pipelines. As such, the Gas Supply Department is also

responsible for overseeing long- and short-term pipeline contracts and negotiations before the Federal Energy Regulatory Commission (FERC) and Canada's National Energy Board.

The Regulatory Affairs Department is responsible for the preparation of all rate-related exhibits in "tracking" and general rate relief filings. The Regulatory Affairs Department is also responsible for the preparation of the Integrated Resource Plan or sometimes referred to as the Least Cost Plan. Least Cost Planning involves long-range market forecasts, evaluation of the costs and availabilities of demand-side and supply-side resources to meet such forecasted markets, as well as the development of written Integrated Resource Plans for submittal before the Washington Utilities and Transportation Commission and the Public Utility Commission of Oregon.

Q. Please describe your education background and previous experience.

A. I am a graduate of the University of Texas at El Paso with a degree in electrical engineering. My post-graduate studies include courses in utility economics, management and accounting.

Prior to joining Cascade, I was employed by El Paso Electric Company as a Rate Engineer with the title of Special Projects Engineer. My responsibilities while with El Paso Electric were quite similar to those our rate analyst have with Cascade.

My tenure with El Paso Electric was approximately three years.

Q. Have your previously sponsored testimony?

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A. Yes, I have sponsored testimony before the Public Utility Commission of Oregon, before the Washington Utilities and Transportation Commission, before the New Mexico Public Utility Commission, and before FERC.

Reasons for Filing

Q. What is the purpose of your testimony?

A. The primary purpose of my testimony is to summarize the effect of the various restating and proforma adjustments on the test period and to determine the increased revenue requirement. I also will discuss changes in rate spread and rate design, including Cascade's proposed Conservation Alliance Plan decoupling application.

Q. Do you sponsor exhibits in this filing?

A. Yes, I sponsor eight exhibits. These exhibits are marked as follows: Exhibit _ (JTS-2), containing the summary schedule of all adjustments contained in this application. Exhibits_ (JTS-3), Restatement of Revenues and Gas Cost at Current Rates; Exhibit _ (JTS-4), Removal of Non-Core Competitive Services Revenues and Cost; Exhibit _ (JTS-5), Restatement of Gas Cost For Normal Lost & Unaccounted For; Exhibit (JTS-6), Weather Normalization Adjustment; Exhibit _ (JTS-7), Industrial Plant Closure Proforma Adjustment; Exhibit _(JTS-8), Estimated Rate Case Expense, and Exhibit _ (JTS-9), Revenue Under Proposed Rates, change in rate spread and rate design, and changes in the rates for other services and fees.

Q. Were all of these exhibits prepared either by you or under your direction?

A. Yes.

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EXHIBIT __(JTS-2)

Summary Of Rate Case

Q. What is the purpose of Exhibit_ (JTS-2)?

A. This exhibit is a summary of all the adjustments that are included in this rate application. It consists of a four-page schedule. Page 1 begins with book figures for the State of Washington for the test period, which is the twelve months ended September 30, 2005 as displayed in detail in Exhibit_ (KJB-2). Page 1, Column (c) displays the net restating adjustments set forth in this application. Page 1, Column (d), indicates the statement of operations and rate of return as restated and is the result of adding columns (b) and (c). Column (e) displays the net proforma adjustments. Column (f), indicates the statement of operations and rate of return as adjusted and is the result of adding Columns (d) and (e).

Q. How are the net restating adjustments listed in Column (c) determined?

A. The amounts appearing in this column are developed on Page 2 of this exhibit. The net restating adjustments testified to by the various witnesses for Cascade are listed in the appropriate columns on Page 2. Whenever an adjustment affected revenue adjustment, the revenue sensitive cost factors as developed in Exhibit _ (KJB-2 Schedule 2) were applied. The appropriate federal income tax computation to each adjustment was also made. Each column was totaled to determine the effect on net operating income. The sum of Columns (b) through (1) on Page 2 is shown in Column (m) and also in Column (c) of Page 1.

Q. How were the net proforma adjustments listed in Column (e) determined?

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A. The amounts appearing in this column are developed on Pages 3 and 4 of this exhibit. The net proforma adjustments testified to by the various witnesses are listed in the appropriate columns on Pages 3 and 4. As with the restating adjustments that appear on Page 2, whenever the adjustment was a revenue adjustment, the revenue sensitive cost factors were applied. The appropriate federal income tax computation to each adjustment was also made. Each column was totaled to determine the effect on net operating income. The sum of Columns (b) through (q), is shown in Column (r) on Page 4 and also in Column (e) on Page 1.

Q. How did you determine which adjustments would be listed on the restating adjustment page or the proforma adjustment page?

A. In general, if the changed condition or level of cost occurred within the twelve months ended September 30, 2005, the adjustment was called a restating adjustment. If the changed condition or level of cost occurred after the end of the test period but is known and measurable, the adjustment was called a proforma adjustment.

Q. How was the remainder of Page 1 determined?

A. Column (f) shows the test period as adjusted. Upon computing column (f), Cascade's revenue deficiency and the increased revenue required to produce the requested rate of return were calculated. The revenue requirement and the revenue under proposed rates are developed in Exhibit _ (JTS-9), Schedule 1.

The $11,727,515 increased revenue requirement is carried forward to Column (g) of this Schedule 1, Page 1, which also shows the application of revenue sensitive costs and federal income tax factors.

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Column (h), the total of Column (f) and (g), shows a proforma twelve months ended September 30, 2005, statement of operations which produces the Company's requested 9.37% overall rate of return.

EXHIBIT _ (JTS-3)

Restatement of Revenues and Gas Cost at Current Rates

Q. Please describe the contents of Exhibit _ (JTS-3).

A. Exhibit _ (JTS-3) shows the restatement of revenues and gas cost at the base rates that became effective with the November 1, 2005 PGA. Restating the test period revenues results in an increase of $37,836,114. Restated test period gas cost results in an increase of $35,812,291.

These adjustments for are shown on Exhibit _ (JTS-3), Schedule 1, line 52, columns (f) and (h). This adjustments amount also appears on the Summary Exhibit _ (JTS-2), Schedule 1, Page 2, Lines 1 and 5, Column (b). The effect that these adjustments have on revenue sensitive taxes and fees, along with Federal Income Tax, is calculated and shown on Summary Exhibit _ (JTS-2), Page 2 in Column (b).

EXHIBIT _ (JTS-4)

Removal of Non-Core Competitive Services Revenues and Gas Cost

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Q. How does Exhibit _ (JTS-4) pertain to these proceedings?

A. This adjustment removes the revenues, administrative expense and gas cost from the non-core competitive services Cascade provides under a Blanket Marketing Certificate, as authorized under 18 CFR Part 284.402 of FERC's regulations. FERC Order No. 547 issued on November 30, 1992 authorized jurisdictional gas sales for resale at market rates, with pre-granted abandonment, to all persons who are not interstate pipelines, except marketing affiliates of non-open access pipelines. The certificates are automatically granted (no application need be filed and no document is issued), and the sale is not restricted by term, price or category of gas. The certificates are limited jurisdictional certificates that do not subject the certificate holder to any regulation under the Natural Gas Act jurisdiction of FERC by virtue of transactions under the certificate. The enactment of Order No. 547 removed the restrictions on local distribution company (LDC) marketing certificates, and allows LDCs to freely compete in the sale of gas with other marketers. On Exhibit (JTS-4), the $30,875,879 for revenue and $28,268,010 of gas costs and $165,332 of administrative expenses are removed from the test period results. These numbers are also contained in the Summary Exhibit _ (JTS-2), Schedule 1, Page 2, Lines 1, 5 and 11, Column (c). The FIT and revenue sensitive taxes and fees are calculated and shown in Column (c).

EXHIBIT _ (JTS-5)

Restatement of Gas Cost For Normal Lost & Unaccounted For

Q. Please describe Exhibit _ (JTS-5) and how it pertains to these proceedings.

A. Exhibit _ (JTS-5) shows the adjustments necessary to restate the Test Period for the quantity of therms in excess of sales and deliveries of therms to our customers. This

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adjustment is required to recognize those therms that are lost and unaccounted for during the transportation of the gas through the Company's distribution system. There is some quantity of gas that is lost or unaccounted for during the delivery process. Minor leaks in the distribution system, gas lost through third party damage of the system, and the difference in the calibration of pipeline meters and the Company's meters make up the majority of the gas that is either lost or unaccounted for. Cascade is normalizing the lost and unaccounted for quantity for the test period based upon a rolling 5-year average lost and unaccounted for percentage amount. Exhibit _(JTS-5) Schedule 2, page 2, line 84, Column (g) shows that the rolling 5-year average is 0.41%. The Test Period lost and unaccounted for gas as booked was 0.48% and amounted to 2,128,938 therms.

On Exhibit _(JTS-5), Schedule 1, I have calculated the normalized lost or unaccounted for gas based upon the 5-year average of 0.41% to be 1,821,090 therms as shown on line 6. The decrease in therms of (307,848) are priced at the current commodity weighted average cost of gas (WACOG) of $0.77776 per therm to equal an adjustment of $(239,432), as shown on line 13. This figure is also shown on the summary Exhibit _(JTS-2), page 2, column (d), line 5.

Q. Why is this adjustment necessary?

A. Gas lost or unaccounted for during the delivery process is the responsibility of all customers, both sales and transportation customers, that use the distribution system to receive their supplies. As discussed later in my testimony, we are proposing a slightly different approach in the case of transportation customers, since they provide their own supply to be delivered through the system. These transportation customers should not be burdened with the Company's commodity WACOG in supporting their portion of the lost or unaccounted for gas. Cascade is including a provision in its proposed Tariff to require transportation customers to provide "fuel in kind" at the rolling 5-year average is 0.41%.

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Cascade is further proposing to update the rolling 5-year average each year as part of the Purchased Gas Adjustment (PGA) application. The resulting "fuel in kind" will remain in effect between PGA applications.

EXHIBIT _ (JTS-6)

Weather Normalization Adjustment

Q. Please describe Exhibit _ (JTS-6) and how it pertains to these proceedings.

A. Exhibit _ (JTS-6) shows the adjustments necessary to restate the Test Period for the quantity of therm sales Cascade would have sold if the weather had been "normal." The calculation also converts the change in therm sales into the corresponding change in revenue and gas cost. The weather normalization calculation applies to the Residential and Commercial General Service Schedules 503 and 504.

Q. Is the Company's Weather Normalization Adjustment included in this application consistent with the Weather Normalization Adjustment approved in the last rate case?

A. No, not completely.

Q. Please provide a description of the weather normalization methodology adopted in the last rate case.

A. In Docket No. UG-951415, Cascade and Staff worked together to revise and adopt a Weather Normalization Adjustment methodology. The methodology adopted was a regression analysis that statistically examined the five-year history of actual therms per

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customer per month for residential and commercial general service customers and the actual heating degree days (HDDs) per month for each of Cascade's four weather areas, Bellingham, Bremerton, Walla Walla and Yakima. The model calculates a best fit "y" intercept that defines the "baseload" therms per customer for each weather area and group of customers. The model also calculates the best fit X variable for each month for each weather area on a per customer basis for each customer class. The X variable defines the heat sensitive coefficient that reflects the use per customer per HDD for each month. The resulting "y" intercept and X variable coefficients were then used to calculate total sales by month under "normal" HDDs for each month, weather area and customer group. Cascade and Staff adopted the 20-year minus high and low monthly average HDD as "normal." This is the Weather Normalization Adjustment methodology Cascade has used in the "Adjusted Statement of Operations and Rate of Return" reports that have been filed with the Commission subsequent to that rate case.

Q. How does the Weather Normalization Adjustment methodology Cascade is proposing in this application differ from that used in Docket No. UG-951415?

A. Cascade has revised what is used as "normal" HDDs in the analysis. We have not revised any other portion of the analysis. We have noted that Commission Orders in recent general rate cases have rejected the use of shorter periods, such as the 20-year minus high and low adopted in Docket No. UG-951415, in determining "normal" HDDs. The Commission appears to be relying upon the 30-year average of HDDs as published by NOAA as "normal," a measure that is updated every decade. This trend in Commission Orders raises concerns for Cascade because NOAA's 30-year average for the period through 2000 does not reflect the undeniable warming trend that is occurring.

In an attempt to partially recognize that Washington and the rest of the Northwest have gradually warmed over time, the parties in Cascade's last general rate case adopted the

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shorter period than the 30-year history published by NOAA. The mechanics of a weather normalization adjustment should result a situation where the calculated therm sales would likely occur if the actual weather is normal. The selection of what level of HDDs should be considered "normal" is also critical to the regulatory tradition behind the theory of weather normalization adjustments. Since the recovery of most of the utility's fixed cost has traditionally been assigned to the volumetric rate, the selection of "normal" should reflect the most likely level of weather the utility will encounter during the years that rates are effective. Since weather in the Northwest can vary significantly from year to year, it is important to select a "normal" that, statistically, creates an equal chance that it will be colder than normal as the chance that it will be warmer than normal. Such a selection would create a level playing field in providing the utility an equal opportunity of recovery its fixed cost based upon weather.

Q. Please describe Cascade's efforts to determine "normal" temperatures for purposes of a weather normalization adjustment.

A. Cascade asked the State Climatologist, Dr. Philip Mote, to evaluate the use of the 30-year average as a regulatory basis for establishing consumption under normal weather. Dr. Mote concluded that using the 30-year average ignores the commonly accepted conclusion of climatic warming and, therefore, overstates the expected HDDs. Dr. Mote recommended that Cascade apply a statistical calculation of HDDs as "normal" HDDs. Dr. Mote analyzed the data contained in the Western Regional Climate Center's database and developed statistical normal HDDs for each month for each of our four weather areas, as displayed in the graphs contained in Exhibit _(PWM-3), Schedule 1, pages 1 through 12 and listed by month for each of our weather areas in Exhibit __(PWM-4), Schedule 1, Page 1.

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Cascade has prepared its weather normalization adjustment consistent with Dr. Mote's recommendations. As a result, Cascade has calculated that residential therm sales under Dr. Mote's determination of "normal" would be 1,804,351 therms higher than the actual sales recorded in the test period and that general service commercial therm sales would be 1,653,651 therms higher. These weather normalized therms would result in a margin adjustment of $730,779 as shown on Exhibit _ (JTS-6), Schedule 1, Line 5, Column (d) and also on the summary exhibit, Exhibit _ (JTS-2), on Page 2, Line 1, Column (k).

EXHIBIT _ (JTS-7)

Industrial Plant Closure Proforma Adjustment

Q. Please describe the contents of Exhibit _ (JTS-7).

A. This exhibit shows the proforma affect of the permanent closure in November 2005 of the Welch plant, account number 2380, which is located in Kennewick, Washington. During the Test Period, Cascade delivered 694,414 therms to this non-core customer served on Rate Schedule 663. This loss of customer will result in a revenue reduction adjustment of $81,296, as shown on Exhibit_ (JTS-7), Schedule 1 Page 1 Column (b), line 3. Also included in this exhibit is the proforma affect of the conclusion of a ten-year Monthly Facilities Charge contract with account number 0175. Cascade has been collecting a Monthly Facilities Charge of $6,000 per month plus Gross Revenue Fees, to compensate the Company for the installation of facilities beyond the normal feasibility allowance. The primary term of this ten year facilities reimbursement contract will expire in December 2006. The customer will continue to receive service under Rate Schedule 664, but will no longer have to pay the Monthly Facilities Charge. This will result in a revenue reduction adjustment of $75,336 as shown on Exhibit_ (JTS-7), Schedule 1, Page 1, Column (b), line

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5. This total change in proforma revenues of ($156,632) is also shown on the summary exhibit, Exhibit _ (JTS-2), on Page 3, Line 1, Column (d).

EXHIBIT _ (JTS-8)

Rate Case Expense

Q. What does Exhibit _ (JTS-8) show?

A. This exhibit shows the estimate of rate case-related costs that Cascade has and will have incurred in processing this rate case. At this time, Cascade estimates the current case will involve costs totaling $500,000. The Company is proposing that one third of this amount, or $166,667, as a proforma adjustment. The Company will monitor actual rate case expense throughout these proceedings and will change this estimate to actual at its conclusion.

Q. Have you shown the $166,667 of rate case expense on Cascade's summary exhibit?

A. Yes. The $166,667 appears on the summary exhibit, _Exhibit _ (JTS-2), on Page 3, Line 11, Column (e).

EXHIBIT _ (JTS-9)

Calculation of Revenue Requirements and Revenues
Under Proposed Rates

Q. Please explain the purpose of Exhibit __(JTS-9).

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A. The purpose of Exhibit __(JTS-9) is to first determine the Increased Revenue Requirement demonstrated in this application. This Exhibit then explores the various rate spread options that are available to recover the Increased Revenue Requirement and concludes with Cascade's proposed rate spread. Following that, we explored various rate design options before concluding with our proposed changes in rate design. The Exhibit also shows the revenue impact of updating miscellaneous service charges and fees (*e.g.*, fees charged for various services such as reconnection, returned check charges, and after hours service calls). The Exhibit also shows impact of our revenue proposals on the average customer. The remainder of this Exhibit contains the Tariffs that support the Company's request.

Q. Please describe the contents of Exhibit _ (JTS-9).

A. This exhibit is comprised of four components, (1) the increased revenue required for Cascade to reach the rate of return of 9.37%, (2) the impact of proposed changes in miscellaneous service charges and fees, (3) rate spread, and (4) rate design. Schedule 1 is the actual calculation of the revenue requirements. Schedule 2 develops the Company's recommendations for miscellaneous service charges and fees. Schedule 3 develops the Company's recommendations for rate spread. Schedule 4 develops the Company's recommendations for rate design. Schedule 5 shows the proposed changes in the monthly Basic Service Charge. Schedule 6 shows the percentage change in revenue resulting from the Company's proposed rates. Schedule 6 also shows the overall impact on the average monthly bills for the various rate schedules. Schedule 7 included the Notice to the Public and the proposed tariffs.

Q. Please explain Schedule 1.

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A. Exhibit __(JTS-9), Schedule 1 shows the Test Period rate base on Line 1, along with the requested rate of return on Line 2. When the two items are multiplied, the total net operating income is determined, as shown on Line 3. Line 4 displays the adjusted net operating income which was developed in the summary exhibit, Exhibit _ (JTS-2), Schedule 1, Page 1, Line 19, Column (f). This amount subtracted from Line 3 shows the increase in net operating income required, shown on Line 5. By applying the revenue sensitive costs and FIT conversion factor to line 5, the total amount of the increase revenue requirement was computed and shown on Line 7. This number is carried forward to Page 1 of Cascade's summary exhibit, Exhibit _ (JTS-2) on Line 3, Column (g). Exhibit __(JTS-9), Schedule 1, Line 8, shows the increase in revenue that will occur due to the proposed increase in the miscellaneous service charges and fees. Line 9 is the remaining increased revenue requirement to be spread to the rate schedules. Line 10 shows that the increase margin requirement is 16.57% of the total adjusted margins excluding Special Contract Revenue and B & O Tax revenue. All of the Special Contracts contain an automatic escalation clause, which adjusts the rates annually to the Special Contract customers regardless of whether Cascade seeks a general increase for its other customers. This clause was negotiated so that the rates to these potential bypass customers would not change in a general rate case setting, thereby preserving the benefits these contracts bestow upon the rest of Cascade's customers, particularly as these contracts mature.

Q. Please describe Schedule 2 of this exhibit.

A. Schedule 2 provides a comparison of the Company's current rates for disconnection visits, reconnection visits and Returned Check (NSF) fees as specified in the Company's Rule 5 and Rule 6 and the costs associated with providing those services. The schedule shows that the current charges for these services do not nearly reflect the actual costs of providing those services. If this inequity continues, other ratepayers will be harmed by

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subsidizing the portion of these costs not recovered from the select group of customers who require these services.

Q. What level of fees is appropriate?

A. The Company proposes to change the fee structure in its Rule 5, Tariff Sheet No. 9, to reflect fees of $25 for a disconnection visit; $32 for a reconnection visit during regular business hours; and $100 for a reconnection visit during non-business hours. This proposed fee structure still does not fully recover the cost of these utility services from the customers that require the services. However, these proposed fees will recover a majority of the costs, thereby making the subsidy by other ratepayers much smaller.

Q. What type of expenses does the Company incur in providing after hours services?

A. The major expenses associated with a service reconnection are the labor costs associated with the service mechanics, who are the only company personnel authorized to perform these services. Providing these services after hours requires that the Company incur higher labor costs due to the overtime salary requirements associated with providing labor after normal business hours.

Q. Is the Company proposing any new service charges?

A. Yes, the Company is proposing several new service charges. They are: an Account Activation Charge; a Tampered Meter Charge; an Equipment Service Call Charge, a Short-Notice Underground Locate Service Charge; and a Late Payment Charge on past due accounts.

Q. Will you please describe the proposed Account Activation Charge?

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A. The Company is proposing that an Account Activation Charge of $32 be charged to all customers at the time service is established. In the Company's view, such an approach is appropriate as it recovers most of the costs from those customers causing the Company to incur the expenses. This approach is similar to that of other utilities that charge a connection fee at the time service is established.

Q. Will you please describe the proposed Tampered Meter Charge?

A. Under the current fee structure, the Company is able to charge only a disconnection visit charge when a customer has tampered with the meter. However, the Company incurs significant additional costs in these circumstances, such as multiple site visits, research and investigation costs, and ultimately the meter must be replaced. Therefore, the company is proposing a $175 charge to cover those costs.

Q. Please describe the proposed Equipment Service Call Charge.

A. An equipment service call occurs when a customer contacts the Company requesting Company personnel to troubleshoot the customer's equipment, turn-on or turn-off a pilot light or gas insert, or perform other equipment-related services. Currently the Company does not charge for this type of service call, although it does incur costs to dispatch a service mechanic to complete this work. The Company is proposing a $32 charge which is intended to ensure that customers responsible for causing such costs pay for most of such costs rather than having these costs be borne by all customers.

The Company is also proposing a Short Notice Underground Locate Service charge. According to Washington State Law, the Company must provide these services within 2 business days following the day of the request. Provided we are given the two day notice,

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Cascade provides this service at no cost to the customer. However, customers frequently call to request these services immediately and, in some cases, after normal business hours. In order to accommodate their requests, Cascade proposes implementing a Short Notice Underground Locate Charge of $90 during normal business hours and a $160 charge after normal business hours.

Lastly, the Company proposes implementing a Late Payment Charge. The proposed fee is 1.5% on balances over $100, but no less than $4 on accounts with a past due balance. This is designed to recover the costs associated with the provision of providing two late notices, and the time associated with contacting customers once their account is past due. The Company believes that such a charge is necessary in order to discourage delinquent bill payment practices by customers. In addition, such a charge would reduce the harm currently borne by ratepayers who pay their bill in a timely manner, as they are currently subsidizing these costs not recovered from the select group of customers who require these services.

Q. Please Explain Schedule 3.

A. Schedule 3 examines alternative rate spread choices. Page 1 examines the effect of spreading the increased revenue requirement on an Equal Percentage of Margin basis. Page 2 examines the effect of spreading the increased revenue requirement in a manner that would better reflect the cost to serve each rate schedule.

Schedule 3, page 1 applies the same percentage increase to the margin of each rate schedule other than the Special Contract customer group. In column (e), I have shown the overall rate of return for each rate schedule on a fully adjusted basis. These rates of return were developed in Mr. Dickey's Cost of Service Study. In column (g), I calculated the increase in margin that would result from the application on an equal percentage increase

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and I show the total margin in Column (h). I have also calculated the resulting rate of return for each rate schedule under an equal percentage of margin basis. As can be seen from the rate of returns shown in column (i), this rate spread methodology would result in the continuation of the large volume rate schedules subsidizing the residential and commercial rate schedules on a Cost of Service basis.

Schedule 3, page 2 applies the increase in margin necessary to achieve the same rate of return for each rate schedule. This approach was applied to all rates schedules with the exception of the Special Contracts customers. The Special Contracts have automatic escalation clauses built into the rate section of the agreements and should not be adjusted in a general rate case. Column (f) is the dollar increase or decrease by rate schedule. Column (g) shows the percent change in margin necessary to achieve an equal rate of return by each rate schedule. Cascade believes that, based upon the results of Cost of Service Study that is included in the application as Exhibit _ (LMD-2ADJ), it is appropriate to depart from equal percentage approach for this rate application. Column (i) shows that each rate schedule would contribute equally toward the overall cost of service.

Q. Is it the Company's proposal to spread the increased revenue requirement in the manner developed in Schedule 3, page 2?

A. Yes. We believe that rates generally should be based upon the costs that each rate class imposes upon the system. The primary reason is to advance the rate of return of each rate schedule toward the overall rate of return of 9.37%. The cost of service study included as Exhibit _ (LMD-2ADJ) demonstrates a disturbing degree of inequity in the amounts of margin contributed by the various customer classes when compared to the respective costs those classes impose upon the system. More nearly reflecting true costs in rates will assist in optimizing the effective use of gas by our customers. To the extent some customers are currently being subsidized by others, the economic signals being conveyed fail to

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encourage the conservation that should be practiced by some while inhibiting economically desirable gas used by others.

Q. In addition to the rate spread changes you have just described, is Cascade proposing to change the design of the rates in this application?

A. Yes, we are making adjustments in our rate design. We are introducing a Modified Straight-Fixed Variable rate design for our Non-Core rate schedules as shown in Exhibit __(JTS-9), Schedule 4. We are also updating the Basic Service Charges in the Core rate schedules as shown on Schedule 5. Additionally, Cascade is proposing a decoupling mechanism for our Residential and Commercial customers.

Q. Please explain Exhibit __(JTS-9) Schedule 4.

A. Schedule 4 shows the change in the rate design of our Non-Core rate schedules 663 and 664 to a modified straight fixed variable design. This results in a two-part rate: a monthly Demand charge and a Commodity charge. This rate design allows our non-core customers the opportunity to select the level of "firm" distribution service and the level of service subject to interruptions that best fits their individual needs. Cascade's core customers have also had the opportunity to have part of the natural gas service protected with service under a firm rate schedule and the remainder of their needs served under the interruptible rate schedule. However, the Non-Core customers have not had such a choice. This new rate design will ensure that the Non-Core customers are paying for the quantity of firm service they require.

Q. Please explain what is meant by the phase; Modified Straight-Fixed Variable rate design.

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A. A Straight-Fixed Variable rate design assigns all of the fixed cost identified in the Cost of Service study to the Demand component and only the true variable cost are assigned to the commodity component of rates. A Modified Straight-Fixed Variable rate design does not assign of 100% of the fixed cost to Demand component, but "modifies" the assignment in some manner. That portion of the cost of service that is not assigned to the Demand charge is recovered through the commodity rates.

Q. How was the Company's Modified Straight-Fixed Variable rate design developed?

A. The Cost of Service Study developed by Mr. Dickey assigns a portion of the Company's investment in Plant in Service based upon peak days and a portion based upon annual throughput. Peak days relate to the "demand" placed upon the Company to have adequate facilities in place to meet the needs of our customers. Annual throughput relates to the volume of gas used or the annual commodity. In Schedule 4, I listed the annual revenue requirement under proposed rates that was developed in Schedule 3 page 2 for each of the Non-Core rate schedules on line 1. I then allocated 55% of the annual revenue requirement to the demand component based upon peak days and the remainder of the annual revenue requirement was assigned to the commodity component. This allocation is shown on lines 2 and 3. On line 4, the current sum of the contract demands, as identified in our distribution system contracts, is listed. On line 5, I have assumed that, given the opportunity to refine their firm service level, our Non-Core customers will relinquish on average 1/3rd of their firm contract demand (CD). On line 6, I calculated the demand rate per unit of CD. This calculation resulted in demand rates of $0.32 for Rate Schedule 663 and $0.25 for Rate Schedule 664. On line 7, I selected $0.25 as the appropriate demand rate. On line 8, I calculated the portion of the total revenue requirement that will be recovered through this $0.25 Demand rate and show the remaining revenue requirement on line 9. This amount divided by the annual volume calculated the average Commodity cost per therm, as shown on line 11.

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This design also helps the Company better plan for system infrastructure needs. We will provide customers with the opportunity to retain the existing distribution system CD or reduce the CD to the level they prefer. Those seeking to increase their CD will be considered on an economic feasibility basis. As discussed, Cascade has assumed that 1/3rd of the current distribution system contract demands will be turned back during the customer election process through an "open season." The Company will adjust the final demand and commodity rates of these rate schedules based upon the tally of the customer elections at the close of the "open season."

Q. Is Cascade also proposing changes in how it charges transportation customers for lost and unaccounted for gas?

A. Yes. Cascade is also implementing a "Distribution System Fuel Reimbursement Clause" for all transportation customers. As discussed during my testimony on Exhibits __(JTS-6), the five year average lost and unaccounted for gas on the distribution system is 0.41%. This means that Cascade has to receive 0.41% more gas at the city gate than will be delivered to customers. We have to buy 0.41% more gas than our core customers will be metered. Rather than assigning the current cost of supply to the transportation customers, we will require each transportation customer to provide 0.41% of additional customer-owned gas as fuel-in-kind. This approach is similar to the Fuel Reimbursement Clause used by Northwest Pipeline, GTN, TransCanada and most other pipelines. Cascade will update its five year average lost and unaccounted for calculation in each subsequent PGA application.

Q. What are the proposed changes in the monthly Basic Service Charges for the various core rate schedules?

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A. Since most of the Company's cost to serve customers does not vary from month-to-month nor vary with the amount of gas purchased, Cascade charges a monthly basic service charge in our rate schedules. These charges are currently inadequate and are being increased.

As shown in Exhibit __(JTS-9) Schedule 5, The Company is proposing to double current basic service charge of each core rate schedule with the exception of the Residential General Service rate schedule 503. The basic service charge in General Residential Service Rate Schedule 503 is proposed to increase to $10.00 per month for the six heating season months of October through March, while for the six remaining months, April through September, the basic service charge would remain at $4.00. Retaining the $4.00 basic service charge during the non-heating portion of the year, along with the proposed increase in reconnect fees, should diminish the economic reasons for customers to seek summer turn offs and fall turn ons. At the same time, this combination of $10.00 winter and $4.00 summer basic service charges should not unduly discourage single appliance customers. These changes result in an annual basic charge for residential of $84.00 while the total fixed cost is $269.13 per year. Traditional rate design methods would assign the recovery of the remaining $185 to the per-therm rate or commodity rate. Even with these higher Basic Service Charges, 68% of our fixed cost recovery would be tied to volume of sales. Traditional rate design methods would continue to discouraged Cascade from promoting conservation. As part of this filing, the Company proposes to create a new regulatory tradition that eliminates the disincentive for utilities to promote and pursue conservation and Demand Side Management opportunities through our proposed decoupling mechanism.

Q. As an alternative to a decoupling mechanism, did you consider simply increasing the Basic Service Charge to a level that would allow the Company to recover its fixed cost entirely through the Basic Service Charge?

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A. Yes I did. The Company could recover its fixed cost entirely through the Basic Service Charge if we were to raise the charge to just over $22 per month for the residential and to slightly more than $74 per month for the commercial customers. There is certainly some attraction to the Basic Service Charge approach in that it is easy for customers to understand and easy to implement. Greater reliance on Basic Service Charges is becoming much more commonplace with cable service, telephone service and even internet service, all of which offer rather large Basic Service Charges for the interconnection of the home or business to the service provider. On demand services like pay-per-view movies or long distance calls are similar to the "commodity" portion of the service. Full recovery of the Company's delivery cost through the Basic Service Charge would also simplify the customer's bill. There would be only one charge for the delivery portion of the bill and a commodity charge for the actual gas the customer used. Having a stable amount established for the delivery component of the gas bill during this time of very high gas costs would be attractive.

Full recovery of the Company's delivery cost through the Basic Service Charge would also eliminate the current disincentive for Cascade to promote conservation and pursue DSM. The biggest drawback to the Basic Service Charge approach to decoupling is the perception that resulting lower commodity rate may diminish the customer's incentive to pursue conservation. Another drawback concerns the impact on small users. Percentage-wise, small users would have a very large increase, while the very large users may have a rate decrease, depending on their annual usage.

For these reasons, Cascade is not recommending the full recovery of our fixed cost through the basic service charge for our residential and commercial customers. Many of our low income and elderly try very hard to use as little natural gas as possible. With the high wholesale cost of natural gas, Cascade would rather try to help these customers than

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unduly increase their rates. Cascade's Conservation Alliance Plan accomplishes the same effect as that of the high Basic Service Charge without excessively shifting cost responsibilities from the larger customers to the smaller customers on the same rate schedule. Some movement in that direction is appropriate, but we have tempered our recommendations to avoid unacceptable customer impacts.

Q. Please describe the basis for the Company's proposed decoupling mechanism.

A. Cascade is proposing a decoupling mechanism for the Residential and Commercial customers served on Rate Schedule 503 and 504. The cost of energy continues to rise. During the past four years, the wholesale cost of natural gas has gone from the lowest in the industrialized world to the highest. In July 2005, the US Congress passed the Energy Policy Act of 2005, which develops a comprehensive, aggressive strategy to lower the cost of natural gas by increasing supply and by managing demand. Energy efficiency and conservation are the most viable near-term tactics for getting natural gas prices under control. It's also a vital strategy for stabilizing the cost of gas over the long term.

In September, Hurricanes Katrina and Rita caused extensive damage to the oil and natural gas infrastructure in the Gulf of Mexico resulting in 60% of the natural gas production from the Gulf being shut in for an extensive period of time. The loss of production has increased the futures price for natural gas for the November 2005 through March 2006 period by 47%. On August 1, 2005 the forward strip at Sumas for Nov-Mar was $8.45 per MMBtu. On October 14, 2005 the same Sumas Nov-Mar strip was $12.45. The high wholesale cost of natural gas is reflected in Cascade's Purchased Gas Adjustment (PGA), effective November 1, 2005, which includes a 26% increase in residential rates. As a result, conservation and energy efficiency will have increased importance to our customers. Cascade should be able to assist our customers with the promotion of conservation and the

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investment in cost effective Demand Side Management (DSM) programs without the fear of failing to recover our fixed cost.

Cascade participated in the Commission's proceedings in Docket No. UG-050369 - Rulemaking to Review Natural Gas Decoupling. As part of that review, Cascade developed a decoupling concept, which was the primary subject of the May 12, 2005 rulemaking workshop. Stakeholders from throughout the state submitted comments and recommendations on Cascade's decoupling concept and other decoupling mechanisms on June 10, 2005. However, on October 17, 2005 the Commission terminated its statewide investigation of the potential benefits of alternative decoupling rate designs that could remove the financial disincentives for utilities to promote conservation. The Commission suggested that utilities could offer decoupling proposals for the Commission's consideration as part of general rate filings. This rate proceeding provides the Commission with an opportunity to evaluate and implement Cascade's proposed decoupling mechanism.

Q. What are the essential features of a decoupling mechanism?

A. Cascade continues to believe that it is our responsibility to pursue changes that will better align our interest with those of our customers. We have examined the comments submitted in the Decoupling Rulemaking docket and we made changes in our proposed mechanism to alleviate some of the concerns raised by the written comments.

Cascade believes it is appropriate to propose a simpler mechanism that would have the following attributes:

- Requires no changes to its current billing system,

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- Compares actual usage and weather normalized actual usage and margin to the weather normalized usage and margin reflected in this general rate case,
- Records monthly deferral amount to a conservation balancing account and a weather variation balancing account,
- Results in as few as a single annual rate change based on the prior year's deferral balances that could be implemented coincident with the PGA rate change.

Q. Please describe the decoupling mechanism that Cascade is proposing in this case.

A. Cascade's Conservation Alliance Plan (CAP) is a deferred accounting type decoupling mechanism that will capture changes in margin due to the conservation efforts of our customers and changes in margin due to weather that varies from normal. Cascade will employ separate deferral accounts for conservation induced margin changes and weather induced changes.

With the exception for the proposed modest increase in the basic service charge, Cascade's mechanism also preserves the current rate design and therefore will continue to send strong price signals to customers even during colder than normal weather.

Under the mechanism, following the initial year, the Company will annually calculate the per therm rate required to recover the authorized margin per customer on a weather normalized basis. This will be accomplished by normalizing the twelve months ended June 30 consumption for residential and commercial customers served on General Service Rate Schedules 503 and 504. This analysis will provide monthly detail of expected weather normalized therms. Our proposed tariff reflects using the weather normalization methodology utilized in the Company's in this general rate case. The mechanism will also calculate the total margin required for both rate schedules by multiplying the weather

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normalized baseline margin per customer by the average number of customers served on Rate Schedules 503 and 504 for the most recent twelve months ended June 30. The amount deferred under the balancing account would be added to or subtracted from the calculated margin to determine the Total Commodity Margin Requirement. This Total Commodity Margin Requirement would then be divided by weather-normalized consumption to determine the new per therm margin rate. This analysis would be prepared and filed at the same time the annual PGA application is filed with the same effective date so as to minimize the number of rate changes for our customers.

Each month the Company will weather normalize actual therms consumed by our customers on Rate Schedules 503 and 504 and compare the weather normalized actual consumption to the weather normalized consumption anticipated in the calculation of the margin commodity rate. This will be accomplished by first weather normalizing actual consumption and then calculating weather normalized total margin by rate schedule. The actual weather normalized margin is then compared to the expected margin. The expected margin is calculated by multiplying the baseline margin per customer by the current months actual customer count. The difference between actual weather normalized margin and expected margin is deferred in the Conservation Variance deferral account as Regulatory Asset or Liability. Since the Company is utilizing the same customer count for both the actual and the expected margin calculations, the Company will still have an incentive to invest in new customers. Additionally, each month the Company will compare actual margin generated by our customers on Rate Schedules 503 and 504 with the expected margin to determine the total change in margin. The amount recorded in the Conservation Variance deferral account is then subtracted from this total change in margin and the remainder is recorded in the Weather Variance deferral account. Exhibit _(JTS-9), Schedule 7, icludes the tariff entitled Rule 22 – Conservation Alliance Plan Mechanism that describes the mechanics.

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Q. How does Cascade propose to address concerns regarding large deferral balances that may accrue during a warmer than normal winter?

A. The most frequent criticism of this type of mechanism is that it is possible to create large deferral balances during a warmer than normal winter that would have to be recovered from customers during the next year. If the next year happens to be colder than normal, the customers would not only be paying for more actual gas use, but also paying a higher rate due to the amortization of the previous year's large deferral balance. This possibility can be mitigated with a couple of different approaches. One mitigation approach could be the adoption of a warmer than normal weather scenario in the forecasting model. In this way, the deferral balance is almost always in the customer's favor. It is usually more palatable to the customer to amortize credits than it is to have a large surcharge. A second mitigation approach would involve the amortization of the deferral account on a more frequent basis. For example, Cascade could calculate a monthly or a quarterly amortization rate. This approach would prevent or minimize the possibility of building a large deferral account balance. There would be a two-month time delay in establishing the amortization rates but the amortization would occur in much closer proximally to the causation than the annual calculation of the amortization rate contained in Cascade's proposed tariff. Cascade is reflecting the adoption of a warmer than normal weather scenario in the forecasting model in its proposed tariff.

Q. Is the Company proposing other changes that will assist in the promotion of conservation?

A. Yes. Cascade proposes to implement its Conservation Alliance Plan in conjunction with the rate case. We have also proposed to provide $800,000 to the community service agencies in our service area for low-income bill payment and weatherization programs, as described in Exhibit __(KJB-20). Cascade has also reflected a "Conservation Promotions"

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budget of $150,000 to actively promote conservation in our service areas, Exhibit __(KJB-19). We expect to increase the amount we invest in DSM through the programs identified in our current IRP. As described above, we will also begin deferring changes in margin due to conservation and due to variances from normal weather based upon the weather normalization analysis.

Under Cascade's proposal, we will assess the conservation potential of our Washington service areas. We also plan to work with the community action agencies to help identify DSM opportunities with our low income customers. As the Conservation Alliance Plan matures, Cascade hopes that most of the funds will be targeted toward conservation. Ultimately we would like to help the low income community action agencies develop a definitive dispersal program, perhaps in the range of 75% low income conservation opportunities and 25% bill payment assistance. However, during the first year, we do not think the agencies should be restricted as how to best meet the needs of our low income customers with the available funds.

Q. Please explain how the deferrals work in the Conservation Alliance Plan.

A. The baseline margins per customer for each month will be used for the calculations of the deferral amounts each month for the Conservation Variance and Weather Variance deferral accounts until new values are calculated in the annual September 30 Conservation Alliance Plan (CAP) filings. We propose to wait until the first November following the approval of final rate case rates before we begin to amortize the balance in the deferral accounts.

The total average commodity margin per customer will continue to be the baseline annual margin per customer throughout the trial period of Cascade's Conservation Alliance Plan. These totals will be used in the calculation of revenue requirements each year in the preparation of the CAP filing. That calculation will multiply the commodity margin of $185.13 times the most recent period ending June 30 residential average customer count

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and multiplying $721.80 times the commercial average customer count. That new Commodity Revenue Requirement plus the balance from the deferred accounts will be divided by the weather normalized total therm sales for that period. This will result in a new commodity margin per therm rate to become effective on the same November 1st date that the PGA becomes effective.

Q. Please describe the rest of Exhibit _ (JTS-9).

A. Schedule 6 page 1 shows the percentage change in total revenue by rate schedule that results from the Company's proposed rate spread and rate design changes. Schedule 6 page 2 shows the impact on the average monthly bill. Schedule 7 is a copy of the Notice to the Public, which has been posted in each of the Company's offices and pay stations in the State of Washington. Schedule 7 contains all of the revisions to various rules and rate schedules required to implement Cascade's proposed rate spread and rate design changes, as described above.

Q. Does this complete your testimony?

A. Yes.

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