Exhibit No. ___-T (DCP-1T)
Docket No. UG-060256
Witness: David C. Parcell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET NO. UG-060256**

TESTIMONY OF

DAVID C. PARCELL

ON BEHALF OF

STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

August 15, 2006

TABLE OF CONTENTS

I. INTRODUCTION

Q. Please state your name, occupation and business address.

A. My name is David C. Parcell. I am the Executive Vice President and Senior Economist of Technical Associates, Inc. My business address is Suite 601, 1051 East Cary Street, Richmond, Virginia 23219.

Q. Please briefly describe your background and experience.

A. I hold B.A. (1969) and M.A. (1970) degrees in economics from Virginia Polytechnic Institute and State University (Virginia Tech) and an M.B.A. (1985) from Virginia Commonwealth University. I have been a consulting economist with Technical Associates since 1970. The large majority of my consulting experience has involved the provision of cost of capital testimony in public utility ratemaking proceedings. I have previously testified in about 375 utility proceedings before more than 30 regulatory agencies in the United States and Canada.

Q. What is the purpose of your testimony in this proceeding?

A. I have been retained by Commission Staff to evaluate the cost of capital aspects of the current filing of Cascade Natural Gas Corporation ("Cascade" or "Company"). I have performed independent studies and am making recommendations of the current cost of capital for Cascade.

Q. Have you prepared an exhibit in support of your testimony?

A. Yes, I have prepared one exhibit, identified as Schedule 2 through Schedule 15. This exhibit was prepared either by me or under my direction. The information contained in this exhibit is correct to the best of my knowledge and belief.

II. RECOMMENDATIONS

Q. What are your recommendations in this proceeding?

A. My overall cost of capital recommendation for Cascade is:

	Percent	Cost	Return
Long-term Debt	54.78%	7.58%	4.15%
Short-term Debt	4.09%	6.59%	0.27%
Common Equity	41.13%	9.75%	4.01%
Total	100.00%		8.43%

This recommendation employs Cascade's December 31, 2005, capital structure, except for short-term debt, which uses a 12-month average value.

III. SUMMARY

Q. Please summarize your analyses and conclusions.

A. This proceeding is concerned with Cascade's regulated natural gas distribution utility operations in Washington. My analyses are concerned with the Company's total cost of capital. The first step in performing these analyses is the development of the appropriate capital structure. Cascade's proposed capital structure is a hypothetical

capital structure comprised of 50 percent long-term debt and 50 percent common equity. I have not used these capital structure ratios in my testimony but rather have employed the Company's actual December 31, 2005, capital structure ratios.

The second step in a cost of capital calculation is a determination of the embedded cost rates of debt. I have used the cost rate for long-term debt proposed by Cascade. For the cost of short-term debt, I have used the Company's current cost rate.

The third step in the cost of capital calculation is the estimation of the cost of common equity. I have employed three recognized methodologies to estimate the cost of equity for Cascade. Each of these methodologies is applied to three groups of proxy electric and natural gas utilities. These three methodologies and my findings are:

Methodology	Range	
Discounted Cash Flow	9.0-10.0%	(9.5% Mid-Point)
Capital Asset Pricing Model	10.1-10.3%	(10.2% Mid-Point)
Comparable Earnings	10.0%	

Based upon these findings, it is my conclusion that the cost of common equity for Cascade is 9.75 percent, which reflects greater weight to the DCF results. I recommend a cost of common equity for the Company of 9.75 percent, in the absence of the adoption of the Company's proposed decoupling mechanism. Should this mechanism be approved, I recommend cost of equity of 25 bases points less, or 9.5 percent.

Combining these three steps into weighted costs of capital results in an overall rate of return of 8.43 percent, which incorporates a cost of common equity of 9.75 percent.

IV. ECONOMIC/LEGAL PRINCIPLES AND METHODOLOGIES

Q. What is your understanding of the economic and legal principles that underlie the concept of a fair rate of return for a regulated utility?

A. Cost of service rates for regulated public utilities have traditionally been primarily established using the "rate base - rate of return" concept. Under this method, utilities are allowed to recover a level of operating expenses, taxes and depreciation deemed reasonable for rate-setting purposes, and are granted an opportunity to earn a fair rate of return on the assets utilized (i.e., rate base) in providing service to their customers. The rate base is derived from the asset side of the utility's balance sheet as a dollar amount, and the rate of return is developed from the liabilities/owners' equity side of the balance sheet as a percentage. The rate of return is developed from the cost of capital, which is estimated by weighting the capital structure components (i.e., debt, preferred stock and common equity) by their percentages in the capital structure and multiplying these by their cost rates. This is also known as the weighted cost of capital.

Technically, the fair rate of return is a legal and accounting concept that refers to an ex post (after the fact) earned return on an asset base, while the cost of capital is an economic and financial concept that refers to an ex ante (before the fact)