BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of CASCADE NATURAL GAS CORPORATION, INC., For Authority to Implement a Special Contract for Gas with E-Next Generation LLC	)	DOCKET UG-010957 ORDER DISMISSING COMPLAINT AND ORDER SUSPENDING CONTRACT; GRANTING CONTRACT APPROVAL

BACKGROUND

1 On July 2, 2001, Cascade Natural Gas Corporation, Inc., (Cascade or Company) filed with the Commission an Agreement with E-Next Generation LLC (E-Next), with Enron as the development agent, requesting approval by the Commission effective August 1, 2001. The proposed Agreement is for service to E-Next's facility to be located in Longview, Washington.

2 On July 25, 2001, the Commission issued a Complaint and Order Suspending Contract pending an investigation to determine whether the contract is fair, just and reasonable.

3 Originally, the contract called for a primary term of thirty years, renewable from year to year thereafter unless terminated by E-Next. The Commission Staff expressed concerns about the asymmetrical contract renewal terms that would have allowed E-Next to extend the contract indefinitely on a year-to-year basis without allowing Cascade an option to reevaluate the cost effectiveness of the contract in future periods. Subsequently, the parties renegotiated the asymmetrical contract renewal terms.

4 The revised contract allows Cascade to seek modification or termination of the contract after 30 years, when conditions during the extended period require use of the facilities for core customers, or require refurbishment of the facilities. The Commission approved the contract on August 8, 2001.

TERMS OF THE AGREEMENT

5 Under this special contract, Cascade will provide distribution and transportation service only. The contract provides a monthly facilities charge of $40,000 and a commodity charge of $0.001 per therm. The commodity charge is subject to escalation based on the percentage change in the Consumer Price Index reported in the U.S. Department of Labor, Bureau of Statistics Report for the All Urban Consumers-U.S. City Average-all Items, for the twelve months ending on the date immediately prior to July 1. E-Next will also pay the Dispatching Service Charge as provided in Rate Schedule 663.

6 The contract calls for a primary term of thirty years, renewable from year to year thereafter unless terminated by E-Next. Cascade can seek modification or termination of the contract after 30 years, when conditions during the extended period require use of the facilities for core customers, or require refurbishment of the facilities.

7 Except as otherwise provided, the contract requires E-Next to comply with the Operating Obligations and Conditions provisions of Cascade's Optional Supply Schedule No. 681 through 684.

DISCUSSION

8 Cascade states that the contract provides for service to E-Next proposed facilities at a negotiated rate equivalent to E-Next's bypass alternative. The Company presented evidence that E-Next has a bypass alternative that is economically viable and that a special contract is preferable to the bypass option for Cascade's other customers.

9 The Commission reviewed the special contract following general guidelines established by the Commission in Orders UG-930511 and UG-901459, and WAC 480-80-335.

10 The Commission has determined that similarly situated customers are allowed to negotiate similar contracts. Cascade has numerous special contracts with large gas users, which vary with proximity to the interstate pipeline and their opportunity and desire to install a bypass facility. The special contract would not give E-Next any unfair advantage over its competitors which it does not already enjoy.

11 The tariff rate is optimal for Cascade's other rate payers. However, E-Next has the freedom to choose between two other options: (1) build the bypass or (2) try to get a special contract fee. If E-Next builds the bypass it will contribute nothing to Cascade's common costs whereas the special contract will cover the cost of service and contribute to common costs. Commission analysis shows that the fees collected from the special contract will be greater than the long-run cost of providing gas to the customer and close to E-Next's maximum willingness to pay. The special contract will result in lower rates for other rate payers vis-à-vis E-Next's building of the bypass. There is proof of effective bargaining.

12 The length of this contract is not common. However, there have been long term contract provisions, and CNG's basic Schedule 665 Customer agreement calls for 20-year minimum terms. There is some risk that the subsidiary company can be sold to a party without the financial background of Enron, and so counter party risk could increase over time. This is not uncommon in the utility business, however, where 30-year operating leases for power plants have, for example, been seen. The issue of the asymmetric option for renewal after the initial thirty-year term has been resolved.

FINDINGS

13 (1) CNG is a gas company and is a public service company subject to the jurisdiction of the Commission.

14 (2) The contract presently under suspension is fair, just, and reasonable.

15 (3) It is consistent with the public interest to dismiss the Complaint and Order Suspending Contract in this docket.

16 (4) After careful examination and giving careful consideration to all relevant matters and for good cause shown, the Commission finds that the Agreement for distribution transportation service between CNG and E-Next should become effective August 9th, 2001.

O R D E R

THE COMMISSION ORDERS:

17 (1) The Commission dismisses the Complaint and Order Suspending Contract in this docket, dated July 25th, 2001.

18 (2) The Contract filed in this docket on July 2nd, 2001 shall be effective on August 9, 2001.

DATED at Olympia, Washington, and effective this 8th day of August, 2001**.**

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

RICHARD HEMSTAD, Commissioner

PATRICK J. OSHIE, Commissioner