

CASCADE NATURAL GAS CORPORATION
Docket No. UG-950326
RATEMAKING TREATMENT OF SPECIAL CONTRACTS

Date Prepared: July 19, 1995

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Public Counsel Data Request No. 14

Please describe and provide any documents that illustrate the management and oversight by Cascade of the March Point, Tenaska, and Encogen pipeline construction projects discussed at pages 23-28 of Exhibit _____ (JTS-Testimony).

Response:

Cascade does not have documents or written procedures for management and oversight of the referenced pipeline construction projects. The following description applied to all three of the projects referenced in this item.

Management and oversight of these projects was conducted by the Operations Department at the direction of the Vice President and Chief Operating Officer. The Director - Engineering maintained direct control of the project with the assistance of the Western Division Superintendent and Distribution Engineer. All decisions made during the construction of the pipeline affecting the design, siting, or cost of the pipeline were internally reviewed by Engineering management and approved before authorization was given to proceed.

The pipeline construction contract that was signed by Cascade and the pipeline contractor (Contractor) for each of these projects defined the responsibilities of the Contractor and specific approvals that were required from the Engineer. The Contractor for the March Point and Encogen projects was Complete Plant

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Maintenance, Inc. And the Contractor for the Tenaska project was Mid-Mountain Contractors Inc. The definition of Engineer in each of the contracts was "the individual or organization assigned by the Owner as being responsible for the design and/or construction management of the Work either acting directly or through field engineers or inspectors, such field engineers or inspectors acting within the scope of the particular duties assigned to them". All of the Contractor's work on each project was subject to approval by the Engineer and the Engineer was authorized to stop work at any time if the Contractor was not performing to Cascade's satisfaction.

Cascade divided the duties of the Engineer between the Division Superintendent and the Director - Engineering for each of the projects. The Division Superintendent was responsible for supervising all field work on the project, reviewing all billings from the Contractor and communicating with the Director - Engineering regarding progress and changes on the project. The Division Superintendent was assisted by other supervisory and hourly personnel, as required by the size and scope of each project. The Contractor was not allowed to make any changes to the design of the project without specific approval of the Division Superintendent. The Division Superintendent was authorized by the Director - Engineering to accept the work of the Contractor if it was completed according to the plans and specifications. Any changes that required the substitution of materials, changes to permits or easements, or changes to the cost or scope of the project were communicated to the Director - Engineering for approval.

The Director - Engineering was responsible for directing the engineering and design of the pipeline, conducting the bidding process, analyzing the bids, coordinating the construction schedule, assigning appropriate inspectors and field personnel to monitor the

Contractor's work, approving all invoices from the Contractor and approving any changes to the design of the pipeline. In the event that weather conditions, construction difficulties, unforeseen obstacles or other circumstance arose that required changes to the

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pipeline design or location, the Division Superintendent supplied the Director - Engineering with sufficient information to approve or reject those changes.

The Vice President and Chief Operating Officer was responsible for reviewing the bidding process, approving the selection of the successful bidder, signing the pipeline construction contract and approving any change orders or amendments to the contract. The Vice President and Chief Operating Officer also approved all invoices for payment after review and approval by the Director - Engineering.

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Date Prepared: July 19, 1995
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Public Counsel Data Request No. 15

Please describe the process used by Cascade to solicit bids, select a contractor, and award a contract for the construction of the March Point, Encogen, and Tenaska projects. Specifically, please describe the contractual relationship between Cascade and the contractors with respect to changes in cost after bids were submitted and contracts were signed.

Response:

The following descriptions applied to all three of the projects referenced in this item.

Bid Process

The bidding and contracting process for each project was initiated by the Vice President and Chief Operating Officer after a gas transportation contract was signed with the prospective customer and the design and permitting of the pipeline was completed. The Director - Engineering coordinated the preparation of drawings and specifications of the project to be released to approved contractors. The Vice President and Chief Operating Officer and Director - Engineering chose the approved bidding contractors for each project. The bid request documents included drawings of the pipeline and all related facilities to be fabricated or installed by the Contractor, a draft pipeline construction contract, right-of-way documents including permits, easements and related conditions, a bid sheet listing installation and material units that the Contractor would be paid and any other information that was applicable to the project. The bid documents were sent to the bidding contractors along with a schedule of on-site bid meetings and deadlines for submittal of bids.

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The Director - Engineering conducted an on-site meeting and job showing for personnel from all bidding contractors. This meeting was intended to provide the bidding contractors with sufficient information to thoroughly review the location of the pipeline, access to the pipeline right-of-way and other physical characteristics of the project. Throughout the site visit and the bidding process, the Director - Engineering ensured that all of the bidding contractors received the same information. Any questions that could not be answered during the site visit were answered in letter form to all bidding contractors.

The Director - Engineering received the bids and held all bids until the set deadline. All bids were opened and reviewed. The Director - Engineering analyzed the bids for any conditions or exceptions that the bidding contractor may have included to determine the possible effect on the total price. The bidding contractors proposed schedules were also reviewed to determine if the project would be completed according to Cascade's requirements.

The Director - Engineering and Vice President and Chief Operating Officer discussed the bid review and selected the Contractor for the project or determined that all of the bids were unacceptable. If any changes had occurred in the permits or design of the project since the bid showing, the Director - Engineering and Vice President and Chief Operating Officer held a meeting with the Contractor to discuss the changes and the effect on the Contractor's bid as submitted. If there were no remaining questions, the Contractor was given a final draft of the pipeline construction contract containing the unit prices for final review by the Contractor and the Contractor was asked to arrange for a performance and payment bond for the project. When the bond was in place, the pipeline construction contract was signed by the Vice President and Chief Operating Officer for Cascade and an authorized representative for the Contractor.

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Contractual Relationship

By agreeing to the terms of the pipeline construction contract, the Contractor stated that they had reviewed the specifications and location of the pipeline and could install the pipeline for the unit prices listed in the contract. During the construction phase, conditions changed or unforeseen obstacles were discovered that required a change in the specifications. In the event a change order was proposed by the Contractor, the Director - Engineering and Vice President and Chief Operating Officer considered the change order in terms of its impact to the Contractor and whether it was reasonably foreseeable or expected for the particular project. If the change order was based on a genuine change in conditions or unforeseeable situation, the Director - Engineering and a representative of the Contractor negotiated an amount that fairly compensated the Contractor for the additional work. Although a written change order was not prepared for all additional pay items on these contracts, all items did receive the same engineering management review and approval before payment.

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Public Counsel Data Request No. 17

Please provide any document that supports or provides a basis for the statements at page 29, line 22; page 30, line 15; and page 31, line 8 regarding Cascade's estimates of what the March Point, Encogen, and Tenaska developers thought it would cost to construct bypass pipelines.

Response:

The above-referenced statements reflect the Company's beliefs, based upon discussions and negotiations with the project developers and are not supported by any documentation.