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February 27, 2007

VIA EMAIL AND U.S. MAIL

John Cameron
Davis Wright Tremaine LLP
Suite 2300
1300 SW Fifth Avenue
Portland, OR 97201-5682

**Re: *Cost Management Services, Inc. v. Cascade Natural Gas Corporation*;
WUTC Docket No. UG-061256**

Dear John:

I am writing in response to your letter of February 26, 2007.

As you know, on February 12, 2007, Cascade filed with the Commission its proposed tariffs to comply with the Commission's January 12, 2007 order in this case (the "Order"). Cascade also filed with the Commission its current contracts with non-core customers to comply with the Order. You state in your letter that you were not served with this filing; however, it is my understanding that Cascade did serve the parties with copies of its filing. In addition, I sent you an electronic copy of the filing on February 15, 2007. Thus, I am confused by your statement that you "discovered" this filing last week while perusing the Commission's website.

As indicated in the cover letter accompanying Cascade's February 12, 2007 filing, Cascade filed both the tariffs and current contracts with the Commission, but did not serve the contracts on any parties. We do not understand the Order to require Cascade to serve those contracts, which contain customer-confidential information, on the parties to this case. The Order, including paragraph 57 which you cite, requires Cascade only to

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file the contracts with the Commission. Cascade has fully complied with this requirement.

You request that Cascade provide you with copies of these contracts. Cascade does not think that it is required to do so under the Order. Moreover, Cascade does not think that these contracts are relevant to any remaining issue in this proceeding. The Order states: "We [the Commission] will review existing contracts to ensure Cascade is in compliance with state laws and regulations regarding special contracts." Order, ¶ 98. It also states: "We fully expect Staff to investigate Cascade's competitive activities thoroughly in reviewing these filings [the tariffs and existing contracts]." Order, ¶ 99. Thus, it appears that the Commission did not intend for these contracts to be the subject of further proceedings in this case.

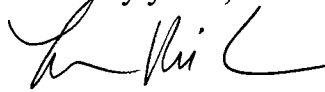
Moreover, consideration of these contracts in this case is outside the scope of your client's Complaint. CMS's Complaint states: "This complaint concerns the fundamental unlawfulness of Cascade's non-tariff retail sales of natural gas, *not whether Cascade's prices in the relevant agreements are just, reasonable, unduly discriminatory, unduly preferential, or anticompetitive.*" Complaint, ¶ 45. The Commission has already resolved all of the issues raised in the Complaint, and examination of the prices of existing contracts to determine whether they are discriminatory or anticompetitive is patently outside the scope of the Complaint. It is, in fact, doubtful whether CMS has standing to pursue a claim that the prices in these contracts discriminate among Cascade's customers. Instead, the Commission has delegated investigation of any such issues to its Staff.

Cascade recognizes that the Order states that the Commission will set for hearing the issue of whether Cascade is violating RCW 80.28.090 and 80.28.100. Order, ¶ 64. However, the only issue raised by CMS under these statutes was that "Cascade's use of 'unregulated' prices other than tariff prices necessarily violates RCW 80.28.090 and RCW 80.28.100 because it blocks the Commission from carrying out its duties under those provisions to prevent undue preferences and undue discrimination." Complaint, ¶ 46. CMS's Complaint expressly does not raise any issue regarding whether the rates charged under these contracts are unduly discriminatory or otherwise improper, and Cascade does not think that CMS has standing to raise these issues. By requiring Cascade to file these contracts and instructing its Staff to investigate them, the Commission has already provided CMS with all the relief it requested under these statutes, and there should be no need for disclosure of these contracts or for any further proceedings in this docket.

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You also inquire as to Cascade's intentions with respect to filing future contracts with the Commission. We think it is premature to respond to that question. Cascade has just filed proposed tariffs to cover its gas sales to non-core customers; the Commission has not yet approved those tariffs. Cascade fully intends to comply with the Commission's requirements, whether through its tariffs or by filing for approval of special contracts as provided by statute and Commission rule.

Sincerely yours,

A handwritten signature in black ink, appearing to read "L. Reichman", written in a cursive style.

Lawrence Reichman

cc: Hon. Ann Rendahl
Service List