Docket No. UG-95____
Exhibit ____ (JTS-Testimony)
Witness: Jon T. Stoltz

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

GENERAL RATE APPLICATION
OF

CASCADE NATURAL GAS CORPORATION

DECEMBER 11, 1995

Prepared Direct Testimony of

Jon T. Stoltz

Policy Statement
Summary of Rate Application
Industrial Special Contract Adjustments
Estimated Rate Case Expense
Removal of Certain Promotional & Non-Recurring Expenses
Revenues Under Proposed Rates
Tariffs

PREPARED TESTIMONY OF JON T. STOLTZ
(Summary Exhibit, Pro forma Industrial Contract Changes, Estimated Rate Case Expense, Removal of Certain Promotional and Non-Recurring Expenses, 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 of Planning and Rates.

Q. Would you identify your responsibilities with the Company?

A. As Senior Vice President - Planning and Rates, I am responsible for the Special Studies and Rates Departments of Cascade. The Special Studies Department is responsible for the development of the Company's Integrated Least Cost Planning function. 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 Oregon Public Utility Commission.

The Rate Department is responsible for the preparation of all rate related exhibits in "tracking" and general rate relief filings.

I am also the liaison for the Company with the state utility commissions of

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Washington and Oregon for all rate related matters. I have the responsibility of maintaining Cascade's tariffs.

Q. Please describe your educational 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 rate analysts have with Cascade. My tenure with El Paso Electric was approximately three years.

Q. Have you previously sponsored testimony?

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.

Q. Has the Company actively undertaken cost containment steps so that its revenue requirement will be minimized?

A. Yes, it has. Cascade continuously strives to improve its systems of doing business to minimize costs of providing service.

Q. Please give some examples.

A. Cascade has always recognized that its most significant cost other than gas cost is

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personnel cost. The control over this cost has primarily been exercised by controlling the number of employees. Cascade adds additional people only when there is clear evidence that there is meaningful, productive work of a long-term nature.

Q. Does Cascade have any objective evidence of the effectiveness of its continuing efforts at personnel cost containment?

A. Yes. Cascade's ratio of the number of customers per employee has seen a substantial increase. Based on year end 1990 figures there were 227 customers for each Cascade employee. As of the end of 1994, this number had increased to 300 customers per employee.

Q. What other areas of cost containment has Cascade undertaken?

A. During the past year Cascade has begun implementation of a new management information system (MIS) the purpose of which is to help management control the cost of doing business. It should provide more complete, meaningful and timely information for decision making. Initially the MIS consists of a new general ledger system with reporting capabilities, and an accounts payable system. Other functions can and will be added to the MIS in the future for more complete information reporting. One of the next steps is development of a budget capability at department and district levels. Cascade has traditionally been tightly controlled from top management. With growth carries the recognition for a different control system that involves departments and districts more heavily in the process.

Q. What other steps is Cascade taking toward cost containment?

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A. Cascade is investigating its internal processes with a view toward streamlining them as much as possible. Examples follow:

EXPENDITURE REQUISITION SYSTEM:

Cascade is presently focusing on its expenditure requisition system to try to reduce the number of steps in processing documentation for construction of additional facilities. When completed this streamlining is not only anticipated to reduce costs, but it should also improve service to customers by shortening the turn around time for new projects.

PERIODIC METER CHANGEOUTS:

Until late in 1995 Cascade changed out each residential meter in Washington every 10 years. We are now entering into a statistical sampling program. Each meter that is sent through the meter shop for other reasons will be run through a statistical analysis to determine if the family of meters that it came from is still statistically sound. Depending on the number of meters coming into the shop, and the results of the tests, additional meters may need to be pulled on a random basis to prove the reliability of the family. This method should provide a great reduction of meter changeouts per year. Conservative projections indicate an annual savings of 19% can be realized in the costs associated with removal and testing of residential meters.

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ELECTRONIC BILLING:

Approximately half of Cascade's customers that are currently billed based on chart recorders are noncore customers. At each of those customers' meters, we have installed an automatic meter reading system which is used for the nominating and monitoring of the loads. We are planning to make some revisions to the system and then start billing based on this system. This will eliminate the requirement to have the chart recorders at these meters. These steps will reduce expenses by eliminating: the calibration of the charts; changing the charts; analyzing and editing the charts; and the cost of the charts.

CONSTRUCTION COSTS:

We are constantly looking at our construction techniques to try to find alternatives which are less expensive, while retaining the high quality that is required. One of the best methods so far has been the use of provided trench in new developments. This gives the developer the advantage of having all of the utilities installed in a well-coordinated manner where the developer is in reasonable control. It also gives the utilities the advantage of lower construction costs since the trench is provided plus reduces the location conflicts between utilities.

Q. Please continue.

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A. Cascade is examining its main extension policy to make sure that the facilities required to serve new customers are constructed on an economic basis, and that they do not require subsidization from existing ratepayers.

Cascade is also evaluating ways to change its medical benefit program without substantially diminishing benefits. It intends to present some ideas on this subject to the union in the context of the spring 1996 contract negotiations (Cascade's present union agreement runs through March 1996).

Q. Do you sponsor exhibits in this filing?

A. Yes, I sponsor five exhibits. These exhibits are marked as follows: Exhibit __ (JTS-1), containing the summary schedule of all adjustments contained in this application; Exhibit __ (JTS-2), Pro forma adjustment to reflect Industrial Customers Contract Changes; Exhibit __ (JTS-3), Estimated Rate Case Expense; Exhibit __ (JTS-4), Adjustments to reflect the removal of certain promotional and non-recurring expenses that occurred during the Test Period; and Exhibit __ (JTS-5), revenue requirements, change in rate spread and design, and revenue under proposed rates.

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

A. Yes.

SUMMARY OF RATE CASE

Q. What is the purpose of Exhibit __ (JTS-1)?

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A. This exhibit is a summary of all the adjustments that are included in this rate application. It consists of a three-page schedule. Page 1 begins with book figures for the State of Washington for the test period, which is the twelve months ended December 31, 1994 as displayed in detail in Exhibit __ (LLC-1). Column (c) of Page 1 displays the net restating adjustments set forth in this application. The individual restating adjustments are set forth on Page 2 of this schedule. Column (d), Page 1, indicates the statement of operations and rate of return as restated and is the result of adding columns (b) and (c). Column (e) of Page 1 displays the net pro forma adjustments. The individual pro forma adjustments are set forth on Page 3 of this schedule. Column (f), Page 1, indicates the statement of operations and rate of return as adjusted and is the result of adding Columns (d) and (e).

Q. How were 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 was a revenue adjustment, the revenue sensitive cost factors as developed in Exhibit __ (LLC-3) were applied. The appropriate federal income tax computation to each adjustment was also made. Each column was totalled to determine the effect on net operating income. The sum of Columns (b) through (l) on Page 2 is shown in Column (m) and also in Column (c) of Page 1.

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

A. The amounts appearing in this column are developed on Page 3 of this exhibit. The net pro forma adjustments testified to by the various witnesses are listed in the appropriate columns on Page 3. 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 totalled to determine the effect on net operating income. The sum of Columns (b) through (h), on Page 3 is shown in Column (i) 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 pro forma adjustment page?

A. In general, if the changed condition or level of cost occurred within the twelve months ended December 31, 1994, 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 pro forma 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-5). The increased revenue requirement is

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carried forward to Column (g) of this Schedule 1, Page 1, which also includes the application of revenue sensitive costs and federal income tax factors.

Column (h), the total of Columns (f) and (g), shows a pro forma twelve months ended December 31, 1994, statement of operation which produces the 9.76% rate of return.

EXHIBIT __ (JTS-2)

Pro Forma Adjustment for Industrial Customer Contract Changes

Q. Please describe the contents of Exhibit __ (JTS-2) and how it pertains to these proceedings.

A. Exhibit ___ (JTS-2) shows the Pro forma adjustments of Cascade's Special Contracts it has with some of its large volume customers. This pro forma adjustment includes reflecting the revenues and rate base associated with service to the Longview Fibre Cogeneration facility, the annualization of the volumes delivered to the Tenaska cogeneration facility, and the change in revenue that will occur as a result of the special contract that Cascade has entered into with Boise Cascade. Cascade has completed the construction of a new high pressure distribution pipeline to the Longview Fibre generating facilities and the generating facility became fully operational on June 1, 1995. The Tenaska cogeneration facility became operational in April, 1994. Therefore, this adjustment also reflects the additional amount of gas that would have been delivered to Tenaska if the facilities had been in service for the full test period.

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Q. Are any restating adjustments for these Special Contracts or Cascade's other Special Contract necessary?

A. Not in Exhibit ___ (JTS-2). All restating adjustments for the Special Contracts were performed in Exhibit _ (PAS-1), the Company's restatement of all revenues and revenue margins and revenue margins at rates which were in effect at the end of the Test Period.

Q. What is the amount of the adjustments contained in Exhibit ___ (JTS-2)?

A. The revenue adjustment for Longview Fibre, Tenaska and Boise Cascade of $1,078,952 is shown on Exhibit ___ (JTS-2), Schedule 1, line 2, Column (b). This revenue adjustment amount also appears on the Summary Exhibit __ (JTS-1), Schedule 1, Page 3, Line 1, Column (d). The rate base adjustment of $6,724,097 is shown on Exhibit_ (JTS-2), Schedule 1, line 31, Column (b). This rate base amount also appears on the Summary Exhibit __, (JTS-1), Schedule 1, Page 3, Line 21, Column (d).

EXHIBIT __ (JTS-3)

Estimate of Rate Case Expenses

Q. How does Exhibit __ (JTS-3) pertain to these proceedings?

A. This exhibit shows the estimate of rate case related costs which Cascade has and will have incurred in processing this rate case.

At this time Cascade estimates the current case will involve costs totalling

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$207,000. 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 $207,000 of rate case expense on Cascade's summary exhibit?

A. Yes. The $207,000 appears on the summary exhibit, Exhibit __ (JTS-1), on Page 3, Line 10, Column (d).

EXHIBIT __ (JTS-4)

Removal of Certain Promotional Expenses and Non-Recurring Expenses

Q. Please describe Exhibit __ (JTS-4) and how it pertains to these proceedings.

A. Exhibit __ (JTS-4) shows the adjustments necessary to remove certain expenses from the Test Period. In conjunction with WUTC Staff, Cascade reviewed the advertising that was booked to FERC Account 913. The Company found the $65,565 of advertising expenses booked to that account in 1994 would not qualify to rate treatment under WAC 480-90-043. This amount appears on Ex_(JTS-4), Schedule 1, line 1, column (b) and also on the summary exhibit, Exhibit__(JTS-1), on page 2, line 10, column(j). Staff and the Company also reviewed two sales programs conducted by the Company during the test period. The first was a High Efficiency Water Heater Rebate Program. This program attempted to identify and evaluate "heat only" customers and to provide a $200 rebate, paid directly to each of these "heat only" customers that elected to install a new high efficiency (.55 Energy Factor or higher) natural gas water heater in replacement of some other energy source water heater. The Company felt that existing

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ratepayers would benefit from this program as these sales would result in increased therms or billing units to spread embedded fixed cost with no increased investment in plant and through the encouragement of high efficiency appliances.

The second program attempted to identify service lines where the meter had been removed but the service line had not yet been retired. The Company's goal with the program is to reestablish a customer and the associated revenues on such service lines. The Company believes the existing ratepayers would benefit from this program as these sales would result in increased therms or billing units to spread embedded fixed cost with no increased investment in plant required other than the meter. Customers received a rebate of $100 for the installation of a new high efficiency space heater (AFUE 80% or higher) or $200 for the installation of a new high efficiency (.55 Energy Factor or higher) natural gas water heater. If the customer installed both, the rebate was $350.

Staff suggested that these programs were likely too promotional in nature and recommended that the Company remove the rebates paid to these customers from the test period. The $225,050 amount shown of Exhibit __(JTS-4), page 1, line 2, column (b) represents those rebates booked in 1994. This amount also appears on the summary exhibit, Exhibit __(JTS-1), page 2, line 10, column (k).

Also during the test period, the Company booked the amount associated with a settlement of a law suit. Exhibit __(JTS-4), page 1, line 3, column (b) shows the $80,000 which represents a non-recurring type expense. This amount also appears on the summary

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exhibit, Exhibit __(JTS-1), page 2, line 10, column (l).

EXHIBIT __ (JTS-5)

Calculation of Revenue Requirements and Revenues Under Proposed Rates

Q. Please describe the contents of Exhibit __ (JTS-5).

A. This exhibit is the development of the increased revenues required for Cascade to reach the rate of return of 9.76%. This exhibit consists of six schedules. Schedule 1 is the actual calculation of the revenue requirements. Schedule 2 shows what the revenue under increased rates would have been if Cascade's proposed rate were based upon the application of an equal percentage of the increase requested in this rate application. Page 1 of Schedule 3 shows the application of the Company's proposed rate design and rate spread to the various customer groups. Page 2 shows the derivation of the percentage change by customer group when gas cost is also included in the analysis. Page 3 shows the proposed increase on the average monthly bill of the various customer groups. Schedule 4 consists of a graph on page 1 entitled 1988-95 Non-Core Therm Consumption and a table on Pages 2 and 3 which supports the page 1 graph. The Notice to the Public, which has been posted in all Washington business offices and pay stations, is Schedule 5. The black line version of the proposed tariff sheets for Cascade's Washington tariffs, WN U-3, are marked as Page 1 through Page 19 of Schedule 6.

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Q. Please explain Schedule 1.

A. Schedule 1 shows the rate base on Line 1, along with the rate of return on Line 2. When multiplied, the total net operating income at this rate of return is determined and is the amount displayed on Line 3. Line 4 displays the adjusted net operating income which was developed in the summary exhibit, Exhibit __ (JTS-1), 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 increased revenue requirement was computed and is shown on Line 7. This number is carried forward to Page 1 of Cascade's summary exhibit, Exhibit __ (JTS-1) on Line 3, Column (g). Line 8 shows that the increased margin requirement is 12.26% of the total adjusted margins at rates which were in effect at the end of the test period 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 of this exhibit shows the effect of applying an equal percentage increase to

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each customer group other than the Special Contracts. Column (f) is the dollar increase by rate schedule. Column (g) shows the total margin by rate schedule if Cascade were to apply the equal percentage rate spread to this rate application. Although the equal percentage application is often used in general rate applications, Cascade believes that, based upon the results of Cost of Service Study that is included in this application as Exhibit __ (LMD-1), it is appropriate to depart from the equal percentage approach for this rate application.

Q. Please describe Schedule 3 of this exhibit.

A. Schedule 3 shows the revenue impact and the derivation of the rate schedule charges that result from the Company's proposed rate spread and rate design. The tariff revisions that comprise this filing contain rates that will produce the same total revenues as were developed on Schedule 2; however, they reflect changes in rate spread and rate design based upon Mr. Dickey's recommendations based upon his Cost of Service Study.

Q. Why are these changes in the Company's rate structure necessary?

A. The primary reason is to move toward a fairer apportionment among the various customer classes of the burden of meeting the Company's revenue requirements. The cost of service study included as Exhibit __ (LMD-1) demonstrates a disturbing degree of inequity in the amounts of revenue contributed by the various customer classes when compared to the respective costs those classes impose upon the system. Moving toward rates more reflective of these costs should reduce inequities that might otherwise be

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considered as unduly discriminatory.

More nearly reflecting true costs in rates will assist in optimizing the efficient use of gas by our customers. To the extent some customers are currently being subsidized by others, the economic signals being conveyed fail to encourage the conservation that should be practiced by some while inhibiting economically desirable gas use by others. This latter factor has been especially troublesome to the Company and all its ratepayers, since it has resulted in an inability to effectively compete in industrial markets. Although this Commission has helped Cascade address this competitive problem in the past through rate design and Special Contracts, failing to spread revenue requirements based upon the Cost of Service Study or allocating any of the current rate increase to these industrial customers would jeopardize much of the gains we have made.

Q. Please explain Schedule 3, Page 1.

A. It shows the percentage in margin that results from application rates and Cascade's proposed rate spread application. Page 1 shows test year margins by rate schedule under rates that were in effect at the end of the test period in Column (d), in the proposed change in margin in column (e), the revised margins in column (f) and the percentage change in margin in column (g).

Q. How was the proposed level of margin by rate schedule (Column (e)) determined for each rate schedule under the Company's rate spread?

A. In general, the increase by rate schedule was calculated by applying the increased

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revenue requirement needed to bring each rate schedule and rate of return to a levelized return that is reflected in Cascade's Cost of Service Study, Exhibit__(LMD-1) Page__. Even though the Company is seeking an overall rate of return on 9.76%, it is not necessary to levelize all rate schedules at a 9.76% return. This is because Rate Schedule 678, the Interruptible Electric Generation Gas Service Schedule and the Special Contract Customer group, called Rate Schedule 901 in this application, have current returns well in excess of the 9.76% overall return and the Company is not proposing to reduce their returns to the levelized level. The Special Contracts have automatic cost of living adjustment clauses built into the rate section of the agreements and should not be adjusted in a general rate case. Although Rate Schedule 678 in itself is a cost based rate schedule (rather than a special contract type of service), the only customer on 678 is Puget Power. The Contracts with Puget for service are long-term contracts that contain a fixed monthly facilities charge for the life of the agreement. Most of the revenues shown for 678 results from the monthly facilities charge. Because of these monthly facilities charges, Rate Schedule 678 is now earning a return greater than the overall return because the accumulated depreciation on the rate base is reaching a point where the facility charges now are more than adequate to earn a return. The nature of fixed facility priced contracts are to earn an adequate return over the life of the contract. This means that in the early years of these contracts, when the facilities charges are not sufficient to earn the desired return against the undepreciated rate base, the other ratepayers must make up

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the difference. As the contracts mature and the net book value of the rate base declines, the other ratepayers are entitled to enjoy the higher returns the fixed facilities charges now generate. Therefore, neither Max Dickey nor Cascade is proposing a decrease in 678 revenues. If 678 and 901 were to be levelized at a 9.76% return, the Company would have to decrease their combined revenues by over $2,250,000. Since it is not appropriate to decrease the return on 678 or 901, Cascade is able to levelize all of the other schedules at an overall return of 8.62%, thereby reducing by $2,250,000 the amount of rate spread shift that would be required to levelize at 9.76%.

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

A. Yes, we are making adjustments in our rate design. Since a sizeable amount 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 service charge in a number of rate schedules. Certain of these charges are currently inadequate and are being increased.

The customer service charge in general service Rate, Schedule Nos. 504 and 505 are proposed to increase to $20.00 per month. The current customer service charges are $2.00 per month for Commercial and Industrial General Service. The customer service charge in General Residential Service Rate Schedule 501 is proposed to increase to $10.00 per month for the six heating season months of October through March, while

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the customer service charge for the six remaining months, April through September, will remain at the present $1.50 per month. These changes result in an annual customer charge for residential of $69.00 and $240.00 for commercial and industrial general service customers. The Cost of Service Study indicates that the customer charge should be at least $164.00 per year for residential customers, $637.00 per year for commercial general service customers and $2,412 per year for industrial general service customers. Although the proposed customer service charges do not come close to recovering customer charges as identified by the Cost of Service Study, the increased customer service charge will provide greater revenue stability in the lower consumption months when the revenue derived from gas sales does not cover the cost to serve the customers. This increased customer service charge will also help eliminate the subsidization that typical natural gas general service customers have had to bear in favor of partial requirements customers (such as those who use natural gas as standby to other energy sources).

Cascade is also proposing to consolidate residential rate schedules 501 and 503 and eliminate 501. Although the cost of service study shows that it does cost less to serve the higher load factor and increased annual volume resulting from the combined space heat and water heat loads of customers served on Rate Schedule 503 than it does to serve the general service customer on 501, the reduced cost of service can be reflected simply by reducing the above 50 therm tail block on the revised residential rate schedule. Rate

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Schedule 503 previously required written application from the customer to qualify for service and the Company had to routinely verify that the 503 customers still qualified for the service and that 501 customers who might qualify for 503 service were given adequate notice of the availability of that lower rate. Combining the two rate schedules and taking care of the reduced cost to serve with a lower tail block should result in better customer service at a lower cost. The lower tail block, combined with the increased customer charge, should also provide less fluctuation in the monthly bills of the customers in the winter time. This should reduce the hardship to customers from cold weather.

Q. Please explain Schedule 3, Page 2 of this exhibit.

A. Page 2 shows the percentage change by customer group when gas cost is also reflected in the analyses. These percentages are more reflective of the actual percentage change customers would experience under the Company's proposed changes in rates. Page 3 shows the change in rates on the average monthly bills of each customer group.

Q. Please explain Schedule 4.

A. Schedule 4 contains a graph of the consumption history of Cascade's non-core customers since the creation of the unbundled tariffs were placed into effect on December 1, 1989. The monthly consumption of the non-core customers from January, 1988 (the start of the Test Period for the December 1989 Unbundled Tariffs) through September, 1995 is shown by non-core customer group. The groups were established as follows:

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Existing 663 Load - Those initial Rate Schedule 663 customers that are still 663 customers.

Existing 578 (now 678) Load - The two Puget Power turbine accounts.

Bypass Load - Volumes consumed by Weyerhaueser, Nor Pac, ARCO and Intalco prior to their bypass of Cascade's distribution system.

Existing 901 Load - The consumption history of ALCOA, Tosco, and Boise Cascade that started out as 663 customers but have now become Special Contract (901) customers.

Incremental 663 Load - New customers that became non-core after December 1, 1989 and Incremental 901 customers - New Special Contract customers representing the four cogeneration facilities located in Cascade's service area.

The intent of the graph is to show the success of the unbundled tariffs. The non-core customers' annual consumption has grown from 272 million therms per year in 1988 to 729 million on a proforma 1994 basis. Much of the success that is indicated by this increase in volume is due to the fact that this Commission allowed Cascade to offer unbundled services to these large volume customers. Although it could be said that most of the increase in volume is a result of the four cogeneration facilities, Cascade believes that all of these cogeneration facilities would have bypassed Cascade's system if it did not have unbundled services and the ability to develop rates competitive with each of their bypass facility opportunities. If these cogenerators had bypassed Cascade, they would have likely included the host industrial plant as part of their bypass, thereby

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reducing Cascade's number of large volume customers.

Even without counting the cogenerators' volume, the 663 customers are consuming more now than they did before the tariffs were unbundled. Their consumption has increased enough to replace the significant loss of volume experienced when Weyerhaueser, Nor Pac, ARCO and Intalco bypassed Cascade in November, 1990.

The unbundled tariffs are successful, but now without problem. Several of the non-core customers are reviewing their opportunity to lower their cost with bypass facilities. To retain these customers, Cascade has entered into Special Contracts with ALCOA, Tosco and Boise Cascade. The Company is also in contract discussion with several other customers concerning their bypass opportunities and the level of rates Cascade would have to offer them in order to avert the bypass threat. Most of the problem appears to be the rate level of the current 663 service. As indicated by the Cost of Service Study, the rate level of 663 is significantly too high. If this allows Cascade to levelize the return on 663, most of the economic incentive these current 663 customers have to pursue their bypass opportunities will disappear.

As a result, Cascade is proposing to decrease the 663 revenues by $5,200,000 in this rate application.

Q. Please describe the rest of Exhibit __ (JTS-5).

A. Schedule 5 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 6 contains all

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of the revisions to various 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, it does.

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