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In response to the Washington Transportation and Utility Commission (WUTC) request for additional comments in response to Docket U-100522 and the July 2 “Notice of Opportunity to File Written Comments”, Cascade Natural Gas Corporation submits the following position statements for the four areas outlined below.

The Company’s comments and positions should be considered applicable to the natural gas utilities only. As a natural gas utility, Cascade recognizes that there are substantial operating differences between the electric and natural gas utilities and because of this the Company is not a position to comment on what is appropriate for the electric utilities.

1) Full decoupling including all declines and all increases in sales from any source

Cascade Natural Gas supports full decoupling, which would include declines and increases in sales from any source.

Under the current rate structure, any reduction in usage reduces the utility’s margin and thus its ability to cover its expenses, which are largely fixed. The Company believes that full decoupling is a better approach than lost margin recovery because by including some measures that reduce usage but not others, the utility is still harmed financially. The lost margin approach could also lead to a complicated and contentious process for the calculation of lost margins since the reasons for declining usage are often interconnected. For instance, aggressive pro-conservation messaging from a utility may encourage energy efficient behavior that *does not* result in the submission of a utility rebate application but results in an unrecoverable *decrease* in customer usage. The Company supports full decoupling for residential, commercial, and small industrial rate schedules because it removes the Company’s disincentive to promote conservation, is simple to administer and understand, and allows the utility to be neutral to changes in usages. Additionally, to the extent recovery of decoupling deferrals are subject to an earnings test, Cascade believes that the Commission should establish a range rather than a hard cap for the earnings test in order to still provide the utilities an incentive to control their costs.

2) Lost margin adjustment for declines in sales due only to company sponsored conservation efforts

Cascade maintains that any decline in customer usage should be subject to recovery and that differentiating what reductions result from a company’s conservation programs versus other measures is difficult to quantify and potentially counterproductive to the achievement of the

region's energy efficiency goals. However, in the absence of a full decoupling mechanism, Cascade could support the use of a lost margin adjustment for declines in sales due only to company sponsored conservation efforts.

The Company reiterates that under a lost margin (partial decoupling) scenario, any conservation achievements associated with company-sponsored conservation efforts should be calculated with deemed therm savings figures developed at the state level. This way the Company can aggressively focus its resources on growing customer participation with reasonable assurance that the savings associated with its programs would be supported by regulators and other stakeholders.

Additionally, changes to revenues associated with new load should not be considered an offset to the lost margins associated with conservation since the addition of new customers will lead to additional costs for the Company. For each new customer, new plant must be added to the distribution system, a new account must be established, and the company will incur additional operations and maintenance expenses associated with the new plant.

3) Attrition adjustment based on the results of an attrition study

Based on previous statements by stakeholders to this proceeding, it appears that "attrition study" and "attrition adjustment" are being defined respectively as:

- (a) an analysis that determines to what degree company-sponsored conservation activities have mitigated the company's ability to earn its authorized rate of return; and
- (b) a subsequent financial adjustment to ensure that the company is able to earn its allowed rate of return within the parameters of a rate case.

The Company believes that an attrition study is one tool to answer the question of losses associated with conservation activities. However, we would most favor a mechanism that compensates for all reductions in energy usage as aggressive pro-conservation marketing can result in less directly quantifiable, (but no less valuable) energy conservation behaviors.

Avista points out that attrition adjustments have been used historically as an "extraordinary measure" in circumstances where there was a "firm conviction that not to do so otherwise [would] jeopardize the company's financial integrity and adversely affect the ability of the company to render required service to its customers at reasonable rates". This being the case, it is difficult to determine the viability of this method in readily restoring losses resulting from reduced customer usage. The Company much prefers a mechanism *specifically designed* to decouple customer usage from rates, as opposed to a tool traditionally used as a safeguard against economic crisis (and only on a case-by-case basis). We also do not see the difference between this method and simply filing for recovery of rates in a rate case. Decoupling *mitigates* the need for excessive rate case filings which can be financially burdensome to ratepayers.

Under the circumstances described above, the Company would not support attrition adjustments based on an attrition study unless such a tool was customized specifically for the purposes of rate recovery that could be used outside the parameters of a formal rate case.

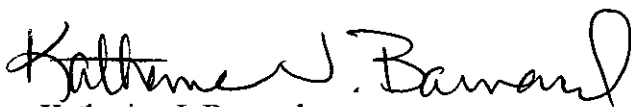
4) An independent conservation provider (i.e. similar in concept to the Energy Trust of Oregon)

The Company continues to express its neutrality for the implementation of an independent conservation program (similar to ETO) as long as the following, previously-stated conditions are met:

- (a) Should begin as a pilot, developed with input from all utilities and include their active participation and oversight;
- (b) Should meet or surpass the cost effectiveness of utilities' currently offered conservation programs;
- (c) Must equally serve the conservation needs of all utility customers including both those in urban and rural areas;
- (d) Should include utility staff as critical participants in the Trust, with full participation on any resulting Board of Directors;
- (e) Must include data sharing protocols with regular reporting to utilities to include (but not be limited to) a monthly report of customers served, measures installed, and deemed therm savings; and
- (f) Must be a unique entity designed to address the specific needs of Washington state utilities.

Cascade also maintains its recommendation that the WUTC work closely with the utilities develop a multilateral working group to streamline opportunities for collaboration between the utilities and only implement a Trust model if it is deemed prudent after careful examination of all issues, strong input from utilities and assurance that programs would be delivered as- or more- cost effectively than is currently provided through the utilities. We again state that it is also important to remember that the ETO model only includes the IOUs and excluding Public Utility Districts and municipalities could leave a large gap in achieving the overall state goals.

Sincerely,



Katherine J. Barnard
Manager,
Regulatory & Gas Supply