CASCADE NATURAL GAS CORPORATION
A Subsidiary of MDU Resources Group, Inc.

222 FAIRVIEW AVENUE N., SEATTLE WASHINGTON 98109-5312 206-624-3900
FACSIMILE 206-654-4039
www.cngc.com

October 1, 2010

Mr. Dave Danner
Secretary and Executive Director
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504

Re: Cascade Natural Gas Corporation's Petition for an accounting order authorizing deferred accounting treatment of loss in margin due to Company sponsored conservation programs, or, in the alternative, the continuation of the pilot decoupling mechanism that was approved in Docket UG-060256

Dear Mr. Danner:

Enclosed are an original and twelve copies of the Petition of Cascade Natural Gas Corporation ("the Company") for an Accounting Order regarding the above referenced petition.

If you have any questions regarding this filing, please contact Katherine Barnard at (509) 734-4593.

Sincerely,

Jon T. Stoltz
Sr. Vice President
Regulatory & Gas Supply

Enclosures

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of CASCADE NATURAL GAS CORPORATION, for an accounting order authorizing deferred accounting treatment of loss in margin due to Company sponsored conservation programs, or, in the alternative, the continuation of the pilot decoupling mechanism that was approved in Docket UG-060256	DOCKET NO. UG-________ PETITION OF CASCADE NATURAL GAS CORPORATION

Petition is hereby made to the Washington Utilities and Transportation Commission for an Accounting Order as herein described. In support of this petition, Applicant states as follows:

I.

The name of the Applicant is Cascade Natural Gas Corporation (Cascade or Company) a Washington Corporation, whose business address is 8113 W Grandridge Blvd. Kennewick, WA 99336-7166

The Applicant is a public utility engaged in the distribution of natural gas in Washington and Oregon. Applicant is subject to the jurisdiction of the Washington Utilities and Transportation Commission (WUTC).

II.

STATEMENT OF PURPOSE: Under traditional rate design, investor owned utilities have a disincentive to promote conservation programs and other energy efficiency measures due to the loss of margin associated with the resulting decrease in consumption. The Commission addressed this concern in the Company's last general rate case, Docket UG-060256 , with the approval of a three year pilot Decoupling Mechanism. This pilot is due to expire on September 30, 2010 unless the Company files for a continuation of the Decoupling Mechanism in conjunction with a general rate application. While the Company envisioned it would likely file a general rate application prior to September 30, 2010, due to the economic uncertainties facing customers and the Company we do not feel it is in the best interest of either to file a general rate case at this time. However the Company has identified several conservation measures that are cost effective and Cascade prefers to continue offering those measures within its conservation program. These conservation measures, however, will result in decreased consumption that will translate into a loss of margin for the Company. Authorization to defer the loss of margin associated with Company sponsored conservation measures will continue to eliminate the disincentive to promoting conservation.

REQUESTED TREATMENT: The Company requests that it be allowed to defer, into Account 186, the loss of margin associated with the Company's conservation program. The amounts deferred would be recovered in rates as part of the annual Deferral Tracking Mechanism filings. In the alternative of the above described Lost Margin deferral mechanism, Cascade requests a continuation of its pilot Decoupling Mechanism for another three year period without filing for a general rate case application at this time.

III.

On January 12, 2007, the Commission issued Order 05 in Docket UG 060256 authorizing Cascade to implement a three year pilot partial decoupling mechanism, consistent with the Order's Appendix A - Settlement Agreement, subject to conditions. The pilot decoupling mechanism included only the residential and commercial general service customers served on Rate Schedules 503 and 504 and excluded the effects of weather. One of the conditions was the Commission's approval of Cascade's Conservation and Low Income Weatherization Plan. The Company and the other interested parties formed a Conservation Advisory Committee to develop the Company's conservation plan.

Also in Order 05 the Commission acknowledged that the stipulated rate of return included a risk adjustment for the recovery of lost margins through the pilot decoupling mechanism.

On May 8, 2007, the Company filed the Conservation and Low Income Weatherization Plan. On August 16, 2007 the Commission issued Order 06 approving the Conservation and Low Income Weatherization Plan, Subject to Conditions, and authorized and required the Compliance filing. On September 14, 2007 the Company filed an Addendum to the Company's Conservation Plan and the associated tariff sheets. On October 1, 2007 the Commission issued Order 07 accepting the Addendum to the Conservation Plan and approving the tariff filing, thereby initiating the start of the pilot period.

Cascade has surpassed its conservation targets in both the 1st year and the 2nd year of the Conservation and Low Income Weatherization Plan. It is also on track to meet or exceed the conservation targets for the 3rd year as well.

On April 6, 2010, the Commission filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) to examine whether new regulations are needed to govern conservation incentive mechanisms or address declines in revenues due to company-sponsored conservation or other causes of conservation. On April 8, 2010 the Commission initiated Docket U-100522 by inviting interest parties to provide comments and participate in workshops concerning conservation incentive mechanisms. Included in the comments and the workshops were extensive discussions of decoupling mechanisms and lost margin recovery mechanisms, among other possible conservation incentive mechanisms. The Commission has yet to provide its decision as to what further action it will take, including whether to request further comments, schedule further work sessions, or take some action, by rule or otherwise, or to articulate a policy on the subject of conservation incentive mechanisms.

In final comments of the interested parties in Docket U-100522, most parties supported or did not oppose a mechanism for the recovery of lost margin tied to utility sponsored DSM programs. All of these parties stated a preference for a full decoupling mechanism over a mechanism designed for the recovery of lost margins from the utility sponsored programs. Three parties submitting final comments opposed any sort of lost margin recovery mechanism outside a general rate case.

In its final comment in U-100522, Cascade stated a preference for a full decoupling mechanism that included lost and found margins as well as the effects that weather has on consumption and with no earnings cap. As an alternative to full decoupling, Cascade supports a mechanism for the recovery of lost margin from Company sponsored conservation programs. Cascade's currently effective pilot decoupling mechanism is not a full decoupling mechanism as it does not include the effects of weather and it contains an earnings cap and other special requirements that must be met before any lost margins can be recovered by the Company.

In the absence of a rule change or policy statement from the Commission (as anticipated from Docket U-100522) that strongly supports full decoupling mechanisms with implementation available outside a general rate case, the Company does not believe that it would be appropriate to request an Order authorizing the implementation of such a full decoupling mechanism. However, RCW 80.28.260 provides the Commission with adequate authority to authorize Cascade to implement a lost margin recovery mechanism for Company sponsored conservation programs or to extend Cascade's current pilot decoupling mechanism for an additional three years.

Specifically RCW 80.28.260 paragraph (3) states:

> (3) The commission shall consider and may adopt other policies to protect a company from a reduction of short-term earnings that may be a direct result of utility programs to increase the efficiency of energy use. These policies may include allowing a periodic rate adjustment for investments in end use

efficiency or allowing changes in price structure designed to produce additional new revenue.

Cascade's pilot decoupling mechanism expires on October 1, 2010 and the Company will be faced with a reduction of short-term earnings that are a direct result of its programs to increase the efficiency of energy use through its conservation programs. The authorization of a mechanism for the recovery of lost margins from the Company sponsored conservation programs would circumvent the reduction of short term earnings that will begin to occur on October 1, 2010.

IV.

In summary, the Company requests the Commission order the following:

1) Authorize Cascade Natural Gas Corporation to defer the loss of margin associated with the Company sponsored conservation program and to include the resulting deferred amounts in its annual Deferral Tracking Mechanism filings. Or, in the alternative, authorize Cascade Natural Gas Corporation to continue its pilot Decoupling Mechanism for another three years.

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