

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

COST MANAGEMENT SERVICES,  
INC.,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET UG-061256

SETTLEMENT AGREEMENT

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WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET UG-070332

SETTLEMENT AGREEMENT

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In re Notification of Contract and  
Arrangement between

CASCADE NATURAL GAS  
CORPORATION,

and its subsidiary

CGC ENERGY, INC.

DOCKET UG-070639

SETTLEMENT AGREEMENT

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WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET UG-072337

SETTLEMENT AGREEMENT

## I. PARTIES

1. This Settlement Agreement (the "Agreement") is entered into by Cascade Natural Gas Corporation ("Cascade"), Staff of the Washington Utilities and Transportation Commission ("Staff"), Public Counsel Section of the Washington Attorney General's Office ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), and Cost Management Services, Inc. ("CMS") to resolve issues in four dockets pending before the Commission, Dockets UG-061256, UG-070332, UG-070639, and UG-072337 (collectively, the "Dockets"). Cascade, Staff, Public Counsel, NWIGU, and CMS are collectively referred to herein as the "Parties" and each separately as a "Party."

## II. RECITALS

### A. Docket UG-061256

2. On or about August 1, 2006, CMS filed a Complaint against Cascade with the Commission, docketed as Docket UG-061256. CMS claimed that Cascade's retail sales of natural gas to customers that take transportation-only service under Retail Rate Schedule Nos. 663 and 664 ("On-System Unbundled Retail Sales") were unlawful because they were not made pursuant to tariffs or special contracts filed with the Commission. Among other things, CMS requested the Commission to order Cascade to cease and desist from making On-System Unbundled Retail Sales and to declare existing agreements for On-System Unbundled Retail Sales void or voidable. Later in the proceeding, CMS also raised issues regarding Cascade's retail sale of gas supply to transportation-only customers of other LDCs in the state of Washington ("Off-System Unbundled Retail Sales"). (On-System Unbundled Retail Sales and Off-System Unbundled Retail Sales are referred to together as "Unbundled Retail Sales" in this Agreement.)

3. On January 12, 2007, the Commission issued Order 03 in Docket UG-061256 ("Order 03"). Among other things, Order 03 required Cascade to file tariffs with the Commission to make On-System Unbundled Retail Sales. The Commission also required Cascade to file its existing contracts for Unbundled Retail Sales for further review and

investigation.

4. On November 27, 2007, the Commission issued its Second Prehearing Conference Order scheduling further proceedings in Docket UG-061256.

5. Cascade has provided documents and information to Staff as Staff requested in the course of its informal investigation.

**B. Docket UG-070332**

6. On February 12, 2007, Cascade filed with the Commission proposed tariff revisions to govern On-System Unbundled Retail Sales as well as its existing contracts for Unbundled Retail Sales, as required by Order 03. The Commission opened Docket UG-070332 to consider the tariff revisions, for which Cascade had proposed an effective date of March 15, 2007.

7. On March 14, 2007, the Commission issued a Complaint and Order suspending Cascade's tariff revisions.

**C. Docket UG-070639**

8. On March 30, 2007, Cascade submitted a letter to the Commission (subsequently revised with the same effective date) indicating that Cascade intends to reactivate a subsidiary, CGC Energy, Inc. ("CGC Energy"), as of April 1, 2007, with the purpose of making Unbundled Retail Sales, in view of the Commission's suspension of Cascade's proposed tariffs in Docket UG-070332 and the impending expiration of several agreements for Unbundled Retail Sales. Cascade also filed a revised Cost Allocation Manual and other documents relating to CGC Energy and its transactions with Cascade. The Commission opened Docket UG-070639 to consider issues raised by this filing.

9. On October 12, 2007, the Commission issued Order 01 in Docket UG-070639, consolidating this docket with Docket UG-070332.

10. On November 27, 2007, the Commission issued a Prehearing Conference Order scheduling further proceedings in consolidated Dockets UG-070332 and UG-070639.

**D. Docket UG-072337**

11. On December 7, 2007, the Commission issued a Complaint against Cascade, alleging that Cascade's making Unbundled Retail Sales through CGC Energy and not sharing the net margin from such sales with Cascade's customers violates the Commission's order approving the settlement in Cascade's recent general rate case, Docket UG-060256. The Complaint seeks penalties and other relief from Cascade.

**E. Settlement Discussions**

12. On January 4, 2008, the Parties met at the Commission's offices in Olympia to discuss a settlement of the issues raised in all of the Dockets. These discussions continued among the Parties through the date of execution of this Agreement and resulted in this Agreement to settle all issues in all of the Dockets.

**III. AGREEMENT**

**A. Wind-down and Termination of Unbundled Retail Sales (Brokering) Activity**

13. Effective November 1, 2008, Cascade and its subsidiaries will not make Unbundled Retail Sales with a delivery point at any of the city gates on Cascade's distribution system located in the state of Washington or at the city gate of any other LDC, which city gate is located in the state of Washington.

14. Cascade and CGC Energy will not renew or extend any existing contracts for Unbundled Retail Sales that may expire on or before October 31, 2008, nor will they enter any new contracts for Unbundled Retail Sales prior to October 31, 2008.

15. Cascade's plan and timeline for winding down its Unbundled Retail Sales activity is set forth in Exhibit A.

16. Cascade may continue to make Unbundled Retail Sales under existing contracts through October 31, 2008, subject to the 50 percent revenue-sharing provisions agreed to and approved by the Commission in Docket UG-060256. Such sales will be conducted pursuant to tariffs to be approved by the Commission. The Parties agree that the Commission should

approve the revised tariffs as set forth in attached Exhibit B, and lift the suspension of the tariffs that the Commission previously ordered, as part of the Commission's approval of this settlement. Upon Commission approval of this settlement, Cascade will file compliance tariffs. Rate Schedule 663 shall not be modified as a result of this Settlement and shall not be materially changed before the conclusion of Cascade's next general rate proceeding before the Commission.

17. Upon Commission approval of this settlement, Cascade will transfer any existing CGC Energy contracts for Unbundled Retail Sales to Cascade. The Parties request that the Commission approve such transfers pursuant to RCW 80.16.020, as part of the Commission's approval of this settlement. Cascade will share 50 percent of the net margin received pursuant to these contracts for the time period between the effective date of such transfer and October 31, 2008, according to the methodology agreed to in the settlement in Docket UG-060256 (paragraph 12(b)(ii) of the Settlement Agreement).

18. Cascade agrees to defer, for amortization during the annual PGA process according to the methodology agreed to in the settlement in Docket UG-060256 (paragraph 12(b)(ii) of the Settlement Agreement), an amount equal to 50 percent of the net margins generated by CGC Energy from Unbundled Retail Sales from April 1, 2007, through the effective date of the transfer of agreements for Unbundled Retail Sales from CGC Energy to Cascade.

19. Interest and/or penalties. Cascade will include with the amount deferred an amount of \$24,000.

20. In the event that CGC Energy assigns some or all of its contracts for Unbundled Retail Sales to any party other than Cascade, Cascade agrees to defer, for amortization during the annual PGA process, an amount equal to 50 percent of the Net Gain (as defined in Exhibit A) generated by CGC Energy for such assignments. In the event that the assignment includes customers located in Oregon, the resulting sum will be adjusted to reflect only the portion of the

Net Gain which is attributable to customers located in Washington. The Net Gain shared with customers will not be less than the amount of net margin that would have been shared with customers absent such a transaction. The Net Gain will be distributed among customers according to the methodology agreed to in the settlement in Docket UG-060256 (paragraph 12(b)(ii) of the Settlement Agreement) for the sharing of Net Margins from Gas Management Services.

21. Revisions to Cascade's Gas Procurement Practices for Core Customers. Cascade will revise its gas procurement strategy for core customers, which has resulted in limited access to Rockies supply. Gas supply contracts entered into four and five years ago, although selected at the time as the lowest cost alternative, have provided essentially all of the core's needs, including storage refill during the summer months, thereby precluding the need for supplies out of the Rockies which have actually become a lower cost supply than gas from Sumas and the Alberta natural gas pricing point ("AECO"). One contract is for 20,000 Dths/day of Sumas supply (expiring October 31, 2008) and the other contract is for 17,500 Dths/day of AECO supply (expiring October 31, 2009).

a. In 2002, Cascade adopted a gas procurement strategy that included the acquisition of physical supplies for terms up to five years. In 2005, Cascade revised its gas procurement strategy to include the acquisition of physical supplies on a rolling five-year basis, such that 100% of year one, 80% of year two, 60% of year three, 40% of year four, and 20% of year five would be covered by contract. Cascade will further revise its gas procurement strategy to enhance its ability to take advantage of disparities between supply basins as is currently occurring within the Rockies basin.

i. Cascade will clarify that the rolling five-year strategy applies to seasonal needs as well as annual needs.

ii. Cascade will remove storage refill from the volumes covered by physical contracts so that the Company would have the flexibility to

purchase storage refill gas from the lowest cost supply basin on a first of the month price basis or daily price basis.

b. Cascade will maximize opportunities to purchase lower-priced Rockies supplies.

i. Cascade will minimize the release of Rockies capacity to third-party marketers, and for Cascade's gas supply sales to non-core customers through October 31, 2008.

ii. With Staf's agreement and support, Cascade will sell a portion of the Sumas core supplies and replace those supplies with Rockies supply.

iii. Cascade will analyze monthly and implement all opportunities to minimize core gas costs by selling higher priced supplies and replacing them with lower priced supplies to the extent that such re-alignment of supplies is physically capable of flowing under Northwest Pipeline's flow requirements.

c. The Parties understand that any gas procurement strategy entails some degree of risk regarding the movement of market prices. The Parties agree that these revisions to Cascade's gas procurement strategies and practices, and the steps to be taken to implement such strategies, are presumptively prudent and appropriate as part of this overall settlement. Cascade's transactions implementing these strategies may be analyzed as part of Cascade's annual PGA and deferred amortization filings, or in a general rate case, for purposes of verification of lowest reasonable cost for core customers, based on information reasonably available to Cascade at the time of each transaction.

22. Release of Capacity.

a. Cascade will make a reservation release of pipeline primary capacity from the Rockies to Bellingham, Washington (primary) or other mutually agreeable delivery

point(s) (alternate) through the pipeline's Electronic Bulletin Board (EBB) (a) in at least the amounts, (b) for the months, and (c) from the locations of receipt points, as set forth in Exhibit C, at the maximum allowable rate paid by Cascade to Northwest Pipeline at the time of the release. Specified releases for both years will be posted by Cascade on the EBB on or before March 21, 2008, provided the Commission has approved this settlement by that date. Cascade will release all of the referenced capacity for the months in 2008 in one single transaction and for the months in 2009 in another single transaction.

b. Cascade will provide solely to CMS at least 48 hours (2 business days) advance notice of the posting of such releases on the EBB by email notification to [cms@cmsnaturalgas.com](mailto:cms@cmsnaturalgas.com) and [beth@cmsnaturalgas.com](mailto:beth@cmsnaturalgas.com).

c. The posted capacity shall not include provisions regarding Cascade's credit requirements; however, it will include Northwest Pipeline's pre-approved language regarding the recall rights under Operational Flow Order (OFO) or pipeline entitlement conditions (the current version of that language is attached hereto as Exhibit D). In accordance with Northwest Pipeline procedures, the posted capacity shall be subject to re-release.

d. All Parties agree that the volume, timing, and rate of these releases are presumptively prudent and appropriate as part of this overall settlement. The outcome of these transactions may be analyzed as part of Cascade's annual PGA and deferred amortization filings, or in a general rate case, for purposes of verification of lowest reasonable cost for core customers, based on information reasonably available to Cascade at the time of the transactions; however, the Parties will not challenge the rate received for these releases on the ground that Cascade could have received a higher rate for some or all of these releases pursuant to Federal Energy Regulatory Commission ("FERC") rules adopted or amended after the Effective Date of this Agreement. Cascade and CMS reasonably believe that the arrangement in this paragraph 22 is not inconsistent with any



FERC requirements. Cascade will hold its customers harmless from any costs in the event the FERC determines that the provisions of this paragraph 22 are in violation of any of its rules or requirements.

23. Suspension and Closing of Dockets. The Parties will ask the Commission to suspend further proceedings in each of the Dockets when they file this Agreement for approval. The Parties will also ask the Commission to close each of the Dockets upon approval of this Settlement.

24. Release of Claims. All Parties release Cascade from any claims that have been made or that could have been made before the Commission or in any other forum and which (a) arise out of or relate to the issues raised in any of the Dockets and (b) are based on facts or occurrences existing before the Effective Date of this Agreement.

25. Supporting Testimony. If requested by the Commission, the Parties shall present a panel with a representative of each Party to describe the terms of this Agreement, respond to cross-examination from any non-settling parties, and answer questions from the Commissioners and the presiding Administrative Law Judge.

26. General Provisions.

a. The Parties agree that this Agreement is in the public interest and produces a fair, just, and reasonable resolution to the issues raised in the Dockets. The Parties agree to support this Agreement as a settlement of the contested issues for purposes of these proceedings. The Parties understand that this Agreement is not binding on the Commission.

b. The Parties agree that this Agreement represents a compromise in the positions of the Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Agreement shall not be admissible as evidence in this or any other proceeding.

c. The Parties have negotiated this Agreement as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Agreement and grant the approvals requested herein as a resolution of the contested issues in the Dockets.

d. The Parties shall cooperate in submitting this Agreement promptly to the Commission for acceptance, and shall cooperate in developing any supporting testimony or narrative relating to their positions that may be required by WAC 480-07-740(2). The Parties agree to support the Agreement throughout these proceedings, provide witnesses to sponsor the Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the settlements contained herein. In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2)(a) shall apply. In the event the Commission accepts the Agreement upon conditions or with terms not included herein, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within five (5) days of the Commission's order, to state its rejection of the conditions. In such event, the Parties immediately will request the prompt reconvening of prehearing conferences for purposes of establishing procedural schedules for completion of the Dockets pursuant to WAC 480-07-750(2)(a).

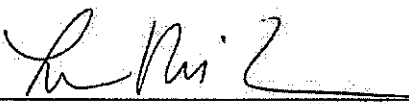
e. The Parties enter into this Agreement to avoid further expense, inconvenience, uncertainty, and delay. By executing this Agreement, no Party shall be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed in arriving at the terms of this Agreement, nor shall either Party be deemed to have agreed that any provision of this Agreement is appropriate for resolving issues in any other proceeding. Neither this Agreement nor any Commission order approving its terms shall be considered precedential in resolving similar issues in the future.

f. This Agreement may be executed in counterparts and each signed counterpart shall constitute an original document.

This SETTLEMENT AGREEMENT is entered into by each Party as of the date entered below (the "Effective Date").

DATED: Feb. 6, 2008.

**Cascade Natural Gas Corporation**

By   
Lawrence Reichman  
Perkins Coie LLP  
Attorney for Cascade Natural Gas Corporation

**Staff of the Washington Utilities and Transportation Commission**

By \_\_\_\_\_  
Gregory J. Trautman  
Assistant Attorney General

**Northwest Industrial Gas Users**

By \_\_\_\_\_  
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**Cost Management Services, Inc.**

By \_\_\_\_\_  
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**Office of the Attorney General  
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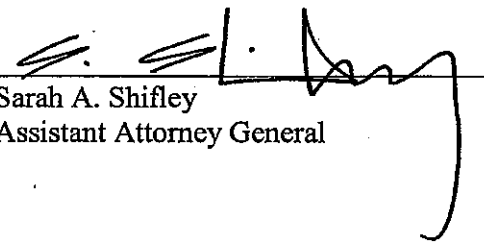
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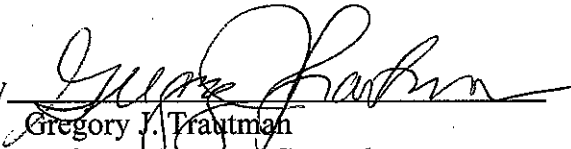
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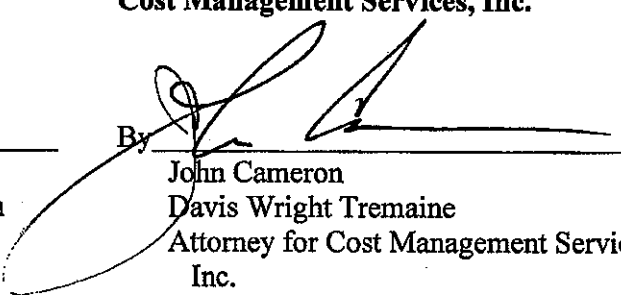
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