Agenda Date: September 25, 2002
Item Number: A1

Docket: **UG-020952**
Company Name: Cascade Natural Gas Corporation

Staff: Mike Parvinen, Regulatory Analyst
Thomas Schooley, Regulatory Analyst
Ken Elgin, Case Strategist

Recommendation:

Set the matter in Docket UG-020952 for hearing.

Background:

At the request of Cascade Natural Gas Corporation (Cascade), Northwest Pipeline (Nothwest) installed a compressor station in Tumwater in 1994 in order to increase pressure on the Bremerton Lateral for additional capacity on the lateral. At the time the facilities went into service, Cascade had two options to pay for the cost of this new compressor station: 1) a contribution in aid of construction including a gross-up for federal income tax; or 2) a monthly payment over time (15 years) including a return on Northwest's investment and a small amount for direct operating expenses. Cascade chose the payment option because it was less costly for customers. For ratemaking purposes the monthly charge to the pipeline was included in the PGA as a demand (capacity) charge.

As a result of a recent FERC order, Northwest added a substantial amount of administrative and general costs to Cascade's monthly payment for these facilities. Consequently it is now more cost effective for Cascade to buy-down the remaining amount of the contribution at net book value. Cascade made a payment of $4,052,793 on July 24 this year. The petition in this Docket is designed to resolve the ratemaking treatment of that payment to Northwest for the remaining costs of the compressor station.

Cascade filed this accounting petition on July 24, 2002, requesting permission to defer the expenditure in Account 191. This account is entitled, "Unrecovered Purchased Gas Costs". In the petition, Cascade proposes to amortize the payment over seven years, the remaining term of the original agreement, and to accrue interest on the unamortized balance at the Company's overall rate of return of 9.76%. The Company requested that this docket be resolved prior to the Company filing its upcoming Purchase Gas Adjustment (PGA), expected to be filed by the end of September. Staff agrees the Company should file its PGA with its proposed treatment reflected in the PGA and subject the deferral balances to adjustment to reflect the outcome of this petition.

Discussion:

Staff has two main concerns with Cascade's filing as proposed. The first concern is that this expenditure is a buy-down of a contribution in aid of construction (CIAC). CIAC does not belong in the PGA. The proper accounting treatment is to recognize the expenditure as a regulatory asset and amortize the amount over the remaining life of the compressor station. Staff notes this traditional treatment of such an expenditure is consistent with the Company's request to earn an amount equal to its overall rate of return on the unamortized balance. The second concern is that WAC 480-90-233 requires any amounts deferred into account 191 for purchased gas costs earn the FERC interest rate on any unamortized balance. If this item is considered an element of capacity costs and recoverable through the PGA, then the amount should receive the treatment prescribed by the Commission's rules. If it is included in the PGA it becomes a guaranteed rate of return rather than an authorized or opportunity rate of return.

Staff has proposed a number of alternative approaches in an effort to resolve this matter, but the Company maintains they should receive a guaranteed return at their authorized overall rate of return through the PGA mechanism. This is problematic and inconsistent with normal ratemaking practices. In order to maintain consistency with the current treatment of gas costs in the PGA mechanism and provide a fair result to the Company, Staff proposes that the Company account for the item in accordance with our rules and generally accepted ratemaking principles.

Two options that are available to maintain consistency with current policies, practices, and rules are:

1. Allow the Company to defer the buy-down costs in the 191 (Unrecovered Purchased Gas Costs) account, accrue interest at the FERC interest rate as prescribed in WAC 480-90-233, amortize the balance over seven years, and recover the amortization in the Purchase Gas Adjustment (PGA) mechanism.

2. Allow the Company to defer the buy-down costs in account 182.3 (Other Regulatory Assets) and amortize the balance over the remaining life of the asset (approximately 20 years). The amortization and return on the asset would be recovered in general rates.

Should the Company be amenable to either of these approaches, which they have not to date, it would need to modify its petition to reflect the proposed treatment.

Conclusion:

Given the concerns identified above and the goal of providing a fair outcome to both Cascade and Ratepayers, Staff is recommending that the matter in Docket UG-020952 be set for hearing.