REVISED MEMORANDUM

Agenda Date: July 25, 2001
Item Number: 2F

Docket: **UG-010957**
Company Name: Cascade Natural Gas Corporation (Cascade)

Staff: Graciela Etchart, Utilities Rate Research Specialist
Hank McIntosh, Regulatory Consultant
Mert Lott, Gas Coordinator

Recommendation:

Suspend consideration of the filing of the Special Contract between Cascade Natural Gas Corporation and E-Next Generation LLC in Docket No. UG-010957 until the open meeting of August 8, 2001.

Discussion:

On July 2, 2001, Cascade Natural Gas Corporation (Cascade) filed a Special Contract with E-Next Generation LLC, for service to E-Next's facility located in Longview, Washington. Under this special contract, Cascade will provide distribution and transportation service only. The contract calls for a primary term of thirty years, renewable from year to year thereafter unless terminated by E-Next. The contract provides a monthly facilities charge of $40,000 and a commodity charge of $0.001 per therm. The commodity charge is subject to escalation based on the percentage change in the Consumer Price Index reported in the U.S. Department of Labor, Bureau of Statistics Report for the All Urban Consumers-U.S. City Average-all Items, for the twelve months ending on the date immediately prior to July 1. E-Next will also pay the Dispatching Service Charge as provided in Rate Schedule 663.

Except as otherwise provided, the contract requires E-Next to comply with the Operating Obligations and Conditions provisions of Cascade's Optional Supply Schedule No. 681 through 684. Cascade states that the contract provides for service to E-Next proposed facilities at a negotiated price equivalent to E-Next's bypass alternative. The Company presented evidence that E-Next has viable alternatives to Cascade's services.

General guidelines established by the Commission in Orders UG-930511 and UG-901459, and WAC 480-80-335 state that a special contract must satisfy the following criteria:

- it does not result in undue discrimination between customers receiving like and contemporaneous service;
- it provides for the recovery of costs associated with the service;
- is above the long run incremental cost (LRIC) and provides some contribution to the common costs for the company;
- it does not prejudice the competitive business relationship between customers with the special contract and those without;

- other ratepayers will receive lower rates because of the special contract;
- the utility must show that it has bargained effectively with the customer.

Staff has analyzed the terms of the contract and the information received from the Company in the context provided by WAC 480-80-335, Special contracts for electric, water, and natural gas companies. Staff has concerns about the asymmetry of the contract renewal option after the primary term expires. Staff is also investigating the cost justifications of contract price. Staff is discussing these concerns with the Company.

Conclusion:

Staff recommends that the Commission suspend consideration of the Special Contract between Cascade Natural Gas Corporation and E-Next Generation LLC in Docket No. UG-010957 until the open meeting of August 8, 2001. By that time, Staff expects to have received sufficient clarifications to answer its concerns.