

SERVICE DATE

JUL 22 1996

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In Re the Petition of)	
)	
CASCADE NATURAL GAS CORPORATION	)	DOCKET NO. UG-950326
)	
For an Order Determining the Ratemaking)	
Treatment of Certain Special Contracts.)	
.....)	
)	
WASHINGTON UTILITIES AND)	
TRANSPORTATION COMMISSION,	)	DOCKET NO. UG-951415
)	
Complainant,)	
)	
v.	)	FOURTH SUPPLEMENTAL
	)	ORDER REJECTING TARIFF
	)	FILINGS AND AUTHORIZING
CASCADE NATURAL GAS CORPORATION,	)	REFILING; ORDER OF
	)	CONSOLIDATION; AND ORDER
Respondent.	)	APPROVING AND ADOPTING
.....	)	SETTLEMENT AGREEMENT

SUMMARY

PROCEEDINGS: On March 15, 1995, in Docket No. UG-950326, Cascade Natural Gas Corporation (Cascade or Company) filed with the Commission a petition for an order determining the appropriate ratemaking treatment of certain special contracts. The Company previously had executed contracts for natural gas service with Longview Fibre Company, March Point Cogeneration Company, Encogen Northwest L.P., Tenaska Gas Company, and B.P. Exploration & Oil, Inc.

On December 11, 1995, in Docket No. UG-951415, Cascade filed with the Commission certain tariff revisions designed to effect a general increase in its rates for natural gas service. The stated cumulative effect of said tariff revisions increases annual revenue by approximately \$5,743,155. On December 27, 1995, the Commission suspended the proposed tariff revisions, and consolidated this filing with the petition for ratemaking treatment of certain special contracts.

On March 29, 1996, in Docket No. UG-960452, Cascade filed tariff revisions to change its rates to reflect amortization of gas cost deferred accounts, effective April 28, 1996. The Commission suspended the proposed tariff revisions on April 24, 1996.

Also on March 29, 1996, in Docket No. UG-960453, the Company filed with the Commission certain tariff revisions designed to reflect in rates a purchased gas adjustment (PGA) to recover gas costs incurred in 1995, effective May 1, 1996. The Commission suspended the proposed tariff revisions on April 24, 1996.

On May 7, 1996, the parties filed with the Commission an agreement resolving certain accounting issues arising under the Company's general rate increase filing. The agreement was admitted into the record in these consolidated proceedings as Exhibit 57.

On June 28, 1996, the parties filed with the Commission their Settlement Agreement and Petition (Settlement) constituting a complete and final settlement of all remaining issues in the general rate increase filing, not already resolved in the agreements contained in Exhibit 57, and the petition for ratemaking determination of certain special contracts, as well as the application to change rates to reflect amortization of gas cost deferred accounts and the 1995 PGA filing. The Settlement proposes an annual revenue increase of \$3,837,041 to become effective August 1, 1996.

HEARINGS: The Commission held hearings on February 15, May 7, and July 16, 1996, at Olympia, Washington. The hearings were held before Chairman Sharon L. Nelson, Commissioner Richard Hemstad, and Commissioner William R. Gillis, and Administrative Law Judge Terrence Stapleton.

PARTIES: Cascade Natural Gas Corporation was represented by John L. West, attorney, Seattle; Staff of the Washington Utilities and Transportation Commission (Commission Staff) by Robert Cedarbaum and Ann Rendahl, assistant attorneys general, Olympia; the public by Robert Manifold, assistant attorney general, public counsel section, Seattle; and intervenor Northwest Industrial Gas Users (NWIGU) by Paula Pyron, attorney, Portland, Oregon.

COMMISSION: The Commission accepts the Settlement of the parties permanently and completely resolving all issues regarding the ratemaking treatment of the special contracts named in Docket No. UG-950326, and all issues regarding the general rate increase filing arising in Docket No. UG-951415. The Commission consolidates Docket Nos. UG-960452 and UG-960453 with the instant consolidated proceedings, and accepts the resolution of these matters contained in the Settlement. The Commission rejects the proposed tariff revisions filed December 11, 1995, and authorizes the Company to re-file tariffs consistent with the Settlement and this Order, and reflecting an increase in annual revenues of \$3,837,041 with a stated effective date of August 1, 1996. The Commission rejects the proposed tariff revisions filed March 29, 1996, and authorizes the Company to re-file tariffs consistent with the Settlement and this Order.

MEMORANDUM

I. PROCEDURAL HISTORY

On March 15, 1995, the Company filed its petition for an order of the Commission determining the appropriate ratemaking treatment of certain special contracts previously executed with some of its large volume customers. The filing specifically addressed contracts the Company executed with Longview Fibre Company, March Point Cogeneration Company, Encogen Northwest L.P., Tenaska Gas Company, and B.P. Exploration & Oil, Inc.

On December 11, 1995, the Company filed revisions to its currently effective tariffs to effectuate a general increase in rates of \$5,743,155, with a stated effective date of February 1, 1996. The Commission on January 5, 1996, suspended the operation of the proposed tariff revisions, and consolidated the tariff filing with the petition for ratemaking treatment of special contracts, Docket No. UG-950326.

A prehearing conference on February 15, 1996, resolved preliminary and procedural matters, and established a hearing schedule. The Company's direct testimony was presented and cross-examined on May 7, 1996.

At the May 7 hearing, the parties presented the Commission with an agreement which resolved certain accounting issues arising in the Company's general rate increase filing. The jointly executed agreement was admitted into the record as Exhibit 57, attached to this Order as Attachment A.

The parties filed their Settlement Agreement and Petition, attached to this Order as Attachment B, in these consolidated proceedings on June 28, 1996, purporting to be "a global settlement of all remaining issues" in these consolidated proceedings. The Settlement also purported to resolve all outstanding issues in two additional matters pending before the Commission: (1) a tariff filing to change rates to reflect the amortization of gas cost deferred accounts, Docket No. UG-960452; and (2) a tariff filing to recover the Company's 1995 purchased gas costs, Docket No. UG-960453.

The Commission scheduled a hearing for July 16, 1996, to hear testimony on the proposed Settlement. Company witness Stolz and Commission Staff witnesses Parvinen, McIntosh, and Maglietti testified, and Public Counsel and counsel for NWIGU participated and responded to questions from the Commission.

At the July 16 hearing, the parties supported the Settlement as a negotiated settlement of all issues related to the four pending Cascade proceedings, and asked the Commission to consolidate the matters in Docket Nos. UG-960452 and UG-960453 into the instant consolidated proceedings.

II. SETTLEMENT AGREEMENT AND PETITION

The parties' Settlement is summarized in pertinent part below.

Revenue requirement: In addition to the annual revenue requirement increase noted above, the Company agrees not to file another general rate increase request for at least three years from the effective date of rates approved in this proceeding, unless it is in acute financial need, i.e., it meets the Commission's established criteria for interim or emergency rate relief.

Cost of service: The parties do not agree to any cost of service methodology or results, but stipulate that the rate spread in the agreement falls within a range of reasonableness and will result in fair, just, and reasonable rates.

Rate spread: This section deals with future rate increases: the core customer monthly service charge will increase by \$1 a month in the second and third years following approval of this agreement, and the increased revenues will be used to reduce rates for transportation customers (Schedule 663/664).

Rate design: The monthly service charge would increase on August 1, 1996, and in each of the next two years, as described in the attached Settlement. The major rate design change is moving from a minimum bill system to a monthly customer service charge.

New Rate Schedule 664: A new large-volume transportation class (Schedule 664) is created, requiring a minimum annual take of 2.4 million therms per year, with customers responsible for an annual minimum bill based on usage of 2,400,000 therms.

Meter reading and billing efficiency plan: Cascade will prepare a plan by November 30, 1996, to reduce meter reading and billing expenses by more than 30% within three years, adjusted for inflation and growth.

Technical adjustment: For four years, Cascade will provide Washington core customers with a revenue credit of \$0.00139 per therm.

PGA issues: (1) Cascade will create a new deferral account and transfer into it \$13 million which will be held for four years at the Company's short-term interest rate, and thereafter amortized to core customers within four years. The balance of existing deferral accounts (approximately \$7 million) will be passed back to core customers over four years on an equal cents per therm basis. PGA refunds due to industrial customers will be returned in one year.

(2) Cascade will use a new PGA methodology, and parties reserve the right to question various aspects of gas supply decisions. Future gas cost deferrals will include a revenue credit -- a non-core daily balancing rate of \$0.00050 per therm. Cascade's 1997 PGA filing will contain cost justification for continuing or adjusting this rate.

Customer service issues: Service reconnection fees will be \$16 during normal working hours, \$32 after-hours; customers will not be disconnected for non-payment on Friday or the day before a holiday. Cascade commits to negotiating in good faith with its union to allow reasonable extension of regular hours beyond 5:00 p.m.

Balancing rate: At the same time as it files new rates, Cascade will file monthly balancing requirements equivalent to those of Northwest Pipeline Corporation for transportation rate schedules 663/664. Penalty revenues, if any, will be credited to core customers. Parties are free to propose alternative balancing provisions.

Special contracts: Cascade will develop a means of evaluating the need for special contracts, which relies on an incremental cash flow analysis, and will maintain specific documentation of its decisions in at least the six specific areas described in detail in the Settlement.

Delete Unused Rate Schedules: Cascade will delete several unused rate schedules from its tariffs.

The Settlement provides that if the Commission does not accept the parties' agreement, the Company will waive the statutory suspension period to permit the scheduling of additional evidentiary hearings. The Settlement is presented as an integrated agreement; if the Commission seeks to modify it in any part, it should inform the parties in writing of proposed modifications. If any party to the Settlement does not agree with a proposed modification, these consolidated proceedings can be set for hearing, and no party will be bound by any term of the Settlement.

III. COMMISSION DISCUSSION AND DECISION

The Commission must review the Settlement pursuant to applicable statutory standards. Under RCW 80.01.040(3), the Commission shall regulate in the public interest, as provided by the public service laws, the rates, services, facilities, and practices of all persons engaging in the business of supplying any utility service or commodity to the public for compensation, and related activities, including gas companies. Chapter 80.28 RCW regulates the operation of gas companies; specifically, RCW 80.28.010 provides that charges by gas companies shall be just, fair, reasonable, and sufficient.

All parties to these consolidated proceedings are signatories to the Settlement. The agreement is presented to the Commission as an integrated, comprehensive, and final resolution of all issues in the four docketed matters involving Cascade identified in the Settlement and currently pending before the Commission. The Settlement asks the Commission to approve the parties' final resolution of all issues in these matters, including those issues previously resolved by agreement of the parties and filed in this proceeding as Exhibit 57.

At the July 16 hearing, the Commission explored various provisions of the Settlement with the parties' witnesses including cost of service, rate design, and rate spread. While no cost of service methodology or result has been adopted by the parties, all agree the rate spread recommendations set forth in the Settlement fall within a range of reasonableness defined by the cost of service studies utilized by the Company, Commission Staff, Public Counsel, and NWIGU. The Commission is satisfied that its previous pronouncements on cost of service studies in the natural gas industry provided guidance to the parties' use of individual cost study methodologies sufficient to produce results which support a reasonable set of rate spread recommendations. The Commission therefore is confident the rate spread and rate design proposed by the Settlement supports a finding that proposed rates are fair, just, reasonable, and sufficient.

The Commission finds reasonable the treatment of deferred gas cost account accruals. The proposal to permit the Company to retain temporarily \$13 million in accruals will provide it with a source of low-cost funding for needed capital projects. The limited four-year term of the availability of these funds will reduce the need for borrowing from capital markets with potential cost of capital savings for ratepayers. The amortization of these funds to core customers with interest over a period not to exceed four years provides that ratepayers will be compensated for the use of these accrual amounts. The balance of existing deferral accounts passed back to core customers over four years on an equal cents per therm basis will provide a measure of rate stability; the refund due Schedule 663/664 customers will be passed back over a one-year period on an equal cents per therm basis.

The Commission supports the development of a method for evaluating special contracts not yet approved by the Commission, which relies upon an incremental cash flow analysis. The Company's agreement to develop and implement this method through the generation and maintenance of the documents outlined in the Settlement will benefit both it and the parties to proceedings addressing the ratemaking treatment of such contracts. The Commission is especially supportive of the generation of independent external consulting engineers reports with attendant cost estimates and of the gathering of financial and economic information supporting discount rate estimates for customers.

The Commission is pleased with the commitment to customer service recognized in the Settlement, especially the proposals to seek an extension of the hours for regular service calls beyond 5:00 p.m., and the commitment not to disconnect customers on Friday or the day before an official holiday. The Company's commitment to reduce meter reading and billing expenses by more than 30% over the next three years, adjusted for inflation and growth, will benefit both it and its customers.

The Commission has reviewed the proposed Settlement and the record generated in this proceeding to date, and is satisfied that the parties' agreement is in the public interest. The parties are to be commended for their diligence, commitment, and cooperation in reaching consensus on the issues in these docketed matters.

IV. SUMMARY

The Commission accepts the agreements of the parties set forth in Exhibit 57 and in the Settlement and grants the parties' petition for an order incorporating and approving the combined effects of those settlements as the full and final resolution of all issues and disputes in the general rate increase filing and the petition for ratemaking treatment of named special contracts, as well as the amortization of the deferred gas cost accounts filing and the 1995 PGA filing to be consolidated in the instant proceedings, as fully described in the text of this Order. The Commission will order the filing of tariffs to reflect the Company's new revenue requirement and to consolidate Docket Nos. UG-960452 and UG-960453 into the instant consolidated proceedings.

The parties have agreed that this Order be served upon any person not now before the Commission in these proceedings who potentially may be adversely affected by the Settlement's resolution of Docket Nos. UG-960452 and UG-960453 for the limited purpose of commenting upon the parties' proposed resolutions of those matters and seeking review of any adverse or negative impacts upon that person. Such persons shall have ten days from the date of this Order to file a request for relief with the Commission clearly and completely describing the alleged harm resulting from this Order's acceptance of the proposed resolution of these two matters only.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with authority to regulate the rates, rules, regulations, practices, accounts, securities, and transfers of public service companies, including gas companies.

2. Cascade Natural Gas Corporation is engaged in the business of furnishing gas service within the state of Washington as a public service company.

3. On March 15, 1995, in Docket No. UG-950326, Cascade Natural Gas Corporation filed a petition for an order determining the ratemaking treatment of certain special contracts previously executed with Longview Fibre Company, March Point Cogeneration Company, Encogen Northwest L.P., Tenaska Gas Company, and B.P. Exploration & Oil, Inc.

4. On December 11, 1995, in Docket No. UG-951415, Cascade Natural Gas Corporation filed certain tariff revisions designed to effect a general increase in its rates for gas service, the cumulative effect of which is to increase annual revenues by approximately \$5,743,155. The Commission entered an order on December 27, 1995, suspending the operation of these tariff revisions, and consolidating this matter with Docket No. UG-950326.

5. On March 29, 1996, in Docket No. UG-960452, Cascade Natural Gas Corporation filed tariff revisions to change its rates to reflect amortization of certain gas cost deferred accounts effective April 28, 1996. The Commission suspended the proposed tariff revisions on April 24, 1996.

6. On March 29, 1996, in Docket No. UG-960453, Cascade Natural Gas Corporation filed tariff revisions designed to reflect in rates purchased gas adjustment costs incurred in 1995. The Commission suspended the proposed tariff revisions on April 24, 1996.

7. On May 7, 1996, the parties jointly entered an agreement with respect to certain accounting issues in Docket No. UG-951415, which was admitted into the record in these consolidated proceedings as Exhibit 57.

8. On June 28, 1996, the parties jointly entered a Settlement Agreement and Petition in these consolidated proceedings. The Settlement proposes resolution of all remaining issues in Docket No. UG-951415, not previously resolved by Exhibit 57, and all issues in Docket No. UG-950326. It also proposes resolution of all issues in two other pending proceedings involving Cascade Natural Gas Corporation: the amortization of gas cost deferred accounts, Docket No. UG-960452; and 1995 purchased gas costs, Docket No. UG-960453.

CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter and the parties in this proceeding.

2. The Settlement Agreement and Petition, incorporating Exhibit 57, resolving all issues in these proceedings, as consolidated by this Order, is consistent with the public interest.

3. The ratemaking treatment of the special contracts between the Company and Longview Fiber Company, March Point Cogeneration Company, Encogen Northwest L.P., Tenaska Gas Company, and B.P. Exploration & Oil, Inc., proposed in the Settlement Agreement and Petition (Settlement) is reasonable and should be approved.

4. The tariff revisions filed by the Company on December 11, 1995, now under suspension in Docket No. UG-951415, should be rejected. The Company should be authorized to refile tariff revisions prepared in accordance with the Settlement and this Order.

5. The tariff revisions filed by the Company on March 29, 1996, now under suspension in Docket Nos. UG-960452 and UG-960453, should be consolidated with the instant proceeding. The tariff revisions should be rejected. The Company should be authorized to refile tariff revisions consistent with the Settlement and this Order.

6. The Settlement Agreement and Petition should be approved and adopted in its entirety. Tariff revisions prepared in accordance with the Settlement and this Order should result in rates that are fair, just, reasonable, and sufficient.

ORDER

THE COMMISSION ORDERS:

1. The Settlement Agreement and Petition (Settlement), incorporating Exhibit 57, is approved and adopted in its entirety as a full and final resolution of all issues in these proceedings as consolidated by this Order.

2. The Commission accepts the full and final resolution of all matters regarding the ratemaking treatment of the special contracts named in Docket No. UG-950326 consistent with the Settlement and this Order.

3. The proposed tariff revisions filed in Docket No. UG-951415 are rejected in their entirety. The Company is authorized to refile tariffs consistent with the resolution of this matter contained in the Settlement and this Order, and to reflect a new revenue requirement of \$3,837,041 to become effective August 1, 1996.

4. The tariff revisions filed in Docket Nos. UG-960452 and UG-960453 are consolidated with the instant proceeding. The proposed tariff revisions filed in these matters are rejected in their entirety. The Company is authorized to refile tariffs consistent with the resolution of those matters contained in the Settlement and this Order to become effective August 1, 1996.

5. The compliance filing required by this Order is limited in scope strictly to effectuate the terms of the Commission's decision and Order. The refiled tariff pages should bear the notation that filing is by authority of the Commission's FOURTH SUPPLEMENTAL ORDER IN DOCKET NO. UG-951415, and should be filed to permit Commission Staff five working days to review the tariff pages prior to their August 1, 1996 effective date.

6. All outstanding motions consistent with the Order are deemed granted, those inconsistent with the Order are deemed to be denied.

7. The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this ^{22nd} day of July 1996.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD HEMSTAD, Commissioner



WILLIAM R. GILLIS, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration filed within 10 days of the service date of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-09-820(1).

WUTC UG-950326,		
DOCKET NO. -951415		
EXHIBIT # 57		
ADMIT	W/D	REJECT
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AGREEMENT
UG-951415

1. Cascade Natural Gas Corporation (the "Company") filed its general rate case ("the General Rate Case") with the Washington Utilities and Transportation Commission on December 11, 1995. The General Rate Case was assigned Docket No. UG-951415.

2. In connection with the filing of the General Rate Case, the Company submitted proposed figures for its operating revenues, operating expenses, and operating taxes, among other categories. The parties to the General Rate Case have participated in ongoing mutual gains negotiations since June, 1995 regarding the Company's proposed figures and other issues.

3. (a) As a result of these mutual gains negotiations, Staff and the Company have agreed to an overall rate of return of 9.76%, reflecting an agreed capital structure (45% common equity, 5% preferred stock, 45% long term debt and 5% short term debt) and a return on equity of 11.25%. Public Counsel has not agreed to this result nor method.

(b) Staff and the Company have also agreed to the adjusted and restated per books accounting figures, as reflected on attached Exhibit A. Public Counsel does not oppose this result.

(c) Northwest Industrial Gas Users (NWIGU) has no opposition to any of the foregoing agreements.

4. The foregoing agreed subject areas are not subject to cross-examination during the presentation of the Company's direct case. Public Counsel may, however, require

the Company to call witnesses testifying to these subject areas for cross-examination at the time the Company's rebuttal case is presented.

5. The parties have not reached agreement on issues regarding (a) special contracts, purchased gas costs including purchased gas capacity costs, and meter reading and billing expense and therefore final revenue requirements, and (b) cost of service, rate spread, and rate design. These issues remain the subject of mutual gains negotiations and/or hearings, and will be subject to cross-examination and litigation in the General Rate Case.

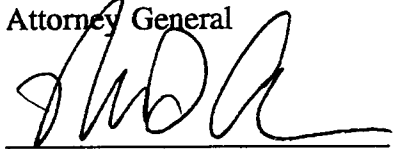
6. Given this background, the Company, Staff, Public Counsel and NWIGU hereby submit the attached Exhibit A reflecting the agreed issues as of the date of this agreement.

7. Since certain issues have been resolved by agreement, the Company, Staff, Public Counsel and NWIGU waive cross-examination of the following witnesses in the Company's direct case and stipulate to the entry of their prefiled testimony. These witnesses are: Larry L. Clark, James E. Haug, Katherine J. Barnard, and J. D. Wessling.

8. The following witnesses will be subject to cross-examination during the Company's direct case as to issues not already agreed among the parties: Jon T. Stoltz, Lamar M. Dickey, and Peter A. Schwartz.

COMMISSION STAFF

CHRISTINE O. GREGOIRE
Attorney General



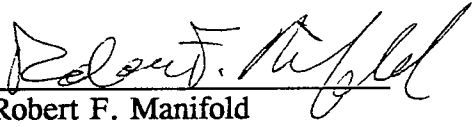
Robert D. Cedarbaum
Assistant Attorney General

DATE: 5/7/96

PUBLIC COUNSEL

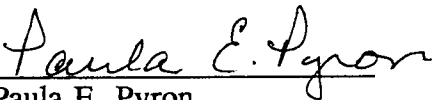
CHRISTINE O. GREGOIRE
Attorney General

DATE: _____


Robert F. Manifold
Assistant Attorney General

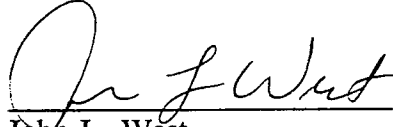
NORTHWEST INDUSTRIAL GAS
USERS

DATE: _____


Paula E. Pyron
Attorney

CASCADE NATURAL GAS
CORPORATION

DATE: 5/7/96


John L. West
Attorney

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

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BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

Docket No. UG-951415

SETTLEMENT AGREEMENT AND
PETITION

BACKGROUND

Cascade Natural Gas Corporation (the "Company") filed its general rate case (the "General Rate Case") with the Washington Utilities and Transportation Commission (the "Commission") on December 11, 1995. The General Rate Case was assigned Docket No. UG-951415. The Company also filed a petition for ratemaking treatment with respect to certain special contracts on March 15, 1995 (the "Special Contract Case"). The Special Contract Case was assigned Docket No. UG-950326. The General Rate Case and the Special Contract Case were consolidated by prior Commission order.

Since June 1995, the Company, Staff, Public Counsel and Northwest Industrial Gas Users have engaged in negotiations with a view toward settlement of the General Rate Case and the Special Contract Case. In connection with these negotiations the parties submitted and responded to data requests and conducted discovery with respect to both the General Rate Case and the Special Contract Case.

SETTLEMENT AGREEMENT AND
PETITION - 1

MILLER, NASH, WIENER,
HAGER & CARLSEN
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
ATTORNEYS AND COUNSELORS AT LAW
TELEPHONE (206) 622-4484
4400 TWO UNION SQUARE
601 UNION STREET, SEATTLE, WASHINGTON 98101-2352

1 3. Cost of Service. The parties do not agree to any cost of service
2 methodology or cost of service results. The rate spread accepted by the parties in section (4)
3 and set forth in Settlement Exhibit 1 of this agreement falls within a range of reasonableness
4 defined by the cost of service studies prepared during negotiations by the Company, Staff,
5 Public Counsel, and the Northwest Industrial Gas Users. This rate spread will result in rates
6 which are fair, just, and reasonable.

7 4. Rate Spread. The customer service charges of all core rate schedules
8 will increase by \$1.00 on each of the first and second anniversaries of the effectiveness of
9 New Rates. The rate schedule 663 and 664 rates will decrease in the aggregate by the same
10 amount as the revenue increases resulting from the increased customer service charge on the
11 same dates (revenue neutral filings). The Company shall file such revenue neutral filings at
12 least 30 days prior to their effective dates for 1997 and 1998. The settlement rate spread is
13 shown on the attached Settlement Exhibit 1.

14 The actual rate schedule decreases for Schedule 663 and 664 will be applied in
15 the following fashion:

16 a. For the rates effective 8/1/96, the margin decrease of \$176,241 will be
17 applied to reduce the fifth block of Schedule 663 and the second and third blocks of Schedule
18 664 (for consumption between 100,000 and 500,000 therms per month for each schedule),
19 with the rate levels for the subsequent blocks set equally at \$0.02000 per therm as shown in
20 Settlement Exhibit 2.

21 b. For the Schedule 663 and 664 rate reductions effective 8/1/97 and
22 8/1/98, the total amount of the customer service charge revenue generated from the
23 respective annual \$1.00 increases in residential and general service rate schedule customer
24 service charges shall be based upon the customer counts for those customer classes from the
25 most recent twelve months data available.

26

1 c. In calculating the actual rate decreases applicable to Schedule 663 and
2 664 customers, the billing determinants used to establish the rates in 8/1/97 and 8/1/98 shall
3 be based upon the same time frame used to establish the customer service charge revenue
4 generated under this agreement for 663 and 664 rate decreases.

5 d. The fixed portion of the dispatch charge is to remain at \$500 during the
6 general rate case moratorium period described in Section 2 above. The rate blocks shown on
7 Settlement Exhibit 2 attached shall also remain unchanged during such moratorium period.
8 In determining the actual rates to be effective on 8/1/97 and 8/1/98 for Schedules 663 and
9 664, the decreases shall be applied in a manner such that the resulting rates for each rate
10 block are proportional (equal percentage) to the illustrative rates shown on Settlement
11 Exhibit 2. After applying these revenue allocations, the actual rates by rate block for
12 Schedules 663 and 664 will be within +/- 5% of the 8/1/98 illustrative rates as shown on
13 Settlement Exhibit 2. The rates resulting from implementation of the 8/1/98 decrease shall
14 not be changed during the remainder of the general rate case moratorium period described in
15 Section 2 above.

16 e. If the relationship between the Company's Schedule 663 and 664
17 volumes and/or the Company's customer charge revenues differ so as to produce rates lower
18 than the 8/1/98 illustrative rates by more than 5% per rate block, the Company shall pass
19 back the excess revenue to the margin of the core schedules based on the amount of revenue
20 contributed by the increased customer charge.

21 If the required adjustment to create actual rates that are within 5% of the
22 illustrative rates exceeds the amount of dollars available from the customer service charge
23 increase, the Company agrees to absorb the incremental dollars until it files its next general
24 rate case. Such dollars will not be considered in any interim/emergency rate relief
25 application described in Section 2 above.

26

SETTLEMENT AGREEMENT AND
PETITION - 4

MILLER, NASH, WIENER,
HAGER & CARLSEN
A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS
ATTORNEYS AND COUNSELORS AT LAW
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4400 TWO UNION SQUARE
601 UNION STREET, SEATTLE, WASHINGTON 98101-2352

1 5. Rate Design.

2 Residential: Rate schedules 501 and 503 will be combined in a new rate
3 schedule 503. The customer charge will be \$2.00 per month, with increases to \$3.00 per
4 month on the first anniversary of the effectiveness of New Rates, and to \$4.00 per month on
5 the second anniversary of the effectiveness of New Rates. Residential Rates will be a single
6 block rate.

7 Commercial: On Commercial rate schedule 504, the customer service charges
8 will become \$5.00 on the effective date of New Rates, increasing to \$6.00 and \$7.00 on the
9 first and second anniversary dates of New Rates, respectively.

10 Industrial: On Industrial rate schedule 505, the customer service charges will
11 become \$10.00 on the effective date of New Rates, increasing to \$11.00 and \$12.00 on the
12 first and second anniversary dates of New Rates, respectively.

13 Temporary Dry Out Service Schedule 502 will have a customer service charge
14 of \$5.00 on the effective date of the New Rates, increasing to \$6.00 and \$7.00 on the first
15 and second anniversary dates of the New Rates, respectively.

16 Large Volume General Service Schedule 511 will have a customer service
17 charge of \$20.00 on the effective date of the New Rates, increasing to \$21.00 and \$22.00 on
18 the first and second anniversary dates of the New Rates, respectively..

19 Compressed Natural Gas Service Schedule 512 will have a customer service
20 charge of \$5.00 on the effective date of the New Rates, increasing to \$6.00 and \$7.00 on the
21 first and second anniversary dates of the New Rates, respectively.

22 Interruptible Service Schedule 570 will have a customer service charge of
23 \$20.00 on the effective date of the New Rates, increasing to \$21.00 and \$22.00 on the first
24 and second anniversary dates of the New Rates, respectively.

1 Limited Interruptible Service Schedule 577 will have a customer service charge
2 of \$20.00 on the effective date of the New Rates, increasing to \$21.00 and \$22.00 on the
3 first and second anniversary dates of the New Rates, respectively.

4 The minimum bill of Schedule 541 will have a charge of \$2.82 in the winter
5 and \$5.24 in the summer on the effective date of the New Rates, increasing to \$3.82 and
6 \$6.24 on the first anniversary date and \$4.82 and \$7.24 on the second anniversary date of
7 the New Rates, respectively.

8 Rate Schedules 663 and 664: New Rate Schedule 664 shall be available and
9 provide for a minimum bill to customers equal to the charge for minimum annual volumes of
10 2,400,000 therms per year. To be eligible for 664, a customer must have taken at least
11 2,400,000 therms of service in the prior 12 months, or have demonstrated to Cascade's
12 satisfaction that customer reasonably anticipates requiring 2,400,000 therms of service in the
13 contract year.

14 Settlement Exhibit 2 shows the estimated decline in 663 and 664 Rates over
15 the three-year period.

16 Schedule 664 shall contain a minimum annual throughput requirement of
17 2,400,000 therms during a contract year. If a 664 customer's actual annual throughput is
18 less than 2,400,000 therms for a contract year, the customer shall be liable for an annual
19 minimum bill under Schedule 664 rates based upon the difference between the customer's
20 actual annual throughput and 2,400,000 therms. The customer's annual minimum bill for the
21 resulting difference shall be calculated as if the customer's deficient consumption occurred
22 during the twelfth month of the contract year. Unless the customer can show circumstances
23 that were unforeseen and beyond the customer's control such as a force majeure event, the
24 customer will be shifted to Rate Schedule 663 for a period of not less than one year until
25 such time the customer uses and can maintain a usage of at least 2,400,000 therms per year.
26

SETTLEMENT AGREEMENT AND
PETITION - 6

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1 6. Meter Reading and Billing. The Company agrees to prepare a plan for
2 reducing expenses of meter reading and billing and will circulate such plan to all parties for
3 comment not later than November 30, 1996. This plan will result in a reduction in meter
4 reading and billing expenses or increases in revenues from such activities or a combination of
5 both so that by December 31, 1999, such expenses would be not more than two-thirds of test
6 year expenditures increased at the compound rate of the Seattle Consumer Price Index plus
7 customer growth.

8 7. Revenue Credit. The Company agrees to reflect in its Temporary
9 Technical Adjustment Schedule 595 a revenue credit for core customers in the state of
10 Washington providing a credit of \$.00139 per therm. The revenue credit expires four years
11 after the effective date of New Rates.

12 8. Deferrals. \$13 million of total gas cost account deferrals are to be
13 transferred to a new deferral account, to be held at the Company's short term interest rates
14 from time to time, until four years after the effective date of the New Rates at which time
15 these funds shall be amortized to core customers over a period not to exceed four years. The
16 balance of existing deferral accounts (approximately \$7 million) is to be passed back to core
17 ratepayers beginning on the effective date of the New Rates, over a period of four years, on
18 an equal cents per therm basis. The net refund applicable to Schedule 663 from Docket
19 Nos. UG-960452 and 960453 shall be returned to both Schedule 663 and 664 over a one year
20 period on an equal cents per therm basis. The Company shall refile its tariffs in Docket
21 Nos. UG-960452 and 960453 to reflect only the changes agreed to herein. Such refiling
22 shall be placed on the Commission's next available open meeting agenda for approval.

23 9. No addition of Firm Pipeline Capacity. For a period of three years
24 after the effective date of the New Rates, the Company agrees not to request reimbursement
25 for an increase in its TF-1 capacity at full tariff rates in any PGA filing beyond the amount
26

SETTLEMENT AGREEMENT AND
PETITION - 7

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1 of capacity the Company holds in its name at present, provided that such increases only may
2 be requested if prudent, which the Company shall have the burden of establishing.

3 10. Reconnect and Field Collective Fees. The Company's reconnect fees
4 will be \$16 during regular business hours and \$32 after regular business hours. Such fees
5 shall apply to customers by address, not by individual requesting service. Field collection
6 fees will be increased to \$8.

7 11. Extended Business Hours. The Company agrees to negotiate in good
8 faith at its next regularly scheduled bargaining opportunity with its union to allow reasonable
9 extension of hours for regular service calls beyond 5:00 p.m. in those service areas in which
10 there is more than one service person. Customers will not be disconnected on Friday or the
11 day before a holiday for non-payment. The extended business hours are to more effectively
12 serve customers, who often are not at home before 5:00 p.m.

13 12. Balancing. Along with its New Rates the Company will file additions
14 to its 663 and 664 tariffs to provide for balancing requirements equivalent to the monthly
15 balancing requirements in the current Northwest Pipeline Company ("NPC") tariffs approved
16 by the Federal Energy Regulatory Commission, and to amend the Company tariffs within 30
17 days after the time the NPC tariffs are effective to reflect the current balancing requirements
18 of NPC. To the extent the Company shall receive penalties under such balancing provisions,
19 it shall defer the net amounts above any costs imposed by the subject imbalances for the
20 benefit of its core customers. This provision shall not preclude any other parties, with good
21 cause, from proposing balancing provisions after the New Rates become effective which may
22 vary from NPC's balancing provisions.

23 13. Future PGAs. The Company agrees to file its 1996 and future PGAs
24 on an "actual utilization under normal weather" basis. The parties reserve the right to
25 question, among other things, the amount of gas capacity, amount of capacity release and
26 other off-system gas sales revenue, and/or the prudence of gas acquisitions in all future

1 PGAs. The gas cost increments reflected in the New Rates, by individual schedule, shall be
2 used from the effective date of the New Rates forward for the purpose of calculating the
3 Company's Washington monthly gas cost deferrals. Future PGA commodity changes shall
4 be allocated to core schedules on an equal cents per therm basis. Future demand cost
5 changes shall be allocated to core schedules on an equal percent of demand increment basis.
6 A non-core daily balancing rate (of \$.00050 per therm) times the non-core volumes shall be
7 included in the monthly gas cost deferrals as a revenue credit against gas costs collected from
8 core customers. At the time the Company files its 1997 PGA and deferral filing, the
9 Company shall provide to the parties data and cost analysis to support any continuation,
10 change or elimination of a daily balancing rate. This Settlement Agreement and the
11 Commission's approval of this Settlement Agreement do not create any presumption as to the
12 validity or appropriate level of any daily balancing rate. The parties reserve the right to
13 contest the validity or appropriate level of any daily balancing rate or similar charge
14 beginning with the 1997 PGA and deferral filing.

15 14. Special Contracts. The Company agrees to develop a method which it
16 will use in evaluating the potential of special contracts not yet approved by the Commission
17 which relies upon an incremental cash flow analysis. In order to develop and implement this
18 approach, the Company agrees to maintain at a minimum the following documents:

- 19 1. Maps, notes of site visit(s), and where the Company is to
20 construct new facilities, surveyor reports, comprehensive construction
standards and construction company bids.
- 21 2. Independent external consulting engineers reports, with cost
22 estimates stamped, signed and dated by a professional engineer. (In those
23 cases where the Company does not believe such a report is necessary, the
Company will consult with Staff and will document its reasons why such a
report is not necessary).
- 24 3. Pressure/flow studies (for example, STONER or other model
25 runs, etc.).
- 26 4. Notes of all meetings and phone calls and correspondence of any
kind bearing on an explicit threat of action by the competitor.

1 5. Reports, memos, drawings, calculations and documents which
2 substantiate claims made for distance to pipeline, topography, obstacles, and
3 other relevant variables.

4 6. Financial and economic information which backs up the discount
5 rate estimates for the customer, to include weighted average cost of capital and
6 its derivations.

7 15. Deletion of Unused Rate Schedules. The Company agrees to delete
8 Rate Schedules 513, 687, 688 and 689, none of which are used to serve customers presently,
9 and tariff sheets 5000 and 5001 relating to demand side management programs that are no
10 longer effective.

11 16. Availability of Witnesses for Questioning. All parties agree to make
12 appropriate witnesses available at the request of the Commission for questions and to testify
13 in support of this Settlement Agreement and Joint Petition.

14 17. Waiver of Suspension Period. In the event hearings become necessary
15 because the Commission shall not enter orders as requested in this Settlement Agreement and
16 Petition, the Company agrees to waive the suspension period for a reasonable time so that
17 hearings may be scheduled.

18 18. Integration. This Settlement Agreement and Petition and the attached
19 exhibits represent an integrated agreement among the parties with respect to the settlement.
20 There are no other agreements or understandings (written or oral) which modify any part of
21 the settlement, as expressed herein.

22 19. Reservation of Rights. The parties agree that this Settlement
23 Agreement and Petition represents a negotiated settlement in the public interest with respect
24 to the matters as agreed to herein for the sole purpose of settlement of the matters agreed to
25 herein. The parties individually and collectively do not waive the right to assert any position
26 in any other proceeding before the Commission.

 20. Reopening of Record Upon Modification. The parties request that, if
 the Commission wishes to modify any matter agreed to herein, the Commission so notify the

1 parties in writing of the modification. If any party does not agree with the modification
 2 within three business days from receipt thereof, all parties shall jointly request that the matter
 3 be sent back for further proceedings and the record reopened for the purpose of receiving
 4 additional testimony from the parties with cross-examination thereon. If the record is
 5 reopened accordingly, no party shall be bound by the provisions of this Settlement
 6 Agreement and Petition.

7 21. Execution. This Settlement Agreement and Petition may be executed
 8 by the parties in several counterparts and as executed shall constitute one agreement.


9 PETITION

10 Based on the agreements set forth in Exhibit 57 and in this Settlement
 11 Agreement and Petition, and on the files and records in the proceedings to which they relate,
 12 the undersigned parties petition the Commission for entry of orders incorporating the
 13 substance of the terms and conditions agreed upon in Exhibit 57 and in this Settlement
 14 Agreement and Petition. The parties also request that the Commission's final orders provide
 15 that the New Rates may be effective August 1, 1996.

16 Dated this 28th day of June, 1996.

17
 18 COMMISSION STAFF
 19 CHRISTINE O. GREGOIRE
 Attorney General

NORTHWEST INDUSTRIAL GAS
 USERS

20 
 21 Robert D. Cedarbaum
 Ann E. Rendahl
 22 Assistant Attorneys General

Paula E. Pyron
 Attorney

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9 **PETITION**

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 13 substance of the terms and conditions agreed upon in Exhibit 57 and in this Settlement
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16 Dated this _____ day of June, 1996.

17
 18 COMMISSION STAFF
 19 CHRISTINE O. GREGOIRE
 Attorney General

NORTHWEST INDUSTRIAL GAS
 USERS

20
 21 _____
 Robert D. Cedarbaum
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PUBLIC COUNSEL

CHRISTINE O. GREGOIRE
Attorney General

Robert F. Manifold by
Robert F. Manifold *Small*
Assistant Attorney General *6/28/96*

CASCADE NATURAL GAS CORPORATION

John L. West
John L. West
Attorney

Docket No. UG-951415

Exhibit (SETTLEMENT-1)

Schedule 1 of 1

Page 1 of 1

Cascade Natural Gas Corporation
PROPOSED CHANGE IN MARGIN TO REFLECT SETTLEMENT IN UG-951415
State of Washington

Line No.	Description	Rate Schedule	Total Adjusted Therms Sales	Total Adjusted Margin at @ 1-1-94 Rates	Proposed Increase Margin By Customer Group	Margin at Proposed Rates	Percentage Change in Margin
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Residential							
1	General Service	501	29,133,665	\$ 7,176,285	\$ 911,789	\$ 8,088,074	12.7056%
2	Optional Service	503	43,858,745	\$ 9,444,941	1,200,035	10,644,976	12.7056%
3	Total		72,992,410	\$ 16,621,226	\$ 2,111,824	\$ 18,733,050	
Res-Com Dual Service							
4	Dry-out	502	1,122,626	\$ 206,107	\$ 26,187	\$ 232,294	12.7056%
5	Gas Air Conditioning	541	572,517	\$ 104,813	13,317	118,130	12.7056%
6	Total		1,695,143	\$ 310,920	\$ 39,504	\$ 350,424	
Commercial							
7	General Service	504	63,610,113	\$ 11,849,759	\$ 1,505,581	\$ 13,355,340	12.7056%
8	Compressed Natural Gas	512	61,114	\$ 11,506	1,462	12,968	12.7056%
9	Total		63,671,227	\$ 11,861,265	\$ 1,507,043	\$ 13,368,309	
Com-Ind Dual Service							
10	Large Volume	511	28,370,393	\$ 3,084,138	195,929	3,280,067	6.3528%
11	Total		28,370,393	\$ 3,084,138	\$ 195,929	\$ 3,280,067	
Industrial Firm							
12	General Service	505	8,643,340	\$ 1,057,618	67,188	1,124,807	6.3528%
13	Total		8,643,340	\$ 1,057,618	\$ 67,188	\$ 1,124,807	
Interruptible							
14	General (Industrial)	570	8,721,399	\$ 422,241	53,648	475,889	12.7056%
15	Institutional	577	2,615,401	\$ 195,780	24,875	220,654	12.7056%
16	Total		11,336,800	\$ 618,021	\$ 78,523	\$ 696,544	
17	Total Core		186,709,313	\$ 33,553,188	\$ 4,000,012	\$ 37,553,200	
Non-Core							
18	Distribution Trans.	663	41,733,626	\$ 7,873,991	\$ (20,055)	\$ 7,853,936	-0.2547%
19	Large Vol. Distribution Tran	664	205,683,554	\$ 4,140,839	\$ (156,186)	3,984,653	-3.7718%
20	Special Contracts	901	481,701,943	8,782,638	0	8,782,638	
21	Cost of Gas						
22	Total Non-Core		729,119,123	\$ 20,797,468	\$ (176,241)	\$ 20,621,227	
23	SUBTOTAL		915,828,436	\$ 54,350,656	\$ 3,823,771	\$ 58,174,427	
Adjustments							
24	B&O Tax		0	\$ 3,970,141	\$ -	\$ 3,970,141	
25	Billing/Technical Adjustments		-	53,340	-	53,340	
26	Total Adjustments		0	\$ 4,023,481	\$ -	\$ 4,023,481	
27	TOTAL		915,828,436	\$ 58,374,137	\$ 3,823,771	\$ 62,197,908	
28	Other Op Rev			\$ 103,193	\$ 13,270	\$ 116,463	
29	TOTAL		915,828,436	\$ 58,477,330	\$ 3,837,041	\$ 62,314,371	

Market No. UG-951415

Exhibit (SETTLEMENT-2)

Schedule 1 of 1

Page 1 of 1

Cascade Natural Gas Corporation				
Illustrative Decline in New 664 Rates - (For Large Transportation Customers)				
State of Washington				
	Current	Estimated Effective 8/1/96	Estimated Effective 8/1/97	Estimated Effective 8/1/98
Dispatch Service Charge	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00
First 100,000 Th/Mth	\$ 0.09660	\$ 0.09660	\$ 0.09129	\$ 0.06085
Next 200,000	\$ 0.04186	\$ 0.03951	\$ 0.03300	\$ 0.02769
Next 200,000	\$ 0.04186	\$ 0.03951	\$ 0.02137	\$ 0.01874
Next 100,000	\$ 0.02000	\$ 0.02000	\$ 0.01900	\$ 0.01874
Next 300,000	\$ 0.02000	\$ 0.02000	\$ 0.01850	\$ 0.01686
Next 400,000	\$ 0.02000	\$ 0.02000	\$ 0.01750	\$ 0.01486
Over 1,300,000	\$ 0.02000	\$ 0.02000	\$ 0.01625	\$ 0.01335
Annual Minimum Bill to qualify for this 664 service based upon 2,400,000 Therms per Year				
Estimated Decrease in New 664 Revenue Compared to Current 663 Revenue		\$ (156,186)	\$ (1,290,850)	\$ (1,348,266)

Cascade Natural Gas Corporation				
Illustrative Decline in 663 Rates - (For Small Transportation Customers)				
State of Washington				
	Current (663)	Estimated Effective 8/1/96	Estimated Effective 8/1/97	Estimated Effective 8/1/98
Dispatch Service Charge	\$ 500.00	\$ 500.00	\$ 500.00	\$ 500.00
First 10,000 Th/Mth	\$ 0.13313	\$ 0.13313	\$ 0.13313	\$ 0.13313
Next 10,000	\$ 0.12099	\$ 0.12099	\$ 0.12050	\$ 0.12000
Next 30,000	\$ 0.11423	\$ 0.11423	\$ 0.10700	\$ 0.10000
Next 50,000	\$ 0.07367	\$ 0.07367	\$ 0.06750	\$ 0.06000
Over 100,000	\$ 0.04186	\$ 0.03951	\$ 0.03470	\$ 0.03000
Estimated Decrease in 663 Revenues		\$ (20,055)	\$ (205,533)	\$ (215,484)