

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

**DOCKET NO. UG-060256**

**NARRATIVE STATEMENT  
REGARDING SETTLEMENT  
AGREEMENT**

*1* In accordance with WAC 480-07-740(2)(a), Cascade Natural Gas Corporation ("Cascade" or "the Company"), Staff of the Washington Utilities and Transportation Commission ("Staff"), Public Counsel Section of the Office of Attorney General ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), NW Energy Coalition ("the Coalition"), The Energy Project, and Cost Management Services, Inc. ("CMS") (collectively, "the Parties" and individually, "a Party") hereby file this narrative statement regarding the Settlement Agreement filed with the Commission on October 10, 2006 in the above docket.

**Procedural Background**

*2* Paragraphs 2 through 8 of the Settlement Agreement describe the procedural background of the proceeding which led to the filing of the Settlement Agreement on October 10. Prior to reaching agreement on the terms of the Settlement Agreement, the Company and Staff reached agreement on various revenue requirement issues in this proceeding, and filed a Stipulation on Revenue Requirement Issues ("Revenue Stipulation")

with the Commission on October 4, 2006. The Company, Staff and NWIGU reached agreement on various rate spread and rate design issues, and filed a Stipulation on Rate Spread, Rate Design Issues ("Rates Stipulation") with the Commission on October 5, 2006. The Parties continued settlement discussions on October 5, 6 and 9 in the interests of exploring a broader agreement among all Parties. Final agreement on the terms of the Settlement Agreement was reached on October 10. Given this broader agreement, the Settlement Agreement provides that the previously filed Rates Stipulation and Revenue Stipulation will be vacated, and incorporated as appropriate within the Settlement Agreement.

### **Scope of Agreement**

3           Although the Settlement Agreement addresses all the contested issues in the proceeding, it is not a global settlement, (*i.e.*, a settlement in which all parties agree on the resolution of all issues presented for settlement). Parties agreeing to resolve one contested issue may or may not have agreed to resolve other issues. Accordingly, this multi-issue, multi-party agreement, while an integrated document, actually contains a number of stipulated recommendations on individual issues. The discussion of each issue addressed in the Settlement Agreement will indicate which Parties are joining in that particular stipulated recommendation, and will also indicate where a Party is expressly not joining in a recommendation and reserves the right to present a different position.

### **Revenue Requirement Issues**

4           Staff and the Company agreed upon the revenue requirement issues presented in paragraph 12 of the Settlement Agreement. No Party other than Staff and the Company

takes a position with respect to the revenue requirement adjustments set forth in paragraph 12.<sup>1</sup> The revenue requirement adjustments result in a recommended revenue requirement increase of \$7,061,536, or approximately 2.69%. Attachment A to the Settlement Agreement is a summary sheet showing the calculations supporting the recommended revenue requirement increase.

5           a.       Cost of Capital. A number of issues were in dispute between Staff and the Company with respect to cost of capital, including return on equity, common equity ratio, and whether short-term debt should be included in the capital structure. The Company had requested an overall rate of return of 9.37%, comprising a return on equity ("ROE") of 11.15% and an equity ratio of 50%. The revenue requirement return associated with this requested return is \$9.368 million. Staff recommended an overall rate of return of 8.33%, which included a 9.50% ROE, an equity ratio of 41.13% and the inclusion of short-term debt. The revenue requirement return with Staff's return recommendation is \$5.571 million. Although Staff and the Company were unable to reach agreement on each of the components of the cost of capital, they agree upon a revenue requirement of \$7,480,632 with respect to the return, as indicated on Attachment A to the Settlement Agreement. This revenue requirement for overall return is in the middle of the range between the two Parties' positions on this issue. It should be noted that Public Counsel reserved its right in the Settlement Agreement to present a position different from Staff and the Company on this issue.

6           b.       Gas Management Services. At issue is whether gas management services should be treated above- or below-the-line for ratemaking purposes. Under paragraph 12(b)

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<sup>1</sup> CMS joined in the agreement on certain issues regarding Gas Management Services in paragraph 12(b)

of the Settlement Agreement, Staff and the Company agree to accept the Company's proposed adjustment for "Removal of Non-Core Competitive Services Revenues and Gas Costs." At the same time, however, the calculation of that adjustment is revised to reflect the inclusion of \$200,000 in revenues from Gas Management Services for purposes of determining the revenue requirement in this proceeding. This enables the Company's customers to receive a portion of the profits derived from gas management services for purposes of setting rates in this proceeding. On a going forward basis, the Company will share fifty percent (50%) of the net margins realized by the Company for gas management services. These amounts will be deferred each month and returned to customers on an equal percentage margin basis each year as part of the Company's Temporary Deferral Tracking Adjustment filing, commencing as of the filing in Fall 2007. This treatment of gas management services is effective as of the date of the Commission's final order in this proceeding and will continue until the effective date of the final order in the Company's next general rate case. Paragraph 12 of the Stipulation also contains an agreement between the Company and CMS regarding certain tariff revisions and matters to be included in a stipulation of facts in a related complaint proceeding filed by CMS against Cascade in Docket No. UG-061256.

- 7           c.       Weather Normalization. Staff and the Company agreed upon a margin adjustment of \$730,779 to normalize test year temperatures for purposes of determining the revenue requirement. It should be noted that this is a stipulated amount for purposes only of calculating the revenue requirement in this proceeding; neither Staff nor the Company

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unrelated to the calculation of the revenue requirement.

endorses the underlying methodology used to calculate either the "normal" heating degree days (HDDs) or the weather-sensitive coefficients.

8           d.       Pro Forma Adjustments. Staff and the Company agreed upon several individual adjustments in calculating the Company's revenue requirement in this proceeding. These adjustments:

- Eliminate the Company's proposed pro forma adjustment for Gas Management & Risk Management Software;
- Accept the Company's proposed pro forma adjustment for Integrated Resource Planning Costs;
- Eliminate the Company's proposed pro forma adjustment for CIS Hardware Upgrade;
- Accept Staff's proposed adjustment to reflect escalation clauses in the Company's Special Contracts with various customers;
- Accept Staff's proposed adjustment to restate gas costs for Lost and Unaccounted For Gas;
- Accept Staff's proposed adjustment to restate Wages and Related Costs;
- Accept Staff's proposed adjustment to restate books to reflect actual Uncollectible Expenses;
- Accept Staff's proposed adjustment for Pro Forma Wages and Related Costs;
- Accept Staff's calculation of Working Capital;
- Adopt a 34% federal income tax rate as proposed by Staff;

- Accept Staff's proposed adjustment for Conservation Promotional Advertising;
- Accept the Company's proposed rate case expense.

**Miscellaneous Service Charges**

9           Several Parties filed testimony regarding the level of charges for Miscellaneous Services provided by the Company. All Parties filing testimony on this issue (Staff, the Company, Public Counsel, the Coalition, and The Energy Project) reached agreement on the following Miscellaneous Service Charges:

Disconnect Fee	\$10.00
Reconnect Fee (during work hours)	\$24.00
After Hours Reconnect Fee	\$60.00 (except in case of medical emergency)
Pilot Light Service	\$20.00
Late Fee	1% per month, applied to all unpaid balances 30 days past due
Minimum Late Fee	None
Meter Tampering Fee	Actual costs
NSF Check Return Charge	\$18.00
New Premises Charge	\$45.00
Account Activation Fee	No charge
Short Notice Locate Fee	No charge

The Parties also agree on the level of revenue (\$1,442,480) deemed to be produced from these Miscellaneous Service Charges for purposes of determining the Company's revenue requirement in this proceeding.

### **Low-Income Assistance**

*10*           The Company proposed to include \$800,000 in funding for low-income customers. Staff, The Energy Project, Public Counsel, and the Coalition agree to support this proposal, which was revised in the Company's rebuttal case to include any Public Utility tax credit received as additional funding for the program. The existing network used by the Washington Department of Community, Trade and Economic Development for the Low Income Home Energy Assistance Program will be used. In order to gather additional information for purposes of possible future low-income initiatives, the Company agrees to commence a collaborative effort with Staff, representatives of The Energy Project and other interested parties to track low-income issues by identifying and collecting data pertinent to low-income customers in the Company's Washington service territory. Such collaborative effort shall also consider whether the Company should implement an arrearage management project for low-income customers. The goals for the project would be reducing service terminations, reducing referral of delinquent customers to third party collection agencies, reducing collection litigation and reducing arrearages, reducing the Company's costs associated with these activities, and increasing voluntary customer payment of arrearages.

### **Decoupling Mechanism**

*11*           Paragraph 15 of the Settlement Agreement recommends that the Company be authorized to implement a "partial" decoupling mechanism on a pilot basis for a three-year period. Staff, the Company and the Coalition join in this recommendation; Public Counsel does not join in this portion of the Settlement Agreement and expressly reserves the right to oppose implementation of decoupling and to cross-examine witnesses on this issue.

12           The decoupling mechanism recommended for the Company is a "partial" decoupling mechanism which would defer margin variances based on weather-normalized volumes (*i.e.*, the scope includes only the non-weather related effects that cause changes in usage such as customer conservation and energy efficiency improvements). The mechanism would apply only to Rate Schedules 503 and 504. For purposes of calculating the base usage per customer and the resulting deferrals, no adjustment would be made for new customers. For purposes of calculating the impacts of weather on use per customer for implementation of the decoupling mechanism, the Company's weather normalization methodology will be used during the pilot period. It should be noted that this weather normalization methodology will be used only for purposes of calculating deferrals under the decoupling mechanism; neither Staff nor the Company endorses the underlying methodology used to calculate either the "normal" heating degree days (HDDs) or the weather-sensitive coefficients.

13           As noted above, it is recommended that the decoupling mechanism be implemented on a "pilot" basis. It would expire, by its terms, three (3) years from the effective date of the tariff sheets implementing the mechanism. The mechanism may be extended if (i) such extension is authorized as part of a general rate case to be filed by the Company prior to the expiration of the mechanism, and (ii) such general rate filing includes the results of a thorough evaluation of the mechanism. This evaluation would be performed by an independent consultant retained by the Company after consultation with interested parties, and would address a number of issues, including the following:

- What customer classes should be included within the scope of the mechanism?

- How well does the mechanism remove Cascade's disincentive to promote energy efficiency?
- What would the bill impacts have been if weather-related impact on usage was included?
- Was there any discernible effect on service quality due to the existence of the mechanism?

14 As an alternative to imposing any specific cap on the level of annual surcharges under the mechanism, paragraph 15(d) requires the Company to consider the rate impact of the annual surcharge produced by the mechanism. If necessary due to the magnitude of the deferrals to be amortized, the Company would extend the amortization period of such deferrals to two years or more to lessen the impact on customers.

### **Conservation Program**

15 In connection with implementation of the decoupling mechanism, the Company is required to undertake certain activities with respect to its Conservation Program. The Settlement Agreement includes specific required actions by the Company during 2007, including:

- Convening a conservation advisory group ("Advisory Group") of all interested parties to meet no later than thirty (30) days after the Commission's final order in this proceeding. The Advisory Group shall consider, among other things, the conservation potential study being performed for the Company by Stellar Processes.
- Filing a Conservation Plan with the Commission no later than ninety (90) days after the initial meeting of the Advisory Group. The Conservation Plan

is required to contain targets and benchmarks based upon the study and the recommendations of the Advisory Group; low-income weatherization; and possible penalties and incentives. The Conservation Plan is required to be submitted to the Commission for approval.

- Issuing requests for proposals, or RFPs, for third-party implementation of the Plan within thirty (30) days of Commission approval of the Plan. Any agreements with third-party contractors are required to include targets and benchmarks, with possible penalties and incentives, to ensure that payment is based on delivery of energy efficiency savings.

*16* No later than December 31, 2007, the Company must demonstrate to the satisfaction of the Commission that it has the ability to meet the 2008 energy efficiency targets identified in the Plan. This demonstration may be made by showing that the Company has contracted with qualified third-party providers to be able to deliver effectively the energy efficiency programs included in its 2008 target. If the Company fails to meet this benchmark, it shall be assessed a penalty in 2008 as prescribed in the Plan. If the Company demonstrates its ability to meet the 2008 energy efficiency target by year-end 2007, it will continue to defer margin revenues pursuant to this decoupling mechanism. In the event the Company fails to meet its 2008 target, it shall be assessed a penalty in 2009 as prescribed in the Plan. In the event the Company fails to meet its 2009 target, it shall be assessed a penalty in 2010 as prescribed in the Plan.

### **Rate Spread**

*17* Staff, the Company and NWIGU agree upon a proposal for spreading any revenue requirement increase across customer classes. The rate spread agreement is set forth in

paragraph 16 of the Settlement Agreement. Although Public Counsel does not join in the rate spread recommendation, Public Counsel agrees not to take a position in this proceeding with respect to rate spread that is contrary to or inconsistent with paragraph 16 of the Settlement Agreement.

18           The rate spread recommendation includes the following elements:

- A reduction of \$1.751 million from current levels in the revenue requirement allocated to Rate Schedules 663 and 664.
- An allocation of Miscellaneous Service Charge revenues 90% to Rate Schedule 503 and 10% to Rate Schedule 504.
- An allocation of remaining revenue requirement changes to the remaining core rate schedules in accordance with a more detailed rate spread proposal included as Attachment C to the Settlement Agreement.

### **Rate Design**

19           Staff, the Company, NWIGU, the Coalition, The Energy Project, and Public Counsel reached agreement on a number of rate design issues in this proceeding, as set forth in paragraph 17 of the Settlement Agreement. No Party other than Staff, the Company, NWIGU, the Coalition and Public Counsel takes a position with respect to rate design issues in this proceeding.

20           Transportation Customers. Staff, the Company and NWIGU agree upon a number of rate design recommendations with respect to Rate Schedules 663 and 664, including the following:

- Consolidation of Rate Schedules 663 and 664 into one rate schedule.

- Providing two options for electing firm service under this consolidated rate schedule.
- Revising the treatment of lost and unaccounted for gas on the distribution system, by making transportation customers responsible for supplying additional customer-owned gas as fuel-in-kind rather than assigning the current cost of supply to transportation customers.
- Eliminating the existing 50,000 therm restriction contained in Cascade's Unbundled Distribution System Transportation Service Rules, Rule No. 20, and replacing it with provisions requiring transporters to keep their nominations and deliveries within the same tolerance band as Northwest Pipeline.

21           Basic Charges. Staff, the Company, Public Counsel, the Energy Project and the Coalition agree that the monthly basic charge for each rate schedule shall be as follows:

Schedule 503 (Residential)	No change (\$4.00)
Schedule 504 (Commercial)	Increase from \$7.00 to \$10.00
Schedule 505 (Industrial)	Increase from \$12.00 to \$24.00
Schedule 511 (Large Volume)	Increase from \$22.00 to \$44.00
Schedule 512 (Compressed)	Increase from \$7.00 to \$14.00
Schedule 570 (Interruptible)	Increase from \$22.00 to \$44.00
Schedule 577 (Ltd. Interruptible)	Increase from \$22.00 to \$44.00

22           Other Rate Design Changes. Staff and the Company agree to a number of other rate design changes, as set forth in paragraph 17(c) of the Settlement Agreement.

### **Safety and Reliability Infrastructure Adjustment Mechanism ("SRIAM")**

23           The Company agrees to withdraw its SRIAM proposal from consideration in this proceeding. In the event the Commission approves in the currently pending Puget Sound Energy ("PSE") electric rate case (Docket No. UE-060266) the "depreciation tracker" proposed by PSE or a similar mechanism, the Company reserves the right in a subsequent single-issue filing to seek to implement a mechanism similar to that approved for PSE.

### **Public Interest Considerations**

24           The Parties agree that this Settlement Agreement (subject to the limitations regarding agreement on individual stipulated recommendations, as described above) is in the public interest and would produce rates for the Company that are fair, just, reasonable and sufficient. The Parties recommend that the Commission adopt their respective portions of this Settlement Agreement (to the extent and in the manner described above) as a resolution of the contested issues in this proceeding.

25           The Settlement Agreement represents a compromise in the positions of the Parties, and was entered into in order to avoid further expense, inconvenience, uncertainty and delay. By executing this Settlement Agreement, no Party approves, admits or consents to the facts, principles, methods or theories employed in arriving at the terms of this Settlement Agreement. No Party agrees that any provision of this Settlement Agreement is appropriate for resolving issues in any other proceeding.

26           In the following section, each Party explains why the public interest would be served by adoption of the Settlement Agreement.

27           Staff. In Staff's view, the Settlement Agreement is consistent with the public interest. The recommended revenue requirement increase represents only a portion of the

amount requested by the Company by incorporating a fair, just, and reasonable balance of the various adjustments proposed by both Staff and the Company. Consistent with Staff's recommendation in the case, the Settlement Agreement removes from consideration in this proceeding the Company's SRIAM proposal. The Agreement also narrows the scope of the decoupling mechanism proposed by the Company by including only non-weather related effects that cause changes in customer usage, thus eliminating the disincentive to promote conservation. The decoupling mechanism would be implemented for a three-year pilot period. An evaluation by an independent consultant would be required before decoupling can be extended beyond the pilot period.

28           The Company. The Settlement Agreement provides the Company with necessary rate relief, which represents the first increase in the Company's delivery rates in Washington in over ten years. The Company would also be authorized to implement a partial decoupling mechanism that will help reduce the disincentive for the Company to promote conservation. In connection with the implementation of decoupling, the Company will be expected to undertake specific activities to enhance its Conservation Program. The Settlement Agreement also includes some improvements to rate spread and rate design, to better align the Company's rates with costs.

29           Public Counsel. The portions of the Settlement Agreement in which Public Counsel joins are consistent with the public interest. Public Counsel opposed the implementation of SRIAM – which is no longer being advocated by the Company under the Settlement Agreement – and continues to oppose implementation of decoupling. The Settlement Agreement addresses Public Counsel's concerns regarding the regressive impacts of the

Company's various proposals with respect to residential rate design and Miscellaneous Service Charges by moderating those proposals.

30            NWIGU. The Settlement Agreement includes improvements to rate spread and rate design that better align the Company's rates with its costs to serve various customer classes.

31            NW Energy Coalition. The Settlement Agreement serves the interests of the public and The Coalition by including specific actions that the Company will be required to take with respect to its Low Income Rate Assistance and Conservation Programs. The Coalition supports the implementation of a partial decoupling pilot for Cascade so long as Cascade commits to and is accountable for the achievement of specific benchmarks and performance targets that can be used to measure the success of the Company's conservation efforts. The Coalition also expressed concerns about Miscellaneous Service Charges and residential rate design, and the Settlement Agreement addresses The Coalition's concerns with respect to these issues.

32            The Energy Project. The Settlement Agreement serves the interests of the public and The Energy Project by providing, among other things, for a low-income assistance program to be initiated by Cascade in its Washington service territory. The Energy Project was concerned as well about the disparate impacts associated with proposed Miscellaneous Service Charges and residential rate design, and the Settlement Agreement moderates these impacts through modifications of the Company's initial proposal. In addition, the Settlement Agreement provides for tracking of low-income data and consideration of an arrearage management project for low-income customer. These programs should benefit the Company by reducing costs for other customers.

33            CMS. The Settlement Agreement grants the relief requested in the testimony filed by CMS in this proceeding with respect to certain language in the Schedule 663 and 664 tariff sheets.