

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        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 ten calendar 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).**