

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION.

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION.

Respondent.

DOCKET NO. UG-060256

SETTLEMENT AGREEMENT

PARTIES

1. This settlement agreement is entered into by Cascade Natural Gas Corporation ("Cascade" or "the Company"), Staff of the Washington Utilities and Transportation Commission ("Staff"), Public Counsel Section of the Washington Attorney General's Office ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), NW Energy Coalition ("NWECC"), The Energy Project, and Cost Management Services, Inc. ("CMS") regarding Cascade's pending general rate filing in the above docket.

RECITALS

2. On February 14, 2006, Cascade filed tariff sheets seeking a general rate increase of \$11.7 million, or 4.47%. The filing was based on normalized results of operations for Washington for the test period ending September 30, 2005. The filing was suspended by the Commission at its March 15, 2006 public meeting.

3. At the prehearing conference on April 11, 2006, NWIGU, The Energy Project, NWECC, International Chemical Workers Union, CMS, and Mint Farm Energy Center LLC were granted intervention in the proceeding.

4. Following discovery by Staff and the other parties on the Company's direct testimony, a settlement conference was convened at the Commission's offices on July 25. Follow-up discussions were held the following week. On August 15, Staff, Public Counsel, NWIGU, The Energy Project, NWECC and CMS filed opposing testimony. Staff recommended limiting the rate increase to \$1.6 million. No other party submitted testimony regarding an overall revenue requirement recommendation; Public Counsel, NWECC, and The Energy Project submitted testimony regarding revenues to be recovered from Miscellaneous Service Charges.

5. The Company submitted rebuttal testimony on September 12, 2006; other parties also submitted cross-rebuttal testimony. Hearings are scheduled for October 9-13. The suspension period ends on January 16, 2007.

6. Following discovery on the rebuttal testimony, the Company, Staff, Public Counsel and other parties convened settlement discussions for purposes of resolving or narrowing the contested issues in this proceeding.

7. 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.

8. 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.

9. The Company, Staff, NWIGU, Public Counsel, NWECA, The Energy Project, and CMS ("the Parties") have reached agreement on certain of the contested issues in this proceeding and wish to present these agreements for the Commission's consideration. The Parties therefore adopt the following agreement, which is entered into by the Parties voluntarily to resolve matters in dispute among them in the interests of expediting the orderly disposition of this proceeding. This is a multi-issue settlement resolving a number of contested issues in the case. It should be noted that 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. For ease of reference, however, the Parties refer to the document as the "Settlement Agreement," understanding that it is not a global settlement, (*i.e.*, a settlement in which all parties agree on the resolution of all issues presented for settlement). The Settlement Agreement is being filed with the Commission as a "Multiparty Settlement" pursuant to WAC 480-07-730(3).

AGREEMENT

10. Revenue Stipulation. Staff and the Company agree that the Revenue Stipulation filed October 4, 2006 shall be vacated. The revenue requirement issues agreed upon by Staff and the Company in the Revenue Stipulation are incorporated into this Settlement Agreement.

11. Rates Stipulation. Staff, the Company, and NWIGU agree that the Rates Stipulation filed October 5, 2006 shall be vacated. The rate spread and rate design issues agreed upon by Staff, the Company, and NWIGU in the Rates Stipulation are incorporated into this Settlement Agreement.

12. Revenue Requirement Issues. Staff and the Company agree that Cascade will reduce its revenue requirement request to reflect the adjustments listed below, which result in a recommended revenue requirement increase of \$7,061,536, or approximately 2.69%. Included as Attachment A is a summary sheet showing the calculations supporting the recommended revenue requirement increase. Except as expressly set forth with respect to individual issues set forth below, no Party other than Staff and the Company takes a position with respect to the revenue requirement issues set forth in this paragraph 12. No Party will take a position in this proceeding with respect to revenue requirement issues that is contrary to or inconsistent with the adjustments set forth in this paragraph 12.

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. Although Staff and the Company were unable to reach agreement on each of the components of the cost of capital, they agree that the revenue requirement for the overall return is \$7,480,632, as shown on Attachment A. Public Counsel reserves the right to take a position on cost of capital that may be contrary or inconsistent with this paragraph 12(a).

b. Gas Management Services.

(i) *Test Period Treatment.* Staff and the Company agree to accept the Company's adjustment for "Removal of Non-Core Competitive Services Revenues and Gas Costs." as set forth in Exhibit Nos. ___ (JTS-1T), pages 6-7, and ___ (JTS-4): provided, however, that such adjustment shall be revised to reflect the inclusion of \$200,000 in revenues from Gas Management Services for purposes of determining the revenue requirement in this proceeding.

(ii) *Prospective Treatment.* The Parties agree that effective as of the date of the Commission's final order in this proceeding and continuing until the effective date of the final order in the Company's next general rate case, the Company will defer fifty percent (50%) of the Net Margins realized each month by the Company for Gas Management Services. Amounts deferred in accordance with this paragraph 12(b)(ii) shall be returned on an equal percentage margin basis to all customers, except Special Contract customers, each year as part of the Company's Temporary Deferral Tracking Adjustment filing, commencing as of the filing in Fall 2007. For purposes of this section, "Net Margin" means gross revenue from Gas Management Services, less (1) the cost of gas and (2) revenue-sensitive costs.

(iii) *Tariff Revisions.* In connection with the modifications to rate design, the Company will be filing revisions to Rate Schedules 663 and 664 to implement the recommended rate design changes. The Company and CMS agree that those tariff revisions shall include elimination of the following language from the "Other Services" section of the current Schedules 663 and 664:

Gas Supplies purchased through the Company will
be in accordance with the FERC regulations
(18 CFR Part 284.402 Blanket Marketing
Certificates).

(iv) *Stipulated Facts in Complaint Proceeding.* CMS has commenced a separate complaint proceeding against Cascade (Docket No. UG-061256) with respect to gas management services. The Company and CMS agree that the stipulated facts included as Attachment B to this Settlement Agreement shall be included as stipulated facts for purposes of the record in Docket No. UG-061256. The Company shall have the

right to include additional stipulated facts in the development of the record in Docket No. UG-061256.

c. Weather Normalization. For purposes of calculating a weather normalization adjustment, Staff and the Company agree to use a margin adjustment of \$730,779, as set forth in Exhibit No. ___ (JTS-6). Schedule 1, Line 5. Column (d). This is a stipulated amount for purposes only of calculating the revenue requirement in this proceeding; no Party expresses any view about the underlying methodology used to calculate either the "normal" heating degree days (HDDs) or the weather-sensitive coefficients.

d. Pro Forma Adjustments. Staff and the Company agree on the following treatment of various adjustments in calculating the Company's revenue requirement in this proceeding:

(i) Elimination of the Company's proposed pro forma adjustment for Gas Management & Risk Management Software (Parvinen, Exhibit No. ___ (MPP-1T), pages 17-18).

(ii) Acceptance of the Company's proposed pro forma adjustment for Integrated Resource Planning Costs (Barnard, Exhibit Nos. ___ (KJB-1T), page 17 and ___ (KJB-17).

(iii) Elimination of the Company's proposed pro forma adjustment for CIS Hardware Upgrade (Parvinen, Exhibit No. ___ (MPP-1T), page 19).

(iv) Acceptance of Staff's proposed adjustment to reflect escalation clauses in the Company's Special Contracts with various customers (Parvinen, Exhibit No. ___ (MPP-1T), page 21).

(v) Acceptance of Staff's proposed adjustment to restate gas costs for Lost and Unaccounted For Gas (Parvinen, Exhibit No. ___ (MPP-1T), page 12).

(vi) Acceptance of Staff's proposed adjustment to restate Wages and Related Costs (Parvinen, Exhibit No. ___ (MPP-1T), page 12).

(vii) Acceptance of Staff's proposed adjustment to restate books to reflect actual Uncollectible Expenses (Parvinen, Exhibit No. ___ (MPP-1T), page 13).

(viii) Acceptance of Staff's proposed adjustment for Pro Forma Wages and Related Costs (Parvinen, Exhibit No. ___ (MPP-1T), pages 13-14).

(ix) Acceptance of Staff's calculation of Working Capital (Parvinen, Exhibit No. ___ (MPP-1T), pages 6-8; Exhibit No. ___ (MPP-4)).

(x) Use of a 34% federal income tax rate, as proposed by Staff (Parvinen, Exhibit No. ___ (MPP-1T), pages 15-16), including the impact of the federal income tax rate on the uncontested adjustments shown on Exhibit No. ___ (MPP-1T), page 9, lines 3-14 and on the conversion factor (Exhibit No. ___ (MPP-3), page 25).

(xi) Acceptance of Staff's proposed adjustment for Conservation Promotional Advertising (Parvinen, Exhibit No. ___ (MPP-1T), page 20).

(xii) Acceptance of the Company's proposed rate case expense (Stoltz, Exhibit No. ___ (JTS-11)).

e. Evidentiary Support. As evidentiary support for these stipulated revenue requirement issues, the Parties cite certain testimony and exhibits of Staff witness Michael P. Parvinen (Exhibit Nos. ___ (MPP-1T), ___ (MPP-2), ___ (MPP-3), ___ (MPP-4), and ___ (MPP-7)), certain testimony and exhibits of Company witness Katherine J. Barnard (Exhibit

Nos. ___ (KJB-1T) and ___ (KJB-2)), and certain testimony and exhibits of Company witness Jon T. Stoltz (Exhibit Nos. ___ (JTS-1T), ___ (JTS-10T) and ___ (JTS-11)).

13. Miscellaneous Service Charges.

a. Level of Charges. Staff, the Company, Public Counsel, NVEC, and The Energy Project agree that the Miscellaneous Service Charges shall be as follows:

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 agree that for purposes of determining the Company's revenue requirement in this proceeding, these Miscellaneous Service Charges shall be deemed to produce revenues of \$1,442,480, or an increase of \$1,129,498 over test period revenues of \$312,982.

b. Evidentiary Support. As evidentiary support for these stipulated Miscellaneous Service Charges, the Parties cite certain testimony and exhibits of Staff witness Michael Parvinen (Exhibit Nos. ___ (MPP-1T), pages 22-25, and ___ (MPP-5)) and certain

testimony and exhibits of Company witness Jon T. Stoltz (Exhibit Nos. ___ (JTS-1T), pages 15-18, ___ (JTS-9), Schedule 2, and (JTS-10T), pages 32-35).

14. Low-Income Assistance.

a. Funding. Staff, the Company, The Energy Project, Public Counsel, and NWEAC agree that the Company's proposal for \$800,000 in annual funding for low-income assistance, as described in Exhibit No. ___ (KJB-21T), pages 6-7, shall be included in the revenue requirement in this proceeding. Each year the Company shall apply in a timely fashion for Public Utility tax credits for its low-income assistance program: any and all credits will be added to the base fund for the program. As described in the testimony of The Energy Project witness Eberdt. (Exhibit No. ___ (CME-1T), pages 6-7), the existing network used by the Washington Department of Community, Trade and Economic Development for the Low Income Home Energy Assistance Program (LIHEAP) will be used. Funds will be allocated proportionally according to LIHEAP gas funds distribution in the Company's service territory.

b. Collection of Data. The Company agrees that within ninety (90) days after the Commission's final order in this proceeding, it will initiate 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.

15. Decoupling Mechanism. Staff, the Company and NWECA agree that the Company shall be authorized to implement a decoupling mechanism under the terms and conditions set forth in this paragraph 15. 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. No Party other than Staff, the Company, NWECA and Public Counsel takes a position with respect to the implementation of decoupling. No Party other than Public Counsel will take a position with respect to implementation of decoupling that is contrary to or inconsistent with this paragraph 15.

a. Scope of Mechanism. The mechanism shall be a "partial" decoupling mechanism which defers margin variances based on weather-normalized volumes (*i.e.*, the scope shall include only the non-weather related effects that cause changes in usage such as customer conservation and energy efficiency improvements), as described in the testimony of Staff witness Steward (Exhibit No. ___ (JRS-1T), page 6. The mechanism shall apply only to Rate Schedules 503 and 504. For purposes of calculating the base usage per customer and the resulting deferrals, no adjustment shall be made for new customers.

b. Weather Normalization Methodology. For purposes of calculating the impacts of weather on use per customer for implementation of the decoupling mechanism, the Parties agree to use the Company's weather normalization methodology as set forth in Exhibit Nos. ___ (JTS-1T), pages 9-12, and ___ (JTS-6). The Parties agree that this weather normalization methodology will remain in place throughout the Pilot Period. This is a stipulated weather normalization methodology for purposes only of calculating deferrals under the decoupling mechanism; no Party expresses any view about the underlying methodology used to calculate either the "normal" heating degree days (HDDs) or the weather-sensitive coefficients.

c. Pilot Program. The decoupling mechanism shall be implemented on a "pilot" basis, as described in the testimony of Staff witness Steward (Exhibit No. ___ (JRS-1T), pages 16-17. The mechanism shall 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. Such evaluation shall be performed by an independent consultant retained by the Company after consultation with interested parties. The scope and timing of such evaluation shall be as defined by the Company and interested parties; whether or not the decoupling mechanism is recommended for extension, an evaluation must be completed and delivered to the Commission within twelve months of completion of the pilot. Any evaluation shall consider, among other things, 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?

The Company may seek recovery of the costs of such evaluation in future rate proceedings.

d. Limitation on Deferrals. Rather than imposing any specific cap on the level of annual surcharges under the mechanism, the Company shall consider the rate impact of

the annual surcharge produced by the mechanism and, if necessary due to the magnitude of the deferrals to be amortized, shall extend the amortization period of such deferrals to two years or more to lessen the impact on customers.

e. Conservation Program and Performance.

(i) The Company shall convene 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.

(ii) No later than ninety (90) days after the initial meeting of the Advisory Group, the Company shall file with the Commission a Conservation and Low Income Weatherization Plan with reasonably achievable specific programmatic and energy efficiency targets and related benchmarks for at least 2008 and 2009 based upon the study and the recommendations of the Advisory Group. The Plan shall include possible penalties and incentives, and shall be submitted to the Commission for approval.

(iii) Within thirty (30) days of Commission approval of the Plan, the Company shall issue requests for proposals, or RFPs, for third-party implementation of the Plan. Agreements with third-party contractors shall include specific programmatic and performance targets and benchmarks, with possible penalties and incentives, to ensure that payment is based on delivery of energy efficiency savings

(iv) 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.

(v) 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.

(vi) In the event the Company fails to meet its 2009 target, it shall be assessed a penalty in 2010 as prescribed in the Plan.

16. Rate Spread.

a. Staff, the Company and NWIGU agree that any revenue requirement increase shall be allocated across customer classes in accordance with the rate spread proposal set forth in Attachment C to this Stipulation. No Party other than Staff, the Company, and NWIGU takes a position with respect to rate spread in this proceeding. No Party will take a position in this proceeding with respect to rate spread that is contrary to or inconsistent with this paragraph 16.

b. Attachment C reflects the following elements:

(i) The revenue requirement allocated to Rate Schedules 663 and 664 shall be reduced by \$1.751 million from current levels. Exhibit No. ____ (DWS-1T) shows that a net margin decrease of up to three times that amount for Rate Schedules 663 and 664 could be justified.

(ii) Any increase in Miscellaneous Service Charge revenues, as determined by the Commission in its final order in this proceeding, shall be assigned 90% to Rate Schedule 503 and 10% to Rate Schedule 504.

(iii) Remaining revenue requirement changes shall be allocated to the remaining core rate schedules in accordance with the rate spread proposal included as Attachment C to this Stipulation.

c. Evidentiary Support. As evidentiary support for this stipulated rate spread, the Parties cite certain testimony and exhibits of NWIGU witness Donald W. Schoenbeck (Exhibit Nos. ___ (DWS-1T) and ___ (DWS-3)), the testimony of Staff witness Yohannes Mariam (Exhibit No. ___ (YKGM-1T), pages 20-23), the testimony of Staff witness Joelle Steward (Exhibit No. ___ (JRS-1T), pages 20-22), and certain testimony and exhibits of Company witness Jon T. Stoltz (Exhibit Nos. ___ (JTS-10T) and ___ (JTS-15)).

17. Rate Design.

a. Transportation Customers. With respect to Rate Schedules 663 and 664. Staff, the Company and NWIGU agree to the following:

(i) Rate Schedules 663 and 664 shall be consolidated into one rate schedule.

(ii) Such consolidated rate schedule shall have two options whereby the customer may elect firm service. Under the first option, the customer agrees to pay a demand charge of fifteen cents (15¢) per therm of contract demand per month, plus four declining block rates for volumetric charges. Under the second option, the availability of which is limited to customers with a minimum annual load factor of thirty-three percent (33%), the customer agrees to pay a volumetric demand charge of \$0.0156 per therm.

plus the four declining block rates for volumetric charges. The block rates for volumetric usage are as follows:

First 100,000 therms	\$0.05350 per therm
Next 200,000 therms	\$0.01800 per therm
Next 200,000 therms	\$0.01000 per therm
Over 500,000 therms	\$0.00350 per therm

(iii) With respect to lost and unaccounted for gas on the distribution system, transportation customers shall be responsible for supplying additional customer-owned gas as fuel-in-kind rather than assigning the current cost of supply to transportation customers. The current five-year average lost and unaccounted for gas on the distribution system is 0.41%. Cascade will update its five year average lost and unaccounted for gas calculation in its annual purchased gas adjustment (PGA) filing.

(iv) The existing 50,000 therm restriction contained in Cascade's Unbundled Distribution System Transportation Service Rules, Rule No. 20, shall be eliminated, and replaced with provisions requiring transporters to keep their nominations and deliveries within the same tolerance band as Northwest Pipeline.

b. Basic Charges. Staff, the Company, Public Counsel, NWECA and The Energy Project 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

c. Other Rate Design Changes. Staff and the Company agree that the blocks for schedules 504, 505, and 511 shall be flattened in the manner shown on Exhibit No. ___ (JTS-9), Schedule 7, pages 16-18. No Party other than Staff, the Company, NWIGU, NWEC, The Energy Project, and Public Counsel takes a position with respect to rate design issues in this proceeding. No Party will take a position in this proceeding with respect to rate design that is contrary to or inconsistent with this paragraph 17.

d. Evidentiary Support. As evidentiary support for these stipulated rate design changes, the Parties cite certain testimony and exhibits of NWIGU witness Donald W. Schoenbeck (Exhibit Nos. ___ (DWS-1T) and ___ (DWS-3)), the testimony of Staff witness Joelle Steward (Exhibit No. ___ (JRS-1T), pages 23-24), and certain testimony and exhibits of Company witness Jon T. Stoltz (Exhibit Nos. ___ (JTS-1T), ___ (JTS-9), ___ (JTS-10T) and ___ (JTS-15)).

18. Safety and Reliability Infrastructure Adjustment Mechanism ("SRIAM"). The Company shall 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.

19. Supporting Testimony. If requested by the Commission, the Parties shall present a panel with a representative of each Party to describe the terms of this Settlement Agreement, respond to cross-examination from any non-settling parties, and answer questions from the Commissioners and the presiding Administrative Law Judge.

20. General Provisions.

a. 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 agree to support this Settlement Agreement, to the extent and manner described above, as a settlement of the contested issues for purposes of this proceeding . The Parties understand that this Settlement Agreement is not binding on the Commission in ruling on the Company's rate filing.

b. The Parties agree that this Settlement Agreement represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Settlement Agreement shall not be admissible as evidence in this or any other proceeding.

c. The Parties have negotiated this Settlement Agreement as an integrated document. Accordingly, 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.

d. The Parties shall cooperate in submitting this Settlement Agreement promptly to the Commission for acceptance, and shall cooperate in developing any supporting testimony or narrative relating to their positions that may be required by WAC 480-07-740(2)(b). The Parties agree to support the Settlement Agreement (to the extent and manner described above) throughout this proceeding, provide witnesses to sponsor such a Settlement Agreement at a Commission hearing, and recommend that the Commission issue an order adopting the settlements contained herein (subject to the limitations regarding agreement on individual

stipulated recommendations, as described above). In the event the Commission rejects this Settlement Agreement, the provisions of WAC 480-07-750(2)(a) shall apply. In the event the Commission accepts the Settlement Agreement upon conditions not proposed herein, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within five (5) days of the Commission's order, to state its rejection of the conditions. In such event, the Parties immediately will request the prompt reconvening of a prehearing conference for purposes of establishing a procedural schedule for completion of the case pursuant to WAC 480-07-750(2)(a). The Parties agree to cooperate in the development of a schedule that concludes the proceeding on the earliest possible date, taking into account the needs of the Parties in participating in hearings and preparing briefs and the needs of the Commission with respect to other matters that may be pending before the Commission.

e. The Parties enter into this Settlement Agreement to avoid further expense, inconvenience, uncertainty and delay. By executing this Settlement Agreement, neither Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed in arriving at the terms of this Settlement Agreement, nor shall either Party be deemed to have agreed that any provision of this Settlement Agreement is appropriate for resolving issues in any other proceeding.

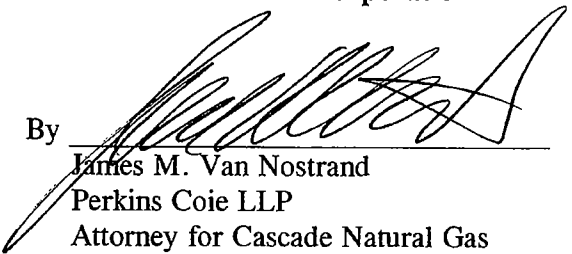
f. This Settlement Agreement may be executed in counterparts and each signed counterpart shall constitute an original document.

This SETTLEMENT AGREEMENT is entered into by each Party as of the date entered below.

DATED: October 10, 2006.

Cascade Natural Gas Corporation

By


James M. Van Nostrand
Perkins Coie LLP
Attorney for Cascade Natural Gas Corporation

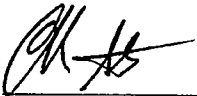
Staff of the Washington Utilities and Transportation Commission

By


Gregory J. Tradman
Assistant Attorney General

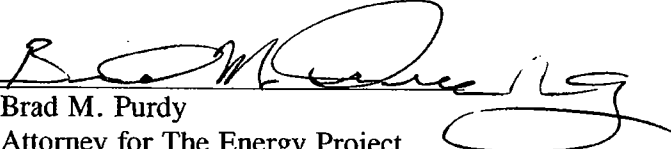
Northwest Industrial Gas Users

By


Edward A. Finklea
Cable Huston Benedict Haagensen & Lloyd, LLP
Attorney for Northwest Industrial Gas Users

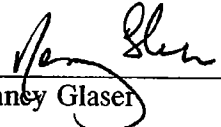
The Energy Project

By


Brad M. Purdy
Attorney for The Energy Project

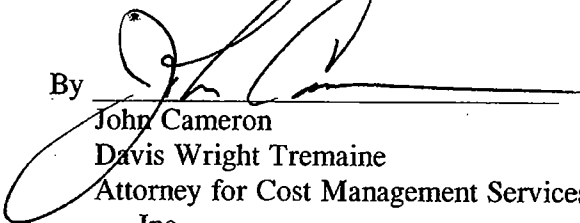
NW Energy Coalition

By


Nancy Glaser

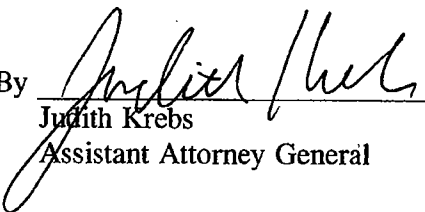
Cost Management Services, Inc.

By


John Cameron
Davis Wright Tremaine
Attorney for Cost Management Services, Inc.

**Office of the Attorney General
Public Counsel Section**

By


Judith Krebs
Assistant Attorney General

Cascade Natural Gas Corporation

UG-060256

Adjustment	Adjustment No.	RR Impact
Per Books		\$7,480,632
RESTATING ADJUSTMENTS		
Restatement of Test Period at Current Rates	b	(\$399,809)
Removal of Management Services	c	\$953,142
Restate Gas Cost for Lost & Unaccounted for Gas	d	\$0
Reclassify Gas Transportation into Rate Schedules	e	\$0
Removal of Severance Expense	f	(\$2,240,836)
Restated Wages and Related Costs	g	\$197,111
Restated Property Tax Expense	h	\$90,918
Restated Franchise Fees Expense	i	(\$517,449)
Adjustment to Remove Promotional Expense	j	(\$191,910)
Restate Test Period for Normal Weather	k	(\$730,779)
Restate Uncollectibles to Actual	l	(\$199,668)
PROFORMA ADJUSTMENTS		
Pipeline Safety Public Awareness	b	\$96,666
Proforma Wages & Related Costs	c	\$870,276
Proforma Industrial Contract Changes	d	\$156,633
Estimated Rate Case Expense	e	\$152,204
Income Tax on Pre 1981 Assets	f	\$271,570
Income Tax on Proforma Capitalization	g	\$0
Insurance Expense Adjustment	h	\$122,763
Postage Expense	i	\$45,498
Proforma Property Tax Adjustment	j	\$99,706
Proforma Membership/Dues Adjustment	k	\$110,656
Proforma Amortization of Gain on Propane Plant	l	(\$37,124)
Proforma Gas Management Software	m	\$0
Proforma Adj for Integrated Resource Planning Costs	n	\$64,660
Proforma CIS Hardware Upgrade	o	\$0
Conservation Promotional Advertising	p	\$0
Special Contract Proforma	r	(\$169,605)
Total		<u><u>\$6,225,258</u></u>
Low Income Assistance	q	\$836,278
Total Revenue Requirement Request		<u><u>\$7,061,536</u></u>

Attachment B
Settlement Agreement, Docket No. UG-060256

This document comprises Attachment B to the Settlement Agreement of October __, 2006, among parties to the general rate proceeding captioned Washington Utilities & Transportation Commission v. Cascade Natural Gas Corporation, Docket No. UG-060256. As part of their settlement of Docket No. UG-060256, Cascade Natural Gas Corporation ("Cascade") and Cost Management Services, Inc. ("CMS"), hereby agree to the following statements regarding the documents specified below, each of which shall be included as part of the statement of stipulated facts for use by parties to the separate complaint proceeding captioned Cost Management Services, Inc., v. Cascade Natural Gas Corporation, WUTC Docket No. UG-061256, which shall proceed irrespective of the settlement of Docket No. UG-060256:

1. All information contained in the documentation comprising CMS cross-examination exhibit 84 in Docket No. UG-060256 is true and correct.
2. All information contained in the documentation comprising CMS cross-examination exhibit 85C in Docket No. UG-060256 is true and correct.
3. All information contained in the documentation comprising CMS cross-examination exhibit 86 in Docket No. UG-060256 is true and correct.
4. All information contained in the documentation comprising CMS cross-examination exhibit 87 in Docket No. UG-060256 is true and correct.
5. The attached document, entitled "Areawide Public Utility Contract for Gas services, Contract No. GS-00P-95-0006 between the United States of America and Cascade Natural Gas Corporation," (a) was duly executed by the United States of America and Cascade Natural Gas Corporation, (b) is a public document, (c) is a true and correct copy of what it purports to be.
6. Cascade Natural Gas Corporation has executed contracts for the sale of natural gas to end-use customers with facilities located within the WUTC-certificated service territories of Avista Utilities and Puget Sound Energy, and is currently selling natural gas pursuant to such contracts. Such contracts include, but are not limited to, the contract between the United States of America and Cascade Natural Gas Corporation, described in Stipulated Fact No. 5, above.
7. The attached document, entitled "Petition For Determination That Cascade Does Not Require Certificate of Public Convenience And Necessity For Services Described In Rate Schedule 700," is a true and correct copy of a public document filed by Cascade Natural Gas Corporation in WUTC Docket No. UG-001119.

Proposed Rate Spread
At Settlement Revenue Requirement Increase

Description (a)	Rate Schedule (b)	Total Adjusted Therms Sales (c)	Total Adjusted Revenues (d)	Total Adjusted Margin at @ 11-1-05 Rates (e)	Percent of Average (f)	Increased Margin By Customer Group (g)	Spread/Residual Customer Group (h)	Increased Margin By Customer Group (i)	Margin Percentage Increase (j)	Total Margin (k)	Percentage Increase to Total Revenue (l)	Misc Fees (m)	Amount for Rate Increase (n)	Percent Increase to Rates (o)
Residential														
Optional Service	503	100,927,127	\$ 122,786,407	\$ 29,932,654	100%	\$ 4,123,963	\$ 528,252	\$ 4,652,215	15.54%	\$ 34,584,869	3.79%	\$ 1,016,548	\$ 3,635,667	2.90%
Res-Com Dual Service														
Dry-out	502	1,431,475	\$ 1,672,956	\$ 372,851	50%	\$ 25,685	\$	\$ 25,685	6.89%	\$ 398,536	1.54%	\$	\$ 25,685	1.54%
Gas Air Conditioning	541	161,724	\$ 186,814	\$ 35,739	150%	\$ 7,386	\$	\$ 7,386	20.67%	\$ 43,125	3.95%	\$	\$ 7,386	3.95%
Commercial														
General Service	504	74,834,227	\$ 85,093,365	\$ 16,417,848	150%	\$ 3,392,947	\$ 289,743	\$ 3,682,689	22.43%	\$ 20,100,557	4.33%	\$ 112,950	\$ 3,569,739	4.20%
Com-Ind Dual Service														
Large Volume	511	7,829,441	\$ 8,143,794	\$ 1,014,714	75%	\$ 104,851	\$	\$ 104,851	10.33%	\$ 1,119,565	1.29%	\$	\$ 104,851	1.29%
Compressed Natural Gas	512	61,296	\$ 68,721	\$ 12,452	25%	\$ 429	\$	\$ 429	3.44%	\$ 12,881	0.62%	\$	\$ 429	0.62%
Industrial Firm														
General Service	505	10,198,314	\$ 10,814,281	\$ 1,407,925	150%	\$ 290,965	\$ 24,847	\$ 315,812	22.43%	\$ 1,723,737	2.92%	\$	\$ 315,812	2.92%
Interruptible														
General (Industrial)	570	3,264,164	\$ 3,133,656	\$ 189,142	75%	\$ 19,544	\$	\$ 19,544	10.33%	\$ 208,686	0.62%	\$	\$ 19,544	0.62%
Institutional	577	407,759	\$ 404,808	\$ 36,976	75%	\$ 3,821	\$	\$ 3,821	10.33%	\$ 40,797	0.94%	\$	\$ 3,821	0.94%
Total Core		199,115,527	\$ 232,304,802	49,420,301		\$ 7,969,590	\$ 842,842	\$ 8,812,432		\$ 58,232,733	3.79%		\$ 7,682,934	3.31%
Non-Core														
Distribution Trans.	663	89,352,258	\$ 8,619,620	\$ 8,619,619	input -->	\$ (2,094,713)	\$	\$ (2,094,713)	-24.30%	\$ 6,524,906	-24.30%	\$	\$ (2,094,713)	-24.30%
Large Volume Trans.	664	155,323,148	\$ 5,922,700	\$ 5,922,700	input -->	\$ 343,818	\$	\$ 343,818	5.81%	\$ 6,266,518	5.81%	\$	\$ 343,818	5.81%
Electric Generation	678	0	\$ 0	\$ 0		\$ -	\$	\$ -	0.00%	\$ -	0.00%	\$	\$ -	0.00%
Special Contracts	901	257,718,509	\$ 5,832,167	\$ 5,832,167		\$ -	\$	\$ -	0.00%	\$ 5,832,167	0.00%	\$	\$ -	0.00%
Cost of Gas														
Total Non-Core		502,393,915	\$ 20,374,487	\$ 20,374,486		\$ (1,750,896)	\$ -	\$ (1,750,896)	-8.59%	\$ 18,623,590	-8.59%		\$ (1,750,896)	-8.59%
SUBTOTAL		701,509,442	\$ 252,679,289	\$ 69,794,787		\$ 6,218,694	\$ 842,842	\$ 7,061,536	10.12%	\$ 76,856,323	2.79%		\$	2.79%
Adjustments														
Total Other Revenues and Taxes		\$ 9,760,691	\$ 9,760,691	\$ 9,760,691		\$ -	\$ -	\$ -		\$ 9,760,691	0.00%	\$ 1,129,498	\$ -	0.00%
TOTAL		701,509,442	\$ 262,439,980	\$ 79,555,478		\$ 6,218,694	\$ 842,842	\$ 7,061,536	8.88%	\$ 86,617,014	2.69%		\$ 5,932,038	2.26%

Subtotal w/o SC \$ 63,962,620

Revenue deficiency ==> \$ 7,061,536
11.04%

Revenue Deficiency plus 663/664 \$ 8,812,432
13.78%