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Ms. Carole J. Washburn
Executive Secretary
Washington Utilities & Transportation Commission
1300 S Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: Docket No. UG-060256

Dear Ms. Washburn:

Enclosed for filing in the above proceeding are an original and 12 copies of Cascade Natural Gas Corporation's Statement of Position in Response to Public Counsel's Motion to Compel Supplementation. An electronic copy of the filing will also be sent to the Commission's record center.

Thank you for your assistance.

Very truly yours,

A handwritten signature in black ink, appearing to read "James M. Van Nostrand", is written over a horizontal line. The signature is fluid and cursive.

James M. Van Nostrand

JMV:jlf
Enclosures
cc: Service List

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET NO. UG-060256

CASCADE'S STATEMENT OF
POSITION IN RESPONSE TO PUBLIC
COUNSEL'S MOTION TO COMPEL
SUPPLEMENTATION

I. INTRODUCTION

1 On March 30, 2006, the Public Counsel Section of the Attorney General's Office ("Public Counsel") filed a request for relief, styled as a "Motion to Compel Supplementation of Cascade's General Rate Case Filing" ("Motion"). The cited authority for the Motion was WAC 480-07-500 and -510, which pertain to the filing requirements for General Rate Proceedings. By Notice dated April 3, 2006, the Commission provided an opportunity for parties to file written statements of position with respect to Public Counsel's Motion. Pursuant to that Notice, Cascade Natural Gas Corporation ("Cascade" or "the Company") submits the following Statement of Position.

II. CASCADE'S STATEMENT OF POSITION

2 On February 14, 2006, Cascade commenced this proceeding by filing a general rate application seeking an increase of \$11.7 million, or 4.47%. The application was supported by the testimony and supporting exhibits of eight (8) witnesses:

- David Stevens, President and CEO, policy

- Dr. Roger Morin, expert witness, return on equity and equity ratio
- Philip W. Mote, Washington State Climatologist, weather normalization
- Lamar Maxwell Dickey, expert witness, cost of service
- F. Jay Cummings, expert witness, proposed Safety and Reliability Infrastructure Adjustment Mechanism (“SRIAM”)
- Jon T. Stoltz, Senior Vice President, Regulatory and Gas Supply, summary schedule of all adjustments
- Katherine J. Barnard, Senior Director, Regulatory Affairs, restating and pro forma adjustments
- James Haug, Controller, income tax on pro forma capitalization
- Matthew D. McArthur, Treasurer, cost of debt

3 In addition to the testimony of eight witnesses and 47 supporting exhibits, the Application was accompanied by the Summary Sheet required by WAC 480-07-510(4), the required Notice of Tariff Change, and tariff sheets reflecting the proposed revisions. The Company has also provided workpapers that were used in the development of the testimony and exhibit, as required by WAC 480-07-510(3), and is continuing to provide supporting documentation as part of the discovery process. With respect to the other requirements of WAC 480-07-510:

- In compliance with WAC 480-07-510(3)(a), Mr. McArthur’s Exhibit ____ (MDM-2) presents the development of the Company’s requested rate of return, as supported by the recommendations of Dr. Roger Morin’s testimony (Exhibit ____ (RAM-1T)).
- Mr. Stoltz’s and Ms. Barnard’s testimony (Exhibits ____ (JTS-1T) and ____ (KJB-1T)) and accompanying exhibits present the detailed portrayal of restating actual and pro forma adjustments, as required by WAC 480-07-510(3)(b).
- The detailed portrayal of revenue sources and changes in same required by WAC 480-07-510(3)(c) is included in Mr. Stoltz’s testimony (Exhibit ____ (JTS-1T)) and accompanying exhibits.
- Mr. Stevens’ testimony (Exhibit ____ (DWS-1T)) explains why the Company has not achieved its authorized rate of return and the steps the Company has taken to improve its earnings, as required by WAC 480-07-510(3)(d).

- The representation of the actual rate base and results of operation during the test period, as required by WAC 480-07-510(3)(e), is included in the testimony and accompanying exhibits of Ms. Barnard.
- Mr. Dickey’s testimony and exhibits present the cost studies performed or relied on to prepare the Company’s filing, as required by WAC 480-07-510(6).

4 The Company respectfully submits that it has complied with the filing requirements for General Rate Proceedings, as set forth in WAC 480-07-510, in all material respects.

5 Nonetheless, in the interests of cooperating with the parties to this proceeding and the orderly processing of this filing, the Company is agreeable to providing additional information to support its filing, in response to some of the specific requests identified in Public Counsel’s Motion. The specific issues raised in the Motion are discussed briefly below.

III. RESPONSE TO INDIVIDUAL ITEMS IN THE MOTION

6 The Motion claims that the Cost of Service study lacks supporting workpapers.¹ *Motion at ¶¶ 4-5.* In particular, the Motion points out that “the Company did not file Schedule LMD-3 and LMD-4 with its opening testimony.” In fact, these schedules were included as part of the Company’s direct case, but were not labeled in a manner corresponding to Mr. Dickey’s testimony. Each of Mr. Dickey’s exhibits contains a Schedule 3 and a Schedule 4. Mr. Dickey’s Exhibit ___ (LMD-2), the unadjusted per books cost allocation, includes Schedule 3 (rate base, 4 pages) and Schedule 4 (expenses, 3 pages). Similarly, Mr. Dickey’s Exhibit ___ (LMD-2ADJ), the adjusted cost allocation, includes Schedule 3 (rate base,

¹ This point is discussed in paragraphs 4 and 5 of the Motion, under a heading relating to the \$37 million identified in the SRIAM proposal. The heading which relates to the work papers supporting the cost of service study appears on page 3, above an argument which relates to the SRIAM. For ease of understanding, the points will be addressed in the order of their presentation in the body of the Argument, regardless of how they were characterized in the headings.

4 pages) and Schedule 4 (expenses, 3 pages). The Company regrets the misunderstanding arising from this incorrect labeling. With respect to the merits, however, the referenced schedules were included in the Company's direct case, and have been supplemented by additional cost of service work papers submitted by the Company to the parties. In response to subsequent requests for documentation, the Company will file additional workpapers which relate to Mr. Dickey's calculations.

7 Additionally, the Motion suggests that Cascade is obligated to provide work papers to show "how allocation factors were developed or how the peak demands by class were estimated." *Motion at ¶ 5*. This material is not required to be included in work papers under the current rules. In the current rulemaking docket related to procedural rules, Docket No. A-050802, the Commission is considering proposed changes to WAC 480-07-510(3) to *add* the requirement that the work paper "contain the detailed support for the development of [a] percentage or factor, together with an explanation of why that factor is appropriate." In responding to comments on this proposed change, the Commission acknowledges under current practice that "[t]he type of information addressed in this rule *is almost always sought via discovery*," and that the purpose of the proposed rule change is "to promote efficiency by making the exchange of this information standard operating procedure without the need for numerous data requests and the delay associated with the discovery process." *Comment Matrix, CR-102 filing of Apr. 4, 2006, at 31*. Based on this statement, it is clear that under the current rules, Cascade may supply allocation factor and peak demand information in response to data requests rather than in its initial filing.

8 With respect to the proposed SRIAM, the Motion states that the \$37 million in expenditures for reinforcement and replacement is unsupported in the filing. *Motion at ¶¶ 6-7*. The Company is not seeking recovery of the \$37 million in expenditures in this filing; the

Company is requesting the implementation of the proposed SRIAM, through which expenditures of this type will be recovered. The intent of the rule cited by Public Counsel – WAC 480-07-510 – is to assure the filing of work papers related to proposed rate changes that would go into effect at the conclusion of the rate case. Approval of the proposed SRIAM, however, will have no immediate effect. The testimony of Mr. Cummings explains the proposed SRIAM and provides data supporting the need for the mechanism in his testimony. *Exhibit No. ____ (FJC-1T)*. As Mr. Cummings explains in his testimony, Cascade will provide details of specific investment plans each year, with sixty day advance notice to allow review. *Id. at 7*. The proposed tariff sheets implementing the SRIAM confirm that the Company will identify the projects with particularity before the costs are eligible for recovery in rates. *Exhibit ____ (JTS-9), Schedule 7, at 8*. The \$37 million figure from Mr. Cummings’ testimony is simply a budget amount for years 2007 through 2011. *Exhibit ____ (FJC-1T) at 4*. The Company is willing to provide some additional information to support these budgeted figures. But it is not the Company’s intent that sufficient documentation be provided in this case to permit approval of the \$37 million in expenditures. The point of the testimony is to illustrate the magnitude of the capital investment involved. The support for such recovery, and the determination as to whether such expenditures will be recovered, are part of the review process under the proposed SRIAM.

9 The Motion claims that the \$58 million in anticipated expenditures for new distribution mains and services referenced in Mr. Stevens’ testimony is “without supporting testimony or documents as required by the rule.” *Motion at ¶ 8*. Again, recovery for these amounts is not being sought in this case; the point of the testimony is to illustrate the capital requirements of the Company on a going forward basis, to support the request for an adequate rate of

return that will allow the Company to raise the necessary capital on reasonable terms. Again, WAC 480-07-510(3) does not list such projections among the items for which work papers are required to be filed. These projected capital expenditures are not being proposed for rate base inclusion, so they do not have to be substantiated in the initial filing. WAC 480-07-510(3) (a) requires a “detailed portrayal of the development of the company’s requested rate of return,” but projected capital expenditures are only tangentially related to the requested rate of return. The appropriate return on equity is based on the returns available to shareholders in other investments of equal risk; it has nothing to do projected capital expenditures. The reason for mentioning the projected capital expenditures is simply to point out that customers also benefit from a fair return on equity because the utility is thereby able to borrow money at favorable rates. In the interests of meeting the parties’ information needs, however, the Company can provide additional data to support the budgeted figures.

10 The Motion states that the testimony regarding \$150,000 in proposed new spending for “Conservation Programs” does not “explain how this number was arrived at in this case or what exactly will be promoted.” *Motion at ¶ 9*. Ms. Barnard’s testimony provides adequate explanation for this adjustment:

The Company anticipates actively marketing and advertising the benefits of conservation upon approval of the Conservation Rewards Program. The Company estimates that it will increase its promotion of the benefits of conservation through radio and newspaper advertisements along with direct mail brochures in addition to the Company’s current approach of promoting conservation only through bill inserts. Additionally, the Company will pursue opportunities to provide community education, by working with the office of Community Trade and Economic Development (CTED) and other local agencies and participating in energy fairs and home improvement shows.

Exhibit ___ (KJB-1T) at 18. Additional support for this modest expense amount is included in Ms. Barnard’s Exhibit ___ (KJB-19), which indicates that \$100,000 will be spent for printing and graphics materials and \$50,000 is for mailing costs.

11 According to the Motion, the Company also failed to identify which DSM programs “will see increased spending or how much they will be increased.” *Id.* As indicated in Mr. Stoltz’s testimony, the Company’s Integrated Resource Plan (“IRP”) identifies the programs for which additional expenditures are warranted. *Exhibit ___ (JTS-1T) at 30.* Additionally, Cascade will have a Conservation Potential Study conducted in its Washington service areas to help identify additional conservation opportunities that have not yet been identified in the IRP process. *Exhibit ___ (KJB-17), line 12.*

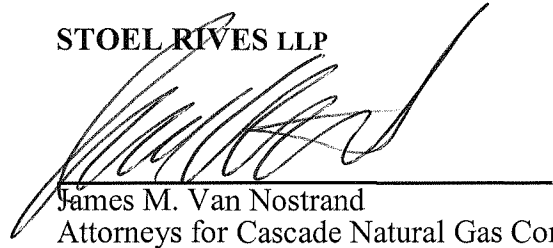
12 The Motion states that no support is provided for the \$800,000 proposed for low-income assistance. *Motion at ¶ 10.* As indicated in Ms. Barnard’s testimony, this amount is intended to provide funding to the Community Action Program (“CAP”) agencies within Cascade’s service territory to be used for bill assistance to Cascade’s low-income customers and weatherization programs. *Exhibit ___ (KJB-1T) at 19.* The Company plans to work with the CAP agencies and CTED to identify the suitable DSM opportunities for low-income customers, and to determine an appropriate allocation between weatherization programs and bill payment assistance. It will largely be up to the CAP agencies and CTED to determine how best to meet the needs of low-income customers with available funds. Thus, it is difficult to provide additional support regarding the \$800,000 in expenditures at this stage of the proposal. With respect to the derivation of the \$800,000 figure, the percentage represented by this level of funding roughly corresponds to the percentage provided by other Washington investor-owned utilities for similar low-income programs.

IV. CONCLUSION

13 For the reasons stated above, Public Counsel's Motion should be denied. Cascade has provided, and will continue to provide, information as requested by the parties, both through the data request process and otherwise. With respect to the formal filing requirements for General Rate Proceedings under WAC 480-07-510, the Company respectfully submits that it has met the requirements and there is no basis for requiring "supplementation" of the Company's filing. The issues raised by Public Counsel are best addressed through cooperative discussions and the discovery process, rather than through a litigious and unproductive motion practice.

DATED: April 7, 2006.

STOEL RIVES LLP



James M. Van Nostrand
Attorneys for Cascade Natural Gas Corporation

CERTIFICATE OF SERVICE

I hereby certify that I served a copy of the foregoing document upon the parties of record in this proceeding by first-class mail, addressed to said parties/attorneys' addresses as shown below:

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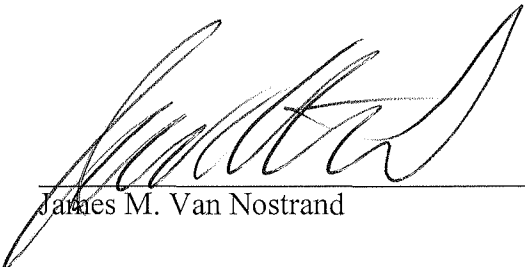
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DATED: April 7, 2006.



James M. Van Nostrand