

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

**DOCKET NO. UG-060256**

**RESPONSE OF CASCADE NATURAL  
GAS CORPORATION TO PUBLIC  
COUNSEL'S COMMENTS**

1. Pursuant to the Commission's Notice dated September 24, 2007, Cascade Natural Gas Corporation ("Cascade" or "the Company") respectfully submits this response to Public Counsel's Comments filed on September 24, 2007 (the "Comments") on Cascade's Addendum to its proposed Conservation Plan (the "Plan") and associated tariff sheets to implement its conservation programs and decoupling mechanism, filed on September 14, 2007.

2. Public Counsel raises two issues in its Comments. First, Public Counsel argues that Cascade should not be permitted to start recording deferrals on October 1, 2007 – as Cascade has intended to do since it filed its Plan in May 2007 – but should be required to wait until January 1, 2008 to start recording deferrals. Second, Public Counsel argues that Cascade should be required to provide additional detail regarding the accounting and reporting methodology Cascade will use to implement the Plan. Public Counsel's Comments are without any basis, and the Commission should approve Cascade's Plan and tariffs as filed.

**I. THE COMMISSION SHOULD PERMIT CASCADE TO START MAKING  
DEFERRALS UNDER THE PLAN ON OCTOBER 1, 2007**

3. The Commission gave its conditional approval to Cascade's proposed decoupling mechanism in Order 05, issued January 12, 2007. The Commission conditioned its full

acceptance of Cascade's mechanism on review and approval of the Plan, and identified several additional terms that the Plan must include. Order 05 ¶ 81.

4. Cascade filed its Plan on May 7, 2007, complying with the Commission's conditions in Order 05. Among other things, the Plan stated that Cascade intended "to implement the conservation programs commencing October 1st, providing the plan has received Commission approval." May 7, 2007 Plan at 4. The parties then filed two rounds of comments on the Plan. No party objected to the October 1, 2007 implementation date.
5. The Commission issued Order 06 on August 16, 2007. In Order 06, the Commission approved the Plan, subject to Cascade's making certain specified modifications. The Commission required Cascade to file a revised Plan making those modifications. Order 06 ¶ 43. The Commission also authorized and required Cascade to make a compliance filing, including tariff pages, to implement the decoupling program. *Id.* ¶¶ 66, 73.
6. On September 14, 2007, Cascade filed its revised Plan (the "Addendum") which accepted and complied with all of the additional conditions the Commission required in Order 06. Cascade also filed proposed tariff sheets to implement the decoupling program and requested that they be effective on October 1, 2007, which was the implementation date consistently identified by Cascade.
7. Now, for the first time, Public Counsel objects to the October 1, 2007 implementation date for two reasons. First, Public Counsel simply points to what is no more than a possible inconsistency in the Addendum. Public Counsel acknowledges that Cascade requests that the deferral begin October 1, 2007, which is quite clear in the Addendum (under the heading "For the Period October 1, 2007 through Dec 31, 2008 Balances," the Addendum states: "Cascade defers conservation related revenue differences beginning with the approval of the Decoupling Tariff (requested as of October 1, 2007) through December 31, 2008 . . ."). Addendum at 2. Public Counsel then points out that the Addendum also states that "the Company would seek amortization of 90% of the outstanding *Calendar 2008* deferred conservation revenue balances."

Comments at 1 (emphasis added). Public Counsel states that this latter statement "implies that the deferrals in 2007 will not be amortized." *Id.* at 1.

8. In Cascade's view, these statements are not inconsistent. Cascade clearly intended to commence deferring revenue differences on October 1, 2007, and to address deferred balances accumulated during the entire 15-month period from October 1, 2007 through December 31, 2008 in connection with the first annual review of Cascade's performance and earnings under the decoupling program. That is the period Cascade intended to refer to when it referenced the "Calendar 2008 deferred conservation revenue balances," as distinguished from the 2009 program year. To the extent that Cascade's statement is inconsistent with its intention, Cascade apologizes for any confusion. This alleged inconsistency, however, is no reason to deny Cascade's request to commence deferring revenue differences as of October 1, 2007.

9. Public Counsel's second argument is that the 15-month deferral period that Cascade requests would not match the calendar year 2008 period during which Cascade's performance in view of its conservation targets would be measured. Public Counsel argues that it would be inappropriate to permit Cascade to commence deferring revenue as of October 1, 2007, because Cascade's customers will not be able to "fully avail themselves of the Company's anticipated expanded conservation program" by that date. Comments at 2.

10. Public Counsel is wrong. Original Sheet Nos. 300, 300-A, 301, 302, and 302-A list a large number of conservation measures that Cascade proposes to offer to its customers starting October 1, 2007. In fact, Cascade has offered some of these measures since 2005, and many others are new offerings. These tariffs include *all* of the measures that the recent Stellar study deemed cost-effective. Thus, all of the cost-effective conservation programs *will* be available to customers as of October 1, 2007. Cascade will not have a third-party administrator in place on October 1, but it was always anticipated and understood that there would be a "ramp-up" period in implementing Cascade's Plan. This will start October 1, 2007, and will likely continue past January 1, 2008. Nevertheless, the revenue differences are occurring *today*, as the mechanism

will use as the base year fiscal year 2005, the same period utilized as the test year in this rate case, and customers have been implementing conservation measures since that time. Thus, it is appropriate for Cascade to begin deferring revenue differences today. The fact that Cascade will not have fully ramped-up its conservation program by October 1, 2007 will be reflected in the reduced level of conservation revenue variance Cascade records in the early months of the program.

11. Moreover, Cascade should be allowed to implement its partial Decoupling Mechanism and start deferring lost revenue at the earliest possible date following Order 05 (issued January 12, 2007) based upon trade-offs made in the settlement of this rate case. As noted in that Order, the rate of return that the parties agreed to in settling this general rate case included a risk adjustment for the effect of the decoupling mechanism that the Commission approved. Order 05 ¶ 65. Thus, the rates that the Company filed in January 2007 and has charged since January 19, 2007 are lower than they would have been absent the decoupling mechanism. For this additional reason, it would be appropriate to permit Cascade to begin deferring revenue differences at the earliest possible date. In this case, that date is October 1, 2007, because the Commission conditioned implementation of the decoupling mechanism on approval of the Plan. Assuming that the Commission agrees that the Addendum reflects the conditions the Commission imposed in Order 06, the Plan should be approved and Cascade should be permitted to begin recording its deferrals. To require Cascade to delay further in recording deferrals would inappropriately deny Cascade the opportunity to recover its fixed costs due to lost revenue even while its currently effective rates reflect this opportunity.

12. Public Counsel correctly notes that Cascade will measure its performance for the first year under the decoupling pilot program based on conservation achieved in calendar year 2008. To be clear, Cascade does not intend to count conservation achieved during the last three months of 2007 towards its performance targets for calendar year 2008. In addition, the earnings that the Commission reviews in connection with deciding what amount, if any, Cascade will be allowed

to amortize in rates will also be for calendar year 2008. Thus, these time periods match. For the first year of the program, however, Cascade will defer revenue for a slightly longer period. There is no logical reason why this period must also match the others. In any event, the amount that Cascade will be permitted to amortize is subject to an earnings review, a penalty based on performance, and, ultimately, Commission approval. Permitting Cascade to start deferring amounts now does not guarantee that Cascade will be entitled to recover them. It simply preserves Cascade's ability to do so.

13. As the Commission knows, Public Counsel has opposed Cascade's decoupling mechanism throughout this proceeding. With its last-minute objection to the starting date for deferrals, Public Counsel is simply taking yet another shot at a plan that it does not like. Cascade has been clear about its intention to commence deferrals by October 1, 2007 since it filed its Plan in May, and no party has raised any concern about that until Public Counsel did so this week. The Commission should overrule Public Counsel's objection and permit Cascade to commence deferrals as it has planned and as the Commission has approved.

## **II. CASCADE HAS PROVIDED ADEQUATE DETAIL REGARDING ACCOUNTING AND REPORTING METHODS**

14. Public Counsel also objects to the Addendum on the ground that Cascade did not provide adequate detail regarding its accounting and reporting methods. Public Counsel is referring to the Commission's requirement in Order 06 that Cascade file a revised Plan which "[p]rovides the specific reporting and accounting methods used to implement the Plan, including the penalty mechanism and the earnings cap." Order 06 ¶ 42. The Commission explained that this should provide "specificity as to the process the Company will follow to compare the actual to allowed rate of return and, when necessary to adjust the deferred revenues." *Id.* ¶ 40. The Commission required Cascade to provide this information "with its filing of a revised Plan and tariff pages consistent with this Order." *Id.*
15. Public Counsel claims that Cascade's September 14, 2007 filing fails to provide the required specificity. Public Counsel is wrong. First, Public Counsel refers only to the

Addendum and ignores the tariff pages Cascade filed. Comments at 3. Among the tariff pages Cascade filed on September 14, 2007 is Original Sheet No. 25, setting forth new Rule 21 – Conservation Alliance Plan Mechanism. This tariff sheet sets forth in detail the procedures Cascade will follow in making its deferrals. It explains how the Company will calculate the margin differences and where those differences will be recorded. It identifies how the Company will impute interest on the deferred balance, specifies the information that will be included in the annual filings to amortize the balance, and states how the Company will apply surcharges, if appropriate.

16. In addition, the Addendum sets forth in detail how Cascade will report to the Commission its performance with respect to the annual conservation targets and its Commission basis results of operation. Addendum at 2. Cascade describes how it will first apply an earnings test to adjust, if necessary, the deferred conservation balance. *Id.* Cascade also describes how it will next apply the penalty structure to the adjusted deferral balance. *Id.* Thus, Cascade has complied with the Commission's direction to provide "specificity as to the process the Company will follow to compare the actual to allowed rate of return and, when necessary to adjust the deferred revenues." Order 06 ¶ 40.

17. Public Counsel also complains that "Cascade does not provide any indication that the Company would maintain separate accounting and tracking of the amortization of deferrals to ensure actual recovery does not exceed the amount allowed under the mechanism." Comments at 3. It is not clear whether Public Counsel is concerned that Cascade will combine the decoupling mechanism deferral accounts with the PGA deferral account and thereby lose the ability to track the deferral and amortization amounts separately, or whether Public Counsel is simply concerned that Cascade will not appropriately track any amortization of the decoupling mechanism deferrals to ensure that it does not over-recover the balance. In either case, there is no basis for Public Counsel's concern.

18. As indicated in proposed Rule 21, Cascade will maintain a Conservation Variance deferral account. Proposed Original Sheet No. 25. This will be separate from any gas cost accounts. Indeed, Cascade will record conservation-related margin differences separately for Rate Schedules 503 and 504. *Id.* Thus, there is no basis for Public Counsel's concern that Cascade will not be able to track conservation-related revenue deferral amounts separately from gas cost deferral amounts or the amortization of such amounts.


19. In addition, it should go without saying that Cascade will not over-recover any amounts the Commission authorizes Cascade to recover through the decoupling mechanism. Just as Cascade tracks the amounts it recovers when it amortizes deferred PGA balances to ensure that it does not over-recover such amounts, Cascade will also track the amounts it recovers when it amortizes balances in its Conservation Variance accounts. This methodology is so well established in connection with the PGA mechanism that Cascade should not be faulted for not including it in the Addendum. This is not even the type of information the Commission required Cascade to provide in its compliance filing when it ordered Cascade to provide "specificity as to the process the Company will follow to compare the actual to allowed rate of return and, when necessary to adjust the deferred revenues." Order 06 ¶ 40. The Commission will not consider Cascade's first filing under the decoupling program until 2009. If necessary, the Commission may address this detail in 2009, if it then authorizes Cascade to amortize the balance in its Conservation Variance accounts.

### III. CONCLUSION

20. For the foregoing reasons, the Commission should approve Cascade's Plan and allow its proposed tariff pages to go into effect on October 1, 2007, notwithstanding Public Counsel's Comments.

Respectfully submitted this 27<sup>th</sup> day of September, 2007.

#### CASCADE NATURAL GAS CORPORATION



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CERTIFICATE OF SERVICE

I certify that I have this day served **Response of Cascade Natural Gas Corporation to Public Counsel's Comments** by causing a copy to be sent by electronic and U.S. mail to:

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