Exhibit No. ___ T(MPP-1T)
Docket No. UG-060256
Witness: Michael P. Parvinen

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET NO. UG-060256**

TESTIMONY OF

MICHAEL P. PARVINEN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

August 15, 2006

Q. Please describe the reason for the difference in amounts and/or theory for each of the contested adjustments beginning with the Removal of Gas Management Services adjustment.

A. <u>Removal of Gas Management Services</u>

Cascade proposes to remove the revenues and expenses associated with providing certain services to its non-core customers that it claims are competitive under FERC Order No. 547 and should not be part of the regulated results of operation given that it is allegedly the shareholders that bear the risk associated with these transactions.

Staff disagrees with the proposed adjustment for the following reasons. First, even though this Commission deemed this service under rate schedule 687 as competitive, the service is provided under a Commission-approved tariff. The staff memo in Docket UG-000597 expressly states that the service must maximize revenues for the benefit of core customers. A copy of the staff memo and Commission order are included as Exhibit No. ___ (MPP-6). The company has been operating under this premise by including all revenues and expense above the line. In other words, the revenues and expenses have been included in the regulated operating accounts as they should be.

Second, assuming the Commission deemed the service should be booked below the line as a stand alone operation, a proper allocation of all associated costs needs to be performed. However, the company proposed an allocation of only those costs assigned to the Gas Management Services department and did not perform a complete allocation of all appropriate costs consistent with past Commission decisions, in particular the merchandising and jobbing allocation methodology from Docket UG-920840.

Staff has eliminated the company's proposed adjustment.

<u>Restate Gas Costs For Lost & Unaccounted For Gas</u>

Cascade proposed an adjustment to the test period levels of lost and unaccounted for gas to a level based on a five-year average. The purpose of the adjustment is to recognize and account for the impact of charging non-core customers for the portion of the lost and unaccounted for gas attributable to their service.

Staff agrees that the charge to the non-core customers is appropriate but no adjustment to base rates is necessary because the costs associated with lost and unaccounted for gas flow through the purchased gas adjustment (PGA) mechanism.

Staff has eliminated the company's proposed adjustment.

<u>Restated Wages and Related Costs</u>

Staff takes issue with three components of the wage adjustment, all dealing with officer salaries. The company proposed an adjustment to officer salaries based on the new CEO and CFO, who started service approximately halfway through the test year. This involved removing the test year salaries of the retired CEO and CFO. However, based on the company's response to Staff Data Request No. 87 (included in Exhibit No. ___ (MPP-7), the company erred in identifying the proper amount booked in the test period.

Exhibit No. ___ (MPP-6)
Docket No. UG-060256
Witness: Michael P. Parvinen

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET NO. UG-060256**

EXHIBIT TO TESTIMONY OF

MICHAEL P. PARVINEN

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Optional Gas Management Service LSN Order and Staff Memo

August 15, 2006

Agenda Date: May 10, 2000
Item Number:

Docket: UG-000597

Company Name: Cascade Natural Gas Corporation
Staff: Yohannes Mariam, Rate Research Specialist
Merton Lott, Gas Industry Coordinator
Mike Parvinen, Policy Research Specialist

Recommendation :

Issue an order allowing the proposed tariff to become effective on Less Than Statutory Notice (LSN) in Docket UG-000597, to become effective May 11, 2000, as filed.

Discussion:

On April 20, 2000, Cascade Natural Gas Corporation ("CNG" or "Company") filed tariff sheets in Docket UG-000597 to establish Schedule 687. This filing replaces a similar filing made by the Company on March 30, 2000, in Docket UG-000470 which was withdrawn to incorporate Staff's recommended changes.

The proposal in Docket UG-000597 establishes an optional gas management service for customers who purchase their own gas supply and transportation agreements. CNG will manage the transportation and delivery of natural gas on the interstate pipelines, for customers who opt for this service. These services include daily pipeline nominations, review of all nomination confirmations, pipeline balancing, and monthly management reports. Furthermore, CNG will attempt to mitigate unused firm transportation costs for these customers by utilizing the natural gas capacity release market.

CNG proposes to implement two charges under this schedule - a management fee and a mitigation fee. The management fee covers the general services provided under this schedule. The mitigation fee is charged when CNG actually releases customer-owned (controlled) capacity securing revenue to offset firm capacity costs incurred by the customer.

The management fee has a minimum rate $0.005 per MMBTU and maximum rate of $0.10 per MMBTU. The mitigation fee is indicated to be some percentage, variable rate to be set in contract, of the capacity release revenue obtained by CNG for the customer. The maximum mitigation fee is 100% of the capacity release revenue with a minimum fee of $50 per transaction. Both of these charges will be negotiated and stated in the contract with each customer.

While not clearly stated in the cover letter, the proposed tariff represents a request by CNG for a banded tariff rate. Pursuant to RCW 80-28-075, upon request by a natural gas company, the Commission may approve a tariff that includes a banded rate (i.e., rate with a minimum and maximum) for any non-residential natural gas service that is subject to effective competition from energy suppliers not regulated by the Commission.

Staff believes the proposed tariff rates meet the requirements of the statute, and would agree that it is appropriate for these services to be provided under banded rates. The proposed services are subject to effective competition from energy suppliers not under the regulation of this Commission. The competitors to CNG for this service include the many marketers that provide capacity and commodity services to transportation customers.

Staff has examined the appropriateness of the tariff bands included within this schedule. Staff would note that the analysis of the bands should concentrate on the floors set for each tariff rate, the $0.005 per MMBTU for the management fee and the $50 per transaction for the mitigation fee. With respect to the ceilings, it needs to be pointed out that these services are competitive and CNG would be unable to charge rates above a reasonable competitive level. In review of the floors proposed by CNG, Staff analyzed costs submitted by the Company to justify the rates. Staff believes that the proposed tariff floors must be at least equal to the long-run incremental cost of providing the service. Review of the provided cost data reveals that the proposed rate will cover the cost incurred to provide the services listed in Schedule 687.

While the proposed tariffs are optional services served under banded rates, and while the Company has provided analysis that the proposed rates will cover all incremental costs, Staff believes that the CNG should bear the burden of proof that revenues from each service contract agreement is at least equal to the long-run incremental cost. Further, the Company is responsible to demonstrate that revenues generated under this tariff are optimized in favor of the core services provided by CNG, and that the results of providing these services do not increase costs to CNG's core customers.

Conclusion:

The proposed rate schedule is a request by CNG for banded rates. The services covered by these rates are subject to effective competition and therefore the use of a banded rate is appropriate. The floor prices proposed by CNG for both the management fee and the mitigation fee are above Company's incremental costs of providing these services. CNG should be held responsible for ensuring that its operation of this tariff Schedule optimizes benefits to the core customers. Finally, because the rates are appropriate, and they constitute a refiling of rates proposed to become effective May 1, 2000, the Commission should issue an order allowing rates to become effective on Less Than Statutory Notice (LSN) permitting the tariff filings in Docket UG-000597 to become effective May 11, 2000, as filed.

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Requested	)	
Waiver of Statutory Notice in	)	DOCKET UG-000597
Connection with the Tariff	)	ORDER APPROVING BANDED RATE
Filed by Cascade Natural	)	TARIFF AND GRANTING LESS
Gas Corporation	)	THAN STATUTORY NOTICE
....	)	

BACKGROUND

On April 20, 2000, Cascade Natural Gas Corporation ("CNG" or "Company") filed with the Commission, under Advice No. CNG/W00-03-02, revisions to its currently effective Tariff WN U-3, designated as the Original Sheet No. 687.

The tariff sheet bears an effective date of May 20, 2000. This date recognizes statutory notice as required. The Company requests, however, that statutory notice be waived and that the tariff become effective May 11, 2000.

The proposal in Docket UG-000597 establishes a banded rate, optional gas management service for non-residential customers who purchase their own gas supply and transportation agreements. CNG will manage the transportation and delivery of natural gas on the interstate pipelines for customers who opt for this service. These services include daily pipeline nominations, review of all nomination confirmations, pipeline balancing, and monthly management reports. Furthermore, CNG will attempt to mitigate unused firm transportation costs for these customers by utilizing the natural gas capacity release market. The reason for the request for less than statutory notice is to expedite implementation of the rates resulting from discussion and negotiation in Docket UG-000470 which had an original effective date of May 1, 2000.

Since the tariff revisions filed herein are fair, just and reasonable, and waiver of statutory notice is not inconsis-tent with the public interest, it is deemed appropriate that the Company be granted the waiver it is requesting with an effective date of May 11, 2000.

FINDINGS

After careful examination of the tariff revisions filed herein by Cascade Natural Gas Company, April 20, 2000, and giving consideration to all relevant matters and for good cause shown, the Commission finds that the tariff revisions should become effective May 11, 2000.

The Commission also finds, pursuant to RCW 80.28.075, that the proposed service is subject to effective competition from energy suppliers not regulated by the Commission.

ORDER

THE COMMISSION THEREFORE ORDERS:

That the requested waiver of statutory notice in connection with the tariff revisions filed herein by Cascade Natural Gas Company, April 20-, 2000, is hereby granted, and said tariff revisions shall become effective May 11, 2000, as a banded rate pursuant to RCW 80.28.075.

That CNG will bear the burden of proof in future revenue requirement proceedings that: the contracts signed pursuant to this schedule are not adverse to core customers, and that net income recovered under this schedule is maximized.

DATED at Olympia, Washington, and effective this 10th day of May, 2000.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

MARILYN SHOWALTER, Chairwoman

WILLIAM R. GILLIS, Commissioner