



In the Community to Serve

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March 15, 2013

Mr. Steven V. King
Acting Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 S. Evergreen Park Drive S.W.
P.O. Box 47250
Olympia, WA 98504-7250

Re: WUTC v. Cascade Natural Gas Corporation, Docket UG-121592 and UG-121623

Dear Mr. King:

Cascade Natural Gas ("Cascade" or "Company") is responding specifically to Public Counsel's comments and recommendations filed on March 8, 2013 in the above dockets. Cascade is also making recommendations for consideration to not only resolve the current dockets but lay the groundwork for future Purchase Gas Adjustment ("PGA") filings.

Background:

PGA filings set the prospective or expected gas cost rates for the upcoming year. They do this in part by using the Company's gas procurement plan and all contracts that are in place at the time of filing. Workpapers actually identify every single contract including; when it was entered into, the pricing determinant (fixed, indexed, or other), and expiration date. Essentially, a PGA filing includes the rubber-meets-the-road application of the procurement plan and hedging strategy. Approving the PGA is approving the procurement plan and hedging strategy for the upcoming year unless something is specifically carved out for further evaluation. This is an important concept that will come into play later in Cascade's proposal.

The second part of the PGA filing is the deferral amortization filing. This is the prudence part of the filing in regards to: did the Company follow its procurement plan? Should it have deviated from the plan based on current knowledge? Did it account correctly for its gas acquisitions and capacity management, etc.?

We make warm neighbors

Proposal:

Cascade agrees that the above tasks are daunting at best on Staff and other parties during a thirty day review. To that end, Cascade proposes the following course of action which will inform and prepare Staff for filings as well as allow time to properly review PGA filings:

1. Close the current dockets and allow the rates to become permanent. Public Counsel's proposed disallowance will be addressed later.
2. Invite, or order, the Company to provide a technical workshop to detail its gas procurement plans and hedging strategies. This should happen soon as all of the Companies are in the process of beginning to prepare for the next heating season.
3. Suggest, or order, the Company to file sixty days before the effective date of future PGAs. This will give Staff more than twice the amount of time to review future filings.
4. Suggest, or order, the Company to provide a written document describing their current gas procurement plan and hedging strategies with their annual PGA filings. These documents will verbalize what is shown in the work papers in the form of contracts and specific details. These documents will be filed requesting confidential treatment.

The technical workshop will get the parties up to date, up to speed, and properly informed prior to the next PGA filings. The workshop will give time for questions, feedback and areas needing good support in the upcoming PGA. The written procurement plans included in the PGA filings will focus parties on the company's strategies early in the process and allowing sixty days will provide adequate evaluation, discussion, and possible alteration of the gas procurement plans and strategies. Also, having the written plans and the actual results (PGA supporting workpapers) will allow parties ample opportunity to properly evaluate company decisions.

Even though Cascade would welcome policy guidelines in regard to purchasing practices and hedging strategies, it seems the operational decisions should remain with the utility with the Commission evaluating those decisions. The problem Cascade contemplates with the CR101 or formal workshop approach is that: 1.) nothing most likely will be in place for the next PGA cycle and 2.) prescribing procurement plans or hedging strategies for the companies looks a lot like micro-managing. The onerous or burden of prudence should stay with the utilities. A more open working environment with shared knowledge seems more appropriate and productive.

Response to Public Counsel's proposed disallowance:

Public Counsel is recommending a disallowance of gas costs stating that Cascade should not have entered into various fixed price contracts because the current market was below forward prices at the time the contracts were signed. There are a couple of points that need to be made regarding why Public Counsel's recommendation is inappropriate and unwarranted. First, the contracts meet the prudence standards based on the information available at the time of the

decisions. The future prices are a representation of the market at any given point in time. For the past approximate five years the market story has been that “we’ve hit the bottom and prices are going to start going back up.” This has been reflected in the future forecasts during the whole time period of the downward prices. As it turns out, prices continued to go down, in reflection. However, at the time the contracts were entered into, the information available to Cascade was that the market was turning around and there was an expectation that the future price curves which were market based were going up. Only in retrospect can we look back and say the decision was wrong and the contracts should not have been entered into. That is what Public Counsel is proposing which flies in the face of a proper prudence determination standards.

The second point is that the contracts that Public Counsel identifies were all specifically included in the workpapers supporting the commodity portion of the prospective PGA rate in Docket UG-111875 and approved by the Commission on November 23, 2011. This goes back to an initial point in this document that the PGA does include the effects of a Company’s procurement plan and thus approving the PGA approves the plan and the contracts based on the information available at that time.

Summary:

Cascade’s proposal resolves the current docket as well as sets up a method to allow Staff and the parties adequate time to properly review future PGAs and resolve potential issues or at least set up a basis for evaluating and determining good sound decision making from the Company.

Please direct any questions or concerns to Mike Parvinen at (509) 734-4593.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Parvinen", with a long horizontal flourish extending to the right.

Michael Parvinen
Director, Regulatory Affairs