

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 9, 2002**

REGULAR _____ CONSENT X EFFECTIVE DATE _____ N/A _____

DATE: July 1, 2002

TO: John Savage through Lee Sparling and Ed Busch

FROM: Ed Krantz

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 903/AR 357) 2002 Spring Earnings Review

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Cascade Natural Gas Corporation's (Cascade or company) 2001 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

DISCUSSION:

In Order Nos. 99-272 and 99-284 (Dockets UM 903 and AR 357), the Commission adopted PGA Procedures and Standards for Oregon's three regulated natural gas distribution companies – Cascade Natural Gas Corporation, NW Natural and Avista Utilities. One of the primary issues dealt with in these orders is the role and structure of earnings reviews.

The Commission adopted OAR 860-022-0070 along with a list of issues that had been agreed to through a Statement of Stipulated Issues. On issues where no agreement was reached, the Commission ordered various resolutions. The Commission's findings, as they apply to earnings reviews, are summarized below:

- Relationship of Earnings Review to PGA Filings: A general earnings review will be held each spring beginning in 1999; a portion of revenues above a specified return on equity (ROE) level would be booked to a deferred account.
- Structure of Earnings Reviews: By May 1 each year, LDCs will file results of operations for the 12 months ended the prior December 31. Staff will complete its review and distribute summary conclusions by June 10 to all parties. At the first regular public meeting in July, Staff will present the results of the earnings review. If there are unresolved issues, a settlement conference will be held. If there are still outstanding issues, parties will file position statements by August 1,

- and the Commission would issue its decision on unresolved issues by September 15. (Beginning in 2001, LDCs file annual gas cost tracking filings by August 15 for October 1 rate changes. These rate changes include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.)
- Effective Date of Rate Adjustment: Amount of revenues to be returned to customers will be booked to a deferred account, with interest beginning the previous January 1. The rate adjustment and amortization will be effective with the date of the subsequent base gas cost change.
 - Cascade's earnings threshold will be calculated by adding 7.1 percent to a risk-free rate (rate case adjusted yields of the 5-, 7-, and 10-year U.S. Treasury debt securities). For the spring 2002 review, the earnings threshold was calculated as 11.90 percent, based on a risk-free rate of 4.80 percent (rounded) for calendar year 2001.
 - If adjusted earnings are below the earnings threshold, there will be no rate adjustment. If adjusted earnings are above the earnings threshold, the amount of revenue in the test year representing 33 percent of the earnings exceeding the threshold level will be shared with customers.
 - Recorded results of operations will be adjusted for Type 1 adjustments set forth in Order No. 99-272. Cascade made a one-time election not to include a weather normalization adjustment in its spring earnings review filings.
 - Changes to PGA Mechanism: For LDCs that adopt a 67-33 risk-reward sharing mechanism for commodity cost differences under the PGA mechanism there will be no earnings test in the fall prior to amortizing deferrals. For LDCs with an 80-20 sharing mechanism, an earnings test will be applied prior to amortizing deferrals. Cascade has adopted a 67-33 percent sharing mechanism for commodity cost differences.

Cascade's Earnings Review

On April 29, 2002, Cascade submitted its 2002 earnings report for the 12 months ended December 31, 2001. Cascade calculates its ROE as 6.94 percent after application of its Type 1 adjustments, which is below the 11.90 percent threshold authorized by the Commission.

Staff has examined the company's earnings report and believes the company has correctly calculated its ROE at 6.94 percent and it is below the 11.90 percent threshold authorized by the Commission. Because Cascade's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

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As required by OAR 860-022-0070(6), Staff has submitted these findings to the parties in Docket No. UM 903. Staff received no comments.

PROPOSED COMMISSION MOTION:

The Commission accept Staff's finding that Cascade's 2001 earnings fall below the earnings threshold designated in UM 903 and there should be no earnings shared in this filing.

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