

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: July 6, 2004**

REGULAR CONSENT EFFECTIVE DATE _____ N/A _____

DATE: June 24, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Ed Durrenberger

SUBJECT: CASCADE NATURAL GAS: (Docket No. UM 903/AR 357) 2004 Spring Earnings Review

STAFF RECOMMENDATION:

I recommend the Commission accept Staff's finding that Cascade Natural Gas Corporation's 2003 earnings are below the earnings threshold designated in UM 903 and that 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 Purchased Gas Adjustment (PGA) Procedures and Standards for Oregon's three regulated natural gas distribution companies – Cascade Natural Gas Corporation (Cascade), Northwest Natural (NW Natural), and Avista Corp. One of the primary issues dealt with in these orders is the role and structure of earnings reviews. The earnings reviews were scheduled to sunset in 2002, but in Order No. 03-198 (AR 449) the Commission extended the earnings reviews for an additional four years to 2006.

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; 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, Local Distribution Companies (LDCs) will file results of operations for the twelve 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. By August 15, LDCs will file annual gas cost tracking filings for October 1 rate changes. These rate changes will include amortization of credit amounts in the deferred account, if any, resulting from the spring earnings review.
- Effective Date of Rate Adjustment: Amount of over-earnings 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.
- The ROE Earnings Threshold: Based on Commission Order No. 04-203, the earnings threshold for Cascade Natural Gas for 2004 is 13.25 percent.
- Earnings Adjustments: 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.
- Earnings Performance: 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.
- 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 that assume less than 33 percent of the risk for commodity cost differences in the 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 22, 2004, Cascade submitted its 2003 earnings report for the twelve months ending September 30, 2003, which is the company's fiscal year. The company states that its report was developed in a manner consistent with Commission Order No. 99-272. The company calculates its ROE as 10.40 percent after application of all Type 1 adjustments. This is below the 13.25 percent threshold authorized by the Commission.

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Staff has examined the company's filed earnings report and believes the company has correctly calculated its ROE at 10.40 percent. Because Cascade's adjusted ROE is below the authorized threshold, there should be no sharing of earnings with customers.

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 2003 earnings are below the earnings threshold designated in UM 903 and that there should be no earnings shared in this filing.