

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 27, 2006**

REGULAR _____ CONSENT X EFFECTIVE DATE July 1, 2006

DATE: June 20, 2006

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: CASCADE NATURAL GAS: (Docket Nos. UM 605 (13)) Request for reauthorization of deferral accounts associated with Conservation Cost Savings.

STAFF RECOMMENDATION:

I recommend that the Commission approve reauthorization of Cascade Natural Gas Corporation's (Cascade or company) deferrals of conservation or energy efficiency costs for a 12-month period beginning July 1, 2006.

DISCUSSION:

On May 17, 2006, Cascade applied for reauthorization to defer conservation or energy efficiency costs associated with its Demand Side Management (DSM) programs. Cascade has conducted DSM programs in Oregon since 1993. Recovery of costs and distribution margin losses that result from company sponsored energy efficiency and conservation programs is a way for the company, and its customer's interests, to be aligned in pursuing cost effective conservation.

In May 2006, Cascade implemented a Conservation Alliance Plan (CAP) in Order 06-191, Docket UG 167, which allowed for deferrals for weather and conservation related distribution margin losses (and gains) from residential and commercial customers. The CAP plan transferred the implementation of the DSM programs over to the Energy Trust of Oregon (ETO) with funding for cost effective conservation coming from a combination of shareholder funds and a public purpose tariff from these two customer classes. The DSM programs for industrial customers on rate schedules 105 and 111 will continue to be conducted by the company.

Cascade's Oregon tariff, schedule 175, allows the company to recover expenses associated with program investment costs and lost margin from energy savings that result from approved DSM programs through a temporary rate adjustment amortized over a one year period to all system supply sales volumes. Effective with adoption of the CAP plan, tariff sheet 175 was modified to apply only to industrial customers receiving service on rate schedules 105 and 111.

Reason for Deferral:

By Order No. 93-1484, the Commission authorized Cascade to defer capitalized expenditures and estimated revenue margin losses associated with Commission-approved Demand Side Management programs. Deferral was authorized under ORS 757.259(2)(c) and OAR 860-027-0300 in order to minimize the frequency of rate changes or the fluctuations of rate levels. Subsequently, the Commission reauthorized DSM related deferrals each year through June 30. Current authorization extends through June 30, 2006.

Deferral of these direct DSM program costs and associated net revenue losses is consistent with the Commission's policy to remove the significant disincentives to acquiring DSM, relative to supply-side resources. ORS 757.262 allows the Commission to "...adopt policies designed to encourage the acquisition of cost-effective conservation resources." Without deferral and cost recovery, the disincentives to acquiring cost-effective conservation resources would return.

Estimated Annual Deferral

The company does not have an estimate of the amount of deferrals on rate schedules 105 and 111. It does estimate that as much as \$16,000 may be deferred from residential and commercial customers before the CAP program is fully implemented in August 2006.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Corporation's deferred accounting reauthorization for revenue requirements and net lost revenues associated with the company's Commission-approved energy efficiency programs be approved for the 12 months beginning July 1, 2006.