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COMPANY NAME:

DOES REPORT CONTAIN CONFIDENTIAL INFORMATION?  No  Yes If yes, submit a redacted public version (or a cover letter) by email. Submit the confidential information as directed in OAR 860-001-0070 or the terms of an applicable protective order.

Select report type:  RE (Electric)  RG (Gas)  RW (Water)  RT (Telecommunications)  
 RO (Other, for example, industry safety information)

Did you previously file a similar report?  No  Yes, report docket number: RG 36

Report is required by:  OAR 860-022-0070

Statute

Order 98-543/04-203

Note: A one-time submission required by an order is a compliance filing and not a report (file compliance in the applicable docket)

Other

(For example, federal regulations, or requested by Staff)

Is this report associated with a specific docket/case?  No  Yes, docket number:

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April 21, 2016

Oregon Public Utility Commission  
P.O. Box 1088  
Salem, OR 97308-1088

Subject: RG-36(4) Spring Earnings Review and Statement of Operations and Rate of  
Return - Twelve Months Ended December 31, 2015

Enclosed for filing is Cascade Natural Gas Corporation's Spring Earnings Review and Statement of Operations and Rate of Return Report for the Twelve Months Ended December 31, 2015 for the State of Oregon.

The Spring Earnings Review has been prepared pursuant to the Earnings Sharing Stipulation approved in OPUC Order No. 98-543, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070. A list of Type 1 adjustments that should be included in the earnings review were attached to Order No. 99-272 as appendix B. Based upon that list, this report contains normalizing adjustments (Type I Adjustments) to normalize Cascade's earnings. The resulting normalized earnings are compared to the Earnings Threshold for the reporting period. For Cascade, the normalized earnings result in an implied return on equity of 9.45%, which is below the current earnings threshold of 10.56%.

Additionally, the remaining portion of the report shows that Cascade's implied return on equity would be 6.40% after "Type II" or annualizing adjustments.

If there are any questions regarding these documents or the filing in general, please contact me 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

Attachments

*In the Community to Serve®*

**CASCADE NATURAL GAS CORPORATION**

**Statement of Operations and Rate of Return**

**Twelve Months Ended**

**December 31, 2015**

**State of Oregon Operations**

**CASCADE NATURAL GAS CORPORATION**  
**State of Oregon**  
**Twelve Months Ending December 31, 2015**  
**Description of Adjustments**

**Type I Adjustments**

**(a) Removal of Promotional Advertising Expense**

Removes all promotional advertising for the test period

**(b) Removal of 25% of Membership Fees**

Removes 25% of Membership Fees paid in the test period

**(c) Normalize Uncollectible Expense**

Restates uncollectible expense to the 3 year average of actual net write-offs

**(d) Interest Coordination Adjustment**

Adjusts interest expense to the level associated with the current weighted average cost of debt

**CASCADE NATURAL GAS CORPORATION**  
**State of Oregon**  
**Twelve Months Ending December 31, 2015**  
**Description of Adjustments**

**Type II Adjustments**

**(a) Annualized Wage Rate**

Adjusts the reporting period operating expenses to reflect the effects of the general wage increase as if it had been in effect for the entire period.

**(b) PGA Commodity Sharing Adjustment**

Adjusts test period revenue to add the revenues associated with the sharing of commodity costs through the PGA mechanism.

Cascade Natural Gas Corporation  
**Earnings Deferral**  
 State of Oregon  
**12 months ended December 31, 2015**

Adjusted overall rate of return	6.76%
Less return required for:	
Long term debt	-2.78%
Preferred stock	0.00%
	<hr/>
Return available for common	3.98%
Capitalization ratio for common	47.32%
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Implied ROE (common return / ratio)	8.41%
Threshold per OPUC order	10.56%
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Return on Equity in excess of threshold	-2.15%
Capitalization ratio for common	47.32%
	<hr/>
Overall Return in excess of threshold	-1.02%
Average rate base	\$ 73,387,620
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Excess earnings	\$ (748,554)
Net to Gross Conversion Factor	0.58488
Pre-Tax over the threshold Earnings	\$ (1,279,838)
	<hr/> <hr/>
Earnings sharing percentage	33.00%
	<hr/>
Earnings Sharing for CY 15	\$ (422,347)
	<hr/> <hr/>

Cascade Natural Gas Corporation  
**ADJUSTED STATEMENT OF OPERATIONS AND RATE OF RETURN**  
**FOR THE TWELVE MONTHS ENDED 12/31/15**

State of Oregon

Line No.	Description (a)	Actual Statement of Operations per Books 12/31/15 (b)	Order 99-272 Appendix B Adjustments (Type I) (c)	Total Adjusted Actuals at 12/31/15 (d)	Total Annualizing Adjustments (Type II) (e)	Total Adjusted Results at 12/31/15 (f)
<b>OPERATING REVENUES</b>						
1	Natural Gas Sales	\$ 63,397,033	\$ 0	\$ 63,397,033	\$ 0	\$ 63,397,033
2	Gas Transportation Revenue	3,992,733	0	3,992,733	0	3,992,733
3	Other Operating Revenues	260,460	0	260,460	(433,902)	(173,442)
4	<b>SUBTOTAL</b>	<b>\$ 67,650,226</b>	<b>\$ 0</b>	<b>\$ 67,650,226</b>	<b>\$ (433,902)</b>	<b>\$ 67,216,324</b>
5	LESS: Nat. Gas/Production Costs	36,535,517	0	36,535,517	0	36,535,517
6	Revenue Taxes	2,877,481	0	2,877,481	0	2,877,481
7	<b>OPERATING MARGIN</b>	<b>\$ 28,237,228</b>	<b>\$ 0</b>	<b>\$ 28,237,228</b>	<b>\$ (433,902)</b>	<b>\$ 27,803,326</b>
<b>OPERATING EXPENSES</b>						
8	Production	108,233	0	\$ 108,233	0	108,233
9	Distribution	\$ 5,639,690	0	\$ 5,639,690	\$ 0	\$ 5,639,690
10	Customer Accounts	1,709,474	194,437	1,903,911	0	1,903,911
11	Customer Service	612,804	0	612,804	0	612,804
12	Sales	2,313	(2,313)	(0)	0	0
13	Administrative & General	5,451,075	(4,090)	5,446,985	24,561	5,471,546
14	Depreciation & Amortization	6,111,512	0	6,111,512	0	6,111,512
15	Regulatory Debits	0	0	0	0	0
16	Taxes Other Than Income	1,926,429	0	1,926,429	(11,359)	1,915,070
17	State & Federal Income Taxes	1,356,152	168,788	1,524,940	(178,574)	1,346,366
18	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 22,917,681</b>	<b>\$ 356,822</b>	<b>\$ 23,274,503</b>	<b>\$ (165,372)</b>	<b>\$ 23,109,131</b>
19	<b>NET OPERATING INCOME</b>	<b>\$ 5,319,548</b>	<b>\$ (356,822)</b>	<b>\$ 4,962,725</b>	<b>\$ (268,530)</b>	<b>\$ 4,694,195</b>
<b>RATE BASE</b>						
20	Total Plant in Service	\$ 186,360,173	\$ 0	\$ 186,360,173	\$ 0	\$ 186,360,173
21	Total Accumulated Depreciation	(88,243,681)	0	(88,243,681)	0	(88,243,681)
22	Contributions in Aid of Construct.	0	0	0	0	0
23	Customer Advances for Construction	(478,568)	0	(478,568)	0	(478,568)
24	Deferred Accumulated Income Taxes	(26,528,368)	0	(26,528,368)	0	(26,528,368)
25	Deferred Debits	0	0	0	0	0
26	Working Capital Allowance	2,278,064	0	2,278,064	0	2,278,064
27	<b>TOTAL RATE BASE</b>	<b>\$ 73,387,620</b>	<b>\$ 0</b>	<b>\$ 73,387,620</b>	<b>\$ 0</b>	<b>\$ 73,387,620</b>
28	<b>RATE OF RETURN</b>	<b>7.25%</b>		<b>6.76%</b>		<b>6.40%</b>
<b>IMPLIED RETURN ON EQUITY</b>						
29	LESS: Return Required for Long Term Debt	2.78%		2.78%		2.78%
30	LESS: Return Required for Preferred Stock	0.00%		0.00%		0.00%
31	Adjusted Return Available for Common Stock	4.47%		3.98%		3.62%
32	<b>IMPLIED RETURN (Divide by Ratio of Common to Total: 47.32%)</b>	<b>9.45%</b>		<b>8.41%</b>		<b>7.65%</b>

Cascade Natural Gas Corporation

**ORDER 99-272 APPENDIX B (TYPE I) ADJUSTMENTS FOR RATE OF RETURN  
FOR THE TWELVE MONTHS ENDED 12/31/15**

State of Oregon

Line No.	Description	Promotional Advertising Adjustment (a)	Removal of 25% Membership Fees (b)	Normalize Uncollectible Expense (c)	Interest Coordination Adjustment (d)	Total Type I Adjustments
	<u>OPERATING REVENUES</u>					
1	Natural Gas Sales	\$ 0	0	0	0	\$ 0
2	Gas Transportation Revenue	0	0	0	0	0
3	Other Operating Revenues	0	0	0	0	0
4	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$ 0</b>
	<u>OPERATING EXPENSES</u>					
5	Natural Gas Purchased	\$				\$ 0
6	Manufactured Gas Production					0
7	Distribution					0
8	Customer Accounting			194,437	0	194,437
9	Customer Service					0
10	Sales	(2,313)				(2,313)
11	Administrative & General		(4,090)		0	(4,090)
12	Depreciation & Amortization					0
13	Regulatory Debits					0
14	Taxes Other Than Income	0	0	0	0	0
15	State & Federal Income Tax	924	1,634	(77,658)	243,888	168,788
16	<b>TOTAL OPERATING EXPENSE</b>	<b>\$ (1,389)</b>	<b>(2,456)</b>	<b>116,779</b>	<b>243,888</b>	<b>\$ 356,822</b>
17	<b>NET OPERATING INCOME</b>	<b>\$ 1,389</b>	<b>2,456</b>	<b>(116,779)</b>	<b>(243,888)</b>	<b>\$ (356,822)</b>
	<u>RATE BASE</u>					
18	Total Plant in Service	\$				\$ 0
19	Total Accumulated Depreciation					0
20	Customer Advances for Construct.					0
21	Contributions in Aid of Construct.					0
22	Deferred Income Taxes - ACRS					0
23	Deferred Income Taxes - Other					0
24	Deferred Debits-Oregon Water					0
25	Heater Program					0
26	Deferred Debits-Astoria Cleanup					0
27	Working Capital Allowance					0
28	<b>TOTAL RATE BASE</b>	<b>\$</b>				<b>\$ 0</b>



Cascade Natural Gas Corporation				
<b>TYPE II ADJUSTMENTS FOR RATE OF RETURN</b>				
<b>FOR THE TWELVE MONTHS ENDED 12/31/15</b>				
State of Oregon				
Line No.	Description	Annualizing Wage Rate Adjustment (a)	PGA Commodity Sharing Adjustment (b)	Total Type II Adjustments
<u>OPERATING REVENUE</u>				
1	Natural Gas Sales	\$ 0	0	\$ 0
2	Gas Transportation Revenue	0	0	0
3	Other Operating Revenue	0	(433,902)	(433,902)
4	Total Operating Revenue	\$ 0	(433,902)	\$ (433,902)
<u>OPERATING EXPENSES</u>				
5	Natural Gas Purchased	\$ 0	0	\$ 0
6	Manufactured Gas Production			0
7	Distribution			0
8	Customer Accounting	0	0	0
9	Customer Service			0
10	Sales			0
11	Administrative & General	24,561	0	24,561
12	Depreciation & Amortization			0
13	Regulatory Debits	0		0
14	Taxes Other Than Income		(11,359)	(11,359)
15	State & Federal Income Tax	(9,810)	(168,764)	(178,574)
16	Total Operating Expenses	\$ 14,751	(180,123)	\$ (165,372)
17	NET OPERATING INCOME	\$ (14,751)	(253,779)	\$ (268,530)
<u>RATE BASE</u>				
18	Total Plant in Service	\$		\$ 0
19	Total Accumulated Depreciation			0
20	Customer Advances for Construct.			0
21	Contributions Aiding Construct.			0
22	Deferred Income Taxes - ACRS			0
23	Deferred Income Taxes - Other			0
24	Deferred Debits-Oregon Water			0
25	Heater Program			0
26	Deferred Debits-Astoria Cleanup			0
27	Working Capital Allowance			0
28	TOTAL RATE BASE	\$ 0	0	\$ 0

# TYPE I ADJUSTMENTS

Cascade Natural Gas Corporation  
**PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT**  
State of Oregon

FERC 913 Advertising Expense

CY 2015	\$ 2,313
Removal	<u><u>\$ (2,313)</u></u>

Cascade Natural Gas Corporation  
**MEMBERSHIP & DUES EXPENSE ADJUSTMENT**  
State of Oregon

CY 2015 Membership Fees	\$ 16,360
Removal of 25% of Total	<u><u>\$ (4,090)</u></u>

Cascade Natural Gas Corporation  
**NORMALIZE UNCOLLECTIBLE EXPENSE**  
State of Oregon

<u>Net Write Offs</u>	
Calendar Year 2013	369,764
Calendar Year 2014	420,354
Calendar Year 2015	295,381
	<u>1,085,499</u>
3 years of Net Write Offs: 2013 - 2015	<u><u>1,085,499</u></u>
Calendar Year 2013 Total Operating Revenue	65,973,538
Calendar Year 2014 Total Operating Revenue	70,092,488
Calendar Year 2015 Total Operating Revenue	67,650,226
	<u>203,716,252</u>
Uncollectible Expenses (Bad Debt Provision) for the 12 months ended 12/31/15	166,036
3 Year Average Net Write Off as a percentage of 2013-2015 Gross Revenues	0.533%
2015 Sales	67,650,226
Proforma Expense	360,473
Adjustment to normalize Uncollectible Expenses	<u><u>194,437</u></u>

Cascade Natural Gas Corporation  
**Interest Coordination Adjustment**  
 1-15 to 12-15

OREGON:

	Avg of Aves	Ratio	Weighted Cost	Overall Cost of Capital
Long Term Debt	213,601,208	52.68%	5.28%	2.78%
Preferred Stock	0	0.00%		0.00%
Common Equity	191,883,726	47.32%	11.20%	5.30%
	<u>405,484,935</u>	<u>100.00%</u>		<u>8.08%</u>

Rate Base 12/31/2015	Avg Cost of Debt	Subtotal	Test period Interest Expense	Adjustment	State and F.I.T.	<u>Total Adjust</u>
73,387,620	2.78%	2,040,176	2,650,813	(610,637)	0.39940	<u><u>243,888</u></u>

TYPE I  
ADJUSTMENT  
WORKPAPERS

**Cascade Natural Gas Corporation  
Oregon  
Type 1 Adjustment  
Memberships & Dues  
CY 2015**

Location	Professional/ Organization Dues (5811)	Total OR
Oregon Direct	7,500	7,500
General Office	8,860	8,860
Total		<u>16,360</u>
Removal of 25% of Total		(4,090)



Source(s): State Allocation Report, Rate Base

	Average of Averages	Ratio	Weighted Cost	Overall Cost of Capital
Long-Term Debt	213,601,208	52.68%	5.28%	2.78%
Preferred Stock	-	0.00%		0.00%
Common Equity-excl Accum OCI	191,883,727	47.32%	11.20%	5.30%
	405,484,935	100.00%		8.08%
Rate base as of	December 31, 2015			73,387,620
Average cost of debt				2.78%
Subtotal				7,040,176
Period Int Exp: Interest on long-term debt 427.0	2,600,621			
Period Int Exp: Amort. Of debt discount & exp 428.0	40,547			
Period Int. Exp: Amort. Of loss on reacq debt 428.1	9,645			
				2,650,813
Adjustment				(610,637)
<b>Total adjustment @ State &amp; F.I.T of 39.94%</b>				<b>(243,888)</b>

	7.48% MTN Due 9/15/2027	7.098% MTN Due 3/16/2029	5.25% IOJN Due 2/1/2035	5.21% MTN Due 9/1/2020	5.79% Snr NT Due 3/8/2037	4.11% Snr NT Due 8/23/2025	4.36% Snr NT Due 8/23/2028	4.09% Snr NT Due	4.24% Snr NT Due	4.09% Snr NT DUE 1/15/2045	4.24% Snr NT DUE 1/15/2055	LOC	TOTAL DEBT	COMMON EQUITY	BALANCE SHEET EQUITY
Jan-15	20,000,000	15,000,000	24,662,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,662,000	199,328,146	199,328,146
Feb-15	20,000,000	15,000,000	24,662,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,662,000	197,704,618	197,704,618
Mar-15	20,000,000	15,000,000	24,662,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,662,000	198,685,280	198,685,280
Apr-15	20,000,000	15,000,000	24,662,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,662,000	199,073,011	199,073,011
May-15	20,000,000	15,000,000	24,650,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,650,000	194,189,853	194,189,853
Jun-15	20,000,000	15,000,000	24,650,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,650,000	192,500,735	192,500,735
Jul-15	20,000,000	15,000,000	24,634,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,650,000	191,031,979	191,031,979
Aug-15	20,000,000	15,000,000	24,634,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,634,000	184,924,912	184,924,912
Sep-15	20,000,000	15,000,000	24,634,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,634,000	184,175,475	184,175,475
Oct-15	20,000,000	15,000,000	24,634,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,634,000	184,289,839	184,289,839
Nov-15	20,000,000	15,000,000	24,589,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,589,000	183,557,402	183,557,402
Dec-15	20,000,000	15,000,000	24,589,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,589,000	190,909,865	190,909,865
Dec-14	20,000,000	15,000,000	24,662,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	-	-		189,662,000	195,377,071	195,377,071
of Aug	20,000,000	15,000,000	24,642,875 #	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	11,979,167	11,979,167	-	218,601,208	191,883,727	191,883,727
ial Rate	7.4800%	7.0980%	5.2500%	5.2100%	5.7900%	4.1100%	4.3600%	4.0900%	4.2400%	4.0900%	4.2400%		5.28%		
Cost	1,496,000	1,064,700	1,293,751 #	781,500	2,316,000	1,027,500	1,090,000	511,250	530,000	489,948	507,917				

# TYPE II ADJUSTMENTS

Cascade Natural Gas Corporation  
**CY15 WAGE ADJUSTMENT**  
State of Oregon

Wage Annualization Adjustment	\$	24,561
Adjustment to Annualize & Restate	\$	<u>24,561</u>

Cascade Natural Gas Corporation  
**PGA COMMODITY SHARING ADJUSTMENT**  
State of Oregon

CY 2015 PGA Commodity Sharing Revenue	\$ 433,902
Adjustment	<u><u>\$(433,902)</u></u>

**Cascade Natural Gas Corporation**  
**Oregon Wage Adjustment**  
**Adjustment to Restate CY 2015**

2015	Gross Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @	Medicare Tax @ 1.45%	Total Taxes	Adjustment to Restate CY15 Salaries/Wages
January	\$ 891,703						
February	\$ 846,636						
March	\$ 1,294,184						
CY15 Hourly	\$ 3,032,523	3.10%	\$ 94,008	\$ 5,829	\$ 1,363	\$ 7,192	\$ 101,200
<b>OR 3-Factor Allocation %</b>							24.3%
							\$ 24,561

Note: Salaried increase effective 1/1/15  
Hourly increase effective 4/1/15

# TYPE II ADJUSTMENT WORKPAPERS

**CASCADE NATURAL GAS  
STATE OF OREGON  
CY15**

**PGA Commodity Sharing (I.e. ( ) loss)**

Jan-15	\$ 53,302
Feb-15	\$ 96,045
Mar-15	\$ 81,250
Apr-15	\$ 28,267
May-15	\$ 23,116
Jun-15	\$ (19,353)
Jul-15	\$ 10,255
Aug-15	\$ 15,338
Sep-15	\$ 16,767
Oct-15	\$ 30,141
Nov-15	\$ 56,601
Dec-15	\$ 42,175
Total	<u>\$ 433,902</u>

**Cascade Natural Gas Corporation  
Revenue Sensitive Cost Conversion Factor  
State of Oregon  
FOR THE TWELVE MONTHS ENDED 12/31/15**

Line No. Description	Amount
1 Gross Revenue	1.00000
2 Less Uncollectibles	<u>0.00533</u>
3 Net Revenue	0.99467
Less Revenue Sensitive Costs	
4 Gross Revenue Fee	0.00250
5 City Franchise Fees	<u>0.01835</u>
6 Net Before State & Federal Income Taxes	<u>0.02085</u>
7 Oregon Income Tax @7.6%	0.97382
8 Net Before Federal Income Tax	<u>0.07401</u>
9 Federal Income Tax @ 35%	0.89981
10 Net to Gross Conversion Factor	<u><u>0.31493</u></u>
	<u><u>0.58488</u></u>