

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: February 10, 2015

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: January 22, 2015

TO: Public Utility Commission

FROM: Linnea Wittekind *LW*

THROUGH: Jason Eisdorfer *E* and Marc Hellman *A*

SUBJECT: CASCADE NATURAL GAS: (Docket No. UI 354) Requests Approval of Affiliated Interest Agreement with Knife River Corporation Northwest.

**STAFF RECOMMENDATION:**

The Public Utility Commission of Oregon (Commission) should approve Cascade Natural Gas Corporation's (Cascade or Company) application for approval of an affiliated transaction between Cascade and Knife River Corporation Northwest (Knife River), an affiliated interest, subject to the following conditions:

1. Cascade shall notify the Commission in advance of any substantive changes to the contracts, including any material change in price. Any such changes shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
2. Cascade shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the affiliated interest agreements with Knife River.

**DISCUSSION:**

Cascade filed this application with the Commission on December 23, 2014, pursuant to ORS 757.495(1) and OAR 860-027-0040. Cascade is a wholly-owned subsidiary of MDU Resources Group, Inc. (MDU). Knife River is 100 percent owned by KRC Holding, Inc. KRC Holding, Inc. is a subsidiary of MDU.

"Affiliated interest," as defined in ORS 757.015(3), includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning five percent of the voting securities of a public utility or in any successive chain of ownership of a public utility. Cascade and Knifer River are both wholly-owned subsidiaries of MDU, creating an affiliated interest.

According to the Company, Cascade's operations in Bend, Oregon have grown and more space is needed to continue to provide service to its customers. As filed in UI 290, Order No. 10-048, Cascade and Knife River jointly purchased a facility in Bend, Oregon in 2009. Cascade's operational needs have expanded since the original purchase and according to the Company a month-to-month lease meets the needs of both entities.

#### Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreement;
2. Transfer Pricing;
3. Public Interest Compliance; and
4. Records Availability, Audit Provisions, and Reporting Requirements.

#### Terms and Conditions of the Agreement

Staff did not observe any unusual terms or conditions in the contract. Cascade and Knife River worked with a local realtor to establish a market rate based on competitive rents in the area. Cascade provided a copy of the lease agreement with Knife River, Staff has reviewed this agreement.

#### Transfer Pricing

Cascade is leasing 1,352 square feet of office space from Knife River and will pay rent in the amount of \$1,352 per month. This agreement is a month-to-month lease and on each proceeding January 1, the rent shall be adjusted by 1.5 percent increase. The rent will be recorded in FERC Account No. 931 – Rent.

Staff believes the transaction is fair and reasonable. Cascade and Knife River worked with an unaffiliated, real estate agent to determine a market rate for the rent. Given the analysis<sup>1</sup> of similar properties performed by the realtor, the rate is competitive.

#### Public Interest

The lease agreement in this application is in the public interest. New positions are being added to the Bend area. According to the Company, these new positions are for

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<sup>1</sup> Staff has reviewed a copy of the analysis performed by the realtor and has no concerns.

safety and compliance of Cascade's pipeline system. The additional space will also include an added conference area and training room which according to the Company, will allow for a better level of quality field auditing. Work performed in a field audit may include, but is not limited to; crew inspections, verification of proper installations practices, and AC survey follow-ups.

Records Availability, Audit Provisions, and Reporting Requirements

Order Conditions numbers 1 and 2, listed above in the Staff Recommendation afford the necessary Commission examination of PacifiCorp's records concerning the agreement with Knife River.

Based on the review of this application, Staff concludes:

1. The application regards an affiliated interest agreement that is fair and reasonable and not contrary to the public interest with inclusion of the proposed ordering conditions; and
2. Necessary records are available.

**PROPOSED COMMISSION MOTION:**

Cascade's application for approval of an affiliated interest transaction with Knife River Corporation Northwest be approved subject to the two recommended conditions.