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October 31, 2016

VIA ELECTRONIC FILING

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UG 305 - In the Matter of CASCADE NATURAL GAS CORPORATION, Request for a General Rate Revision

Attention Filing Center:

Attached for filing in docket UG 305 is an electronic copy of the Joint Testimony in Support of Stipulation. The Stipulating Parties are Cascade Natural Gas Corporation, Public Utility Commission of Oregon Staff, Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Attachments

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 305

Joint Testimony in Support of Stipulation

Stipulating Parties: Cascade Natural Gas Corporation, Public Utility Commission of Oregon Staff, the Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users

Joint Testimony of Michael Parvinen, Marianne Gardner, Bob Jenks, and Michael Gorman

October 2016

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I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by Cascade Natural Gas Corporation (Cascade or Company), Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU), collectively the Stipulating Parties.

Q. Please provide your names, positions, and qualifications.

A. My name is Michael Parvinen, and I am employed by Cascade as the Director of Regulatory Affairs. My qualifications are described in Exhibit CNGC/200, Parvinen/1-2.

My name is Marianne Gardner, and I am a Senior Revenue Requirement Analyst employed in the Energy Rates, Finance, and Audit Division of the Public Utility Commission of Oregon (Commission). My qualifications are provided in Exhibit Staff/101, Gardner/1.

My name is Bob Jenks, and I am the Executive Director of CUB. My qualifications are provided in Exhibit CUB/101, Jenks/1.

My name is Michael Gorman. I am employed by Brubaker & Associates, Inc. as a consultant in the field of public utility regulation, and provided testimony in this case on behalf of NWIGU. My qualifications are described in Exhibit NWIGU/101, Gorman/1-4.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the stipulation filed in Docket No. UG 305 on October 6, 2016 (Stipulation). The Stipulation is joined by all parties to the proceeding and resolves all issues in this docket.

II. BACKGROUND ON DOCKET NO. UG 305

Q. Please summarize the background and context of Docket No. UG 305.

A. On April 29, 2016, Cascade initiated this proceeding, Docket No. UG 305, by filing a general rate case. In its initial filing (Initial Filing), Cascade requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $1,906,285, for an increase of 2.76 percent over current rates. The Company developed the case using the test year comprised of the twelve months ending December 31, 2016 (Test Year), and a historical base year of the twelve months ending December 31, 2015 (Base Year). Administrative Law Judge (ALJ) Michael Grant convened a prehearing conference on May 23, 2016. In accordance with the prehearing conference order, the effective date for rates will be March 1, 2017.

Q. Have the parties conducted discovery in this case?

A. Yes. Since the Initial Filing, Cascade has responded to at least 400 data requests from Staff, CUB, and NWIGU, and has provided updates to its data responses during the pendency of this case.

Q. Did Staff, CUB and NWIGU propose adjustments to Cascade's Initial Filing?

A. Yes, these parties filed opening testimony on August 11, 2016, in which they proposed numerous adjustments.

Q. Please describe the process that followed.

A. The parties convened a settlement conference on August 17, 2016, at which several of the issues in the case were settled. On September 13, 2016, Cascade filed reply testimony (Reply Filing). In its Reply Filing, the Company provided corrections and updates to its Initial Filing, incorporated the results of the partial settlement, and responded to and accepted certain adjustments proposed by Staff and CUB. A second settlement conference was held on September 20, 2016, at which the remainder of the issues were resolved. The Stipulation memorializes the agreements made at both settlement conferences and resolves all issues in the docket.

III. REVENUE REQUIREMENT ISSUES

Q. Please summarize the increase to annual revenue requirement proposed in Cascade's Initial Filing and Reply Filing, and the adjustment to the revenue requirement increase agreed upon by the Stipulating Parties.

A. In the Initial Filing, Cascade proposed an increase to the Company's Oregon-allocated annual revenue requirement of $1,906,285, or an increase of 2.76 percent over current rates. In its Reply Filing, Cascade provided corrections and updates to its Initial Filing, incorporated the results of the partial settlement, and accepted certain adjustments proposed by Staff and CUB, resulting in an Oregon-allocated increase to annual revenue requirement of $988,093. At the September 20, 2016 settlement conference, the Stipulating Parties agreed to an increase to Cascade's Oregon-allocated revenue requirement of $700,000, resulting in a 1.05 percent overall increase to rates (2.36 percent increase not including gas costs) and a $0.73 impact on the residential average monthly bill.

Q. Please provide an overview of the Stipulating Parties' agreement regarding revenue requirement.

A. The Stipulation represents the settlement of all revenue requirement issues. Table 1 below summarizes the adjustments agreed to by the Stipulating Parties to the Company's Initial Filing, resulting in an increase to revenue requirement of $700,000.

Table 1 – Summary of Settlement of Revenue Requirement Adjustments

Company Filed General Rate Case Required Change to Revenue Requirement		**$1,906,000**
Issue No.	**Adjustment**	**Revenue Requirement Effect**
1	Uncollectible Rate	($3,000)
2	Uncollectibles	($121,000)
3	Wage and Salaries	($120,000)
4	MDU Cross-Charge Labor	($169,000)
5	Rate Case Costs	($58,000)
6	Franchise Fee Rate	$26,000
7	Other Benefits	($18,000)
8	Interest Synchronization	$13,000
9	Inflation	($23,000)
10	Long-Term Debt	($32,000)
11	Load Forecast Revenue and Other Revenue	($290,000)
12	Gas Storage in Rate Base	($4,000)
13	Meals and Entertainment; Memberships, Dues, and Donations; Travel; Customer Accounts	($143,000)
14	Materials and Supplies	($7,000)
15	Administrative and General	($16,000)
16	Plant	($217,000)
17	Accumulated Depreciation	($42,000)
18	Allocations and Affiliates	($62,000)
19	Accumulated Deferred Income Tax	$80,000
	Total adjustments	**($1,206,000)**
	Incremental Revenue Requirement	**$700,000**

Q. Do the Stipulating Parties agree on all the methodologies employed to determine each adjustment?

A. No, the Stipulating Parties may not necessarily agree upon the all the methodologies used to determine each adjustment included in the Stipulation. Importantly, however, the Stipulating Parties believe that all the agreed-upon adjustments represent a reasonable financial settlement of the issues in this docket, and that, taken together, the adjustments result in an overall revenue requirement that will produce rates that are fair, just, and reasonable.

Q. On what date do the Stipulating Parties agree that rates resulting from this rate case should go into effect?

A. The Stipulating Parties support rate schedules as a compliance filing in Docket No. UG 305, reflecting rates as agreed to in the Stipulation and adopted by the Commission, be effective March 1, 2017.

Issue Nos. 1 and 2: Uncollectibles and Uncollectible Rate

Q. Please describe the Stipulation regarding Cascade's uncollectibles and uncollectible rate.

A. Staff proposed a reduction of $118,000 to expense for Cascade's uncollectibles and a reduction of $3,000 to revenue requirement to revise the Company's uncollectible rate to 0.3745 percent. The Stipulating Parties agreed to Staff's proposed adjustments, which results in a reduction to revenue requirement of $124,000.[1]

Q. Why are the uncollectibles and uncollectible rate adjustments reasonable?

A. Consistent with the Commission's standard approach to determining uncollectible expense, Cascade developed its revenue requirement for uncollectibles and its uncollectibles rate using a three-year average of the last three years of actual bad debt write-offs, including uncollectible amounts from the years 2015, 2014, and 2013.[2] In its Initial Filing, however, Cascade inadvertently relied on a calculation for its uncollectibles amount based on all write-off amounts, rather than the net write-off amounts.[3] In other

[1] Stipulation at 2.
[2] CNGC/200, Parvinen/5.
[3] Staff/100, Gardner/7.

words, the proposal included in Cascade's Initial Filing included some amounts expense that Cascade had ultimately recovered. This inadvertent error was revealed in discovery, and the Stipulation reflects the net uncollectibles expense and corrected uncollectibles rate, resulting in a reduction to revenue requirement of $124,000.

Issue No. 3: Wages and Salaries

Q. Please describe the Stipulation regarding wages and salaries.

A. Cascade's Initial Filing included an increase to Oregon-allocated wages and salaries based on actual test period wages and salaries for union and non-union employees, resulting in an increase to revenue requirement of $199,136.[4] Staff proposed an adjustment to wages and salaries for Cascade's non-union employees based on Staff's three-year wage and salary model (Staff's Three-Year Salary Model) and employee (FTE) levels reported by Cascade for the 2016 test year. Staff's approach resulted in reductions to rate base of $59,192, and to expense of $228,750, resulting in a proposed reduction to revenue requirement of $242,000.[5]

For the purposes of this Stipulation, the Stipulating Parties agreed to the application of Staff's Three-Year Salary Model to produce the revenue requirement for non-union wage and salary expense. The Stipulating Parties also agreed that Cascade should be allowed to correct information provided to Staff regarding Cascade's 2016 FTEs, which increased the 2016 FTE count used in the Model. Application of the Staff Three-Year Salary Model with corrected 2016 FTEs results in a reduction of $120,000

[4] CNGC/204, Parvinen/1.
[5] Staff/100, Gardner/5, 11-12.

to revenue requirement from what Cascade had proposed for wage and salaries expense in its Initial Filing.[6]

Q. Please explain why the Stipulating Parties' agreement regarding wages and salaries is reasonable.

A. While the parties do not agree upon all aspects of the methodology used to derive the appropriate level of test period wages and salaries, the agreed-upon adjustment uses the Commission's historic practice of using Staff's Three-Year Salary Model,[7] and also accurately reflects the actual and verifiable employee count during the test period. The Stipulating Parties agree that the amount of the adjustment is reasonable.

Issue No. 4: MDU Cross-Charged Labor

Q. Please describe the agreement in the Stipulation regarding MDU cross-charged labor.

A. Cascade is cross-charged labor expenses from its parent company, MDU Resources Group, Inc. (MDU Resources). Staff proposed an adjustment to the cross-charged labor expense based on application of Staff's Three-Year Salary Model, as well as disallowance of officer incentives and partial disallowance of non-officer incentives.[8] Staff's proposed adjustment was a decrease to O&M expense and a decrease to rate base of $177,555 and $50,664, respectively.[9]

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[6] Stipulation at 3.
[7] *See e.g.*, *In the Matter of PacifiCorp's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket No. 116, Order 01-787 at 39-40 (Sept. 7, 2001); *In the Matter of the Application of Nw. Natural Gas Co. for a General Rate Revision*, Docket No. UG 132 Order No. 99-Issue No. 697 at 43 (Nov. 12, 1999).
[8] Staff/100, Gardner/12-13.
[9] Staff/100, Gardner/13.

In its Reply Filing, Cascade accepted the removal of officer incentives and partial removal of non-officer incentives, but rejected application of Staff's Three-Year Salary Model. Moreover, Cascade noted that its Initial Filing mistakenly omitted to bring cross-charges for labor to a test year amount by including the 4 percent increase granted to these employees for 2016.[10] As a compromise, the Stipulating Parties agreed to application of Staff's Three-Year Salary Model, and a correction to include the 4 percent increase, removal of 100 percent of officer incentives, removal of 75 percent of non-officer incentives tied to financial performance and cost reductions, and removal of 50 percent of incentives related to customer service.[11] This approach results in a reduction to revenue requirement of $169,000.[12]

Q. Please explain why the Stipulating Parties' agreement regarding MDU cross-charged labor is reasonable.

A. Similarly to the compromise for the wages and salaries adjustment, the parties do not agree upon all aspects of the methodology used to derive the appropriate level of test period cross-charged labor from MDU Resources, but agree that the amount of the adjustment is reasonable. The adjustment incorporates the Commission's historic practices of using Staff's Three-Year Salary Model,[13] and removal of officer incentives and partial removal of non-officer incentives.

[11] Stipulation at 3.
[12] Stipulation at 3.
[13] *See e.g.*, *In the Matter of PacifiCorp's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket No. 116, Order No. 01-787 at 39-40 (Sept. 7, 2001); *In the Matter of the Application of Nw. Natural Gas Co. for a General Rate Revision*, Docket No. UG 132 Order No. 99-697 at 43 (Nov. 12, 1999).

Issue No. 5: Rate Case Costs

Q. Please describe the Stipulating Parties' agreement regarding rate case costs.

A. Staff proposed that the rate case costs included in revenue requirement be calculated using a longer amortization period than proposed by Cascade in its Initial Filing.[14] The Stipulating Parties agreed to a reduction of $56,000 to expense to reflect a three-year moving average of rate case costs, resulting in a reduction to revenue requirement of $58,000.[15]

Q. Why is the Stipulating Parties' agreement regarding rate case costs reasonable?

A. Staff believes that using a three-year moving average of rate case costs appropriately allocates rate case costs in terms of who will bear the costs and how much of the costs will be borne by customers in each billing period. The other Stipulating Parties agree that a three-year period is a reasonable period over which to recover rate case costs and that it and contributes to the overall compromise regarding revenue requirement issues.

Issue No. 6: Franchise Fees

Q. Please describe the Stipulation regarding franchise fee rates.

A. In its Initial Filing, Cascade inadvertently included out-of-date franchise fee rates. The Stipulating Parties agreed to increase the franchise fee rate to 0.2310, to reflect the amount actually billed by Cascade.[16] This adjustment results in an increase to revenue requirement of $26,000.[17]

[14] Staff/100, Gardner/21-22.
[15] Stipulation at 3.
[16] Staff/100, Gardner/22-23.
[17] Stipulation at 3.

Q. Why is the Stipulating Parties' agreement regarding franchise fee rates reasonable?

A. The Stipulating Parties' agreement reflects a correction to Cascade's Initial Filing.

Issue No. 7: Other Benefits

Q. Please describe the Stipulating Parties' agreement regarding other benefits.

A. Staff proposed an adjustment to Cascade's expenses for other benefits. Specifically, Staff recommended a reduction of $18,000 to expense for actuarial services, investment consultants, and audit fees to reflect use of the Company's 2016 budgeted amount rather than the 2016 Test Year amount used in the Initial Filing because in Staff's view, the Company has internal control of these types of expenses and the budgeted amount that the Company plans to spend more accurately reflects actual costs rather than an escalated base year to reach the 2016 Test Year amount.[18] The Company does not agree with Staff's analysis, but along with the other parties, agreed to accept Staff's adjustment, which results in a reduction to revenue requirement of $18,000.[19]

Q. Why is the Stipulating Parties' agreement regarding other benefits reasonable?

A. While parties do not necessarily agree on the methodology for using budgeted rather than test year amounts, the Stipulating Parties agreed to accept Staff's adjustment as part of the overall settlement of revenue requirement issues. The Stipulating Parties' agreement to reduce other benefits is part of an overall compromise resulting in a fair financial settlement.

[18] Staff/100, Gardner/26.
[19] Stipulation at 3.

Issue No. 8: Interest Synchronization

Q. Please describe the agreement in the Stipulation regarding interest synchronization.

A. Staff proposed an adjustment to synchronize interest expense to reflect changes to the Cascade's cost of capital from its Initial Filing.[20] Specifically, Staff's interest synchronization adjustment incorporates Staff witness Matt Muldoon's proposed adjustment to cost of capital, reducing the cost of long-term debt from 5.295 percent (as proposed in Cascade's Initial Filing) to 5.250 percent.[21] The Stipulating Parties agreed to increase revenue requirement by $13,000 to reflect Staff's interest synchronization adjustment.[22]

Q. Why is the Stipulating Parties' agreement regarding interest synchronization reasonable?

A. The Stipulating Parties' agreement regarding the interest synchronization adjustment is consistent with the Stipulating Parties' agreement to accept Staff's proposed adjustment to cost of capital reducing the cost of long-term debt.

Issue No. 9: Inflation

Q. Please describe the agreement in the Stipulation regarding inflation.

A. In Cascade's Initial Filing, Cascade applied the March 2016 value for the Consumer Price Index (CPI) for All Urban Consumers—1.2 percent—to reflect year-over-year escalation. Staff proposed using instead the June 2016 CPI value of 1.0 percent.[23] The

[20] Staff/100, Gardner/26-27.
[21] Staff/100, Gardner/26-27.
[22] Stipulation at 4.
[23] Staff/100, Gardner/28.

Stipulating Parties agreed to a reduction of $22,000 to expense to reflect a compromise between Cascade's application of the March 2016 value for CPI and Staff's proposed application of the June 2016 value for CPI.[24] This adjustment results in a reduction to revenue requirement of $23,000.[25]

Q. Why is the Stipulating Parties' agreement regarding inflation reasonable?

A. The Stipulating Parties' agreement reflects a reasonable compromise and contributes to the overall fair resolution of revenue requirement in this case.

Issue No. 10: Long-Term Debt

Q. Please describe the Stipulation regarding the cost of long-term debt.

A. In its Initial Filing, Cascade proposed a rate of return of 7.31 percent with a capital structure of 49.0 percent equity and 51.0 percent debt. Cascade's Initial Filing included a cost of long-term debt of 5.295 percent, and based upon its analysis, Staff proposed an adjustment reducing the cost of long-term debt to 5.250 percent.[26] The Stipulating Parties agreed to Staff's proposed adjustment, which resulted in a reduction of $32,000 to revenue requirement.[27]

Q. Why is the Stipulating Parties' agreement regarding cost of long-term debt reasonable?

A. The Stipulating Parties' agreement is supported by Staff's analysis and is a conservative and reasonable estimate of the costs of long-term debt.[28]

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[24] Stipulation at 4.
[25] Stipulation at 4.
[26] Staff/200, Muldoon/27.
[27] Stipulation at 4.
[28] Staff/200, Muldoon/27.

Issue No. 11: Load Forecast and Other Revenue

Q. Please describe the Stipulating Parties' agreement regarding load forecast and other revenue.

A. Staff proposed an adjustment decreasing Cascade's revenue requirement by $312,864 due to Staff's calculated increased sales forecast projecting that at current rates, Cascade will earn greater margin revenue from sales and transportation revenues.[29] Staff also proposed an increase to Cascade's miscellaneous operating revenues of $11,255 based on Cascade's forecast customer growth.[30] The Stipulating Parties agreed to a reduction of $290,000 to revenue requirement based on a compromise between the Company's Initial Filing and Staff's recommended adjustments to load forecast revenue and other revenue, and Cascade's agreement to conduct a load study for all schedules except Schedule 201 (Special Contracts).[31]

Q. Why is the Stipulating Parties' agreement regarding load forecast and other revenue reasonable?

A. The Stipulating Parties' agreement to reduce revenue requirement for Load Forecast and for Other Revenues is based in part on the fact that there is some judgment involved when forecasting sales revenues. The $290,000 reduction to revenue requirement is based on sales forecasts that are within a reasonable range and is part of an overall compromise resulting in a fair financial settlement. Additionally, the load study will provide useful data for future Cascade rate cases.

[29] Staff/300, St. Brown/17.
[30] Staff/300, St. Brown/20-21.
[31] Stipulation at 4.

Issue No. 12: Gas Storage in Rate Base

Q. Please describe the agreement in the Stipulation regarding gas storage.

A. Staff proposed an adjustment to Cascade's gas storage in rate base to reflect an average level of storage inventory for 2015 rather than the 2015 year-end amount. Staff's proposal results in a reduction to rate base of approximately $38,000.[32] The Stipulating Parties agreed to Staff's recommendation, and as noted in the Stipulation, this amount is reflected as a reduction to revenue requirement of $4,000.[33]

Q. Why is the Stipulating Parties' agreement regarding gas storage reasonable?

A. The Initial Filing relied on the 2015 year-end amount to determine the amount of gas storage in rate base. The Stipulating Parties agree that Staff's approach, reflecting the average amount for each month over the Base Year, is reasonable.

Issue No. 13: Meals, Entertainment, Membership, Dues, Donations, Travel, Customer Accounts

Q. Please describe the agreement in the Stipulation regarding meals and entertainment, memberships, dues, and donations, travel, and customer accounts.

A. Staff proposed several reductions to the costs in these categories, resulting in a combined total proposed adjustment to revenue requirement of approximately $305,000. The Stipulating Parties agreed to a reduction to expense of $139,000.[34] This adjustment results in a reduction to revenue requirement of $143,000.[35]

[32] Staff/400, Colville/2-4.
[33] Stipulation at 4.
[34] Stipulation at 4.
[35] Stipulation at 5.

Q. Please explain the reasonableness of the adjustment for meals and entertainment, memberships, dues, and donations, travel, and customer accounts.

A. The agreed-upon reduction to Cascade's Initial Filing is based on Commission precedent[36] and a compromise between the parties' positions on the appropriate classification of certain expenses as utility-related or non-utility-related and changes in customer billing costs due to increased use of electronic billing. The Stipulating Parties agree that the compromise reduction to meals and entertainment, memberships, dues, and donations, travel, and customer accounts expense results in a reasonable level of expense for the 2016 test year.

Issue No. 14: Materials and Supplies

Q. Please describe the agreement in the Stipulation regarding materials and supplies.

A. For materials and supplies, Staff proposed a reduction of $62,000 to rate base to reflect use of a mid-year average of 2015 and 2016 rather than end of year values.[37] The Stipulating Parties agreed to Staff's proposed adjustment, which results in a reduction to revenue requirement of $7,000.[38]

Q. Why is the Stipulating Parties' agreement regarding materials and supplies reasonable?

A. The Stipulating Parties' agreement reflects a reasonable compromise approach and contributes to the overall resolution of revenue requirement in this case.

[36] Staff/600, Zarate/3; *In the Matter of Portland General Electric Company, Request for a General Rate Revision*, Docket No. UE 197, Order No. 09-020 at 21 (Jan. 22, 2009).
[37] Staff/600, Zarate/11-13.
[38] Stipulation at 5.

Issue No. 15: Administrative and General Expense

Q. Please describe the Stipulation regarding administrative and general (A&G) expense.

A. Staff recommended an adjustment to A&G expense to reflect removal of 50 percent of the total directors and officers (D&O) insurance expense.[39] In compromise, the Stipulating Parties agreed to incorporate Staff's adjustment, resulting in a reduction to revenue requirement of $16,000.[40]

Q. Why is the Stipulating Parties' agreement regarding A&G expense reasonable?

A. While the Stipulating Parties do not agree on the proposed approach of removing 50 percent of D&O insurance expense, the Stipulating Parties agree that the amount of the adjustment results in a fair resolution of revenue requirement in this case. ***Issue No. 16: Plant***

Q. Please describe the Stipulating Parties' agreement regarding 2016 plant additions.

A. Cascade initially proposed to add $13.6 million to rate base reflecting the capital additions anticipated to be completed during the 2016 Test Year, resulting in an increase to revenue of $1.6 million.[41] Based on Cascade's responses to Staff's data requests, Staff proposed a reduction to Cascade's proposed rate base of $3.3 million, which would have decreased Cascade's proposed revenue requirement addition by approximately $355,000.[42]

In discovery and in its Reply Filing Cascade provided additional information regarding the capital projects that are expected to be in service by the rate-effective date

[39] Staff/700, Moore/2-3.
[40] Stipulation at 5.
[41] Staff/700, Moore/10.
[42] Staff/700, Moore/12, Staff/100, Gardner/5.

of March 1, 2017, as well as updated cost information for these projects. Based on updated information regarding certain construction cost underruns that had not been provided to Staff prior to the time it recommended a -$3.3 million adjustment to rate base in testimony, the Stipulating Parties agreed to a reduction to the rate base proposed in the Company's Initial Filing of $2.032 million.[43] This adjustment results in a reduction to revenue requirement of $217,000.[44]

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding the 2016 plant additions.

A. The Stipulating Parties thoroughly and carefully evaluated Cascade's proposed 2016 plant additions. Staff testified that the proposed plant additions are prudent[45]. The agreed-upon rate base and revenue requirement reductions reflect the updated costs and the plant that will be in service and used and useful, consistent with ORS 757.355.

Issue No. 17: Accumulated Depreciation

Q. Please describe the Stipulating Parties' agreement regarding accumulated depreciation.

A. Staff proposed a reduction of $390,000 to rate base to reflect a correction to the Company's Initial Filing regarding the calculation of accumulated depreciation.[46] The Stipulating Parties agreed to the adjustment, which results in a reduction to revenue requirement of $42,000.[47]

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[43] Stipulation at 5.
[44] Stipulation at 5.
45 Staff/700, Moore/11-14.
[46] Staff/900, Peng/5-6.
[47] Stipulation at 5.

Q. Please explain why the agreement regarding accumulated depreciation is reasonable.

A. The agreement in the Stipulation regarding accumulated depreciation reflects a correction to Cascade's Initial Filing.

Issue No. 18: Allocations and Affiliates

Q. Please describe the Stipulating Parties' agreement regarding inter-company allocations.

A. Staff proposed several adjustments related to charges allocated to (and from) Cascade by MDU Resources and affiliates. Specifically, Staff proposed adjustments relating to customer service allocations and general overhead allocations, exclusions of costs that did not appear to be utility-related or did not include supporting descriptions, and proposed changes to Cascade's methodology for calculating rent charges for shared facilities. The total amount of Staff's proposed allocations-related adjustments resulted in an increase to revenue of $64,000 and a decrease to expense of $724,000, for a total proposed reduction to revenue requirement of $810,000.

In its Reply Filing, Cascade provided additional information regarding its inter-company allocations, and specifically addressed customer service allocations and general overhead allocations. Additionally, Cascade provided support for expenses that Staff had perceived to be "non-utility" expenses and expenses without supporting descriptions. In its Reply Testimony, Cascade also accepted several of Staff's proposed modifications to its rent calculations for shared facilities, and provided additional explanation regarding the same, and proposed an adjustment of $34,362.[48]

[48] See CNGC/800, Nygard/24.

The Stipulating Parties agreed to resolve the revenue requirement for allocations by agreeing to an additional reduction from the Company's Reply Filing to reflect adjustment to some cost allocations including removal of certain miscellaneous non-recoverable expenses including fixed costs of the corporate airplane, resulting in a total allocations reduction to revenue requirement of $62,000.[49] The Stipulating Parties further agreed that Cascade will hold a workshop regarding its allocations methodologies prior to which time Cascade will evaluate its cost allocation methodologies in light of issues raised by Staff in this docket. Cascade's commitment to evaluate its cost allocation methodologies and its obligations at the workshop are discussed further below in Section IV (Non-Revenue Requirement Issues).[50]

Q. Why is the Stipulating Parties' agreement regarding inter-company allocations reasonable?

A. While the Stipulating Parties may not agree on all aspects of the methodologies used to determine inter-company allocations charged to Cascade, the Stipulating Parties' agreement regarding the reduction to revenue requirement for allocations is part of a compromise contributing to a reasonable resolution of the issues in this case. The workshops will provide groundwork for continued evaluation of Cascade's allocation methods by the Stipulating Parties.

[49] Stipulation at 5.
[50] Stipulation at 5.

Issue No. 19: Accumulated Deferred Income Tax

Q. Please describe the Stipulation regarding accumulated deferred income tax (ADIT).

A. NWIGU proposed an adjustment to reflect an additional year of ADIT to reflect the change in ADIT from 2015 to 2016, resulting in a proposed decrease to rate base of approximately $1,428,275, which is a reduction to revenue requirement of approximately $148,000.[51] While Cascade agrees that the Initial Filing mistakenly failed to reflect the change in ADIT from 2015 to 2016, as noted in Cascade's Reply Filing, NWIGU's calculation assumed that all plant at the end of 2015 was placed in service during 2016.[52] Cascade argued that because most plant has been in service long enough that book straight line depreciation is greater than tax depreciation, Cascade's ADIT is actually reducing.[53] The parties ultimately accepted Cascade's corrected adjustment, which results in an increase of $749,000 to rate base, and an increase to revenue requirement of $80,000.[54]

Q. How did the Parties resolve issues related to Staff's recommendation to adjust 2015 and 2016 rate base by increasing ADIT to reflect bonus depreciation?

A. The Company explained in it reply testimony that net operating losses (NOLs) were available to offset the Company's tax liability on its 2015 consolidated MDUR tax return, and, if the Company had elected bonus depreciation for 2015, the Company's net operating loss carryforward (NOLC) position would have increased. Additionally, to be consistent with IRS normalization rules, the portion of the NOLC attributable to bonus

[51] NWIGU/100, Gorman/6.
[52] CNGC/500, Parvinen/16.
[53] CNGC/500, Parvinen/16.
[54] Stipulation at 5-6.

depreciation would have to be taken into account in calculating the ADIT for rate base. Therefore, there would be no increase in Cascade's ADIT for the 2015 tax year. Based on this information, the Parties agreed that Staff's adjustment should not be applied to reduce revenue requirement. However, the Company agreed that, in the event that it were to change its plans and take bonus depreciation on its 2016 consolidated tax return, it would refund any savings in its tax obligation that might arise from that choice.

Q. Why is the Stipulating Parties' agreement regarding ADIT reasonable?

A. The Stipulating Parties' agreement regarding ADIT reflects a correction to Cascade's Initial Filing, and reflects a reasonable compromise approach and contributes to the overall resolution of revenue requirement in this case.

Cost of Capital

Q. Please explain the agreement in the Stipulation regarding cost of capital.

A. In its Initial Filing, Cascade proposed a rate of return (ROR) of 7.31 percent,[55] which is based on a 49.0 percent common equity ratio and 51.0 percent long-term debt capital structure, with a Return on Equity (ROE) of 9.40 percent and a long-term debt cost of 5.295 percent. Staff provided substantial independent analysis of Cascade's proposal regarding cost of capital, and also supported the Company's proposed capital structure and ROE of 9.40, but proposed an ROR of 7.284, and proposed a debt cost of 5.250 percent.[56] The Stipulating Parties agreed to the cost of capital proposed in Cascade's Initial Filing as modified by Staff's recommendation to use a debt cost of 5.250 percent.[57]

[55] CNGC/200, Parvinen/9, Table 1. Proposed Rate of Return.

[56] Staff/200, Muldoon/2-3.

[57] Stipulation at 6.

Q. Why is the Company's proposed cost of capital reasonable?

A. The capital structure of 49 percent equity and 51 percent debt is based upon Cascade's actual capital structure for the last three years.[58] Staff independently verified the appropriateness of the ROE through use of a discounted cash flow (DCF) analysis,[59] through comparison with peer utilities,[60] sensitivity analysis,[61] and through evaluation of long-term growth rates.[62] Staff also performed a reasonableness check to validate its modeling results.[63]

Staff thoroughly analyzed the cost of long-term debt and recommended an adjustment to Cascade's Initial Filing, reducing the cost of long-term debt from 5.295 percent to 5.250 percent,[64] and Staff's overall rate of return recommendation of 7.284 percent.[65] The Stipulating Parties agree that the stipulated cost of capital with an overall Rate of Return (ROR) of 7.284 percent is a reasonable resolution of this issue and is supported by the Staff testimony.

IV. NON-REVENUE REQUIREMENT ISSUES

Q. Did the Stipulation also include settlement of non-revenue requirement issues?

A. Yes, the Stipulation also settled non-revenue requirement issues raised in the case, as described further below.

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58 CNGC/200, Parvinen/9.
59 Staff/200, Muldoon/6-10.
60 Staff/200, Muldoon/11-12.
61 Staff/200, Muldoon/12-13.
62 Staff/200, Muldoon/13-15.
63 Staff/200, Muldoon/23.
64 Staff/200, Muldoon/2, 27.
65 Staff/200, Muldoon/28-29.

Rate Spread and Rate Design

Q. Please describe the Stipulating Parties' agreement regarding rate spread and rate design.

A. The Stipulating Parties agreed to the rate spread as shown in Appendix B to the Stipulation.[66] The Stipulating Parties also agreed to increase the basic charge from $3.00 to $4.00 for Schedules 101 (Residential) and 104 (Commercial).[67]

Q. Please explain why the Stipulation regarding rate spread and rate design is reasonable.

A. The Stipulating Parties agree that the rate spread shown in Appendix B to the Stipulation represents a compromise that fairly balances the interests of the Stipulating Parties. While the signing parties may each hold different positions on cost of service issues, the Stipulating Parties support the Stipulation on rate spread and rate design and believe it results in rates that are fair, just, and reasonable. The Stipulating Parties' agreement to a modest increase to the basic charge—an increase of $1.00, from $3.00 to $4.00—represents a reasonable compromise between Cascade's proposal to retain the $3.00 basic charge and Staff's recommendation to increase the basic charge to $5.00.[68]

Housekeeping Revisions to Cascade's Tariffs

Q. Please describe the Stipulation regarding housekeeping revisions to tariffs.

A. Cascade had proposed a number of housekeeping revisions to its tariffs, and worked collaboratively with Staff to finalize the revisions to Cascade's tariffs. In general, the housekeeping revisions update Cascade's tariffs to conform with applicable Oregon

[66] Stipulation at 6.
[67] Stipulation at 6.
[68] Staff/500, Gibbens/11.

administrative rules and statutes, correct minor errors, reorganize several sections of the tariffs, clarify confusing or awkward language, update formatting, and adjust pagination as necessary. The results of Cascade's collaborative effort with Staff are provided in the Company's Reply Filing in Exhibit CNGC/1103, and the Stipulating Parties agree to accept the revisions to Cascade's tariffs as presented therein.[69]

Q. Please explain the reasonableness of the Stipulation regarding housekeeping revisions to tariffs.

A. The housekeeping revisions are primarily intended to revise Cascade's tariffs for updates, corrections, and ease of administration and use. The Stipulating Parties' agreement regarding housekeeping revisions reflects the outcome of Cascade's collaborative efforts with Staff.

Allocations Workshop

Q. Please describe the agreement in the Stipulation regarding the allocations workshop.

A. In its testimony, Staff raised certain issues regarding Cascade's allocation of expenses to and from its parent corporation, MDU Resources and affiliates. In particular, Staff had questions regarding methodologies used to allocate certain types of costs, and raised concerns regarding the general transparency of the allocation processes.[70] As a result, the Stipulating Parties agree that Cascade will hold a workshop for Stipulating Parties regarding the Company's allocations process by no later than May 31, 2017.[71] Cascade commits to the following for the allocations workshop:

[69] Stipulation at 6.
[70] Staff/1000, Kaufman/6.
[71] Stipulation at 6-7.

- Reviewing MDU Resources' corporate structure;
- Reviewing its current processes for allocating labor-related costs performed by employees of MDU Resources and MDU Utilities who are responsible for customer service functions, and proposing changes to ensure that such costs are allocated based on objective factors;
- Explaining any proposed changes to Cascade's allocations methodologies to be implemented in 2017;
- Evaluating the treatment of combination gas and electric customers and presenting its findings as part of the allocations workshop;
- Providing detailed explanations as to how allocated costs are treated and coded using the applicable software to ensure that all allocated costs can be identified and traced in the system;
- Providing a spreadsheet demonstrating several examples of costs allocated, directly assigned, or otherwise charged to Cascade from affiliates, with journal descriptions of the original charge, the amount of the original charge, and the basis for the amount charged to Cascade;
- If any charges to Cascade are based on time, Cascade will provide several examples of time-based allocations and Cascade will provide supporting documentation;
- If any charges to Cascade result from discretionary choices by affiliate employees or management, Cascade will provide several examples for such allocations and Cascade will provide supporting documentation; and

- Explaining the MDU Resources and affiliates' capitalization.[72]

The Stipulating Parties further agreed that Staff and parties may provide written comments, no later than January 1, 2017, regarding Cascade's allocation methodologies, including suggestions for modifications to the methodologies.[73] Cascade may consider any proposed modifications to its allocations methodologies, but is not obligated to implement such modifications.[74] Additionally, the Stipulating Parties agreed that Cascade will include its proposed changes to its allocations methodologies in any rate case filed in 2017, rather than waiting for a subsequent rate case filing.[75]

Q. Please explain why the agreement in the Stipulation regarding the allocations workshop is reasonable.

A. The Stipulating Parties' agreement for Cascade to hold a workshop will provide Staff and other parties with additional information and transparency regarding MDU Resources' corporate structure and Cascade's inter-company allocations methodologies and accounting systems. The inclusion of an opportunity for comments on the allocation methodologies will provide Cascade with an opportunity to consider whether revisions to its allocations methodologies may be appropriate. The Stipulating Parties agree that this workshop is a crucial component of a reasonable resolution of the issues raised by Staff regarding allocations.

[72] Stipulation at 7.
[73] Stipulation at 7.
[74] Stipulation at 7.
[75] Stipulation at 7.

Environmental Remediation Cost Amortization

Q. Please describe the agreement in the Stipulation regarding environmental remediation amortization.

A. In Cascade's 2015 rate case, Docket No. UG 287, Cascade proposed amortization of environmental remediation expenses associated with the former manufactured gas plant in Eugene, Oregon, but ultimately agreed to continue deferring such expenses as part of the settlement of that case. Cascade has continued to incur environmental remediation expenses and has continued to defer such expenses and related insurance proceeds consistent with the Commission's most recent order in Docket No. UM 1636.[76] In its Initial Filing in this case, Cascade did not propose to begin amortization of environmental remediation expenses. Staff, however, recommended that Cascade begin amortization of such expenses based on Staff's recent experience with NW Natural's environmental remediation expenses and the unintended consequences of accumulation of interest on the deferral that is borne by ratepayers.[77] The Stipulating Parties agree that Cascade will begin amortization of environmental remediation expenses over three years in a separate tariff sheet coincident with the effective date of the current filing.[78] The revenue requirement impact will be $54,000, and is separate from the $700,000 increase to Cascade's Oregon-allocated revenue requirement discussed above.[79]

[76] See *In the Matter of the Application by Cascade Natural Gas Corporation for Authorization to Defer Certain Expenses or Revenues Pursuant to ORS 757.259 and OAR 860-027-0300*, Docket No. UM 1636, Order No. 16-010 (Jan. 12, 2016).
[77] Staff/1100, Johnson/6-7.
[78] Stipulation at 7-8.
[79] Stipulation at 7-8.

Q. Please explain why the Stipulating Parties' agreement regarding environmental remediation amortization is reasonable.

A. By beginning amortization sooner, Cascade will avoid the accumulation of a large amount of interest in its deferral account, which is in the best interest of customers.[80] The Stipulating Parties agree that this is a reasonable result and contributes to a fair resolution of the issues in this proceeding.

V. REASONABLENESS OF THE STIPULATION

Q. What is the basis for the Stipulation?

A. The Stipulation is a compromise based on the record in this case, which includes Cascade's Initial Filing in Docket No. UG 305, the opening testimony of Staff, CUB, and NWIGU, and Cascade's Reply Filing. Additionally, Cascade responded to at least 400 data requests from Staff, CUB, and NWIGU, and provided updates to the data responses as necessary and appropriate. Over the course of the settlement discussions, the Stipulating Parties resolved their differences through dialogue, negotiations, and compromise to reach a fair result.

Q. What is your recommendation to the Commission regarding the Stipulation?

A. The Stipulating Parties recommend and request that the Commission approve the Stipulation in its entirety.

Q. Please explain why the Stipulating Parties believe that the Commission should adopt the Stipulation?

A. The Stipulating Parties have carefully reviewed Cascade's Initial Filing and Reply Filing, Cascade's responses to data requests, and have thoroughly analyzed the issues during

[80] Staff/1100, Johnson/7.

two days of settlement conferences. The Stipulating Parties believe that the adjustments and agreements in the Stipulation provide a fair and reasonable resolution of the issues in this docket and the resulting rates are fair, just and reasonable.

Q. Please elaborate.

A. The Stipulation represents a reasonable compromise for many reasons, including the following: (1) the Stipulation results in an overall average rate increase of approximately 1 percent; (2) the Stipulation represents a fair settlement of revenue requirement issues; (3) settlement of the issues in this case avoids litigation on the remaining issues; and (4) the terms of the Stipulation provide certainty that the costs proposed in this case will be in service for the benefit of Oregon customers during the Test Year.

Q. Mr. Parvinen, why does Cascade believe the Stipulation is reasonable?

A. Each adjustment contained in the Stipulation is supported by evidence in the record, and is consistent with Commission policy. As such, the Stipulation represents a reasonable compromise of each of the issues raised in this case. Cascade fully supports the results of the Stipulation and believes that the outcome produces rates that are fair, just, and reasonable.

It is true that Cascade does not agree with the specific methodologies used to produce each of the adjustments. For instance, Cascade does not agree that Staff's Three-Year Salary Model allows it to recover all prudently-incurred employee wages and salaries. However, Cascade values the positive regulatory relationships furthered by all-party settlements, and appreciates the opportunity to avoid the costs and risk associated with litigation.

Q. Ms. Gardner, why does Staff believe the Stipulation is reasonable?

A. I echo what Mr. Parvinen says about a reasonable compromise of the issues raised in this case. And, none of the agreed-to adjustments are contrary to Commission precedent or Staff practice. For example, the agreed-to expense for wages and salaries is based on Staff's Three Year Wage Model, the agreed to uncollectibles expense is based on Staff's three-year average methodology, and the agreed-to expense for advertising and meals and entertainment is based on application of Commission administrative rules and precedent. For those agreed-to adjustments that are not governed by Commission precedent, Staff's agreement was based on Staff's informed appraisal of the underlying issues and Staff's conclusion the agreed-to adjustments fall within a reasonable range of outcomes.

Q. Mr. Jenks, why does CUB believe the Stipulation is reasonable?

A. CUB believes that the Stipulation represents a fair and reasonable resolution of the issues in this case. CUB reviewed Cascade's testimony and exhibits, the testimony of Staff and NWIGU, and many data responses as well as participating in settlement negotiations. CUB notes that Cascade's filings and the Stipulation both reflect a reduction in Cascade's cost of capital due to a change reflecting Cascade's actual capital structure. CUB's testimony raised concerns about wages and rate spread. The Stipulation responds to CUB's concerns. CUB believes that the Stipulation represents a fair resolution of the issues in this case and will lead to reasonable rates for Cascade's residential customers.

Q. Mr. Gorman, why does NWIGU believe the Stipulation is reasonable?

A. NWIGU believes the Stipulation is reasonable and in the public interest and recommends the Commission approve the settlement because the best interests of

Cascade's natural gas customers are served by the underlying fair compromise on certain revenue requirement and rate spread and design issues. While the signing parties may each hold different positions on the individual components of Cascade's natural gas revenue requirement addressed in the Stipulation, NWIGU supports the settlement as the agreement reached brought down the overall gas revenue requirement increase by $1.2 million to $700,000. NWIGU supports the Stipulation as an overall result that is a fair compromise between Cascade and its customers.

NWIGU also finds the Stipulation to be in the public interest as the spread of the gas rate increase is done in a manner that is consistent with the results of both NWIGU's and Staff's cost of service analysis.

For the reasons set forth above, NWIGU believes the Stipulation is in the public interest and should be approved by the Commission.

Q. Does this conclude your testimony?

A. Yes.