

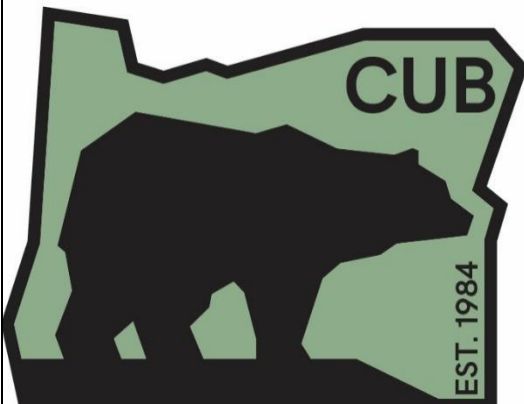
**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 347

In the Matter of)
CASCADE NATURAL GAS)
CORPORATION,)
Request for a General Rate Revision.)
_____)

OPENING TESTIMONY
OF THE
OREGON CITIZENS' UTILITY BOARD

September 27, 2018



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OF OREGON**

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CASCADE NATURAL GAS)	OPENING TESTIMONY OF THE
CORPORATION,)	OREGON CITIZENS' UTILITY
)	BOARD
Request for General Rate Revision.)	
_____)	

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is William Gehrke. I am an Economist employed by Oregon Citizens'
3 Utility Board (CUB). My business address is 610 SW Broadway, Ste. 400
4 Portland, Oregon 97205.

5 **Q. Please describe your educational background and work experience.**

6 A. My witness qualification statement is found in exhibit CUB/101.

7 **Q. Did you prepare any exhibits for this docket?**

8 A. Yes. I prepared the following exhibits:

9 **CUB/102** UG 347 - Cascade's Response to CUB DR 7.

10 **CUB/103** Cascade Internal Document: "2018 Budget Additional System Integrity
11 Staff"

12 **CUB/104** UM 1816- Cascade's Response to Staff DR 4.

13 **CUB/105** Trends in consumer expenditures and prices for public utilities (2018)

14 Dr. Janice Beecher.

1 **Q. What is the purpose of your testimony?**

2 A. In my testimony, I address issues and concerns that CUB has with Cascade Natural
3 Gas Corporation's (Cascade or the Company) initial testimony in this request for a
4 general rate revision, filed May 31, 2018. My testimony makes several
5 recommendations to the Public Utility Commission of Oregon (Commission)
6 regarding the Company's revenue requirement requests and certain policy issues
7 raised by the Company's filing.

8 **Q. How is your testimony organized?**

9 A. My testimony is organized as follows:

- 10 I. Field Visit Charge
- 11 II. Returned Payment Charge
- 12 III. Plant Additions: Power Equipment
- 13 IV. Oregon Corporate Income Tax
- 14 V. Pipeline Safety Cost Recovery
- 15 VI. MDU Cross Charges
- 16 VII. UM 1816 Deferral
- 17 VIII. Real Time Weather Decoupling
- 18 IX. Suspension of Security Deposits for Residential Customers

I. Field Visit Charge

19 **Q. What is a Field Visit Charge?**

20 A. A Field Visit Charge is a charge to cover the cost of metering reading and issuing a
21 closing bill when a customer's service is disconnected.¹ OAR 860-021-0420

¹ <https://www.cngc.com/rates-services/residential-services>

1 authorizes energy utilities to charge a fee whenever an energy utility visits a
2 residential service address intending to reconnect or disconnect service, but, due to
3 customer action, the energy utility is unable to complete the reconnection or
4 disconnection at the time of the visit.

5 **Q. Please summarize the Company's proposed changes to Miscellaneous**
6 **Charges in regards to its Field Visit Charge.**

7 A. In its initial filing, the Company proposed to increase Field Visit Charge from \$10
8 to \$20.²

9 **Q. Why is Cascade increasing the Field Visit Charge?**

10 A. That remains unclear. The Company stated that increasing its Field Visit Charge is
11 necessary due to increased costs.³ Another stated reason for the Company's
12 proposed increase is to keep Cascade's Field Visit Charge in line with other energy
13 utilities in Oregon.⁴

14 **Q. Has Cascade provided sufficient evidence to demonstrate that the costs**
15 **associated with Field Visit Charges have increased?**

16 A. No.⁵ The Company has been unable to track the annual cost of Field Visit Charges
17 for Oregon.

18 **Q. Why does CUB oppose the Company's proposed increase to its Field Visit**
19 **Charge?**

20 A. Field Visit Charges are solely collected from Cascade's residential customers.
21 Cascade has not provided sufficient evidence to demonstrate that the cost

² UG 347 – Cascade/500/Archer/6/Lines 10-12.

³ UG 347 – Cascade/500/Archer/6/Lines 15-17.

⁴ UG 347 – Cascade/500/Archer/6/Lines 17-19.

⁵ See Exhibit CUB/102.

1 associated with Field Visit Charges is equal to revenue generated from Field Visit
2 Charges.

3 **Q. What is CUB's recommendation?**

4 **A.** CUB recommends the Commission deny the Company's request to increase the
5 field visit charge from \$10 to \$20. The Company has not provided the requisite
6 evidence to support levying this higher fee on the residential customers that
7 CUB represents.

II. Returned Payment Charge

8 **Q. Please summarize the Company's proposed changes to Miscellaneous**
9 **Charges.**

10 A. In its initial filing, the Company proposed to increase the Returned Payment
11 Charge, from \$10 to \$25.⁶ The Company's proposal demonstrates a 150% increase
12 in the Returned Payment Charge.

13 **Q. What are Returned Payment Charges?**

14 A. When Cascade returns a payment that it has collected from customers, financial
15 institutions charge bank fees to the Company.⁷ Financial intuitions charge for
16 returned checks and returned electronic transactions.

17 **Q. What has been Cascade's cost per instance of returned payment?**

18 A. In discovery, CUB asked Cascade to provide the Oregon-allocated cost associated
19 with returned payments. The four-year average of the cost to Cascade's returned
20 payment charge is \$3.62. The cost of the Returned Payment Charge is lower than

⁶ UG 347 – CNGC/500/Archer/6, lines 11-12.

⁷ UG 347 – CNGC/500/Archer/6, lines 15-17.

1 \$25. Since the costs incurred by the utility are less than the charge increase it is
2 seeking, CUB believes Cascade must maintain a Returned Payment Charge of \$10.

3 **Q. Why is CUB seeking no change to the Returned Payment Charge?**

4 A. Maintaining a \$10 returned payment charge would enable Cascade to recover its
5 costs occurred from bank charges. Cascade's costs do not demonstrate that an
6 increase to the charge is necessary. The Company has failed to provide requisite
7 evidence to support its request.

III. Plant Additions: Power Equipment

8 **Q. Please summarize your adjustment.**

9 A. The Company is seeking to add \$730,721.28 in Power Equipment capital costs to
10 rate base. The Company has been improperly trading in functioning one-year-old
11 power equipment with many years of useful life left for brand new equipment in
12 order to artificially increase its rate base. The Company is attempting to avoid
13 regulatory lag by swapping out year-old equipment for brand new equipment in
14 anticipation of this rate case. In order to control costs, utility companies should
15 keep power equipment for more than one year. These plant additions should be
16 disallowed.

17 **Q. What are the generally accepted accounting principles (GAAP)**
18 **requirements associated with characterizing something as a capital**
19 **investment?**

20 A. Company purchases must have an expected useful life of more than one year to be
21 considered capital expenditures. Capital expenditures allow utilities to spread the

1 expense of the asset over the life of the asset, while receiving a return on the
2 investment over the useful life as well.

3 **Q. What is the Company's purchase strategy with power equipment in the test**
4 **year?**

5 A. The Company is trading in identical model power equipment from 2017 and
6 replacing the equipment in 2018 in order to avoid regulatory lag.

7 **Q. What warranty is offered on the power equipment?**

8 A. Caterpillar, for example, typically offers a 2-3 warranty on its power equipment.
9 The 2017 traded-in power equipment was still covered under a warranty.

10 **Q. Has CUB reviewed all of the company's power equipment purchases?**

11 A. No. Cascade still has until December 2018 to purchase additional power
12 equipment. CUB will be monitoring additional plant additions.

13 **Q. What is the impact associated with this adjustment?**

14 A. The revenue requirement impact associated with this adjustment is (81,952).
15 Additionally, CUB recommends that this amount be removed from rate base.

IV. Oregon Corporate Income Tax

16 **Q. Please summarize the Company's proposed changes to Miscellaneous**
17 **Charges.**

18 A. In its initial filing, the Company assumed an Oregon corporate income tax rate of
19 7.6%. The state of Oregon imposes a 6.6% corporate income tax on Oregon
20 originated sales income up to \$1 million and 7.6% above \$1 million.⁸ CUB

⁸ Oregon HB 3601 (2013).

1 proposes an adjustment to cover this change in the tax rate. This adjustment is
2 calculated at 1% of 1,000,000, which should cover the difference in the tax rate.

3 **Q. What is the impact of this adjustment?**

4 A. The impact associated with this adjustment is a \$10,000 reduction to revenue
5 requirement.

V. Employee Incentives

6 **Q. What is the Company's position on employee incentives?**

7 A. The Company has excluded executive pay and included 100% of incentives paid to
8 non-executive employees. The Company asserts that employee is essential to
9 retain and retain a workforce. The Commission has historically only 50% of
10 portion of employee incentive plans in customer rates, based on the view that these
11 plans benefit shareholders instead of customers.⁹ Cascade disagrees with this
12 viewpoint and asks that the Commission open a generic proceeding, including all
13 stakeholders to reevaluate this issue.

14 **Q. What is a proxy statement?**

15 A. A proxy statement is a Securities and Exchange Commission document that
16 informs shareholders about matters discussed at a publically traded corporation's
17 annual public meeting.

18 **Q. What has Cascade's parent company stated about employee incentives in
19 its proxy statement?**

20 A. In Montana-Dakota Utilities' (MDU) most recent proxy statement, the
21 compensation committee set compensation in 2018 in order to link performance-

⁹ Order 99-697.

1 based annual and long-term incentives to company financial performance and
2 shareholder value.¹⁰ MDU wholly owns Cascade.

3 **Q. What is CUB's position on employee incentives?**

4 A. CUB believes that most employee incentives should be removed from rates.
5 Employee incentives primarily benefit shareholders and do not benefit utility
6 customers. To CUB, the only appropriate employee incentives are incentives tied
7 directly to service goals. The Commission has already ruled on employee
8 incentives in numerous rate cases.¹¹ 100% of executive compensation is excluded
9 from rates and 50% of non-executive compensation is excluded from rates. CUB
10 would agree to an incentive framework that follows the Commission's well-
11 established precedent.

VI. MDU Resources Group, Inc. Cross Charges

12 **Q. What is the corporate structure of MDUR?**

13 A. MDU Resources Group, Inc. (MDUR) is the parent company of Cascade Natural
14 Gas Corporation. MDUR owns various regulated local distribution gas companies
15 throughout the United States.

16 **Q. What OAR governs the allocation of costs by an energy utility?**

17 A. OAR 860-027-0048 provides guidelines on the allocation of costs between a utility
18 and its parent company.

19 **Q. Per the administrative rules, what must Cascade prove in order to allocate**
20 **services between its sister organizations?**

¹⁰ <http://investor.mdu.com/static-files/3987d83f-c5fa-4e9e-8307-32dd48e30a04>

¹¹ Order No. 99-697.

1 A. For a transfer between nonregulated and regulated accounts, Cascade must
2 demonstrate that the cost of the service is at the energy utility's cost or the market
3 rate, whichever is higher.¹² For transfers between affiliates, services or supplies
4 must meet the same standard.

5 **Q. Does any additional legal standard govern Cascade's ability to allocate**
6 **costs from its subsidiary?**

7 A. Yes. The Company must demonstrate that the costs are necessary for providing
8 essential utility service. The burden of proof is not with intervenors; the burden of
9 proof lies with utilities.¹³

10 **Q. When presenting line item transactional data, how does Cascade present**
11 **utility cross charges?**

12 A. The Company does not provide an adequate description of the cross charge. Below
13 is an excerpt of Cascade's accounts.

14

Excerpt from Cascade's FERC			
MDUR 03-2017	MDUR Cross Charge 29995	\$ 4.07	930
MDUR 04-2017	MDUR Cross Charge 29995	\$ 25.97	930

15

16 **Q. Is it possible to determine the prudence of these cross charges given the**
17 **information provided?**

18 A. No. There is insufficient information to determine whether the types of charges are
19 appropriate.

¹² OAR 860-027-0048 3(d).

¹³ *In re Portland General Electric Company Application to Amortize the Boardman Deferral*, OPUC Docket No. UE 196, Order No. 09-046 at 7 (Feb. 5, 2009).

1 **Q. Should stakeholders carry the burden of proof with regards to cross**
2 **charges?**

3 A. No. The legal burden is on the Company to provide requisite evidence to
4 demonstrate that the charges are prudently incurred and necessary for essential
5 utility service. It would be administratively burdensome for stakeholders to ask
6 discovery on each individual line item.

7 **Q. What is CUB's proposal with regards to Cascade's cross charges?**

8 A. Cascade should to commit to providing a description of each cross charge. In
9 future rate cases, the Company should be required to provide a description of each
10 cross charge transaction. If a utility does not provide a description of the data, then
11 that expense should be disallowed.

VII. Pipeline Safety Cost Recovery Mechanism (SCRM)

12 **Q. Please summarize CUB's position on this issue.**

13 A. At this time, CUB is not taking a position with regards to the Company's pipeline
14 Safety Cost Recovery Mechanism. CUB plans to review the testimony of the Staff
15 of the Oregon Public Utility Commission (Staff) and other intervenors filed in this
16 case. CUB reserves the right to raise issues related to this mechanism throughout
17 the pendency of this case.

VIII. Amortization of Deferred Costs under Docket UM 1816

18 **Q. Please summarize your issue.**

19 A. Cascade has asked the Company to approve a deferral for one-time costs paid to
20 perform a records review of Cascade's high-pressure distribution and transmission

1 pipelines.¹⁴ CUB asks the Commission to not approve this deferral because it does
2 not meet the necessary conditions to be granted.

3 **Q. What is Cascade proposing with regards to the deferral filed under UM**
4 **1816?**

5 A. Generally, deferred accounting applications allow a utility to track costs and
6 revenues without passing them to customers until a later time. Cascade is
7 attempting to collect expenses related to a records review in 2017 in this rate case
8 related to the pressurization of its pipeline system.

9 **Q. Why did Cascade hire a third-party vendor to perform of review of its**
10 **high-pressure pipeline system, rather than using internal employees?**

11 A. Cascade should have hired more staff members to perform the MAOP records
12 review.¹⁵ Cascade lacked the internal resources to complete the review work in a
13 timely manner.¹⁶ Cascade did not need to hire a third-party vendor. It is integral to
14 the operation of its system that Cascade maintain traceable, verifiable, and
15 complete records of their systems. This fits within a utility's duty to provide safe,
16 affordable, and reliable service to its customers. Rather than contract with a third-
17 party vendor—which the Oregon Commission did not request—the Company could
18 have mitigated costs to ratepayers by having internal employees perform this
19 review.

¹⁴ UG 347/ CNGC/200/Parvinen/4/Lines 11-13.

¹⁵ CUB Exhibit 103.

¹⁶ CUB Exhibit 104.

1 **Q. Should ratepayers be required to pay for the documentation of Cascade’s**
2 **maximum allowable operating pressure (MAOP)?**

3 A. No. It is a routine part of utility operations for a utility to have accurate records of
4 its high pressure distribution and transmission pipelines. Cascade should have
5 maintained accurate records of its pipeline system since federal guidelines required
6 the pipeline records to be complete. Cascade hired a third-party consultant to
7 review its MAOP records, because it lacked the internal resources to review its
8 safety records. Cascade should have maintained adequate staffing to perform this
9 work. Additionally, Cascade is not yet required by law in Oregon to adhere to the
10 “traceable, verifiable, and complete” standard that the MAOP review sought to
11 ascertain.¹⁷ The Company unilaterally sought to perform this review based upon a
12 ruling in Washington. This deferral request does not meet the Commission
13 standard to be granted. CUB, therefore, asks the Commission to reject the
14 Company’s request to amortize the amounts accrued in the deferral request in UM
15 1816.

IX. Real Time Weather Decoupling

16 **Q. What is decoupling?**

17 A. Decoupling is a mechanism that eliminates the link between utility sales and
18 profit.¹⁸ That is, under a traditional paradigm, utilities are incented to sell more
19 therms or electrons to increase their profit margin. Under decoupling, a utility is
20 unable to increase its earnings by increasing sales volume.

21 **Q. What are the two elements of Cascade’s decoupling mechanism?**

¹⁷ UG 347/ CNGC/200/ Parvinen/ Page 6.

¹⁸ OPUC Order No. 95-332.

1 A. Cascade’s decoupling mechanism (CAP) consists of two deferral accounts, one to
2 track changes in margin due to variations in weather-normalized usage (i.e.,
3 fluctuations in retail sales) and another to track changes in margin due to weather
4 variation.¹⁹ The first deferral is meant to break the link between sales and profit in
5 order to encourage energy conservation. The second deferral account, which tracks
6 changes in margin due to weather variation, is meant to minimize usage variation
7 due to weather.

8 **Q. What changes should be done on Cascade’s decoupling mechanism?**

9 A. The CAP decoupling program should move to a real-time recovery of the weather-
10 related adjustment component of decoupling. CUB is proposing that Cascade
11 move to a program similar to NW Natural’s WARM program. A real-time weather
12 decoupling mechanism would adjust for weather in each billing cycle. Under a
13 real-time weather decoupling program, when a billing month is warmer than
14 normal, customers pay more to cover fixed costs, but have lower bills due to less
15 gas consumption. Further, CUB has concerns that weather-related decoupling may
16 be illegal in Oregon as impermissible retroactive ratemaking.²⁰ CUB intends to
17 appropriately address any legal concerns with Cascade’s decoupling mechanism in
18 briefing.

19 **Q. What is a drawback of Cascade’s current CAP weather deferral?**

20 A. The Company’s current weather deferral enables Cascade to defer the changes in
21 margin due to weather to a future year. If Cascade’s service territory experiences a
22 frigid winter followed by a mild winter, the current CAP mechanism could

¹⁹ OPUC Order No. 06-608 and OPUC Order No. 13-079.

²⁰ See UG 344 – CUB/100/Jenks – Gehrke/29.

1 exacerbate winter heating bills for ratepayers. A real-time weather decoupling
2 adjustment would minimize the year over year variation in heating bills. This
3 change is in the public interest because it insulates ratepayers from seasonal bill
4 shock while enabling the Company to be adequately compensated.

5 **Q. Does real-time weather decoupling affect the Company’s position on energy**
6 **conservation?**

7 A. No. The impact of weather is independent of utility actions. A weather adjustment
8 does not affect the utility’s overall behavior.

9 **Q. What is retroactive ratemaking?**

10 A. Retroactive ratemaking occurs when an additional charge is made for past use of
11 utility service, pursuant to then lawfully established rates, for such past use.

12 Retroactive ratemaking is generally prohibited because it protects ratepayers from
13 not being required to pay for previous company deficits in future rates.

14 **Q. Does CUB have a legal objection to the structure of Cascade’s current**
15 **decoupling program?**

16 A. Yes. In 1986, the Oregon Attorney General issued an opinion, stating that
17 retroactive ratemaking was prohibited.²¹ The Attorney General called retroactive
18 ratemaking “evil.” Shortly after this AG opinion, deferred accounting was allowed
19 as an exception to retroactive ratemaking in certain circumstances.²² The deferral
20 statute that arose from the AG opinion allows retroactive ratemaking when
21 decoupling creates lost revenues or profits related to energy conservation programs.

22 The statute does not authorize the use of deferred accounting for weather decoupling

²¹ UG 344/ CUB/Jenks-Gehrke/120.

²² ORS 757.259.

1 programs. Therefore, CUB believes that using deferrals for weather decoupling
2 may not be legal. Using a real-time decoupling mechanism would avoid the use of
3 a deferral for weather decoupling. CUB is prepared to litigate this legal issue
4 before the Commission and will appropriately fully address its legal argument in
5 briefing.

X. Residential Customer Deposits

6 **Q. Please provide a summary of Cascade’s residential customer deposit**
7 **program.**

8 A. In order to open an account with Cascade, a residential customer, if unable to
9 demonstrate good credit, may be required to establish a security deposit with
10 Cascade.

11 **Q. How does Cascade determine what constitutes “good credit” in Oregon?**

12 A. A residential customer must be able to demonstrate good credit. Cascade’s Rule 3
13 enumerates the conditions for establishing good credit. Its rules follow the
14 Commission’s standards for establishing good credit.²³

15 A prospective customer must demonstrate the following requirements in order to
16 demonstrate good credit:

- 17 1. Received twelve months of continuous utility service in the preceding 24-
18 month period and the utility can verify that the applicant voluntarily
19 terminated service and paid for services as required.

²³ Order No. 03-550.

- 1 2. Provides proof of ability to pay by providing either proof of employment
2 during the prior 12-month period, or statement by income provider that
3 applicant has a regular source of income.
- 4 3. Meets the Commission approved minimum credit requirement based on third
5 party report score or the Company's own credit scoring formula.

6 **Q. What happens to a residential customer that is unable to demonstrate good**
7 **credit?**

- 8 A. Under Cascade's current framework, if a customer is unable to demonstrate good
9 credit, the customer may be required to place security deposit in order to receive
10 essential utility service. The deposit is not allowed to exceed one sixth the amount
11 of reasonable estimated billing for one year at rates then in effect.

12 **Q. How quickly must a security deposit be paid to the Company?**

- 13 A. A customer either has the option to pay the deposit in full, or in three installments
14 over 60 days.

15 **Q. What is CUB proposing with regards to residential customer deposits?**

- 16 A. CUB is proposing that Cascade suspend the collection of residential customer
17 deposits for two years.²⁴ If a Cascade customer needs a security deposit to
18 establish service prior to the rate effective date of April 1st, 2019, the customer will
19 still be required to maintain a security deposit.

20 **Q. What inspired CUB to propose this change?**

²⁴ CUB is proposing that security deposits be suspended for a two-year period from April 1st, 2019 to April 1st, 2021.

1 A. Avista agreed, as a condition of the Avista-Hydro One merger, to no longer collect
2 residential customer deposits for residential customers.²⁵ Since one utility in
3 Oregon was willing to suspend security deposits for residential customers, CUB
4 wanted to explore this policy at other utilities.

5 **Q. Why is CUB proposing this change?**

6 A. CUB believes that security deposits are burdensome on low-income residential
7 customers. A low-income household by definition makes less than the average
8 household. If you compare consumer expenditures on natural gas service across
9 five quintiles, the lowest income quintile pays the largest proportion of income to
10 natural gas service.²⁶ On a proportional basis, low income households pay a larger
11 portion of their income for natural gas service. A low income household will face
12 an additional burden if presented with a security deposit. Much of Cascade's
13 Oregon service territory is comprised of communities of lower socioeconomic
14 status.

15 Studies have shown that low income households have a significantly higher
16 unemployment rate than middle and high income households.²⁷ Lowest income
17 customers are more likely to have a security deposit, due to a difficulty in
18 maintaining steady employment. A recent survey by Bankrate found that only
19 39% of American's have enough savings to cover a \$1000 emergency.²⁸ Bankrate

²⁵ While CUB notes that approval of the Avista-Hydro One merger stipulation is very much pending, it is important to note that all parties, at the time of execution, found this condition to be reasonable and in the public interest.

²⁶ CUB Exhibit 105.

²⁷ Andrew Sum & Ishwar Khatiwada, *Labor Underutilization Problems of U.S. Workers Across Household Income Groups at the End of the Great Recession: A Truly Great Depression Among the Nation's Low Income Workers Amidst Full Employment Among the Most Affluent*, (2010), <http://hdl.handle.net/2047/d20000593>.

²⁸ <https://www.bankrate.com/banking/savings/financial-security-0118/>

1 also stated “[l]ower wage earners, those making less than \$30,000 a year, were
2 twice as likely to use some form of borrowing than savings, while households
3 making more than \$50,000 were more apt to use cash.”²⁹ In aggregate, credit is
4 used by low income households to cover unexpected expenses like utility security
5 deposits. The debt-to-income ratio of lower income households is higher relative
6 to households with greater income. Low income households are less likely to have
7 their security deposits waived. Proof of stable employment or a satisfactory credit
8 score does not guarantee that the utility will receive a payment from customers.
9 Since low-income households are most adversely affected by security deposits,
10 CUB believes that equity considerations dictate that Cascade’s security deposit
11 practice be abandoned.

12 **Q. What about the impact of customer deposits on uncollectible rates?**

13 A. CUB does not believe that suspending for residential customer deposits will have a
14 significant impact on uncollectibles. However, CUB is open to having a deferral
15 associated with an increase in uncollectible accounts.

16 **Q. Why is CUB proposing a two-year program eliminating customer deposits?**

17 A. CUB is proposing this a pilot program to evaluate the effect of residential customer
18 deposits and to minimize the impact on low-income households. CUB would like
19 to evaluate the impact of suspending residential customer deposits. After two
20 years, the Company will be able to file a compliance filing before the Commission.
21 This compliance filing should give stakeholders to comment on the results of the
22 program.

²⁹ *Id.*

XI. Conclusion

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

WITNESS QUALIFICATION STATEMENT

NAME: William Gehrke

EMPLOYER: Oregon Citizens' Utility Board

TITLE: Economist

ADDRESS: 610 SW Broadway, Suite 400
Portland, OR 97205

EDUCATION: MS, Applied Economics
Florida State University, Tallahassee, FL

BS, Economics
Florida State University, Tallahassee, FL

EXPERIENCE: Provided testimony or comments in several Oregon Commission dockets. Worked as an Economist for the Florida Department of Revenue. Worked as Utility Analyst at the Florida Public Service Commission, providing advice on rate cases and load forecasting. Attended the Institute of Public Utilities Annual Regulatory Studies program in 2018.

CASCADE NATURAL GAS CORPORATION
Citizens' Utility Board of Oregon
General Rate Case
UG 347

Date prepared: July 11, 2018
Preparer: Pamela Archer
Contact: Pamela Archer
Telephone: (509)-734-4591

CUB DATA REQUEST NO. 7

Please refer to UG 347/CNGC/ 500/ Archer/6/ Line 12. What was the Oregon only annual cost of Field Visit Charges for Cascade Natural 2014, 2015, 2016, and 2017?

Response:

The Company does not have an exact calculation for the OR only annual cost of field visit charges for 2014, 2015, 2016, and 2017. As previously stated in the testimony of Company witness Archer, the Company is proposing to increase the cost of this charge to get itself in line with what the other gas companies in OR charge for this same or similar service.

2018 Budget

Additional System Integrity Staff

Submitted By: Ryan Privratsky - Director, System Integrity

July 31, 2017

The System Integrity Department is a newly created department at Cascade and has been operating with the current staffing since the beginning of this year, which consists of a director and two engineers. The original assignment for the engineers within this department was for one engineer to be assigned to manage the Distribution Integrity Management Program (DIMP) and another to Transmission Integrity Management Program (TIMP). Throughout this year the department's responsibilities have become more defined, some responsibilities previously performed by Engineering Services have been shifted to System Integrity, and the needs to effectively perform the tasks required for DIMP, TIMP, and MAOP Validation have become more apparent. The development of the System Integrity department has shown to be a positive action for Cascade to move in a direction of having a larger focus on pipeline safety. However, it has placed a large strain with the staffing as it is, which leads me to respectfully request the hiring of additional personnel. At this time, I am requesting at least two additional engineers to be able to effectively perform current department responsibilities.

With the transition of John and Kathleen from Engineering Services to System Integrity, the main intention was that they would have more time to spend directly on DIMP and TIMP, this hasn't proven to work the way it was intended. Currently they only spend approximately 25% of their time working directly on DIMP and TIMP, this is due to the increased work load required for MAOP Validation. John and Kathleen have done an excellent job in performing the tasks required of them and they are doing their best to keep up with demands, but they are needing additional help to effectively meet all of the requirements of DIMP, TIMP, and MAOP Validation. In addition to the current System Integrity staff, engineers with Engineering Services are currently supporting the System Integrity Department in fulfilling some of the requirements needed for MAOP Validation and Pipe Replacement Projects (Longview, Shelton, Anacortes, and Pendleton). Below is a list of the workload that the System Integrity Department is currently responsible for, as well as other projected responsibilities in the near future:

- Washington MAOP Validation
 - 116 Segments (50% by 12/31/2018, remaining by 12/31/2023)
 - Branch Lines, Facilities, HPSS's (Supplemental plan to WUTC by 12/31/2017, complete validation of additional segments unknown)
- Oregon MAOP Validation (Schedule to complete MAOP Validation in Oregon unknown)
- IP MAOP Validation (Impacts unknown at this time)
- DIMP (Improve Risk Modeling and Risk Input)
- TIMP (NPRM requirements, Baseline Assessments from MAOP Settlement by 12/31/2020, Reassessments, Improve Risk Modeling)
- Increase in Pipe Replacement Work (More pipe replacement projects in the coming years, and majority of the current pipe replacement projects are being completed by Engineering Services)
- Large Capital Budget (\$30-\$40 Million)
- Operational Support (Supporting questions from Districts and Operation Services)
- Procedure/Process Clean-Up and Development
- Material, Construction, Mechanical Fitting Investigation
- Pipeline Safety Management System Requirements

Without additional staffing the focus and commitment needed for DIMP and TIMP will continue to suffer with the increased demands required for MAOP Validation. The current staffing also presents challenges in completing deadlines outlined in the MAOP Settlement Agreement that could inadvertently lead to missing important dates.

The additional staff requested would be mainly allocated to DIMP and MAOP Validation, these proposed positions would demand engineers with industry experience in order to understand the aspects required for TIMP, DIMP, and MAOP Validation. One of the positions would be an Engineer I/II (Level 36/37) position and would be primarily assigned to DIMP and would work alongside Kathleen to meet the requirements needed for DIMP, this would allow Kathleen more time to identify areas of improvement in DIMP and manage pipe replacement projects identified through DIMP. The second would be an Engineer III/Sr (Level 38/39) position and would be primarily assigned to the completion of projects required for MAOP Validation. John would remain responsible for TIMP and would provide additional support to the MAOP Validation work. In addition to this proposal, System Integrity may still require support from Engineering Services in completing some aspects of the MAOP Validation plan and Pipe Replacement Projects. Due to the size and scope of the pipe replacement projects the work has been primarily completed by Engineering Services. If Districts were able to take over additional work required in order to complete these replacement projects it could potentially free up time for System Integrity personnel to concentrate on other responsibilities. District involvement on some of these pipe replacement projects has been limited due to other commitments and lack of District resources. In conclusion, even with the addition of the proposed two new engineers, I foresee that in order to completely separate tasks between Engineering Services and System Integrity additional staffing may be required in the future.

I want to thank you for taking the time to consider this proposal. If you would like to discuss this request as well as any alternative solutions please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Ryan Privratsky". The signature is fluid and cursive, with the first name being more prominent.

Ryan Privratsky
Director, System Integrity

CASCADE NATURAL GAS CORPORATION
Oregon Public Utility Commission
UM 1816

Request No. 4

Date prepared: 10/20/2017

Preparer: Ryan Privratsky, Director, System Integrity

Telephone: 509-734-4599

4. Please explain the reasons why Cascade needs to engage a third-party vendor to perform a review of its high-pressure pipeline system, rather than performing the review with internal resources.

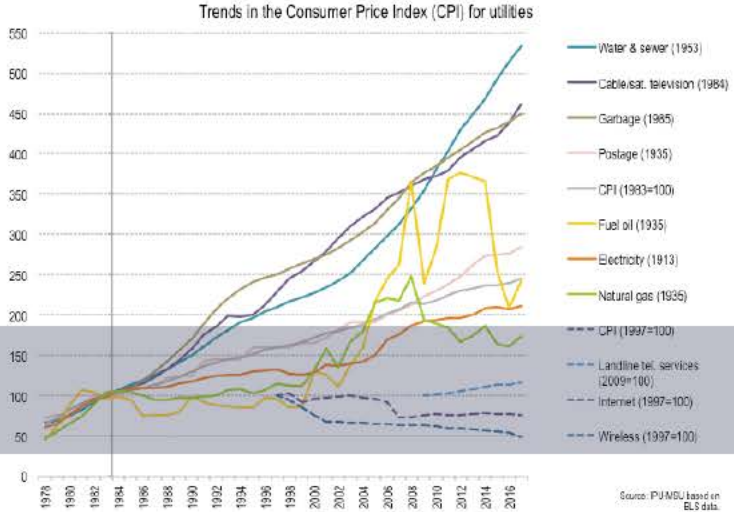
RESPONSE:

The need for a third-party vendor was to allow Cascade to be able to review the records in a more consistent and timely manner. Cascade lacked the internal resources to be able to complete this additional work in the same time the third-party vendor was able to complete the work.

Trends in consumer expenditures and prices for public utilities (2018)

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INSTITUTE OF PUBLIC UTILITIES | MSU
ipu.msu.edu | beecher@msu.edu

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Revised 6/2/18*



Source: PJM/MSU based on ELS data.

MICHIGAN STATE UNIVERSITY

Introduction

- This research summary is based on data from the Bureau of Labor Statistics of the U.S. Department of Labor (<https://www.bls.gov/data>)
- Data are provided on both household expenditures and the consumer price index (CPI) with a focus on public utility services

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

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Databases, Tables & Calculators by Subject

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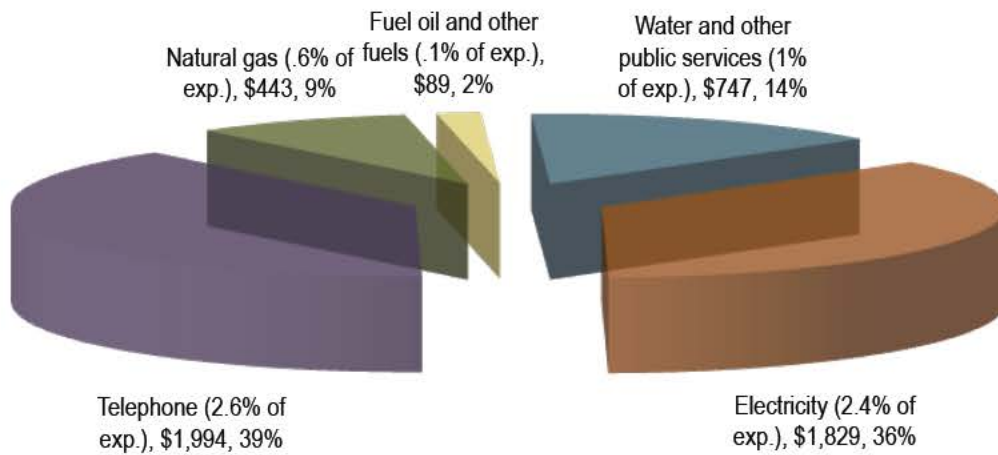
- » [Inflation & Prices](#)
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Inflation & Prices

Database Name	Special Notice	Top Picks	Data Finder	One Screen	Multi-Screen	Tables	Text Files
Prices - Consumer							
All Urban Consumers (Current Series) (Consumer Price Index - CPI)							
Urban Wage Earners and Clerical Workers (Current Series) (Consumer Price Index - CPI)							
All Urban Consumers (Chained CPI) (Consumer Price Index - CPI)							
Average Price Data (Consumer Price Index - CPI)							

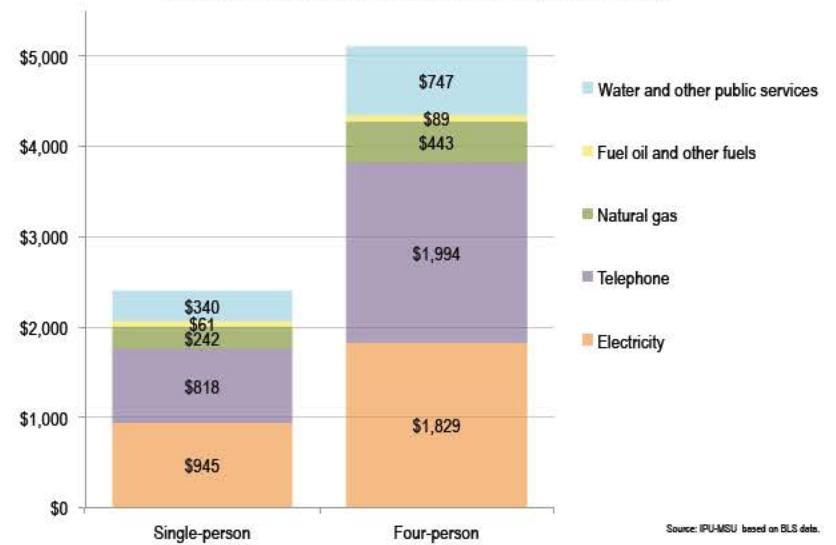
Household expenditures on utilities in the U.S.

Consumer expenditures on utilities for a four-person household in 2016
(\$5,102 and 6.6% of total household expenditures)



Source: IPUMSU based on BLS data.

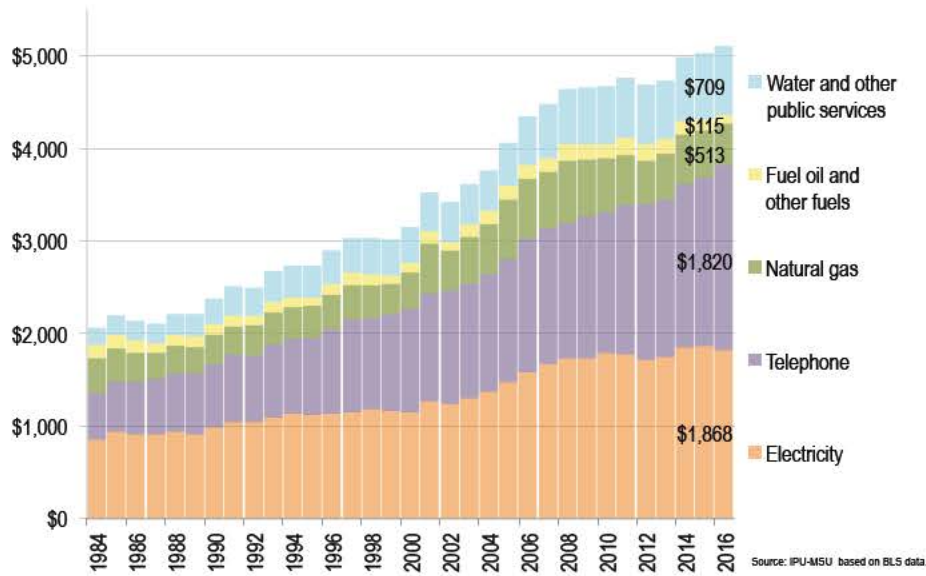
Consumer expenditures on utilities by household size (2016)



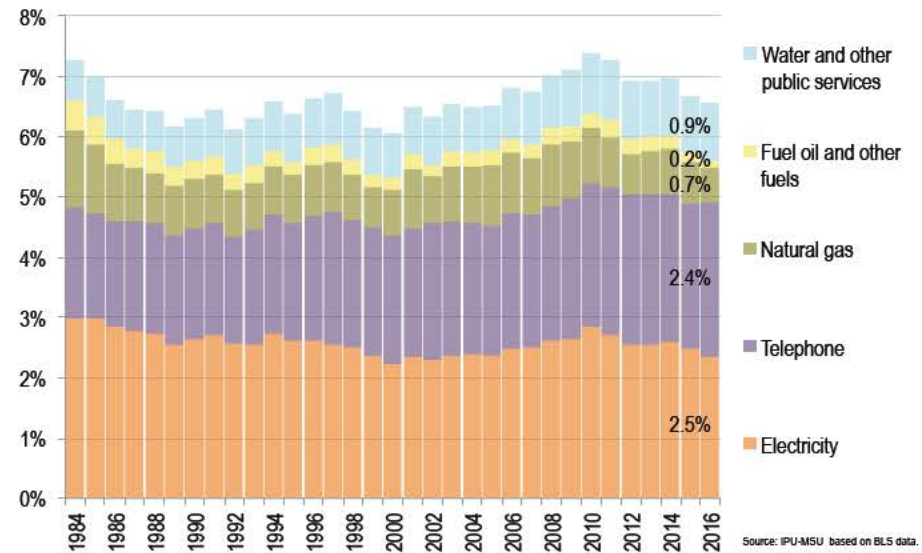
Source: IPUMSU based on BLS data.

Household expenditures on utilities over time

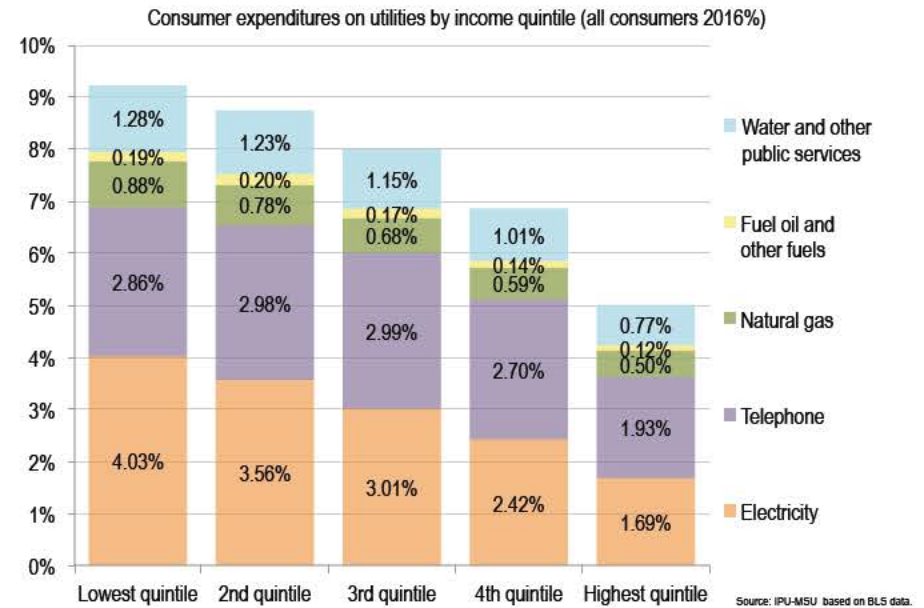
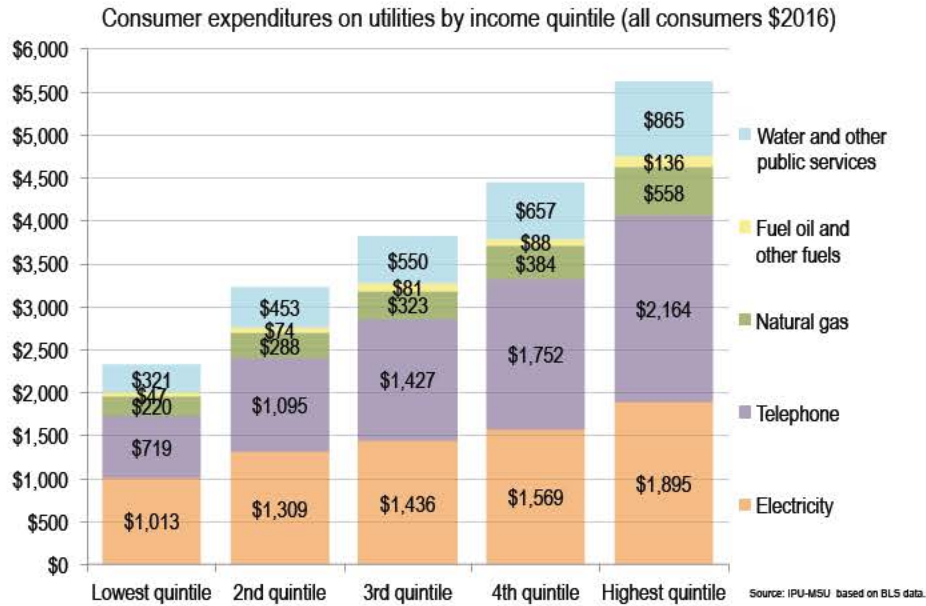
Annual consumer expenditures on utilities for a four-person household (\$)



Consumer expenditures on utilities for a four-person household (% of total expenditures)

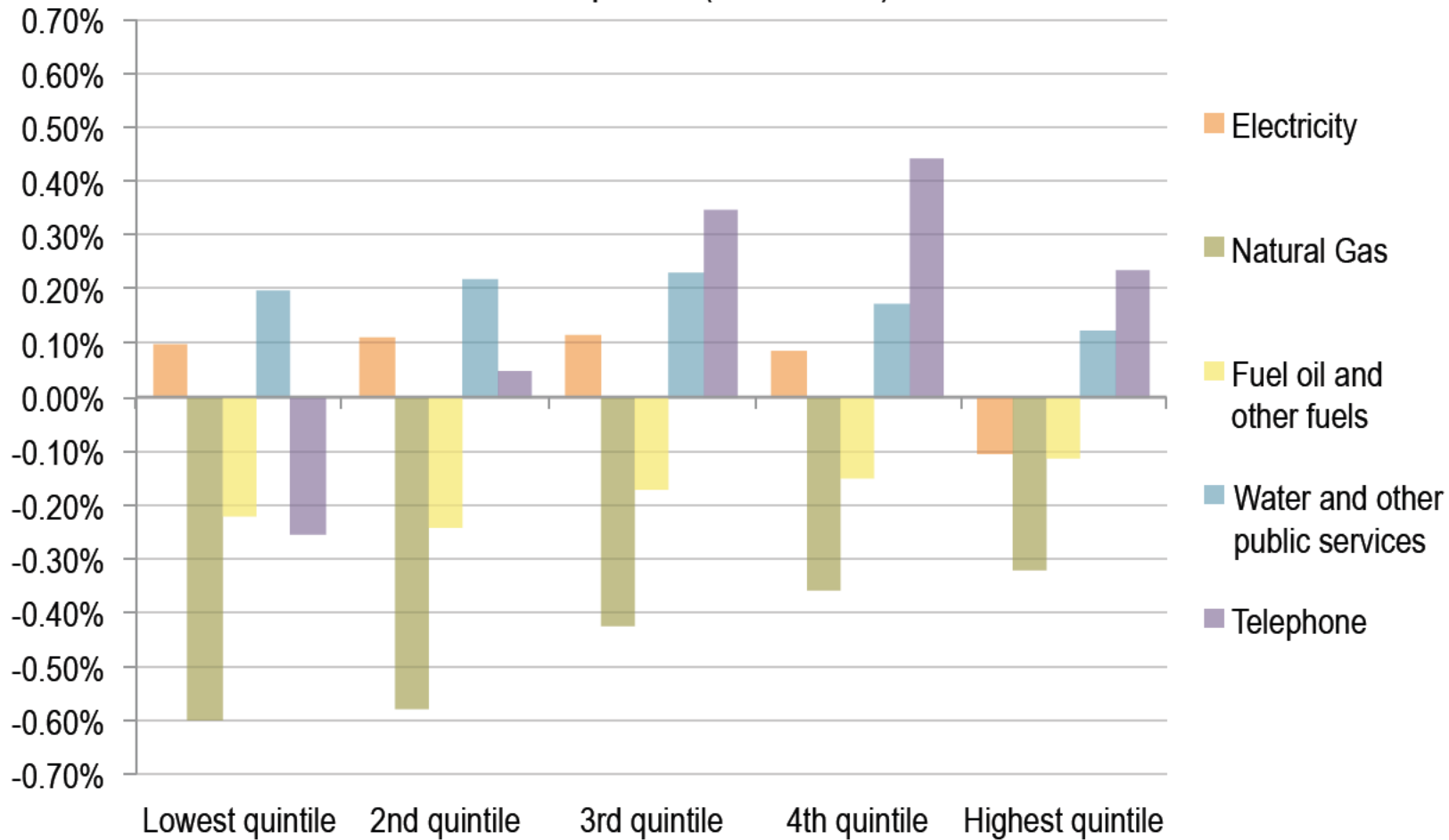


Utilities expenditures by income level and regressivity



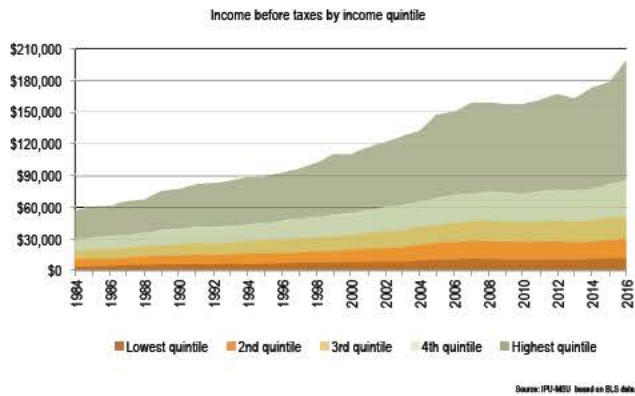
Change in percentage of expenditures on utilities

Change in percentage of consumer expenditures on utilities by income quintile (2006-2016)

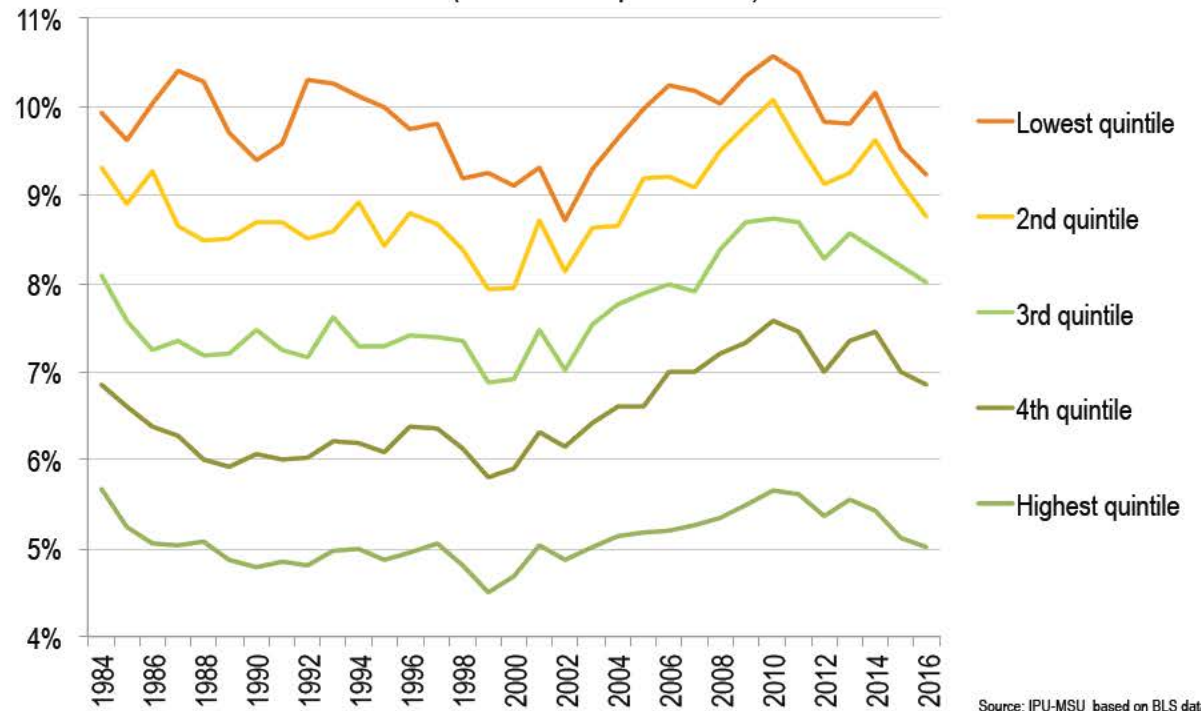


Source: IPU-MSU based on BLS data.

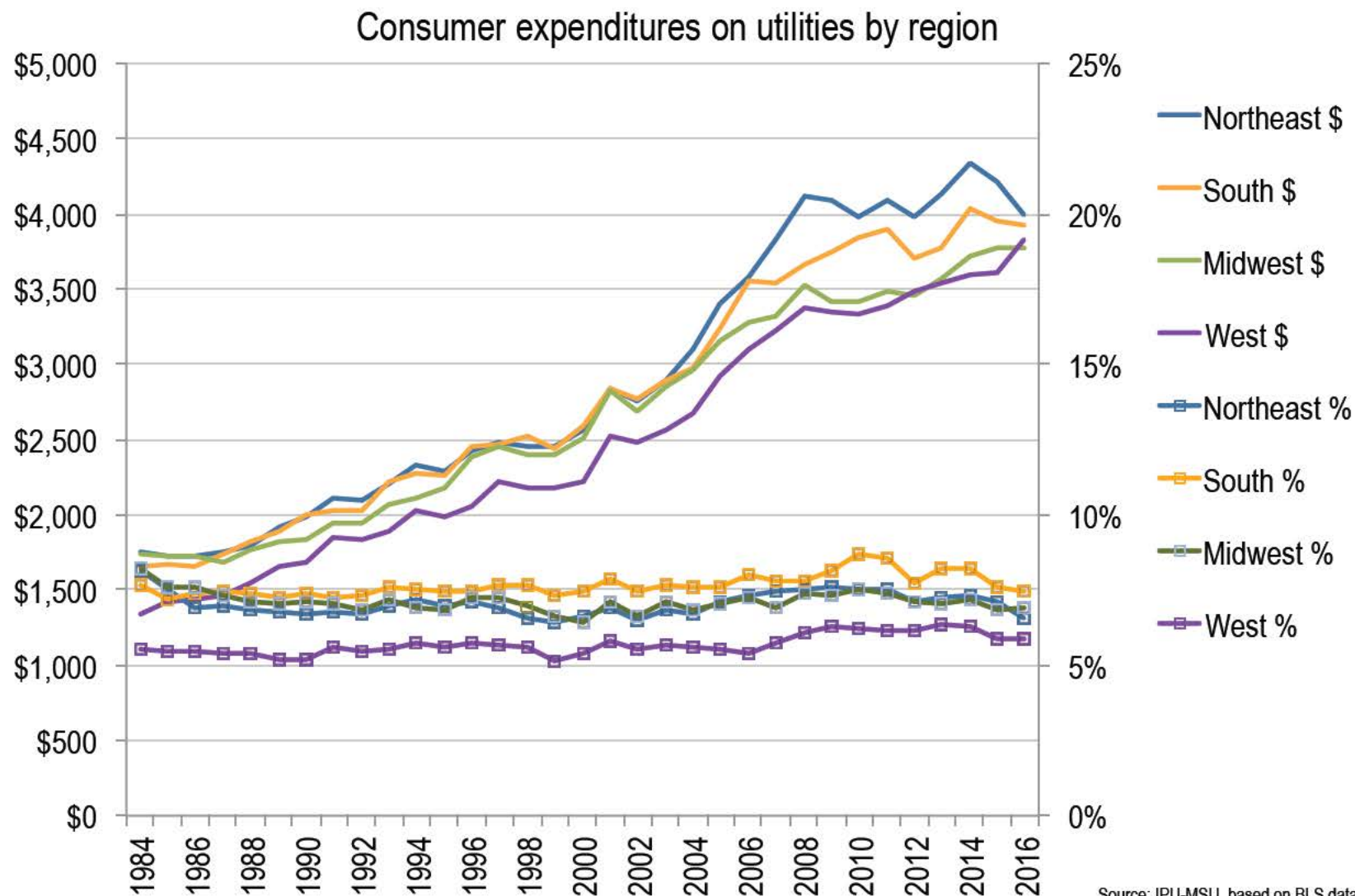
Trends in expenditures by income



Trends in consumer expenditures on utilities by income quintile (% of total expenditures)



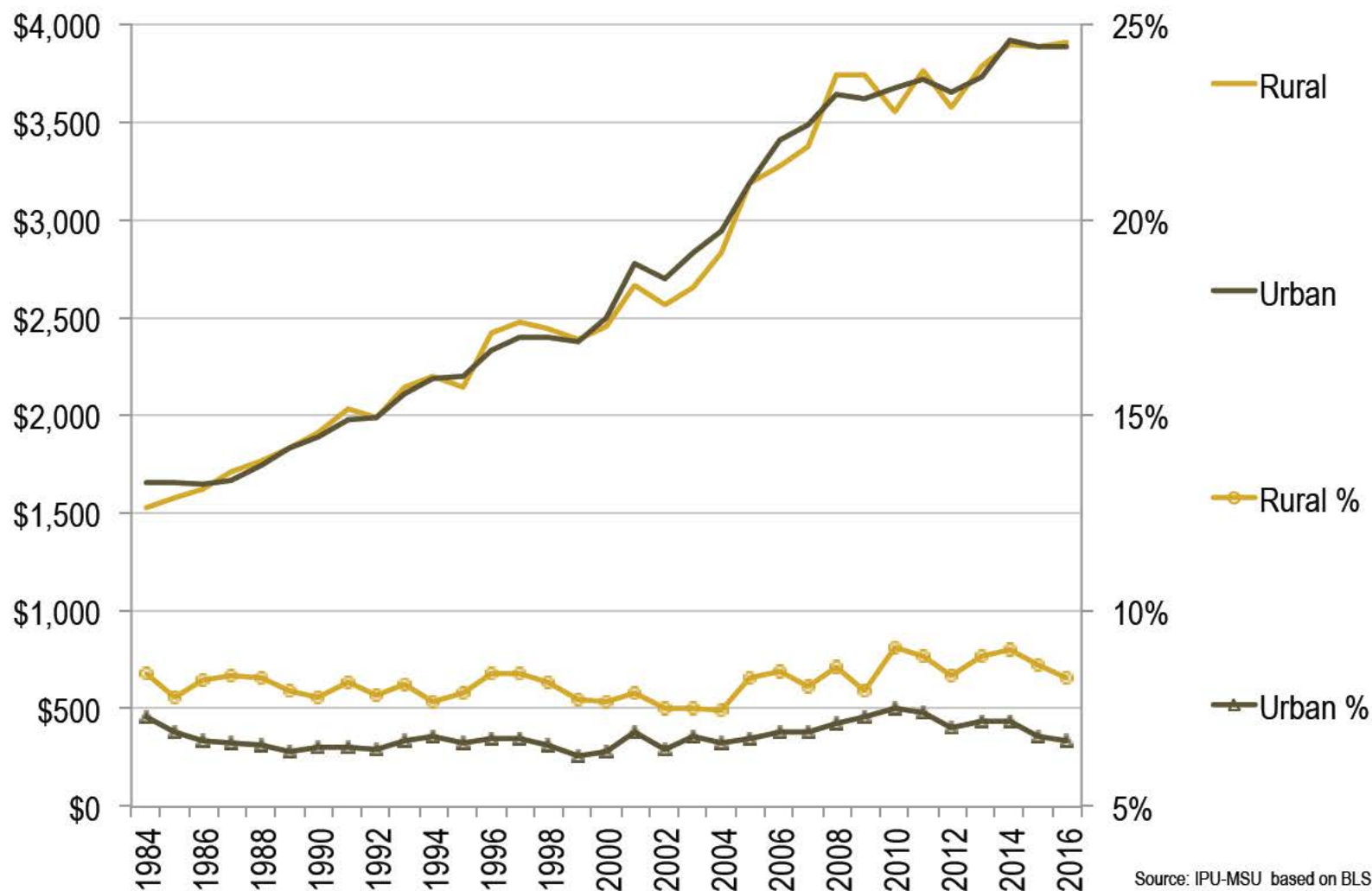
Trends in expenditures by region



Source: IPU-MSU based on BLS data.

Trends in expenditures by area

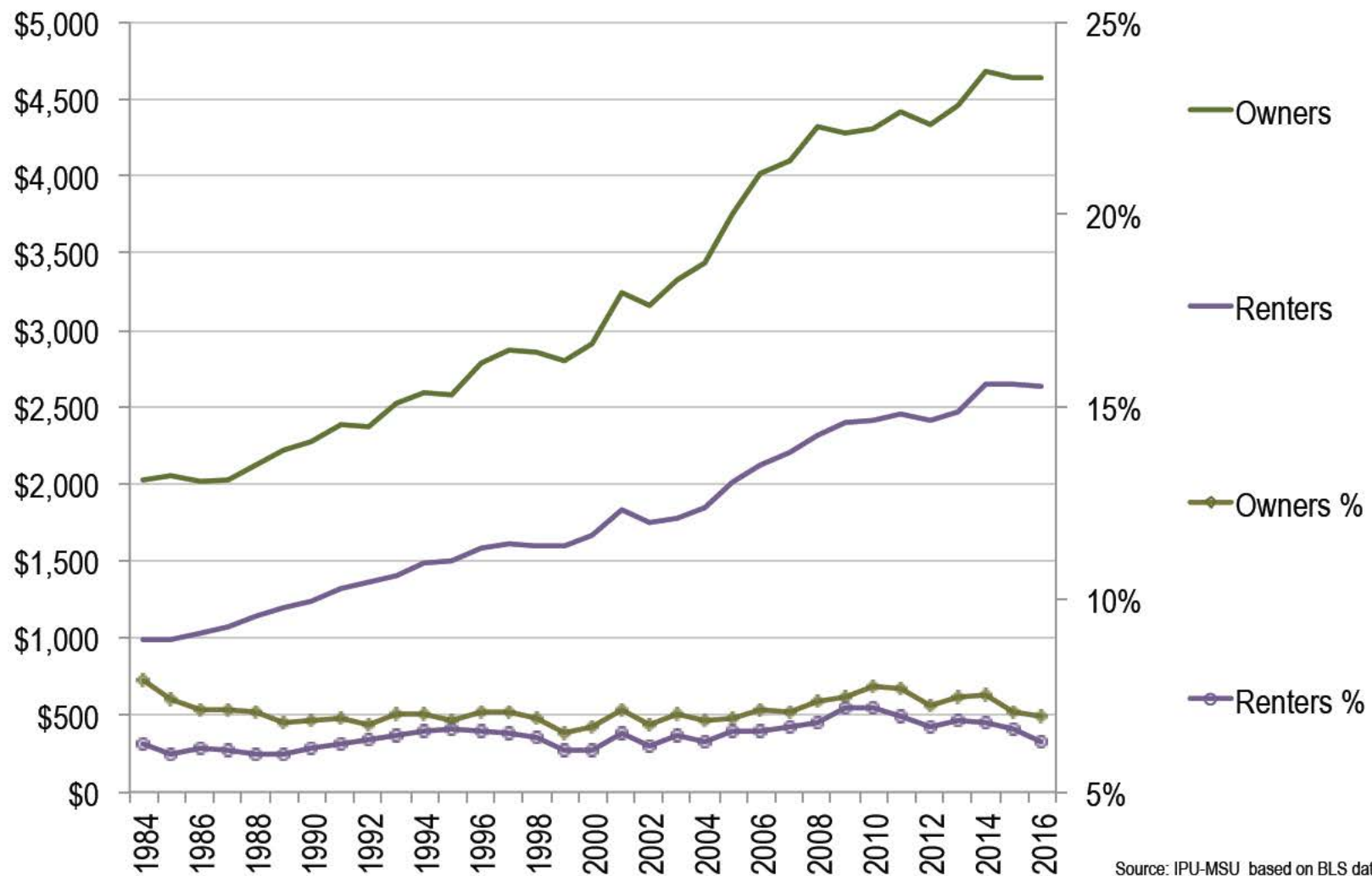
Consumer expenditures on utilities by area



Source: IPU-MSU based on BLS data.

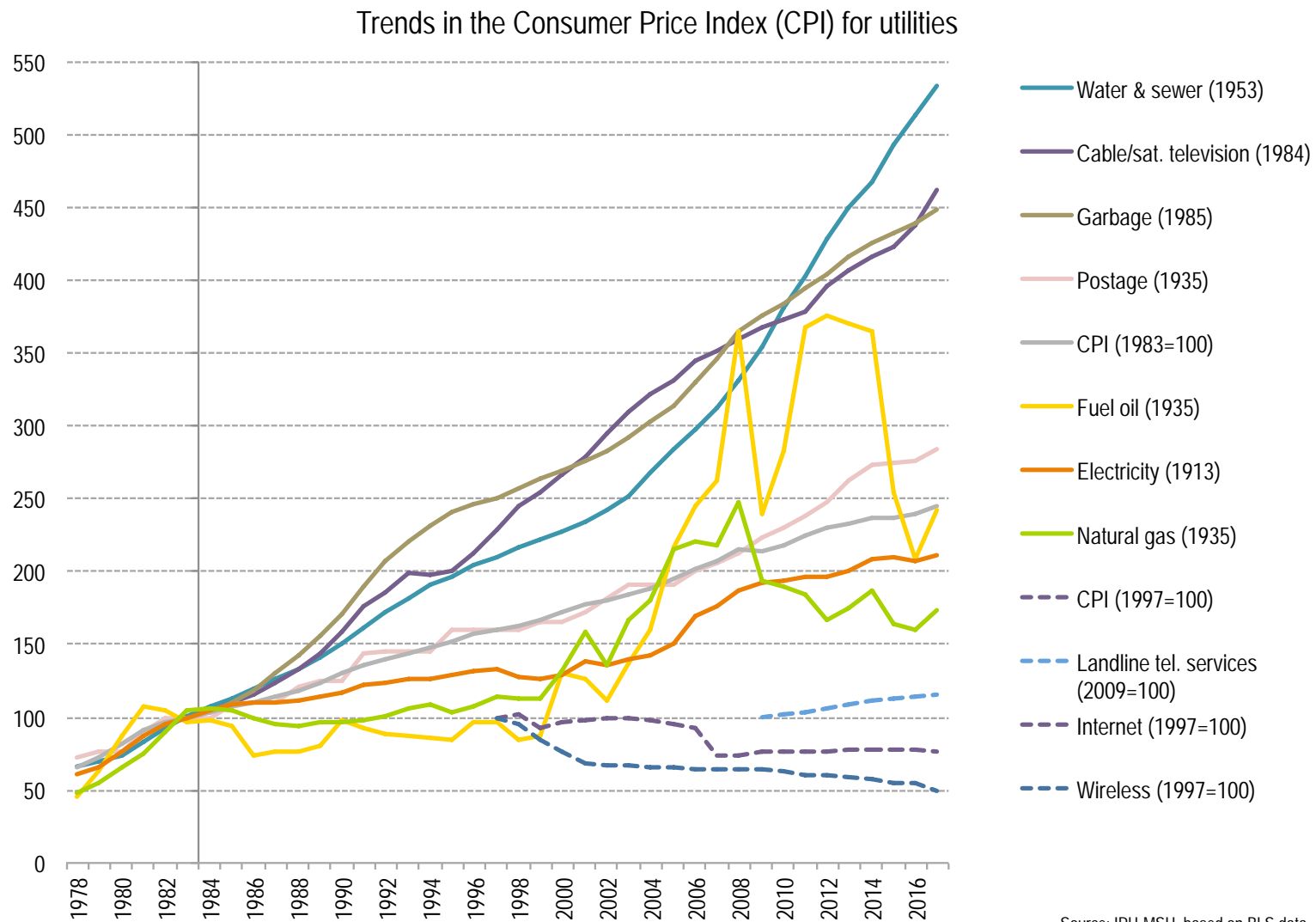
Trends in expenditures by housing

Consumer expenditures on utilities by housing



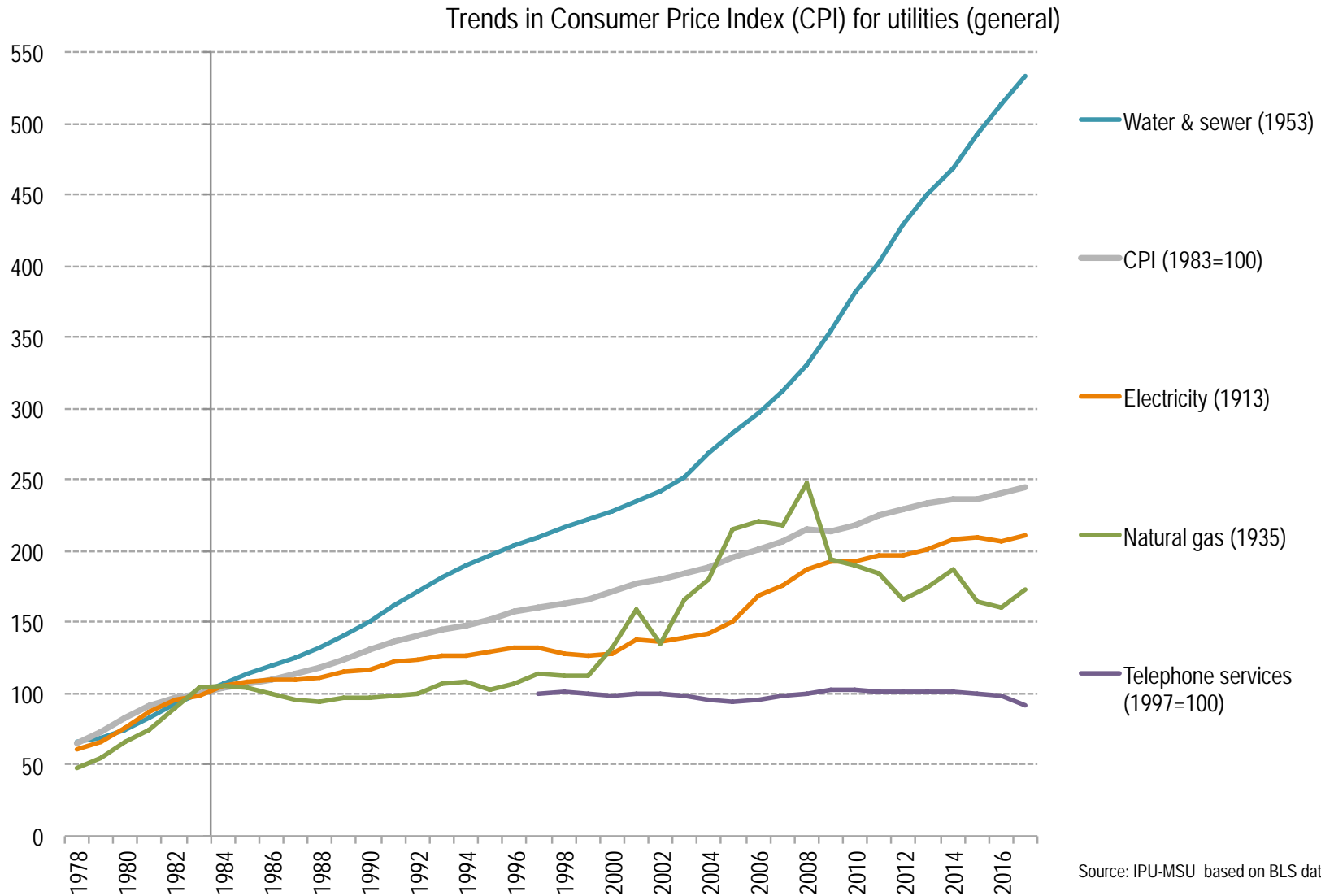
Source: IPU-MSU based on BLS data.

CPI trends for utilities (US)



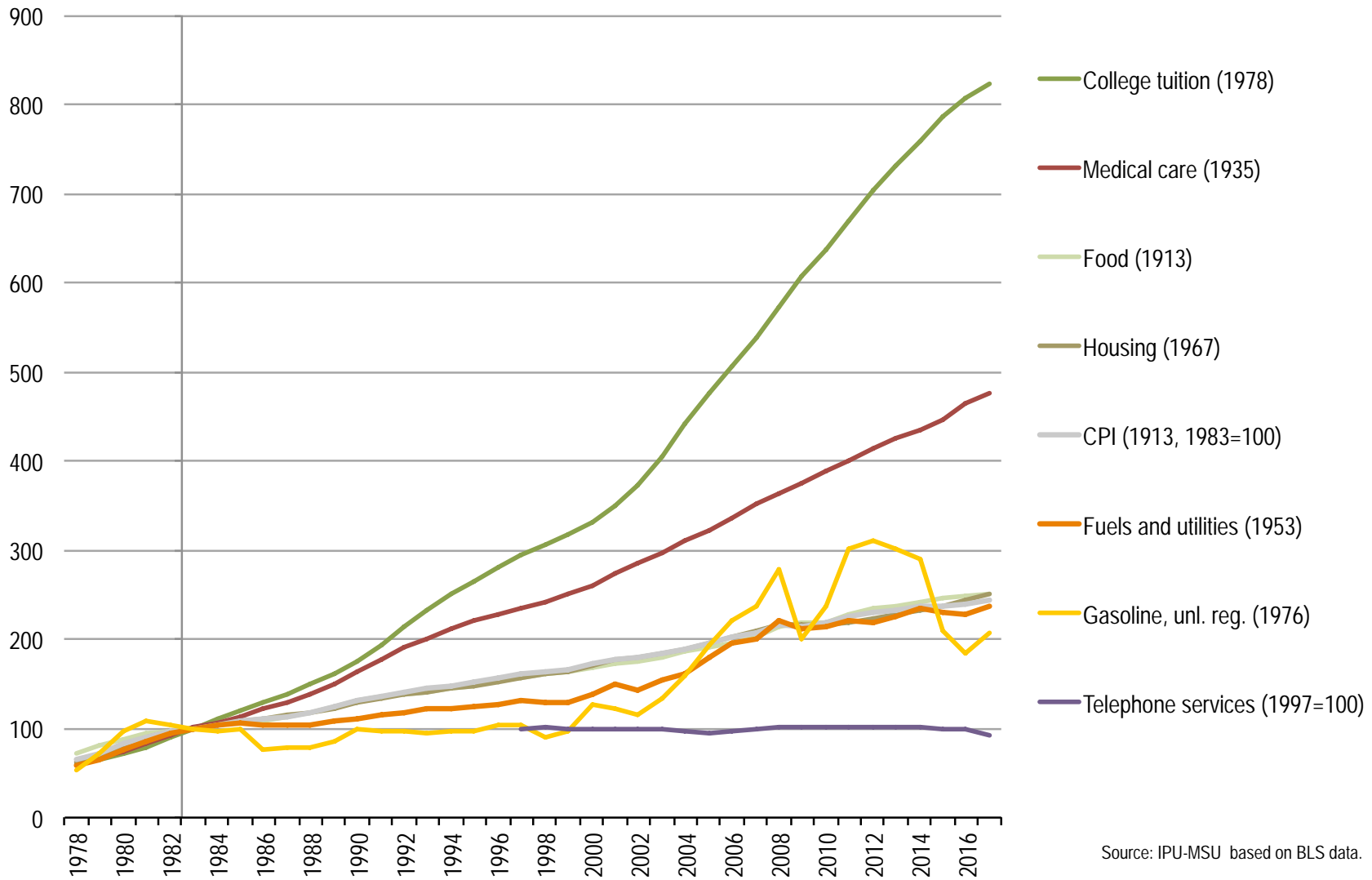
Source: IPU-MSU based on BLS data.

CPI trends for utilities (US)



CPI trends for household expenditures (US)

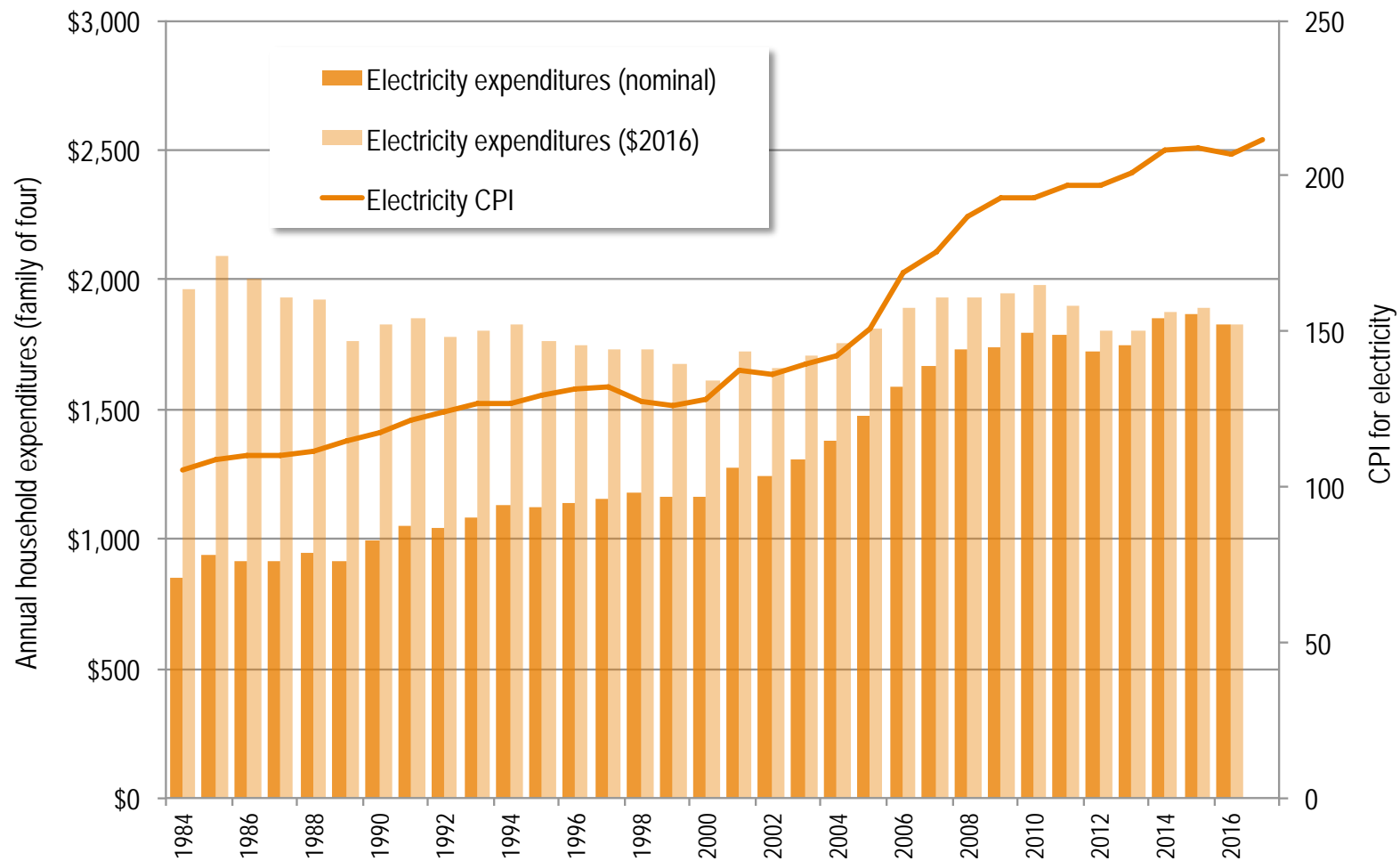
Trends in CPI for major household expenditures (1983=100)



Source: IPU-MSU based on BLS data.

Expenditure and price trends combined

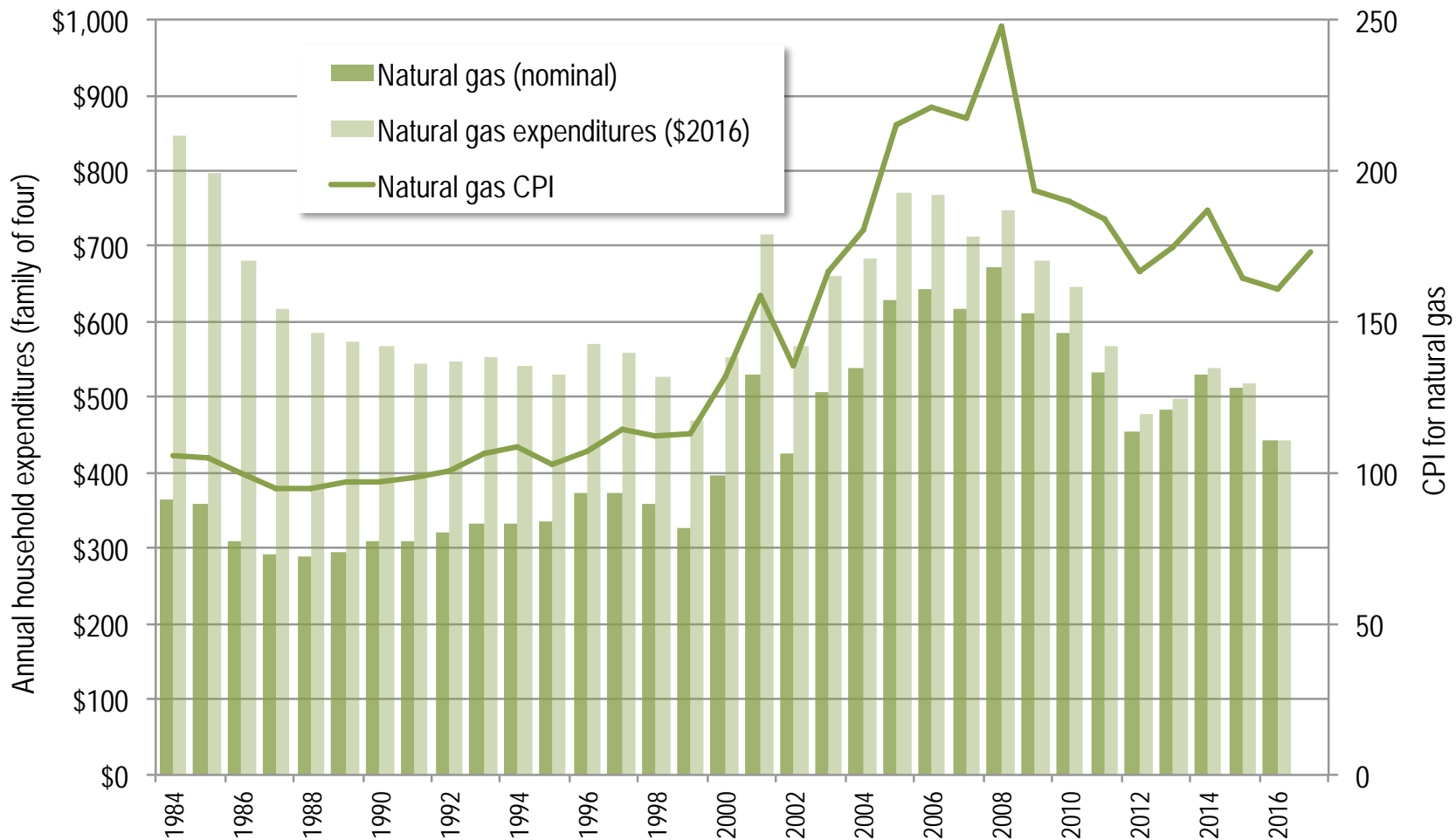
Household expenditures and CPI for electricity



Source: IPU-MSU based on BLS data.

Expenditure and price trends combined

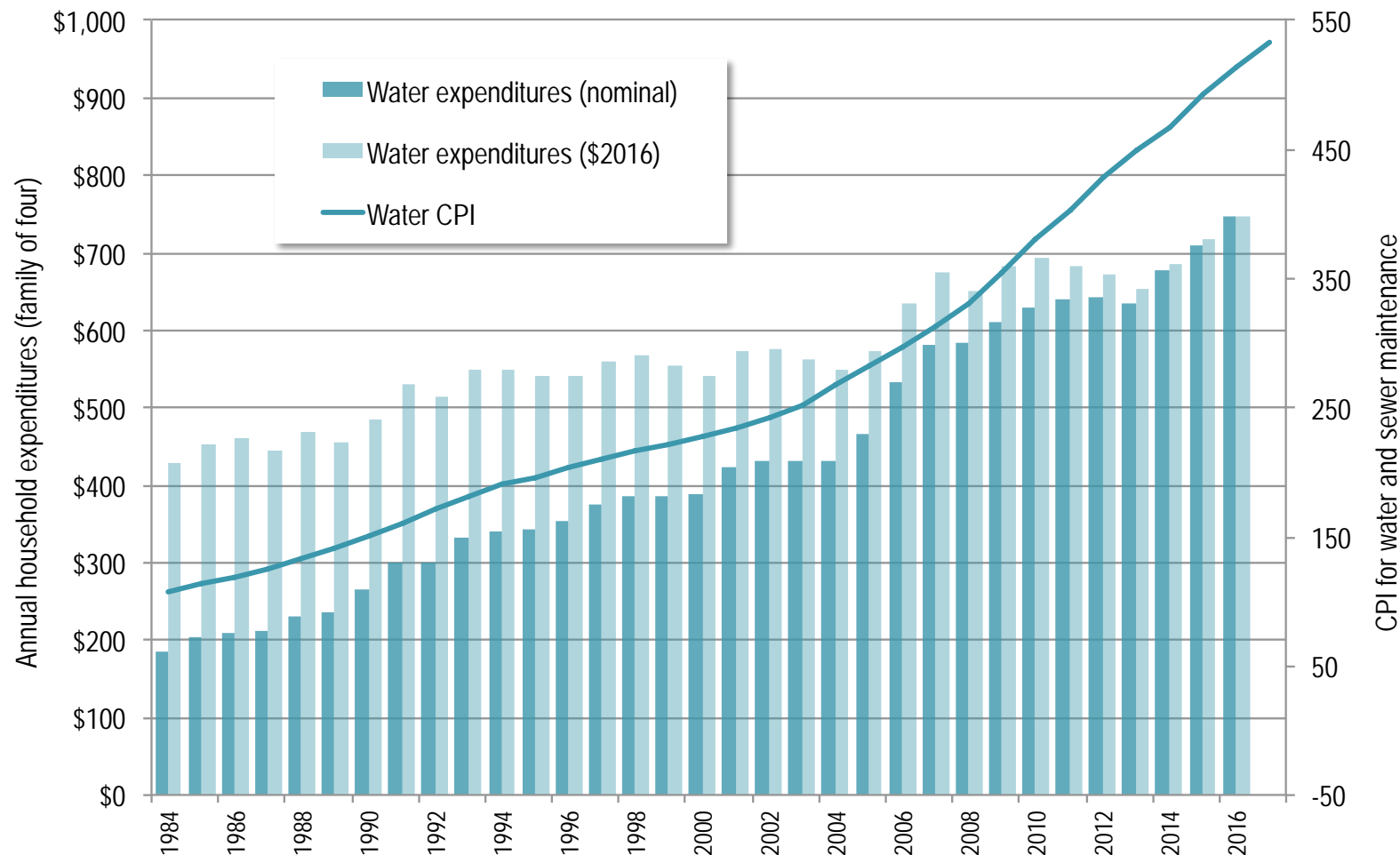
Household expenditures and CPI for natural gas



Source: IPU-MSU based on BLS data.

Expenditure and price trends combined

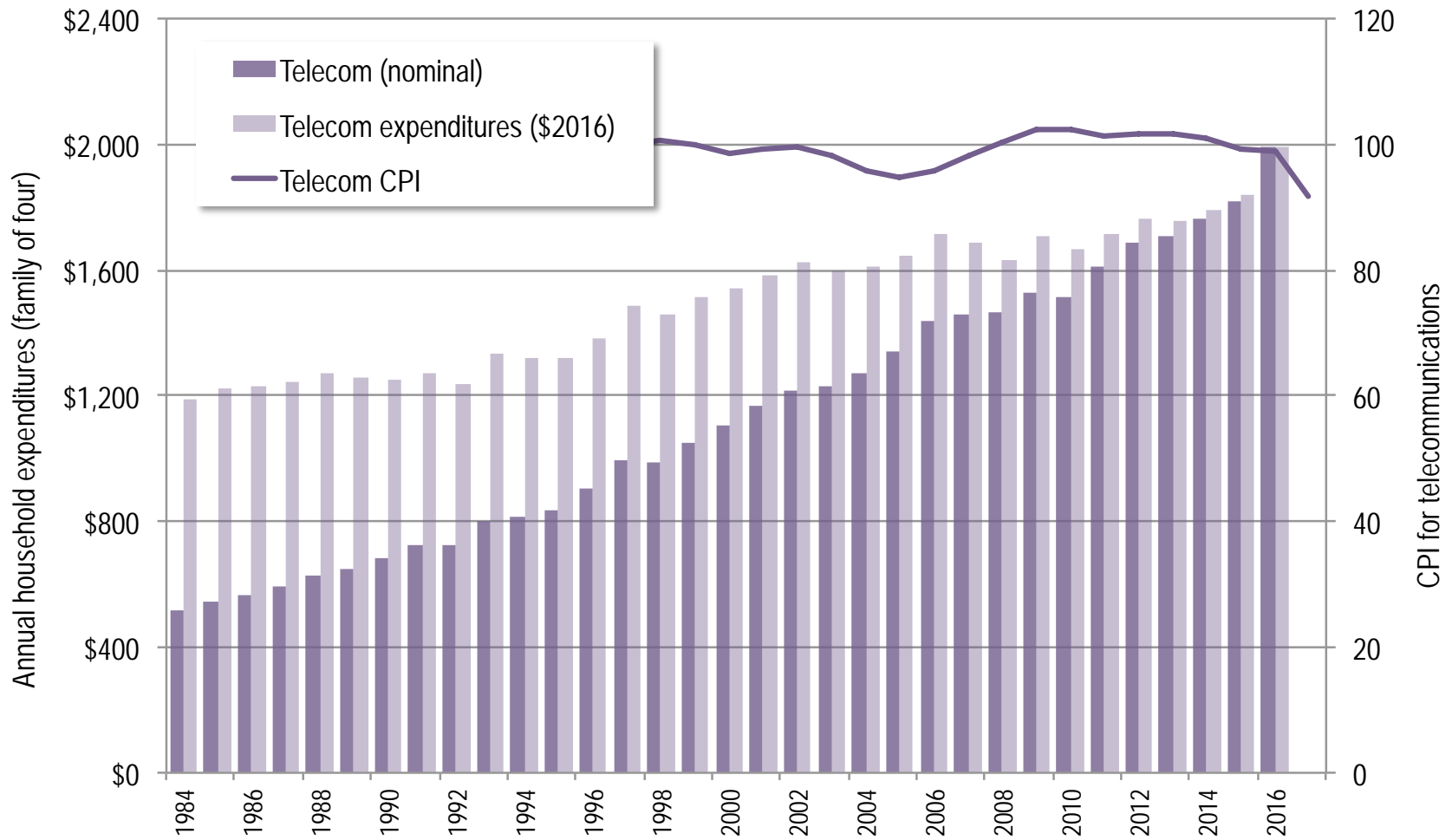
Household expenditures and CPI for water and sewer maintenance



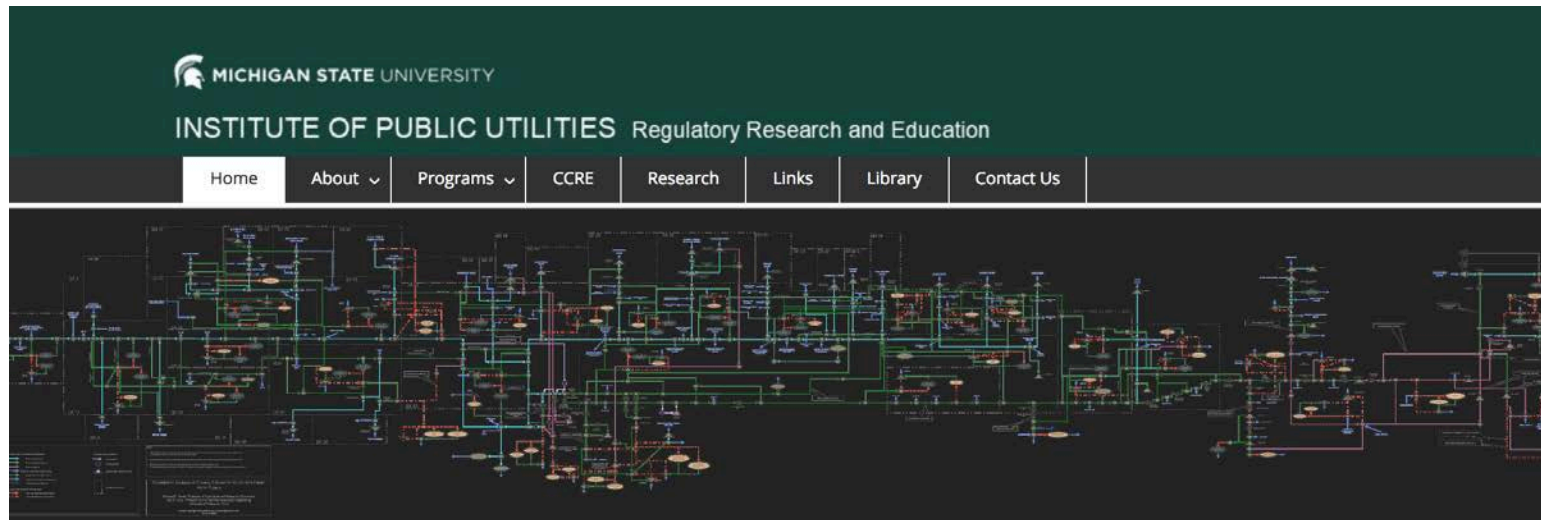
Source: IPU-MSU based on BLS data.

Expenditure and price trends combined

Household expenditures and CPI for telecommunications



Source: IPU-MSU based on BLS data.



Welcome to IPU

The Institute of Public Utilities (IPU) supports informed, effective, and efficient regulation of the infrastructure-intensive network industries providing essential utility services – electricity, natural gas, water, and telecommunications. IPU was established in 1965 and operates as a self-sustaining unit within the College of Social Science at Michigan State University, the nation's pioneer land-grant institution. We are located on MSU's beautiful East Lansing campus and collaborate with faculty and researchers from various academic colleges, departments, and centers.

IPU specializes in conducting applied research and providing exceptional learning and networking opportunities to professionals in the utility policy community. IPU's neutral analytical and instructional practice is informed by a broad array of traditional and applied disciplines including economics, political science, law, accounting, finance, and engineering. IPU's educational forums sharpen the skills needed to address today's most salient challenges of infrastructure governance, including the integration of markets and economic regulation.

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- » **Intermediate Program**
August 13-17, 2018
- » **Advanced Program**
October 1-5, 2018
- » **Michigan Forum**
February 22, 2019
- » **Power Grid Program**
April 8-11, 2019