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Statute
Order

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April 30, 2020

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

Subject: RG-36(8) Spring Earnings Review and Statement of Operations and Rate of
Return - Twelve Months Ended December 31, 2019

Enclosed for filing is Cascade Natural Gas Corporation's Spring Earnings Review and Statement of Operations and Rate of Return Report for the Twelve Months Ended December 31, 2019 for the State of Oregon.

The Spring Earnings Review has been prepared pursuant to the Earnings Sharing Stipulation approved in OPUC Order No. 98-543, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070. A list of Type 1 adjustments that should be included in the earnings review were attached to Order No. 99-272 as appendix B. Based upon that list, this report contains normalizing adjustments (Type I Adjustments) to normalize Cascade's earnings. The resulting normalized earnings are compared to the Earnings Threshold for the reporting period. For Cascade, the normalized earnings result in an implied return on equity of 6.10%, which is below the current earnings threshold of 10.54%.

Additionally, the remaining portion of the report shows that Cascade's implied return on equity would be 7.86% after "Type II" or annualizing adjustments.

If there are any questions regarding these documents or the filing in general, please contact me at (509) 734-4593.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Parvinen".

Michael Parvinen
Director, Regulatory Affairs
Cascade Natural Gas Corporation
8113 W. Grandridge Blvd
Kennewick, WA 99336-7166
michael.parvinen@cngc.com

Attachments

In the Community to Serve®

CASCADE NATURAL GAS CORPORATION

Statement of Operations and Rate of Return

Twelve Months Ended

December 31, 2019

State of Oregon Operations

CASCADE NATURAL GAS CORPORATION
State of Oregon
Twelve Months Ending December 31, 2019
Description of Adjustments

Type I Adjustments

(a) Removal of Promotional Advertising Expense

Removes all promotional advertising for the test period

(b) Removal of of Membership Fees

Removes Membership Fees paid in the test period

(c) Normalize Uncollectible Expense

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

(d) Incentive Compensation Adjustment

Adjusts test period expense for Officers and Employees incentive compensation

(e) Interest Coordination Adjustment

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

CASCADE NATURAL GAS CORPORATION
State of Oregon
Twelve Months Ending December 31, 2019
Description of Adjustments

Type II Adjustments

(a) Annualized Wage Rate

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

(b) PGA Commodity Sharing Adjustment

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

Cascade Natural Gas Corporation

Earnings Deferral

State of Oregon

Twelve Months Ending December 31, 2019

Adjusted overall rate of return	5.90%
Less return required for:	
Long term debt	-2.52%
Preferred stock	0.00%
	<hr/>
Return available for common	3.38%
Capitalization ratio for common	49.48%
	<hr/>
Implied ROE (common return / ratio)	6.83%
Threshold per OPUC order 19-228	10.54%
	<hr/>
Return on Equity in excess of threshold	-3.71%
Capitalization ratio for common	49.48%
	<hr/>
Overall Return in excess of threshold	-1.84%
Average rate base	<hr/> <u>\$ 119,952,371</u>
Excess earnings	\$ (2,207,124)
Net to Gross Conversion Factor	0.70767
Pre-Tax over the threshold Earnings	<hr/> <u>\$ (3,118,845)</u>
Earnings sharing percentage	<hr/> <u>33.00%</u>
Earnings Sharing for CY 19	<hr/> <u>\$ (1,029,219)</u>

Cascade Natural Gas Corporation

**ADJUSTED STATEMENT OF OPERATIONS AND RATE OF RETURN
FOR THE TWELVE MONTHS ENDED 12/31/19**

State of Oregon

Line No.	Description (a)	Actual Statement of Operations per Books 12/31/19 (b)	Order 99-272 Appendix B Adjustments (Type I) (c)	Total Adjusted Actuals at 12/31/19 (d)	Total Annualizing Adjustments (Type II) (e)	Total Adjusted Results at 12/31/19 (f)
	<u>OPERATING REVENUES</u>					
1	Natural Gas Sales	\$ 37,648,100	\$ 0	\$ 37,648,100	\$ 0	\$ 37,648,100
2	Gas Transportation Revenue	25,020,626	0	25,020,626	0	25,020,626
3	Other Operating Revenues	4,401,861	0	4,401,861	907,676	5,309,537
4	SUBTOTAL	\$ 67,070,587	\$ 0	\$ 67,070,587	\$ 907,676	\$ 67,978,263
5	LESS: Nat. Gas/Production Costs	31,489,133	0	31,489,133	0	31,489,133
6	Revenue Taxes	3,261,977	0	3,261,977	0	3,261,977
7	OPERATING MARGIN	\$ 32,319,477	\$ 0	\$ 32,319,477	\$ 907,676	\$ 33,227,153
	<u>OPERATING EXPENSES</u>					
8	Production	110,977	0	\$ 110,977	0	110,977
9	Distribution	\$ 6,651,691	0	6,651,691	\$ 0	\$ 6,651,691
10	Customer Accounts	1,907,206	(1,549)	1,905,657	0	1,905,657
11	Customer Service	307,924	0	307,924	0	307,924
12	Sales	2,074	(7,718)	(5,644)	0	0
13	Administrative & General	6,254,289	(711,045)	5,543,244	28,565	5,571,809
14	Depreciation & Amortization	7,772,990	0	7,772,990	0	7,772,990
15	Regulatory Debits	0	0	0	0	0
16	Taxes Other Than Income	2,472,197	0	2,472,197	27,708	2,499,905
17	State & Federal Income Taxes	191,406	297,203	488,610	229,912	718,522
18	TOTAL OPERATING EXPENSES	\$ 25,670,754	\$ (423,109)	\$ 25,247,644	\$ 286,185	\$ 25,533,830
19	NET OPERATING INCOME	\$ 6,648,724	\$ 423,109	\$ 7,071,833	\$ 621,491	\$ 7,693,323
	<u>RATE BASE</u>					
20	Total Plant in Service	\$ 254,933,050	\$ 0	\$ 254,933,050	\$ 0	\$ 254,933,050
21	Total Accumulated Depreciation	(109,428,349)	0	(109,428,349)	0	(109,428,349)
22	Contributions in Aid of Construct.	0	0	0	0	0
23	Customer Advances for Construction	(440,037)	0	(440,037)	0	(440,037)
24	Deferred Accumulated Income Taxes	(27,470,311)	0	(27,470,311)	0	(27,470,311)
25	Deferred Debits	0	0	0	0	0
26	Working Capital Allowance	2,358,018	0	2,358,018	0	2,358,018
27	TOTAL RATE BASE	\$ 119,952,371	\$ 0	\$ 119,952,371	\$ 0	\$ 119,952,371
28	RATE OF RETURN	5.54%		5.90%		6.41%
	<u>IMPLIED RETURN ON EQUITY</u>					
29	LESS: Return Required for Long Term Debt	2.52%		2.52%		2.52%
30	LESS: Return Required for Preferred Stock	0.00%		0.00%		0.00%
31	Adjusted Return Available for Common Stock	3.02%		3.38%		3.89%
32	IMPLIED RETURN (Divide by Ratio of Common to Total: 49.48%)	6.10%		6.83%		7.86%

Cascade Natural Gas Corporation

**ORDER 99-272 APPENDIX B (TYPE I) ADJUSTMENTS FOR RATE OF RETURN
FOR THE TWELVE MONTHS ENDED 12/31/19**

State of Oregon

Line No.	Description	Promotional Advertising Adjustment (a)	Removal of Membership Fees (b)	Normalize Uncollectible Expense (c)	Incentive Comp. Adjustment (d)	Interest Coordination Adjustment (e)	Total Type I Adjustments
<u>OPERATING REVENUES</u>							
1	Natural Gas Sales	\$ 0	0	0		0	\$ 0
2	Gas Transportation Revenue	0	0	0		0	0
3	Other Operating Revenues	0	0	0		0	0
4	TOTAL OPERATING REVENUE	\$ 0	0	0	0	0	\$ 0
<u>OPERATING EXPENSES</u>							
5	Natural Gas Purchased	\$				\$	0
6	Manufactured Gas Production						0
7	Distribution						0
8	Customer Accounting			(1,549)		0	(1,549)
9	Customer Service						0
10	Sales	(7,718)					(7,718)
11	Administrative & General		(47,174)		(663,871)	0	(711,045)
12	Depreciation & Amortization						0
13	Regulatory Debits						0
14	Taxes Other Than Income	0	0	0	0	0	0
15	State & Federal Income Tax	2,084	12,739	418	179,272	102,690	297,203
16	TOTAL OPERATING EXPENSE	\$ (5,634)	(34,435)	(1,131)	(484,599)	102,690	\$ (423,109)
17	NET OPERATING INCOME	\$ 5,634	34,435	1,131	484,599	(102,690)	\$ 423,109
<u>RATE BASE</u>							
18	Total Plant in Service	\$				\$	0
19	Total Accumulated Depreciation						0
20	Customer Advances for Construct.						0
21	Contributions in Aid of Construct.						0
22	Deferred Income Taxes - ACRS						0
23	Deferred Income Taxes - Other						0
24	Deferred Debits-Oregon Water						0
25	Heater Program						0
26	Deferred Debits-Astoria Cleanup						0
27	Working Capital Allowance						0
28	TOTAL RATE BASE	\$				\$	0

Cascade Natural Gas Corporation
**TYPE II ADJUSTMENTS FOR RATE OF RETURN
FOR THE TWELVE MONTHS ENDED 12/31/19**

State of Oregon

Line No.	Description	Annualizing Wage Rate Adjustment (a)	PGA Commodity Sharing Adjustment (b)	Total Type II Adjustments
	<u>OPERATING REVENUE</u>			
1	Natural Gas Sales	\$ 0	0	\$ 0
2	Gas Transportation Revenue	0	0	0
3	Other Operating Revenue	0	907,676	907,676
4	Total Operating Revenue	\$ 0	907,676	\$ 907,676
	<u>OPERATING EXPENSES</u>			
5	Natural Gas Purchased	\$ 0	0	\$ 0
6	Manufactured Gas Production			0
7	Distribution			0
8	Customer Accounting	0	0	0
9	Customer Service			0
10	Sales			0
11	Administrative & General	28,565	0	28,565
12	Depreciation & Amortization			0
13	Regulatory Debits	0		0
14	Taxes Other Than Income		27,708	27,708
15	State & Federal Income Tax	(7,714)	237,626	229,912
16	Total Operating Expenses	\$ 20,851	265,334	\$ 286,185
17	NET OPERATING INCOME	\$ (20,851)	642,342	\$ 621,491
	<u>RATE BASE</u>			
18	Total Plant in Service	\$		\$ 0
19	Total Accumulated Depreciation			0
20	Customer Advances for Construct.			0
21	Contributions Aiding Construct.			0
22	Deferred Income Taxes - ACRS			0
23	Deferred Income Taxes - Other			0
24	Deferred Debits-Oregon Water			0
25	Heater Program			0
26	Deferred Debits-Astoria Cleanup			0
27	Working Capital Allowance			0
28	TOTAL RATE BASE	\$ 0	0	\$ 0

TYPE I ADJUSTMENTS

Cascade Natural Gas Corporation
PROMOTIONAL ADVERTISING EXPENSE ADJUSTMENT
State of Oregon

FERC 913 Advertising Expense

CY 2019	\$ 7,718
Removal	<u>\$ (7,718)</u>

Cascade Natural Gas Corporation
MEMBERSHIP & DUES EXPENSE ADJUSTMENT

State of Oregon

CY 2019 Membership Fees	\$	85,439
Removal of 100%	\$	(8,909.56)
	\$	<u>76,529.28</u>
Removal of 50%	\$	<u>(38,265)</u>
 Total Removal	 \$	 (47,174.20)

Cascade Natural Gas Corporation

**Oregon
Type 1 Adjustment
Memberships & Dues**

Cascade Natural Gas Corporation
NORMALIZE UNCOLLECTIBLE EXPENSE
 State of Oregon

<u>Net Write Offs</u>	
Calendar Year 2017	226,924
Calendar Year 2018	173,329
Calendar Year 2019	220,101
	<u>620,354</u>
3 years of Net Write Offs: 2016 - 2018	<u><u>620,354</u></u>
Calendar Year 2017 Total Operating Revenue	59,895,194
Calendar Year 2018 Total Operating Revenue	59,535,462
Calendar Year 2019 Total Operating Revenue	62,668,726
	<u>182,099,382</u>
Uncollectible Expenses (Bad Debt Provision) for the 12 months ended 12/31/19	215,041
3 Year Average Net Write Off as a percentage of 2017-2019 Gross Revenues	0.341%
2019 Sales	62,668,726
Proforma Expense	213,492
Adjustment to normalize Uncollectible Expenses	<u><u>-1,549</u></u>

CASCADE NATURAL GAS CORPORATION
INCENTIVE COMPENSATION ANNUALIZATION ADJUSTMENT

State of Oregon

CY19 Officer Incentive Compensation	\$ 384,154
Oregon Total	<u>\$ 384,154</u>
Removal	<u><u>\$ (384,154)</u></u>

Total 2019 Employee Incentive Accrual (OR)	<u>\$ 559,433.97</u>		
Incentive tied to Cyber and Safety Protection (1/3)	\$ 186,477.99	50%	\$ 93,239.00
Incentive encouraging Reduced O&M Spending	\$ 186,477.99	50%	\$ 93,239.00
Incentive based on Customer Service Satisfaction	\$ 186,477.99	50%	<u>\$ 93,239.00</u>
Total			\$ 279,716.99
Removal			\$ (279,716.99)

Cascade Natural Gas Corporation
Interest Coordination Adjustment
 1-19 to 12-19

OREGON:

	Avg of Avg	Ratio	Weighted Cost	Overall Cost of Capital
Long Term Debt	276,593,833	50.52%	4.98%	2.52%
Preferred Stock	0	0.00%		0.00%
Common Equity	270,895,004	49.48%	9.40%	4.65%
	<u>547,488,837</u>	<u>100.00%</u>		<u>7.17%</u>

Rate Base 12/31/2019	Avg Cost of Debt	Subtotal	Test period Interest Expense	Adjustment	State and F.I.T.	Total Adjust
119,952,371	2.52%	3,022,800	3,403,077	(380,277)	0.27004	<u>102,690</u>

TYPE I
ADJUSTMENT
WORKPAPERS

Source(s): State Allocation Report, Rate Base

	Average of Averages	Ratio	Weighted Cost	Overall Cost of Capital
Long-Term Debt	276,593,833	50.52%	4.98%	2.52%
Preferred Stock	-	0.00%		0.00%
Common Equity-excl Accum OCI	270,895,004	49.48%	9.40%	4.65%
	547,488,837	100.00%		7.17%
Rate base as of	December 31, 2019			119,952,371
Average cost of debt				2.52%
Subtotal				3,022,800
Period Int Exp: Interest on long-term debt 427.0		3,341,459		
Period Int Exp: Amort. Of debt discount & exp 428.0		51,698		5
Period Int. Exp: Amort. Of loss on reacq debt 428.1		9,920		3,403,077
Adjustment				(380,277)
Total adjustment @ State & F.I.T of 27%				(102,690)

	7.48% MTN Due	7.098% MTN	5.25% IQN Due	5.21% MTN	5.79% Snr Nt	4.11% Snr Nt	4.36% Snr Nt	4.09% Snr Nt	4.24% Snr Nt	4.09% Snr Nt	4.24% Snr Nt	3.62% Snr Nt	3.82% Snr Nt	4.26% Snr Nt	LOC	TOTAL DEBT	COMMON EQUITY	BALANCE SHEET EQUITY
	9/15/2027	Due 3/16/2029	2/1/2035	Due 9/1/2020	Due 3/8/2037	Due 8/23/2025	Due 8/23/2028	11/24/2044	11/24/2054	Due 1/15/2045	Due 1/15/2055	Due 6/13/2029	Due 6/13/2034	Due 6/13/2049				
Nov-18	20,000,000	15,000,000	24,361,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	33,850,000	248,211,000	251,710,444	251,710,444
Dec-18	20,000,000	15,000,000	24,361,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	53,850,000	268,211,000	258,853,904	258,853,904
Jan-19	20,000,000	15,000,000	24,361,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	52,050,000	266,411,000	264,887,432	264,887,432
Feb-19	20,000,000	15,000,000	24,341,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	54,600,000	268,941,000	266,729,712	266,729,712
Mar-19	20,000,000	15,000,000	24,341,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	31,700,000	246,041,000	269,368,286	269,368,286
Apr-19	20,000,000	15,000,000	24,341,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	57,700,000	272,041,000	270,452,039	270,452,039
May-19	20,000,000	15,000,000	24,249,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	54,000,000	268,249,000	271,067,841	271,067,841
Jun-19	20,000,000	15,000,000	24,249,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	25,000,000	20,000,000	30,000,000	11,075,000	300,324,000	274,568,736	274,568,736
Jul-19	20,000,000	15,000,000	24,249,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	25,000,000	20,000,000	30,000,000	12,000,000	301,249,000	279,194,941	279,194,941
Aug-19	20,000,000	15,000,000	24,239,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	25,000,000	20,000,000	30,000,000	24,300,000	313,539,000	274,831,967	274,831,967
Sep-19	20,000,000	15,000,000	24,239,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	25,000,000	20,000,000	30,000,000	8,900,000	298,139,000	293,398,455	293,398,455
Oct-19	20,000,000	15,000,000	24,239,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	25,000,000	20,000,000	30,000,000	12,650,000	301,889,000	300,974,477	300,974,477
Oct-18	20,000,000	15,000,000	24,401,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	-	-	-	19,250,000	233,651,000	250,378,098	250,378,098
Ave of Avgs	20,000,000	15,000,000	24,304,250	#####	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	9,375,000	7,500,000	11,250,000	34,164,583	276,593,833	270,895,004	270,895,004
Annual Rate	7.4800%	7.0980%	5.2500%	5.2100%	5.7900%	4.1100%	4.3600%	4.0900%	4.2400%	4.0900%	4.2400%	3.6200%	3.8200%	4.2600%	3.9100%	4.98%		
Cost	1,496,000	1,064,700	1,275,973	781,500	2,316,000	1,027,500	1,090,000	511,250	530,000	511,250	530,000	339,375	286,500	479,250	1,334,994			

TYPE II ADJUSTMENTS

Cascade Natural Gas Corporation
CY19 WAGE ADJUSTMENT
State of Oregon

Wage Annualization Adjustment	\$ 28,565
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Adjustment to Annualize & Restate	<u><u>\$ 28,565</u></u>
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Cascade Natural Gas Corporation
PGA COMMODITY SHARING ADJUSTMENT
State of Oregon

CY 2019 PGA Commodity Sharing Revenue	\$(907,676)
Adjustment	<u><u>\$ 907,676</u></u>

Cascade Natural Gas Corporation
Oregon Wage Adjustment
Adjustment to Restate CY 2019

2019	Gross Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @ 6.2%	Medicare Tax @ 1.45%	Total Taxes	Adjustment to Restate CY19 Salaries/Wages
January	\$ 990,030						
February	\$ 992,703						
March	\$ 1,562,385						
CY18 Hourly	\$ 3,545,118	3.00%	\$ 106,354	\$ 6,594	\$ 1,542	\$ 8,136	\$ 114,490
OR 3-Factor Allocation %							24.95%
							\$ 28,565

Note: Salaried increase effective 1/1/19
Hourly increase effective 4/1/19

**TYPE II
ADJUSTMENT
WORKPAPERS**

**CASCADE NATURAL GAS
STATE OF OREGON
CY19**

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

Jan-19	\$ 7,921
Feb-19	\$(335,931)
Mar-19	\$(150,440)
Apr-19	\$ (46,789)
May-19	\$ (3,090)
Jun-19	\$ (5,787)
Jul-19	\$ (6,751)
Aug-19	\$ (19,522)
Sep-19	\$ (13,269)
Oct-19	\$ (70,119)
Nov-19	\$ (69,918)
Dec-19	<u>\$(193,980)</u>
Total	<u><u>\$(907,676)</u></u>

Cascade Natural Gas Corporation
Revenue Sensitive Cost Conversion Factor
State of Oregon
FOR THE TWELVE MONTHS ENDED 12/31/19

Line No. Description	Amount	
1 Gross Revenue	1.00000	
2 Less Uncollectibles	<u>(0.00341)</u>	
3 Net Revenue	0.99659	
Less Revenue Sensitive Costs		
4 Gross Revenue Fee	0.02412	
5 City Franchise Fees	<u>0.00300</u>	
6 Net Before State & Federal Income Taxes	0.96947	3.05%
7 Oregon Income Tax @7.6%	<u>0.07368</u>	
8 Net Before Federal Income Tax	0.89579	
9 Federal Income Tax @ 21%	<u>0.18812</u>	
10 Net to Gross Conversion Factor	<u><u>0.70767</u></u>	

Combo-State & Federal Income Tax

State	0.07600
Federal	0.21000

Combo (calculate 0.27004)

Revenue Sensitive

Uncollectibles	0.00341	
OPUC Fees	0.00300	
City Franchise	0.02412	
	0.03053	0.969473322