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COMPANY NAME:

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

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

Report is required by: OAR 860-022-0070

Statute

Order 98-543/04-203

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

Other

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

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

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April 21, 2017

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

Subject: RG-36(5) Spring Earnings Review and Statement of Operations and Rate of
Return - Twelve Months Ended December 31, 2016

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, 2016 for the State of Oregon.

The Spring Earnings Review has been prepared pursuant to the Earnings Sharing Stipulation approved in OPUC Order No. 98-543, as amended in Order No. 04-203 and in accordance with OAR 860-022-0070. A list of Type 1 adjustments that should be included in the earnings review were attached to Order No. 99-272 as appendix B. Based upon that list, this report contains normalizing adjustments (Type I Adjustments) to normalize Cascade's earnings. The resulting normalized earnings are compared to the Earnings Threshold for the reporting period. For Cascade, the normalized earnings result in an implied return on equity of 9.13%, which is below the current earnings threshold of 10.60%.

Additionally, the remaining portion of the report shows that Cascade's implied return on equity would be 6.65% after "Type II" or annualizing adjustments.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Parvinen", with a long horizontal flourish extending to the right.

Michael Parvinen
Director, Regulatory Affairs

Attachments

In the Community to Serve®

CASCADE NATURAL GAS CORPORATION

Statement of Operations and Rate of Return

Twelve Months Ended

December 31, 2016

State of Oregon Operations

CASCADE NATURAL GAS CORPORATION
State of Oregon
Twelve Months Ending December 31, 2016
Description of Adjustments

Type I Adjustments

(a) Removal of Promotional Advertising Expense

Removes all promotional advertising for the test period

(b) Removal of 25% of Membership Fees

Removes 25% of Membership Fees paid in the test period

(c) Normalize Uncollectible Expense

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

(d) Interest Coordination Adjustment

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

CASCADE NATURAL GAS CORPORATION
State of Oregon
Twelve Months Ending December 31, 2016
Description of Adjustments

Type II Adjustments

(a) Annualized Wage Rate

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

(b) PGA Commodity Sharing Adjustment

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

Cascade Natural Gas Corporation
Earnings Deferral
 State of Oregon
12 months ended December 31, 2016

Adjusted overall rate of return		6.87%
Less return required for:		
Long term debt		-2.80%
Preferred stock		0.00%
		4.07%
Return available for common		4.07%
Capitalization ratio for common		46.98%
		8.66%
Implied ROE (common return / ratio)		8.66%
Threshold per OPUC order		10.60%
		-1.94%
Return on Equity in excess of threshold		-1.94%
Capitalization ratio for common		46.98%
		-0.91%
Overall Return in excess of threshold		-0.91%
Average rate base	\$	78,897,061
		(717,963)
Excess earnings	\$	(717,963)
Net to Gross Conversion Factor		0.58294
Pre-Tax over the threshold Earnings	\$	(1,231,624)
		33.00%
Earnings sharing percentage		33.00%
Earnings Sharing for CY 16	\$	(406,436)
		(406,436)

Cascade Natural Gas Corporation
ADJUSTED STATEMENT OF OPERATIONS AND RATE OF RETURN
FOR THE TWELVE MONTHS ENDED 12/31/16

State of Oregon

Line No.	Description (a)	Actual Statement of Operations per Books 12/31/16 (b)	Order 99-272 Appendix B Adjustments (Type I) (c)	Total Adjusted Actuals at 12/31/16 (d)	Total Annualizing Adjustments (Type II) (e)	Total Adjusted Results at 12/31/16 (f)
	OPERATING REVENUES					
1	Natural Gas Sales	\$ 59,573,715	\$ 0	\$ 59,573,715	\$ 0	\$ 59,573,715
2	Gas Transportation Revenue	4,044,720	0	4,044,720	0	4,044,720
3	Other Operating Revenues	262,969	0	262,969	(280,510)	(17,541)
4	SUBTOTAL	\$ 63,881,403	\$ 0	\$ 63,881,403	\$ (280,510)	\$ 63,600,893
5	LESS: Nat. Gas/Production Costs	31,523,645	0	31,523,645	0	31,523,645
6	Revenue Taxes	2,888,571	0	2,888,571	0	2,888,571
7	OPERATING MARGIN	\$ 29,469,187	\$ 0	\$ 29,469,187	\$ (280,510)	\$ 29,188,677
	OPERATING EXPENSES					
8	Production	170,587	0	\$ 170,587	0	170,587
9	Distribution	\$ 5,750,157	0	5,750,157	\$ 0	\$ 5,750,157
10	Customer Accounts	1,945,630	4,182	1,949,812	0	1,949,812
11	Customer Service	106,538	0	106,538	0	106,538
12	Sales	2,059	(2,059)	(0)	0	0
13	Administrative & General	5,941,070	(20,204)	5,920,866	25,840	5,946,705
14	Depreciation & Amortization	6,020,017	0	6,020,017	0	6,020,017
15	Regulatory Debits	0	0	0	0	0
16	Taxes Other Than Income	1,996,088	0	1,996,088	(8,247)	1,987,841
17	State & Federal Income Taxes	1,943,246	188,633	2,131,879	(119,062)	2,012,817
18	TOTAL OPERATING EXPENSES	\$ 23,875,393	\$ 170,552	\$ 24,045,945	\$ (101,469)	\$ 23,944,476
19	NET OPERATING INCOME	\$ 5,593,794	\$ (170,552)	\$ 5,423,242	\$ (179,041)	\$ 5,244,201
	RATE BASE					
20	Total Plant in Service	\$ 197,221,697	\$ 0	\$ 197,221,697	\$ 0	\$ 197,221,697
21	Total Accumulated Depreciation	(93,866,532)	0	(93,866,532)	0	(93,866,532)
22	Contributions in Aid of Construct.	0	0	0	0	0
23	Customer Advances for Construction	(511,110)	0	(511,110)	0	(511,110)
24	Deferred Accumulated Income Taxes	(26,471,195)	0	(26,471,195)	0	(26,471,195)
25	Deferred Debits	0	0	0	0	0
26	Working Capital Allowance	2,524,201	0	2,524,201	0	2,524,201
27	TOTAL RATE BASE	\$ 78,897,061	\$ 0	\$ 78,897,061	\$ 0	\$ 78,897,061
28	RATE OF RETURN	7.09%		6.87%		6.65%
	IMPLIED RETURN ON EQUITY					
29	LESS: Return Required for Long Term Debt	2.80%		2.80%		2.80%
30	LESS: Return Required for Preferred Stock	0.00%		0.00%		0.00%
31	Adjusted Return Available for Common Stock	4.29%		4.07%		3.85%
32	IMPLIED RETURN (Divide by Ratio of Common to Total: 46.98%)	9.13%		8.66%		8.19%

Cascade Natural Gas Corporation

**ORDER 99-272 APPENDIX B (TYPE I) ADJUSTMENTS FOR RATE OF RETURN
FOR THE TWELVE MONTHS ENDED 12/31/16**

State of Oregon

Line No.	Description	Promotional Advertising Adjustment (a)	Removal of 25% Membership Fees (b)	Normalize Uncollectible Expense (c)	Interest Coordination Adjustment (d)	Total Type I Adjustments
	<u>OPERATING REVENUES</u>					
1	Natural Gas Sales	\$ 0	0	0	0	\$ 0
2	Gas Transportation Revenue	0	0	0	0	0
3	Other Operating Revenues	0	0	0	0	0
4	TOTAL OPERATING REVENUES	\$ 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			4,182	0	4,182
9	Customer Service					0
10	Sales	(2,059)				(2,059)
11	Administrative & General		(20,204)		0	(20,204)
12	Depreciation & Amortization					0
13	Regulatory Debits					0
14	Taxes Other Than Income	0	0	0	0	0
15	State & Federal Income Tax	822	8,069	(1,670)	181,412	188,633
16	TOTAL OPERATING EXPENSES	\$ (1,237)	(12,135)	2,512	181,412	\$ 170,552
17	NET OPERATING INCOME	\$ 1,237	12,135	(2,512)	(181,412)	\$ (170,552)
	<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 12/31/16

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	(280,510)	(280,510)
4	Total Operating Revenue	\$ 0	(280,510)	\$ (280,510)
	<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	25,840	0	25,840
12	Depreciation & Amortization			0
13	Regulatory Debits	0		0
14	Taxes Other Than Income		(8,247)	(8,247)
15	State & Federal Income Tax	(10,320)	(108,742)	(119,062)
16	Total Operating Expenses	\$ 15,520	(116,989)	\$ (101,469)
17	NET OPERATING INCOME	\$ (15,520)	(163,521)	\$ (179,041)
	<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 2016	\$ 2,059
Removal	<u><u>\$ (2,059)</u></u>

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

CY 2016 Membership Fees	\$ 80,816
Removal of 25% of Total	<u><u>\$ (20,204)</u></u>

Cascade Natural Gas Corporation
NORMALIZE UNCOLLECTIBLE EXPENSE
State of Oregon

<u>Net Write Offs</u>	
Calendar Year 2014	303,729
Calendar Year 2015	169,224
Calendar Year 2016	197,056
	<u>670,009</u>
3 years of Net Write Offs: 2013 - 2015	<u><u>670,009</u></u>
Calendar Year 2014 Natural Gas Sales	65,785,175
Calendar Year 2015 Natural Gas Sales	63,397,033
Calendar Year 2016 Natural Gas Sales	59,573,715
	<u>188,755,923</u>
Uncollectible Expenses (Bad Debt Provision) for the 12 months ended 12/31/16	207,281
3 Year Average Net Write Off as a percentage of 2013-2015 Gross Revenues	0.355%
2016 Sales	59,573,715
Proforma Expense	211,463
Adjustment to normalize Uncollectible Expenses	<u><u>4,182</u></u>

Cascade Natural Gas Corporation
Interest Coordination Adjustment
 1-16 to 12-16

OREGON:

	Avg of Avg	Ratio	Weighted Cost	Overall Cost of Capital
Long Term Debt	214,507,250	53.02%	5.28%	2.80%
Preferred Stock	0	0.00%		0.00%
Common Equity	190,098,573	46.98%	9.55%	4.49%
	<u>404,605,823</u>	<u>100.00%</u>		<u>7.29%</u>

Rate Base 12/31/2016	Avg Cost of Debt	Subtotal	Test period Interest Expense	Adjustment	State and F.I.T.	Total Adjust
78,897,061	2.80%	2,209,118	2,663,328	(454,210)	0.39940	<u>181,412</u>

**TYPE I
ADJUSTMENT
WORKPAPERS**

**Cascade Natural Gas Corporation
Oregon
Type 1 Adjustment
Memberships & Dues
CY 2016**

<u>Location</u>	Professional/ Organization Dues (5811 & 5912)	<u>Total OR</u>
Oregon Direct	1,091	1,091
General Office	79,725	79,725
Total		<u>80,816</u>
Removal of 25% of Total		(20,204)

Source(s): State Allocation Report, Rate Base

	Overall Cost of		
	Average of Averages	Ratio	Weighted Cost Capital
Long-Term Debt	214,507,250	53.02%	5.28%
Preferred Stock	-	0.00%	0.00%
Common Equity-excl Accum OCI	190,098,573	46.98%	4.49%
	404,605,823	100.00%	7.29%

Rate base as of	December 31, 2016	78,897,061
Average cost of debt		2.80%
Subtotal		2,209,118
Period Int Exp: Interest on long-term debt 427.0	2,613,402	
Period Int Exp: Amort. Of debt discount & exp 428.0	40,318	
Period Int. Exp: Amort. Of loss on reacq debt 428.1	9,608	2,663,328
Adjustment		(454,210)
Total adjustment @ State & F.I.T of 39.94%		(181,412)

	7.48% MTN Due 9/15/2027	7.098% MTN Due 3/16/2029	5.25% IQN Due 2/1/2035	5.21% MTN Due 9/1/2020	5.79% Snr Nt Due 3/8/2037	4.11% Snr Nt Due 8/23/2025	4.36% Snr Nt Due 8/23/2028	4.09% Snr Nt Due	4.24% Snr Nt Due	4.09% Snr Nt DUE 1/15/2045	4.24% Snr Nt DUE 1/15/2055	LOC	TOTAL DEBT	COMMON EQUITY	BALANCE SHEET EQUITY
Jan-16	20,000,000	15,000,000	24,589,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,589,000	195,780,257	195,780,257
Feb-16	20,000,000	15,000,000	24,539,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,539,000	194,462,372	194,462,372
Mar-16	20,000,000	15,000,000	24,539,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,539,000	196,696,972	196,696,972
Apr-16	20,000,000	15,000,000	24,539,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,539,000	196,632,901	196,632,901
May-16	20,000,000	15,000,000	24,489,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,489,000	190,958,709	190,958,709
Jun-16	20,000,000	15,000,000	24,489,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,489,000	189,244,676	189,244,676
Jul-16	20,000,000	15,000,000	24,489,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,489,000	187,845,153	187,845,153
Aug-16	20,000,000	15,000,000	24,471,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,471,000	181,595,762	181,595,762
Sep-16	20,000,000	15,000,000	24,471,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,471,000	180,336,637	180,336,637
Oct-16	20,000,000	15,000,000	24,471,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,471,000	188,466,678	188,466,678
Nov-16	20,000,000	15,000,000	24,471,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,471,000	187,431,734	187,431,734
Dec-16	20,000,000	15,000,000	24,471,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,471,000	192,552,179	192,552,179
Dec-15	20,000,000	15,000,000	24,589,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,589,000	190,909,865	190,909,865
of Avgs	20,000,000	15,000,000	24,507,250	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000		214,507,250	190,098,573	190,098,573
ial Rate	7.4800%	7.0980%	5.2500%	5.2100%	5.7900%	4.1100%	4.3600%	4.0900%	4.2400%	4.0900%	4.2400%			5.28%	
Cost	1,496,000	1,064,700	1,286,631	781,500	2,316,000	1,027,500	1,090,000	511,250	530,000	511,250	530,000				

TYPE II ADJUSTMENTS

Cascade Natural Gas Corporation
CY16 WAGE ADJUSTMENT
State of Oregon

Wage Annualization Adjustment	\$	25,840
Adjustment to Annualize & Restate	\$	<u>25,840</u>

Cascade Natural Gas Corporation
PGA COMMODITY SHARING ADJUSTMENT
State of Oregon

CY 2016 PGA Commodity Sharing Revenue	\$ 280,510
Adjustment	<u><u>\$(280,510)</u></u>

Cascade Natural Gas Corporation
Oregon Wage Adjustment
Adjustment to Restate CY 2016

2016	Gross Salaries/Wages	% Salary/Wage Increase	Salary/Wage Adjustment Before Taxes	Social Security Tax @	Medicare Tax @ 1.45%	Total Taxes	Adjustment to Restate CY16 Salaries/Wages
January	\$ 887,224						
February	\$ 881,510						
March	\$ 1,362,306						
CY16 Hourly	<u>\$ 3,131,040</u>	3.10%	\$ 97,062	\$ 6,018	\$ 1,407	\$ 7,425	\$ 104,487
OR 3-Factor Allocation %							\$ 25,840
							24.7%

Note: Salaried increase effective 1/1/16
Hourly increase effective 4/1/16

TYPE II ADJUSTMENT WORKPAPERS

**CASCADE NATURAL GAS
STATE OF OREGON
CY16**

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

Jan-16	\$ 54,696
Feb-16	\$ 49,225
Mar-16	\$ 65,543
Apr-16	\$ 44,757
May-16	\$ 39,682
Jun-16	\$ 19,002
Jul-16	\$ 16,683
Aug-16	\$ 12,568
Sep-16	\$ 19,808
Oct-16	\$ 30,568
Nov-16	\$ (10,912)
Dec-16	\$ (61,110)
Total	<u>\$ 280,510</u>

Cascade Natural Gas Corporation
Revenue Sensitive Cost Conversion Factor
State of Oregon
FOR THE TWELVE MONTHS ENDED 12/31/16

Line No.	Description	Amount	
1	Gross Revenue	1.00000	
2	Less Uncollectibles	<u>(0.00355)</u>	
3	Net Revenue	0.99645	
	Less Revenue Sensitive Costs		
4	Gross Revenue Fee	0.00275	
5	City Franchise Fees	<u>0.02310</u>	
6	Net Before State & Federal Income Taxes	<u>0.97060</u>	2.94%
7	Oregon Income Tax @7.6%	<u>0.07377</u>	
8	Net Before Federal Income Tax	0.89683	
9	Federal Income Tax @ 35%	<u>0.31389</u>	
10	Net to Gross Conversion Factor	<u><u>0.58294</u></u>	