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April 23, 2019

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

Subject: RG-36(7) Spring Earnings Review and Statement of Operations and Rate of  
Return - Twelve Months Ended December 31, 2018

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, 2018 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 6.54%, which is below the current earnings threshold of 10.43%.

Additionally, the remaining portion of the report shows that Cascade's implied return on equity would be 8.39% 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  
Cascade Natural Gas Corporation  
8113 W. Grandridge Blvd  
Kennewick, WA 99336-7166  
[michael.parvinen@cngc.com](mailto: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, 2018**

**State of Oregon Operations**

**CASCADE NATURAL GAS CORPORATION**  
**State of Oregon**  
**Twelve Months Ending December 31, 2018**  
**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) 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, 2018**  
**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, 2018**

Adjusted overall rate of return	6.57%
Less return required for:	
Long term debt	-2.56%
Preferred stock	0.00%
	<hr/>
Return available for common	4.01%
Capitalization ratio for common	50.75%
	<hr/>
Implied ROE (common return / ratio)	7.90%
Threshold per OPUC order 18-253	10.43%
	<hr/>
Return on Equity in excess of threshold	-2.53%
Capitalization ratio for common	50.75%
	<hr/>
Overall Return in excess of threshold	-1.28%
Average rate base	\$ 95,094,957
	<hr/>
Excess earnings	\$ (1,217,215)
Net to Gross Conversion Factor	0.70865
Pre-Tax over the threshold Earnings	\$ (1,717,646)
	<hr/> <hr/>
Earnings sharing percentage	33.00%
	<hr/>
Earnings Sharing for CY 18	\$ (566,823)
	<hr/>

Cascade Natural Gas Corporation

**ADJUSTED STATEMENT OF OPERATIONS AND RATE OF RETURN  
FOR THE TWELVE MONTHS ENDED 12/31/18**

State of Oregon

Line No.	Description (a)	Actual Statement of Operations per Books 12/31/18 (b)	Order 99-272 Appendix B Adjustments (Type I) (c)	Total Adjusted Actuals at 12/31/18 (d)	Total Annualizing Adjustments (Type II) (e)	Total Adjusted Results at 12/31/18 (f)
<u>OPERATING REVENUES</u>						
1	Natural Gas Sales	\$ 59,535,462	\$ 0	\$ 59,535,462	\$ 0	\$ 59,535,462
2	Gas Transportation Revenue	4,125,679	0	4,125,679	0	4,125,679
3	Other Operating Revenues	(1,320,109)	0	(1,320,109)	374,235	(945,873)
4	<b>SUBTOTAL</b>	<b>\$ 62,341,032</b>	<b>\$ 0</b>	<b>\$ 62,341,032</b>	<b>\$ 374,235</b>	<b>\$ 62,715,267</b>
5	LESS: Nat. Gas/Production Costs	29,629,944	0	29,629,944	0	29,629,944
6	Revenue Taxes	2,813,063	0	2,813,063	0	2,813,063
7	<b>OPERATING MARGIN</b>	<b>\$ 29,898,025</b>	<b>\$ 0</b>	<b>\$ 29,898,025</b>	<b>\$ 374,235</b>	<b>\$ 30,272,261</b>
<u>OPERATING EXPENSES</u>						
8	Production	88,246	0	88,246	0	88,246
9	Distribution	\$ 6,526,422	0	6,526,422	\$ 0	\$ 6,526,422
10	Customer Accounts	1,830,230	(39,188)	1,791,043	0	1,791,043
11	Customer Service	297,373	0	297,373	0	297,373
12	Sales	1,293	(1,293)	0	0	0
13	Administrative & General	6,112,365	(968,588)	5,143,777	28,254	5,172,031
14	Depreciation & Amortization	7,064,494	0	7,064,494	0	7,064,494
15	Regulatory Debits	0	0	0	0	0
16	Taxes Other Than Income	2,292,725	0	2,292,725	10,923	2,303,648
17	State & Federal Income Taxes	94,373	355,003	449,377	90,479	539,856
18	<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 24,307,522</b>	<b>\$ (654,066)</b>	<b>\$ 23,653,456</b>	<b>\$ 129,656</b>	<b>\$ 23,783,112</b>
19	<b>NET OPERATING INCOME</b>	<b>\$ 5,590,503</b>	<b>\$ 654,066</b>	<b>\$ 6,244,569</b>	<b>\$ 244,580</b>	<b>\$ 6,489,149</b>
<u>RATE BASE</u>						
20	Total Plant in Service	\$ 226,716,210	\$ 0	\$ 226,716,210	\$ 0	\$ 226,716,210
21	Total Accumulated Depreciation	(104,358,212)	0	(104,358,212)	0	(104,358,212)
22	Contributions in Aid of Construct.	0	0	0	0	0
23	Customer Advances for Construction	(414,316)	0	(414,316)	0	(414,316)
24	Deferred Accumulated Income Taxes	(26,848,725)	0	(26,848,725)	0	(26,848,725)
25	Deferred Debits	0	0	0	0	0
26	Working Capital Allowance	0	0	0	0	0
27	<b>TOTAL RATE BASE</b>	<b>\$ 95,094,957</b>	<b>\$ 0</b>	<b>\$ 95,094,957</b>	<b>\$ 0</b>	<b>\$ 95,094,957</b>
28	<b>RATE OF RETURN</b>	5.88%		6.57%		6.82%
<u>IMPLIED RETURN ON EQUITY</u>						
29	LESS: Return Required for Long Term Debt	2.56%		2.56%		2.56%
30	LESS: Return Required for Preferred Stock	0.00%		0.00%		0.00%
31	Adjusted Return Available for Common Stock	3.32%		4.01%		4.26%
32	<b>IMPLIED RETURN (Divide by Ratio of Common to Total: 50.75%)</b>	<b>6.54%</b>		<b>7.90%</b>		<b>8.39%</b>

Cascade Natural Gas Corporation

**ORDER 99-272 APPENDIX B (TYPE I) ADJUSTMENTS FOR RATE OF RETURN  
FOR THE TWELVE MONTHS ENDED 12/31/18**

State of Oregon

Line No.	Description	Promotional Advertising Adjustment (a)	Removal of 25% 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	<b>TOTAL OPERATING REVENUE</b>	<b>\$ 0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>\$ 0</b>
<u>OPERATING EXPENSES</u>							
5	Natural Gas Purchased	\$				\$	0
6	Manufactured Gas Production						0
7	Distribution						0
8	Customer Accounting			(39,188)		0	(39,188)
9	Customer Service						0
10	Sales	(1,293)					(1,293)
11	Administrative & General		(18,986)		(949,603)	0	(968,588)
12	Depreciation & Amortization						0
13	Regulatory Debits						0
14	Taxes Other Than Income	0	0	0	0	0	0
15	State & Federal Income Tax	349	5,127	10,582	256,431	82,514	355,003
16	<b>TOTAL OPERATING EXPENSE</b>	<b>\$ (944)</b>	<b>(13,859)</b>	<b>(28,606)</b>	<b>(693,172)</b>	<b>82,514</b>	<b>\$ (654,066)</b>
17	<b>NET OPERATING INCOME</b>	<b>\$ 944</b>	<b>13,859</b>	<b>28,606</b>	<b>693,172</b>	<b>(82,514)</b>	<b>\$ 654,066</b>
<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	<b>TOTAL RATE BASE</b>	<b>\$</b>				<b>\$</b>	<b>0</b>



Cascade Natural Gas Corporation				
<b>TYPE II ADJUSTMENTS FOR RATE OF RETURN</b>				
<b>FOR THE TWELVE MONTHS ENDED 12/31/18</b>				
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	374,235	374,235
4	Total Operating Revenue	\$ 0	374,235	\$ 374,235
	<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	28,254	0	28,254
12	Depreciation & Amortization			0
13	Regulatory Debits	0		0
14	Taxes Other Than Income		10,923	10,923
15	State & Federal Income Tax	(7,630)	98,109	90,479
16	Total Operating Expenses	\$ 20,624	109,032	\$ 129,656
17	NET OPERATING INCOME	\$ (20,624)	265,203	\$ 244,580
	<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 2018	\$ 1,293
Removal	<u>\$ (1,293)</u>

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

CY 2018 Membership Fees	\$ 75,942
Removal of 25% of Total	<u><u>\$ (18,986)</u></u>

Cascade Natural Gas Corporation  
**NORMALIZE UNCOLLECTIBLE EXPENSE**

State of Oregon

<u>Net Write Offs</u>	
Calendar Year 2016	197,056
Calendar Year 2017	226,924
Calendar Year 2018	173,329
	<u>597,309</u>
3 years of Net Write Offs: 2016 - 2018	<u><u>597,309</u></u>
Calendar Year 2016 Natural Gas Sales	59,573,715
Calendar Year 2017 Natural Gas Sales	59,895,194
Calendar Year 2018 Natural Gas Sales	59,535,462
	<u>179,004,371</u>
Uncollectible Expenses (Bad Debt Provision) for the 12 months ended 12/31/18	237,848
3 Year Average Net Write Off as a percentage of 2016-2018 Gross Revenues	0.334%
2018 Sales	59,535,462
Proforma Expense	198,660
Adjustment to normalize Uncollectible Expenses	<u><u>-39,188</u></u>

**CASCADE NATURAL GAS CORPORATION**  
**INCENTIVE COMPENSATION ANNUALIZATION ADJUSTMENT**

State of Oregon

CY18 Officer Incentive Compensation	\$ 543,186
Oregon Total	<u>\$ 543,186</u>
Removal	<u><u>\$ (543,186)</u></u>

Total 2018 Employee Incentive Accrual (OR)	<u>\$ 696,714.56</u>		
Incentive tied to Financial Performance (1/3)	\$ 232,238.19	75%	\$ 174,178.64
Incentive encouraging reduced spending (1/3)	\$ 232,238.19	50%	\$ 116,119.09
Incentive fbased on Customer Satisfaction (1/3)	\$ 232,238.19	50%	<u>\$ 116,119.09</u>
Total			\$ 406,416.83
Removal			\$ (406,416.83)

**Cascade Natural Gas Corporation**  
**Interest Coordination Adjustment**  
 1-18 to 12-18

OREGON:

	Avg of Avg	Ratio	Weighted Cost	Overall Cost of Capital
Long Term Debt	228,994,750	49.25%	5.19%	2.56%
Preferred Stock	0	0.00%		0.00%
Common Equity	236,004,372	50.75%	9.40%	4.77%
	<u>464,999,122</u>	<u>100.00%</u>		<u>7.33%</u>

Rate Base 12/31/2018	Avg Cost of Debt	Subtotal	Test period Interest Expense	Adjustment	State and F.I.T.	<b>Total Adjust</b>
95,094,957	2.56%	2,434,431	2,739,994	(305,563)	0.27004	<u><b>82,514</b></u>

**TYPE I  
ADJUSTMENT  
WORKPAPERS**



**Cascade Natural Gas Corporation  
Oregon  
Type 1 Adjustment  
Memberships & Dues  
CY 2018**

<u>Location</u>	Professional/ Organization Dues (5811 & 5912)	<u>Total OR</u>
Oregon Direct	4,077	4,077
General Office	71,865	71,865
Total		<u>75,942</u>
Removal of 25% of Total		(18,985)

Source(s): State Allocation Report, Rate Base

	Average of Averages	Ratio	Weighted Cost	Overall Cost of Capital
Long-Term Debt	228,994,750	49.25%	5.19%	2.56%
Preferred Stock	-	0.00%		0.00%
Common Equity-excl Accum OCI	236,004,372	50.75%	9.40%	4.77%
	<b>464,999,122</b>	<b>100.00%</b>		<b>7.33%</b>
Rate base as of	December 31, 2018			98,079,245
Average cost of debt				2.56%
Subtotal				2,510,829
Period Int Exp: Interest on long-term debt 427.0		2,684,603		
Period Int Exp: Amort. Of debt discount & exp 428.0		45,980		
Period Int. Exp: Amort. Of loss on reacq debt 428.1		9,411		2,739,994
Adjustment				(229,165)
<b>Total adjustment @ State &amp; F.I.T of 39.94%</b>				<b>(61,884)</b>

	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 11/24/2044	4.24% Snr Nt Due 11/24/2054	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-18	20,000,000	15,000,000	24,431,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	16,150,000	230,581,000	230,137,148	230,137,148
Feb-18	20,000,000	15,000,000	24,406,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	14,300,000	228,706,000	231,881,982	231,881,982
Mar-18	20,000,000	15,000,000	24,406,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	5,900,000	220,306,000	235,058,846	235,058,846
Apr-18	20,000,000	15,000,000	24,406,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	4,200,000	218,606,000	235,368,307	235,368,307
May-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	2,050,000	216,451,000	230,723,525	230,723,525
Jun-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	4,550,000	218,951,000	227,813,334	227,813,334
Jul-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	10,400,000	224,801,000	226,019,030	226,019,030
Aug-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	21,850,000	236,251,000	221,112,049	221,112,049
Sep-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	7,050,000	221,451,000	250,166,070	250,166,070
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
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
Dec-17	20,000,000	15,000,000	24,431,000	15,000,000	40,000,000	25,000,000	25,000,000	12,500,000	12,500,000	12,500,000	12,500,000	17,300,000	231,731,000	224,513,351	224,513,351
<b>Ave of Avgs</b>	<b>20,000,000</b>	<b>15,000,000</b>	<b>24,401,000</b>	<b>15,000,000</b>	<b>40,000,000</b>	<b>25,000,000</b>	<b>25,000,000</b>	<b>12,500,000</b>	<b>12,500,000</b>	<b>12,500,000</b>	<b>12,500,000</b>	<b>14,593,750</b>	<b>228,994,750</b>	<b>236,004,372</b>	<b>236,004,372</b>
Annual Rate	7.4800%	7.0980%	5.2500%	5.2100%	5.7900%	4.1100%	4.3600%	4.0900%	4.2400%	4.0900%	4.2400%	3.7600%	5.19%		
Cost	1,496,000	1,064,700	1,281,053	781,500	2,316,000	1,027,500	1,090,000	511,250	530,000	511,250	530,000	548,334			

# TYPE II ADJUSTMENTS

Cascade Natural Gas Corporation  
**CY18 WAGE ADJUSTMENT**  
State of Oregon

Wage Annualization Adjustment	\$ 28,254
Adjustment to Annualize & Restate	<u>\$ 28,254</u>

Cascade Natural Gas Corporation  
**PGA COMMODITY SHARING ADJUSTMENT**  
State of Oregon

CY 2018 PGA Commodity Sharing Revenue	\$(374,235)
Adjustment	<u><u>\$ 374,235</u></u>

**Cascade Natural Gas Corporation**  
**Oregon Wage Adjustment**  
Adjustment to Restate CY 2018

2018	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 CY18 Salaries/Wages
January	\$ 1,477,217						
February	\$ 1,011,753						
March	\$ 989,620						
CY18 Hourly	\$ 3,478,590	3.00%	\$ 104,358	\$ 6,470	\$ 1,513	\$ 7,983	\$ 112,341
<b>OR 3-Factor Allocation %</b>							25.15%
							\$ 28,254

Note: Salaried increase effective 1/1/18  
Hourly increase effective 4/1/18

**TYPE II  
ADJUSTMENT  
WORKPAPERS**

**CASCADE NATURAL GAS  
STATE OF OREGON  
CY18**

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

JAN18	\$ (63,687)
FEB18	\$ (18,105)
MAR18	\$ 37,406
APR18	\$ 26,395
MAY18	\$ 29,757
JUNE18	\$ 28,089
JULY18	\$ 18,279
AUG18	\$ (1,512)
SEPT18	\$ 28,283
OCT18	\$ 15,396
NOV18	\$ (169,328)
DEC18	<u>\$ (305,207)</u>
Total	<u><u>\$ (374,235)</u></u>



**Cascade Natural Gas Corporation**  
**Revenue Sensitive Cost Conversion Factor**  
**State of Oregon**  
**FOR THE TWELVE MONTHS ENDED 12/31/18**

Line No. Description	Amount	
1 Gross Revenue	1.00000	
2 Less Uncollectibles	<u>(0.00334)</u>	
3 Net Revenue	0.99666	
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	0.97081	2.92%
7 Oregon Income Tax @7.6%	<u>0.07378</u>	
8 Net Before Federal Income Tax	0.89703	
9 Federal Income Tax @ 21%	<u>0.18838</u>	
10 Net to Gross Conversion Factor	<u><u>0.70865</u></u>	

Combo-State & Federal Income Tax

State	0.07600
Federal	0.21000

Combo (calculate 0.27004)

Revenue Sensitive

Uncollectibles	0.00334	
OPUC Fees	0.00275	
City Franchise	0.02310	
	0.02919	0.97081316