ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: April 16, 2024

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** __________N/A__________

DATE: March 25, 2024

TO: Public Utility Commission

FROM: Matt Muldoon

THROUGH: Bryan Conway **SIGNED**

SUBJECT: CASCADE NATURAL GAS:
(Docket No. UF 4355)
Requests authority to enter into a revolving credit agreement for a term of up to seven years in an amount up to $225 million.

STAFF RECOMMENDATION:

Staff recommends the Commission approve Cascade Natural Gas Corporation's (Cascade, CNG, or Company) application (Application) subject to Staff's recommended conditions (Conditions) and restrictions (Restrictions).

Conditions

1. The sum of borrowing principal and Letters of Credit (LC) under the Revolving Credit and Loan Agreement (Credit Agreement) shall not exceed $225 million at any one time.
2. Simultaneous borrowing may not exceed an initial $175 million Credit Agreement expandable with an accordion feature of up to $50 million for a maximum size of $225 million.
3. The term of the Credit Agreement will be for up to seven years, representing an initial term of five years and up to two one-year extensions.
4. One-time arrangement fees at the closing of the Credit Agreement will not exceed $100,000 to U.S. Bank National Association as Lead Agent, and $50,000 to Wells Fargo Securities, LLC as Syndication Agent. Annual bank administration and agency fees paid to U.S. Bank National Association will not exceed $15,000.
5. The one-time upfront fee of participating banks may not exceed 22.5 basis points (bps) of that bank's initial commitment amount.

Note: Upfront fees for the initial $175 million credit facility are estimated to be $306,250, or 17.5 basis points (bps), of the aggregate initial commitment (New Money) and $175,000, or 10 bps, based on commitments levels for old money.

6. Up to $50 million of the credit facility may be used to support LC at any one time. Bank LC fronting fees will not exceed 20 bps.
7. Bank annual facility and borrowing fees and spreads will not exceed those shown in Attachment A, except as otherwise specifically provided in the Conditions listed herein.
8. Authority for the $125 million credit facility authorized in Docket No. UF 4333 by Commission Order No. 22-341 (Existing Credit Facility) will terminate upon close of the new Credit Agreement.
9. The Company will file a copy of the executed Credit Agreement with the Commission within 30 calendar days after closing, accompanied by a report demonstrating all fees, margins over underlying securities, interest rates, and expenses are consistent with contemporaneous competitive market prices for such credit agreements.

   No quarterly or annual reporting is required, but the Company must maintain a quarterly activity log, inclusive of any Commercial Paper (CP), LCs, short term borrowings, other commitments and drawdowns with detailed descriptions, and cost data, breaking out execution cost for accordion features. This log must be maintained and available for review by the Commission for the life of the credit facility.
10. Amendments to LCs will not exceed $500 per amendment.
11. Aggregate Company and participating bank legal fees may not exceed $300,000.

    Note: Estimated Legal Fees are $150,000 in current market conditions.
12. The Commission reserves the right to determine the reasonableness of usage, risks and costs in any future rate case or other Commission proceeding.

<u>Restrictions</u>

1. The Company's debt may not exceed 65 percent of its capital structure.
2. Swing-line Loans may not exceed $10 million.
3. The Company may not use over $50 million of the credit facility at any one time to support the issuance of LCs.

4. Portions of up to $100 million requested Credit Facility devoted to a given use will not simultaneously be available to support other financing activity or to meet other commitments.

DISCUSSION:

Issue

Whether the Commission should approve the Company's request for authority to enter into a revolving credit agreement for a term of up to seven years, including two one-year extensions, in an amount up to $225 million, inclusive of all accordion features.

Applicable Law

Under ORS 757.415(1), a public utility may issue stocks and bonds, notes, and other evidence of indebtedness, certificates of beneficial interests in a trust, and securities for the following purposes:

(a) The acquisition of property, or the construction, completion, extension or improvement of its facilities.

(b) The improvement or maintenance of its service.

(c) The discharge or lawful refunding of its obligations.

(d) The reimbursement of money actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or bonds, notes or other evidences of indebtedness, or securities of such public utility . . . .

(e) The compliance with terms and conditions of options granted to its employees to purchase its stock, if the commission first finds that such terms and conditions are reasonable and in the public interest.

(f) The finance or refinance of bondable conservation investment as described in ORS 757.4

However, an order of the Commission is required before a public utility may issue stocks and long-term bonds (of duration more than one year), notes, or other evidence of indebtedness, and any security. See ORS 757.410. The Commission may grant permission for the amount requested by the public utility, for a lesser amount, or for none at all. Further, the Commission may include in its order such conditions to approval that it deems reasonable and necessary. See ORS 757.430.

Application requirements and the exhibits that must be attached are set forth in OAR 860-027-0030.

Analysis

Background

On March 22, 2024, the Company filed a request for authority to enter into a revolving credit agreement for a term of up to five years in an amount up to $175 million with an ability to increase that amount by $50 million up to a total of $225 million. On March 19, 2024, Cascade's Board of Director's (BOD) resolution authorized this size credit facility.[1] The primary use of the Credit Agreement is to provide working capital, operational liquidity, and transactional guarantees. LCs issued under the Credit Agreement will provide collateral in construction and in market transactions, and reclamation guarantees where necessary.

Staff reviewed the Company's filing and is satisfied that all requirements of OAR 860-027-0030 have been met. Staff recommends that the Commission grant the Company's request in full because it will be used for authorized purposes. These purposes include guarantee of necessary utility market transactions, and construction and maintenance contracts. Approval is appropriate with the adoption of the Conditions provided herein. Cascade asks to refresh its credit facility so that it can last up to a full seven years into the future. Staff will explain further herein why these changes are in the public interest and will benefit ratepayers by controlling costs and eliminating uncertainty in market transactions.

Use of Proceeds

The Company represents that this credit facility will be put to usual and necessary utility purposes consistent with governing applicable law.

The Company may issue notes to banks participating in the Credit Agreement for amounts equal to the individual bank's commitment level. The Company may also use the Credit Agreement for any utility purpose authorized by ORS 757.415; e.g., the low-cost credit and liquidity enhancement of:

- Construction, operations and maintenance, and other contracts;
- Pollution control revenue bond remarketing;
- Issuance and guarantee of commercial paper and other short-term debt;

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[1] See Cascade's Board of Directors Resolution, provided as Exhibit C on Page 10 of Application.

- Low-cost trading collateral in lieu of maintaining cash deposits or balances; and
- Replacement of other financing vehicles in adverse market conditions.

Use of this credit facility bolsters access to markets, reduces financing costs, and avoids cash deposits that could be at risk in the event of counterparty bankruptcy. The enhanced liquidity represented by Cascade's application provide certainty that the Company can meet its utility obligations even under adverse conditions.

Expenses
In subsequent rate cases, the Company has the burden to demonstrate that the form of borrowing used for each pertinent utility purpose was the best combination of expense and risk of borrowing / liquidity options available to the Company.

The Company represents in its Application that fees and margins incurred will be market-based costs typical for this type of facility. Cascade is not required to subject the Credit Agreement or related LCs to competitive bidding. However, the Company must still demonstrate in subsequent general rate cases that fees and margins, including those after any execution of accordion features, reflect competitive contemporaneous market conditions. Where utility purposes and uses of this credit facility are support in acquiring gas or other resources at more than double three-year trending prices, the Company will maintain records available for Staff viewing upon request, that memorialize the reason for the higher than trending prices and alternatives Cascade considered.

Restrictions
Cascade Natural Gas must observe some covenants and restrictions as it draws down on the requested Credit Agreement. The Company's debt may not exceed 65 percent of its capital structure. Swing-line Loans may not exceed $10 million. Further, Cascade Natural Gas may not use over $50 million of the credit facility at any one time to support the issuance of LCs. Portions of up to $100 million requested Credit Facility devoted to a given use will not simultaneously be available to support other financing activity or to meet other commitments. These restrictions are usual, customary, and unlikely to be burdensome.

The proposed Credit Facility may contain an accordion feature that allows the Company to increase its borrowing capacity by up to $50 million. Prevailing market conditions may restrict any enlargement to increments or multiples of $5 million. The costs for such an increase in borrowing capacity must be commensurate with the market conditions at the time the accordion feature is executed. Accordion features generally allow for better control of cost and risk. The Company only pays for the cost of a smaller credit facility while that is adequate to meet its utility needs, but retains the flexibility to enlarge the facility as needed. This prevents ratepayers from supporting a larger facility if it is not yet needed.

Consistent with Federal Energy Regulatory Commission (FERC) Regulation
Cascade Natural Gas represents that, as a natural gas local distribution company, it is not FERC jurisdictional with respect to credit facilities and short-term borrowing. This treatment differs from FERC regulation of electric utilities.

Outstanding Authorization
The Company expects to close the new credit agreement before the Existing Credit Facility is scheduled to expire. This is usual, customary, and expected by credit rating agencies.

Authorized expenses will be limited to customary and usual fees provided in the Conditions herein.

Credit Ratings
Because the requested Credit Agreement is integral to the Company's financial liquidity, authorization to borrow is not terminated based on any particular credit rating. The Credit Agreement itself will not require a rating. Cascade Natural Gas's unsecured debt ratings from Standard & Poor's and Fitch will affect both bank annual commitment fees and borrowing spreads, each of which is capped for the applicable credit rating as shown in Attachment A.

Cascade Natural Gas's Unsecured Long-Term Debt is currently rated as:

Standard & Poor's: BBB	**Fitch: BBB+**
Outlook: Negative	**Outlook: Negative**

Note: Staff primarily relies on Standard and Poor's ratings. Moody's has withdrawn ratings for MDU Resources Group, Inc. and Cascade but may issue credit reports or opinions regarding same.

Reporting Requirements
The Company's reporting requirements are relatively light as proposed in this filing in comparison to like prior Commission authorizations. However, Staff does not foresee any harm that would result from the proposed reduction in reporting because the Company must still capture and keep operation data that is to be available at any time upon Commission request. Should the Company fail to comply with a Commission request, Staff would recommend regular periodic filings in future applications to assure compliance.

Conclusion

After thorough review of Cascade Natural Gas's application and supplemental filing, Staff finds that the Company's proposed Credit Agreement inclusive of the Conditions and Restrictions herein is reasonable and should be beneficial to ratepayers. As noted above, reporting requirements are less complex in this application than those in like prior Commission authorizations, but the Company agrees that it will capture and keep operation data that will be made available to the Commission upon request.

This requested authorization would also allow the Company to execute an accordion feature enlarging the requested facility to $225 million without requiring further Commission authorization. Staff supports the accordion feature because it may bolster the Company's credit ratings, and may help insulate it from financial market disruptions. Staff finds that the restrictions, costs, and flexibilities of the requested Credit Facility are usual, similar to the Existing Credit Facility, do no harm, and control costs of performing necessary utility business.

The Company has reviewed this memo and agrees with its explanations and Conditions.

PROPOSED COMMISSION MOTION:

Authorize Cascade Natural Gas to enter into a revolving credit agreement for a term of up to seven years in an amount up to $225 million, inclusive of all extensions and accordion features, subject to Staff Conditions 1 to 12 and Restrictions 1 to 4.

Attachment A
Other Limitations on Fees and Spreads

A. A bank's annual facility fee may not exceed the following bps of average commitment amounts based on the higher of Standard and Poor's (S&P) or Fitch (F) rating on the Company's unsecured debt[2] in effect in the relevant period:

S&P F A+ Level 1	S&P F A Level 2	S&P F A– Level 3	S&P F BBB+ Level 4	S&P F Other Level 5
7.5 bps	10 bps	12.5 bps	17.5 bps	22.5 bps

B. The rate associated with fixed rate borrowing Secured Overnight Financing Rate (SOFR) Rate Advances) under the Credit Agreement will not exceed the applicable SOFR Rate plus the following spread based on the higher of S&P or Fitch rating on the Company's unsecured debt in effect on the day of borrowing:

S&P F A+ Level 1	S&P F A Level 2	S&P F A– Level 3	S&P F BBB+ Level 4	S&P F Other Level 5
87.5 bps	100 bps	112.5 bps	125 bps	150 bps

C. The Alternate Base Rate (ABR) associated with floating rate borrowing (Prime Rate Advances) under the Credit Agreement will not exceed the highest of:

a. Federal Funds Rate plus 50 bps;

b. One-Month Eurodollar Rate plus 150 bps; or

c. Prime Rate plus the following spread based on S&P or Fitch rating:

S&P F A+ Level 1	S&P F A Level 2	S&P F A– Level 3	S&P F BBB+ Level 4	S&P F Other Level 5
0 bps	0 bps	0 bps	7.5 bps	27.5 bps

2 When split-rated, the factor for the higher S&P / Fitch rating applies.