MRG
McDOWELL RACKNER GIBSON PC
419 SW 11th Ave, Suite 400 | Portland, OR 97205

ALISHA TILL
Direct (503) 290-3628
alisha@mrg-law.com

February 8, 2019

VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UG 347 – Cascade Natural Gas Corporation's Application for a General Rate Revision.

Attention Filing Center:

Attached for filing in the above-captioned docket is the Joint Testimony in support of the Stipulation.

Please contact this office with any questions.

Sincerely,

Alisha Till

Alisha Till
Paralegal

Attachment

BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 347

Joint Testimony in Support of Stipulation

Stipulating Parties: Cascade Natural Gas Company, Public Utility Commission of Oregon Staff, the Oregon Citizens' Utility Board, and the Alliance of Western Energy Consumers

Joint Testimony of Michael Parvinen, Marianne Gardner, William Gehrke, and Bradley G. Mullins

February 8, 2019

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I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by Cascade Natural Gas Company (Cascade or Company), Staff of the Public Utility Commission of Oregon (Staff), the Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy Consumers (AWEC) (collectively, the Stipulating Parties).

Q. Please provide your names, positions, and qualifications.

A. My name is Michael Parvinen, and I am the Director of Regulatory Affairs for Cascade. My qualifications are described in Exhibit CNGC/200, Parvinen/1-2.

My name is Marianne Gardner, and I am a Senior Revenue Requirement Analyst employed in the Energy Rates, Finance, and Audit Division of the Public Utility Commission of Oregon (Commission). My qualifications are provided in Exhibit Staff/101, Gardner/1.

My name is William Gehrke, and I am an Economist employed by CUB. My qualifications are provided in Exhibit CUB/101, Gehrke/1.

My name is Bradley G. Mullins. I am an independent consultant representing utility customers before state regulatory commissions, with a primary focus in the Pacific Northwest. I am appearing in this matter on behalf of the AWEC. My qualifications are described in Exhibit AWEC/101.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the stipulation filed in Docket No. UG 347 on January 22, 2019 (Stipulation), as well as the addendum to the Stipulation (Stipulation Addendum), which is being filed contemporaneously with this testimony. As appropriate, throughout this testimony, the term Stipulation will encompass both the Stipulation and Stipulation Addendum.

Q. Do you expect the Stipulation to resolve all issues in this docket?

A. Yes. The Stipulation is joined by the Stipulating Parties and addresses all issues in this docket. PacifiCorp, dba Pacific Power (Pacific Power) and Hermiston Generating Company (Hermiston) are also parties to this proceeding, but are not parties to the Stipulation. Pacific Power has indicated that it will not object to the Stipulation. Hermiston has declined to take a position regarding the Stipulation. Accordingly, the Stipulating Parties expect this Stipulation to fully resolve the issues in this docket.

II. BACKGROUND ON DOCKET NO. UG 347

Q. Please summarize the background and context of Docket No. UG 347.

A. On May 31, 2018, Cascade filed a request for a general rate increase and revised tariff sheets to take effect on June 30, 2018. The Company's filing (Initial Filing) requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $2,310,808, or 3.53 percent over current customer rates, or a 7.22 percent margin increase to rates. On June 1, 2018, the Commission suspended the filing for further investigation. Administrative Law Judge (ALJ) Patrick Power convened a prehearing conference on July 10, 2018. In accordance with the prehearing conference memorandum, the effective date for rates will be April 1, 2019.

Q. Please describe the process that followed.

A. On August 15, 2018, the parties convened an initial settlement conference, which resulted in a partial settlement. On September 27, 2018, Staff, CUB, and AWEC filed opening testimony proposing various adjustments to Cascade's Initial Filing. The parties convened a second settlement conference on October 9, 2018, and a third settlement conference/workshop was held on October 16, 2018. Cascade filed its reply testimony (Reply Filing) on October 30, 2018. In the Company's Reply Filing, Cascade provided corrections and updates to its Initial Filing, incorporated the results of the partial settlement, and responded to and accepted certain adjustments proposed by Staff, CUB, and AWEC. As a result of these corrections, updates, and adjustment, Cascade revised its requested increase to annual Oregon jurisdictional revenue requirement to $2,310,937.

The Stipulating Parties convened a fourth settlement conference on November 7, 2018, and continued settlement discussions on November 8, 2018. As a result of those discussions, the Stipulating Parties reached a settlement of all issues in this proceeding.

Q. Have the parties conducted discovery in this case?

A. Yes. Since the Initial Filing, Cascade has responded to at least 413 data requests from Staff, CUB, AWEC, and Hermiston including responses to the Commission's Standard Data Requests, and has provided updates to its responses during the pendency of this case.

Q. Have the parties reached a stipulation resolving all remaining issues in this case?

A. Yes. The Stipulation memorializes the Stipulating Parties' agreements reached at the August 15 and November 7-8, 2018, settlement conferences, which the Stipulating Parties expect to fully resolve the issues in this docket, together with the Stipulation Addendum

III. REVENUE REQUIREMENT ISSUES

Q. Please summarize the adjustment to revenue requirement agreed upon by the Stipulating Parties.

A. The Stipulating Parties agree to an Oregon-allocated increase to revenues of $1,677,710. This level of revenue increase would result in a 2.56 percent overall increase, or a 4.27

percent margin increase to rates.[1]

Q. Please describe the impact of the revenue requirement increase by customer class.

A. The impact to each customer class is as follows:

Customer Class	Average Usage	Average Bill Impact
Residential	57.31	$1.34
Commercial	251.60	$3.77
Industrial	1,147.31	$41.23
Large Volume	7,546.09	$67.37
Interruptible	50,384.74	$333.73
Transportation	86,529.28	$303.62

Q. Please provide an overview of the Stipulating Parties' agreement regarding revenue requirement.

A. The Stipulation represents the settlement of all revenue requirement issues in this docket. Although the Stipulating Parties proposed different adjustments in testimony and took different positions on how to justify the revenue requirement increase, the Stipulating Parties agree that the following adjustments to Cascade's Initial Filing presented in Table 1 below justify the settlement, although there are different ways to justify the agreed upon revenue requirement increase of $1,677,710 based on the record in this proceeding:

[1] Note that the Stipulation, taking into account the agreed upon revenue requirement and separate tariff returning the non-plant excess deferred income taxes (discussed below in Section IV), results in an overall average rate increase of approximately 1.80 percent and an increase of 3.88 percent to margin.

Table 1 – Summary of Settlement of Revenue Requirement Adjustments

Company's Proposed Revenue Requirement (Initial Filing)		**$2,310,808**
Issue No.	**Adjustment**	**Revenue Requirement Effect**
1	Wages, Salaries, and Incentives	($572,505)
2	MDU Cross-Charges	($7,836)
3	Directors and Officers Liability Insurance	($16,843)
4	Franchise Fee Expense	$4,842
5	Franchise Fee – Revenue Sensitive Rate	($941)
6	Interest Synchronization	$23,327
7	Charitable Contributions	($1,288)
8	Administrative and Generation (A&G)	($38,498)
9	Plant	($150,000)
10	UM 1816 Deferral	($38,000)
11	Cost of Long-Term Debt	($86,523)
	Unprotected (Non-Plant) Excess Deferred Income Taxes (EDIT) Amortized Over 5 Years (Separate Tariff)[2]	$251,165
	Total adjustments	**($633,098)**
	Incremental Revenue Requirement	**$1,677,710**
	Separate Tariff to Amortize Non-Plant EDIT	($502,331)
	Total Stipulated Change in Revenues	**$1,175,379**

Q. Do the Stipulating Parties agree on all of the methodologies employed to determine each adjustment?

A. No, the Stipulating Parties do not necessarily agree on all of the methodologies used to determine each adjustment included in the Stipulation. However, the Stipulating Parties believe that the stipulated revenue increase represents a reasonable financial settlement of the issues in this docket and that, taken together, the adjustments described in the Stipulation result in an overall revenue requirement that will produce rates that are fair,

[2] Note that while the revenue requirement impact of this adjustment is included in this revenue requirement summary table, this issue is included in the discussion of non-revenue requirement issues because the Stipulating Parties agreed to address this issue through a separate tariff. The revenue requirement impact shown is a result of reversing the proposed amortization included in the Company's Initial Filing.

just, and reasonable. As such, the Stipulating Parties agree that this Stipulation is in the public interest.

Q. On what date do the Stipulating Parties agree that rates resulting from this rate case should go into effect?

A. Upon approval of this Stipulation, Cascade will file revised rate schedules as a compliance filing in Docket No. UG 347, to be effective April 1, 2019, reflecting rates as agreed upon in this Stipulation.

Issue No. 1: Salaries, Wages, Incentives, and Medical Benefits.

Q. Please describe the agreement in the Stipulation regarding salaries, wages, incentives and medical benefits.

A. The Company established its wages, salary, and medical benefits costs based on industry surveys performed by third-party organizations and also based on Company-specific considerations, such as the requirements of the Company's bargaining unit agreements and established salary and benefit increases.[3]

With respect to pay-at-risk, the Company proposed to recover all costs associated with employee incentive pay.[4] The Company acknowledged that this request was inconsistent with prior Commission precedent, but offered argument in support of a change in policy.[5] The Company asserted that a change in precedent was warranted based on changes in compensation practices within the industry, and in light of the benefits pay-at-risk provides to customers by promoting good employee performance.[6] Based on these factors, the Company proposed that the Commission re-examine its

[3] CNGC/1100, Murray/2-11.
[4] CNGC/200, Parvinen/21-22.
[5] CNGC/200, Parvinen/23.
[6] CNGC/1100, Murray/10.

precedent regarding incentive pay in the context of this proceeding or, alternatively, through a separate investigation.[7]

In its opening testimony, Staff proposed several adjustments to the Company's wages and salaries based on its use of its wage and salary model (W&S Model), escalated using the All-Urban CPI.[8] Staff also recommended an adjustment to the Company's pay-at-risk to disallow 50 percent of non-officer incentives based on non-financial metrics and 75 percent of incentives based on financial performance metrics,[9] such that all officer incentive pay would be disallowed in its entirety and non-officer incentive pay would be disallowed at 50 percent, if based on non-financial metrics, or at 75 percent, if based on financial metrics.[10] However during later discussions, the Company alerted Staff that the amounts provided by Cascade for Staff's calculation were incorrect and did not reflect what was included in the test year. The Stipulating Parties agreed to an adjustment that took each of these recommendations, as corrected, into account in the amount of a reduction of $535,066 to expense and $220,411 to rate base, and which results in a reduction to the revenue requirement of $572,505.

Q. Why is the Stipulating Parties' agreement regarding salaries, wages, incentives, and medical benefits reasonable?

A. While the Stipulating Parties do not agree on the appropriate formula for determining test year wages and salaries, and while Cascade does not agree that any portion of non-officer incentive compensation should be disallowed from rate recovery, the agreed-upon adjustment is based on the Commission's historic practice of using Staff's Three-Year

[7] CNGC/200, Parvinen/23. The Company excluded 100 percent of executive pay-at-risk. CNGC/200, Parvinen/22.
[8] Staff/100, Gardner/15.
[9] Staff/100, Gardner/21.
[10] Staff/100, Gardner/36-37.

Salary Model, and reflects the employee count during the test period. The Stipulating Parties have agreed that this adjustment represents a reasonable reduction that will aid in the resolution of this proceeding.

Issue No. 2: MDU Resources (MDU) Cross-Charges

Q. Please describe the Stipulation regarding MDU Cross-Charges.

A. Cascade's Initial Filing included allocated expenses from MDU Resources regarding dues and subscriptions, which include professional licenses and memberships.[11] AWEC identified a number of MDU Cross charges for expenses that AWEC believed did not provide a benefit to Oregon customers.[12] In its Reply Filing, Cascade proposed a modification to AWEC's adjustment. The Company believed that it demonstrated the allocated costs provide a benefit to Oregon customers.[13]

As a result of their settlement discussions, the Stipulating Parties have applied an adjustment that accepts AWEC's adjustment, as corrected by Cascade at CNGC/700, Peters/12. This adjustment results in a reduction to the revenue requirement of $7,836.

Q. Please explain why the Stipulating Parties' agreement regarding MDU Cross-Charges is reasonable.

A. The agreed-upon adjustment appropriately allows Cascade to recover the Oregon allocation for those MDU Cross-Charges that provide a benefit to Oregon customers, and also excludes any cross-charged items lacking adequate detail to demonstrate benefit to Oregon customers.[14] The Stipulating Parties agree that, in the context of an overall

[11] CNGC/700, Peters/12.
[12] AWEC/100, Mullins/15-16.
[13] CNGC/700, Peters/11-12.
[14] CNGC/700, Peters/12.

settlement, the amount of the adjustment related to allocated costs from MDU Resources is reasonable.

Issue No. 3: Director and Officer Insurance

Q. Please describe the Stipulating Parties' agreement regarding director and officer insurance expense.

A. The Company's Initial Filing proposed to include its total Oregon-allocated director and officer (D&O) insurance expense based on actual premium amounts. In initial settlement discussions, Staff and Cascade agreed to a compromise that resulted in a reduction of $16,326 to expense, reflecting Staff's methodology for purposes of settlement. This methodology removes 50 percent of all levels of D&O insurance premiums and results in a reduction to revenue requirement of $16,843.

Q. Why is the Stipulating Parties' agreement regarding director and officer insurance expense reasonable?

A. The Stipulating Parties do not necessarily agree with Staff's proposal for equal sharing of these costs between shareholders and ratepayers; however, the Stipulating Parties have agreed that this revenue requirement reduction is reasonable and will contribute to the fair resolution of this matter.

Issue No. 4: Franchise Fee Expense

Q. Please describe the agreement in the Stipulation regarding franchise fee expense.

A. Cascade's Initial Filing included franchise fees of $1,574,278 based on 2017 figures.[15] Staff proposed an adjustment to the franchise fee rate (and related franchise fee expense) using a three-year average of franchise fee rate data.[16] During settlement discussions,

[15] CNGC/700, Peters/13; Staff/100, Gardner/8.
[16] Staff/100, Gardner/9.

the Stipulating Parties agreed to a compromise formula using a 10-year average for the franchise fee rate, not including two years in which franchise fee rates were unusually low. This adjustment resulted in an increase to revenue requirement of $4,842.

Q. Please explain why the Stipulating Parties' agreement regarding franchise fee expense is reasonable.

A. The Stipulating Parties do not agree on all aspects of the methodology used to derive the appropriate level of franchise fee expense for the Test Year but do agree that this adjustment reflects a reasonable compromise by considering a significant period of years, while also excluding certain outlier years.

Issue No. 5: Franchise Fee Rate

Q. Please describe the Stipulation regarding the franchise fee rate.

A. Cascade's Initial Filing included a revenue sensitive franchise fee rate of 2.449 percent, which was the same as the actual 2017 rate.[17] Staff proposed an adjustment to this rate down to 2.387 percent based on a three-year average of franchise fee rate data.[18] During settlement discussions, the Stipulating Parties agreed to a compromise rate of 2.4124 percent based on the 10-year average (and excluding outlier years) as described above, which results in a reduction to the revenue requirement of $941.[19]

Q. Why is the Stipulating Parties' agreement regarding the franchise fee rate reasonable?

A. The agreed-upon franchise fee rate reflects a compromise position among the parties, falling within a reasonable range between the Company's and Staff's proposed rates. The

[17] CNGC/700, Peters/13.
[18] Staff/100, Gardner/9.
[19] Stipulation at 3.

Stipulating Parties agree that this adjustment contributes to the overall fair resolution of this case.

Issue No. 6: Interest Synchronization

Q. Please describe the Stipulating Parties' agreement regarding interest synchronization.

A. Staff proposed an adjustment to synchronize interest expense to reflect changes to Cascade's long-term debt rate. Specifically, Staff's interest synchronization adjustment incorporates Staff's adjustment to reduce the cost of long-term debt from 5.25 percent (as proposed in Cascade's Initial Filing) to 5.140 percent. The Stipulating Parties agreed to increase revenue requirement by $23,327 to reflect Staff's interest synchronization adjustment.

Q. Why is the Stipulating Parties' agreement regarding interest synchronization reasonable?

A. The Stipulating Parties' agreement regarding the interest synchronization adjustment is consistent with the Stipulating Parties' agreement to accept Staff's proposed adjustment reducing the cost of long-term debt.

Issue No. 7: Charitable Contributions

Q. Please describe the agreement in the Stipulation regarding charitable contributions.

A. Cascade's Initial Filing included a transaction for dues to the Association of Washington Business in the amount of $1,248, escalated by 1.7 percent for inflation and included in the 2018 test year at $1,269.[20] Staff recommended removing this expense as unrelated to the provision of safe and reliable energy to customers.[21] Cascade agreed, noting that

[20] CNGC/700, Peters/9.
[21] Staff/800, Rossow/6-7.

the amount had been inadvertently included in the Initial Filing.[22] This adjustment results in a reduction to revenue requirement of $1,288.

Q. Why is this adjustment reasonable?

A. The Stipulating Parties agree that this adjustment corrects an inadvertent error in the Company's initial filing, and is consistent with the establishment of fair, just, and reasonable rates.

Issue No. 8: Administrative and General

Q. Please describe the agreement in the Stipulation regarding administrative and general (A&G) expenses.

A. In Cascade's Initial Filing, the Company included miscellaneous A&G expenses based on the Company's actual 2017 A&G expenses, adjusted to remove certain unrecoverable items such as retirement parties and sponsored event parking.[23]

Staff proposed to adjust six categories of miscellaneous A&G expenses to reflect a 50 percent disallowance for meals and entertainment, which would result in a reduction to expense of $37,316.[24] In its Reply Filing, Cascade revised Staff's proposed adjustment to include 100 percent of all expenses associated with business travel, which Cascade views as essential to fulfill its business and regulatory obligations in light of its non-contiguous and geographically dispersed service territory.[25] During settlement discussions, the Stipulating Parties agreed to adopt Staff's adjustment, resulting in a reduction to revenue requirement of $38,498.

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[22] CNGC/700, Peters/10.
[23] CNGC/700, Peters/5-6.
[24] Staff/800, Rossow/4. The categories of A&G expenses include meter reading, customer records, customer assistance, office supplies and expenses, employee pensions and benefits, and miscellaneous general expenses.
[25] CNGC/700, Peters/7.

Q. Why is the Stipulating Parties' agreement regarding A&G expenses reasonable?

A. While the Company does not agree that 50 percent of business travel expenses should be disallowed, the Stipulating Parties agreed to Staff's proposed adjustment as a reasonable compromise, which contributes to the overall fair resolution of revenue requirement in this case.

Issue No. 9: Plant

Q. Please describe the Stipulating Parties' initial positions regarding plant.

A. The Company's Initial Filing reported $219.983 million of plant in service as of December 31, 2017, and requested an additional $24.552 million in gross plant additions during the 2018 test year.[26] The adjustments proposed by other parties are as follows:

- Staff proposed adjustments to rate base for six capital projects due to concern that those projects would not be in-service by the rate-effective date or because costs may have changed since the Company's initial budget projections.[27] The total plant adjustment proposed by Staff for all capital projects would reduce rate base by $5.217 million.
- CUB proposed an adjustment to the Company's Initial Filing regarding the purchase of heavy machinery based on a concern that the Company had been inflating rate base through a power equipment trade in program.[28] CUB's adjustment would reduce revenue requirement by $81,592.[29]
- AWEC proposed an adjustment related to the Madras Phase 1 project, proposed to remove growth-related projects, and proposed a further adjustment to reflect the impact of plant retirements on depreciation expense.[30] AWEC's total proposed adjustments to plant would reduce rate base by $11,279,796.[31]

Q. How did Cascade respond to the parties' concerns regarding plant in its Reply Filing?

[26] CNGC/800, Parvinen/22.
[27] Staff/200, Fox/17.
[28] CUB/100, Gehrke/5.
[29] CUB/100, Gehrke/6.
[30] AWEC/100, Mullins/27.
[31] AWEC/100, Mullins/28.

A. In its Reply Filing, the Company responded to the parties' proposed adjustments, and provided updated information regarding the status of certain capital additions, reducing the 2018 test year additions from $24.552 million to $21.901 million.[32]

Q. Following the Company's Reply Filing, did Cascade provide additional information regarding 2018 plant additions in discovery?

A. Yes. Staff issued several data requests regarding plant after the Company submitted its Reply Filing, and the Company provided additional information to respond to Staff's inquiries.

Q. Please describe the Stipulating Parties' agreement regarding 2018 plant additions.

A. The Stipulating Parties reached an agreement that the additional rate base and revenue requirement amounts for plant includes the projects listed in the Company's Exhibit CNGC/801, and the Company will provide an officer attestation by March 1, 2019 affirming that all projects were completed and in service by December 31, 2018 and describing actual costs for the 2018 test year plant additions. The Stipulating Parties further agreed that the project cost amount described in Exhibit CNGC/801, $21.9 million, would be reduced by $1.6 million to $20.3 million. The Stipulating Parties agree that the amounts recoverable for plant shall be limited to the actual amounts provided in the Company's March 1, 2019 attestation, and projects not complete and in service by December 31, 2018 shall be removed from test year rate base.[33] Stipulating Parties acknowledge that costs may vary from the amounts described in Exhibit CNGC/801, and agree that the total amount the Company may recover for plant will be based on net changes in costs up to

[32] CNGC/800, Parvinen/2-3; CNGC/801, Parvinen/1.
[33] Stipulation at 4.

the plant amount agreed upon, $20.3 million. This adjustment results in a reduction to revenue requirement of $150,000.

Q. Please explain why the agreement regarding plant is reasonable.

A. The agreement in the Stipulation regarding rate base and revenue requirement associated with the Company's plant additions is a reasonable adjustment because it represents a compromise between the Company's Initial Filing and Staff's, CUB's, and AWEC's proposed adjustments. Additionally, all parties investigated the Company's proposed rate base and revenue requirement for plant, and determined that the compromise agreed to in the Stipulation is reasonable. Staff will also be providing separate testimony in support of the Stipulation on this issue.

Finally, the agreed-upon attestation will confirm whether 2018 capital additions have in fact been completed by December 31, 2018. For any projects previously forecast to be completed by December 31, 2018 that are no longer on track for completion, the Company will remove such projects from rate base for purposes of calculating the rates pursuant to the Stipulation. This agreement to provide an attestation provides certainty to the Stipulating Parties and the Commission that these projects will be completed prior to the rate effective date. Accordingly, the agreed-upon rate base and revenue requirement will reflect the updated costs and the plant that will be in service and used and useful, consistent with ORS 757.355.

Issue No. 10: UM 1816 Deferral

Q. Please describe the Stipulation regarding the UM 1816 deferral of records review costs.

A. In its Initial Filing, Cascade requested recovery for costs associated with a records review of maximum allowable operating pressure (MAOP) on the Company's high-pressure distribution and transmission pipelines, which were the subject of a deferral application in Docket No. UM 1816. Although the deferral application was filed on January 6, 2017, the Commission has not yet approved the deferral in that docket. Staff proposed an adjustment that would not provide recovery of the costs of the MAOP records review,[34] resulting in reduction to revenue requirement of $120,386.[35] In reply testimony, Cascade supported its original position that the deferral and amortization of the MAOP records review expense was appropriate. Cascade also argued that, had a deferral been denied, then Cascade would have recorded its costs to FERC account 874 (operations and maintenance (O&M) expense) for the 2017 base year.[36] Cascade presented an alternative proposal in which the Company's MAOP records review expense would be treated as an adjustment to O&M for the 2017 base year. In the alternative proposal, Cascade added $0.5 million for MAOP records review expense to the $1.2 million of 2017 base year costs in FERC account 874, resulting in an annual expense for 2017 of $1.7 million and a three-year average of $1.3 million.[37]

The Stipulating Parties have agreed to a compromise resolution in which Cascade has agreed to withdraw its request for deferred accounting treatment of the MAOP records review in Docket No. UM 1816. However, the Stipulating Parties recognize that Cascade does require additional funds on a going forward basis to meet the demands of regulatory recordkeeping and other regulatory reporting as are incurred in FERC Account 847. Therefore, the Stipulating Parties agree to a reduction in test period expense of $36,833

[34] Staff/600, Moore/5.
[35] Staff/100, Gardner/5.
[36] CNGC/900, Privratsky-Parvinen/33.
[37] CNGC/903.

as described in Paragraph (1)(j) of the Stipulation. This adjustment results in a reduction to revenue requirement of $38,000.

Q. Why is the Stipulating Parties' agreement regarding the UM 1816 deferral of records review costs reasonable?

A. The Stipulating Parties' agreement represents a compromise between Cascade's Initial Filing and Staff's proposed adjustment. This reduction represents a reasonable compromise and contributes to the overall fair resolution of revenue requirement in this case.

Issue No. 11: Cost of Long-Term Debt

Q. Please describe the Stipulation regarding Cascade's cost of long-term debt.

A. Cascade's Initial Filing proposed a long-term debt cost of 5.25 percent.[38] After additional discussions at settlement conferences, the Stipulating Parties agreed to a revised cost of long-term debt of 5.140 percent. This agreement results in a reduction to revenue requirement of $86,523.[39]

Q. Why is this agreement regarding the cost of long-term debt reasonable?

A. The agreed-upon cost of long-term debt represents a compromise between the modeling performed by the Company and Staff, and results from extensive discussions during the settlement process. The Stipulating Parties agree that this is a reasonable adjustment and contributes to the fair resolution of this case.

[38] CNGC/200, Parvinen/3-4.
[39] Stipulation at 5.

IV. NON-REVENUE REQUIREMENT ISSUES

Q. Did the Stipulation also include settlement of non-revenue requirement issues?

A. Yes, the Stipulation also settled non-revenue requirement issues raised in the case, as described further below.

Cost of Capital and Return on Equity

Q. Please describe the Stipulation regarding Cascade's cost of capital.

A. Cascade's Initial Filing proposed a rate of return (ROR) of 7.325 percent, which was based on a 50.0 percent common equity ratio and 50.0 percent long-term debt capital structure, with a proposed Return on Equity (ROE) of 9.4 percent and a long-term debt cost of 5.25 percent. The proposed ROE of 9.4 percent was supported by testimony of Mr. Parvinen.[40]

Staff supported the Company's proposed capital structure and rate of return.[41] No party filed testimony opposing the Company's proposed capital structure and rate of return. After full discussions at settlement conferences, the Stipulating Parties agreed to an ROE of 9.4 percent and to a revised cost of long-term debt of 5.140 percent, as well as a revised ROR of 7.270 percent.

Q. Why is the agreement regarding the Company's cost of capital reasonable?

A. The capital structure of 50 percent equity and 50 percent debt is based upon Cascade's actual capital structure over the last six years. As explained above, the adjustment to the cost of long-term debt represents a compromise between the modeling performed by the Company and Staff, resulting from extensive discussions during the settlement process. As a result, the Stipulating Parties have agreed that the resulting cost of capital with an

[40] CNGC/200, Parvinen/3-4.
[41] Staff/1100, Peng/18.

overall ROR of 7.270 percent is a reasonable resolution of this issue and is supported by the Stipulating Parties' analysis.

Rate Spread and Rate Design

Q. Please describe the Stipulating Parties' agreement regarding rate spread.

A. The Stipulating Parties agreed to an equal percentage of margin rate spread, except for Schedule 105, which will receive three times the increase. Basic service charges will be increased as proposed by Cascade, to better reflect the underlying costs of providing basic customer service as well as the proposed change in class revenues.

Q. Please describe the Stipulating Parties' agreement regarding rate design.

A. The changes to the basic service charges are as follows:

- General Residential Service, Schedule 101 – increase from $4 to $5;
- General Commercial Service, Schedule 104 – increase from $4 to $10;
- General Industrial Service, Schedule 105 – increase from $12 to $30;
- Large Volume General Service, Schedule 111 – establish a new basic service charge of $125;
- General Distribution System Transportation Service, Schedule 163 – increase from $500 to $625; and
- Interruptible Service, Schedule 170 – establish a new basic service charge of $300.

The remaining increase will be applied to commodity charges.

Q. Please explain why the Stipulation regarding rate spread and rate design is reasonable.

A. While the Stipulating Parties may each hold different positions on cost of service issues, the Stipulating Parties agree that the terms in the Stipulation on rate spread and rate design represent a compromise that fairly balances the interests of the Stipulating Parties and results in fair, just, and reasonable rates.

Non-Plant Excess Deferred Income Taxes (EDIT)

Q. Please describe the agreement in the Stipulation regarding non-plant EDIT.

A. In Cascade's Initial Filing, the Company explained that the EDIT in this case results from the implementation of the revised federal tax rate established by the Tax Cut and Jobs Act (TCJA).[42] As a result of the new tax rate, Cascade was required to book the EDIT as of December 31, 2017, and return these benefits to customers. While protected EDIT (plant-related EDIT) may only be returned to customers according to the applicable amortization schedule as determined by the Average Rate Assumption Method, there is more flexibility around the timing for the return of unprotected (non-plant EDIT). In its Initial Filing, Cascade proposed to return non-plant EDIT over ten years to reflect an average of the useful life of the underlying assets.[43] In testimony, Staff proposed that non-plant EDIT be returned through a five-year amortization process instead.[44] The Stipulating Parties have agreed that Cascade will return to customers the non-plant EDIT balance over five years through a separate tariff schedule, on an equal percent of margin basis. The annual amount to be returned to customers is $502,331.

Q. Please explain why the agreement in the Stipulation regarding non-plant EDIT is reasonable.

A. The agreement to return non-plant EDIT to customers over a five-year period is a reasonable compromise that allows customers to receive the benefits of the TCJA in a

[42] CNGC/200, Parvinen/12.
[43] CNGC/200, Parvinen/12.
[44] Staff/200, Fox/9.

timely manner and balances the Company's concerns regarding potential impacts to cash flow. Additionally, returning the non-plant EDIT through a separate tariff rather than through base rates is reasonable because it allows for the termination of the tariff after the Company has returned the non-plant EDIT balance to customers without requiring the Company to file a rate case.

Interim Period Deferral

Q. Please describe the agreement in the Stipulation regarding Interim Period Deferral.

A. For the period between January 1, 2018 and March 31, 2019 (the Interim Period), the Company's income tax expense was reduced as a result of the decrease in the federal income tax rate resulting from the TCJA. Cascade has been deferring these benefits as part of Docket No. UM 1927. In the Company's Initial Filing, Cascade proposed that the deferred balance would be subject to applicable earnings reviews for the period for the deferral, such that any benefits in excess of the Company's authorized return on equity would be returned to Cascade's customers. AWEC opposed Cascade's proposal and instead proposed returning the Interim Period Deferral to customers over a two-year amortization period.[45] As a result of settlement discussions, the Stipulating Parties have agreed that Interim Period Deferral will not be addressed in this docket, and will instead be addressed in the ongoing deferral dockets.

Q. Please explain why the agreement in the Stipulation regarding Interim Period Deferral is reasonable.

A. The Stipulating Parties agree that determining the regulatory treatment of the Interim Period Deferral is not necessary for a full and fair resolution of this docket.

[45] AWEC/100, Mullins/25-26.

Customer Deposits

Q. Please describe the agreement in the Stipulation regarding customer deposits.

A. In testimony, CUB urged the Company to adopt the two-year proposal on the premise that security deposits act as a regressive penalty on low-income customers. CUB argued that security deposits may result in more payment issues as a result of many customers' limited funds, which may be further curtailed by security deposits themselves. Cascade has agreed to suspend collection of customer security deposits for Schedule 101 customers as part of a two-year pilot program, consistent with CUB's proposal.[46]

Q. Please explain why the agreement in the Stipulation regarding customer deposits is reasonable.

A. During settlement discussions, the Stipulating Parties discussed at length the potential costs and benefits associated with a suspension of customer deposits. The two-year pilot program will allow adequate time to evaluate the impact on the utility's overall uncollectible expense, while still preserving flexibility for the Company to reinstate collection of customer deposits if needed after the termination of the pilot. Accordingly, the Stipulating Parties agree that a two-year pilot is a reasonable compromise on this issue.

Safety Cost Recovery Mechanism (SCRM)

Q. Please describe the agreement in the Stipulation regarding the SCRM.

A. The Company's Initial Filing included a proposal for a SCRM to help reduce regulatory lag for safety-related capital investments.[47] Staff and AWEC opposed this proposal in their testimony, and as part of the settlement, the Company has agreed to withdraw its

[46] CUB/100, Gehrke/16.
[47] CNGC/200, Parvinen/14.

proposal. The Stipulating Parties agree that Cascade may request Commission approval of the SCRM in a separate proceeding.

Q. Please explain why the Stipulating Parties' agreement regarding the SCRM is reasonable.

A. The Stipulating Parties agree that Commission consideration of the Company's request for approval of the SCRM is not necessary for a full and fair resolution of the issues in this docket. In accordance with the Stipulation, as well as the guidelines for SCRMs adopted in Docket No. UM 1722, the SCRM can be presented to the Commission in a separate proceeding.

Schedule 163

Q. Please describe the agreement in the Stipulation regarding Schedule 163.

A. Cascade's Initial Filing proposed to transition customers receiving service under Schedule 163 from an interruptible service to a firm service.[48] Cascade argued that customers on Schedule 163 were actually receiving uninterrupted service, that there was little benefit to interrupting these customers given their location on the system, and so Schedule 163 customers should not be paying for interruptible service. AWEC opposed elimination of interruptible service, arguing that interruptible customers provide a benefit to the system and other customers. The Stipulating Parties have agreed that service for Schedule 163 will not be changed as proposed by Cascade in its Initial Filing and customers receiving service under Schedule 163 will continue to receive, and to pay for, interruptible service. Cascade further agrees to coordinate with AWEC to provide notice to such customers prior to proposing any changes to Schedule 163 in the future.

[48] CNGC/800, Parvinen/31.

Q. Please explain why the Stipulating Parties' agreement regarding Schedule 163 is reasonable.

A. By maintaining the status quo service offering and agreeing to provide notice to affected customers in advance of future proposed changes to Schedule 163, the Stipulation benefits customers without constraining the Company from seeking reasonable tariff revisions in the future.

Uncollectibles

Q. Please describe the agreement in the Stipulation regarding uncollectibles.

A. The Stipulating Parties agree to accept the methodology Cascade used in its Initial Filing for determining the amount of uncollectibles to include in rates, which uses the most recent three years of actual net bad debt write-offs. Because this was the approach used by the Company in its Initial Filing, there is no adjustment associated with this agreement.

Q. Please explain why the Stipulating Parties' agreement regarding uncollectibles is reasonable.

A. The Stipulating Parties agree that the methodology for determining uncollectibles, which is based on the methodology Staff has used in prior cases, is reasonable and contributes to the fair resolution of this case.

V. ADDENDUM TO STIPULATION

Q. What subject matter is addressed in the Stipulation Addendum?

A. The Stipulation Addendum addresses the Company's proposed treatment of its environmental remediation expenses. While the Company's proposal was not contested by the other parties, the Stipulating Parties agree that it should specifically be addressed because it results in a change to the amounts collected through Schedule 197. Because the parties overlooked the issue in the original Stipulation, they agreed to file the Stipulation Addendum.

Q. Please provide some background regarding the environmental remediation expense addressed by the Stipulation Addendum.

A. Pursuant to Order 13-004, issued in UM 1636, Cascade has been deferring costs associated with its environmental remediation efforts related to a manufactured gas plant site located in Eugene, Oregon.[49] Cascade shares the remediation liability for the site with Eugene Water and Electric Board and PacifiCorp, and the parties have a cost sharing agreement for site investigation, remedial design and remediation activities. The Company has continued to defer environmental remediation expenses since 2013. In Cascade's last Oregon rate case—UG 305—the Commission approved a three-year amortization of the amounts that had been deferred to date—which totaled $162,000. Approximately $54,000 of that amount has not yet been amortized. In addition, since the last rate case, the Company has deferred approximately $193,000 in additional environmental remediation expenses.

Q. What was the Company's proposal in this case?

A. The Company proposed to combine the unamortized amounts approved in the last rate case ($54,000) with the additional expenses deferred since the last rate case ($193,000), and amortize the total $247,000 over three years. To implement this request, the Company requested an update to Schedule 197 to reflect a three-year amortization of the total balance, collecting $84,858 per year. The per therm amount in Schedule 197 would

[49] The Company has filed supplemental applications each year for reauthorization of the deferral, which have been granted. See, Order Nos. 13-484, 14-10, 16-10, and 17-30617-491

actually decrease from the current $0.000514 to $0.000303 because of an increase in projected gas volumes.

Q. Did the Stipulating Parties agree to the Company's proposal?

A. Yes. Through testimony filed in this case, Staff explained that it had reviewed the new deferred expenses, and found that they were (a) actually incurred; (b) solely incremental; and (c) associated with the environmental remediation activities required for this project. For these reasons, Staff recommended that the Commission approve the requested update to Schedule 197 and allow amortization of the deferred balance to occur over the proposed three-year period.[50] Based on Cascade's and Staff's testimony and other information provided in this case, all Stipulating Parties were persuaded that the deferred amounts were prudently incurred and should be recovered as proposed by Cascade.

Q. Did the Stipulating Parties agree to a true up related to the amounts approved in UE 305?

A. Yes. The Stipulating Parties agree that the updated Schedule 197 rate does not consider whether actual Schedule 197 revenues were higher, or lower than the $162,000 amount authorized for amortization in UE 305. Accordingly, in a future request for amortization, or at the time when the deferred account balance becomes zero, a Stipulating Party may propose to true up the revenue collections extending back to March 1, 2017 when the original amortization schedule was authorized in UE 305.

[50] Staff/600, Moore/10-11.

VI. REASONABLENESS OF THE STIPULATION AND STIPULATION ADDENDUM

Q. What is the basis for the Stipulation and Stipulation Addendum?

A. The Stipulation and Stipulation Addendum constitute a compromise based on the record in this case, which includes Cascade's Initial Filing in Docket No. UG 347, the opening testimony of Staff, CUB, and AWEC, and Cascade's Reply Filing. Additionally, Cascade responded to at least 413 data requests from Staff, CUB, AWEC, and Hermiston, and provided updates to the data responses as necessary and appropriate. Over the course of the settlement discussions, the Stipulating Parties resolved their differences regarding the issues resolved in the Stipulation through dialogue, negotiations, and compromise to reach a fair result.

Q. What is your recommendation to the Commission regarding the Stipulation and Stipulation Addendum?

A. The Stipulating Parties recommend and request that the Commission approve the Stipulation and Stipulation Addendum in their entirety.

Q. Please explain why the Stipulating Parties believe that the Commission should adopt the Stipulation and Stipulation Addendum.

A. The Stipulating Parties have carefully reviewed Cascade's Initial Filing and Reply Filing, Cascade's responses to data requests, and have thoroughly analyzed the issues during multiple days of settlement conferences. Cascade has carefully reviewed the Opening Testimony of AWEC, CUB and Staff. The Stipulating Parties believe that the stipulated revenue requirement provides a fair and reasonable resolution of the issues in this docket and that the resulting rates are fair, just and reasonable.

Q. Please explain further why the resulting rates are fair, just, and reasonable.

A. The Stipulation and Stipulation Addendum represent a reasonable compromise for many reasons, including the following: (1) the Stipulation, taking into account the agreed upon revenue requirement and separate tariff returning the non-plant EDIT, results in an overall average rate increase of approximately 1.80 percent and an increase of 3.88 percent to margin; (2) the Stipulation represents a fair settlement of revenue requirement issues; and (3) settlement of the issues in this case avoids litigation on the remaining issues.

Q. Mr. Parvinen, why does Cascade believe the Stipulation and Stipulation Addendum are reasonable?

A. Each adjustment contained in the Stipulation is supported by evidence in the record and is consistent with Commission policy. As such, the Stipulation represents a reasonable compromise of each of the issues raised in this case. Cascade fully supports the results of the Stipulation and believes that the outcome produces rates that are fair, just, and reasonable.

Q. Does Cascade agree with all methodologies adopted for calculating the revenue requirement in the Stipulation?

A. While it is true that Cascade does not agree with the specific methodologies used to produce each of the adjustments, the Company supports the Stipulation as a whole. For example, Cascade does not agree that Staff's Three-Year Salary Model allows it to recover all prudently-incurred employee wages and salaries. Nonetheless, Cascade values the positive regulatory relationships furthered by all-party settlements and appreciates the opportunity to avoid the costs and risk associated with litigation.

Q. Ms. Gardner, why does Staff believe the Stipulation is reasonable?

A. In Staff's opinion, the Stipulation is reasonable as it represents a compromise that balances customers' interests and shareholder interests and results in fair, just and reasonable rates. Additionally, none of the agreed-to adjustments are contrary to Commission precedent or Staff practice. For those agreed-to adjustments that are not governed by Commission precedent, Staff's agreement was based on Staff's informed appraisal of the underlying issues and Staff's conclusion that the agreed-to adjustments fall within a reasonable range of outcomes.

Q. Mr. Gehrke, why does CUB believe the Stipulation is reasonable?

A. CUB supports the Stipulation because it represents a reasonable resolution of issues in the rate case. CUB strongly supports Cascade agreeing to a two-year pilot program suspending the collection of security deposits for residential customers. CUB believes that the Stipulation presents a reasonable compromise between issues raised by stakeholders and the Company. In particular, CUB is supportive of the rate spread methodology presented in the Stipulation.

Q. Mr. Mullins, why does AWEC believe the Stipulation is reasonable?

A. AWEC believes the Stipulation is in the public interest and recommends the Commission approve the settlement because the best interests of Cascade's natural gas customers are served by the underlying fair compromise on certain cost of capital, Tax Cuts and Jobs Act, revenue requirement and rate spread and design issues. While I proposed other adjustments in my testimony that are not reflected in the Stipulation, the overall level of increase is reasonable. While the signing parties may each hold different positions on the individual components of Cascade's rate case addressed in the Stipulation, AWEC supports the settlement as the agreement reached has brought down the overall gas revenue requirement increase from $2.310 to $1.175 million, after including the separate Tariff to Amortize Non-Plant EDIT. Further, although the parties held different views on rate spread and rate design issues, the parties agreed to an equal percent of margin increase, which is a fair compromise of this issue.

Regarding the plant adjustment, AWEC has concerns with how utilities forecast capital additions, particularly when those forecasts that are made so far in advance provide no reasonable ability to review the used and usefulness of plant additions. The utilities' forecasts also frequently raise issues of consistency, when for example, a utility adds growth related plant, but does not consider the underlying increase in sales. AWEC was willing to agree to attestation process described in the Stipulation because Cascade was willing to settle on an overall level of revenue requirement that AWEC found to be reasonable. Further, Cascade adopted a rate base measurement date that was three months prior to its proposed rate effective date, giving some ability to review the forecast plant additions. Notwithstanding, AWEC does not believe that this approach should necessarily be used as a template for future rate cases, particularly in cases that are fully litigated and where parties are unable to reach a compromise on an overall level of revenue requirement.

AWEC also believes that Cascade's proposal to transition Schedule 163 from interruptible to firm service was unjustified and inappropriate, and AWEC's support for the Stipulation was expressly conditioned on Cascade's withdrawal of that proposal. Further, AWEC opposed Cascade's SCRM because mechanisms like this allow for rates to increase outside of a rate proceeding, which has all upside to the company to the detriment of ratepayers. While Cascade has the ability to refile the SCRM in a future proceeding, Cascade's willingness to withdraw the SCRM from this proceeding was an important part of AWEC's decision to join the Stipulation.

Regarding the MDU Resources Cross-Charges adjustment, AWEC continues to have concerns over MDU Resource's cost allocation practices and the methodologies Cascade has been using with respect to such costs. Notwithstanding, as a part of a global settlement on revenue requirement and other issues, AWEC was willing to accept Cascade's adjustment. The Stipulation does not prohibit AWEC, or any other party, from raising issues with respect to MDU's cost allocation practices in future rate proceedings. Accordingly, AWEC was willing to support this term of the Stipulation.

For the reasons set forth above, AWEC believes the Stipulation is in the public interest and should be approved by the Commission.

Q. Does this conclude your testimony?

A. Yes.