ORDER NO. 19-088

ENTERED Mar 14 2019

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UG 347

In the Matter of CASCADE NATURAL GAS CORPORATION, Application for a General Rate Revision.	ORDER

DISPOSITION: STIPULATION AND STIPULATION ADDENDUM ADOPTED; APPLICATION FOR GENERAL RATE REVISION APPROVED AS REVISED

I. SUMMARY

Cascade Natural Gas Corporation (Cascade) seeks a 3.53 percent increase over current customer rates to produce $2,310,808 in additional Oregon jurisdictional revenues, primarily related to increased investment due to pipeline replacement and improvement project costs. In this order, we adopt proposed settlements to resolve all issues related to the request, reducing the Oregon-allotted increase by $633,098 from the initial filing, and authorize an overall rate increase of 2.56 percent or $1,677,710 in revenues. Due to the return of the non-plant excess deferred income tax through a separate tariff, the overall impact to customers will be an increase of approximately 1.80 percent. Effective April 1, 2019, bills will increase on average by $1.34 per month for residential customers and $3.77 per month for commercial customers.

II. BACKGROUND AND PROCEDURAL HISTORY

Cascade is a public utility providing gas service within the meaning of ORS 757.005, and is subject to our jurisdiction with respect to the prices and terms of service for its Oregon retail customers.

On May 31, 2018, Cascade filed revised tariff schedules to take effect on June 30, 2018. By Order No. 18-205 entered June 1, 2018, the tariff sheets were suspended for nine months as authorized by ORS 757.215. During the course of these proceedings, the

Alliance of Western Energy Consumers (AWEC), PacifiCorp d/b/a Pacific Power, and the Hermiston Generating Company, L. P. were granted leave to appear as parties. The Oregon Citizens' Utility Board (CUB) intervened as a matter of right under ORS 774.180.

The parties and the Commission Staff conducted discovery, filed testimony, and engaged in settlement discussions. The issues were ultimately resolved by Cascade, CUB, AWEC and Staff, through the execution of a stipulation filed on January 22, 2019, and a stipulation addendum on February 8, 2019 (collectively, the stipulation). The Stipulation was supported by joint testimony filed February 8, 2019. PacifiCorp and Hermiston Generating Company, L.P. (Hermiston) did not file testimony or join in the stipulation. PacifiCorp did not object to the Stipulation. Hermiston declined to take a position regarding the Stipulation.[1]

III. DISCUSSION

The parties were able to settle all issues in these proceedings. We outline the nature of the stipulation, summarize each initially disputed issue that was the subject of the negotiated settlement in that stipulation, and provide our decision.

A. Adjustments to Revenue Requirement

In its initial filing, Cascade requested an increase in its revenue requirement of $2,310,808 on a rate base of $111.129 million. The parties agreed to the following adjustments which reduced the overall revenue requirement increase by $633,098 to $1,677,710 on a rate base of $109.295 million. The adjustments may be summarized as follows:

Company's Initially Proposed Revenue Requirement		**$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)

[1] Stipulation at 1.

6	Interest Synchronization	$23,327
7	Charitable Contributions	($1,288)
8	Administrative and General (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—discussed below under non-revenue requirement issues)	$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**

The reductions in the Summary reflect the following adjustments:

1. Salaries, Wages, Incentives and Medical Benefits

In its initial filing, Cascade asserted that its wages, salaries and medical benefits costs were based on third party-conducted surveys and company-specific considerations.[2] Cascade also sought recovery of incentive pay while acknowledging that its request was inconsistent with past Commission policy, but claimed that such a change in precedent was warranted.[3]

Staff proposed several adjustments using its wage and salary model escalated by the All-Urban CPI[4] and recommended adjusting 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, and also effectively disallowing all officer incentive pay. After certain adjustments to correct calculation errors, Staff's recommendations were adopted by the stipulating parties, resulting in $535,066 reduction to expense, $200,411 reduction to rate base and a resulting reduction to the revenue requirement of $572,505.

[2] CNGC/1100, Murray/2-11.
[3] CNGC/200, Parvinen/21-23; CNGC/1100, Murray/10.
[4] Staff/100, Gardner/15.

Commission Resolution. Although Cascade disagreed on the appropriate test year formula disallowing any portion of non-officer incentive compensation, the adjustment agreed upon by the parties conforms with our practice of using Staff's Three-Year Salary Model and reflects the employee count during the test period. We adopt the adjustment and find that the adjustment is a reasonable reduction that furthers the public interest that will help achieve the result of providing reliable service at just and reasonable rates.

2. MDU Resources (MDUR) Cross-Charges

Cascade is a wholly-owned subsidiary of MDU Resources Group, Inc., located in Bismarck, North Dakota. Cascade's initial filing included allocations from MDUR regarding dues and subscriptions, including professional licenses and memberships.[5] AWEC identified a number of cross-charges that it believed did not provide direct benefit to Oregon customers,[6] to which Cascade replied and proposed modifications to AWEC's adjustments.[7] The stipulation does not prevent any party from raising MDU-related issues in future proceedings.[8]

Commission Resolution. We adopt the stipulation's proposed acceptance of Cascade's modifications to AWEC's adjustments. We find that they result in a reduction to the revenue requirement of $7,836 as part of the overall settlement furthers the public interest in providing reliable service at just and reasonable rates.

3. Director and Officer Liability (D&O) Insurance

In its initial filing, Cascade proposed to include its total Oregon-allocated D&O insurance expense based on actual premiums. The stipulated settlement reflected Staff's methodology, removing 50 percent of all levels of D&O insurance premiums and resulting in a $16,843 reduction to the revenue requirement.[9]

Commission Resolution. We adopt the stipulation's proposed acceptance of Staff's methodology as a consistent and reasonable adjustment. We find that they result in a reduction to the revenue requirement of $16,843 as part of the overall settlement furthers the public interest in providing reliable service at just and reasonable rates.

[5] CNGC/700, Peters/12.
[6] AWEC/100, Mullins/15-16.
[7] CNGC/700, Peters/11-12.
[8] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/31.
[9] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/9.

4. Franchise Fee Expense

Cascade's initial filing included franchise fees of $1,574,278 based on 2017 figures.[10] Staff proposed an adjustment to the franchise fee rate and related franchise fee expense, using a three-year average of franchise fee rate data.[11] As part of the settlement negotiations, the parties agreed to a compromise formula using a 10-year average franchise fee rate, excluding two years when the rates were unusually low. The adjustment resulted in an increase to revenue requirement of $4,842.[12]

Commission Resolution. We adopt the stipulation's proposed compromise as a reasonable adjustment that excludes certain outlier years, in furtherance of the overall settlement.

5. Franchise Fee Rate

Cascade's initial filing included a revenue sensitive franchise fee rate of 2.449 percent, the same as the actual 2017 rate.[13] Staff proposed an adjustment to this rate down to 2.387 percent based on a three-year average of franchise fee rate data.[14] The parties agreed to a compromise rate of 2.4124 percent based on exclusion of outlier years, resulting in a $941 reduction to the revenue requirement.[15]

Commission Resolution. We adopt the stipulation's proposed franchise fee rate compromise as a reasonable adjustment that excludes certain outlier years, in furtherance of the overall settlement.

6. Interest Synchronization

Staff proposed an adjustment to synchronize interest expense to reflect changes that reduce the cost of long-term debt from 5.25 percent, as proposed in Cascade's initial filing, to 5.140 percent. By accepting Staff's proposed adjustment, the revenue requirement increased by $23,327.

Commission Resolution. We adopt the stipulating parties' acceptance of Staff's proposed adjustment as part of the overall settlement that furthers the public interest in providing reliable service at just and reasonable rates.

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[10] CNGC/700, Peters/13.
[11] Staff/100, Gardner/9.
[12] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/10.
[13] CNGC/700, Peters/13.
[14] Staff/100, Gardner/9.
[15] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/10.

7. *Charitable Contributions*

Cascade's initial filing inadvertently included $1,248 for dues to the Association of Washington Business, escalated by 1.7 percent for inflation and included in the 2018 test year at $1,269. Staff recommended excluding the expense as unrelated to providing safe and reliable energy to customers. Cascade agreed and the revenue requirement was adjusted downward by $1,288.

Commission Resolution. We adopt this adjustment as furthering the public interest.

8. *Administrative and General (A&G) Expenses*

Cascade's initial filing 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.[16] Although Cascade disagreed with Staff's proposal to adjust six A&G expense categories to reflect a 50 percent disallowance for meals and entertainment,[17] during settlement discussions, the stipulating parties agreed to adopt Staff's adjustment resulting in a $38,498 reduction to the revenue requirement.

Commission Resolution. We adopt the stipulating parties' acceptance of Staff's proposed adjustment as part of the overall settlement that furthers the public interest in providing reliable service at just and reasonable rates.

9. *Plant Adjustments*

Cascade'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.[18] CUB raised concerns that Cascade had been inflating the rate base through a power equipment trade-in program and proposed an adjustment to reduce the revenue requirement by $81,592.[19] AWEC proposed adjustments related to the Madras Phase 1 project and growth-related projects, as well as adjustments to reflect plant retirements on depreciation expense, reducing the rate base by $11,279,796.[20] Cascade responded with updated information and data responses and representations regarding future certification of projects, leading the parties to agree to reduce project cost amounts

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[16] CNGC/700, Peters/5-6.
[17] CNGC/700, Peters/7.
[18] CNGC/800, Parvinen/22.
[19] Staff/200, Fox/17.
[20] AWEC/100, Mullins/27-28.

by $1.6 million to a maximum of $20.3 million and limited inclusion in rate base to the actual cost of projects completed and in service by year end, 2018.[21]

Commission Resolution. We adopt the stipulating parties' agreement adjusting plant as reasonable. Cascade, in providing its attestation, has supported the overall settlement as furthering the public interest in providing reliable service at just and reasonable rates.

10. UM 1816 Deferral of Records Review Costs Regarding Maximum Allowable Operating Pressure (MAOP)[22]

Cascade's initial filing included a request for recovery of MAOP record review costs. Staff proposed an adjustment disallowing recovery of those costs, which would result in a revenue requirement reduction of $120,386.[23] In response, Cascade noted that, had the Commission promptly acted to deny the deferral, it would have recorded its costs for the 2017 base year. The company then proposed in the alternative that it add $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.[24] In reaching the stipulated settlement, the parties agreed that Cascade would withdraw its deferral application in Docket No. UM 1816, and recognized the company's need for additional funds going forward to meet the demands of regulatory recordkeeping and reporting requirements. Accordingly, the parties agreed to a reduction in test period expense of $36,833, reducing the revenue requirement by $38,000.

Commission Resolution. We adopt the stipulation's proposed compromise as a reasonable adjustment that contributes to the fair resolution of the revenue requirement in furtherance of the overall settlement, and find it to contribute to the public interest in providing reliable service at just and reasonable rates.

11. Cost of Long-Term Debt

Cascade's initial filing proposed a long-term debt cost of 5.25 percent.[25] The parties agreed to a 5.140 percent compromise cost of long-term debt as an outcome of

[21] Stipulation at 4.
[22] On January 6, 2017, Cascade filed an application for deferred accounting of expenses for a review of its high pressure distribution and transmission pipeline records, docketed as UM 1816. No action has been taken by the Commission as yet with respect to this application.
[23] Staff/600, Moore/5; Staff/100, Gardner/5.
[24] CNGC/900, Privratsky-Parvinen/33; CNGC/903.
[25] CNGC/200, Parvinen/3-4.

discussions on cost-modeling, leading to a reduction in the revenue requirement of $86,523.[26]

Commission Resolution. We adopt the stipulation's proposed compromise as a reasonable adjustment that contributes to the fair resolution of the revenue requirement in furtherance of the overall settlement.

B. Non-Revenue Requirement Issues

1. Cost of Capital

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.[27] All of the parties found the company's ROE analysis to be reasonable and 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.[28]

Commission Resolution. We adopt the parties' conclusions, which are based upon the company's actual capital structure over the past six years, as reasonable. The adjustment to the cost of long-term debt represents a reasonable compromise between the modeling performed by the company and Staff, as does the revised ROR, and supports the overall settlement in the public interest.

2. Rate Spread and Rate Design

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 to better reflect the underlying costs of providing basic customer service as well as the proposed change in class revenues. Basic service changes may be summarized as follows, with the remaining increase applied to commodity charges:

- 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

[26] Stipulation at 5.
[27] CNGC/200, Parvinen/3-4.
[28] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/18.

- General Distribution System Transportation Service, Schedule 163 – increase from $500 to $625
- Interruptible Service, Schedule 170 – establish a new basic service charge of $300

Commission Resolution. We adopt the stipulation's proposed compromise as a reasonable adjustment that contributes to the fair resolution of the differences among classes of customers, and find that they will result in fair, just, and reasonable rates.

3. Non-Plant Excess Deferred Income Taxes (EDIT)

As a result of the implementation of the Tax Cut and Jobs Act (TCJA), new federal tax rates were established and the company was required to book the EDIT as of December 31, 2017, and return these benefits to customers. In its initial filing, Cascade proposed to return non-plant EDIT over ten years to reflect the average useful life of underlying assets.[29] Pursuant to a Staff proposal that non-plant EDIT be returned through a five-year amortization process instead,[30] the parties agreed that the company would return to customers the non-plant EDIT balance over five years through a separate tariff schedule, on an equal percent of margin basis. The separate tariff schedule returns $502,331 to customers annually, which, when taken in conjunction with the agreed upon revenue requirement, results in a 3.88 percent increase to margin.[31]

Commission Resolution. We adopt the stipulation's proposed resolution of this issue as both reasonable, because it provides the benefits of the TCJA to be recovered in a timely manner without adverse cash flow impacts, and efficient, because returning the non-plant EDIT through a separate tariff rather than through base rates allows for the termination of the tariff after the company has returned the non-plant EDIT balance to customers, without requiring Cascade to file a rate case.

4. Interim Period Deferral

Between January 1, 2018 and March 31, 2019 (the interim period), Cascade's income tax expense has been 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. Cascade's initial filing 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

[29] CNGC/200, Parvinen/12.
[30] Staff/200, Fox/9.
[31] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/28.

Cascade's customers. AWEC countered that the company should return the interim period deferral to customers over a two-year amortization period.[32]

Commission Resolution. We acknowledge the parties agreement that the interim deferral issue need not be resolved at this time and will be addressed in Docket No. UM 1927. We find this to be a reasonable means to preserve the rights of the parties to address the issue in a manner that will further the public interest in having safe and reliable service available at just and reasonable rates.

5. *Customer Deposits*

CUB asserted that Cascade's security deposit requirements acted as a regressive penalty on low-income customers and proposed that Cascade modify its policy. In response, the company agreed to conduct a two-year pilot program suspending collection of Schedule 101 customer security deposits consistent with CUB's proposal.[33]

Commission Resolution. We agree with the parties that the proposed 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. We therefore find the proposed program to be in the public interest.

6. *Safety Cost Recovery Mechanism (SCRM)*

Cascade's initial filing included a proposal to reduce regulatory lag for safety-related capital investments.[34] Cascade agreed to withdraw its proposal in light of CUB and AWEC's opposition. The parties acknowledge that the company has preserved its right to seek Commission approval in a separate proceeding.

Commission Resolution. We agree with the parties that a review and decision regarding the SCRM proposal is not necessary to resolve these rate proceedings in the public interest.

7. *Schedule 163 Interruptible Service*

Cascade's initial filing proposed to transition customers receiving service under Schedule 163 from an interruptible service to a firm service, arguing that those customers

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[32] AWEC/100, Mullins/25-26.
[33] CUB/100, Gehrke/16.
[34] CNGC/200, Parvinen/14.

were actually receiving uninterrupted service.[35] The company withdrew its proposal in the face of AWEC's opposition to eliminating the service, which claimed that it provided benefits to the system and customers. The parties agreed that the company could seek reasonable tariff revisions in the future.[36]

Commission Resolution. We agree with the parties that a review and decision regarding the elimination of Schedule 163 is not necessary to resolve these rate proceedings in the public interest.

8. Uncollectibles

The stipulating parties agreed 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. This is based on the methodology Staff has used in prior cases.

Commission Resolution. We adopt the stipulation's proposed acceptance of Cascade's methodology for determining the amount of uncollectibles to be included in rates. We find it to be reasonable and to contribute to the fair resolution of this case.

C. Addendum to Stipulation: Environmental Remediation Expenses

Pursuant to Order No. 13-004 entered in Docket No. UM 1636, since 2013 Cascade has been deferring costs associated with its environmental remediation efforts related to a manufactured gas plant site located in Eugene, Oregon for which it shares liability with other utilities. It has been sharing the costs under an agreement for site investigation, remedial design and remediation activities. In Cascade's most recent prior rate case, Docket No. UG 305, the Commission approved a three-year amortization of the amounts that had been deferred to date. Of the $162,000 in expenses, approximately $54,000 has not yet been amortized. In addition, since that last rate case, the company has deferred approximately $193,000 in additional environmental remediation expenses.

The parties discovered that the issue of environmental remediation expenses had been overlooked in the original stipulation, and agreed that Cascade's treatment of environmental remediation expenses should be specifically addressed because the proposed treatment results in a change to amounts collected through Schedule 197.

[35] CNGC/800, Parvinen/31.
[36] Stipulating Parties/100, Parvinen-Gardner-Gehrke-Mullins/24.

Cascade proposes, and all parties agree, that the company should combine the unamortized $54,000 approved in the last rate case with the additional $193,000 deferred since that time, and amortize the total $247,000 over three years. To implement the request, Cascade requests an update to Schedule 197 to reflect a three-year amortization of the balance, collecting $84,858 per year. The parties note that the per therm amount in Schedule 197 would actually decrease from the current $0.000514 to $0.000303 because of an increase in projected gas volumes.[37] The parties agree that the updated Schedule 197 rate does not consider whether actual Schedule 197 rates were higher or lower than the $162,000 authorized for amortization in docket UG 305. Accordingly, in a future request for amortization or 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 docket UG 305.[38]

Commission Resolution. We adopt the parties' findings upon their review that the expenses were accurately identified, actually incurred and solely incremental, and also find that the proposed changes are consistent with providing safe and reliable service at just and reasonable rates. We further find as reasonable the parties' settlement of the means to true-up future requests for amortization.

IV. CONCLUSION

We have reviewed the terms of the stipulation, addendum, and supporting joint testimony of the parties. We find that the terms of the stipulation and addendum are reasonable and that the stipulation was freely entered into by the parties. We further find that the proposed changes to the company's tariffs and conditions described therein will result in fair, just, and reasonable rates and further the public interest, convenience, and necessity.

V. ORDER

IT IS ORDERED that:

1. The Stipulation and Stipulation Addendum between Cascade Natural Gas Corporation, Staff of Public Utility Commission of Oregon, Oregon Citizens' Utility Board, and Alliance of Western Energy Consumers, attached as Appendix A, is adopted.

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[37] *Id.* at 25-26.
[38] *Id.* at 26.

2. Cascade Natural Gas Corporation shall file tariffs consistent with this order that shall become effective April 1, 2019.

Made, entered, and effective Mar 14 2019.

Megan W. Decker
Chair

Stephen M. Bloom
Commissioner

Letha Tawney
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 347

In the Matter of

CASCADE NATURAL GAS CORPORATION

Application for a General Rate Revision.

STIPULATION

INTRODUCTION

This Stipulation resolves all issues in Docket No. UG 347, Cascade's Application for a General Rate Revision, among Cascade Natural Gas Corporation (Cascade or Company), Staff of the Public Utility Commission of Oregon (Staff), the Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy Customers (AWEC) (collectively, the Stipulating Parties). 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.

BACKGROUND

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.

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 resulting in a revised requested increase to Cascade's annual Oregon jurisdictional revenue requirement of $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. This Stipulation memorializes the Stipulating Parties' agreements reached at the August 15 and November 7-8, 2018, settlement conferences.

TERMS OF AGREEMENT

The Stipulation resolves the issues addressed below:

1. Revenue Requirement. The Stipulating Parties agree that the total margin increase to Cascade's annual Oregon revenue requirement amount is $1,677,710, as summarized in the table in Appendix A to this Stipulation and shown in Appendix B to this Stipulation at column (8), row 5. Due to the return of the non-plant excess deferred income tax through a separate tariff (described in Paragraph 5, below), however, the overall impact to customers will be an increase of $1,175,379. The $1,677,710 annual revenue requirement increase in this proceeding is based on the Stipulating Parties' agreement that the Oregon-allocated increase to annual revenue requirement shall be reduced by a total of $633,098 from the Initial Filing of $2,310,808. Although the parties proposed different adjustments and took different positions on how to justify the revenue requirement increase,

the parties agree that the following adjustments to Cascade's Initial Filing justify the settlement, although there are different ways to justify the agreed upon revenue requirement increase:

(a) Wages, Salaries, and Incentives. A reduction of $535,066 to expense and a reduction of $220,411 to rate base to reflect the results of Staff's model for wages and salaries and to reflect a reduction to employee incentives. This adjustment results in a reduction to revenue requirement of $572,505;

(b) MDU Cross-Charges. A reduction of $7,595 to expense to accept AWEC's adjustment regarding amounts cross-charged to Cascade by its parent, MDU Resources , as corrected by Cascade at CNGC/700, Peters/13. This adjustment results in a reduction to revenue requirement of $7,836;

(c) Directors and Officers Liability Insurance. A reduction of $16,326 to expense to reflect Staff's methodology for purposes of settlement, resulting in removal of 50 percent of all levels of Directors and Officers Liability Insurance premiums. This adjustment results in a reduction to revenue requirement of $16,843;

(d) Franchise Fee Expense. An increase of $4,694 to expense to reflect the use of a 10-year average for the franchise fee rate, but excluding two years in which the franchise fee rates were lower than normal. This adjustment results in an increase to revenue requirement of $4,842;

(e) Franchise Fee Rate. A reduction in the revenue sensitive franchise fee rate from 2.4493 percent to 2.4124 percent. This adjustment results in a reduction to revenue requirement of $941;

(f) Interest Synchronization. An increase of $23,327 to revenue requirement reflects Staff's interest synchronization adjustment;

(g) Charitable Contributions. A reduction of $1,248 to expense to reflect Staff's proposed adjustment regarding charitable contributions. This adjustment results in a reduction to revenue requirement of $1,288;

(h) Administrative and General (A&G). A reduction of $37,316 to expense to reflect Staff's adjustment to A&G expense, which removes 50 percent of the meals and entertainment expense. This adjustment results in a reduction to revenue requirement of $38,498;

(i) Plant. 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. The parties 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 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 the test year rate base. 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 the plant amount agreed upon, $20.3 million. This adjustment results in a reduction to revenue requirement of $150,000;

(j) UM 1816 Deferral. A reduction of $36,833 to expense to reflect the removal of the UM 1816 deferral balance, involving the Company's maximum allowed operating pressure (MAOP) records review. The Stipulating Parties agree that these costs will be treated consistent with Cascade's proposed alternative treatment described in Exhibit CNGC/903. Additionally, Cascade will withdraw its request for deferred accounting treatment for MAOP records review in Docket UM 1816. This adjustment results in a reduction to revenue requirement of $38,000;

(k) Cost of Long Term Debt. A reduction to the cost of long term debt from 5.25 percent, as proposed in the Company's Initial Filing, to 5.140 percent. This adjustment results in a reduction to revenue requirement of $86,523.

2. Cost of Capital. The Stipulating Parties agree to a rate of return of 7.270 percent, which is based on a capital structure of 50.0 percent equity and 50.0 percent long-term debt, with a Return on Equity of 9.40 percent and a debt cost of 5.140 percent.

Agreed-upon Cost of Capital			
	Percent of Total Capital	Cost	Component
Long-Term Debt	50.0%	5.140%	2.570%
Common Equity	50.0%	9.40%	4.700%
Total	100.0%		7.270%

3. Rate Spread. The Stipulating Parties agree to an equal percentage of margin rate spread, except for Schedule 105, General Industrial Service, which will be given three times the increase.

4. Rate Design. 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. 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.

5. Non-Plant Excess Deferred Income Taxes (EDIT). The Stipulating Parties agree to return $502,331 non-plant EDIT (unprotected EDIT) annually over a five-year period through a separate tariff schedule, on an equal percent of margin basis.

6. Interim Period EDIT. The Stipulating Parties agree that Interim Period EDIT will not be addressed in this docket, and will instead be addressed in the ongoing deferral dockets.

7. Customer Deposits. The Stipulating Parties agree to CUB's proposal for a two-year pilot program in which Cascade will waive collection of customer deposits for Schedule 101 customers.

8. Safety Cost Recovery Mechanism (SCRM). The Stipulating Parties agree that Cascade's request for a SCRM will be withdrawn from the rate case and that Cascade is able to file for approval of the SCRM in a separate proceeding.

9. Schedule 163. The Stipulating Parties agree that service for Schedule 163 will not be changed as proposed by Cascade in its initial filing and customers will continue to be treated as "interruptible service," and that Cascade will coordinate with AWEC and provide notice to customers before proposing any changes to Schedule 163 in the future.

10. Uncollectibles. For the purposes of settlement, the Stipulating Parties agree to accept Staff's methodology using the last three years of actual net bad debt write-offs to determine the amount of uncollectibles to include in rates.

11. Tariffs. 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.

12. The Stipulating Parties recommend and request that the Commission approve the adjustments and provisions described herein as appropriate and reasonable resolutions of the identified issues in this docket.

13. The Stipulating Parties agree that this Stipulation is in the public interest, and will result in rates that are fair, just and reasonable, consistent with the standard in ORS 756.040.

14. This Stipulation will be offered into the record as evidence pursuant to OAR 860-001-350(7). The Stipulating Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at hearing, and recommend that the Commission issue an order adopting the Stipulation. The Stipulating Parties also agree to cooperate in drafting and submitting joint testimony or a brief in support of the Stipulation in accordance with OAR 860-001-0350(7).

15. If this Stipulation is challenged, the Stipulating Parties agree that they will continue to support the Commission's adoption of the terms of this Stipulation. The Stipulating Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include raising issues that are incorporated in the settlements embodied in this Stipulation.

16. The Stipulating Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material portion of this Stipulation or imposes additional material conditions in approving this Stipulation, any of the Stipulating Parties are entitled to withdraw from the Stipulation or exercise any other rights provided in OAR 860-001-0350(9). To withdraw from the Stipulation, a Stipulating Party must provide written

notice to the Commission and other Stipulating Parties within five days of service of the final order rejecting, modifying or conditioning this Stipulation.

17. By entering into this Stipulation, no Stipulating Party approves, admits, or consents to the facts, principles, methods, or theories employed by any other Stipulating Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Stipulating Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as specifically identified in this Stipulation.

18. This Stipulation is not enforceable by any Stipulating Party unless and until adopted by the Commission in a final order. Each signatory to this Stipulation avers that they are signing this Stipulation in good faith and that they intend to abide by the terms of this Stipulation unless and until the Stipulation is rejected or adopted only in part by the Commission. The Stipulating Parties agree that the Commission has exclusive jurisdiction to enforce or modify the Stipulation. If the Commission rejects or modifies this Stipulation, the Stipulating Parties reserve the right to seek reconsideration or rehearing of the Commission order under ORS 756.561 and OAR 860-001-0720 or to appeal the Commission order under ORS 756.610.

19. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 22nd day of January 2019.

CASCADE NATURAL GAS CORPORATION

By: ______________________

Date: 1/22/19

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________

Date: ______________________

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 18th day of January 2019.

CASCADE NATURAL GAS CORPORATION

By: ________________________

Date: ________________________

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: [illegible]

Date: 1-18-19

OREGON CITIZENS' UTILITY BOARD

By: ________________________

Date: ________________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ________________________

Date: ________________________

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 22nd day of January 2019.

CASCADE NATURAL GAS CORPORATION	STAFF OF PUBLIC UTILITY COMMISSION OF OREGON
By: ____________	By: ____________
Date: ____________	Date: ____________
OREGON CITIZENS' UTILITY BOARD	ALLIANCE OF WESTERN ENERGY CONSUMERS
By: ____________	By: ____________
Date: 1/22/19	Date: ____________

This Stipulation is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 18th day of January 2019.

CASCADE NATURAL GAS
CORPORATION

By: ______________________

Date: ______________________

STAFF OF PUBLIC UTILITY COMMISSION
OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

ALLIANCE OF WESTERN ENERGY
CONSUMERS

By: ______________________

Date: 1/18/19

APPENDIX A

Cascade Natural Gas
UG 347
Twelve Months Ended December 31, 2018
ISSUE SUMMARY - Stipulation

Opening Testimony Exhibit No.	Staff Witness	Issue No.	Issue Description	Revenue	Expense	Rate Base	Revenue Requirement Effect
CNG requested Incremental Revenue Requirement							**$ 2,310,808**
Settlement	Gardner		Interest Synch.	$ -	$ -	$ -	$ 23,327
Settlement	Muldoon		Rate of Return - Cost of LT Debt				(86,523)
Settlement	Gibbens		D&O Insurance		(16,326)		(16,843)
100	Gardner	1	Franchise Fee Expense		4,694		4,842
100	Gardner	1	Franchise Fee - revenue sensitive rate 2.4493% to 2.4124%				(941)
100	Gardner	3	W&S, Incentives & FTEs		(535,066)	(220,411)	(572,505)
200	Fox	1	Unprotected EDIT to be amortized over 5 years on separate Tariff (reverses CNG filed amortization)		177,710		251,165
200	Fox	2a	Plant			(1,613,913)	(150,000)
600	Moore	1	UM 1816 deferral offset by allowance for accounting		(36,833)		(38,000)
800	Rossow	1	Misc. A&G		(37,316)		(38,498)
800	Rossow	2	Charitable Contributions		(1,248)		(1,288)
AWEC/100/ Mullins/3	Mullins	A4	MDU cross charges		(7,595)		(7,836)
Total Staff-Proposed Adjustments (Base Rates):				$ -	$ (451,980)	$ (1,834,324)	$ (633,098)
Staff-Calculated Revenue Requirements Change (Base Rates):							$ 1,677,710
			Separate Tariff to amortize unprotected EDIT over 5 years. $502,331 to be refunded to customers annually.				$ (502,331)
Total Stipulated Change in Revenues							$ 1,175,379

APPENDIX B

ORDER NO. 19-088

Cascade Natural Gas
UG 347
Twelve Months Ended December 31, 2018
Stipulation

		2017 Results Per Company Filing	Company Adjustment To Company 2017 Results	2018 Results Per Company Filing	Company Filed Required Change for Reasonable Return	Company Filed 2018 Results at Reasonable Return	Staff Adjustments to Company 2018 Results	Staff Adjusted 2018 Company Results (3) + (6)	Staff Required Change for Reasonable Return	Staff Results at Reasonable Return (7) + (8)
	SUMMARY SHEET	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	**Operating Revenues**									
2	General Business	59,895,194	1,233,251	61,128,445	2,310,808	63,439,253	-	61,128,445	1,677,710	62,806,155
3	Transportation	4,114,883	(80,421)	4,034,462	-	4,034,462		4,034,462	-	4,034,462
4	Other Revenues	264,704	24,715	289,419	-	289,419	-	289,419	-	289,419
5	Total Operating Revenues	64,274,782	1,177,545	65,452,327	2,310,808	67,763,135	-	65,452,327	1,677,710	**67,130,037**
6	**Operating Expenses**									
7	Gas Purchased	30,733,688	(198,081)	30,535,607	-	30,535,607	-	30,535,607	-	30,535,607
8	Production	101,025	1,717	102,743	-	102,743	-	102,743	-	102,743
9	Distribution	6,434,534	425,888	6,860,421	-	6,860,421	-	6,860,421	-	6,860,421
10	Customer Accounts	1,904,929	(7,349)	1,897,580	7,496.09	1,905,077	-	1,897,580	5,442.37	1,903,023
11	Customer Service	121,204		121,204	-	121,204	-	121,204	-	121,204
12	Sales	913	(11,482)	(10,569)	-	(10,569)	-	(10,569)	-	(10,569)
13	Admin & General Expenses	6,213,010	49,491	6,262,500	-	6,262,500	(527,985)	5,734,515	-	5,734,515
14	Total Operation & Maintenance	45,509,303	260,183	45,769,486	7,496	45,776,982	(527,985)	45,241,501	5,442	**45,246,944**
15	Depreciation & Amortization	6,437,588	867,743	7,305,331	-	7,305,331	(44,062)	7,261,270	-	7,261,270
16	Taxes Other than Income	2,155,564	-	2,155,564	-	2,155,564	(62,337)	2,093,227	-	2,093,227
17	Revenue Taxes (Franchise Addon & ODOE)	3,015,262	31,695	3,046,957	63,531	3,110,488	4,694	3,051,651	45,506	3,097,157
18	Income Taxes	1,875,733	(1,206,649)	669,083	604,830	1,273,914	376,987	1,046,070	439,291	1,485,361
19	Total Operating Expenses	58,993,450	(47,028)	58,946,422	675,857	59,622,279	(252,703)	58,693,719	490,239	**59,183,958**
20	**Net Operating Revenues**	5,281,332	1,224,573	6,505,905	(6,505,905)	8,140,855.88	252,703	6,758,608	1,187,139	**7,946,079**
21	**Average Rate Base**	5,281,332	1,224,573	6,505,905	1,634,950	8,140,856			1,187,471	7,945,747
22	Utility Plant in Service	219,983,640	24,552,055	244,535,695	-	244,535,695	(1,834,324)	242,701,371	-	242,701,371
23 Less:	Accumulated Depreciation & Amortization	(102,088,918)	(7,305,331)	(109,394,249)	-	(109,394,249)	-	(109,394,249)	-	(109,394,249)
24	Accumulated Deferred Income Taxes	(26,914,734)	498,717	(26,416,017)	-	(26,416,017)	-	(26,416,017)	-	(26,416,017)
25	Accumulated Deferred Inv. Tax Credit	-		-	-	-	-	-	-	-
26	Net Utility Plant	90,979,988	17,745,441	108,725,429	-	108,725,429	(1,834,324)	106,891,105	-	106,891,105
27	Plant Held for Future Use	-		-	-	-	-	-	-	-
28	Acquisition Adjustments	-		-	-	-	-	-	-	-
29	Working Capital	2,812,500		2,812,500	-	2,812,500	-	2,812,500	-	2,812,500
30	Fuel Stock	-		-	-	-	-	-	-	-
31	Materials & Supplies	-		-	-	-	-	-	-	-
32	Customer Advances for Construction	(408,596)		(408,596)	-	(408,596)	-	(408,596)	-	(408,596)
33	Weatherization Loans	-		-	-	-	-	-	-	-
34	Prepayments	-		-	-	-	-	-	-	-
35	Misc. Deferred Debits & Credits			-	-	-	-	-	-	-
36	Misc. Rate Base Additions/(Deductions)	-		-	-	-	-	-	-	-
37	**Total Average Rate Base**	93,383,892	17,745,441	111,129,333	-	111,129,333	(1,834,324)	109,295,009	-	109,295,009
38	**Rate of Return**	5.656%		5.854%		7.326%		6.184%		7.270%
39	**Implied Return on Equity**	6.459%		6.459%		9.401%		7.228%		9.400%

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UG 347

In the Matter of CASCADE NATURAL GAS CORPORATION Application for a General Rate Revision.	**STIPULATION ADDENDUM**

I. INTRODUCTION

On January 22, 2019, Cascade Natural Gas Corporation (Cascade or Company), Staff of the Public Utility Commission of Oregon (Staff), the Oregon Citizens' Utility Board (CUB), and the Alliance of Western Energy Customers (AWEC) (collectively, the Stipulating Parties), filed a stipulation (Stipulation) in this docket. While the Stipulation resolved all contested issues in this docket, it overlooked one issue that should have been addressed. Specifically, the Stipulation did not address the Stipulating Parties' agreement as to the Company's proposed treatment of its deferred environmental remediation expenses. For this reason, the Stipulating Parties are entering this addendum to the Stipulation (Stipulation Addendum) which is intended to supplement the terms of the Stipulation.

II. BACKGROUND

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.[1] 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. In Cascade's last general rate case, UG 305, the Company began a three-year amortization of the deferred balance that had

[1] 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, 17-306, and 17-491.

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Portland, OR 97205

been accrued to date. In the current general rate case, Cascade has proposed to combine the remaining unamortized balance authorized for amortization in UG 305, which is approximately $54,000, with the current deferred balance of approximately $193,000, and to amortize the total $247,000 over three years. To implement this request, the Company has requested an update to Schedule 197 to reflect a three-year amortization of the total balance, collecting $84,858 per year. Because of an increase in projected gas volumes, the rate per therm in Schedule 197 would decrease from the current $0.000514 to $0.000303.

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 approval the requested update to Schedule 197 and allow amortization of the deferred balance to occur over the proposed three-year period. [2] No party disagreed with Staff's recommendation.

III. TERMS OF AGREEMENT

1. Prudence of Deferred Amounts. The Stipulating Parties agree that the Commission should find the current deferred balance of $193,000 was prudently incurred and should be approved for amortization.

2. Update to Schedule 197. The Stipulating Parties agree that the total deferred amount (both past unamortized amounts and the current deferred balance) of $247,000 should be amortized over three years, which equates to an amortization of $84,858 per year, with a per therm amount of $0.000303.

3. Revenue True-up. 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

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

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Portland, OR 97205

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.

4. General Terms and Conditions. This Stipulation Addendum is intended to supplement the Stipulation filed on January 22, 2019, and is subject to the general terms and conditions contained in paragraphs 13 through 19 of the Stipulation.

This Stipulation Addendum is entered into by each Stipulating Party on the date entered below such Stipulating Party's signature.

DATED this 8th day of February 2019.

CASCADE NATURAL GAS CORPORATION

By: ______________________

Date: 2-8-19

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: ______________________

Date: ______________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________

Date: ______________________

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DATED this 8th day of February 2019.

CASCADE NATURAL GAS CORPORATION	STAFF OF PUBLIC UTILITY COMMISSION OF OREGON
By: ______________	By: ______________
Date: ______________	Date: 2-8-19
OREGON CITIZENS' UTILITY BOARD	ALLIANCE OF WESTERN ENERGY CONSUMERS
By: ______________	By: ______________
Date: ______________	Date: ______________

McDowell Rackner Gibson PC
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Portland, OR 97205

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DATED this 8th day of February 2019.

CASCADE NATURAL GAS CORPORATION

By: ______________________

Date: ______________________

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Date: ______________________

OREGON CITIZENS' UTILITY BOARD

By: Michael P. Goetz

Date: 2/8/19

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: ______________________

Date: ______________________

McDowell Rackner Gibson PC
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Portland, OR 97205

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DATED this 8th day of February 2019.

CASCADE NATURAL GAS CORPORATION

By: ____________________

Date: ____________________

STAFF OF PUBLIC UTILITY COMMISSION OF OREGON

By: ____________________

Date: ____________________

OREGON CITIZENS' UTILITY BOARD

By: ____________________

Date: ____________________

ALLIANCE OF WESTERN ENERGY CONSUMERS

By: [signature]

Date: 2/8/19

McDowell Rackner Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205