

ORDER NO. 13 101

ENTERED MAR 26 2013

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UI 331

In the Matter of

CASCADE NATURAL GAS  
CORPORATION,

Application Requesting Approval of the  
Service Agreement Contract between  
Affiliated Interests.

ORDER

DISPOSITION: STAFF'S RECOMMENDATION ADOPTED

At its public meeting on March 26, 2013, the Public Utility Commission of Oregon adopted Staff's recommendation in this matter. The Staff Report with the recommendation is attached as Appendix A.



BY THE COMMISSION:

*Becky L. Beier*

**Becky L. Beier**  
Commission Secretary

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.

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ITEM NO. CA8

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 26, 2013

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE \_\_\_\_\_ N/A \_\_\_\_\_

DATE: March 20, 2013

TO: Public Utility Commission

FROM: Nick Cimmiyotti *nc*

THROUGH: Jason Eisdorfer, Maury Galbraith, and Marc Hellman  
*J* *MG* *H*

SUBJECT: CASCADE NATURAL GAS CORPORATION: (Docket No. UI 331)  
Requests Approval of Affiliated Interest Agreement with Loy Clark Pipeline Company.

**STAFF RECOMMENDATION:**

The Commission should approve Cascade Natural Gas Corporation d/b/a Cascade (Company) request for approval of a contract between Cascade and Loy Clark Pipeline Company, both subsidiaries of MDU Resources Group, Inc.

**DISCUSSION:**

The Company filed this application on February 28, 2013, pursuant to ORS 757.495 and OAR 860-027-0040. The affiliated interest filing concerns a contract between Cascade and Loy Clark to replace gas mains and services in the Bend, OR area. Cascade and Loy Clark are both indirect, wholly-owned subsidiaries of MDU Resources Group, Inc. MDU Resources was founded in 1924 with headquarters in Bismarck, North Dakota.

The contract between Cascade and Loy Clark is to begin in April 2013 and end in October, 2013. Under the contract for gas main replacement and services, Cascade will pay Loy Clark a total of \$172,480. The contract calls for Cascade to make payments to Loy Clark in the amount of \$24,640 a month or \$6,160 per week. The amount might differ if overtime work is needed to meet the October, 2013 deadline. Loy Clark must receive prior approval from Cascade for overtime to be paid.

Background

Loy Clark Pipeline Company is based in Tualatin, Oregon, and has been specializing in construction service to the gas pipeline transmission and distribution industry since 1957. In 1999, Loy Clark was acquired by MDU Resources Group, Inc.'s subsidiary

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Utility Services, Inc. Effective September 29, 2004, Utility Services, Inc. became MDU Construction Services.

Cascade and Loy Clark share a common officer; Paul K. Sandness serves as General Counsel and Secretary for both subsidiaries. Loy Clark is a subsidiary of MDU Construction Services Group, Inc. MDU Construction Services Group, Inc. is a subsidiary of MDU Resources Group, Inc. An affiliated interest, as defined in ORS 757.015(3), includes every corporation five percent or more of whose voting securities are owned by any corporation or person owning five percent of the voting securities of a public utility or in any successive chain of ownership of a public utility. Accordingly, Loy Clark is an "affiliated interest" of Cascade as defined in ORS 757.015(3).

#### Issues

Staff investigated the following issues:

1. Terms and Conditions of the Agreement
2. Transfer Pricing
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements

#### Terms and Conditions of the Agreement

The Company selected Loy Clark to perform the gas main replacements and services, through a request for proposal process. Staff did not observe any unusual terms and conditions of the Contract between the Company and Loy Clark. The terms and conditions of the agreement do not appear to be contrary to the public interest.

#### Transfer Pricing

In 2012, Cascade submitted requests for bids to multiple contractors and received bids from seven contractors for projects in both Oregon and Washington. The Commission approved the original contract by Order No. 12-310 in Docket UI 323 on August 14, 2012. This Contract represents phase two of the project in Bend, OR, and as such, is merely a continuation of the original project that was bid out to Loy Clark for work in Bend. Because Loy Clark was the selected bidder in Phase 1, is familiar with the project, is not changing the terms, condition or rates from the original contract, and the original contract was approved by the Commission, Cascade is retaining their service for Phase 2 of the project. For the reasons set forth above, Cascade has selected Loy Clark without any further bidding process.

Because the Contract expense is less than 0.1 percent of the Company's 2011 Oregon revenue, the effect of the underwriting fees, outlined in the Agreement, on Oregon

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customers is minimal. Staff finds the pricing to be fair and reasonable, and recommends that the Loy Clark Contract with the Company be approved as a result of the market comparisons and minimal costs.

Staff believes the Commission's lower of cost or market standard (OAR 860-027-0048) is met.

Public Interest Compliance

Staff finds that the terms and conditions to the Loy Clark Contract with Cascade for gas main replacement and services appear to be just and reasonable and in the interest of customers.

Based on the review of this application, Staff concludes the following:

1. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of proposed ordering conditions included in the proposed commission motion.
2. Necessary records are available.

Staff has prepared four standard recommended conditions required for Commission approval of the Contract.

The Company has reviewed this memo and had no questions or concerns.

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**PROPOSED COMMISSION MOTION:**

Cascade's application for approval of affiliated interest agreements with Loy Clark be approved subject to the four conditions listed below:

1. The Company shall provide the Commission access to all books of account, as well as documents, data and records that pertain to any transaction involving Loy Clark.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of these transactions in any rate proceedings or alternative form of regulation.
3. The Company shall notify the Commission in advance of any substantive changes to the contracts, including any material change in price. Any such change shall be submitted in an application for supplemental order (or other appropriate format) in this docket.
4. The Company shall report to the Commission, as part of its annual affiliated interest report, all transactions entered into under the affiliated interest agreements with Loy Clark.

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