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March 31, 2015

Public Utility Commission of Oregon
Attn: Filing Center
3930 Fairview Industrial Drive, SE
Salem, OR 97302-1166

RE: Advice O15-03-01/UG-287 Cascade Natural Gas Corporation's Request for General Rate Revision

In accordance with Oregon Administrative Rules, Cascade Natural Gas Corporation (Cascade or Company), respectfully submits an original and 20 copies of the Company's executive summary, testimony, and associated exhibits in support of its request for a general rate revision associated with the Company's Tariff P.U.C. OR No. 9. The Company is requesting the proposed revisions to the following enclosed tariff sheets:

Fourth Revision Sheet No. 30	Canceling	Third Revision Sheet No. 30
Ninth Revision Sheet No. 31	Canceling	Eighth Revision Sheet No. 31
First Revision Sheet No. 31-A	Canceling	Original Sheet No. 31-A
Eighth Revision Sheet No. 101	Canceling	Seventh Revision Sheet No. 101
Eighth Revision Sheet No. 104	Canceling	Seventh Revision Sheet No. 104
Eighth Revision Sheet No. 105	Canceling	Seventh Revision Sheet No. 105
Eighth Revision Sheet No. 111	Canceling	Seventh Revision Sheet No. 111
Eighth Revision Sheet No. 163	Canceling	Seventh Revision Sheet No. 163
First Revision Sheet No. 163-A	Canceling	Original Sheet No. 163-A
Eighth Revision Sheet No. 164	Canceling	Seventh Revision Sheet No. 164
Second Revision Sheet No. 164-A	Canceling	First Revision Sheet No. 164-A
Eighth Revision Sheet No. 170	Canceling	Seventh Revision Sheet No. 170
First Revision Sheet No. 205	Canceling	Original Sheet No. 205
First Revision Sheet No. 206	Canceling	Original Sheet No. 206
First Revision Sheet No. 207	Canceling	Original Sheet No. 207
First Revision Sheet No. 208	Canceling	Original Sheet No. 208
First Revision Sheet No. 209	Canceling	Original Sheet No. 209
First Revision Sheet No. 220	Canceling	Original Sheet No. 220
First Revision Sheet No. 220-A	Canceling	Original Sheet No. 220-A

Please note that Cascade's CONFIDENTIAL Exhibit Nos. 201, 204, and 310 are being provided on a separate CD. Additionally, all supporting workpapers will be provided on a separate CD as well.

In the Community to Serve®

Finally, copies of the Company's responses to the Standard Data Requests are being uploaded to Huddle.

Please direct any questions regarding this filing to me at (509) 734-4593.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Parvinen", followed by a long horizontal line extending to the right.

Michael Parvinen
Director, Regulatory Affairs

Attachments

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UG 287

In the Matter of

CASCADE NATURAL GAS CORPORATION

Application for a General Rate Revision.

**CASCADE'S
EXECUTIVE SUMMARY**

I. INTRODUCTION

1 Cascade Natural Gas Corporation (Cascade or Company) is filing a general rate
2 increase with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.205,
3 757.215 and 757.220, to revise its schedules of rates and charges for natural gas service in
4 Oregon to become effective with service provided on and after April 30, 2015. With this filing,
5 the Company requests a revision to customer rates that will increase the Company's annual
6 Oregon jurisdictional revenues by \$3,622,770 million, for an increase of 5.11 percent over
7 current customer rates.

8 The revised rates produce revenues necessary to sustain the provision of safe, reliable,
9 and low-cost natural gas service to customers in Oregon, while preserving the Company's ability
10 to attract capital for future investments. The Company files this Executive Summary in
11 accordance with OAR 860-022-0019(1). Exhibit A to the Executive Summary provides the
12 required information in accordance with OAR 860-022-0019(1)(a)-(h).

II. BACKGROUND

13 Cascade is headquartered in Kennewick, Washington and provides natural gas
14 distribution services in 96 communities in Washington and Oregon. Cascade has 272,884
15 customers, of which 68,337 are in Oregon, and serves 25 communities in Oregon, the largest of
16 which are Bend, Baker, and Pendleton. In 2007, Cascade became a wholly-owned subsidiary of

1 by Montana Dakota Utilities Resources Group, Inc. (MDU Resources), which is located in
2 Bismarck, North Dakota.

3 Cascade is a public utility providing natural gas service in Oregon within the meaning of
4 ORS 757.005. The Company is subject to the jurisdiction of this Commission, the Washington
5 Utilities and Transportation Commission, the Federal Energy Regulatory Commission, and the
6 Department of Transportation.

7 Communications regarding this filing should be addressed to:

Michael Parvinen
Director of Regulatory Affairs
Cascade Natural Gas Corporation
8113 West Grandridge Boulevard
Kennewick, WA 99336-7166
Telephone: (509)734-4593
Facsimile: (509)737-7166
Email: Michael.Parvinen@cngc.com

Lisa Rackner
McDowell Rackner & Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205
Telephone: 503-595-3925
Facsimile: 503-595-3928
Email: lisa@mcd-law.com

8 Communications regarding discovery matters, including data requests issued to the Company,
9 should be addressed to:

Michael Parvinen
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Kennewick, WA 99336-7166
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III. CASE SUMMARY

10 A. The Test Year

11 The Company's test year in this case is the twelve months ending December 31, 2015
12 (Test Year). Cascade provides information for a historical base year of the twelve months
13 ending December 31, 2014 (Base Year), and makes adjustments to that information to reflect
14 the forecast Test Year. In order to meet the legal requirement that rates be fair, just,

1 reasonable, and sufficient, the Company has selected a test year that closely reflects the
2 investment and expense levels that will exist during the time that the rates adopted in this case
3 are expected to be in effect. The new rates are filed with a requested effective date of April 30,
4 2015. Assuming the addition of the full nine-month statutory suspension period to the 30-day
5 effective date now contained in the tariffs, the new rates would become effective February 1,
6 2016.

7 **B. Return on Equity**

8 The Company's current return on equity (ROE) is 10.1 percent, as established in the
9 Staff Investigation into the Earnings of Cascade Natural Gas Corporation, Docket UG 173 (2006
10 Staff Investigation). In this case, the Company seeks an ROE of 9.55 percent. The Company
11 believes that a ROE of 9.55% represents a fair return for both shareholders and customers.

12 **C. Factors Driving Rate Adjustment**

13 As described in the testimony of Scott W. Madison, the two main drivers for Cascade's
14 request for a rate adjustment are the Company's pipeline investments to replace aging and at-
15 risk infrastructure, and the Company's addition of personnel to manage these pipeline
16 replacement and upgrade projects. Another factor contributing to Cascade's need for a rate
17 adjustment is Cascade's request for recovery of environmental remediation expenses, as
18 described in the testimony of Michael P. Parvinen.

19 **1. Safety-Driven Pipeline Replacement**

20 The primary factor driving Cascade's need for a rate increase is the need to replace
21 portions of its existing pipeline system to ensure the provision of safe and reliable service.
22 Through implementation of the Company's Distribution Integrity Management Process (DIMP),
23 Cascade fully evaluated the physical condition of its distribution pipeline system and identified a
24 number of at-risk areas that could eventually impact the Company's ability to provide safe
25 reliable service and that have been prioritized for replacement. Over the last three years, as
26 Cascade has initiated replacement of the at-risk sections of its distribution pipeline system,

1 Cascade has devoted a significant amount of capital to these projects. As Cascade continues
2 this work to ensure the reliability and integrity of its system, the Company will continue to
3 dedicate substantial resources to this effort. The Company's five-year capital budget includes
4 system improvement or replacement costs of \$3.4million in 2015 and \$8.0 to \$12.6 million for
5 each year during the years 2016–2019.

6 To address the rate pressure that Cascade's capital investments will create, Cascade is
7 proposing a Pipeline Cost Recovery Mechanism (CRM). The CRM is a mechanism designed to
8 provide timely recovery of costs incurred to promote the safety and reliability of Cascade's
9 distribution system. Cascade proposes to file for recovery of its annual pipeline investment
10 concurrently with its annual Purchase Gas Adjustment (PGA) filings on August 1, with an
11 effective date of November 1. The August 1 filing will request recovery of investment from
12 September 1 of the previous year until August 30 of the current year. For September through
13 June, Cascade will provide actual costs, while the costs for July and August will be based on
14 projections. Cascade will file an update concurrently with the PGA update on September 15,
15 which will then include actual investments through August 31 of the current year; accordingly, all
16 investments will be in service at the time of final review. The CRM is an essential piece of
17 Cascade's proposal to recover its substantial investments in pipeline safety and reliability.
18 Cascade anticipates the need to file perpetual rate cases if the CRM is not approved.

19 **2. Labor Additions**

20 Cascade is anticipating a net gain of 15 employees during 2015. Ten of the 15
21 personnel additions are needed to manage the workload associated with increased investment
22 in replacement of at-risk portions of the distribution system. Two positions are being added to
23 create a more dynamic safety program and provide better training options for our field
24 personnel. One position is being added to the regulatory department based on increased
25 workload anticipating more frequent rate cases. Another position is added in Gas Supply and

1 one in Procurement for inventory control. These new positions result in an additional revenue
2 need of \$608,000.

3 **3. Environmental Remediation**

4 Cascade is a major party to the environmental remediation of a property in Eugene
5 (Eugene Remediation Site) on which a Manufactured Gas Plant (MGP) historically operated. In
6 docket UM 1636, Cascade requested authorization to defer expenses associated with the
7 Eugene Remediation Site, and in accordance with Order No. 13-004, Cascade began deferring
8 expenses associated with the Eugene Remediation site on December 1, 2012. At the time of
9 the request for deferral, the Oregon Department of Environmental Quality (DEQ) had not yet
10 issued the Record of Decision (ROD), and accordingly the scope of the remediation effort and
11 associated costs were not known. The DEQ issued a final ROD for the Eugene Remediation
12 Site in January 2015, and Cascade now has an understanding of its remediation obligations.
13 Cascade anticipates that its share of the costs will be \$1,736,300 over the next three years.
14 Additionally, Cascade is expecting a total of approximately \$186,000 in insurance proceeds over
15 the course of the next year. Cascade proposes to include in rates the total expected cost of
16 remediation plus the deferral balance as of December 31, 2014, less expected insurance
17 proceeds divided by the three year remediation period which equates to \$468,637.

18 **D. Cost Control Efforts**

19 Cascade has a history of mitigating increased cost pressures in order to avoid filing rate
20 cases—in fact, Cascade’s most recent rate case filing in Oregon was in 1988. The 2006 Staff
21 Investigation resulted in a slight reduction to rates. Since the acquisition by MDU Resources in
22 2007, Cascade has found synergy savings through shared resources, including joint senior
23 management, a unified call center, joint billing facility and process, and uniform accounting and
24 customer information system software. The rate request in this case reflects the Company’s
25 efforts to aggressively manage its costs, while continuing to provide safe and reliable service.
26 Also, as discussed in the testimony of Mark A. Chiles, Cascade has prepared an Administrative

1 and General (A&G) expense study, and demonstrates that Cascade's A&G expenses are in line
2 with the A&G expenses of other utilities.

3 Importantly, the Company has implemented its cost controls without compromising the
4 safety or reliability of its service. The increase in the Cascade's revenue requirement in this
5 case includes costs associated with advancing the Company's goals of providing safe and
6 reliable natural gas service.

IV. TESTIMONY SUMMARY

7 The Company's direct case consists of the testimony and exhibits of 6 witnesses:

- 8 • In CNGC/100, **Scott W. Madison**, Executive Vice President and General Manager,
9 provides a general overview of the Company, explains the primary drivers of the rate
10 increase, and introduces the Company witnesses and briefly describes their testimony;
- 11 • In CNGC/200, **Mark A. Chiles**, Vice President and Controller for Cascade, provides the
12 Company's capital structure, the proposed cost of embedded debt, the overall rate of
13 return, and presents the Company's Administrative and General (A&G) expense study
14 and analysis of the Company's A&G costs.
- 15 • In CNGC/300, **Michael Parvinen**, Director of Regulatory Affairs, presents the overall
16 revenue requirement, the Company's proposal to continue the Conservation Alliance
17 Plan (including decoupling), the proposed pipeline CRM, the Environmental Remediation
18 Recovery proposal, and explains the Company's philosophy underlying its basic charge
19 requests in this case.
- 20 • In CNGC/400, **Micah Robinson**, Cascade's consultant from MRE Consulting, discusses
21 the forecasted load determination used in 2015 Revenue Adjustment presented by Mr.
22 Parvinen.
- 23 • In CNGC/500, **Ron Amen**, Cascade's consultant from Black & Veatch Corporation,
24 presents the Company's long-run incremental cost study for the Oregon service territory,

1 discusses his study results, and describes how each schedule's present and proposed
2 rate compares to the indicated cost.
3 • In CNGC/600, **Pamela Archer**, Supervisor of Regulatory Analysis, discusses the
4 proposed tariff changes.

V. CONCLUSION

5 The Company requests that the Commission issue an order approving of the proposed
6 rate changes and approving the proposed tariffs.

7

DATED: March 31, 2015

MCDOWELL RACKNER & GIBSON PC



Lisa F. Rackner
Jocelyn C. Pease

Attorneys for Cascade

**Exhibit A to Cascade's Executive Summary
Summary of Requested General Rate Increase
Filed March 31, 2015**

Total Revenues Collected Under Proposed Rates:	\$ 74,522,899
Revenue Change Requested:	\$ 3,622,770
Revenues Net of any Credits from Federal Agencies:	\$ 74,522,899
Percentage Change in Revenues Requested:	5.11%
Percentage Change in Revenues Net of any Credits from Federal Agencies:	5.11%

Test Period: January 1, 2015 to December 31, 2015

Requested Overall Rate of Return 7.47%

Requested Rate of Return on Equity: 9.55%

Proposed Rate Base: \$85,634,892

Results of Operation¹

Before Proposed Rate Change	
Utility Operating Income:	\$5,527,156
Average Rate Base:	\$71,016,067
Rate of Return on Capital:	7.78%
Rate of Return on Equity:	10.06%
After Proposed Rate Change ²	
Utility Operating Income:	\$6,393,456
Average Rate Base:	\$85,634,892
Rate of Return on Capital:	7.47%
Rate of Return on Equity:	9.55%

Effect of Rate Change on Each Customer Class

Customer class	% Change
Residential - 101	3.48%
Commercial - 104	5.98%
Industrial - 105	6.78%
Large Volume - 111	5.82%
General Distribution - 163	29%
General Distribution - 164	27%
Interruptible - 170	0.57%

¹ Based upon the Company's 2014 Results of Operations.

² Based upon the Company's 2015 general rate case filing.

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