CASCADE NATURAL GAS CORPORATION
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September 11, 2026

VIA EMAIL TO

Oregon Public Utility Commission
Attn: Filing Center
201 High Street S.E., Suite 100
Salem, OR 97301-3398

Re: Docket No. AR 676 – Cascade Natural Gas's Gas Capital Costs Pre-Read

Attention: Filing Center

Cascade Natural Gas Corporation submits for filing with the Oregon Public Utility Commission (Commission) its capital costs pre-read, as requested by Commission Staff in their AR 676 Phase 2 Workplan. If you have any questions regarding this filing, please contact me at (509) 975-9473.

Sincerely,

/s/ Michael Parvinen

Michael Parvinen
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Enclosure

Overview

Cascade Natural Gas Company (Company or Cascade) believes the Multi-Year Rate Plan (MRP) should provide capital-intensive utilities an opportunity to recover the costs of the capital in a timely and consistent manner. The MRP framework should balance consistency where appropriate while allowing flexibility to address evolving operating conditions. An annual index factor, supplemental capital funding mechanisms (SCFM), performance incentive measures, and potential off-ramps should all be considered holistically in the MRP framework.

To provide context for each topic, the Company is providing tables and charts throughout this document based on information from Cascade's annual Spring Earnings Review filings.

What is Capital?

Capital refers to investments in the utility's assets or "plant," primarily the physical delivery structure like pipes, and the necessary equipment to service those assets for safety and reliability. Capital investment creates an asset that remains in service for multiple years. The utility recovers the costs for capital investments over the useful life of the equipment, once an asset is placed in service and approved for rate recovery. This happens through two mechanisms: return of the investment (depreciation) and return on the investment.

During this Track 1 discussion of utility costs, the first MRP workplan sessions dealt with O & M costs; capital costs are the other utility-controllable part of this discussion. The "revenue requirement" is the amount of annual revenue the utility needs to collect in order to cover a) the reasonable costs of providing service (much of which was discussed previously as O&M) and b) a fair return on invested capital.

Why is Capital Important?

Capital is essential to Cascade's ability to satisfy safety and reliability targets. Without sufficient capital, a utility may lack the resources necessary to support these outcomes at the quality level desired by customers. For example, one might delay fixing a roof leak for a year to save up enough to repair the roof the following year. It is not utilities' practice to forgo high-risk safety work simply to remain within a pre-set budget.

In a concrete example, from 2020-2025, Cascade's capital investment focused on the replacement of its distribution systems with the highest risk of failure. The capital investment in each year far exceeded the annual depreciation expense (the amount of replacement costs as a 'business expense' in a year), which placed upward pressure on rates.

What Type of Capital Does Cascade Utilize?

Capital has multiple applications within Cascade's business, and within this discussion. Some capital investment is predictable. For instance, capital expenditures are often recurring investments that occur on a daily, monthly or annual basis. Some investment is regular in timing but varied in cost; and there are some specific expenditures that belong in another category outside of the normal predictable rate structure and need to be handled as an add-on to the regular course of business.

Every day, Cascade incurs capital investments in the main lines, service lines, fixtures and service equipment for those lines. Cascade also has regular, larger capital investments, including pipeline replacement projects that have been identified for safety reasons and system reinforcements or expansions that have been identified as needed to ensure system reliability and to accommodate growth of the Company's system.

Portfolio vs Individual Capital Individual Capital Projects

Cascade provides the Oregon Public Utility Commission (OPUC) annual reports that discuss how Cascade invests capital. Capital expenditure is subject to two major forms of review by OPUC. Every day, Cascade invests smaller amounts in its service network– pipe, fittings, and equipment for the employees in the field ensuring the continued safety and reliability of the network. These individual projects can lead to hundreds or thousands of separate smaller costs per month and typically Cascade batches like-spending together into a "portfolio."

Other individual larger investment projects in Cascade's system above a certain dollar amount are reviewed on a project-by-project basis. The review of spending focuses on the cost of one discrete project instead of hundreds of smaller projects included in a portfolio.

How Does a Utility Afford Capital?

Utilities are capital-intensive companies because the assets needed to operate the business require massive upfront investments in physical infrastructure such as pipelines. To finance these necessary investments, Cascade must acquire external funds because the costs are incurred in advance of any recovery that might occur through customer billings. Due to the way utility rate structures are set up, utilities do not accumulate a standing reserve of funds to finance millions of dollars in improvements to infrastructure. Typically, external funds are accessed in two ways: selling stock (equity) and acquiring a loan (debt). The two funding sources create a mix of capital as a utility tries to best balance access to capital and the cost of that capital.

What is Debt, and What Does it Cost?

Debt is loans from investors, often financial institutions. As with any loan, this requires a utility to pay interest- that is the cost of debt. The money that the utility is required to pay on the investment– the percentage rate on the loan– is the cost of that debt.

What is Equity, and What Does it Cost?

Capital investment funds for a utility can also come in the form of equity. Investors buy stock in the utility and become shareholders. Shareholders expect some sort of return on the money that they invest in companies. The return on their investment is the cost of equity.

The two forms of capital–Debt and Equity– have different costs. Debt is usually cheaper and equity more expensive because lenders accept a lower return than shareholders if financial metrics are strong and stable. Equity investors expect higher returns because of the riskier nature of investing in equity. The shareholder needs a larger incentive because the return to shareholders is not guaranteed and may unpredictably vary, while a utility is obligated to make debt interest payments regardless of the company's varying earnings.

Utilities try to strike a balance between debt and equity. Equity is a valuable financial buffer when unexpected issues occur, and too much debt makes investing in a utility riskier. The lender will need a higher interest rate because that equity buffer is gone and financial metrics are unbalanced. The utility has a relatively larger mandatory expenditure of outgoing interest payments, and a smaller ability to absorb cost fluctuations. Utilities typically strive to acquire half their capital funds from debt and the other half from equity because it balances the risk of too much loan risk – which would increase interest rates, and too much equity – which would increase shareholder risk and thereby equity return expectations.

What is the Weighted Average Cost of Capital?

Cascade averages out the two different major rates of return on capital in rate discussions. The "weighted average cost of capital" is the average rate of return for the combination of debt and equity. Let's say that the Cost of Debt= X, Cost of Equity = Y, and a utility has 50 percent debt and 50 percent equity. The overall cost of capital (0.5X + 0.5Y) is an average of the two rates of return, weighted for how much each capital source has contributed to the Company's capital structure. An example of the determination of the overall rate of return is below:

Cost of Capital Example			
Capital Component	**Cost %**	**Weighting %**	**Weighted Cost %**
Cost of Debt	6.00%	50%	3.00%
Cost of Equity	9.50%	50%	4.75%
		Total	7.75%

The Rate of Return

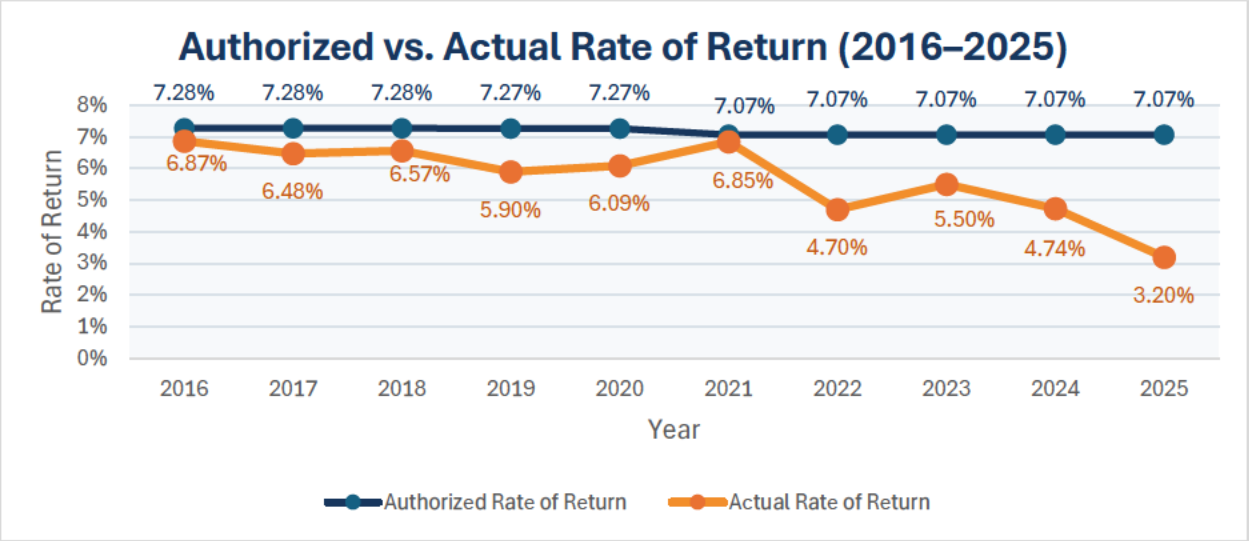
The rate of return represents what the Company needs to recover to finance prudent spending. This has some backwards and some forwards looking components. Prior capital investment must be recovered. In every rate determination, the Company needs to factor in "Return of Capital" – which is recovery of previous investment through depreciation. It also needs a "Return on Capital" – recovery of financing costs (both debt and equity) through a Commission-authorized return on assets. There is also future capital investment to estimate and build into rates so that the next rate setting does not have to include as large an amount of the unrecovered capital investment and create large rate increases. During a general rate case, the rate of return is determined and authorized by the OPUC. Utilities are given an opportunity to earn the authorized rate of return.

Earnings Impact

While the utility has an opportunity to earn the authorized rate of return, it is not guaranteed. Decreasing sales, increasing costs, unexpected policy changes, and prolonged regulatory lag can impact earnings. Low earnings results in a lower rate of return, which negatively impacts the financial stability of the utility. As earnings decrease, financial institutions and shareholders view the utility as riskier, affecting the overall rate of return. For example, shareholders expect a higher rate of return as risk increases. Similarly, financial institutions require a higher interest rate due to the increased risk.

Cascade has experienced chronic underearning due to its continued program of capital investment to improve the safety and reliability of the system and significant regulatory lag.

The following chart below provides the Company's achieved rate of return compared to its authorized rate of return with adjusted net operating income and rate base.



Historical authorized and actual rates of return show that Cascade has consistently earned below its authorized return, with the under-earning gap widening materially in recent years.

The chronic underearning has had an impact on the Company's ability to access low-cost loans because ratings agencies have become concerned with Cascade's financial performance. On October 10, 2023, S&P Global (S&P) revised its stand-alone credit profile (SACP) on Cascade downward from 'BBB' to 'BB+' reflecting expectations that Cascade's stand-alone financial measures will remain consistently below previous levels.

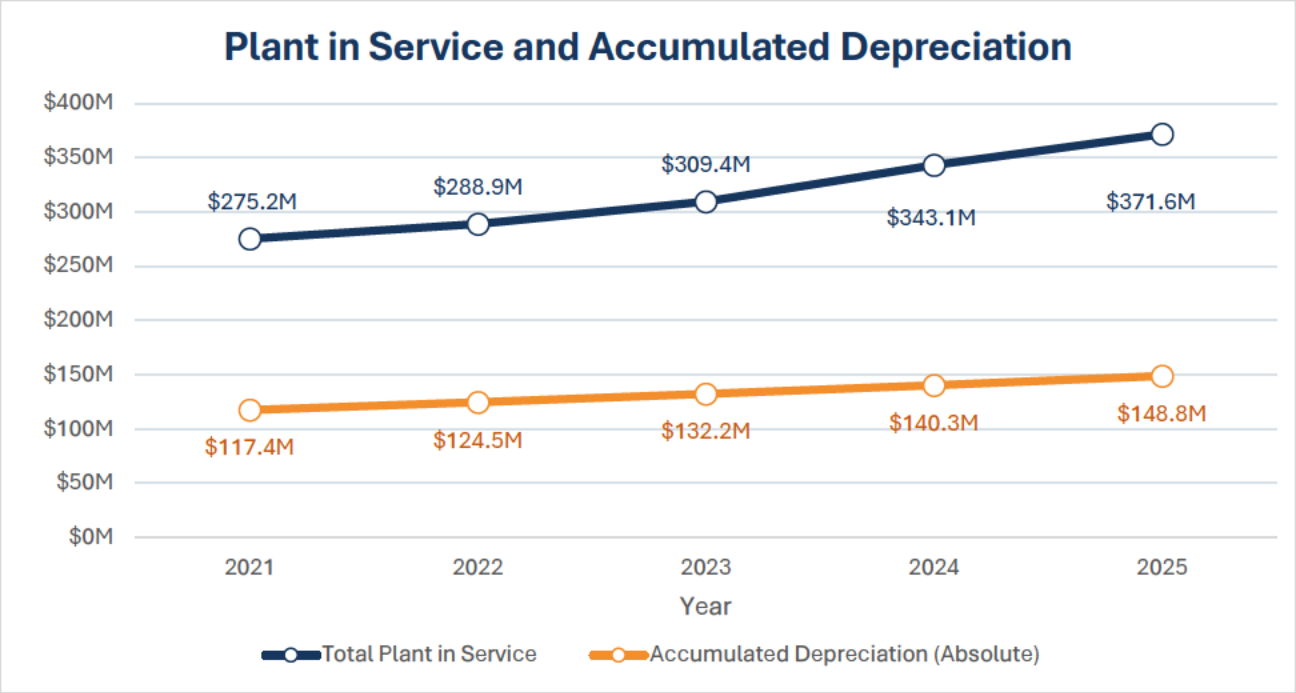
In November 2023, S&P lowered their issuer credit ratings on Cascade by one notch from BBB+ to BBB with a Negative Outlook.

Similarly, in July 2024, Fitch Ratings (Fitch) downgraded Cascade's Issuer Default Rating to BBB from BBB+ with a stable outlook. Fitch also downgraded Cascade's short-term rating to F3 from F2 reflecting Fitch's assessment of the Company's financial structure and operating environment. The report stated the one-notch downgrade reflects weaker leverage measures over the last few years due to a large capital investment effort coupled with the lag in capital recovery. Fitch provided an updated report in July 2025, reaffirming Cascade's ratings.

Cascade Capital Investments

Key capital investment project categories include system safety and integrity projects, which include pipe replacement programs, updates to gas meters and technology upgrades; also significant reinforcements and replacements, which provide a variety of benefits to customers such as improving reliability and safety or mitigating system constraints to ensure reliability. As shown in the table below, Cascade has continued to

heavily invest in its plant in service, with annual increases in plant in service outpacing accumulated depreciation.



Total plant in service increased from $275.2 million in 2021 to $371.6 million in 2025, while accumulated depreciation rose from $117.4 million to $148.8 million over the same period.

The annual increase in plant in service is shown below, as well as the approximate increase to the Company's revenue requirement if annual rate increases occurred.

Measure ($ millions)	2021	2022	2023	2024	2025
Annual Increase in Plant in Service	N/A	$13.6	$20.6	$33.6	$28.6
Approximate Revenue Requirement Impact (10%)	N/A	$1.4	$2.1	$3.4	$2.9

The approximate revenue requirement increase is based on a proxy amount of 10 percent of the annual increase in plant in service and includes both the return of the annual rate base increase as well as depreciation considerations.

The Importance of Investing in Capital

Ongoing investment in capital ensures continued system reliability and safety. In general, the investment in mains and services comprises approximately 80 percent of the Company's total annual increase in plant in service. The investment in mains and services is considered a portfolio project and make up the blanket-type smaller projects that

accumulate into large investments and are generally a known and expected annual cost. The table below shows the annual increase in plant specific to mains and service and the approximate annual increase to the Company's revenue requirement.

Measure ($ millions)	2021	2022	2023	2024	2025
Mains and Services (80% of Total Plant)	N/A	$10.9	$16.5	$26.9	$22.9
Approximate Revenue Requirement Impact (10%)	N/A	$1.1	$1.6	$2.7	$2.3

Measure ($ millions)	Five-Year Total
Mains and Services (80% of Total Plant)	$77.1
Approximate Revenue Requirement Impact (10%)	$7.7

The timely recovery of these costs will help ensure the continued investment into the natural gas system. In addition, an annual recovery mechanism of expected capital costs provides improved rate stability for customers and improved revenue stability for utilities.

Regulatory Lag

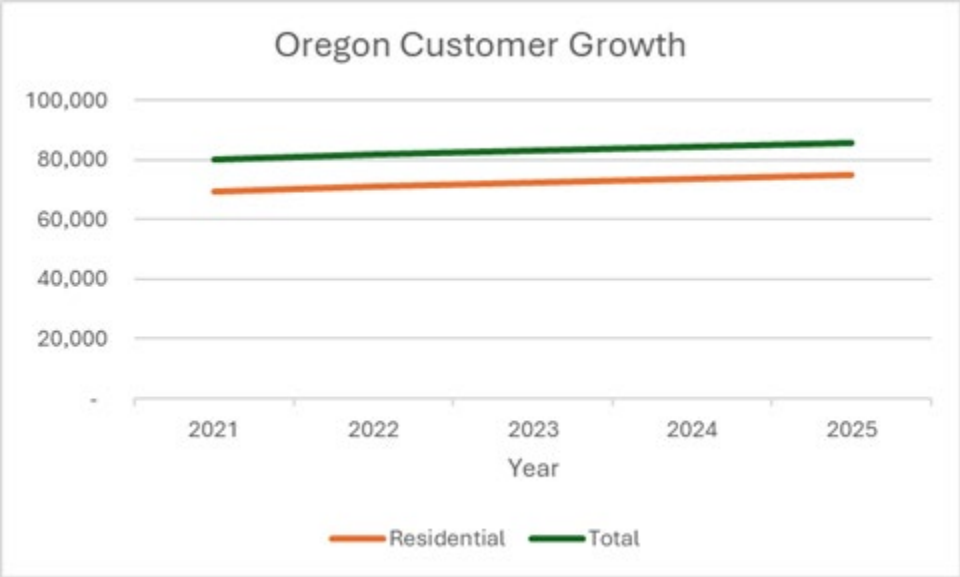
Regulatory lag is the time or delay between when an investment is made and when the recovery of the investment occurs. The initial cost of capital is traditionally paid by the utility and is not recovered until the next general rate case. While the disconnect between paying for an investment and recovering those costs can provide an incentive for utilities to control costs by reducing investments, it also results in larger or "lumpy" rate impacts for customers at the conclusion of one general rate case and the start of another. The sum of all investment over the previous general rate case will be lumped into rates at that one point in time after the costs were incurred.

For example, based on the mains and services information above, the five-year total revenue impact would increase rates by approximately $7.7 million without either another rate case during that time period or a recovery mechanism throughout the same period. The extended regulatory lag could encourage investors to seek a higher rate of return due to the increased cost recovery risk. The MRP framework should seek to balance cost containment with cost recovery of prudent investments so that it supports continued investment in utility capital needs. Significant delays in cost recovery are detrimental to utilities' financial health, impacting cash flow and creating cost of debt concerns. Also,

delayed recovery can result in large rate increases for customers when the next rate case does occur.

Customer Growth

Over the past five years, customer growth in Oregon has been less than 2 percent annually for both total customers and residential customers. With any amount of growth, the Company requires capital investments to meet the growth and address ongoing system safety and reliability. However, the Company's historical customer growth rate does not reflect the potential effect of recent policy changes, including the Climate Protection Program and a phase out of the Line Extension Allowance, which is likely to further suppress future growth.



New customers are not coming on the system in a meaningful way to reduce the burden of the needed capital cost investments from current customers.

Investments in capital are primarily recovered from existing customers due to the slower customer growth rate. A major driver of the annual capital costs is infrastructure supporting safety and reliability which benefits existing customers.

Capital Recovery Mechanisms

Cascade supports establishing the rate base, or total capital investments, as part of the traditional rate case process. This would create a Commission-reviewed basis that may add subsequent capital recovery mechanisms. A general annual adjustment factor would provide surety that the utility is able to recover typical capital costs each year.

Cascade agrees with Staff that an index adjustment factor (I) in the adjustment formula I – X – S + G + Z should be reflective of broad changes in utility costs and adjust revenues so that they are not tethered to the first-year costs over the five-year MRP stay-out period. The selection of the specific measure used will be an important technical question since the measure will directly affect the revenues allowed for recovery each year.

The index factor should be a broad, formula-driven amount that is applicable to all utilities and is utilized for routine, typical capital investments. While indexing works well for the predictable base of utility costs, standard operations and distribution, it has real limitations for capital. Major capital investment needs are not smooth and predictable. They are often significant chunks of spending in relation to the rest of the annual budget, and often policy or event-driven. They cannot be smoothed into an annual step increase tied to general inflation without affecting safe, reliable service or undermining the utility's financial health and increasing future costs.

Cascade supports using a SCFM as a way of addressing qualifying capital investments in addition to an annual index adjustment factor. The SCFM is needed to account for capital investment beyond routine, typical investments. The SCFM should allow for review by the OPUC for prudence and used and usefulness of the projects along with a true-up ability, as well as the review of costs and rate design review for each SCFM project. A review of eligibility, customer need, and forecasted costs should constitute the initial review of projects seeking an SCFM. An annual true-up review can then be used to determine actual costs and ensure timeliness, scope, and compliance with any requirements that the Commission assessed. The eligibility of a project to use an SCFM should be flexible enough to accommodate the varying sizes of utilities in Oregon; a project considered small for one utility could be substantial for Cascade.

Utilities currently use other authorized cost-recovery mechanisms, outside of the general rates, for costs that may be significant, variable, externally driven, or difficult to reasonably forecast and capture in base rates. The recovery of specific costs outside of the MRP should continue. Costs such as net gas expense, customer programs, insurance, labor, regulatory requirements, and other expenses may change for reasons that are not controlled by the utility and may not closely track general inflation-based indexing approaches. Their timing and magnitude may instead be driven by other factors outside the utility's anticipation or control. In those cases, a utility needs to be able to add other capital funding mechanisms to the MRP.

In addition, off-ramps should be considered when costs, including expenses and capital exceed the rate base established in the rate case and capital recovery mechanisms. Other issues regarding off-ramps should also be considered. Finally, performance incentive

measures (PIMs) may be considered, but a PIM should not negatively impact safety and reliability by reducing the utility's ability to make capital investments.

Conclusion

Cascade believes a balanced MRP Framework can retain the links between utility costs and cost recovery and still achieve cost-containment and rate stability. That balance can best be achieved by using an indexed rate to capture predictable annual changes and specific SCFMs for qualifying capital applications. Cascade recommends the MRP Framework establish going-in rates through the current general rate case process for the initial year to provide a robust evidentiary record that establishes an initial, capital-related revenue requirement consistent with established cost-of-service principles. The MRP Framework also should allow supplemental funding capital mechanisms to address capital needs that the utility does not control and cannot anticipate, especially of a size that the utility cannot reasonably absorb without strain. This will help reduce the size and impact of the rate changes that would occur with the multi-year buildup of unrecovered costs at rebasing. This approach balances consistency where appropriate with allowing the flexibility necessary to address evolving operating conditions over the term of an MRP.