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Oregon Public Utility Commission
Attn: Filing Center
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Re: AR 676, CNGC Comments on Operations and Maintenance Costs

Cascade Natural Gas Corporation (Cascade or Company) provides the following comments on the Public Utility Commission of Oregon (Commission) Staff's paper entitled, "Electric and Gas O&M Concept V1," which was issued in Docket AR 676 on September 4, 2026.

I. Executive Summary

Cascade appreciates Staff's initial concept and its recognition that limited departures from indexed treatment may be appropriate when a cost's characteristics justify a different approach. The Company generally supports a primary framework of forward-looking going-in rates, annual indexed adjustments, and periodic rebasing. The framework, however, should not presume that a single index reasonably represents every material O&M category or that all predictable out-year costs can be managed through an aggregate budget.

Cascade's recommendations are consistent with the central principles advanced by the other utilities in their O&M pre-read documents:

- Going-in rates should reflect expected costs during the rate-effective period using historical actuals, normalization, and known and measurable information.
- Material O&M categories should be matched to transparent methods that reflect their underlying cost drivers, including contracts, work volumes, regulatory requirements, market pricing, and implementation schedules.
- Existing deferral or tracker treatment should remain available for policy-driven customer programs whose costs vary with participation, approved budgets, or program activity.
- Alternative mechanisms should be limited, justified, reviewable, and symmetrical, while remaining sufficiently practical to address material costs that the index cannot reasonably accommodate.

II. Areas of Agreement with Staff

A. The primary framework is a reasonable starting point

Cascade acknowledges that a MRP establishes a baseline budget to which the utility must manage its costs. Rate case cost recovery does not provide dollar-for-dollar recovery of ordinary O&M variances for each year in which these variances occur. Like any other business, utilities manage routine variability within a reasonable overall budget. Even with the application of an annual index factor, utilities carry the risk of not recovering their costs. Variances are inevitable. Historically, when variances become unmanageable, utilities file a rate case. Under the stay out provision of the MRP framework, utilities are expected to continue managing to the financial baseline established in its last case. This may be untenable due to the length of the stay-out provision. The variances may far exceed the value of an established index factor. Exceptions are necessary; however, Cascade acknowledges that exceptions should be based on a sound framework and should not recreate annual general rate cases.

B. Going-in rates are foundational

Cascade supports Staff's proposal to retain a forward-looking test-year approach informed by historical actuals and known and measurable changes. The going-in revenue requirement should reflect the conditions expected when rates are in effect, not merely an escalated historical period. Normalization should remove non-recurring items, and specific adjustments should reflect known contracts, required work, forecast volumes, accounting changes, and other supportable cost drivers.

C. Cost characteristics should guide treatment

Cascade agrees with Staff that treatment should not be universal by account label. The relevant inquiry is whether the proposed method reasonably captures the cost's level, timing, volatility, controllability, and rate of change. A cost may be recurring yet unsuitable for a broad index because its primary driver is contractual, regulatory, volume-based, market-based, or cyclical.

D. Symmetry and customer protection should be explicit

Cascade supports symmetrical treatment of material deviations. Forecasts and alternative mechanisms should recognize both increases and decreases, including temporary costs that end during the plan and benefits associated with lower-than-forecast costs where the approved mechanism provides for such review. Symmetry strengthens the credibility of targeted treatment and protects both customers and utilities.

III. Recommended Refinements to Staff's Concept

A. Avoid treating aggregate O&M management as a substitute for an accurate baseline

The expectation that utilities manage within an aggregate O&M budget should apply after going-in rates are established on a reasonable forward-looking basis. It should not be used to disregard known cost changes or to presume that unrelated savings will offset a material increase. Potential offsets should be identified and supported in the record rather than assumed. Otherwise, an understated baseline can compound over the MRP and create a larger reset at rebasing.

B. Permit category-specific annual adjustment factors

Cascade supports Staff's commitment to examine an alternative labor index in Track 2 and recommends that the framework allow more than one adjustment factor where justified. A general inflation measure may be appropriate for economy-linked non-labor costs. Other categories should use a more representative factor, such as known union wage agreements, compensation and benefit forecasts, contract escalators, or a

transparent forecast tied to the underlying driver. The method should be established in the initial MRP order and applied consistently during the plan.

C. Clarify available treatment for predictable mid-cycle costs

Staff identifies step adjustments as a potential approach for future and predictable costs. Cascade supports this approach and recommends that the rules expressly allow a utility to propose a pre-scheduled step when the timing, purpose, and approximate magnitude of a material cost are known, but the cost is not incurred in the first-rate year. Review should focus on updated actual or forecast amounts, prudence, and consistency with the approved scope. A pre-authorized step is more transparent and administratively efficient than either embedding a cost too early or waiting for an exceptional mid-cycle filing.

D. Preserve deferral and tracker treatment for customer programs

Cascade supports Staff's recognition that limited exclusions may be appropriate for specified customer programs. Policy-driven programs such as low-income bill discounts, arrearage management, demand response, and other Commission-directed programs can vary materially with enrollment, participation, benefit levels, approved budgets, and implementation requirements. Continuing Commission-approved deferral or tracker treatment aligns recovery with actual program activity, avoids artificial spending constraints, and supports the policy outcomes the programs are designed to achieve. Any exclusion should remain subject to prudence review and Commission oversight.

E. Retain a practical pathway for unusual, needed investments

Major IT, cybersecurity, cloud migration, and new-program implementation costs can include significant non-capital expenses that are temporary and uneven. The framework should allow forecast-and-normalized treatment, a pre-scheduled step, or deferral and amortization over a defined period, depending on the facts. The selected method should match recovery to the period of benefit and remove temporary costs when they end.

F. Refine the proposed third-party audit concept

A Commission-procured audit may be useful in an appropriate case, but it should not become an automatic prerequisite to filing or a duplicative layer of review. The rules should address scope, timing, cost responsibility, access to confidential information, coordination with discovery, and how disputed audit conclusions will be tested in the evidentiary record. The audit schedule also should not prevent a utility from filing a complete case or delay the statutory process.

IV. Cost Category Recommendations

Cost category	Recommended primary treatment	Reason and safeguards
Routine O&M and A&G	Forward-looking baseline plus a general index where representative	Ordinary variability remains within the revenue cap. Known and measurable changes should be reflected at the outset.
Labor and benefits	Known agreements and focused forecasts; category-specific factor during the MRP	Union contracts, compensation, benefits, and staffing needs may not track general inflation. Apply transparent support and approved sharing where appropriate.

Cost category	Recommended primary treatment	Reason and safeguards
Insurance	Current quote or policy-year forecast; normalization for modest volatility; reopener for a qualifying material deviation	Market capacity, claims trends, coverage, and renewal timing can create sharp changes. Review coverage decisions, mitigation, and materiality.
IT, cyber, and cloud	Routine costs in the baseline; forecast, step, or time-limited deferral for major implementation and transition costs	Distinguishes ongoing operations from temporary start-up costs and capital-to-O&M shifts. Remove temporary amounts when they end.
Safety, integrity, and contracted field services	Known unit costs plus supported work-volume or operational forecast	Required work, inspection cycles, locate volumes, and contracts can change independently of inflation. Subject to prudence and scope review.
Customer programs	Continue approved tracker or deferral treatment for eligible programs	Aligns recovery with actual participation and Commission-approved program activity; avoids over- or under-recovery and artificial program constraints.
Unforeseen material events	Z-factor, limited reopener, or off-ramp based on pre-established criteria	Reserve for events or deviations the approved baseline and indices cannot reasonably absorb. Apply materiality, causation, prudence, and symmetry.

V. Recommended Criteria for Alternative Treatment

Cascade recommends that Track 2 establish a common set of criteria rather than rigidly assigning every account to a single mechanism. A proposal for alternative treatment should address:

- Materiality: the anticipated effect is significant in relation to the utility's approved revenue requirement, O&M budget, or the affected cost category.
- Cost characteristics: the cost is volatile, cyclical, temporary, contract-driven, volume-driven, externally mandated, or otherwise unlikely to be reasonably represented by the standard index.
- Predictability and timing: the framework distinguishes known mid-cycle costs from genuinely unforeseen events and selects the approach that fits the circumstance.
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- Symmetry: the mechanism addresses material over-recovery, cost roll-offs, or lower costs when applicable, as well as under-recovery.
- Prudence and review: recovery remains subject to Commission review, with clear filing requirements and no presumption of automatic approval.
- Administrative efficiency: the selected tool avoids unnecessary annual litigation and is simpler than a broader reopener when a narrower mechanism will suffice.

Cascade recommends against a single numerical threshold that applies identically to all utilities and cost categories. Materiality should be evaluated using one or more Commission-approved measures and should account for the size of the utility, the relevant cost category, the duration of the impact, and whether multiple related costs arise from the same event.

VI. Stretch Factor and Productivity Considerations

Any stretch or productivity factor should be developed only after the going-in baseline, applicable indices, and existing limits on cost recovery are understood. The Commission should avoid layering an unsupported productivity reduction on top of costs already excluded, sharing mechanisms already in place, or category-specific forecasts that already incorporate efficiency expectations. The record should identify the empirical basis for the factor, the costs to which it applies, interactions with other MRP mechanisms, and safeguards against double counting.

VII. Conclusion

Cascade appreciates Staff's iterative approach and supports continued development of a durable O&M framework. Staff's concept provides a constructive foundation if it is refined to: (1) establish accurate forward-looking going-in rates; (2) allow category-specific methods where a broad index is not representative; (3) preserve established treatment for policy-driven customer programs; (4) provide practical tools for predictable mid-cycle, temporary, and unforeseen material costs; and (5) apply clear, symmetrical, and administratively efficient criteria. These refinements will preserve cost-control incentives while supporting safe, reliable, and policy-responsive utility service.

Please direct any questions regarding this filing to me at (509) 528-9223.

Sincerely,

/s/ Michael Parvinen

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