CASCADE NATURAL GAS CORPORATION
A Subsidiary of MDU Resources Group, Inc.

8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166
TELEPHONE 509-734-4500 FACSIMILE 509-737-9803
www.cngc.com

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VIA EMAIL TO

Public Utility Commission of Oregon
Filing Center
201 High Street SE, Suite 100
Salem, Oregon 97301-3398

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

Attention Filing Center:

Cascade Natural Gas Corporation submits for filing with the Oregon Public Utility Commission (Commission) its other 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
Director, Regulatory Affairs
Cascade Natural Gas Corporation
8113 W. Grandridge Blvd.
Kennewick, WA 99336-7166
michael.parvinen@cngc.com

Enclosure

Gas Other Costs

AR 676 WORKSHOP PRE-READ

Taxes, Policy-Driven Deferrals, and Environmental Remediation Cost Recovery

Outside of utility control: Taxes, policy-driven costs, legacy remediation obligations, Commission policy, customer participation, environmental requirements, and historical conditions. Existing trackers and deferrals align recovery with the costs that cause them.

Where costs sit in the revenue requirement

Previous pre-reads addressed the principal utility-controlled building blocks of revenue requirement, which includes several elements. Operating and maintenance costs represent the day-to-day, non-capital costs of providing utility service. Depreciation expense provides the return of capital over the useful life of utility plant, while return on rate base provides a return on investments using the authorized capital structure and cost of capital. Income taxes include federal and Oregon income or excise taxes associated with taxable utility income. Other taxes include property, payroll, municipal exactions, and other applicable taxes. Gas costs include commodity and upstream pipeline costs recovered through the Purchased Gas Adjustment mechanism.

This pre-read addresses taxes and selected costs recovered through separate tariff schedules or deferred-accounting mechanisms rather than ordinary base rates. The purpose is to preserve targeted mechanisms where an index would not reasonably track the underlying driver. Taxes generally follow the treatment of return, plant, and labor. Costs recovered through separate schedules should remain transparent and should not be duplicated in indexed base revenue.

The main categories of taxes

The main tax categories each have a distinct driver and recovery treatment. Federal income tax is driven by taxable income and federal law and is ordinarily reflected in base revenue requirement. Oregon income or excise tax is driven by Oregon taxable income and state law and is also ordinarily reflected in base revenue requirement. Property tax is driven primarily by assessed utility plant and applicable tax rates and changes with capital investment rather than general inflation alone. Payroll taxes are driven by wages and statutory employer tax rates and should move consistently with the labor treatment adopted for the MRP. Exactions under Schedule 100, Adjustment for Municipal Exactions, include local fees, taxes, or assessments that are added to applicable tariff charges for customers in the imposing jurisdiction.

Why a single index does not fit all taxes

A single index does not fit all taxes because the relevant drivers differ. Tax law changes may occur when legislatures, agencies, or local governments change a tax rate or base during the Multi-year Rate Plan period, so a symmetrical deferral or other targeted adjustment can recognize both increases and decreases. Property tax should be tied to assessed value, plant additions, retirements, and tax assessments. Payroll tax follows wages and statutory rates, making it better aligned with the labor factor or labor adjustment than with a broad non-labor inflation index. Schedule 100 exactions are municipal-specific and assessed geographically.

Policy-driven deferrals and tariff mechanisms

Cascade already uses discrete mechanisms for costs or revenues that are volatile, program-driven, externally imposed, or difficult to forecast. Maintaining those mechanisms avoids embedding temporary or highly variable amounts in an index and supports symmetrical true-ups.

Cascade's policy-driven deferrals and tariff mechanisms address several distinct purposes and cost drivers. Schedule 31, the Public Purpose Charge, funds public purposes activities such as energy efficiency programs, low-income conservation, and bill-payment assistance. Schedule 37 supports the Energy Discount Program and its cost-recovery schedule for qualifying low-income residential customers. Schedule 192 amortizes Commission-authorized intervenor funding grants. Schedule 193, the Conservation Alliance Plan adjustment, amortizes deferred conservation and weather variances. Schedule 197, Environmental Remediation Cost Adjustment, recovers environmental remediation costs. Schedule 220 recovers authorized Oregon Climate Protection Program (CPP) compliance costs.

These programs vary with participation, approved budgets, environmental rules, market conditions, and Commission direction. Existing deferrals and trackers allow review of actual costs, preserve transparency, and reduce the risk of persistent over- or under-recovery.

Climate Protection Program compliance costs

Cascade is a covered fuel supplier under Oregon's CPP. Its compliance options may include energy efficiency, renewable natural gas or renewable thermal certificates, compliance-instrument transactions, Community Climate Investments, and other approved strategies. The amount and timing of costs depend on Oregon Department of Environmental Quality (DEQ) requirements, emissions, market prices, procurement timing, and the mix of compliance resources.

- **Deferral.** Cascade requested continued deferral of CPP-related expenses and revenues in Docket UM 2257. The filing identifies consultant costs, incremental employees, compliance instruments, RNG or renewable thermal certificates, other compliance strategies, and emission-allowance purchases as potential compliance expenses.
- **Recovery.** Schedule 220 recovers authorized historical CPP compliance costs and offsets the deferral with collected revenues.
- **Customer protection.** The mechanisms can be reviewed for prudence and updated using actual costs, which is more transparent than embedding uncertain compliance costs in a general index.

Environmental remediation cost recovery

Cascade's environmental remediation costs relate to a former manufactured gas plant site in Eugene. A predecessor in interest operated the site, and Cascade has participated with other parties in investigation and remediation under DEQ oversight.

Schedule 197 was established to recover authorized environmental remediation costs associated with the Eugene site.

- **Legacy cost.** The obligation arises from historical manufactured gas plant operations, not current routine service.
- **Uneven timing.** Remediation scope and timing depend on environmental requirements, site work, cost-sharing, and potential third-party or insurance recoveries.
- **Appropriate treatment.** A dedicated schedule and deferral preserve visibility and permit Commission review without forcing an unpredictable legacy cost into an inflation index.

Taxes and deferrals under a multi-year rate plan

An index-based revenue adjustment can provide a reasonable default for recurring costs that broadly follow inflation. It should not replace mechanisms designed for costs that are jurisdiction-specific, externally mandated, participation-driven, or market-based.

- **Match costs to customers.** Retain Schedule 100 and other jurisdiction-specific tariff treatment so local exactions remain matched to customers in the imposing jurisdiction.
- **Keep taxes aligned.** Allow income, property, and payroll taxes to follow the Commission-approved treatment of return, capital, and labor, including any symmetrical treatment for material tax-law changes.
- **Preserve existing mechanisms.** Continue targeted deferrals and trackers for Schedule 31, the Energy Discount Program, conservation variances, intervenor funding, CPP compliance, and other Commission-approved programs.
- **Maintain safeguards.** Use review standards that address materiality, causation, prudence, symmetry, and administrative efficiency.

Cascade's other-cost mechanisms should operate alongside the MRP index. This approach keeps ordinary cost management within the plan while preserving accurate, transparent, and symmetrical treatment for costs that an index does not reasonably represent.