BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 287

Cascade Natural Gas Corporation

Reply Testimony of Michael Parvinen

REVENUE REQUIREMENT
EXHIBIT CNG/700

September 2015

EXHIBIT/700– REPLY TESTIMONY

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I. INTRODUCTION AND SUMMARY

Q. Are you the same Michael Parvinen who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation (Cascade or Company)?

A. Yes, as Exhibit CNG/300.

Q. What is the purpose of your reply testimony?

A. I provide a revised revenue requirement calculation based on corrections, updated information, and accepted adjustments proposed by other parties. I will also respond specifically to the adjustments proposed by Staff witnesses Marianne Gardner, Suparna Bhattacharya, Max St. Brown, Erik Colville, Linnea Wittekind, Mitch Moore, Brian Bahr, Judy Johnson, and Ming Peng. I will also be responding to adjustments proposed by Citizens' Utility Board of Oregon (CUB) witnesses Bob Jenks and Jamie McGovern and Northwest Industrial Gas Users (NWIGU) witness Michael Gorman. The following is a list of issues I will be addressing, along with the name of the witness raising the issue:

Issue 1	Uncollectibles	Marianne Gardner (Staff)
Issue 2	Promotional Advertising	Mitch Moore (Staff)
Issue 3	Interest Coordination	Company Revision
Issue 4	PGA Commodity Sharing	Max St. Brown (Staff)
Issue 5	Removal of Retiree Medical Credits	Company Revision
Issue 6	2015 Revenue Adjustment	Suparna Bhattacharya (Staff)
Issue 7	2015 Wage Adjustment	Marianne Gardner (Staff)
Issue 8	Pension Asset	Brian Bahr (Staff) Bob Jenks and

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		Jamie McGovern (CUB)
		Michael Gorman (NWIGU)
Issue 9	Pipeline Inspection Cost	Linnea Wittekind (Staff)
Issue 10	Public Purpose Cost Reallocation	Company Revision
Issue 11	2015 Plant Additions	Brian Bahr and Judy Johnson (Staff)
		Bob Jenks and Jamie McGovern (CUB)
		Michael Gorman (NWIGU)
Issue 12	Rate Case Costs	Michael Gorman (NWIGU)
Issue 13	Depreciation Expense	Ming Peng (Staff)
Issue 14	Employee Incentive Plan Adj	Marianne Gardner (Staff)
Issue 15	Environmental Remediation	Judy Johnson (Staff)
Issue 16	Labor Additions Adjustment	Marianne Gardner (Staff)
		Bob Jenks and Jamie McGovern (CUB)
		Michael Gorman (NWIGU)
Issue 17	Gas Storage	Erik Colville (Staff)
Issue 18	Other Gas Supply Expense	Erik Colville (Staff)
Issue 19	IRP Concerns	Erik Colville (Staff)
Issue 20	Medical Benefits	Brian Bahr (Staff)
Issue 21	General Expenses	Brian Bahr (Staff)

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Issue 22	Pipeline Safety Recovery Mechanism	Judy Johnson (Staff) Bob Jenks and Jamie McGovern (CUB) Michael Gorman (NWIGU)
Issue 23	Decoupling	Suparna Bhattacharya (Staff) Bob Jenks and Jamie McGovern (CUB)
Issue 24	Cost of Service/ Rate Spread/ Rate Design	George Compton (Staff) Michael Gorman (NWIGU) Bob Jenks and Jamie McGovern (CUB)

Q. Are any other Cascade witnesses providing reply testimony?

A. Yes. Mark Chiles responds to CUB witnesses Bob Jenks and Jaime McGovern regarding capital structure and staff witness Matt Muldoon regarding confidential exhibit regarding risk assessment. Micah Robinson will address the adjustments proposed by Staff witness Suparna Bhattacharya regarding the 2015 projected revenue calculation and CUB witnesses Bob Jenks and Jaime McGovern regarding the peak allocator. Pamela Archer will address the special contract escalation adjustment proposed by NWIGU witness Michael Gorman. Both of these concerns are reflected in the results of Issue 6 in the list above.

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Q. Please summarize your testimony.

A. In my testimony I support a revised revenue requirement increase of $756,009, as compared to our originally-proposed increase of $3,622,770.[1] The revised revenue requirement is shown in Exhibit CNG/701, column 4, row 1 and is calculated in Exhibit CNG/702.

Q. Did you prepare any exhibits in support of your testimony?

A. Yes, I prepared the following exhibits:

Exhibit CNG/701	Reply Results of Operation Summary Sheet
Exhibit CNG/702	Reply Revenue Requirement Calculation
Exhibit CNG/703	Reply Conversion Factor
Exhibit CNG/704	Cascade's Revised Adjustments to Base Year Results
Exhibit CNG/705	Interest Coordination
Exhibit CNG/706	Revised Response to Staff DR 243
Exhibit CNG/707	Response to CUB DR 29
Exhibit CNG/708	Response to CUB DR 11
Exhibit CNG/709	DIMP Plan
Exhibit CNG/710	Updated 2015 Plant Additions
Exhibit CNG/711	Employee Additions Adj Calculation
Exhibit CNG/712	Employee Counts
Exhibit CNG/713	Response to CUB DR 16

[1] CNG/300, Parvinen/3.

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Exhibit CNG/714	Labor Loading Calculation
Exhibit CNG/715	General Expense Adj. Calculation
Exhibit CNG/716	**CONFIDENTIAL** Aon Hewitt Compensation Program Audit Report

II. RESPONSE TO PARTIES' TESTIMONY ON THE ISSUES

Issue 1 - Uncollectibles

Q. Please briefly describe Cascade's proposal regarding uncollectibles and any relevant context.

A. As explained in my direct testimony, Cascade proposed to include in revenue requirement an amount for uncollectible accounts equal to the average uncollectibles of the three years preceding the test year—2012, 2013 and 2014.[2] In so doing, we followed the Commission's longstanding practice.

Q. Does Staff propose an adjustment to the Company's proposal for uncollectibles?

A. Yes. Staff concedes that the methodology used by the Company comports with Commission policy.[3] Nevertheless, Staff proposes to discard data from 2012, and substitute 2011, thus using a three-year average of data from 2011, 2013 and 2014.[4]

Q. What is Staff's rationale for this approach?

A. Staff notes that in 2012, Cascade included uncollected debts related to developer commitment contract defaults that occurred in 2010 and 2011, and were subsequently

[2] CNG/300, Parvinen/5.

[3] Staff/100, Gardner/6.

[4] Staff/100, Gardner/7-8.

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written off in 2012. Staff points out that inclusion of these defaults makes uncollectibles in 2012 anomalously high and for that reason, proposes removal of that year from the average.[5]

Q. Is Staff's proposal reasonable?

A. Yes. The Staff proposal produces a fair expectation of what the test year uncollectibles will be. Cascade has therefore used the same uncollectible rate produced by Staff in the uncollectibles adjustment as shown in Cascade's Revised Adjustments to Base Year Results, Exhibit CNG/704, column (a), as well as in the Conversion Factor (Exhibit CNG/703) which applies to the revenue requirement calculation as well as any adjustment affecting revenues.

Issue 2 - Promotional Advertising

Q. Please briefly describe Cascade's proposal regarding advertising expense and any relevant context.

A. The Commission's administrative rules establish three ratemaking categories for various types of utility advertising expenses. ***Category A*** includes expenses for advertising related to energy efficiency or conservation expenses not related to a Commission-approved program, utility service advertising expenses, and utility information advertising expenses.[6] Category A expenses are presumed to be just and reasonable (and therefore recoverable in rates), so long as they are 0.125 percent or less of gross retail

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[5] Staff/100, Gardner/7.

[6] OAR 860-026-022(2)(a),

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operating revenues.[7] ***Category B*** includes legally mandated advertising expenses which are presumed to be just and reasonable regardless of the amount.[8] And ***Category C*** includes promotional advertising expenses, institutional advertising, and all other advertising expenses that do not fall under Categories A or B. The utility bears the burden of demonstrating that Category C expenses are just and reasonable before their costs may be recovered. [9] As explained in my direct testimony, Cascade initially removed all promotional advertising expense booked to FERC account 913.[10] In so doing, we intended to remove all Category C advertising.

Q. Does Staff propose an adjustment to advertising expense?

A. Yes. Staff witness Mitch Moore performed an extensive analysis of all advertising expenses and determined from data responses that $96,000 of test period expense are related to Category C "institutional advertising" type expenses that the Company had not supported as justifiable expenses.[11] Therefore, Staff proposes to remove these expenses. Staff agrees that $21,650.46 of Category A advertising are presumed to be just and reasonable because those expenses total less than 0.125 percent of gross retail operating revenues.[12]

[7] OAR 860-026-022(3)(a)

[8] OAR 860-026-0022(2)(b) and (3)(b).

[9] OAR 860-026-0022(2)(d) and (3)(d).

[10] CNG/300, Parvinen/5/.

[11] Staff/600, Moore/1-6.

[12] Staff/600, Moore/6.

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Q. Is Staff's proposal reasonable?

A. Mostly. Cascade recently discovered that it had inadvertently incorrectly designated certain Category A advertising expenses as Category C.[13] Cascade corrected this error in the Revised Response to Data Request 243 and Second Revised Response to Data Request 243-247 (Spreadsheet), included as Exhibit CNG/706. The updated total for Category A expenses is $59,390.08, which is still less than 0.125 percent of gross retail operating revenues.[14] With this correction, the adjustment would be $37,639.62 less than the Staff proposal. The revised adjustment of $58,370 has been reflected in column (d) of Exhibit CNG/704.

Issue 3 – Interest Coordination Adjustment

Q. Please briefly describe Cascade's proposal regarding the Interest Coordination Adjustment.

A. As explained in my direct testimony this adjustment reflects the income tax effect on the interest associated with the final rate base included in this filing.[15]

Q. Is the Company proposing an update or correction to the original adjustment?

A. Yes.

Q. Why is the Company proposing a change from the original adjustment?

A. Several of the adjustments Cascade is presenting in its reply case affect rate base. The Interest Coordination Adjustment calculation automatically adjusts to the final level of

[13] The expenses that had been inadvertently miscategorized were related to safety notices in support of the 811 "Call Before You Dig" informational campaign.

[14] Staff/600, Moore/6.

[15] CNG/300, Parvinen/3:18-22. *See also* Exhibit CNG/301, column (3), line 27.

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rate base, so it is subject to change with rate base adjustments. For example, the Company is updating its level of plant investments that will be in service prior to the effective date of rates. The interest associated with that investment will then change, as well as the income tax effect of the interest.

Q. Have you prepared an exhibit showing this calculation?

A. Yes, Exhibit CNG/705.

Issue 4 – PGA Commodity Sharing Adjustment

Q. Please briefly describe Cascade's proposal regarding the Commodity Sharing Adjustment.

A. In my direct testimony I explained that I adjusted the Company's test year total operating revenue to remove the Company's share of Purchased Gas Adjustment (PGA) sharing that was accrued during the base year.[16] Specifically, the Company reflected additional gas costs of $385,502 absorbed by the Company in 2014 as a result of higher-than-anticipated gas costs (higher than were built into the weighted average cost of gas built into the PGA).

Q. Does Staff register a concern about this adjustment?

A. Yes. Staff expresses concern that this adjustment might result in double-counting if this revenue is included to reduce revenues, but also included in the annual PGA sharing computations.[17]

[16] CNG/300, Parvinen/5:23-6:2.

[17] Staff/300, St. Brown/2.

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Q. What is the Company's response to Staff's concern?

A. While my adjustment did not result in double-counting, I do believe that the adjustment should have been made to gas expense and not gas revenue. To be clear, the 10 percent sharing component is included in gas cost expense, while the other 90 percent of gas costs over the Weighted Average Cost of Gas (WACOG) is deferred for later recovery or refund. For that reason we correctly propose to revise this adjustment, to adjust gas costs – as opposed to revenues – for such sharing.

Q. Does your revision to your revenue adjustment have an impact on your stated results?

A. No, it does not.

Issue 5 – Removal of Retiree Medical Credit

Q. Please briefly describe Cascade's original proposal regarding removal of retiree medical credit and any updates to Cascade's original proposal.

A. As explained in my direct testimony, Cascade's proposed adjustment was intended to remove the impact of a $28,075 credit for excessive retiree medical costs.[18] However, since filing the case we have discovered that the credit was applied only in 2008 through 2011. The credit was associated with freezing the union pension plan. While the Company carried the title of the adjustment forward year after year, it was not actually receiving the credit itself any longer. Thus, the Company's adjustment inadvertently and inappropriately removed the ***actual*** cost of the retiree medical expense. Therefore, no adjustment should have been made and I am simply eliminating the adjustment.

[18] CNG/100, Parvinen/6.

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Q. Do any of the parties propose an adjustment to the removal of retiree medical credit adjustment?

A. No.

Q. Why is the Company proposing a change from the original adjustment?

A. The adjustment proposed in the original case was in error. Cascade is properly reflecting its expenses by eliminating the adjustment. The adjustment is shown in column (h) of Exhibit CNG/704.

<u>Issue 6 – 2015 Revenue Adjustment</u>

Q. Please briefly describe Cascade's proposal regarding the 2015 Revenue Adjustment.

A. The adjustment proposed by the Company is calculated by taking the 2015 projected customers and projected usage multiplied by the current rates.[19] These same usage figures are then used to determine the applicable rates. Both Staff[20] and NWIGU[21] propose adjustments to the Company's revenue proposal.

Q. What is Staff's adjustment to the 2015 Revenue Adjustment?

A. Staff proposes an increase for test year sales of $509,143.[22]

Q. What is the basis of Staff's adjustment?

A. Staff's uses a different methodology to determine weather-normalized usage as the one used by the Company; as a result Staff projects that test year sales for core customers

[19] CNG/300, Parvinen/6:9-11.

[20] Staff/200, Bhattacharya/10. *See also* Exhibit Staff/203.

[21] NWIGU/100, Gorman/3-4.

[22] Staff/200, Bhattacharya/1 and 10.

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will increase by approximately 0.85 percent relative to 2014 actual sales, as opposed to the Company's forecast of a 0.67 percent increase.[23] These increased sales translate into an increase in test year revenues. Based on this methodology, Staff proposes an $86,861 adjustment to the Company's proposed revenue requirement.

Q. Does the Company agree with the methodology change made by Staff to determine weather-normalized usage?

A. No. Micah Robinson will address this issue in his testimony. However, even accepting Staff's methodology, the adjustment is vastly overstated.

Q. Please explain.

A. All of Staff's proposed adjustments as reflected in Table A, presented in Staff/100, Gardner/3- 4 are shown as changes to Company proposed test year adjustments. However, the Sales Forecast Adjustment (Issue 1 SB, S-5) is reflected as a total adjustment to the Company's ***booked results for 2014,*** as opposed to the adjusted results to get to the test year proposal. In other words the amount reflected in the table should be a replacement to the Company adjustment, instead of an adjustment to the Company adjustment.[24]

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[23] Staff/200, Bhattacharya/8.

[24] Staff/100, Gardner/3.

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Q. If Staff's proposed adjustment were instead reflected consistent with the rest of Staff's presentation, what would the adjustment be?

A. $87,000 at the revenue level. This amount is derived by taking Staff's adjustment of $509,000[25] less the Cascade adjustment of $422,000.[26]

Q. What is NWIGU's proposed adjustment to Cascade's 2015 Revenue Adjustment?

A. NWIGU claims that the Company has failed to correctly reflect the revenue from special contracts per escalation clauses that allow Cascade to adjust these customers' rates outside of a rate case.[27] For this reason NWIGU witness Michael Gorman proposes to include two years of escalation on the revenues forecast associated with the special contracts from the rates included in the 2014 base year.[28]

Q. Is the adjustment appropriate?

A. No. As explained in Ms. Archer's testimony, the special contracts rates for the test year reflect escalation of the 2014 rates for 10 of 12 months of the 2015 test year—which accounts for any material change to revenues for the test year.[29] NWIGU escalates the special contract rates to 2016—one year beyond the test year, which is clearly inappropriate.[30]

[25] Staff/200, Bhattacharya/1.

[26] CNG/301, Parvinen/Page 1 of 1.

[27] NWIGU/100, Gorman/3-4.

[28] NWIGU/100, Gorman/3-4.

[29] CNG/900, Archer/2-3.

[30] NWIGU/100, Gorman/4.

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Q. Does NWIGU provide any justification for escalating revenues beyond the test year?

A. Not really. NWIGU does point out that the rates in this proceeding will likely be in effect at the year end, and refers to 2016 as the "rate effective" date.[31] However, all of the rest of the costs and revenues included in this case are set at 2015 levels. Cascade could easily point to many costs that will increase from 2015 to 2016—and yet Cascade is not seeking to recover those 2016 costs simply because the new rates will likely be effective early in 2016. The Commission should therefore reject NWIGU's blatant attempt to cherry-pick this revenue increase.

Q. Is the Company proposing a change from the original adjustment to capture the expected revenue increase from the 2014 base year to the 2015 test year?

A. No. Based on the actual escalation factor that will be applied to special contracts starting in November of 2015, the annual impact would be immaterial, approximately $595 on an annual basis and only two months should be reflected to properly match with 2015 revenues.

Issue 7 – 2015 Wage Adjustment

Q. Please briefly describe Cascade's proposal regarding the 2015 Wage Adjustment.

A. As explained in my direct testimony, this adjustment reflects the actual wages granted to non-union employees in the 2015 test year, as well as a placeholder for the expected outcome of the Company's union contract negotiations.[32]

[31] NWIGU/100, Gorman/4.

[32] CNG/300, Parvinen/6:12-17.

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Q. Does Staff propose an adjustment to the Company's proposed adjustment?

A. Yes. Staff states that it is proposing two decreases to O&M of $216,431 and $52,499.[33] Based on review of Staff's workpapers, it appears that Staff is actually proposing an adjustment to O&M of $216,431 and adjustment to rate base of $52,499.

Q. How does Staff calculate its adjustments?

A. First, Staff relies on 2014 employee counts instead of the 2015 test year employee counts.[34] And second, with respect to the Company's non-union employees, Staff applies its three-year wage model, which uses the CPI to escalate historical wages to 2015 test year levels.[35] Third, Staff also adjusts Cascade's test period overtime to remove all exempt FTE overtime from the test period.[36] For non-exempt FTE, Staff allows overtime to increase based on published CPI projections, and then allows the Company to share 50/50 the lesser of the difference between the Company's and Staff's calculated projections, or a 10 percent band around Staff's calculated projection.[37]

Q. Why does Staff use 2014 employee counts in its combined wage adjustment?

A. Staff's use of 2014 employee counts appears to be the result of an error. Staff states that in determining FTE counts it relied on Cascade's Revised Response to Staff Data Request 180—which is included as an exhibit to Ms. Gardner's testimony as Staff/104, Gardner/1-3. That response includes FTE counts for years 2011 through 2015. Staff's

[33] Staff/100, Gardner/10.

[34] Staff/100, Gardner/8-9.

[35] Staff/100, Gardner/8-9.

[36] Staff/100, Gardner/10.

[37] Staff's electronic workpaper entitled UG 287 S-2 Wages and 9 Salaries.xlsx., S-4.4 PUC 3-year OT.

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worksheets show that the number of FTE it incorporated in its wage model matches the FTE count shown in that data response for 2014 and not 2015.[38] Moreover, to be clear, Staff has not argued for an adjustment to the Company's proposed FTE count included in the case. For these reasons, Cascade believes that Staff intended to use the Company's 2015 FTE count to calculate wages.

Q. What would be the impact to the Staff adjustment if Staff were to instead have used the 2015 employee count?

A. Rerunning the Staff calculation would decrease the Company's expense adjustment to $30,309 not $174,000. The overtime component would adjust to $20,428 as opposed to Staff's $38,000; and the Rate Base adjustment would change to $0 as opposed to $52,000.

Q. Does the Company accept these revised adjustments?

A. No—because we also disagree with the second part of Staff's adjustment regarding non-union wages. Specifically, we do not agree that it is appropriate for Staff to use its three-year wage model to apply CPI to escalate historical wages to arrive at a test year estimate, as opposed to using the ***actual*** wages being paid to non-union employees in the test year.[39]

[38] Staff's electronic workpaper entitled UG 287 S-2 Wages and Salaries.xlsx, S-4.1 PUC 3-year W&S.

[39] Staff/100, Gardner/8.

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Q. Does Staff provide any rationale for using its three-year wage model to estimate wages, when in fact the Company knows the actual wages paid to non-union employees in the test year?

A. Staff does not provide any specific rationale, other than to note that the Commission ***typically*** relies on Staff's wage model to estimate non-union wages.[40]

Q. Are you aware of any instances in which the Commission has deviated from the three-year wage model?

A. Yes. The Commission has previously varied its application of the three-year wage model to reflect current economic circumstances[41] or if data from a particular year is distorted and application of the model would yield unreliable information.[42]

Q. Please explain why it is appropriate in this case for the Commission to depart from the three-year wage model in this case.

A. There are several reasons. First, Staff is using a negative CPI number to project wage changes from 2014 to 2015. Considering that CPI is typically used as a surrogate to represent an expected level of change to expenses one must ask, is it realistic to assume wage and salary rates would decrease? From Cascade's standpoint, the answer is no. Employees do not expect a wage decrease in those very unusual years where the CPI is negative. Moreover, the negative CPI relied upon by Staff—of (0.4) percent—appears to be an anomaly that should be discarded. Specifically, the (0.4)

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[40] Staff/100, Gardner/8.

[41] *See Re Portland Gen. Elec. Co.*, Docket UE 197, Order No. 09-020 at 10 (Jan. 22, 2009).

[42] *Re PacifiCorp's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket UE 116, Order No. 01-787 at 40 (Sept. 7, 2001).

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percent value is found in the Oregon Department of Administrative Services, Office of Economic Analysis Report and represents the national average CPI, Urban Consumers, as of May 2015. On the other hand, the report also reflected an Oregon average wage value as of that same date of ***3.9 percent***. I understand that it is Commission policy to rely on the Urban Consumers CPI for wage escalation. However, in this case, that number is clearly an outlier and Staff's choice to use this value to adjust wages to the test year is in error.

Finally, while CPI may be informative in helping Staff determine reasonable wages, it should not be determinative. In the end, it is essential that utilities be allowed to recover wages that are competitive in the markets in which they operate, and for the employees they need to attract to provide safe and reliable service. To that end, Cascade establishes wage and salary rates and increases based on a number of factors including but not limited to prevailing wages in order to attract and retain qualified personnel to provide service to customers. Assuming no change in CPI lowers Staff's adjustment another $5,000.

Second, wage increases granted by the Company include more than a cost of living or CPI adjustment. The increases to wages also account for productivity and exemplary performance by employees. Employees who work hard and have greater output are recognized with a greater than average increase while those employees who meet normal expectations will see a lesser increase. The actual increase granted by the Company as reflected in the Company's adjustment is a combination increase. Staff only considers the cost of living or CPI aspect. The approach adopted by Staff and

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previous Commission orders seems lacking compared to Cascade's current method of providing fair and adequate compensation to employees.

Q. Would you explain how compensation is reviewed at Cascade?

A. Cascade's philosophy is to set base pay using national general industry data and provide base pay opportunities that are aligned with the market average for similar positions. Periodically the Company contracts with an outside independent consultant to review compensation programs and practices. In 2013, the Company contracted with Aon Hewitt to provide a third party review of base compensation and incentive compensation.[43]

The review indicated that Cascade's compensation programs are well designed and utilize high quality and established external survey sources to ensure the programs align well with other utilities and industries that compete for the same types of employees. Recommendations for improvement were primarily minor enhancements to employee pay opportunities because of Cascade's conservative approach to total compensation. For example, Aon Hewitt suggested that in order to keep the Company from falling below market competitive base pay levels, salary structures should be increased more aggressively than they have been in the past.

In addition to periodic third party reviews, Human Resources reviews standard benchmark jobs in the corporation annually, including job families such as engineers, construction supervisors and system analysts. The Company's total compensation package for the benchmark jobs are compared to market compensation for comparable

[43] *See* Confidential Exhibit CNG/716, Aon Hewitt Compensation Program Audit Report.

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positions to ensure that the Company is compensating employees at the appropriate pay grade and range. Human Resources also reviews positions on an "as needed" basis throughout the year to ensure it is competitively compensating within the established pay ranges. The Company uses many reputable industry surveys when determining base pay levels, including the American Gas Association, Salary.com data, Mercer Benchmark, Milliman, Towers Watson and World at Work, among others.

Q. How does the Company establish the annual wage increase?

A. Human Resources reviews standard benchmark data regarding salary structures as well as salary increase budgets. The Company uses many reputable industry surveys when determining both compensation structure and salary increase budgets, including the American Gas Association, Salary.com data, Mercer Benchmark, Milliman, Towers Watson and World at Work, among others.

Issue 8 – Pension Asset Adjustment

Q. When the Company initially filed its case, the Commission had not yet issued a final order in docket UM 1633. Now that the Commission has issued a final order in docket UM 1633,[44] is the Company updating its case to reflect the Commission's determination in that order?

A. Yes. The Company is reflecting FAS 87 as the expense for recovery and has removed the net pension asset from this case.

[44] *Re Investigation into Treatment of Pension Costs in Utility Rates*, Docket UM 1633, Order 15-226 (Aug. 3, 2015).

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Issue 9 – Pipeline Inspection Cost Adjustment

Q. Please briefly describe Cascade's proposal regarding the Pipeline Inspection Cost adjustment.

A. As explained in my direct testimony, the Company is using its Distribution Integrity Management Plan (DIMP) and model to identify and evaluate certain areas of Cascade's distribution system that are at elevated risk.[45] The original proposed adjustment reflected the Oregon share of the costs associated with the increased effort to perform additional pipeline inspection and information gathering.

Q. Does Staff propose an adjustment to Cascade's pipeline inspection cost adjustment?

A. Yes. Staff proposes removing the adjustment based on information received from the Company that showed that these costs are not likely to be incurred for the benefit of Oregon customers until 2016.[46]

Q. Does the Company disagree with Staff's adjustment?

A. No. The Company has removed its originally-proposed adjustment and that update is reflected in column (l) of Exhibit CNG/704.

[45] CNG/300, Parvinen/28-32.

[46] Staff/500, Wittekind/2.

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Issue 10 – Public Purpose Cost Reallocation

Q. Please briefly describe Cascade's proposal regarding the Public Purpose Cost Reallocation Adjustment.

A. As explained in my direct testimony this adjustment reflects removing the $500,000 portion of the public purpose funds that were included in the Company's expenses with the intent to then increase Schedule 31 (Public Purpose Fund tariff) rates to cover the $500,000.[47]

Q. Do any of the parties propose an adjustment to the Public Purpose Cost Reallocation Adjustment?

A. No.

Q. Is the Company modifying its original adjustment?

A. Yes, Cascade is modifying its original adjustment to $135,082.

Q. Why is the Company proposing a change from the original adjustment?

A. The Company books the annual $500,000 provided to the ETO in FERC account 908. However, Cascade books the amount on an accrual basis thus reversing the accrual the next month. There was a mismatch between the January 2014 reversal of the December 2013 accrual and the December 2014 accrual resulting in much less than the $500,000 in the expense account. In the original adjustment, Cascade simply removed the whole balance in account 908 and not just the amount associated with the ETO payment of $135,082.11. The balance remaining in the FERC account 908 after removing the ETO funding should have been $115,395.

[47] CNG/300, Parvinen/7.

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Q. Was the remaining balance in FERC account 908 reviewed by Staff?

A. Yes. The costs included in account 908 were incorporated in the review of Staff witness Mitch Moore.

<u>Issue 11 – 2015 Plant Additions</u>

Q. Please briefly describe Cascade's proposal regarding the 2015 Plant Additions Adjustment.

A. As explained in my direct testimony, the Company proposed a test year capital additions budget of approximately $12 million on an Oregon-allocated basis.[48] The additions proposed include both small, or "blanket" projects, and several larger projects. The Company explained that the budget figures for these projects would be updated as the year progressed.[49] Associated with the proposed additions is a property tax expense of approximately $178,000.[50]

Q. Does Staff propose adjustments to the Company's plant additions proposal?

A. Yes. Staff proposes four separate adjustments. The first is related to the "Blanket Funding Projects" in the test year. Blanket projects are projects with costs under $100,000 that have been aggregated together into one budgeting bucket.[51] Staff notes that the three-year average of such blanket project costs is only 66 percent of the amount proposed for the test year, and proposes to reduce the budgeted amount to 66

[48] CNG/300, Parvinen/10.

[49] CNG/300, Parvinen/10.

[50] Staff/700, Bahr/20-26.

[51] Staff/700, Bahr/22.

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percent of budget. Based on this recommendation, Staff proposes a $1,634,329 adjustment to the Company's proposal of $7,499,680 for blanket projects.[52]

Q. What is Cascade's response?

A. The Company disagrees with Staff's approach. It is true that the spending for blanket projects is expected to increase over the average spending experienced in recent years. These increased costs however are legitimate and should be recovered. Per the Company's response to Staff Data Request 184[53] the increased spending is required to implement the Distribution Integrity Management Plan (DIMP). The DIMP is a model used to evaluate the integrity of Cascade's distribution system, and is used to identify the portions of the Company's system which need improvement. As a result of implementing DIMP, Cascade has increased investment to address what has been identified as the most at-risk portions of the distribution system. Implementation of the DIMP has required increased investment each year to address its distribution system. This is evident by not only increased blanket investment but overall investment in major pipe replacement projects. To simply remove investment because it "appears excessive" certainly does not encourage or support the Company in its efforts ensure that its system is safe and reliable.[54]

The Company's five-year Capital Spending Budget, included as Exhibit CNG/707 shows Cascade's continued commitment to addressing the results of the DIMP model.

[52] Staff/700, Bahr/23.

[53] Staff/702, Bahr/47.

[54] Staff/700, Bahr/23.

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Examples of the GIS-based results of the DIMP model, mapping the areas of highest concern, was provided in response to Staff Data Request 311 (CUB/109). These maps—which identify with orange and red flags those areas most critically requiring improvements—are the driving force for Cascade's decisions. Note that there are literally hundreds of these flags on the map of the Bend area, which is the location where the Company's DIMP efforts will be concentrated for the next several years. I have attached the maps showing in particular the Bend area in Cascade's Oregon territory that we will be addressing over the next five years as Exhibit CNG/708.

Q. Is Cascade proposing an adjustment to the blanket category of costs?

A. Yes. We now have more information regarding the actual spending for blanket projects through the end of the year, and we propose to update our adjustment accordingly.

Q. What is Staff's second adjustment to plant additions?

A. Staff reviewed the larger "non-blanket" projects that the Company proposed to include in the test year and removed costs associated with project that are no longer projected to be completed by the end of 2015.[55] Of the $7,165,538 of non-blanket projects included in the revenue requirement, Staff noted that $3,193,357 is associated with projects that will not be complete by the end of 2015.[56]

Q. What is the Company's response?

A. The Company agrees with Staff's adjustment and has removed all projects that we have indicated will not be complete and in-service by the end of 2015.

[55] Staff/700, Bahr/23-24.

[56] Staff/700, Bahr/24:1-5.

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Q. What is Staff's third adjustment to plant additions?

A**.** Staff's third adjustment reflects an attempt to determine what the actual costs will be for certain non-blanket capital projects that are not yet complete—but will be in service by the end of 2015.[57] To come up with its adjustment, Staff performs a complicated analysis of the spend-to-date on these projects, including a comparison of the spend-to-date with originally-budgeted amounts. Based on this analysis, Staff concludes that the Company has over-budgeted for the remaining portions of these projects and accordingly adjusts the Company's proposal by approximately $2,000,000.[58]

Q. What is the Company's response to this adjustment?

A. Staff's methodology is speculative, and more importantly, it is unnecessary. The 2015 test year will be very close to its end by the time this case is submitted to the Commission for decision; by that time we will have a very clear idea of what the actual costs for these projects will be. Therefore, the Company proposes to provide updates as the case progresses, and proposes that updates based on actuals be included in this case.

Q. Did Staff offer another adjustment, specifically related to the Company's proposed recovery of plant additions for information technology investment?

A. Yes. Staff proposes an adjustment to the $1,164,009 to Intangible Plant for Information Technology spending in 2015.[59]

[57] Staff/700, Bahr/24-25.

[58] Staff/700, Bahr/25:14-16.

[59] Staff/1000, Johnson/2. *See also* Exhibit Staff/1002.

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Q. What is the basis for this adjustment?

A. Staff points out that the Company's response to Staff Data Request 282 revealed that several of the projects were not going to be used and useful by the end of 2015.[60]

Q. What is the Company's response?

A. The Company agrees with Staff's calculation. I have prepared an adjustment that removes from rate base $1,164,009.

Q. Does CUB also register concerns about the Company's proposal for plant additions?

A. Yes. CUB claims that the Company has failed to provide sufficient support and justification for its proposed projects, and suggests that the Company might have been ramping up expenditures on plant because it was planning a rate case.[61]

Q. What is the Company's response to CUB's concerns?

A. CUB's suspicions are unfounded. As addressed above, Cascade's increased capital expenditures are the direct result of its efforts in replacing its most at-risk pipe, as required to implement the DIMP model.

Q. Can you provide additional support demonstrating the need for these plant additions?

A. Yes. As explained above, I am attaching the DIMP maps which provide a visual illustration of the need for improvements in Cascade's Oregon service territory. I have also included the Company's response to CUB Data Request 11 as Exhibit CNG/708,

[60] Staff/1000, Johnson/2.

[61] CUB/100, Jenks-McGovern/17-20.

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which shows the risk index ranking for the Bend portion of the system replacement project. The risk index ranking is an accumulation of weighted factors to determine the most at-risk portion of Cascade's system. I have included the most recent version of Cascade's DIMP plan as Exhibit CNG/709, which provides detailed explanations of each factor that goes into the risk index ranking figures.

Finally, in Exhibit CNG/710, I have categorized Cascade's proposed investment to provide more detail as to the nature of the plant. For example, a significant portion of the blanket investment reflects the cost to add new customers. The revenue from these new customers has been included in the 2015 revenue adjustment. If the investment to add these new customers is not included in customer rates, the resulting revenues should also be removed. This type of investment I identified as 1 in the Justification Footnote column.

Q. Please explain the other identified categories in the Justification Footnote column within Exhibit CNG/710.

A. Projects identified with a 2 are relocation projects required by the franchise municipality. These projects represent mandatory expenditures over which Cascade has little to no control, including timing and cost. The project identified with a 3 is the Bend replacement project. This project has been well supported and documented by the DIMP, as discussed above. *See also* Exhibit CNG/709 and Exhibit CNG/708. Projects identified with a 4 are information technology projects. Staff has conducted extensive analysis of these projects and both the Staff and Company agree that only the projects that will be in service at the end of 2015 are to be included.

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Q. Continue with an explanation of projects you identified with a 5.

A. These projects are primarily blanket projects for replacing vehicles and tools. Vehicles and tools are necessary and require a constant level of replacement to provide reliable service to customers as well as allowing employees to perform their jobs in a safe manner. I have also included the unassigned overhead in this category. Overhead is accumulated in a clearing account and is distributed as a percentage to all projects as projects are placed into service. The clearing account must equal zero by the end of the year.

Q. Can you provide support for each of the remaining projects?

A. Yes. At the bottom of the exhibit I have listed each of the projects that then make up 100 percent of the total proposed additions. I note that one project is a blanket project entitled "GB - Groundbed Oregon", which represents an aggregation of those projects required to provide cathodic protection at various locations as they become known throughout the year. Of the remaining projects, the GB – Groundbed Oregon is the largest and is a placeholder for the year. This project will also be updated to actual investment as the case is processed. Page 2 of the exhibit provides additional detail for each of the remaining projects.

Q. Does NWIGU also propose an adjustment related to plant additions?

A. Yes. NWIGU points out that the proposal is not balanced without also including the effect of an additional year of depreciation expense to the accumulated depreciation balance.[62]

[62] NWIGU/100, Gorman/11-14.

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Q. Does the Company have a response to the NWIGU proposal?

A. The Company agrees with NWIGU. The Company reflects the additional year of depreciation expense to the accumulated depreciation balance. An additional $4,880,000 has been added to the accumulated depreciation balance included in column (o) of Exhibit CNG/704.

Issue 12 – Rate Case Costs

Q. Please briefly describe Cascade's proposal regarding Rate Case Costs.

A. As explained in my direct testimony this adjustment reflects a normalized level of costs associated with the filing of this case.[63]

Q. Did NWIGU propose an adjustment to Cascade's Rate Case Costs?

A. Yes. NWIGU recommends a three-year amortization of rate case costs.[64]

Q. Is the NWIGU adjustment appropriate and calculated correctly?

A. No on both accounts. First of all, the Company's filing already amortizes Cascade's rate case costs. Cascade has proposed a five-year amortization on two costs that were incurred for this rate case but would not necessarily be incurred for the next rate case—a depreciation study and a load study. Given that the Commission expects that depreciation studies will be performed every five years, this proposal is appropriate. And, the Company then proposed a two-year amortization on the remaining legal and cost of service study costs. The Company believes that two years is appropriate given how frequently the Company may be filing rate cases in the future.

[63] CNG/300, Parvinen/11.

[64] NWIGU/100, Gorman/9-10.

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Q. How often does the Company anticipate filing rate cases in the future?

A. The frequency of future rate case filings depends on the outcome of Cascade's Pipeline Safety Cost Recovery Mechanism (CRM). If the Commission denies Cascade's CRM as all other parties are recommending, Cascade would anticipate filing rate cases annually. If the Commission were to adopt the CRM, I would anticipate filing every two to four years. The CRM proposal requires a general rate case filing at least every four years.

Q. Is the Company proposing a change from the original adjustment?

A. No.

Issue 13 – Depreciation Expense

Q. Please briefly describe Cascade's proposal regarding a Depreciation Expense adjustment.

A. This adjustment reflects the effects of a depreciation study filed in docket UM 1727.[65]

Q. Did the parties in that proceeding reach a settlement?

A. Yes. The settlement resulted in the overall depreciation rate remaining unchanged at 2.77 percent. The parties expect to file the settlement stipulation with the Commission this month.

Q. Is the Company proposing a change from the original adjustment to reflect the settlement?

A. Yes. Cascade proposes to remove its original adjustment from this filing.

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[65] *In the Matter of Cascade Natural Gas Corporation to File Depreciation Study*, UM1727, Depreciation Study (Apr. 30, 2015)

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Issue 14 – Employee Incentive Plan Adjustment

Q. Please briefly describe Cascade's proposal regarding the Employee Incentive Plan Adjustment.

A. As explained in my direct testimony this adjustment reflects the Commission's policy on the allowed portion of employee incentives.[66]

Q. Does Staff propose an adjustment to the Employee Incentive Plan Adjustment?

A. Yes. Staff noticed and corrected for a component of the plan that the Company removed 100 percent when past policy indicates 75 percent removal.[67]

Q. Does Cascade agree with Staff's adjustment?

A. Cascade concurs with the Staff adjustment and has provided updated information to reflect the change. The result is shown in column (t) of Exhibit CNG/704.

Issue 15 – Environmental Remediation

Q. Please briefly describe Cascade's proposal regarding Environmental Remediation.

A. Since December 1, 2012, Cascade has been deferring costs related to the initial studies to determine environmental clean-up obligations related to its ownership of certain property in Eugene, Oregon. In January of 2015, Oregon's Department of Environmental Quality issued its Record of Decision identifying the measures that will be required to remediate the site. Cascade's portion of total remediation costs are estimated at

[66] CNG/300, Parvinen/11-12.

[67] Staff/100, Gardner/9-10.

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approximately $1,736,300.[68] Accordingly, in my direct testimony I proposed that the Company recover the costs of remediation through rates over a three-year period.[69]

Q. Do any of the parties propose adjustments to the Company's environmental remediation proposal?

A. Yes. Staff recommends that the Company recover its environmental remediation costs through an automatic adjustment clause mechanism, similar to that adopted for Northwest Natural Gas Company.[70] Both CUB[71] and NWIGU[72] recommended denial of any recovery at this this time.

Q. Is the Company making a change to its original adjustment?

A. Yes. It is clear from the parties' varied concerns that before issues related to cost recovery can be resolved, the Company will need to provide more information regarding the history of the Company's ownership of the contaminated site, the environmental damage and the clean-up process, and the level of certainty that should be accorded to the cost estimates. Given the amount of information and the length of time that would be required for the parties to review it, the Company has decided to withdraw its request for recovery at this time. Instead, Cascade will continue to seek deferral of costs and insurance proceeds in accordance with the Commission's most recent order in docket

[68] CNG/300, Parvinen/26:14-16.

[69] CNG/300, Parvinen/25-28.

[70] Staff/1000, Johnson 5-7.

[71] CUB/100, Jenks-McGovern/22-25.

[72] NWIGU/100, Gorman/14-15.

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UM 1636.[73] I would note that the majority of the cleanup is scheduled for 2016 or possibly 2017, therefore it is likely that the clean-up costs will be known for the next rate case or other recovery forum.

The reflection of removing the adjustment is shown in column (u) of Exhibit CNG/704.

<u>Issue 16 – Labor Additions Adjustment</u>

Q. Please briefly describe Cascade's proposal regarding the Labor Additions Adjustment.

A. As explained in my direct testimony, Cascade has proposed adding 15 new positions on a system basis during calendar year 2015.[74] As further explained in response to data requests, of these 15 new employees, five are directly-assigned to Oregon, and three are allocated to Oregon at 24.30 percent. The remaining seven are either directly-assigned to Washington, or will not be hired.[75] These eight new positions, to be wholly or partially-allocated to Oregon, are required to perform a variety of duties to help address the Company's increasing work load, including the increased activity due to our pipeline improvement activities, discussed above.

All but one of these new positions have been filled. This last position—that of Regulatory Analyst—is still open until the appropriate candidate can be found.

[73] *In the Matter of the Application by Cascade Natural Gas Corporation for Authorization to Defer Certain Expenses or Revenues Pursuant to ORA 757.259 and OAR 860-027-0300*, Docket UM 1636, Order No. 15-010 (Jan. 13, 2015).

[74] CNG/300, Parvinen/7.

[75] CNG/711, Parvinen/1-2.

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The Company's total employee count has grown with these new positions. I have included Exhibit CNG/712, showing the employee counts as of December 31, 2014, and the current employee counts as of July 31, 2015. As you can see from the exhibit, Oregon—referred to as the Southern Region—is up by more positions than we are requesting be added to the base year, as is the General Office. One of the positions being requested is the Procurement Specialist which is located in Yakima. Yakima employee count also indicates an increase by the position. After all the currently-planned new positions are filled, we expect the total FTEs for Oregon, both direct-assigned and allocated—to be 83.

Q. Do CUB and NWIGU both propose an adjustment?

A. Yes. CUB asserts that the Company has failed to demonstrate the permanence and necessity of the proposed additional FTEs, and requires additional justification and clarification in order to support the Company's adjustment.[76] NWIGU simply removes the Company's adjustment stating the positions have not been filled and are not part of the test year.[77]

Q. What is your response to NWIGU's position?

A. NWIGU's position is unjustified. The test year in this case is 2015, and therefore it is entirely appropriate for the Company to include the known and measurable additions for the test year forecast. Moreover, at this point, all but one of the new positions have

[76] CUB/100, Jenks-McGovern/9-10.

[77] NWIGU/100, Gorman/8-9.

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been filled, and the Company expects to hire the final employee in 2015. Thus, NWIGU's concern that the new employees have not yet been hired is unfounded

Q. Please explain CUB's concern regarding the permanence and necessity of these new positions?

A. CUB points to my statement in my direct testimony that the majority of these new employees are required to manage the workload associated with the increased pipeline replacement program. CUB suggests that if this is so, these new positions should be capitalized for the duration of the project, as opposed to being included in rates as a permanent position.[78]

Q. What is your response?

A. It is true that a significant number of these new employees will be required to help manage the workload associated with our DIMP project. However, the DIMP project is not considered by the Company to be temporary or short-term. We are now working on the Bend portion of the project, and there are still a number of years left in that location. After we have completed Bend, we will begin working on Ontario, and when that work is done, we will begin work in Baker. Thus, any reduction in the work required by the DIMP is years away, and as a result, the new positions associated with that plan are considered permanent. At the very least, we will not see any reduction in work load for the period during which the rates approved in this docket will be in effect.

[78] CUB/100, Jenks-McGovern/9-10.

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Q. What about CUB's statement that the costs of these new positions should be capitalized?

A. As mentioned above, CUB's suggestion that all of these costs should be capitalized appears to be based on my statement that the majority of these positions are related to replacing pipeline. While this statement is true, the employees will not be exclusively dedicated to pipe related activities and will have other job duties and functions. Exhibit CNG/713, discussed below, provides more detail on the job duties assigned to each of the new positions. Moreover, the Company has divided the costs associated with these new employees between expense and capital, as shown on my Exhibit CNG/711, Parvinen/1. The cost being reflected in the Company's adjustment is the expense portion.

Q. CUB mentions many discrepancies in data supplied by the Company in testimony and data responses. Can you elaborate and state clearly what the Company is proposing in its adjustment?

A. Yes. First off, my original testimony accounted for new 15 positions on a system basis when the Company's approved budget included only 14. The additional position—which is a Regulatory Analyst position—was added after the budget was approved. Since the original budget approval and update was adopted there was a realignment of positions. The realignment of positions is consistent with data responses. My testimony and calculation was based on the original budgeted positions.

Q. Can you provide justification for adding each position?

A. Yes. Included as Exhibit CNG/713, I have included the response to CUB DR 16 providing justification for each position.

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Q. Does CUB have any other concerns in relation to Company's adjustment?

A. Yes. CUB argues the 48 percent loading factor applied by the Company to labor expense was not supported as the Company's revised response to Staff DR 214(d) indicated.[79] However, the response to 214(d) included only medical, 401k, and incentive pay. It did not include items such as social security and unemployment costs. Granted the 48 percent used by the Company is a generic representation of the average loading rate used to evaluate the impact of adding employees. I have included as Exhibit CNG/714, a calculation of the labor loading rate based on 2012 data. I have adjusted the 2015 labor additions adjustment to reflect the 45 percent as opposed to the original 48 percent for the loading rate.

Q. Is the Company proposing a change from the original adjustment?

A. Yes. In the revised calculation I am only including positions that have not been postponed to a later time. Cascade anticipates that the Regulatory Analyst position will be filled before the end of this case. I have also updated the labor loading rate. The revised adjustment is reflected in column (m) of Exhibit CNG/704.

Issue 17 – Gas Storage

Q. What amount did the Company propose to recover for gas storage inventory?

A. The Company proposed to recover an amount for gas inventory based on its 2014 end-of-year level.[80]

[79] CUB/100, Jenks-McGovern/10.

[80] CNG/301, Parvinen/Page 1 of 1, line 26, Column (1). *See also* Staff/400, Colville/2.

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Q Does Staff propose an adjustment labeled Gas Storage?

A. Yes. This adjustment, as stated by Staff witness Erik Colville, reflects an average level of storage inventory rather than the end of 2014 as presented by the Company.[81]

Q. Does the Company have a response to the Staff adjustment?

A. The Company accepts the adjustment and has reflected the change in column (v) of Exhibit CNG/704.

Issue 18 – Other Gas Supply Expenses

Q. Please describe the Company's proposal for inclusion of other gas supply expenses in this case.

A. Other gas expense includes the cost of labor, materials and other expenses incurred in connection with gas supply functions, including research and development expenses, not provided for in any other FERC account for gas expense.[82] The Company proposes to include this item in the case at the 2014 test year level of $10,273.

Q. Does Staff propose an adjustment to this proposal?

A. Yes. Staff proposes to include this item in rates based on a "trending" analysis of the Company's expenses for 2012, 2013, and 2014, after removing a 2014 expense related to the cost of software, which Staff concludes "is not representative of ordinary expense."[83]

[81] Staff/400, Colville/4-5.

[82] Staff/400, Colville/5.

[83] Staff, 400, Colville/6-7.

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Q. Does the Company agree with the Staff adjustment?

A. No.

Q. Please explain why you disagree with the Staff analysis.

A. First, there is no reason for Staff to remove the expense related to software. This expenditure represents a legitimate and necessary business expense which is not a one-time expense. On the contrary, this is an ongoing expense related to the maintenance of the Sendout model, and has also been incurred in 2015. It is worth noting that 2013 expenses are similar to 2014—even with the software expense.

Second, after removing the software-related expense from 2014, Staff compounds its error by then eliminating 2013 from consideration because its expense is now out of line with Staff's adjusted 2014, and with 2012. This approach simply again eliminates actual operating expenses from the calculation.

Third, Staff selects the lowest trend evaluated on its graph shown in Exhibit Staff/400, Colville/7. Again, this approach ignores actual legitimate business expenses incurred in 2013 and 2014. Therefore, the item should not have been removed from 2014; the 2014 expense level is representative of the test year expected amount.

Q. Does the Company have an alternative proposal?

A. The Company proposes to make no adjustment to the 2014 level of expenses. There is no reason to expect that 2015 will be any different than the 2014 amount. In fact just looking at the various trend analysis that Staff showed in Exhibit Staff/400, Colville/7 the x marking the 2014 expense level is right in the middle of all the potential trend lines.

Also, the expenses level at July 31, 2015 in FERC account 813 is $6,400 which if annualized, is in line with the 2014 expense level.

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Q. Does the Company reflect a change in Exhibit CNG/704?

A. No. Since the Company does not agree with the adjustment no column has been added to my exhibit.

Issue 19 – IRP Considerations

Q. Did Staff witness Mr. Colville raise concerns with Cascade's staffing and its ability to meet IRP obligations?

A. Yes.[84]

Q. Does Cascade have a response?

A. Yes. Cascade now has sufficient personnel to support the IRP process. It is true that a key individual involved in the preparation of the IRP did have a medical issue that affected the preparation of the 2014 IRP. However, Cascade has recently filled a new position entitled Supply Resource Analyst. This new position was included in the Labor Addition adjustment and is intended to provide support and backup for the IRP process. Although it will take time for the new individual to be fully-trained in all aspects of the IRP, this hire will certainly help with keeping future IRPs on track.

Issue 20 – Medical Benefits

Q. Please describe the Company's proposal for inclusion of medical benefits cost in the case.

A. The Company included approximately $6.6 million in test year expenses for medical benefits, including disability benefits, employee wellness program and pension plan.

[84] Staff/400, Colville/8-9.

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Q. Does Staff propose an adjustment entitled Medical Benefits?

A. Yes. Staff recommends adjusting the test year benefits by 16 percent, or a reduction of $1,060,217 to the Company's test-period projected cost of $6,626,359. Staff recommends test period medical benefits expense of $5,566,142.[85]

Q. What is Staff's rationale for this adjustment?

A. Staff concludes that the Company's premium sharing structure is reasonable compared to industry averages, and that the historical trend of overall medical costs parallels trends throughout the country. However, Staff notes that in the past the Company has over-budgeted for medical costs by close to 16 percent, and for that reason, Staff proposes that the amount included by the Company in the case be reduced by the same amount.[86]

Q. Does the Company agree with the Staff adjustment?

A. No.

Q. Please explain why you disagree with the Staff analysis.

A. First, the Staff witness assumes the Company is adjusting its 2014 actual medical expenses to a budget 2015 level. However, that is not the case. The medical expense included in the case is the ***actual*** medical expense that was incurred by the Company in 2014, escalated by the Company-proposed CPI of 2.1 percent. We did not use a budget number at all. So any over-budgeting by the Company that occurred in the past is irrelevant to the Company's rate case expense.

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[85] Staff/700, Bahr/10.

[86] Staff/700, Bahr/8-10.

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Q. Does the Company have any other concerns with the adjustment?

A. Yes. Setting aside the factual and methodological flaws, the adjustment is also calculated on a system basis and not an Oregon basis.

Q. Has the Company made a calculation to reflect a medical expense adjustment?

A. No. Since the Company disagrees with the calculation no adjustment is reflected in Exhibit CNG/704.

Issue 21 – General Expenses

Q. Does Staff propose a new adjustment not proposed by the Company entitled General Expenses or Miscellaneous A&G?

A. Yes. Staff proposes an adjustment to remove unsupported administrative and general expenses.[87]

Q. Does the Company agree with the Staff adjustment?

A. Not in its entirety.

Q. Please explain how the Company responds to the Staff adjustment.

A. First, Staff identified five separate adjustments within this one umbrella adjustment. They are:

- Remove 50 percent of Directors & Officers (D&O) insurance costs totaling $13,753.
- Adjust level of Training & Education Costs totaling $1,944.
- Misc A&G – meals, entertainment, prizes, etc. totaling $133,312
- Misc A&G – memberships, sponsorship dues, donations, etc. totaling $638,896

[87] Staff/700, Bahr/13-19.

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- Misc A&G – travel costs totaling $21,585

I will address each of these adjustments individually.

Q. What did the Company propose with respect to D&O Insurance?

A. The Company included the first layer of premium costs for D&O insurance as well as premiums for excess D&O insurance coverage at 2014 levels.

Q. Does Staff sponsor an adjustment to the Company's D&O expense?

A. Yes. Staff acknowledges that in the past it has recommended that customers pay the first layer of D&O insurance premiums, but that excess coverage is shared 50/50 between shareholders and customers.[88] However, Staff explains that it has recently begun recommending that shareholders bear 50 percent of all layers of D&O insurance premiums, and that is its recommendation in this case.

Q. Does Staff provide a rationale for its recommendation?

A. Yes. Staff cites a study that shows that shareholder derivative suits "continue to lead the types of claims" filed against directors and officers.[89] Staff concedes that Cascade has not had any such claims brought against its shareholders or directors, but reasons that "any suit brought against them would more likely be brought by shareholders than customers."[90] For this reason, and because "customers have no say in electing a

[88] Staff/700, Bahr/13-15.

[89] Staff/700, Bahr/13.

[90] Staff/700, Bahr/13-14.

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company's directors or officers" Staff concludes that it is appropriate to remove 50 percent of the costs of premiums.[91]

Q. How do you respond to Staff's argument?

A. I disagree with Staff's logic. It is true that customers have no say in electing company directors or officers; however, customers have virtually no say in any expense incurred in the operation of the business. That does not mean that legitimate business costs should not be borne by customers.

Moreover, I do not see the relevance of Staff's statement that most suits against officers and directors are brought by shareholders not customers. Cascade's customers bear the cost of accident insurance for Company vehicles—even though claimants on these policies would not be customers. The point is that a utility cannot be prudently operated without accident insurance. And a utility cannot attract quality board members unless the utility carries D&O insurance.

Q. Is the Company proposing an alternative adjustment for D&O Insurance?

A. Yes. Although Cascade believes that it is appropriate to include 100 percent of costs associated with D&O insurance in rates, as Cascade originally proposed, Cascade proposes an alternative adjustment if the Commission decides that customers and shareholders should share a portion of D&O insurance expense.

Q. What is Cascade's alternative proposal?

A. Cascade proposes that sharing D&O expenses should be limited to premiums for excess D&O coverage, consistent with the approach the Commission has previously approved

[91] Staff/700, Bahr/14-15.

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in other cases.[92] Under Cascade's alternative proposal, all of the first layer of D&O insurance premiums would be included in rates and customers and shareholders would share 50-50 expenses of excess coverage premiums. This would result in an adjustment of $6,067.

Q. What expense did the Company propose for Training and Education Expenses?

A. The Company reimburses employees for 75 percent of training and education costs—as non-taxable income if the course is job-related, and as taxable income if the course is not job-related, with an annual limit of $5,250.[93] The Company included its 2014 expense of $1,996 plus an escalation of 2.1 percent included in the inflation adjustment in the case for the 2015 test year.

Q. Is Staff proposing an adjustment?

A. Yes. Staff again assumes the Company adjusted its test year results using its 2015 budget. The Company did not. However, Staff used an average of the training and education expenses for 2012, 2013, and 2014, and applied a trending adjustment to forecast a test year expense of $2,300. This amount is actually more than the Company

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[92] *See Re Portland General Electric Company*, Docket UE 283, Order No. 14-442 at 7 (Dec. 30, 2014) ("Although the parties could not reach an agreement on a specific reduction for each account, they note that the overall reduction adjustment of$0.900 million is based on postage increases closer to the rate of inflation and a sharing of "excess layers" of directors' and officers' insurance."); *Re Portland General Electric Company*, Docket UE 262, Order No. 13-459 (Dec. 9, 2013) (The stipulating parties agreed to decrease test year expenses as follows: 50 percent of the excess layer of D&O insurance); *Re Northwest Natural Gas Company, dba NW Natural, Request for a General Rate Revision*, Docket UG 221, Order No. 12-408 at 11, App. A at 7 (Oct. 26, 2012) (preliminary order approving stipulations, approving adjustment providing for recovery of 50 percent of D&O insurance above the first layer of coverage); *Re Portland General Electric Company,* Docket UE 197, Order No. 09-020 (Jan. 22, 2009) (Staff proposed Staff proposes to eliminate 50 percent of the excess D&O insurance as a shareholder cost, and the Commission adopted Staff's recommendation).

[93] Staff/700, Bahr/15.

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is including in this case. Moreover, Staff criticized the Company's methodology of forecasting test year expense, which was to use the 2014 budget amount of $17,057.98, increased by using an escalation factor of 2.5%.[94]

Q. Is the Company proposing an adjustment to training and education expenses?

A. No, no adjustment is necessary.

Q. What adjustments did Staff make to Miscellaneous A&G costs?

A. Staff made adjustments to the following three separate categories of Miscellaneous A&G expenses: Category 1 which Staff identifies as meals and entertainment; Category 2 Staff identifies as Memberships, Sponsorships, Dues, etc.; and Category 3 Staff identifies as Travel.[95] I will address each one separately.

Q. What adjustment did Staff make to Category 1 costs, related to meals and entertainment?

A. Staff adjusted the expenses in this category by 50 percent, resulting in a downward adjustment from the Company's A&G of $133,312.[96]

Q. What is the Company's response to this adjustment to meals and entertainment?

A. The Company accepts this adjustment.

[94] Staff/700, Bahr/16.

[95] Staff/700, Bahr/16-19.

[96] Staff/700, Bahr/18.

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Q. What adjustment does Staff make to Category 2 relating to memberships, sponsorship dues, donations, etc.?

A. Staff removes 25 percent of membership fees and 100 percent of its dues and subscriptions.[97]

Q. What is Staff's rationale for these adjustments?

A. Staff uses the Company's approach for excluding 25 percent of membership fees.[98] However, regarding the dues and subscriptions, Staff argues that the Company has not met its burden of proof for the test year costs.[99]

Q. What is the Company's response to Staff's adjustment?

A. The Company disagrees with this adjustment. Cascade reviewed virtually every single item for appropriateness. If the item was not reviewed or if documentation was not available for the item, Cascade removed the item from recovery. After reviewing each item the Company has determined that $71,553.64 of the costs are arguably unrecoverable. The remaining $567,342 are appropriate business expenses for recovery.

Q. Are there items unrelated to memberships and sponsorships that are included in Category 2?

A. Yes. Category 2 also includes usage of corporate vehicles, bank fees, AGA dues, and software maintenance, among other things. These represent legitimate business

[97] Staff/700, Bahr/17.

[98] CNG/300, Parvinen/5.

[99] Staff/700, Bahr/17.

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expenses. Cascade is providing additional information regarding these expenses as Exhibit CNG/715.

Q. Can you identify a few of the largest items that Cascade is seeking recovery of that Staff proposed to remove?

A. Yes. Use of corporate vehicles totaled $131,317.65. Bank fees totaled $56,094.37, AGA dues of $29,697.87 which does include 2.5 percent for lobbying. Software Maintenance of $16,595.74. Conferences and training through Western Energy Institute totaled $10,288.51.

Q. Can you provide an explanation of Exhibit CNG/715 and describe how Cascade performed its analysis?

A. Yes. The first row on Exhibit CNG/715 shows the costs that Staff proposed as a disallowance. The first column, Oregon Allocation, is Oregon's portion of a shared expense and the second column, Oregon Situs, is a summary of costs that were directly assigned to Oregon.

Cascade reviewed the original information Cascade supplied to Staff in response to Data Request 57 that formed the basis for Staff's Category 2 of A&G expenses. Cascade divided the information into two categories: (1) entries or items that contained a brief explanation of the cost, and (2) entries or items without an explanation of the costs. The Company evaluated each category and the totals are shown on lines 2 and 3.

Although some items that had been provided to Staff in response to data requests initially did not include a description or explanation of the expense, Cascade performed additional investigation regarding those items, which correspond to the

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amounts shown on line 2 as charges with no description, and in most cases, Cascade was able to produce a description, invoice, and a determination of appropriateness for recoverability.

Q. How did the Company evaluate whether an expense was appropriate or not for recoverability?

A. Cascade reviewed each item to determine whether the expense provides a benefit to customers. If Cascade concluded that the expense item did not provide a benefit to customers, Cascade removed the expense.

Q. What was the result of this analysis?

A. First, Cascade had limited time to perform its review, so it reviewed the highest dollar figure items first until only small dollar items were left. For items with no explanation or invoice after further investigation, Cascade removed the costs. This is shown on line 8 of the exhibit.

The major expense item with no explanation was simply the cost assigned to the use of company-owned vehicles. This amount is shown on line 5. Line 6 contains all the expenses reviewed by the Company. Details of each expense item have been provided by vendor in work papers to the parties. The total of items removed as a result of this analysis is shown on line 13. The major items removed include a payment to Northwest Gas Association ($2,143) deemed lobbying and two items that appeared to possibly be promotional advertising ($3,740 and $3,397).

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Q. Can you provide additional detail regarding the category of costs that were supported by descriptions as shown on line 3?

A. Yes. Again, each item was evaluated by type of cost. All supporting information as part of this analysis has been provided to the parties as supporting work papers. However, some costs were identified as not necessarily providing a benefit to customers and as such have been removed. Also, a number of smaller items were not investigated regarding whether the item was appropriate for recovery, and those items were also removed. The removed amounts are shown on line 10.

Q. What types of costs have been removed?

A. An Association of Washington Business conference sponsorship for $1,215 and several Chamber of Commerce fees totaling $575. Also, due to time constraints, Cascade excluded from recovery every item below $1,000 that was not specifically supported.

Q. What adjustment does Staff make to Category 3 related to travel costs?

A. Staff proposes to remove 50 percent of Cascade's travel costs.[100]

Q. What is Staff's rationale?

A. Staff states that it is virtually impossible for Staff to determine which of the travel expense should or should not be included in the case and therefore concludes that removal of 50 percent of travel expenses will ensure that "expenses are better matched between ratepayers and the reasonable costs to provide service."[101]

[100] Staff/700, Bahr/17-18.

[101] Staff/700, Bahr/18.

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Q. What is Cascade's response?

A. Cascade disagrees with Staff's approach. By virtue of Cascade's unique service territory, its relative location to its regulatory bodies, etc. travel is an absolute necessity in order to adequately provide service to customers. Virtually all of the costs included in the case are for necessary business travel costs such as airfare, hotel, rental cars, and a small amount for incidental travel such as taxi or baggage fees. Meals and entertainment have been accounted for elsewhere. There is no reason to exclude these costs.

Q. How do you respond to Staff's position that it is just too difficult to validate these costs without more information?

A. First, I do want to point out that the Company did provide Staff with an itemized list of travel expenses with detailed labelling specifying as to whether the costs were airfare, baggage fees, rental cars, etc. Before including these costs in this case the Company reviewed them to ensure that they represented legitimate business expenses that should be recoverable in customer rates.

Q. Can you quantify the Company's response to the Staff proposed adjustments?

A. Yes. The Company proposes a reduction to expenses totaling $204,865, which is the result of the Company accepting Staff's adjustment of $133,312 from Category 1 expenses and Cascade's proposal to exclude $71,554 from Category 2 expenses, and no adjustment for Category 3 expenses. This adjustment is shown in Exhibit CNG/704, column (w).

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Q. Does CUB also propose an adjustment to the Company's proposed A&G expense?

A. Yes. CUB identifies a number of expenses in the Company's 2014 test year A&G expense that CUB points out are not recoverable under Commission policy.[102] Specifically, CUB points out that some of these related to entertainment such as sporting events, and meals and entertainment and thus should not be built into test year costs. In addition, CUB, like Staff, notes that it is Oregon policy that only 50 percent of travel costs should be reimbursed. In the end, CUB states that it identified more than 1 percent of the Company's test year A&G costs that it believes should not be included in rates. Then, noting that it cannot review every single item, CUB proposes to remove 10 percent of A&G costs in the amount of $2,701,600.[103]

Q. Does the Company have a reply to this testimony and position?

A. Yes. The Company agrees that it did not originally perform a sufficiently thorough review of its A&G costs before filing its case and as a result included some unrecoverable costs. However, in response to this criticism, Cascade has since evaluated these costs as provided in its response included in the general expenses adjustments included in column (w) of Exhibit CNG/704.

Q. Do you have further comments regarding CUB's calculation of $2,701,600?

A. Yes. After reviewing Exhibit CUB/110 it appears that CUB based the 10 percent on a system number of A&G costs, not Oregon's allocation on A&G costs. Had CUB used

[102] CUB/100, Jenks-McGovern/20-22.

[103] CUB/100, Jenks-McGovern/20-21.

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the Oregon allocated A&G cost figure of $4,721,777 the amount of recommended disallowance would have been much lower, $472,178, and actually much more in line with the calculation the Company is proposing, $204,866.

Issue 22 – Pipeline Safety Recovery Mechanism

Q. Please briefly describe Cascade's proposal regarding its Pipeline Safety Cost Recovery Mechanism (CRM).

A. As explained in my direct testimony, Cascade has proposed a mechanism that will allow for timely recovery of safety related pipeline replacement projects, while at the same time lessening the need for frequent rate cases.[104] Specifically, the Company has proposed that it recover these costs on an annual basis concurrent with the PGA process.

Q. Does the CRM include a number of mechanisms that will protect customers?

A. Yes. The proposal includes several safeguards for customers—including a provision that requires that the Company file a rate cases no less than four years from the first year the mechanism is in place, and an earnings test to prevent the possibility of over recovery. The CRM is narrowly tailored to provide recovery only for the most at-risk components of its system, and applies only to those improvements that are non-revenue producing. But most importantly, this mechanism benefits customers by incentivizing the Company to promptly address the most at-risk parts of its system.

[104] CNG/300, Parvinen/28-32.

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Q. Do any of the parties support the mechanism?

A. No. Staff states its preference that utilities incorporate these costs into general rate filings, if they can confidently project the necessary costs.[105] And all of the parties argue that trackers such as the CRM should only be used if the utility can show traditional ratemaking would be inadequate to allow for recovery of the costs.[106] On that point, CUB points out that the Company has been able to make significant capital investments in the last year while maintaining high earnings.[107]

Q. Without the proposed mechanism, does Cascade anticipate more frequent rate case?

A. Yes. Cascade provided its five year capital budget in response to CUB Data request 29 which is included as Exhibit CNG/707. The depreciation expense in this case is approximately $4.9. If the incremental investment is greater than the depreciation expense plus new revenue, all else being equal there will be a need for additional rate cases. Cascade anticipates filing rate cases annually absent the proposed mechanism.

[105] Staff/1000, Johnson/3.

[106] Staff/1000, Johnson/3; NWIGU/100, Gorman/23; CUB/100, Jenks-McGovern/5.

[107] CUB/100, Jenks-McGovern/6-7.

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Issue 23 – Decoupling

Q. Please briefly describe Cascade's proposal regarding Decoupling.

A. As explained in my direct testimony the Company is proposing to continue decoupling with a few minor changes to the mechanism.[108] Cascade also proposed to make the mechanism permanent.[109]

Q. Do Staff and CUB propose modifications to the Company's recommendations?

A. Yes. Staff proposes three adjustments to the Company's proposal. Staff recommends:

- The mechanism continue the track the effects of weather and conservation in regards to the monthly deferral.[110]
- The deferral which is based on normal weather match the weather forecast used in the current case.[111]
- And, the mechanism be reviewed by September 30, 2018, with any proposed changes be effective January 1, 2019.[112]

Q. Is the Company accepting Staff's recommendations?

A. Mostly. The Company accepts the first two components but proposes that a review take place a year later on September 30, 2019, if not already addressed in a general rate case or other proceeding prior to the January 1, 2020 effective date.

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[108] CNG/300, Parvinen/12-25.

[109] CNG/300, Parvinen/15.

[110] Staff/200, Bhattacharya/15-16.

[111] Staff/200, Bhattacharya/2 and 19.

[112] Staff/200, Bhattacharya/2.

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Q. Please explain why you extend the effective date to 2020.

A. Essentially the mechanism has been in place for nearly ten years with very little modification. The Company does not anticipate a need to change anytime soon. Also, 2020 is only four years out from the expected effective date of this current filing. This recommendation is a compromise of the Staff recommendation and a five year review recommended by CUB.[113]

Q. Does CUB have other recommendations not already addressed above?

A. Yes.[114] CUB also recommends that Cascade consider a real-time adjustment for weather.[115] The Company believes that real-time weather adjustment creates unnecessary burdens on all parties. However, based on discussions with Staff and CUB, Cascade understands that the mechanism is successfully employed by Northwest Natural Gas Company (Northwest Natural). Cascade is open to looking into the Northwest Natural method and working with parties to implement a real-time adjustment for weather component. Cascade believes that its current billing system can handle such a method. Cascade does not have a specific time frame in mind for implementation, but is open to the concept and further discussions.

[113] CUB/100, Jenks-McGovern/15.

[114] CUB/100, Jenks-McGovern/10-15.

[115] CUB/100, Jenks-McGovern/15.

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Q. Do you propose any other changes from your original testimony?

A. Yes. While explaining the working of the mechanism after the original testimony was submitted, it became clear that by accepting the Black and Veatch recommendation to exclude unbilled revenues from the monthly calculation that a mismatch would occur.

Q. Please elaborate.

A. The load data that is used to determine the monthly usage and therefore expected monthly revenue is based on usage (pipeline data). If only customer bills were used, ignoring unbilled revenues, then there would be a mismatch as customer usage is based on cycles other than full month-to-month data. These are different periods that do not match and will therefore produce unintended results. So, in order to match expected revenue in any given month as the baseline does, one would have to compare to billed data taking into account unbilled revenues in order to provide an apples-to-apples comparison. This is currently how the mechanism works today.

Q. So are you now recommending not accepting the Black and Veatch recommendation to not use unbilled revenues?

A. That is correct. Cascade is proposing to keep this component of the mechanism the same as what is currently in place.

<u>Issue 24 – Cost of Service/Rate Spread/Rate Design</u>

Q. Does the company have any comments or replies regarding the Cost of Service/Rate Spread/Rate design proposed by other parties in the case?

A. Yes. While the Company continues to support its proposed Cost of Service Study along with its proposed rate spread and rate design proposals, Cascade understands that the other parties have had conversations and are optimistic that they may come to a

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settlement of this issue. Cascade reserves the right to provide further rebuttal testimony in its next round if the parties do not come to agreement, but is open to allowing the settlement opportunity to occur.

Q. Does this conclude your reply testimony?

A. Yes.

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BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 287

Cascade Natural Gas Corporation

Reply Testimony of Micah Robinson

DEMAND FORECAST MODEL – PEAK METHODOLOGY

EXHIBIT CNG/800

September 2015

EXHIBIT CNG/800– REPLY TESTIMONY

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Cascade Natural Gas Corporation
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I. INTRODUCTION AND SUMMARY

Q. Are you the same Micah Robinson who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation (Cascade or Company)?

A. Yes, as Exhibit CNG/400.

Q. What is the purpose of your reply testimony?

A. I respond to the adjustments proposed by Suparna Bhattacharya on behalf of Staff. I also respond to the adjustments proposed by Jaime McGovern and Bob Jenks on behalf of the Citizens' Utility Board of Oregon (CUB). This testimony presents Cascade's response regarding Staff's second load forecast model and to CUB's peak methodology.

Q. Please summarize your testimony.

A. In my testimony, I:

- Explain why Ms. Bhattacharya's adjustment regarding Staff's second forecast model is misleading due to the data being analyzed. I also explain why CUB's recommendation could lead to using incorrect HDDs for peak day.
- Demonstrate that the Company's methodology for using weather as the main forecast driver is reasonable because, with the limited data, Cascade's load forecast model produces a judicious forecast. I also demonstrate that using the coldest weather in the past 30 years is the most accurate way to calculate peak day.

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II. Demand Forecast Model

Q. Please briefly describe Cascade's proposal regarding the Demand Forecast Model and any relevant context.

A. As explained in my direct testimony, Cascade provided a core throughput forecast from the Demand Forecast Model where weather is the main forecast driver.[1]

Q. Did Staff propose an adjustment to the Demand Forecast Model?

A. Yes. Staff performed its own modeling using both weather and population as the main forecast drivers.[2] The result of Staff's modeling is an adjustment of $509,143.[3]

Q. Is Staff's proposal reasonable?

A. No. It is unreasonable to utilize population figures derived from county level Woods & Poole demographics data to calculate core demand at a CityGate. Population growth figures can be used for indicative growth applied to the resultant demand forecast, but should not be utilized as part of the statistical analysis due to the dissimilar level of granularity and composition for the data sources.

Q. Please explain.

A. In Staff's forecast model, they have used population from Woods & Poole as an exogenous variable in their Demand Forecast Model. The Woods & Poole population data includes both Cascade customers and non-customers. It is unreasonable to use non-customers as a main driver to forecast core demand. The Company proposes to

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[1] CNG/400, Robinson/2-3.

[2] Staff/200, Bhattacharya/5-9.

[3] Staff/200, Bhattacharya/10.

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keep the original proposal of a Demand Forecast Model with weather as the main variable of the forecast.

Q. Is the Company's proposed Demand Forecast Model reasonable?

A. Yes. Cascade will continue to utilize a weather-dependent demand analysis to forecast future demand with aggregated growth applied after projecting future demand.

III. Peak Methodology

Q. Please briefly describe Cascade's proposal regarding Peak Methodology and any relevant context.

A. As explained in my direct testimony, Peak Methodology was determined by selecting the coldest day recorded in the past 30 years.[4] To determine the system wide peak demand day, HDDs from all seven weather stations are considered, giving appropriate weight to the weather stations having the greater impact on system wide demand. The calculation of the system-weighted HDD is applied to the previous 30 years of weather data to determine the highest HDD. Cascade found December 21, 1990 to be the highest system-weighted HDD for this period.

Q. Did CUB propose an adjustment to the Peak Methodology?

A. Yes. CUB recommended that the Company identify historical peak usage within its system, and after identifying the peak usage day, the Company can trace actual weather on those days and calculate average HDDs accordingly.[5]

[4] CNG/400, Robinson/8.

[5] CUB/100, Jenks-McGovern/17.

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Q. Is CUB's proposal reasonable?

A. No. There are two issues with CUB's proposal. The first issue is Cascade only has historical daily demand data back to January 1st, 2004. The second issue comes when comparing actual daily demand from different time periods.

Q. Please explain.

A. Referencing the first issue, any day before 2004 will be ignored in the analysis of peak day, and as a result, the coldest day in the past 30 years (December 21, 1990), would not be captured. If an extreme peak day occurs, such as the 1990 day, the extreme would not be included in Cascade's peak day analysis, potentially causing Cascade to significantly under-forecast a peak day event. In regards to the second issue, given the same weather pattern for a day, Cascade would expect an actual 1990 day will be different to a day in 2014 due to customer composition. Cascade's customer system has not only grown, but the ratio between customer classes has changed over time.

Q. Is the Company's proposed peak methodology reasonable?

A. Yes. The Company's proposed peak methodology is reasonable because it utilizes coldest day of weather in the past 30 years to project a peak day Core Demand figure. It is industry standard to use a historical actual coldest day for the peak day methodology. Cascade uses the regressions that fit Cascade's current customer composition and applies the coldest HDD in the past 30 years to the regressions. Cascade's regressions combine weekdays, weekends, and holidays at the CityGate level. Therefore, the correct weight for each type of peak day is already applied in the regressions.

Q. Does this conclude your reply testimony?

A. Yes.

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BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 287

Cascade Natural Gas Corporation

Reply Testimony of Pamela J. Archer

Special Contract Escalation Factor

EXHIBIT CNG/900

September 3, 2015

EXHIBIT CNG/900– REPLY TESTIMONY – Special Contract Escalation Factor

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I. INTRODUCTION AND SUMMARY

Q. Are you the same Pamela Archer who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation (Cascade or Company)?

A. Yes, as Exhibit CNG/600.

Q. What is the purpose of your reply testimony?

A. I am responding to an adjustment proposed by Northwest Industrial Gas Users (NWIGU) witness Michael Gorman regarding the special contract escalation factor.

Q. Please summarize your testimony.

A. In my testimony, I

- Explain why Mr. Gorman's adjustment applying CPI (Consumer Price Index) to escalate special contract rates is incorrect because the escalation factor has already been applied.
- Demonstrate that the Company's methodology for including escalation of special contract rates in the test year is reasonable.

II. SPECIAL CONTRACT ESCALATION FACTOR

Q. Please explain the Company's approach regarding the special contract escalation factor.

A. In this case, the Company's revenue proof[1] shows the total revenues under present billing and current rates, and the revenues resulting from the Company's proposed rates. The revenue proof includes the revenues collected from each rate schedule, including

[1] Exhibit CNG/601.

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special contracts. Consistent with the Company's Special Contracts Schedule No. 201, the Company escalates the rates paid by customers with special contracts each year by the percentage change in CPI. The adjustment occurs every year on October 1, and the escalated rate is reflected in customer bills beginning November 1 of each year.

Q. Please provide the relevant text of Schedule No. 201.

A. Relevant to the escalation factor, Schedule No. 201 provides as follows:

> Beginning October 1, 1996 and each October 1 thereafter for the duration of the contract, the Commodity Rate shall be escalated by the percentage change in the Consumer Price Index for the "All Urban Consumers – U.S. City Average – All Items," for the twelve months ending on the immediately prior July 1.

Q. Did NWIGU propose an adjustment based on the special contract escalation factor?

A. Yes. Mr. Gorman proposed an adjustment to test year revenues to reflect two years of CPI increases for special contracts, for the years 2015 and 2016.[2] Mr. Gorman's adjustment is based on his understanding that Cascade "can increase rates to the Special Contracts customers each July 1 in an amount equal to [CPI]."[3] NWIGU relied on *The Blue Chip Financial Forecast* dated July 2, 2015, to develop its estimate that CPI would be approximately 2 percent in 2015 and 2 percent in 2016.[4] Mr. Gorman's proposed adjustment would decrease revenue requirement by $71,000.

[2] NWIGU/100, Gorman/3-4.

[3] NWIGU/100, Gorman/4.

[4] NWIGU/100, Gorman/4.

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Q. Does Cascade use *The Blue Chip Financial Forecast* to determine CPI for escalation of special contracts?

A. No. *The Blue Chip Financial Forecast* is based on a survey performed by its publisher which results in individual survey participant CPI amounts as well as an overall average CPI based on survey results. For example, the publisher surveys J.P. MorganChase, Bank of America, etc. to come up with each survey participant's CPI amount as well as an average CPI amount. For escalation of special contract rates, Cascade is required to use the CPI for All Urban Consumers-U.S. City Average-All Items, rather than an average.

Q. Are there other factual errors in Mr. Gorman's proposed adjustment to the special contract escalation factor?

A. Yes. First, Mr. Gorman is mistaken in his belief that the Company may escalate CPI on July 1 of each year. Consistent with Schedule No. 201, the Company escalates CPI on October 1 of each year, and the revised rate is reflected on bills issued to special contract customers on November 1. Second, the relevant test period rates are the rates currently in effect, which were escalated on October 1, 2014, and reflected in revenues on November 1, 2014. Cascade has already made the escalation adjustment for the test period.

Q. Does the escalation reflected in Cascade's filing cover the entire 2015 test period?

A. No. The special contract rates will be escalated again by CPI on October 1, 2015.

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Q. Please explain Cascade's usage of the CPI escalation factor in the special contracts for the test period.

A. As shown in Exhibit CNG/601 for Rates 902-905, there are two separate commodity charges appearing in the present billing section. The first rate, for the months of January through October, was for the period January - October 2014 of the base year. The second commodity rate was for the months of November - December 2014 of the base year. This second commodity rate had the CPI escalation factor of 2.1 percent[5] applied to it, consistent with Schedule No. 201.

Q. What rate did Cascade use for the commodity rate in the Current Rates section of Exhibit CNG/601 for the special contract customers for rates 902-905?

A. The Present Billing rates for November – December 2014 carry forward to the Current Rates section since these are the rates still in effect for 2015.

Q. Why are these rates the correct rates to use for the Current Rates?

A. These are the correct rates to use because these are the rates currently being charged and will not change until new commodity rates go into effect October 1, 2015.

Q. What rates will be effective October 1, 2015 once the new CPI goes into effect?

A. The new CPI, effective October 1, 2015, will increase rates by 0.1 percent.

Q. How does the escalation of special contracts for November and December 2015 impact Cascade's revenue proof?

A. Since the CPI change only affects the commodity portion of a special contract customer's bill, an increase of 0.1 percent will impact Cascade's revenue proof by $100.

[5] Cascade uses the U.S. Department of Labor Bureau of Labor Statistics for CPI escalation factor.

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Q. Does this conclude your reply testimony?

A. Yes it does.

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BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 287

Cascade Natural Gas Corporation

Reply Testimony of Mark A. Chiles

Capital Structure

September 2015

EXHIBIT/[NUMBER]– REPLY TESTIMONY – [ISSUES IN TESTIMONY]

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I. INTRODUCTION AND SUMMARY

Q. Are you the same Mark A. Chiles who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation (Cascade or Company)?

A. Yes, as Exhibit CNG/200.

Q. What is the purpose of your reply testimony?

A. I am responding to adjustment 2 proposed by Jaime McGovern and Bob Jenks on behalf of Citizens' Utility Board of Oregon (CUB). In my confidential Exhibit CNG/1001, I also respond to the confidential testimony submitted by Staff of the Public Utility Commission of Oregon (Staff) witness Matt Muldoon regarding risk assessment.

Q. Please summarize your testimony.

A. In my testimony, I will further support the Company's original proposal regarding the appropriate capital structure for Cascade and address Staff's concerns regarding risk.

II. CAPITAL STRUCTURE

Q. Please briefly describe Cascade's proposal regarding capital structure and any relevant context.

A. In its initial filing, the Company proposed a capital structure of 51 percent equity and 49 percent debt.[1] The request was based upon an actual average capital structure for the years ending 2011 through 2014. Staff agrees with the Company that this capital structure is prudent given the recent history of the Company,[2] and NWIGU did not propose an adjustment to capital structure. In 2014 and 2015, Cascade issued

[1] CNG/200, Chiles/3.

[2] Staff/800, Muldoon/1.

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$50,000,000 of senior unsecured debt in two tranches over periods of 30 and 40 years at rates of 4.09 percent and 4.24 percent, respectively. The low rates and long terms the Company was able to secure for this debt was due in part to the strong capital structure of the Company. Staff filed confidential testimony concerning a risk assessment for Cascade,[3] which further supports the need for Cascade to maintain a strong financial balance sheet, thereby reducing the risk to customers, regulators, lenders, and the Company. My Confidential Exhibit CNG/1001 responds to Staff's risk assessment.

Q. Does CUB propose an adjustment to the capital structure?

A. Yes. CUB recommends that the capital structure be changed to 49.5 percent equity and 50.5 percent debt.[4]

Q. Is CUB's proposal reasonable?

A. No. CUB is proposing to use a shorter time period as an average that highlights an anomaly in Cascade's capital structure over recent years.

Q. Please explain.

A. Table 1—Capital Structure (below), describes Cascade's actual capital structure for the years 2011 to 2014. The overall average of the four years computes to a 51.05/48.95 equity to debt ratio, which is the basis for the Company's original proposal. CUB is proposing to only include years 2013 and 2014 which highlights the single year out of a four year time period where the debt component exceeded the equity component thus resulting in their proposal of a 49.5/50.5 equity to debt ratio. If you look at both the high

[3] Staff/808, Muldoon/1-2.

[4] CUB/100, Jenks-McGovern/4.

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point and low point for debt through these years and consider these to be anomalies, years 2011 and 2014 would still support an equity to debt capital structure of 51/49. The stronger capital structure will allow Cascade to continue to capitalize on the strength of its balance sheet in order to negotiate and secure lower pricing for future debt financings as well as reduce the overall risk profile of the Company.

Table 1 — Capital Structure

	12/31/2011	12/31/2012	12/31/2013	12/31/2014
Total Debt	48.9%	45.9%	51.7%	49.3%
Common Equity	51.1%	54.1%	48.3%	50.7%

Q. Is the Company's proposed capital structure reasonable?

A. Yes. The capital structure of 51 percent equity and 49 percent debt is based on actual data over a reasonable time period and will allow the Company continued stability to the benefit of our customers, regulators, lenders, and shareholder.

Q. Does this conclude your reply testimony?

A. Yes.

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