BEFORE THE

PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 287

Joint Testimony in Support of Stipulation

Stipulating Parties: Cascade Natural Gas Corporation, Public Utility Commission of Oregon Staff, the Citizens' Utility Board of Oregon, and the Northwest Industrial Gas Users

Joint Testimony of Michael Parvinen, Marianne Gardner, Jaime McGovern, and Michael Gorman

November 2015

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY

Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by Cascade Natural Gas Corporation (Cascade or Company), Staff of the Public Utility Commission of Oregon (Staff), the Citizens' Utility Board of Oregon (CUB), and the Northwest Industrial Gas Users (NWIGU), collectively the Stipulating Parties.

Q. Please provide your names, positions, and qualifications.

A. My name is Michael Parvinen, and I am employed by Cascade as the Director of Regulatory Affairs. My qualifications are described in Exhibit CNG/300, Parvinen/1.

My name is Marianne Gardner, and I am a Senior Revenue Requirement Analyst employed in the Energy Rates, Finance, and Audit Division of the Public Utility Commission of Oregon (Commission). My qualifications are provided in Exhibit Staff/101, Gardner/1.

My name is Jaime McGovern, and I am a Senior Utility Analyst for CUB. My qualifications are provided in Exhibit CUB/101, Jenks-McGovern/2.

My name is Michael Gorman. I am employed by Brubaker & Associates, Inc. as a consultant in the field of public utility regulation, and provided testimony in this case on behalf of NWIGU. My qualifications are described in Exhibit NWIGU/101, Gorman/1-3.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the stipulation filed in Docket No. UG 287 (Stipulation) concurrently with this Joint Testimony. The Stipulation is joined by all parties to the proceeding and resolves all issues in Docket No. UG 287.

II. BACKGROUND ON DOCKET NO. UG 287

Q. Please summarize the background and context of Docket No. UG 287.

A. On March 31, 2015, Cascade initiated this proceeding, Docket No. UG 287, by filing a general rate case (Initial Filing). In its Initial Filing, Cascade requested a revision to customer rates that would increase the Company's annual Oregon jurisdictional revenues by $3,622,770, for an increase of 5.11 percent over current rates. The Company developed the case using the test year comprised of the twelve months ending December 31, 2015 (Test Year), and a historical base year of the twelve months ending December 31, 2014 (Base Year).

Q. Have the parties conducted discovery in this case?

A. Yes. Since the Initial Filing, Cascade has responded to at least 387 data requests from Staff, CUB, and NWIGU, and has continuously provided updates to its data responses during the pendency of this case.

Q. Did the parties to this proceeding propose adjustments to Cascade's Initial Filing?

A. Yes, the parties proposed adjustments through their testimony and at settlement conferences. Staff, CUB, and NWIGU filed opening testimony on July 31, 2015, and the parties convened a settlement conference on August 11, 2015. A second settlement conference was held on September 8, 2015.

Q. Did the parties settle the case at the August 11, 2015 settlement conference?

A. No. The parties narrowed some of the issues at the August 11, 2015 settlement conference, but did not settle all issues.

Q. Did Cascade file reply testimony?

A. Yes. Cascade filed reply testimony on September 3, 2015 (Reply Filing). In its Reply Filing, Cascade accepted several of the adjustments proposed by Staff, CUB, and NWIGU, and responded to the adjustments that Cascade did not accept.

Q. Did the parties ultimately settle the case?

A. Yes. On September 8, 2015, shortly after Cascade submitted its Reply Filing, the parties convened a second settlement conference, and resolved the remaining issues in the proceeding. The Stipulation memorializing the Stipulating Parties' agreements resolves all issues in this case.

III. REVENUE REQUIREMENT ISSUES

Q. Please summarize the increase to annual revenue requirement proposed in Cascade's Initial Filing and Reply Filing, and the adjustment to the revenue requirement increase agreed upon by the Stipulating Parties.

A. In the Initial Filing, Cascade proposed an increase to the Company's Oregon-allocated annual revenue requirement of approximately $3,622,770, or an increase of about 5.11 percent over current rates. In its Reply Filing, Cascade accepted many adjustments proposed by the parties, resulting in an Oregon-allocated increase to annual revenue requirement of $756,009. At the September 8, 2015 settlement conference, the Stipulating Parties agreed to an increase to Cascade's Oregon-allocated revenue requirement of $590,000.

Q. Please provide an overview of the Stipulating Parties' agreement regarding revenue requirement.

A. The Stipulation represents the settlement of all revenue requirement issues. A copy of the Stipulation is provided as Exhibit 101. Table 1 below summarizes the adjustments agreed to by the Stipulating Parties to the Company's initially-proposed revenue requirements, resulting in the increase to revenue requirement of $590,000 agreed to in this case.

Table 1 – Summary of Settlement of Revenue Requirement Adjustments

	Company Filed General Rate Case Required Change to Revenue Requirement	**$3,622,770**
Item	Parties Adjustments	Revenue Requirement Effect
S-1	Revenue Sensitive Uncollectible Rate	(11,883)
S-1	Uncollectibles	(230,149)
S-2	Wage & Salaries	(75,554)
S-6	Gas Storage	(1,846)
S-8	Distribution O&M	(351,144)
S-9	Advertising	(59,509)
S-10, C-1, & N-1	Pensions	(315,565)
S-12 & C-8	Misc. A&G	(302,766)
S-13 & C-7	Plant in Service, Capital Additions & Property Tax	(399,199)
S-16, C-9, & N-6	Environmental Remediation	(480,833)
S-17 & N-4	Depreciation	(482,231)
N-3	Rate Case Costs	(59,851)
N-5	Accumulated Depreciation	(262,239)
	Total Proposed Adjustments (Base Rates):	**(3,032,770)**
	Calculated Revenue Requirement Change (Base Rates):	**$590,000**

Q. Does this Stipulation indicate that all Stipulating Parties agree on the precise methodologies employed to determine each adjustment?

A. No. The Stipulation indicates that the Stipulating Parties may not necessarily agree upon the precise methodologies used to determine each adjustment. Importantly, however, the Stipulating Parties believe that each agreed-upon adjustment represents a reasonable financial settlement of each of the issues in this docket, and that the adjustments result in an overall revenue requirement that will produce rates that are fair, just, and reasonable.

Q. Please describe the Stipulation regarding Revenue Sensitive Uncollectible Rate and Uncollectibles (S-1).

A. Consistent with the Commission's standard approach to determining uncollectible expense, Cascade developed its proposal using a three-year average, including uncollectible amounts from the years 2014, 2013, and 2012.[1] In this case, however, Staff recommended using a modified three-year average to exclude uncollectibles from 2012, which were unusually high due to the inclusion of bad debt related to developer commitment contract defaults that occurred in 2010 and 2011, and were subsequently written off in 2012.[2] The Stipulating Parties agreed to use Staff's approach, averaging the uncollectible amounts from 2011, 2013, and 2014. The result in the Stipulation is a reduction of $11,883 to revenue sensitive uncollectible rates, and a reduction of $230,149 to uncollectibles, for a total reduction of $242,032. This adjustment also revises the uncollectible rate to 0.4776 percent calculated on a three-year historical average.

Q. Why is the Uncollectibles adjustment reasonable?

A. The adjustment reflects the use of a three-year average, consistent with the Commission's longstanding policy,[3] and appropriately excludes a year with anomalously high uncollectibles that would skew the results.

---

[1] Cascade's electronic workpapers entitled CNG 301-304, Uncollectibles tab.
[2] Staff/100, Gardner/7-8; CNG/700, Parvinen/5-6.
[3] Staff/100, Gardner/5; *See e.g., In the Matter of Avista Corp., dba Avista Utils. Request for a General Rate Revision,* Docket No. UG 246, Order No. 14-015 at 4 (Jan. 21, 2014); *In the Matter of Avista Corp., dba Avista Utils. Request for a General Rate Revision,* Docket No. UG 186, Order No. 09-022, App. A at 4 (Oct. 26, 2009).

Q. Please describe the Stipulation regarding Wages and Salaries (S-2).

A. Cascade's Initial Filing included an increase to Oregon-allocated wages and salaries with a revenue requirement effect of $180,542, and reflected actual test period wages and salaries for union and non-union employees.[4] Staff proposed an adjustment to wages and salaries based on Staff's three-year wage model and 2014 full-time employee (FTE) levels, resulting in a proposed reduction to expense of $216,000, and a proposed reduction of $52,000 to rate base, resulting in a proposed reduction to revenue requirement of $228,000.[5] The Stipulating Parties agree that revenue requirement for wages and salaries should be based on actual 2015 FTEs as verified at the end of September, 2015, which includes several additional FTEs over the 2014 level used by Staff in its original proposed adjustment. Cascade's actual 2015 FTEs as verified at the end of September, 2015 is provided as Appendix C to the Stipulation. The Stipulating Parties agree to a reduction of $75,554 from Cascade's initially proposed wage and salaries expense, which reflects the use of Staff's wages and salaries model and actual test period employee count.

Q. Please explain why the Stipulating Parties' agreement regarding Wages and Salaries is reasonable.

A. While the parties do not agree upon the details of the methodology used to derive the appropriate level of test period wages and salaries, the agreed upon adjustment uses the Commission's historic practice of using Staff's three year wages and salaries model,[6]

---

[4] CNG/304, Parvinen/1.
[5] Staff/100, Gardner/8-10; Staff's electronic workpaper entitled UG 287 S-2 Wages and Salaries.xlsx.
[6] *See e.g.*, *In the Matter of PacifiCorp's Proposal to Restructure and Reprice its Services in Accordance with the Provisions of SB 1149*, Docket No. 116, Order 01-787 at 39-40 (Sept. 7, 2001); *In the Matter of the Application of Nw. Natural Gas Co. for a General Rate Revision*, Docket No. UG 132 Order No. 99-697 at 43 (Nov. 12, 1999).

but also accurately reflects the actual and verifiable employee count during the test period. The Stipulating Parties agree that the amount of the adjustment is reasonable.

Q. Please describe the agreement in the Stipulation regarding Gas Storage (S-6)?

A. Staff proposed an adjustment to Cascade's gas storage in rate base to reflect an average level of storage inventory for 2014 rather than the 2014 year-end amount.[7] Staff proposed reducing the gas storage amount in rate base from $552,675 to $535,871, resulting in a total rate base adjustment of $16,805. The Stipulating Parties agreed to Staff's recommendation, and as noted in the Stipulation, this amount is reflected as a reduction to revenue requirement of $1,846.

Q. Why is the Stipulating Parties' agreement regarding Gas Storage reasonable?

A. The Initial Filing relied on the 2014 year-end amount to determine the amount of gas storage in rate base. While there does not appear to be any Commission precedent directly addressing the appropriate treatment of gas storage costs in rate base, the Stipulating Parties agree that Staff's approach, reflecting the average amount for each month over the Base Year, is reasonable.

Q. Please describe the Stipulation regarding Distribution O&M (S-8)?

A. In its Initial Filing, Cascade included a proposed increase to revenue requirement of $352,293 to reflect anticipated pipeline inspection costs.[8] Staff proposed an adjustment of $205,548 to remove expenses not expected to be incurred for the benefit of Oregon customers until after the end of the Test Year.[9] Staff revised its proposed adjustment to

[7] Staff/400, Colville/4-5.
[8] CNG/304, Parvinen/2.
[9] Staff/500, Wittekind/2.

reflect a reduction of $351,144. The Stipulating Parties agreed to a reduction of $351,144 to reflect removal of pipeline inspection expense.

Q. Why is the Stipulating Parties' agreement regarding distribution O&M reasonable?

A. The Stipulating Parties' agreement to remove pipeline inspection costs appropriately removes expense that will not be incurred for the benefit of Oregon customers until 2016, which is after the end of the Test Year.

Q. Please describe the Stipulating Parties' agreement regarding Advertising (S-9)?

A. In its Initial Filing, Cascade proposed to decrease revenue requirement by $520 for advertising expenses.[10] Staff proposed a further decrease to advertising expenses by $96,000, reflecting the removal of certain promotional advertising expenses incurred in the Test Year related to Category C[11] "institutional advertising" expenses.[12] In its Reply Filing, Cascade agreed to Staff's adjustment in principle, and provided updated information to clarify that Cascade had inadvertently incorrectly designated certain Category A, 811 "Call Before You Dig" advertising expenses as Category C. To correctly reflect the 811 expense, Cascade revised Staff's adjustment to advertising expense to $58,370.[13] The Stipulating Parties agreed to that approach, and the

---

[10] CNG/304, Parvinen/1.

[11] 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, and 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 operating revenues. Category B includes legally mandated advertising expenses which are presumed to be just and reasonable regardless of the amount. 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. *See* OAR 860-026-0022.

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

[13] CNG/700, Parvinen/8.

Stipulation reflects an adjustment to reduce Cascade's proposed increase to revenue requirement by $59,509.

Q. Why is the Stipulating Parties' agreement regarding Advertising reasonable?

A. The Stipulating Parties' agreement to reduce Advertising expenses is based upon the treatment of those expenses under OAR 860-026-0022. The Company removed advertising expenses disallowed from revenue requirement under OAR 860-026-0022, assuring the inclusion of only those expenses allowed under the Commission's rules, and corrected the Category A, 811 "Call Before You Dig," advertising expenses.

Q. Please describe the agreement in the Stipulation regarding Pensions (S-10, C-1, & N-1)?

A. At the time Cascade filed its case, the Commission investigation regarding ratemaking treatment of pension asset expense, Docket No. UM 1633, was still pending. Consistent with the position of Cascade and other utilities in that docket, Cascade proposed to increase rate base to include the prepaid pension asset amount of $2,873,126, or a proposed increase to revenue requirement of $367,648.[14] Consistent with their respective positions in Docket No. UM 1633, Staff, CUB, and NWIGU each proposed an adjustment to remove Cascade's prepaid pension asset from rate base.[15] Following the issuance of the Commission's Order No. 15-226,[16] Cascade agreed to remove its prepaid pension asset, and the Stipulating Parties agreed to a reduction of $315,565 to reflect removal of the prepaid pension asset amount from rate base.

[14] CNG/300, Parvinen/6; CNG/304, Parvinen/1.
[15] Staff/700, Bahr/7; CUB/100, Jenks-McGovern/3; NWIGU/100, Gorman/7-8.
[16] *Re Investigation into Treatment of Pension Costs in Utility Rates*, Docket No. UM 1633, Order 15-226 (Aug. 3, 2015).

Q. Why is the Stipulating Parties' agreement regarding Pensions reasonable?

A. The Stipulating Parties' agreement to remove the prepaid pension asset from rate base is reasonable because it is consistent with the Commission's decision in Docket No. UM 1633, which rejected the utility proposal to include prepaid pension asset and accrued pension liabilities in rate base.[17]

Q. Please describe the agreement in the Stipulation regarding Miscellaneous Administrative and General (A&G) (S-12 & C-8).

A. Staff proposed several reductions to A&G expense, resulting in an overall proposed adjustment reducing Cascade's requested revenue requirement by $794,110.[18] CUB also proposed an adjustment to A&G expense that would remove 10 percent of Cascade's filed A&G expense.[19] In its Reply Filing, Cascade provided additional support for the A&G expense in this case. As a compromise, the Stipulating Parties agreed to a revenue requirement reduction of $302,766 to reflect a reduction to miscellaneous A&G expenses.

Q. Why is the Miscellaneous Administrative and General adjustment reasonable?

A. The Stipulating Parties agree that a compromise reduction to A&G expense results in a reasonable level of expense. The reduction to Cascade's Initial Filing is partially based on Staff's reliance on Commission precedent regarding meals and entertainment.[20] The vast majority of Staff's reduction to A&G expense was based on Staff's inability to ascertain whether the proposed expense for travel, memberships, sponsorship dues and

---

[17] *See Re Investigation into Treatment of Pension Costs in Utility Rates*, Docket No. UM 1633, Order 15-226 (Aug. 3, 2015).
[18] Staff/700, Bahr/18.
[19] CUB/100, Jenks-McGovern/22.
[20] *In the Matter of Portland General Electric Company, Request for a General Rate Revision*, Docket No. UE 197, Order No. 09-020 at 21 (Jan. 22, 2009).

donations was related to utility service. Cascade's Reply Filing responded to and addressed Staff's concerns. The Stipulating Parties agree that the overall level A&G expense included in the Stipulation appropriately represents a reasonable compromise.

Q. Please describe the Stipulating Parties' agreement regarding Plant in Service, Capital Additions, Property Tax (2015 Plant Additions) (S-13 & C-7).

A. The Company initially proposed to add $2,272,027 to revenue requirement to reflect capital additions that the Company anticipated completing during the 2015 Test Year.[21] CUB proposed rejecting the entire amount of requested revenue requirement, $2,272,027[22] and Staff proposed a reduction to Cascade's proposed rate base of $6,876,000, which would have decreased Cascade's proposed revenue requirement addition by approximately $859,000.[23] Cascade provided additional support for its 2015 Plant additions in discovery and in its Reply Filing, and the Stipulating Parties agreed to a reduction of $399,199 to Cascade's proposed revenue requirement to reflect removal of plant that will not be in service and used and useful by November 30, 2015.

Q. Please explain the reasonableness of the Stipulating Parties' agreement regarding the 2015 Plant Additions.

A. The Stipulating Parties thoroughly and carefully evaluated Cascade's proposed 2015 Plant Additions, and the reduction in the Stipulation reflects removal of plant that will not

[21] CNG/304, Parvinen/2.
[22] CUB/100, Jenks-McGovern/20.
[23] Staff/700, Bahr/27.

be in service and used and useful, consistent with ORS 757.355, and also reflects corresponding adjustments to property tax.

Q. Will Cascade provide an update regarding the 2015 Plant Additions that are in service as of November 30, 2015?

A. Yes, the Stipulating Parties agreed that Cascade will provide an update regarding plant in service via attestation of a Company officer by December 15, 2015. The Stipulating Parties will review the attestation and confirm the reasonableness of the 2015 Plant Additions.

Q. Please describe the agreement in the Stipulation regarding Environmental Remediation (S-16, C-9, & N-6)?

A. In Cascade's Initial Filing, the Company proposed including an increase to revenue requirement of $482,405 to reflect recovery of the Company's environmental remediation expense associated with the Eugene Remediation Site over a period of three years.[24] CUB and NWIGU proposed removing the entirety of Cascade's proposed increase to revenue requirement for environmental remediation.[25] Staff proposed removing all but $100,000 of Cascade's proposed increase for environmental remediation expense.[26] The Stipulating Parties agree that Cascade's request for recovery of expenses associated with environmental remediation will be removed from this case. The Stipulation provides for a reduction of $480,833 to Cascade's requested revenue requirement, rather than the $482,405 initially requested by Cascade due to differences in Cascade's and Staff's revenue requirement models.

---

[24] CNG/300, Parvinen/25-28.
[25] CUB/100, Jenks-McGovern/24; NWIGU/100, Gorman/15.
[26] Staff/1000, Johnson/6.

Q. Please explain why the Stipulating Parties agreed to remove expense related to Environmental Remediation from this case?

A. Based on the concerns raised by Staff, CUB, and NWIGU, the Company determined that it will need to provide additional information regarding the Company's Environmental Remediation expense. Due to the volume of information and length of time that would be necessary for parties to review the costs, in its Reply Filing, Cascade proposed to withdraw its request for recovery in this case and continue to seek deferral of costs and insurance proceeds, consistent with the Commission's most recent order in Docket No. UM 1636.[27] The Stipulating Parties agreed that this was a reasonable approach to the Environmental Remediation expense in this case, and expect to take the issue up again in a subsequent proceeding.

Q. Please describe the Stipulating Parties' agreement regarding Depreciation (S-17 & N-4)?

A. At the time that Cascade filed its rate case, it was aware that it would soon be filing an updated depreciation study in Docket No. UM 1727.[28] For that reason, the Company included a placeholder increase to revenue requirement of $487,323 in its rate case for revised depreciation rates resulting from the depreciation study.[29] Staff's testimony discussed the potential for revised depreciation rates resulting from a Commission decision in Docket No. UM 1727, but did not propose a specific adjustment because the

---

[27] CNG/700, Parvinen/33-34; *see In the Matter of the Application by Cascade Natural Gas Corporation for Authorization to Defer Certain Expenses or Revenues Pursuant to ORS 757.259 and OAR 860-027-0300*, Docket No. UM 1636, Order No. 15-010 (Jan. 13, 2015).
[28] *In the Matter of Cascade Natural Gas Corp. Depreciation Study on All Gas Plant as of December 31, 2013*, Docket No. UM 1727, Petition (Apr. 30, 2015).
[29] CNG/304, Parvinen/2.

case was still pending at the time Staff filed its testimony.[30] The Stipulating Parties agreed to include a reduction of $482,231 to reflect the revised depreciation rates proposed in the settlement in Docket No. UM 1727.[31]

Q. Why is the Stipulating Parties' agreement regarding Depreciation (S-17) reasonable?

A. On October 14, 2015, the Commission issued a final order in Docket No. UM 1727 adopting the parties' settlement.[32] The Stipulation in this case reflects the impacts of the Commission's Order No. 15-315 in Docket No. UM 1727.

Q. Please describe the Stipulating Parties' agreement regarding Rate Case Costs (N-3)?

A. NWIGU proposed that Cascade's revenue requirement include rate case expense at a level that would allow amortization over a longer period than that contemplated by Cascade in its initial filing.[33] The Stipulating Parties agreed to a reduction of $59,851 to Cascade's proposed revenue requirement to reflect a three-year amortization of rate case costs.

---

[30] Staff/1100, Peng/2-6.
[31] As of the date of filing this Joint Testimony and Stipulation, the Commission has still not issued a final order in Docket No. UM 1727.
[32] *In the Matter of Cascade Natural Gas Corp. Depreciation Study on All Gas Plant as of December 31, 2013*, Docket No. UM 1727, Order No. 15-315 (Oct. 14, 2015).
[33] NWIGU/100, Gorman/10.

Q. Why is the Stipulating Parties' agreement regarding Rate Case Costs reasonable?

A. The Stipulating Parties believe that the agreed upon reduction to rate case costs reflects Cascade's anticipated increase in the number of rate case filings and is a fair result contributing to the overall compromise regarding revenue requirement.

Q. Please describe the Stipulation regarding Accumulated Depreciation (N-5)?

A. NWIGU proposed a reduction Cascade's proposed revenue requirement increase in the amount of $524,100 to reflect an additional year of depreciation expense on existing plant.[34] In its Reply Filing, Cascade proposed to accept NWIGU's adjustment but modified the amount of the adjustment to reflect the use of a half-year convention.[35] The Stipulating Parties agreed to a reduction of $262,239 to reflect the impact of an additional year of depreciation expense on existing plant.

Q. Please explain why the agreement regarding Accumulated Depreciation is reasonable.

A. The Stipulating Parties agree that the adjustment results in appropriate matching of plant additions with associated accumulated depreciation. While the Stipulating Parties do not all necessarily agree on the precise methodology for determining the amount of the Accumulated Depreciation adjustment, the Stipulating Parties agree that this adjustment contributes to an overall reasonable settlement of the appropriate increase to revenue requirement.

[34] NWIGU/100, Gorman/13-14.
[35] CNG/700, Parvinen/30; CNG/704, Parvinen/2.

IV. NON-REVENUE REQUIREMENT ISSUES

Q. Did the Stipulation also include settlement of non-revenue requirement issues?

A. Yes, the Stipulation also settled non-revenue requirement issues raised in the case, as described further below.

Q. Please explain the agreement in the Stipulation regarding Cost of Capital.

A. In its Initial Filing, Cascade proposed a rate of return (ROR) of 7.47 percent, which is based on a 51.0 percent common equity ratio with a Return on Equity (ROE) of 9.55 percent and a debt cost of 5.30 percent. Staff provided substantial independent analysis of Cascade's proposal regarding cost of capital, and also supported the Company's proposed capital structure, an ROR of 7.468, and ROE of 9.55.[36] CUB provided an alternate proposal for capital structure, using the average of the last two years of debt (51.7 percent and 49.3 percent) and setting the capital structure at 50.5 percent debt and 49.5 percent equity.[37] NWIGU's testimony did not address cost of capital.

Q. Why is the Company's proposed Cost of Capital reasonable?

A. The 51 percent common equity ratio is based on Cascade's equity and long-term debt for the Test Year, as well as two prior years, and therefore represents a sound basis for the Company's Capital Structure.[38] As a compromise in settlement, CUB agreed to the capital structure proposed by Cascade and Staff.

Staff independently verified the appropriateness of the ROE through use of a discounted cash flow (DCF) analysis,[39] through comparison with peer utilities and

[36] Staff/800, Muldoon/3,
[37] CUB/100, Jenks-McGovern/4.
[38] Staff/800, Muldoon/3-4.
[39] Staff/800, Muldoon/5-9.

sensitivity analysis,[40] and through evaluation of long-term growth rates.[41] Staff also performed a reasonableness check to validate its modeling results and considered the impact that Cascade's infrequent rate case filings has on its risk.[42]

Staff thoroughly analyzed the cost of long-term debt,[43] and Staff's overall rate of return recommendation was consistent with Cascade's Initial Filing.[44] The Stipulating Parties agree that the stipulated Cost of Capital is a reasonable resolution of this issue and is supported by the Staff testimony.

Q. Please describe the Stipulation regarding Labor Additions.

A. Cascade had initially proposed using actual Test Year FTE levels in this case. In the Stipulation, the Stipulating Parties agree to use actual 2015 FTEs as verified at the end of September, 2015 as the basis for the Company's labor additions. Staff used 83.25 FTEs to perform the wages and salaries analysis, and the Company confirmed that the FTE count used in the wage analysis is an accurate reflection of actual FTEs as of September 30, 2015.

Q. Please explain the reasonableness of the Stipulation regarding Labor Additions?

A. The agreement in the Stipulation regarding Labor Additions reflects actual FTEs in the Test Year. Cascade provided an update regarding total FTEs as of September 30, 2015, and the Stipulating Parties have verified the total FTEs.

---

[40] Staff/800, Muldoon/9-11.
[41] Staff/800, Muldoon/12-18.
[42] Staff/800, Muldoon/18.
[43] Staff/800, Muldoon/21-22.
[44] Staff/800, Muldoon/23.

Q. Please describe the Stipulating Parties' agreement regarding the Pipeline Safety Cost Recovery Mechanism (CRM)?

A. In its Initial Filing, Cascade had proposed a Pipeline Safety CRM to allow for the timely recovery of safety related pipeline replacement projects and to lessen the need for frequent rate case filings.[45] Staff, CUB, and NWIGU opposed the CRM. As a compromise, the Stipulating Parties agreed that Cascade will remove its request from this case and instead address the Pipeline Safety CRM in the Commission's generic pipeline cost recovery mechanism docket, Docket No. UM 1722.

Q. Please explain why the agreement in the Stipulation to remove the Pipeline Safety CRM is reasonable.

A. The agreement to remove the Pipeline Safety CRM was a compromise in the interest of settling this case, and the Stipulating Parties expect that the Commission will provide policy direction on this issue in Docket No. UM 1722.

Q. Please describe the agreement in the Stipulation regarding Allocations.

A. In response to concerns raised by Staff regarding Cascade's allocation of expenses with regard to its parent corporation, Montana-Dakota Utilities (MDU),[46] the Stipulating Parties agree that Cascade will file an updated Allocations Manual each year with the previous year's Affiliated Interest report.

---

[45] CNG/700, Parvinen/54.
[46] Staff/800, Muldoon/23-27.

Q. Please explain why the agreement in the Stipulation regarding Allocations is reasonable.

A. The Stipulating Parties' agreement for Cascade to file an updated Allocations Manual addresses the concerns that Staff had raised in its testimony. The Stipulating Parties agree this is a reasonable resolution on this issue.

Q. Please describe the Stipulating Parties' agreement regarding Decoupling.

A. The Company initially proposed to continue the decoupling mechanism with a few minor changes, and to make the mechanism permanent.[47] Staff had proposed several changes to the decoupling mechanism, including: tracking the effects of weather and conservation in regards to the monthly deferral;[48] matching the deferral which is based on normal weather with the weather forecast used in the current case;[49] and reviewing the mechanism by September 30, 2018, with any proposed changes effective January 1, 2019.[50] CUB proposed reflecting a real-time adjustment for weather.[51] In its Reply Filing, Cascade accepted Staff's recommendations for tracking weather and conservation and for matching the deferral based on normal weather with the weather forecast in this case. Cascade also agreed to review of the decoupling mechanism, but proposed that review take place a year later than Staff had proposed. The Stipulating Parties agreed with Cascade's position in its Reply Filing on these issues. Regarding CUB's recommendation, the Stipulating Parties agreed that Staff and CUB will organize a decoupling workshop to be held in September 2016. In the workshop, parties will

[47] CNG/300, Parvinen 12-25.
[48] Staff/200, Bhattacharya/15-16.
[49] Staff/200, Bhattacharya/19.
[50] Staff/200, Bhattacharya/2.
[51] CUB/100, Jenks-McGovern/15.

explore whether and how Cascade may implement a real-time adjustment for the weather component of its decoupling mechanism. In its Reply Filing, the Company recommended rejecting the Black and Veatch recommendation to exclude unbilled revenues,[52] and instead Cascade proposed to continue to include unbilled revenues consistent with the method in the existing mechanism. The Stipulating Parties agree with Cascade's proposal in order to properly match the actual usage with the corresponding revenue.

Q. Please explain the reasonableness of the agreement in the Stipulation regarding Decoupling.

A. The Stipulating Parties have provided an opportunity for a workshop in September 2016, and full review of the Decoupling Mechanism in September 2019. The Stipulating Parties agree that the settlement of Decoupling is a reasonable compromise that will provide a timely opportunity for further review and refinement of the Decoupling Mechanism if necessary.

Q. Please describe the Stipulating Parties' agreement regarding Cascade's Peak Methodology?

A. Cascade's Peak Methodology uses information regarding the coldest day in the last thirty years to determine Cascade's peak demand, which informs Cascade's load forecast. CUB recommended that Cascade modify its methodology to determine peak demand by relying on company-specific data.[53] The Stipulating Parties agree that for

[52] CNG/700, Parvinen/58.
[53] CUB/100, Jenks-McGovern/16.

purposes of this rate case, it is reasonable for Cascade's load forecast to be based on its Peak Methodology.

Q. Please describe the Stipulating Parties' agreement regarding rate spread and rate design?

A. The Stipulating Parties agreed to the rate spread and rate design as shown in Appendix B to the Stipulation.

Q. Please explain why the Stipulation regarding rate spread and rate design in reasonable?

A. The Stipulating Parties agree that the rate spread shown in Appendix B to the Stipulation represents a compromise that fairly balances the interests of the Stipulating Parties. While the signing parties may each hold different litigation positions on cost of service issues, the Stipulating Parties support the Stipulation on rate spread and rate design and believe it results in rates that are fair just and reasonable. The Parties also agreed for the purpose of this Stipulation that the customer charges contained in the current tariff not be altered.

V. REASONABLENESS OF THE STIPULATION

Q. What is the basis for the Stipulation?

A. The basis for the Stipulation is a compromise based on the record in this case, which includes Cascade's Initial Filing in Docket No. UG 287, the opening testimony of Staff, CUB, and NWIGU, and Cascade's Reply Filing. Additionally, Cascade responded to at least 387 data requests from Staff, CUB, and NWIGU, and provided updates to the data responses as necessary and appropriate. Over the course of the settlement discussions, the Stipulating Parties resolved their differences through dialogue, negotiations, and compromise to reach a fair result.

Q. What is your recommendation to the Commission regarding the Stipulation?

A. The Stipulating Parties recommend and request that the Commission approve the Stipulation in its entirety.

Q. Please explain why the Stipulating Parties believe that the Commission should adopt the Stipulation?

A. The Stipulating Parties have carefully reviewed Cascade's Initial Filing and Reply Filing, Cascade's responses to data requests, and have thoroughly analyzed the issues during two days of settlement conferences. The Stipulating Parties believe that the adjustments and agreements in the Stipulation provide a fair and reasonable resolution of the issues in this docket and the resulting rates are fair, just and reasonable.

Q. Please elaborate.

A. The Stipulation represents a reasonable compromise for many reasons, including the following: (1) the Stipulation results in an overall average rate increase of less than one percent;[54] (2) the Stipulation represents a fair settlement of revenue requirement issues; (3) settlement of the issues in this case avoids litigation on the remaining issues; and (4) the terms of the Stipulation provide for certainty that the costs proposed in this case will be in service for the benefit of Oregon customers during the Test Year.

Q. Does this conclude your testimony?

A. Yes.

[54] The overall average rate increase is 0.84 percent.