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September 30, 2020

VIA ELECTRONIC FILING

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street SE, Suite 100
P.O. Box 1088
Salem, Oregon 97308-1088

Re: Docket UG 390 – Cascade Request for a General Rate Revision

Attention Filing Center:

Attached for filing in the above-captioned docket is the Parties' Joint Testimony in Support of the Third Stipulation resolving all remaining issues.

Please contact this office with any questions.

Sincerely,

Alisha Till
Paralegal

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET NO. UG 390

Joint Testimony in Support of Third Stipulation

Stipulating Parties: Cascade Natural Gas Corporation, Public Utility
Commission of Oregon Staff, the Oregon Citizens' Utility Board, and the
Alliance of Western Energy Consumers

CASCADE-STAFF-CUB-AWEC EXHIBIT 300

**Joint Testimony of Christopher Mickelson, Brian Fjeldheim, William
Gehrke and Lance Kaufman**

September 30, 2020

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY 1

II. BACKGROUND 2

III. TERMS OF THE STIPULATION 3

Revenue Requirement 3

Other Gas Supply Expense 4

Distribution O&M Expense 4

Rate Case Expense 5

Wages and Salaries 6

Advertising Expense 6

Pension Expense 7

Utility Plant 7

Taxes Other than Income—CAT 9

Depreciation Settlement 9

Depreciation Final Utility Plant in Rate Base 10

Meals and Entertainment 10

Conversion Factor 10

Policy and Process Changes 10

Officer Attestation..... 11

Documentation Supporting Capital Investments..... 11

Residential Customer Deposits 11

Decoupling Adjustment 12

Agreement to Workshop..... 12

IV. STIPULATING PARTIES' SUPPORT FOR THE STIPULATION.....13

CASCADE..... 13

OPUC Staff 13

CUB 14

AWEC..... 14

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 Oregon Citizens’ Utility Board (“CUB”), and the Alliance of Western Energy Consumers (“AWEC”) (collectively, the “Stipulating Parties”).

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

A. My name is Christopher Mickelson, and I am employed as the Regulatory Affairs Manager for Cascade. My educational and professional qualifications were included in Joint Testimony in Support of First Partial Stipulation, filed in this case as Cascade-Staff-CUB-AWEC/100, on August 11, 2020.

My name is Brian Fjeldheim, and I am a Senior Financial Analyst within the Energy Rates, Finance and Audit Division of the Public Utility Commission of Oregon (Commission). My qualifications are provided in Exhibit Staff/101.

My name is William Gehrke, and I am an Economist employed by CUB. My qualifications are provided in Exhibit CUB/101.

My name is Lance Kaufman, and I am the principal economist of Aegis Insight, testifying on behalf of AWEC. My qualifications are provided in Exhibit AWEC/101.

Q. What is the purpose of this Joint Testimony?

A. This Joint Testimony describes and supports the Third Partial Stipulation which resolves all issues remaining in this docket. The Third Stipulation is joined by all parties to the proceeding (the Stipulating Parties) and is the product of settlement discussions, open to all parties to Docket UG 390.

1 **II. BACKGROUND**

2 **Q. Please summarize the background and context of Docket UG 390.**

3 A. On March 31, 2020, Cascade initiated this proceeding, Docket UG 390, by filing a request
4 for a general rate increase (Initial Filing). In its Initial Filing, Cascade requested a revision
5 to customer rates that would increase the Company's annual Oregon jurisdictional
6 revenues from base rates by \$4.507 million, or an approximately 6.67 percent increase
7 over current customer rates.

8 Administrative Law Judge Allan J. Arlow convened a prehearing conference on
9 May 14, 2020. In accordance with the prehearing conference order, the effective date for
10 rates will be February 1, 2021.

11 **Q. Have the Parties conducted discovery in this case?**

12 A. Yes. Since the Initial Filing, Cascade has responded to over 299 data requests from Staff,
13 AWEC, and CUB. Many of these data requests had multiple sub-parts.

14 **Q. Please describe the additional process to date in this docket.**

15 A. On June 2, 2020, the Stipulating Parties participated in a settlement conference to address
16 cost of capital issues. As a result of those settlement discussions, the Stipulating Parties
17 agreed to settle all issues in the docket regarding cost of capital, as memorialized in a
18 First Partial Stipulation that was filed with the Commission on July 1, 2020.

19 The Stipulating Parties subsequently participated in a settlement conference on
20 July 16, 2020, regarding cost of service, rate spread, and rate design, followed by
21 additional discussions via email correspondence on July 21, 22, and 23, 2020. These
22 discussions culminated in an agreement resolving rate spread and rate design issues in
23 this proceeding, as memorialized in the Second Partial Stipulation that was filed with the
24 Commission on August 28, 2020.

1 **Q. Do the Stipulating Parties agree on all the methodologies employed to determine**
2 **each adjustment?**

3 A. No, the Stipulating Parties do not necessarily agree upon all the methodologies used to
4 determine each adjustment. However, the Stipulating Parties believe that collectively, the
5 agreed-upon adjustments represent a reasonable financial settlement of the issues in this
6 docket, and that, taken together, the adjustments result in an overall revenue requirement
7 that will produce rates that are fair, just, and reasonable. As such, the Stipulating Parties
8 agree that the Stipulation is in the public interest.

9 ***Other Gas Supply Expense***

10 **Q. Please describe the Stipulating Parties' agreement regarding Other Gas Supply**
11 **Expense.**

12 A. In its Initial Filing, Cascade included \$113,000 for Other Gas Supply Expense. Staff
13 proposed to remove (a) \$21,000, which was the Oregon-allocated amount of a one-time
14 damage payment related to Puget Sound Energy – Fredonia in 2019; (b) non-labor costs
15 from the escalation calculation; and (c) to use a three-year average of expense instead of
16 the Company's approach, which was to begin with Base Year costs, and escalate to arrive
17 at Test Year expenses. The total impact of Staff's proposal in its Response Testimony
18 was a total disallowance of \$24,000.¹ As a result of their settlement discussions and in
19 the context of the overall settlement, the Stipulating Parties agreed to a \$21,000 reduction
20 in Other Gas Supply Expense, which has a revenue requirement impact of (\$21,661.34).

21 ***Distribution O&M Expense***

22 **Q. Please describe the Stipulating Parties' agreement regarding Distribution O&M**
23 **Expense.**

¹ Staff/100, Fjeldheim/14-15.

1 A. In its Initial Filing, Cascade calculated its Test Year Distribution O&M expense, beginning
2 with Base Year expense and escalating by a CPI of 1.8 percent. In its Response
3 Testimony, Staff proposed using a three-year average of non-labor O&M expense and a
4 0.7 percent escalation rate.² Staff's proposals resulted in a proposed \$187,000 reduction
5 to Distribution O&M expense.³ As a result of their settlement discussions and in the
6 context of the overall settlement, the Stipulating Parties agreed to a \$21,471 reduction in
7 Distribution O&M Expense, which has a revenue requirement impact of (\$22,147.17).

8 ***Rate Case Expense***

9 **Q. Please describe the Stipulating Parties' agreement regarding Rate Case Expense.**

10 A. In its Initial Filing, Cascade included \$178,055 in rate case expense, which reflected (a)
11 the incremental costs associated with filing this rate case normalized over a three-year
12 period, plus the amount of rate case expense from previous rate cases that has yet to be
13 collected; and (b) the expense associated with the outside expert, Concentric, which
14 prepared the Company's depreciation study, normalized over a five year period. Staff
15 raised concerns regarding the Company's inclusion of expense from previous rate cases
16 and the Company's proposal to normalize expenses related to Concentric over five years
17 rather than three years.⁴ To address these concerns, Staff proposed a reduction of
18 \$93,000.⁵ As a result of their settlement discussions the Stipulating Parties noted that
19 Cascade has been filing a rate case in Oregon at least every two years, and concluded
20 on that basis that it was appropriate to amortize rate case costs (including the Concentric
21 expenses) over that period. Therefore, in the context of the overall settlement, the

² Staff/100, Fjeldheim/15.

³ Staff/100, Fjeldheim/20.

⁴ Staff/100, Fjeldheim/37. Staff used the term "amortize"—but Cascade understands that the concept referenced was normalization.

⁵ Staff/100, Fjeldheim/5.

1 Stipulating Parties agreed to a \$50,280 reduction in Rate Case Expense, which has a
2 revenue requirement impact of (\$51,863.43).

3 ***Wages and Salaries***

4 **Q. Please describe the Stipulating Parties' agreement regarding Wages and Salaries.**

5 A. In its Initial Filing, Cascade included Oregon-allocated expense of \$8.043 million for wages
6 and salaries and \$615,681 for overtime. Staff applied its wage and salary model and
7 recommended a revenue adjustment of \$2.4 million (allocated \$1.9 million O&M and
8 \$586,000 capital).⁶ Staff also recommended a decrease in overtime by \$1,660 (allocated
9 \$1,262 O&M and \$400 capital).⁷ Staff's adjustments were based on a data response with
10 incomplete information from the Company, which was updated and clarified in a
11 subsequent data response. Based on the updated information, the Stipulating Parties
12 agreed on a reduction in expense of \$469,634.99 and reduction in rate base of
13 \$135,282.58, with a revenue requirement impact of (\$496,718.13)—which the Stipulating
14 Parties agreed to in the context of the overall settlement.

15 ***Advertising Expense***

16 **Q. Please describe the Stipulating Parties' agreement regarding Advertising Expense.**

17 A. In its Initial Filing, Cascade included \$91,750 in Category A advertising expense. In
18 Response Testimony, Staff proposed an adjustment of \$7,912 because Cascade's
19 proposal exceeded the Commission's guideline for Category A advertising by that
20 amount.⁸ As a result of their settlement discussions and in the context of the overall
21 settlement, the Stipulating Parties agreed to a reduction in Advertising expense of
22 \$3,955.85, which has a revenue requirement impact of (\$4,080.43).

⁶ Staff/200, Cohen/6.

⁷ Staff/200, Cohen/6.

⁸ Staff/200, Cohen/14.

1 ***Pension Expense***

2 **Q. Please describe the Stipulating Parties' agreement regarding Pension Expense.**

3 A. In its Initial Filing, Cascade based its FAS 87 pension expense on its 2019 expense for
4 these items. In its Response Testimony, Staff disagreed with the discount rate used by
5 the Company to calculate its FAS 87 expense, pointing out it varied from the discount rate
6 used by other utilities. Specifically, Staff proposed that the Company's pension expense
7 be reduced by \$23,621.47. As a result of settlement discussions and in the context of the
8 overall settlement, Cascade agreed to Staff's proposed adjustment, which resulted in a
9 revenue requirement impact of (\$24,365.37).

10 ***Utility Plant***

11 **Q. Please describe the Stipulating Parties' agreement regarding Utility Plant.**

12 A. In its Initial Filing, Cascade included \$22.1 million in utility plant additions.⁹ After the Initial
13 Filing, some projects that the Company expected to come online in 2020 were delayed—
14 some as a result of the COVID-19 pandemic. Accordingly, in their Response Testimony,
15 Staff and AWEC proposed adjustments to remove projects that would not be in service
16 prior to the rate effective date. In addition, Staff and AWEC also proposed that for those
17 projects that had been completed, the estimated costs included in the case be adjusted to
18 align with actually-incurred costs.¹⁰ And finally, Staff noted that one portion of the delayed
19 Shevlin Park project that had been installed and “placed on nitrogen” would not be used
20 and should not be included in rate base.¹¹ As a result of their settlement discussions and
21 in the context of the overall settlement, the Stipulating Parties agreed to a \$2,415,266
22 reduction to rate base, which has a revenue requirement impact of (\$219,478.74). The

⁹ CNGC/200, Darras/37.

¹⁰ Staff/500, Fox/4-16; AWEC/100, Kaufman/7-16.

¹¹ Staff/500, Fox/11-12.

1 Stipulating Parties also agreed that the portion of the delayed Shevlin Park project that
2 had been placed on nitrogen would be accounted for as Plant Held for Future Use until
3 such time as it is used and useful.

4 ***Protected Excess Deferred Income Taxes***

5 **Q. Please describe the Stipulating Parties' agreement regarding protected excess**
6 **deferred income taxes (protected EDIT) associated with the Tax Cut and Jobs Act**
7 **(TCJA).**

8 A. Consistent with the parties' agreement in Cascade's last general rate case, Cascade's
9 base rates in its Initial Filing incorporate a benefit to customers associated with protected
10 EDIT resulting from the TCJA. As a result of responses to data requests provided by
11 Cascade after Staff filed its Response Testimony, Staff proposed a reduction to expense
12 associated with this protected EDIT, in order to more closely align Cascade's recovery to
13 estimated expense for the Test Year. As a result of settlement discussions, and in the
14 overall context of the settlement, Cascade agreed to a reduction of expense associated
15 with protected EDIT of \$32,067 and a corresponding increase to rate base of that same
16 amount, which in the aggregate has a revenue requirement impact of (\$30,162.88).

17 ***Other Income (Unprotected EDIT)***

18 **Q. Please describe the Stipulating Parties' agreement regarding Other Income, as it**
19 **relates to Unprotected EDIT associated with the TCJA.**

20 A. Unprotected EDIT associated with the TCJA is refunded to Cascade's customers on a
21 separate tariff, outside of base rates. Given that refund, in its Initial Filing Cascade made
22 a corresponding decrease to other revenues in base rates. In its Response Testimony,
23 Staff expressed concern that the Company's accounting for that refund in its base rates
24 negated the impact of that refund, and therefore Staff proposed an increase to other
25 operating revenues of \$388,527—which Staff believed was necessary to preserve the

1 refund benefit to Cascade's customers. During the settlement process Cascade provided
2 the parties with detailed information as to how it accounted for the refund in base rates.
3 In view of the new information, and in the context of an overall settlement, the Stipulating
4 Parties agreed to an increase to revenue of \$268,153, and an increase to expense of
5 \$243,724.50, which in the aggregate has a revenue requirement impact of (\$16,753.09).

6 ***Taxes Other than Income—CAT***

7 **Q. Please describe the Stipulating Parties' agreement regarding Taxes Other than**
8 **Income—Corporate Activity Tax ("CAT").**

9 A. Cascade's Initial Filing did not include the new Oregon CAT in the revenue requirement.¹²
10 In Response Testimony, Staff proposed to include amounts for the CAT estimate in base
11 rates,¹³ and as part of the Stipulation, Cascade agreed. Specifically, as a result of their
12 settlement discussions and in the context of the overall settlement, the Stipulating Parties
13 agreed to a \$250,000 increase in expense, which has a revenue requirement impact of
14 \$257,873.04.

15 ***Depreciation Settlement***

16 **Q. Please describe the Stipulating Parties' agreement regarding the impact of the**
17 **Depreciation Settlement reached in Docket UM 2073.**

18 A. Cascade, Staff, and AWEC recently reached a settlement in Docket UM 2073 regarding
19 the Company's depreciation study.¹⁴ As part of the overall settlement of this case, the
20 Stipulating Parties agreed to incorporate the impact of the UM 2073 settlement into this
21 case. Specifically, the Stipulating Parties agreed to a \$364,631.47 reduction in expense,
22 which has a revenue requirement impact of (\$376,114.50).

¹² Staff/500, Fox/20.

¹³ Staff/500, Fox/20, 26.

¹⁴ *In the Matter of Cascade Natural Gas Corp., Petition to File Depreciation Study*, Docket UM 2073, Stipulation (September 15, 2020).

1 ***Depreciation Final Utility Plant in Rate Base***

2 **Q. Please describe the Stipulating Parties' agreement regarding Depreciation Final**
3 **Utility Plant in Rate Base.**

4 A. As a result of their settlement discussions and in the context of the overall settlement, the
5 Stipulating Parties agreed to a \$99,575.98 reduction in expense, which has a revenue
6 requirement impact of (\$102,711.84).

7 ***Meals and Entertainment***

8 **Q. Please describe the Stipulating Parties' agreement regarding Meals and**
9 **Entertainment.**

10 A. In its Response Testimony, Staff proposed a reduction to Cascade's non-labor O&M
11 related to the removal of certain O&M expenses that Staff believed should not be
12 recoverable. As a result of settlement discussions, and in the context of the overall
13 settlement, the Stipulating parties agreed to a \$158,690.14 reduction in expense, which
14 has a revenue requirement impact of (\$163,687.64).

15 ***Conversion Factor***

16 **Q. Please describe the Stipulating Parties' agreement regarding Conversion Factor.**

17 A. In its Initial Filing, the Company included a conversion rate factor of 0.70584, which yields
18 what Staff refers to as a net-to-gross up factor of 1.41675.¹⁵ Staff corrected an error in
19 the Company's calculation and recommended a conversion rate factor of 0.70760 and a
20 net-to-gross up factor of 1.41322.¹⁶

21 ***Policy and Process Changes***

22 **Q. Did the Stipulating Parties agree upon other matters in addition to those related to**
23 **revenue requirement discussed above.**

¹⁵ CNGC/302, Peters/1; CNGC/303, Peters/1.

¹⁶ Staff/100, Fjeldheim/38-39; Staff/111, Fjeldheim/1.

1 A. Yes. In addition to the adjustments to revenue requirement discussed above, the
2 Stipulating Parties agreed to several policy and process changes going forward.

3 ***Officer Attestation***

4 **Q. Please describe the Stipulating Parties' agreement regarding Officer Attestation.**

5 A. To ensure customers are only paying for plant that will be online and serving customers
6 by the rate effective date, CUB requested that Cascade provide an officer attestation for
7 its capital projects greater than \$200,000. The Stipulating Parties agreed to include this
8 recommendation in the settlement. Accordingly, prior to the rate effective date, Cascade
9 will file an officer attestation confirming that all projects included in rate base in this case
10 have been completed and place in service. In addition, the attestation will present the
11 actual cost of the project.¹⁷

12 ***Documentation Supporting Capital Investments***

13 **Q. Please describe the Stipulating Parties' agreement regarding Documentation**
14 **Supporting Capital Investments.**

15 A. The Stipulating Parties agree that, beginning with its next general rate case, Cascade will
16 provide support for all individual capital investments occurring in 2020 and thereafter that
17 are estimated to cost more than \$150,000. The supporting information will include detailed
18 documentation providing the justification for the investment, a project summary, a demand
19 study/analysis, the expected cost of the project, the alternatives considered, and the
20 rationale for the investment. The Stipulating Parties agree that this documentation will
21 enhance Staff and other parties' ability to assess the prudence of investments presented
22 in the Company's rate cases and thereby ensure that rates are fair, just and reasonable.

23 ***Residential Customer Deposits***

¹⁷ CUB/100, Gehrke/2-4.

1 **Q. Please describe the Stipulating Parties' agreement regarding Residential Customer**
2 **Deposits.**

3 A. Under Cascade's residential customer deposit pilot program, which was agreed upon in
4 the Company's last rate case, Cascade suspended collection of residential customer
5 deposits through April 1, 2021. CUB proposed that Cascade extend the pilot program for
6 an additional two years, through April 1, 2023, because extending the program would help
7 protect economically vulnerable customers during the COVID-19 pandemic and would
8 provide additional data for the pilot program.¹⁸ The Stipulating Parties agreed to CUB's
9 proposal to extend the pilot through April 1, 2023.

10 ***Decoupling Adjustment***

11 **Q. Please describe the Stipulating Parties' agreement regarding Decoupling**
12 **Adjustment.**

13 A. In its Response Testimony CUB proposed that, on a going forward basis, Cascade make
14 a change to the recovery of its Decoupling Adjustment to separate out the amortization of
15 its conservation and weather variances by rate class, between Schedule 101 (Residential)
16 and Schedule 104 (Commercial). CUB argued that this approach would better align
17 decoupling rates under the principle of cost causation, and further would align the
18 amortization of Cascade's Decoupling Adjustment with Avista's decoupling account. The
19 Stipulating Parties agreed to accept CUB's proposal, which will be implemented beginning
20 with Cascade's annual decoupling filing that will be effective November 1, 2021.

21 ***Agreement to Workshop***

22 **Q. Please describe the Stipulating Parties' agreement regarding holding a workshop.**

¹⁸ CUB/100, Gehrke/4-5.

1 A. During the course of this case, Staff and the other parties expressed a desire for more
2 information regarding Cascade's capital project planning and documentation process—
3 which they believe will assist them in reviewing capital costs included in future rate cases.
4 In addition, these parties expressed a desire for more information regarding how costs
5 incurred by Cascade's affiliated companies are allocated among Cascade and its affiliates.
6 Finally, these parties expressed a desire for more information regarding how Cascade
7 calculates and applies adjustments to base year costs to arrive at test year revenue
8 requirement for its rate cases. Cascade agreed to participate in and present information
9 at one or more workshops to address these issues, and Staff agreed to take responsibility
10 for scheduling such workshop(s).

11 **IV. STIPULATING PARTIES' SUPPORT FOR THE STIPULATION**

12 **CASCADE**

13 **Q. Mr. Mickelson, please explain why Cascade supports the Stipulation?**

14 A. The Stipulation is a compromise among differing interests, and Cascade believes the
15 Stipulation strikes a reasonable balance among the Stipulating Parties' concerns, arrives
16 at a reasonable revenue requirement for the Company, and represents a reasonable
17 resolution of the issues in this case. In addition, Cascade believes that the overall rates
18 produced by this Stipulation are fair, just, and reasonable. For these reasons, the
19 Stipulation is in the public interest and should be approved by the Commission.

20 **OPUC Staff**

21 **Q. Mr. Fjeldheim, please explain why Staff supports the Stipulation.**

22 A. Staff supports the Stipulation as a reasonable resolution of the issues presented by
23 Cascade's general rate case filing. Staff's initial proposed adjustments to the Company's
24 proposed Test Year were based on the policies that Staff has implemented in previous
25 rate cases, and Staff believes none of the agreed-to changes are inconsistent with those

1 policies. Importantly, the Stipulation limits the assets on which the Company may earn a
2 return to those that will be used and useful upon the rate effective date. Staff also believes
3 the Stipulation strikes a balance between giving the Company the appropriate opportunity
4 to recover its costs to provide service and the necessity of keeping rates as low as possible
5 for customers, especially during the COVID-19 pandemic. Accordingly, Staff believes the
6 Stipulation results in rates that are fair, just and reasonable.

7 **CUB**

8 **Q. Mr. Gehrke, please explain why CUB supports the Stipulation.**

9 A. CUB supports the Stipulation because it represents a reasonable resolution of the issues
10 in this general rate case. CUB believes the Stipulation will result in rates that are fair, just,
11 and reasonable and is in the public interest. The Stipulation is the product of negotiations
12 between all parties that occurred after a comprehensive discovery process and resulted
13 in a reasoned compromise. The Stipulation results in a 28% reduction to the Company's
14 initial revenue requirement request in this case, which CUB believes more closely matches
15 the Company's cost of doing business. Further, CUB believes the key customer
16 protections included in the capital cost officer attestation agreement, decoupling
17 adjustment, and residential customer deposit agreement create a benefit for the
18 Company's residential customers. CUB recommends that the Commission adopt this
19 stipulation.

20 **AWEC**

21 **Q. Mr. Kaufman, please explain why AWEC supports the Stipulation.**

22 A. AWEC believes the Stipulation is in the public interest and recommends the Commission
23 approve the Stipulation because the best interests of Cascade's natural gas customers
24 are served by the underlying fair compromise on the remaining issues in the docket. While
25 the signing parties may each hold different positions on the individual components of the

1 Stipulation, AWEC supports the Stipulation because it results in a \$1,277,343.78 reduction
2 to the \$4,507,841.93 revenue requirement originally requested by Cascade and takes into
3 account many of the adjustments proposed by AWEC. AWEC supports the Stipulation as
4 an overall result that is a fair compromise between Cascade and its customers.

5 For the reasons set forth above, AWEC believes the Stipulation is in the public
6 interest and should be approved by the Commission.

7 **Q. Does this conclude your testimony?**

8 A. Yes.