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August 11, 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 First Partial Stipulation regarding Cost of Capital Issues.

Please contact this office with any questions.

Sincerely,

Alisha Till
Paralegal

Attachment

BEFORE THE
PUBLIC UTILITY COMMISSION OF OREGON

DOCKET UG 390

Joint Testimony in Support of First Partial Stipulation Regarding Cost of
Capital Issues

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

CASCADE-STAFF-CUB-AWEC EXHIBIT 100

**Joint Testimony of Christopher Mickelson, Matt Muldoon, Will Gehrke,
and Lance Kaufman**

August 11, 2020

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I. INTRODUCTION AND SUMMARY

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Q. Who is sponsoring this testimony?

A. This testimony is sponsored jointly by Cascade Natural Gas Company (“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 my current position is Regulatory Affairs Manager for Cascade. My educational and professional qualifications are as follows.

I graduated from the University of Washington in 2002, receiving a Bachelor of Arts degree in Business Administration; and a Master of Business Administration degree from Texas State University in 2019. Prior to joining Cascade, I was employed as the Lead Energy Analyst and Acting Supervisor for Austin Energy within their rates and forecasting department for approximately six years, where I supported filings before the Public Utility Commission of Texas and developed retail electric revenue and pricing for the seventh-largest municipal and eleventh-largest city in the country within Electric Reliability Council of Texas’s deregulated market. Before working at Austin Energy, I was employed as a Senior Regulatory Analyst for Washington Utilities and Transportation Commission within their energy regulatory services section for over seven years, where I provided testimony or expert advice on over 610 commission filings related to electric, natural gas, water, solid waste, and other industries.

In addition, I am a faculty member of the Institute of Public Utilities for the Annual Regulatory Studies Program held at Michigan State University in East Lansing, Michigan, where I use my extensive regulatory theory and cost of service studies and rate design

1 methodologies practice to educate and inform incoming public utility commissioners,
2 commission staff, and others. I have also attended several regulatory courses,
3 conferences, and events, and have presented at American Public Power Association's
4 conferences and events on topics related to newly created programs that I designed
5 related to a subscription pricing plan for residential electric vehicles, non-demand rates for
6 commercial fleets, and net-zero housings effect on Austin Energy's system rates.

7 My name is Matt Muldoon, and I am the Economic Analysis Program Manager
8 within the Energy Rates, Finance and Audit Division of the Public Utility Commission of
9 Oregon ("Commission"). My qualifications are provided in Exhibit Staff/1201.

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

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

14 **Q. What is the purpose of this Joint Testimony?**

15 A. This Joint Testimony describes and supports the First Partial Stipulation filed in Docket
16 UG 390 on July 1, 2020 ("Stipulation"), which resolves three Cost of Capital issues in this
17 docket—Capital Structure, Cost of Common Equity, also referred to as Return on Equity
18 ("ROE") and Cost of Long-Term Debt. Mr. Muldoon is also filing separate testimony in
19 support of the Stipulation on behalf of Staff, in addition to joining this Joint Testimony. The
20 Stipulation is the product of settlement discussions and resolves all of the Cost of Capital
21 issues in this docket.

22 **II. BACKGROUND**

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

24 A. On March 31, 2020, Cascade initiated this proceeding, Docket UG 390, by filing a request

1 for a general rate increase (“Initial Filing”). In its Initial Filing, Cascade requested a revision
2 to customer rates that would increase the Company’s annual Oregon jurisdictional
3 revenues from base rates by \$4.507 million, or an approximate 6.67 percent increase over
4 current customer rates. In the Testimony of Nicole A. Kivisto, the Company requested
5 that Cost of Capital be set based on a Capital Structure of 50 percent equity and 50
6 percent debt; ROE of 9.40 percent; and Long-Term Debt of 4.75 percent. The overall
7 Rate of Return (“ROR”) requested by the Company was 7.075 percent.¹

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 21, 2021.

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

12 A. Yes. Since the Initial Filing, Cascade has responded to over 295 data requests from Staff,
13 AWEC, and CUB, 14 of which relate to Cost of Capital issues. Many of these data
14 requests had multiple sub-parts.

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

16 A. The Stipulating Parties participated in a settlement conference to address Cost of Capital
17 issues on June 2, 2020. As a result of settlement discussions held on that date, the
18 Stipulating Parties reached the settlement of the Cost of Capital issues reflected in the
19 Stipulation.

20 III. TERMS OF THE STIPULATION

21 **Q. Please provide an overview of the issues addressed in the Stipulation.**

22 A. In the Stipulation, the Stipulating Parties agreed to recommend that the Commission
23 maintain for Cascade the Capital Structure and authorized ROE that are currently in effect,

¹ CNGC/100, Kivisto/8.

1 resulting in a balanced Capital Structure of 50 percent equity and 50 percent debt, and an
2 ROE of 9.40 percent. The Stipulating Parties further agreed to decrease the Company's
3 Cost of Long-Term Debt from 5.140 percent to 4.741 percent. Agreement to these Cost
4 of Capital components yields an overall ROR of 7.071 percent, as shown on the chart
5 below:

Agreed-upon Cost of Capital			
	Percent of Total Capital	Cost	Component
Long-Term Debt	50.0%	4.741%	2.371%
Common Equity	50.0%	9.40%	4.700%
Total	100.0%		7.071%

6 In this testimony, the Stipulating Parties will explain why they believe that the terms
7 of this Stipulation will result in fair and reasonable rates.

8 **Q. What is your general view of the reasonableness of the Stipulation?**

9 A. We believe that the Stipulation is reasonable, and, as we discuss below in more detail
10 below, provides needed stability for both customers and the utility.

11 ***CAPITAL STRUCTURE***

12 **Q. Please describe the Capital Structure agreed to by the Stipulating Parties.**

13 A. The Stipulating Parties agreed to a balanced Capital Structure for Cascade of 50 percent
14 equity and 50 percent Long-Term Debt.

15 **Q. How does the 50/50 Capital Structure agreed to in the Stipulation relate to**
16 **Cascade's actual Capital Structure?**

1 A. The balanced Capital Structure in the Stipulation is based on Cascade's actual Capital
2 Structure over the last six years.² As of December 31, 2019, the Company's actual Capital
3 Structure was 54.7 percent equity.³

4 **Q. Is a 50/50 Capital Structure consistent with the Capital Structures approved by the**
5 **Commission for Cascade in past rate cases?**

6 A. Yes. The Commission adopted a 50/50 Capital Structure for Cascade in 2019, in Docket
7 UG 347,⁴ and a Capital Structure of 49 percent Common Equity and 51 percent Long-
8 Term Debt for Cascade in 2016, in Docket UG 305.⁵

9 **RETURN ON EQUITY**

10 **Q. Please describe the ROE agreed to by the Stipulating Parties.**

11 A. The Stipulating Parties agreed to an ROE for Cascade of 9.40 percent.

12 **Q. How does an ROE of 9.40 percent comport with Cascade's proposal in its Initial**
13 **Filing?**

14 A. The ROE of 9.40 percent is consistent with the Company's proposal in its Initial Filing. In
15 her Opening Testimony, Ms. Kivisto explained that the Company proposed a 9.40 percent
16 ROE as a means to reduce costs to all parties and ultimately customers in the form of
17 consultant fees and administrative time.⁶ For purposes of meeting this objective, Cascade
18 explained that an ROE of 9.40 percent is reasonable and adequate, and is consistent with
19 the Commission's recent determination for ROE in Cascade's last general rate case,

² CNGC/100, Kivisto/8.

³ CNGC/100, Kivisto/8.

⁴ *In the Matter of Cascade Natural Gas Corp., Application for a Gen. Rate Revision*, Docket UG 347, Order No. 19-088 at 8 (Mar. 14, 2019).

⁵ *In the Matter of Cascade Natural Gas Corp., Request for a Gen. Rate Revision*, Docket UG 305, Order No. 16-477 at 3 (Dec. 12, 2016).

⁶ CNGC/100, Kivisto/9.

1 which was effective April 1, 2019,⁷ as well as the most recent general rate case for another
2 natural gas utility.⁸

3 **Q. Is this ROE consistent with that approved by the Commission for Cascade in past**
4 **rate cases?**

5 A. Yes. The Commission adopted a 9.40 percent ROE for Cascade in 2019 in Docket UG
6 347,⁹ and a 9.40 percent ROE for Cascade in 2016 in Docket UG 305.¹⁰

7 **Q. What was the Stipulating Parties' reasoning in adopting a 9.40 percent ROE for**
8 **Cascade?**

9 A. The Stipulating Parties acknowledge that 9.40 percent is within a reasonable range of
10 ROEs for Cascade and further believe that maintaining Cascade's ROE at the level at
11 which it was recently set in its last rate case would benefit both the Company and its
12 customers by providing stability and certainty.

13 **Q. Please explain why the stipulated ROE of 9.40 percent is reasonable.**

14 A. There are several reasons why we believe that the stipulated ROE of 9.40 percent is
15 reasonable and in the public interest.

16 **First**, a 9.40 percent ROE provides both customers and the Company the certainty
17 of a consistent and stable ROE. As such, customers avoid an increase in ROE while the
18 settlement assures Cascade of a return that will ensure sufficient revenues to allow it to
19 continue to invest in necessary infrastructure and fund operations as required to provide
20 safe and reliable utility service.

21 **Additionally**, the settled ROE is consistent with those adopted for Cascade since

⁷ CNGC/100, Kivisto/9 (citing Order No. 19-088).

⁸ CNGC/100, Kivisto/9 (citing *In the Matter of Avista Corp., dba Avista Utils., Request for a Gen. Rate Revision*, Docket UG 366, Order No. 19-331 (Oct. 8, 2019)).

⁹ Order No. 19-088 at 8.

¹⁰ Order No. 16-477 at 3.

1 2016, and therefore suggests a reasonable return when rates will go into effect.

2 The Stipulating Parties agree that this balanced approach to ROE is consistent
3 with the legal standards articulated in the U.S. Supreme Court's decisions in *Hope* and
4 *Bluefield*.¹¹

5 ***COST OF LONG-TERM DEBT***

6 **Q. Please describe the Cost of Long-Term Debt agreed to by the Stipulating Parties.**

7 A. The Stipulating Parties have agreed to a Cost of Long-Term Debt of 4.741 percent.

8 **Q. What was the Cost of Long-Term Debt initially proposed by the Company?**

9 A. The Company proposed a Cost of Long-Term Debt of 4.75 percent.¹²

10 **Q. What was the Stipulating Parties' reasoning in agreeing to the stipulated Cost of**
11 **Long-Term Debt?**

12 A. The agreed-upon cost of long-term debt represents a compromise between the modeling
13 performed by the Company and Staff, and results from extensive discussions during the
14 settlement process. The Stipulating Parties agree that this is a reasonable adjustment and
15 contributes to the fair resolution of this case.

16 ***OVERALL RATE OF RETURN***

17 **Q. What is the overall ROR, based on the settled Capital Structure, ROE and Cost of**
18 **Long-Term Debt?**

19 A. The overall ROR based on the settled components is 7.071 percent.

20 **Q. Do you agree that this overall ROR is appropriate and will result in fair and**
21 **reasonable rates?**

¹¹ *Bluefield Water Works & Improvement Co. v. Pub. Serv. Com'n of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*"); *Fed. Power Com'n v. Hope Nat. Gas Co.*, 320 U.S. 591 (1944) ("*Hope*").

¹² CNGC/100, Kivisto/8.

1 A. Yes. The settled ROR represents a decrease from Cascade's current authorized ROR of
2 7.270 percent—which is a benefit to Cascade's customers but is nevertheless sufficient
3 to assure confidence in the financial soundness of the utility.

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

5 ***Cascade***

6 **Q. Mr. Mickelson, does Cascade support the Stipulation which resolves all Cost of**
7 **Capital issues in this case?**

8 A. Yes. The Stipulation strikes a reasonable balance between the interests of Cascade's
9 customers and the Company related to Cost of Capital issues in this proceeding. The
10 Stipulation is a compromise among differing interests and achieves a fair outcome in these
11 circumstances. As explained above, Cascade's approach in its Initial Filing was intended
12 to avoid the need to incur the additional expense of fully litigating Cost of Capital issues in
13 this proceeding, and the outcome in this case achieves a reasonable result consistent with
14 that objective. In addition, this settlement is in line with the resolution of cost of capital
15 issues for other Oregon natural gas companies in the past two years.¹³

16 ***Staff***

17 **Q. Mr. Muldoon, please explain why Staff supports the Stipulation.**

18 A. I am providing separate testimony specifically explaining why Staff supports the
19 Stipulation, which is being filed concurrently with this Joint Testimony as Exhibit
20 Staff/1200.

¹³ See *In the Matter of Nw. Natural, dba NW Natural, Request for a Gen. Rate Revision*, Docket UG 388, Cost of Capital Stipulation (Mar. 12, 2020); *In the Matter of Avista Corp, dba Avista Utils., Request for a Gen. Rate Revision*, Docket UG 389, Partial Stipulation (May 18, 2020); *In the Matter of Avista Corp, dba Avista Utils., Request for a Gen. Rate Revision*, Docket UG 366, Order No. 19-331 (Oct. 8, 2019); *In the Matter of Nw. Natural, dba NW Natural, Request for a Gen. Rate Revision*, Docket UG 344, Order No. 18-419 (Oct. 26, 2018).

1 **CUB**

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

3 A. CUB supports the Stipulation because it achieves a reasonable compromise regarding
4 Cascade's cost of capital. CUB believes the Stipulation is in the public interest and will
5 result in rates that are fair, just, and reasonable. The stipulated cost of capital is 7.071%,
6 which is a decrease compared to UG 347, the Company's last general rate case in
7 Oregon. Importantly, the stipulated cost of capital does not increase the Company's profit
8 margin in a time of economic hardship for Cascade's customers. Also, CUB supported
9 the stipulation because it is similar to cost of capital set by peer utilities in the region.

10 **AWEC**

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

12 A. AWEC believes the Stipulation is in the public interest and recommends the Commission
13 approve the Stipulation because the best interests of Cascade's natural gas customers
14 are served by the underlying fair compromise on Cost of Capital issues. While the signing
15 parties may each hold different positions on the individual components of the Stipulation,
16 AWEC supports the Stipulation because it results in a reasonable ROR of 7.071 percent,
17 and a ROE of 9.4 percent, which are in line with the cost of capital settlements filed
18 recently in the Avista and NW Natural cases. AWEC supports the Stipulation as an overall
19 result that is a fair compromise between Cascade and its customers.

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

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

23 A. Yes.