

CASE: UG 390
WITNESS: BRIAN FJELDHEIM

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 100

Opening Testimony

July 30, 2020

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Brian Fjeldheim. I am a Senior Financial Analyst employed in
3 the Energy Rates and Accounting Program of the Public Utility Commission
4 of Oregon (OPUC). My business address is 201 High Street SE, Suite 100,
5 Salem, Oregon 97301.

6 **Q. Please describe your educational background and work experience.**

7 A. My witness qualification statement is found in Exhibit Staff/101.

8 **Q. What is the purpose of your testimony?**

9 A. I am the revenue requirement summary witness for the Public Utility
10 Commission of Oregon Staff (Staff) in this proceeding I introduce Staff-
11 sponsored adjustments and issues regarding the Cascade Natural Gas
12 Company's (CNG, cascade, or Company) request for a general rate
13 revision, docketed as Docket No. UG 390. As such, I verify Cascade's
14 proposed revenue requirement utilizing Staff's revenue requirement model.
15 This model is also used to calculate Staff's modified revenue requirement
16 after incorporating the Staff's proposed adjustments to the Company's
17 revenue requirement.

18 I am also the Staff analyst on several issues and present Staff's analysis
19 and recommendations regarding the rate treatment for these issues.

20 **Q. Will other Staff witnesses submit testimony regarding the issues they**
21 **reviewed?**

22 A. Yes. Each Staff assigned to Docket No. UG 390 is submitting separate
23 testimony. In Part 1 of my testimony, I introduce the Staff witnesses and

1 their respective assignments, and estimate the revenue requirement impact
2 of Staff recommended adjustments to the Company's initial filing. These are
3 the issues identified to date. Staff's recommendations and issues may
4 change after reviewing testimony and analysis by other parties.

5 **Q. Did you prepare an exhibit for this docket?**

6 A. Yes. I prepared the following exhibits:

- 7 Staff/101 Witness Qualification Statement.
- 8 Staff/102 Gas Storage in Rate Base – Associated Cascade workpaper
9 and responses to Staff Data Requests.
- 10 Staff/103 Gas Storage Operating Expense – Associated Cascade
11 workpaper and responses to Staff Data Requests.
- 12 Staff/104 Other Gas Supply and Purchased Gas Expense – Associated
13 Cascade workpaper and responses to Staff Data Requests.
- 14 Staff/105 Distribution O&M Expense (non-labor) – Associated Cascade
15 workpaper and responses to Staff Data Requests.
- 16 Staff/106 A&G Expense (non-labor) – Associated Cascade workpaper
17 and responses to Staff Data Requests.
- 18 Staff/107 Other Taxes (excluding income taxes) – Associated Cascade
19 workpaper and responses to Staff Data Requests.
- 20 Staff/108 Materials and Supplies Inventory and Expense – Associated
21 Cascade workpaper and responses to Staff Data Requests.
- 22 Staff/109 Prepaid Expense – Associated Cascade workpaper and
23 responses to Staff Data Requests.
- 24 Staff/110 Rate Case Expense – Associated Cascade workpaper and
25 responses to Staff Data Requests.
- 26 Staff/111 Staff Workpaper – Correction to Cascade's Conversion Rate
27 calculation.

28 **Q. How is your testimony organized?**

29 A. My testimony is organized as follows:

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PART 1. REVENUE REQUIREMENT

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Q. What is at issue in Cascade's rate case?

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A. The Company requests a revision to customer base rates that will increase the Company's annual Oregon jurisdictional revenues by \$4,507,842 for an increase of 6.67 percent over current customer rates resulting in a total revenue requirement of \$72,086,038. The Company also requests a revision to its amortization rate to recover environmental remediation costs that will increase the Company's annual revenues by \$363,765. The combined impact is an incremental increase request of \$4,871,607 or 7.21 percent, for an overall revenue requirement of \$72,449,803.

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The Company bases this request on a twelve-month test year ending

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December 31, 2020 (Test Year). Cascade provides information for a

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historical base year of the twelve-months ending December 31, 2019 (Base

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Year) and adjusts that information to reflect the forecasted Test Year.

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Q. What is Staff's recommendation regarding the Company's request?

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A. The following table summarizes the Company request and Staff's

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proposed adjustment for each issue:

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Table A

STAFF ISSUE SUMMARY							
CNG requested Incremental Revenue Requirement							\$ 4,507,842
Opening Testimony Exhibit No.	Staff Witness	Issue No.	Issue Description	Revenue	Expense	Rate Base	Revenue Requirement Effect
Stipulation	Muldoon		Stipulated Cost of Capital (excludes Interest Sync.)				(\$7,496)
100	Fjeldheim	1	Gas Storage in Rate Base				
100	Fjeldheim	2	Gas Storage Operating Expense				
100	Fjeldheim	3	Other Gas Supply Expense		(22,800)		(23,518)
100	Fjeldheim	4	Distribution O&M Expense		(187,000)		(192,889)
100	Fjeldheim	5	A&G Expense		146,000		150,598
100	Fjeldheim	6	Other Taxes				
100	Fjeldheim	7	Materials & Supplies Inventory & Expense				
100	Fjeldheim	8	Prepaid Expense				
100	Fjeldheim	9	Rate Case Expense		(93,000)		(95,929)
100	Fjeldheim	10	Company Conversion Rate*				
100	Fjeldheim	11	Interest Sync - Stip. Cost of LTD				2,024
200	Cohen	1	Wages & Salaries		(2,032,513)	(586,670)	(2,149,833)
200	Cohen	2	Uncollectible Expense				
200	Cohen	3	Advertising		(7,912)		(8,161)
200	Cohen	4	Customer Accounts		(20,979)		(21,640)
300	Dlouhy	1	Pension Expense		(23,621)		(24,365)
400	Zarate	1	Customer Support Programs				
400	Zarate	2	Energy trust of Oregon				
400	Zarate	3	Gains or Losses in Sales Property				
500	Fox	1	Utility Plant			(1,202,000)	(109,227)
500	Fox	2a	State & Federal Income Tax	-	(383,000)		(541,210)
500	Fox	2b	Other Income	389,000			(389,000)
500	Fox	2c	Taxes Other Than Income - CAT		200,000		206,298
600	Gibbens	1	Load Forecast and Sales Revenue				
600	Gibbens	2	Decoupling				
700	Moore	1	General Plant Maintenance				
700	Moore	2	Employee Benefits				
700	Moore	3	Insurance				
800	Peng	1	Analysis of Depreciation from Ratemaking Perspective				

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Opening Testimony Exhibit No.	Staff Witness	Issue No.	Issue Description	Revenue	Expense	Rate Base	Revenue Requirement Effect
800	Peng	2	Depreciation Effect on Revenue Requirement (UM 2073 Depr rates & Final UG 390 Utility Plant in Rate Base) Pending				
800	Peng	3	Regulatory Capitalization Policy				
800	Peng	4	FERC AFUDC Requirements				
900	Rossow	1	Membership & Dues				
900	Rossow	2	Meals & Entertainment & Misc		(216,032)		(222,835)
1000	Soldavini	1	Other Income	24,981			(24,981)
1000	Soldavini	2	Affiliate & Jurisdictional Cost Allocation				
1100	St. Brown	1	LRIC, rate spread, and rate design issues - Stipulation pending				
Total Staff-Proposed Adjustments (Base Rates):				\$413,981	(\$2,640,857)	(\$1,788,670)	(\$3,452,164)
							<u>\$ 1,055,678</u>

* Note - No Incremental Revenue Requirement Effect included for Conversion Rate change in Table A. Staff's proposed decrease to CNG's conversion rate and NTG factor will impact calculated revenue requirement required for authorized ROR on final rate base. Staff's proposed decrease to the conversion rate and NTG factor on the Company's filed case reduces Total Revenues by \$11,677 & Expenses by \$11,677, which nets to \$0. See Staff Excel workpaper, UG 390 Exh 100 Staff's Model adjusting CNG Conv Factor WP.xlsx, Summary tab, col 10.

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PART 2. STAFF ISSUES AND ANALYSIS

Q. What areas of Cascade’s filing are you primarily responsible for reviewing?

A. In my testimony, I review interest rate synchronization, gas storage in rate base, gas storage operating expense, other gas supply and purchased gas expense, distribution operations and maintenance (O&M) expense, administrative and general (A&G) expense, other taxes (excluding income taxes), materials and supplies inventory and expense, prepaid expense, rate case expense, and Cascade’s conversion rate calculation. In order to gain additional insight, I reviewed the Company’s responses to Staff’s Standard Data Requests (SDRs), issued additional DRs, and reviewed the Company’s responses.

ISSUE 1. GAS STORAGE IN RATE BASE

Q. Please describe the gas storage costs at issue.

A. Storage gas consists of two components, “cushion gas” and “working gas inventory.” “Cushion gas” is permanently retained in storage to maintain operational pressure and prevent water deterioration in an underground storage reservoir.¹ “Working gas inventory” is the gas that flows in and out of a storage reservoir, or Liquid Natural Gas (LNG) tank, to serve customer loads.² Cascade does not own gas storage facilities and therefore owns no “cushion gas.”³ Accordingly, the only costs for storage gas at issue in this rate case are those for working gas inventory.

Q. Please summarize the Commission’s historical treatment of gas storage in rate base.

A. All three regulated gas utilities serving in Oregon currently include gas storage costs in rate base.⁴

Q. Please summarize Cascade’s proposed rate treatment for “working gas” stored gas costs.

A. Cascade used a 13 month average of monthly averages (AMA) calculation for their Base Year working gas storage costs.⁵ The 2019 AMA for the 2019 Base Year is \$208 thousand for liquefied natural gas stored and \$435

¹ See *In the Matter of Northwest Natural*, Docket No. UM 1651, Order No. 13-349 at 1 and 5.

² *Id.*

³ See Staff/102, Cascade’s response to Staff DR Nos. 220 and 221.

⁴ See e.g., *In the Matter of Northwest Natural*, Docket UM 1651, Order No. 13-349 at 5 (Commission adopting stipulation including Northwest Natural Gas Company’s working gas inventory in rate base).

⁵ See Staff/102, Cascade’s response to Staff DR No. 222.

1 thousand for prepaid gas storage, totaling \$643 thousand in rate base.⁶

2 Cascade proposes no Test Year adjustment. Staff reviewed Cascade's
3 AMA calculations for natural gas stored underground and liquefied natural
4 gas stored and found no errors.

5 **Q. Did Staff issue data request(s) to Cascade concerning working gas**
6 **inventory?**

7 A. Yes. In addition to reviewing the Company's responses to Standard Data
8 Request (SDR) Nos. 057 and 058, Staff issued Data Requests (DR) Nos.
9 221 and 222 requesting monthly storage inventory levels, by gas volume
10 and dollar value, as well as the monthly storage guideline for each storage
11 facility, for the past 10 years. Cascade provided the most recent 10 years of
12 data (2010-2019).

13 The Company provided detailed documentation in support of
14 \$643 thousand for prepaid gas storage expense in their response to Staff
15 DR No. 222. However, this dollar amount contradicts the dollar amount of
16 \$962 thousand the Company provided in response to Staff SDR No. 058 for
17 gas storage in rate base. Staff is requesting clarification from the Company
18 as to which dollar amount is correct.⁷

19 **Q. Please summarize Staff's analysis of Cascade's responses to DR 222.**

20 A. Using data provided in Cascade's response to DR No. 222 – Rate Base
21 2019 and the Company's original filing,⁸ Staff calculated the dollar amount

⁶ *Id.*, Cascade Excel file "OPUC-222 – Rate Base 2019", tab "DEC19", rows 98 – 108.

⁷ The Company's response to Staff DR No. 268 is pending.

⁸ See Exhibits CNGC/301-302, Peters; and Company Excel work paper "MCP-WP1 (Rev Req)".

1 for the working gas inventory in rate base using the most recent calendar
2 year (2019), the most recent 13 month average of monthly averages (AMA),
3 a three-year calendar annual moving average, a three year AMA average,
4 and a ten-year calendar average (2010 – 2019). Staff's practice is to
5 consider the most recent three-year averages more heavily than a longer-
6 term trend as the basis to calculate an adjustment for gas storage in rate
7 base. Staff believes near term trends in gas pricing are likely to provide a
8 more accurate projected gas price for future periods. In general, Oregon
9 city gate gas prices steadily declined over the past 10 years. To illustrate
10 this, the Oregon city gate price for natural gas was approximately \$7.79 per
11 dekatherm in 2009, approximately \$4.82 per dekatherm in 2013, and
12 approximately \$3.56 per dekatherm in 2019.⁹

13 **Q. What is Staff's proposed adjustment to Gas Storage in rate base?**

14 A. In May of 2019, the Company began leasing 600,000 dekatherms (dth) of
15 additional gas storage capacity from Mist. This additional storage capacity
16 is being provided under a five-year lease from NW Natural with an
17 expiration date of April 30, 2024.¹⁰ The additional storage capacity was not
18 available in prior years, therefore trend analysis of prior periods does not
19 provide a meaningful projection for the Test Year. In this instance, Staff

⁹ Pricing provided by the U.S. Energy Information Administration and accessed at <https://www.eia.gov/dnav/ng/hist/n3050or3a.htm>.

¹⁰ Cascade and NW Natural provided information supporting this during the Q2, 2019 PGA update meeting with Staff and Parties to Docket No. UM 1286.

1 believes the Company's 13-month AMA dollar amount for 2019 represents
2 the most reasonable Test Year amount.

3 **Q. Does Staff propose an adjustment to Gas Storage in rate base?**

4 A. No. Staff proposes no adjustment for storage gas in the Test Year rate
5 base.

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ISSUE 2. GAS STORAGE OPERATING EXPENSE

Q. What are “gas storage operating expenses”?

A. Expenses for gas storage and gas storage operations are recorded in Federal Energy Regulatory Commission (FERC) accounts 814-843.¹¹

Q. Please summarize Cascade’s proposal related to gas storage expense.

A. The Company does not own or operate a gas storage facility.¹² No expenses for FERC accounts 814-843 are included in this rate case.

Q. Please describe your proposed adjustment of underground storage expense.

A. Cascade does not propose to recover amounts for gas storage or gas storage operating expense in this proceeding. Staff proposes no adjustment.

¹¹ The full description of 18 C.F.R. FERC Gas Accounts can be accessed here: <https://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=054f2bfd518f9926aac4b73489f11c67&rgn=div5&view=text&node=18:1.0.1.6.46&idno=18>.

¹² See Exhibit Staff/103, Company response to DR Nos. 220 and 221.

ISSUE 3. OTHER GAS SUPPLY AND PURCHASED GAS EXPENSE**Q. What is “other gas expense?”**

A. For purposes of my analysis, “other gas expenses” are the non-labor expenses recorded in FERC account 813 (other gas supply expenses), and include the cost of materials and non-labor expenses incurred in connection with gas supply functions, including research and development, not provided for in any other FERC account for gas expense.¹³

Q. Please summarize Cascade’s proposal related to other gas expense.

A. Cascade is seeking Test Year recovery of \$113 thousand for other gas expenses recorded in FERC account 813 for both labor and non-labor expense. According to the Company’s response to SDR Nos. 057, 058, and Staff DR No. 219, the total Base Year expense is \$111 thousand, of which approximately \$51 thousand of the Base Year expense was non-labor expense.^{14, 15}

Q. Please summarize Cascade’s proposal related to gas purchases.

A. In the Company’s initial filing workpapers, Excel file “UG 390 – Peters MCP-WP1”, tab “Exh 301 - ROO Summary Sheet”, row 18 illustrates that natural gas purchases are removed from the rate case. This is in keeping with the annual purchase gas adjustment (PGA) mechanism whereby gas utilities

¹³ See 18 C.F.R. § 205 (FERC account 813).

¹⁴ See Staff/104, Fjeldheim.

¹⁵ See Cascade workpaper Excel file “UG 390 – Peters MCP-WP1”, tab “Inflation Factor”, row 9.

1 receive an annual cost recovery adjustment for natural gas commodity
2 purchases.¹⁶

3 **Q. What is Staff's analysis and recommendation?**

4 A. Staff did not identify any dollar amounts associated with gas commodity
5 purchases included in this rate filing. Regarding other gas expenses
6 included in the filing, the Company provided limited historical data to
7 support the Test Year request. Staff issued DR No. 219 requesting 10 years
8 of historical actuals for other gas supply expenses. The Company provided
9 the requested ten years of labor and non-labor data. Staff only considered
10 the non-labor portion of the requested expenditure for purposes of this
11 analysis. Staff witness Heather Cohen investigates labor expenses in
12 Exhibit Staff/200.

13 Staff reviewed the data supplied in response to DR No. 219 for potential
14 outliers and more recent trends. In the 2018 - 2019 period, there was a
15 76.7 percent increase in annual non-labor other gas expenditures from
16 \$28,529 to \$50,516. Cascade used the \$50,516 as the Base Year amount
17 and escalated by 1.8 percent to arrive at the Test Year expense.

18 In reviewing the Company's response to Staff SDR No. 057, Staff
19 identified a one-time expenditure in 2019 for a damage payment expense
20 related to Puget Sound Energy – Fredonia, for which Oregon ratepayers
21 were allocated \$21,000. Cascade did not provide information on this
22 expense. Staff's review of expense for FERC Account 813 in the previous

¹⁶ See Docket No. UG 73, Order No. 89-1046 and Docket No. UM 1286.

1 two years did not reveal similar expense. When the \$21,000 expense is
2 removed, the remaining non-labor other gas expense allocated to Oregon is
3 approximately \$29,000, which is consistent with the amounts attributable to
4 Oregon customers in 2018 and 2017, \$28,529 and \$29,980, respectively.

5 Staff believes it is appropriate to remove the \$21,000 payment to Puget
6 Sound Electric from other gas expense as a non-recurring payment for
7 purposes of determining Cascade's Test Year expense. Cascade has
8 offered no evidence to show why this expense is a normal expense that
9 Cascade can expect to incur on an annual basis.

10 In reviewing the Company's proposed escalation for other gas expense,
11 Staff noted that Cascade included both labor and non-labor Base Year
12 other gas expense of \$111 thousand in their escalation calculation in
13 conjunction with a consumer price index – all urban (CPI-U) escalation rate
14 of 1.8 percent. Staff excluded labor from its review here. Staff recommends
15 using a three-year average for non-labor expense, less the \$21 thousand
16 dis-allowance for a Puget Sound Energy damages payment in 2019, with
17 an updated consumer CPI-U escalation factor of 0.7 percent.¹⁷

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¹⁷ June 2020 CPI-U = 0.7 percent. Obtained from the Oregon Office of Economic Analysis – June 2020 forecast available here <https://www.oregon.gov/das/OEA/Documents/appendixa.pdf>.

1 **Q. Please describe Staff's proposed adjustment of purchased gas and**
2 **other gas supply expense.**

3 A. The Company's actual cost of natural gas purchases is reconciled via the
4 annual PGA.¹⁸ Staff proposes no change to purchased gas expense in this
5 case.

6 Regarding Cascade's request to recover approximately \$113 thousand in
7 Test Year other gas supply expense, Staff is only considering the non-labor
8 component in the following recommended adjustments:

- 9 1) Dis-allow \$21 thousand Base Year expense for Puget Sound
10 Energy.
- 11 2) Remove the labor component of \$60 thousand from the Company's
12 CPI-U escalation calculation. This results in a (\$1,792) reduction to
13 the Test Year escalation adjustment.
- 14 3) Use a three-year average for other gas supply expense, less the
15 Puget Sound Energy adjustment from 1) then escalate using the
16 June 2020 CPI-U. This results in a Test Year non-labor amount of
17 \$30 thousand.

¹⁸ Order No. 14-238 in Docket No. UM 1286.

ISSUE 4. DISTRIBUTION O&M EXPENSE (NON-LABOR)

Q. Please describe the expenses included in this issue.

A. Distribution O&M expenses are recorded in FERC accounts 870-894 and are allocated between Oregon and Washington operations, with discrete state costs (situs) booked 100 percent to the state of operation. Costs that are non-discrete are allocated on a fixed percentage basis. In the Base Year, the Company's cost allocation factor for Oregon is 24.83 percent.¹⁹

Q. Please provide a summary of the Company's filed proposal for this issue.

A. FERC accounts 871-881 are primarily operational in nature and include activities such as distribution and load dispatching, compressor station and mains operations, measuring and regulating station expenses, customer installs and metering expenses, and utility rents. FERC accounts 882-894 primarily involve system maintenance activities and include maintenance supervision, mains and compressor station maintenance, measuring and regulating station equipment maintenance, and maintenance of meters and other operating equipment.

In the Company's Revenue Requirement model, Cascade used a non-labor Base Year expense for Distribution O&M. Cascade arrived at this amount using Oregon total 2019 Distribution O&M expenditures (FERC accounts 870-894) of \$6,651,691 and then subtracted \$3,367,458 for Base Year union wages, resulting in a non-labor Base Year amount of

¹⁹ See Exhibit CNGC/305, Peters/1-2.

1 \$3,284,232. Cascade then escalated the calculated non-labor expense
2 using an escalation rate of 1.8 percent.²⁰ The Company's workpapers
3 indicate that it is requesting non-labor Distribution escalation of \$59,116
4 for FERC accounts 870-894.²¹ The Company did not indicate any
5 normalizing adjustments from the Base Year to the Test Year for
6 Distribution O&M expenses.²²

7 **Q. Please discuss Staff's analysis of these expenditures.**

8 A. Staff first reviewed the reasonableness of Distribution O&M expenses by
9 comparing the utility's proposed Test Year expense to various historical
10 benchmarks, including a three-year average.

11 Staff reviewed the Base Year non-labor Distribution O&M expenses of
12 \$2.127 million provided in the Company's response to Staff SDR Nos.
13 057 and 058. From this, Staff reviewed two data samples of the 200
14 largest O&M expenditures, by Oregon situs and by Oregon allocated
15 expense. Staff did not identify any disallowed or one-time expenses in
16 the Base Year data sampled. Staff noted that payments totaling \$58,285
17 were made to an affiliate, Knife River, but made no adjustments.

18 Staff then reviewed three years of summary level non-labor expenses
19 provided in the Company's response to Staff SDR No. 058 and
20 calculated a three-year non-labor average of \$1.971 million (2017-2019).

²⁰ See Cascade workpapers, Excel file "UG 390 – Peters MCP-WP 1", tab "Inflation Factor", columns B-F.

²¹ See Exhibit CNGC/304, Peters/1, column (k).

²² *Id.*, row 12

1 Finally, Staff escalated the three-year average, to include the Base Year,
2 using the June 2020 CPI-U rate of 0.7 percent.²³ This resulted in a Test
3 Year escalation adjustment of \$14 thousand, resulting in a total Test
4 Year amount of \$1.985 million.

5 **Q. Did Staff note any differences between the Company's calculations**
6 **and Staff's calculations?**

7 A. Yes. First, the Company's calculation for Base Year non-labor O&M
8 expense of \$3.284 million is \$1.157 million higher than the \$2.127 million
9 figure the Company provided in response to Staff SDR Nos. 057 and 058.
10 The Company provided no additional details or documentation to support
11 the \$3.284 million figure. As such, it is Staff's position that the
12 \$2.127 million amount in the Company's response to SDR Nos. 057 and
13 058 is better supported than the dollar amount in the Company's revenue
14 requirement inflation factor model. Using the \$2.127 million figure above,
15 Staff applied the Company's inflation factor of 1.8 percent to re-calculate
16 the Company's proposed Test Year escalation, resulting in an escalation
17 amount of \$38,277, which is \$20,839 less than the Company's proposed
18 escalation.

19 Additionally, Staff used the June 2020 CPI-U factor of 0.7 percent to
20 calculate Test Year escalation, which is 1.1 percentage points lower than
21 the Company's 1.8 percent escalation used in their filing. In light of the

²³ Oregon Department of Administrative Services – Office of Economic Analysis, June 2020 Revenue Forecast, which can be found at <https://www.oregon.gov/das/OEA/Pages/Index.aspx>

1 significant decline in economic activity since the beginning of 2020, it is
2 Staff's position the June 2020 CPI-U represents a reasonable Test Year
3 escalation factor.

4 Lastly, using a three-year O&M expense average with a June 2020 CPI-U
5 escalation factor, Staff calculated a Test Year dollar amount of
6 \$1.984 million.

7 **Q. What is Staff's recommendation for non-labor O&M Test Year**
8 **expense?**

9 A. Staff recommends using the three-year average of non-labor O&M expense
10 rather than the non-labor O&M Base Year expense of \$2.127 million
11 reported in the Company's responses to Standard Data Requests.²⁴ The
12 three-year average is \$1.984 million, a reduction of (\$142 thousand).
13 Additionally, Staff recommends reducing the Company's escalation amount
14 from \$59 thousand to \$14 thousand, a reduction of (\$45 thousand). In total,
15 Staff proposes a (\$187 thousand) reduction to the escalated, non-labor
16 O&M Test Year expense.

²⁴ Based on the Company's non-labor responses to SDR Nos. 057 and 058.

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ISSUE 5. A&G EXPENSE (NON-LABOR)

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Q. Please describe the expense included in this issue.

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A. The Company records A&G expenses in FERC accounts 921 – 922, 928, 930, and 931, and these expenses are allocated between Oregon and Washington operations, with discrete state costs booked 100 percent to the state of operation (situs) or on a fixed percentage allocation basis. In the Base Year, the Company's cost allocation factor for Oregon is 24.83 percent.²⁵

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Q. Please provide a summary of the Company's filed proposal for this issue.

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A. The Company used 2019 A&G non labor expenditures (FERC accounts 921 - 925, 930, 931, and 935) for the Base Year and increased these expenses using an escalation factor. Multiple Staff reviewed various separate components of A&G expenses.

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In the Company's revenue requirement model, Cascade used a non-labor Base Year expense for A&G expense. Cascade arrived at this amount using Oregon total 2019 A&G expenditures (FERC accounts 920 - 935) of \$6,254,289 and then subtracted \$3,240,645 for Base Year salary wages, resulting in a non-labor Base Year amount of \$3,013,645. Cascade then escalated the calculated non-labor expense using an escalation rate of 1.8 percent.²⁶

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²⁵ See CNGC/305, Peters/1-2.

²⁶ See CNGC/304, Peters/1, column (k).

1 For A&G, the Company's workpapers indicate it is requesting non labor
2 A&G escalation of \$50,923.²⁷ Separate from escalation, the Company
3 also proposes adjustments to A&G expenses by removing membership
4 fees (50 percent), officer incentive compensation, adjusted wages, and
5 adjustments for various expenses that are typically disallowed by the
6 Commission, resulting in a reduction of (\$245,178) to A&G expenses in
7 the 2020 Test Year.²⁸

8 **Q. Please discuss Staff's analysis of these expenditures.**

9 A. Staff used the same review methodology as was used for Distribution
10 O&M expenses. Please see Issue 4 for additional details.

11 **Q. Please summarize Staff's review.**

12 A. Per the Company's response to SDR Nos. 057 and 058, Base Year
13 non-labor A&G expenses were \$4.068 million. However, \$1.753 million of
14 this total was related to employee pension benefits and \$101 thousand
15 were related to rate case expenses.²⁹ Staff witness Dr. Curtis Dlouhy
16 addresses pensions in Exhibit Staff/300 and rate case costs are addressed
17 separately in Issue 10 of my opening testimony. Staff witness Paul Rossow
18 is reviewing other miscellaneous A&G expenses in Exhibit Staff/900. The
19 exclusion of pension and rate case costs results in a revised A&G expense

²⁷ See CNGC/304, Peters/1, column (k).

²⁸ See Cascade workpapers, Excel file "UG 390 – Peters MCP-WP1 (Rev Req) 6.19.20 r", tab "Exh 304 – Summary of Adj", Row 30.

²⁹ Per Company response to Staff SDR No. 057, tab "10-A&G", Column F, Subsidiary "29260", Oregon non-labor pension expenses totaled \$29,495 and does not agree with the Company's SDR No. 058 response for non-labor pension expense of \$1,753,413. Staff is following up with the Company.

1 of \$2.214 million. From the narrowed A&G data, Staff used the Company's
2 revised response to SDR No. 057 and reviewed two data samples of the
3 200 largest A&G expenditures, by Oregon situs and by Oregon allocated
4 expense. Staff identified \$100,603 in legal and consultant fees associated
5 with the Company's rate case filing and is excluding this amount from
6 Staff's analysis in this issue.

7 Staff then reviewed three years of summary level non-labor expenses
8 provided in the Company's response to Staff SDR No. 058 and calculated a
9 three-year non-labor average of \$2.397 million (2017-2019). Finally, Staff
10 escalated the three-year average, less pensions and rate case expenses, to
11 include the adjusted Base Year, using the June 2020 CPI-U rate of
12 0.7 percent. This resulted in a Staff calculated Test Year escalation
13 adjustment of \$17 thousand and a revised total Test Year amount of
14 \$2.414 million.

15 **Q. Did Staff note any differences between the Company's calculations**
16 **and Staff's calculations for A&G?**

17 A. Yes. First, the Company's calculation for Base Year non-labor A&G
18 expense of \$3.014 million is \$1.055 million lower than the \$4.068 million
19 figure the Company provided in response to SDR No. 058. The Company
20 provided no additional details or documentation to support the
21 \$3.014 million figure. As such, it is Staff's position that the \$4.068 million
22 amount from the Company's response to SDR Nos. 057 and 058 is better
23 supported than the dollar amount in the Company's revenue requirement

1 inflation factor model. Using the \$4.068 million figure above, Staff applied
2 the Company's inflation factor of 1.8 percent to re-calculate the Company's
3 proposed Test Year escalation, resulting in an escalation amount of
4 \$41,667, which is \$12,579 less than the Company's proposed escalation.

5 Staff did not consider pension and rate case expenses for this analysis
6 and omitted these dollar amounts from its calculations. This results in a
7 revised Base Year amount of \$2.214 million.

8 Staff then used the June 2020 CPI-U factor of 0.7 percent to calculate
9 Test Year escalation, which is 1.1 percentage points lower than the
10 Company's 1.8 percent escalation used in their filing. In light of the
11 significant decline in economic activity since the beginning of 2020, it is
12 Staff's position that the June 2020 CPI-U represents a reasonable Test
13 Year escalation factor.

14 Lastly, using a three-year A&G expense average that excluded pension
15 (FERC 926) and rate case expenses (FERC 928) and applying a June 2020
16 CPI-U escalation factor, Staff calculated a Test Year dollar amount of
17 \$2.414 million.

18 **Q. What is Staff's recommendation for non-labor A&G Test Year**
19 **expense?**

20 A. Staff recommends using a three-year average, thereby increasing the
21 Company's non-labor A&G Base Year expense from \$2.214 million³⁰ to

³⁰ Based on the Company's non-labor responses to Staff SDR Nos. 057 and 058. This figure excludes pension expense (FERC 926) and rate case expense (FERC 928).

1 \$2.397 million, an increase of \$183 thousand. Staff proposes to escalate
2 the revised Test Year using the June 2020 CPI-U of 0.7 percent. This
3 reduces the Company's escalation amount from \$54 thousand to
4 \$17 thousand, a reduction of (\$37 thousand). In total, Staff proposes a
5 \$146 thousand increase to the escalated, non-labor A&G Test Year
6 expense. This increase excludes pension and rate case expenses.

1 **ISSUE 6. OTHER TAXES (EXCLUDING INCOME TAXES)**

2 **Q. Please provide a summary of the Commission's historical treatment**
3 **of taxes other than income, the Company's filed proposal, and**
4 **Staff's analysis of the issue.**

5 A. The category "taxes other than income" (Other Taxes) typically includes
6 franchise fees, the regulatory fee imposed by the OPUC, property taxes,
7 payroll taxes and other miscellaneous taxes or fees, e.g. Oregon Dept. of
8 Energy (ODOE) fee, incurred by the energy utility. Payroll taxes are
9 included as a component of wages and salaries, which is discussed by Staff
10 witness Heather Cohen in Exhibit Staff/200.

11 Franchise fees, along with business or occupation taxes, licenses, and
12 similar exactions or costs, are allowed as operating expenses for
13 general rates on the condition these costs do not exceed 3.0 percent of
14 gross revenues for a gas utility.³¹ For simplicity, these costs are referred
15 to collectively as franchise fees. The OPUC fee and ODOE fee are also
16 included in operating expenses for ratemaking purposes. In rate cases,
17 franchise fees, and the OPUC fee are a function of the fee rate
18 multiplied by gross revenues and are called revenue sensitive costs.
19 Additionally, these revenue sensitive fees are included in the conversion
20 factor in determining the revenue requirement.

³¹ See OAR 860-022-0040(1). Fees that exceed three percent must be charged to the customers within the jurisdiction assessing the fee. (OAR 860-022-0040(6)).

1 Property taxes related to property that is not yet used and useful may not
2 be included in customer rates of a gas utility.³² Hence, these property taxes
3 are excluded from Test Year operating expenses. Property taxes related to
4 property that is used and useful are included in Test Year operating
5 expense and are usually forecasted for ratemaking purposes based on
6 historical property tax information.

7 **Franchise Fees**

8 **Q. What is the Commission's historical treatment of franchise fees in a**
9 **general rate case?**

10 A. The revenue requirement for franchise fees is revenue sensitive.

11 Accordingly, Staff determines a franchise fee rate based on a ratio of
12 annual fees and revenues. Historically, Staff has accepted a franchise fee
13 rate based on a three-year average rate. However, Staff has reviewed other
14 evidence such as a historical trend to determine the reasonableness of the
15 proposed franchise rate and the resulting franchise fees.

16 **Q. Would you please explain the Company's proposal for franchise**
17 **fees?**

18 A. The Company did not provide any testimony regarding franchise fees. In
19 CNGC/303, the Test Year franchise rate is reported as 2.412 percent. Staff
20 issued DR No. 230 requesting additional data for franchise fees paid,
21 operating revenues, and the franchise fee percentage for 2016-2019. The

³² See ORS 757.355(1).

1 Company's response states the 2.412 percent rate is the franchise fee rate
2 the parties stipulated to for Cascade's last rate case, Docket No. UG 347,
3 Order No. 19-088.

4 **Q. What is Staff's recommendation regarding the franchise fee rate the**
5 **Company proposes?**

6 A. Staff proposes the franchise fee rate be calculated based on a three-year
7 average of the last three years of actual data (2017-2019). Calculating the
8 franchise fee in this way incorporates another year of data from 2019,
9 thereby updating the rate used in UG 347. This results in 2.372 percent
10 versus the Company's 2.412 percent.³³ The 2.372 percent will be used in
11 the Test Year conversion factor for the revenue requirement and Staff will
12 apply this percentage to adjusted Test Year revenues to calculate the
13 amount of franchises fees in other tax expense.

14 **OPUC Regulatory Fee**

15 **Q. Would you please explain the Company's proposal for the OPUC**
16 **fee?**

17 A. The Company has proposed a rate of 0.300 percent.

18 **Q. Does Staff find the 0.300 percent rate reasonable?**

19 A. No. According to Order No. 20-054, the most recent OPUC order setting the
20 annual fee rate, the rate is set at 0.350 percent.³⁴ Since this rate is applied
21 to gross revenues, the amount of fees recommended by Staff will be a

³³ See Staff electronic workpaper, UG 390 Exh 100 Issue 1 Franchise Fees wp Gardner.xlsx.

³⁴ The OPUC budget section is projecting an OPUC regulatory fee assessment of 0.35 percent for April 1, 2021.

1 function of the amount of gross revenues recommended by Staff in
2 subsequent opening testimony.

3 **Property Taxes**

4 **Q. Would you please explain the Company's proposal for Property**
5 **Taxes?**

6 A. As provided in its response to Staff DR No. 232, the Company included
7 \$1.9 million in the Test Year, the actual amount paid in 2019 for property
8 taxes. This results in a property tax factor of 1.48 percent.

9 **Q. What is Staff's recommendation regarding property taxes?**

10 A. Staff reviewed the property tax actuals from 2016 through 2019 in the
11 Company's response to Staff DR No. 232. Based on Staff's review, Staff
12 finds the proposed Test Year property tax expense and property tax factor
13 are reasonable. However, depending on other adjustments to Plant, Staff
14 may propose an adjustment to the final revenue requirement for property
15 tax.

16 **Summary of Other Taxes**

17 **Q. What is Staff's recommendation regarding the revenue sensitive**
18 **rates the Company proposes?**

19 A. Staff recommends an OPUC rate of 0.350 percent in the revenue sensitive
20 conversion factor and a franchise fee rate of 2.372 percent.

21 **Q. Does Staff propose a dollar adjustment(s) for the OPUC fee or**
22 **franchise fees?**

1 A. At this time, no. These fees are considered revenue sensitive and are best
2 considered once the Company's final Test Year revenues are finalized.

3 **Q. What is Staff's recommendation regarding the Company's proposed**
4 **Test Year expenses?**

5 A. Both the franchise fees and the OPUC fee are revenue sensitive and are
6 thus a function of revenues. Staff will propose dollar adjustments to both
7 based on other Staff proposals regarding Test Year revenues.

ISSUE 7. MATERIALS AND SUPPLIES INVENTORY AND EXPENSE

Q. Please describe the Commission’s historical treatment of “Materials and Supplies” inventory.

A. The utility’s inventory of materials and supplies is a subcategory of “working capital” that gas utilities are allowed to include in rate base. The concept is that utilities spend money to keep a store of materials and supplies ready for use and should earn a return on that investment.³⁵

Q. What amount is the Company proposing to include in rate base for materials and supplies inventory?

A. The Test Year amount for Oregon is \$1.715 million, the same amount in Company’s Base Year.

Q. Please discuss Staff’s analysis of materials and supplies inventory.

A. Staff reviewed 10 years of end of month inventory data provided in the Company’s response to Staff DR No. 222. In particular, Staff focused on the end of year balances as well as the Company’s calculated 13-month average of monthly averages (AMA) totals for each year.

Q. What is the three-year average for materials and supplies inventory?

A. Staff used the Company’s 13-month AMA methodology from the Company’s response to DR 222 to cross check the Company’s AMA annual averages calculations for 2017-2019. Staff then calculated a

³⁵ See e.g., *In re California-Pacific Corp Utilities Company* (Docket No. UF 3195), Order No. 76-132 (1976 WL 419251).

1 three-year and two-year annual AMA average for comparison against the
2 Company's Base Year amount. The proposed Test Year amount of
3 \$1.715 million is less than the three-year average AMA of \$2.229 million
4 and the two-year average AMA of \$2.124 million.³⁶ From 2017 to 2019,
5 the dollar amount for Cascade's materials and supplies inventory have
6 steadily declined. Staff did not identify any concerns regarding materials
7 and supplies inventory.

8 **Q. Please discuss Staff's review of Base Year materials and supplies**
9 **expense.**

10 A. In the Company's response to SDR No. 057, Staff identified A&G materials
11 and supplies expenses of \$7 thousand and Distribution O&M materials and
12 supplies expenses of \$400 thousand. Staff's review of these transactions
13 revealed no issues or concerns. Please see Staff Issues 4 and 5 for a more
14 in-depth description of Staff's review of A&G and Distribution O&M
15 expenses.

16 **Q. Does Staff propose to adjust the Company's Test Year materials and**
17 **supplies inventory or projected expenses?**

18 A. Staff proposes no adjustment.

³⁶ 2017-2019 dollar amounts provided in Company's response to Staff DR No. 222, Excel file "OPUC-222 Rate Base 2019". The Company also provided Excel files for 2011-2018.

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ISSUE 8. PREPAID EXPENSE

Q. What are prepaid expenses and how are they recorded?

A. Prepaid expenses are payments made in advance for items such as yet-to-be delivered gas, insurance, rent, and taxes. As the periods covered by prepayments expire, the value of these prepayments is reduced and the associated expense is charged to the proper operating account. Prepaid expenses are recorded in FERC account 165.³⁷

Q. Did the Company include prepaid expenses in the rate case?

A. In response to Staff SDR No. 085, the Company provided data for three separate categories of prepayments included in the rate case. The Company proposes to include in the Test Year prepayments for insurance of \$34 thousand, gas storage of \$962 thousand, and miscellaneous of \$242 thousand.

Q. Please discuss Staff's review of this issue.

A. The components for gas storage and miscellaneous prepayments were previously addressed in Staff Issues 1, 7, and 8 and are excluded here, with one exception. In Staff's review of gas storage in rate base, the Company provided detailed documentation in support of \$643 thousand for prepaid gas storage expense in their response to Staff DR No. 222.

Regarding prepaid insurance expense, Staff noted a discrepancy between the Oregon allocated Base Year dollar amount of \$34 thousand provided in the Company's response to SDR No. 085 and total Oregon Base Year

³⁷ See 18 C.F.R. § 205 (FERC account 165).

1 expenditures recorded as “prepaid insur exp” of \$338 thousand provided in
2 the Company’s response to SDR No. 057. Staff is requesting the Company
3 provide additional clarification for the \$304 thousand difference.

4 **Q. Does Staff recommend and adjustment for this issue?**

5 A. At this time, no. However, Staff’s investigation of this issue is ongoing and
6 Staff reserves the right to make an adjustment at a later date.

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ISSUE 9. RATE CASE EXPENSE

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Q. Please describe the expense at issue.

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A. The Company incurred additional expenses associated with filing this rate case. In addition to Company staff, the Company used an outside law firm and a consulting firm to provide additional support in their rate case filing.

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Q. Please provide a summary of the Company's proposal for this issue.

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A. The Company reported total costs for outside contractors used on the present rate case, as well as continued amortization from prior rate case expenses, is \$356,495 for the Base Year.³⁸ The Company proposes to use the equivalent of a three-year amortization for rate case costs in the present filing, and included this expense in the 2020 Test Year. Additionally, the Company included unamortized expense from two prior rate cases, \$89,670 from Docket No. UG 347 and \$11,275 from Docket No. UG 287. In total, the Company proposes to include rate case costs of \$178 thousand in the 2020 Test Year.

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Q. Please explain the Staff's typical treatment for rate case costs.

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A. Staff's historical treatment of rate case costs is to review these costs for reasonableness. Rate case costs that are deemed reasonable are then accounted for in the utility's Test Year as if they are being amortized over a multi-year period, typically three years. This means only one-third of the rate case costs are included as Test Year expense. Including one-third of

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³⁸ See Cascade workpapers, Excel file "UG 390 – Peters MCP-WP1", tab "Rate Case Costs".

1 the costs reflects that utilities do not typically file a rate case every year.
2 Although Staff describes the rate treatment as amortization, the Company
3 does not separately amortize rate case costs. Instead, they are another
4 component of the Test Year. This methodology was used in the Company's
5 three prior rate cases.³⁹

6 **Q. Please describe Staff's analysis of the Company's proposal for rate**
7 **case costs.**

8 A. Staff analyzed Company's Exhibits 301-306 and Peters Excel worksheet
9 "UG 390 – Peters MCP-WP1", tab "Rate Case Costs".⁴⁰ Per Ms. Peter's
10 workpaper, no rate case costs were incurred in the Base Year. As a result,
11 the Company proposes an estimated Test Year adjustment of \$178,055 to
12 reflect current rate case expenses as well as continuing amortized
13 expensed from prior rate cases.

14 In the previous three rate cases, Staff treated rate case costs in the Test
15 Year as if they were amortized over a three-year period. In Docket No.
16 UG 305, the Test Year rate case expense in the Test Year was \$95,724. In
17 Docket No. UG 347, the Test Year rate case expense was \$89,670.

18 **Q. Does Staff have concerns with the Company's proposed Test Year**
19 **expense for rate cases?**

³⁹ *In the Matter of Cascade Natural Gas Corporation* (Docket No. UG 347), Order No. 19-088; *In the Matter of Cascade Natural Gas Corporation* (Docket No. UG 305), Order No. 16-477; *In the Matter of Cascade Natural Gas Corporation* (Docket No. UG 287), Order No. 15-412.

⁴⁰ Additional details provided in CNGC/304, Peters/1, Column (n).

1 A. Yes. First, the Company's inclusion of "unamortized" expense from previous
2 rate cases is not appropriate. As with any other expense, the Company is
3 not guaranteed that its revenues will exactly match its expenses. The fact
4 that Cascade believes it has not yet recovered its costs from previous rate
5 cases does not mean that it is appropriate to include those previous costs in
6 the Test Year for this case.

7 Second, Staff notes the Company proposes to amortize rate case
8 expenses related to Concentric over five years rather than a three-year
9 period. The Company did not provide additional testimony or supporting
10 documentation as to why a five-year amortization is preferable to Staff's
11 practice of using a three-year amortization period.⁴¹

12 **Q. Does Staff recommend an adjustment to the proposed 2020 Test**
13 **Year?**

14 A. Yes. Staff recommends an adjustment of (\$100,945) to remove expenses
15 associated with previous rate cases. Staff also recommends the proposed
16 Concentrix expense of \$60,550 in the present filing be amortized over a
17 three-year period instead of a five-year period, resulting in a Test Year
18 increase of \$8,073. In total, Staff recommends a net adjusted Test Year
19 rate case expense of \$85 thousand, a (\$93 thousand) reduction to the
20 Company's proposed Test Year rate case expense.⁴²

⁴¹ Based on the Company's recent Oregon rate case history, the Company files rate cases approximately once every two years. Docket No. UG 305 filed April 4, 2016; Docket No. UG 347 filed May 31, 2018; and Docket No. UG 390 was filed March 31, 2020.

⁴² UG 305 Test Year 2016 amortized rate case expense = \$95,724; UG 347 Test Year 2018 amortized rate case expense = \$89,670.

1 **ISSUE 10. CASCADE'S CONVERSION RATE CALCULATION**

2 **Q. Please summarize Staff's review of this issue.**

3 A. In the Company's original filing, Cascade's revenue requirement model
4 Excel workpaper "UG 390 - Peters MCP-WP1", Tab "Revenue Sensitive
5 Cost Calc", and supporting exhibits CNGC/302, Peters/1 and CNGC/303,
6 Peters/1, contain an error in the calculation for Oregon state income tax.
7 This error in turn affects the Company's calculation of Federal taxable
8 income and the subsequent calculated percentage for total excise taxes
9 and the total revenue sensitive cost factor.

10 **Q. Please describe the error and how Staff proposes to correct the**
11 **calculation.**

12 A. For the purposes of revenue modeling for Oregon taxable income, revenue
13 sensitive items (e.g. uncollectible accounts, OPUC fee, franchise fees) must
14 first be deducted from a revenue factor of 1. The resultant percentage is the
15 Company's Oregon taxable income. The Oregon taxable income should
16 then be multiplied by the State income tax rate of 7.6 percent to derive
17 Federal taxable income.

18 In the Company's revenue requirement model,⁴³ Cascade's calculation for
19 Oregon state income tax subtracts 7.6 percent from the Oregon taxable
20 income factor. The Company should have instead multiplied state taxable
21 income by 7.6 percent. By subtracting the Oregon state tax rate from

⁴³ See Cascade Excel workpaper "UG 390 - Peters MCP-WP1", Tab "Revenue Sensitive Cost Calc", Rows 11-23.

1 Oregon taxable income instead of multiplying, the Company's Federal
 2 taxable income is too low compared to Staff's revenue model. As a result,
 3 the Company's Federal tax rate, total excise tax rate, total revenue
 4 sensitive costs, and utility operating income factors are too low compared to
 5 Staff's revenue model. The Company's filed net-to-gross up factor of
 6 1.41675 is overstated, which affects every dollar of additional revenue. The
 7 following table compares Cascade's and Staff's calculations.

8 **Table B** ⁴⁴

	Company	Staff
REVENUE SENSITIVE COSTS		
Revenues	1	1
Operating Revenue Deductions		
Uncollectible Accounts	0.00340668	0.00340668
Taxes Other - Franchise & Resource Supplier	0.02412400	0.02412400
OPUC Fees	0.00300000	0.00300000
State Taxable Income	0.96946932	0.96946932
State Income Tax	0.07600000	0.07367967
Federal Taxable Income	0.89346932	0.89578965
Federal Income Tax @ 21%	0.18762856	0.18811583
ITC	0.00000000	0.00000000
Current FIT	0.18762856	0.18811583
Other		
Total Excise Taxes	0.26362856	0.26179549
Total Revenue Sensitive Costs	0.29415924	0.29232618
Utility Operating Income	0.7058407607283	0.70767382
Net-to-Gross Factor	1.41675014	1.41308039

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⁴⁴ Staff workpapers, Excel file "UG 390 Exh 100 Opening Testimony Staff's Model Rev Req wp CONF", Tab "Revenue Sensitive Cost Calc".

1 **Q. Does Staff propose an adjustment to the Company's Conversion Rate**
2 **calculation?**

3 A. Yes. Staff re-calculated the Company's Oregon state income tax
4 component, which results in a revised net-to-gross factor of 1.41308.

5 **Q. Does Staff propose a dollar adjustment to the Company's conversion**
6 **rate?**

7 A. No. Staff's proposed decrease to Cascade's conversion rate and net-to-
8 gross factor will impact the calculated revenue requirement required for the
9 authorized ROR on final rate base.

ISSUE 11. INTEREST RATE SYNCHRONIZATION & COST OF CAPITAL**STIPULATION**

Q. Please provide a summary of the Commission's historical treatment of interest synchronization, the Company's filed proposal, and Staff's analysis of the issue.

A. According to long-standing Commission policy, for ratemaking purposes, Staff routinely synchronizes interest expense to reflect changes in the regulated utility's cost of capital as initially filed in a general rate case. Accordingly, the interest synchronization adjustment depends on proposed adjustments to cost of capital (CoC) in this docket. In this case, all parties have resolved cost of capital issues raised and filed a stipulation to that effect on July 1, 2020. The Stipulation, if approved by the Commission, will impact the Company's filed cost of capital, of which the weighted cost of debt is a component. Because interest expense on long-term debt is tax deductible, the proposed cost of long-term debt (LTD) impacts income tax expense for ratemaking purposes.

The cost of long-term debt proposed in Cascade's direct testimony is 4.750 percent, with a weighted cost of long-term debt of 2.375 percent. According to the Stipulation, the agreed upon cost of long-term debt is 4.741 percent, with a weighted cost of long-term debt of 2.371 percent.

1 **Q. What is the revenue requirement impact of the stipulated change to**
2 **CoC?**

3 A. In the Stipulation, the parties did not calculate the revenue requirement
4 impact. The only component that did change was the cost of LTD.
5 Therefore, Staff did include the revenue requirement impact of both the
6 CoC and interest synchronization in the model.

7 **Q. What is Staff's recommendation for interest expense?**

8 A. As the revenue requirement summary witness, I have synchronized the
9 interest expense for the income tax calculation to reflect the stipulated
10 weighted cost of debt of 2.371 percent. Calculated on the Company's Test
11 Year rate base of \$132,613,684 and its filed weighted cost of long-term
12 debt of 2.375 percent, I recommend a reduction to interest expense for
13 income tax purposes of (\$5,305). The exact of amount of the adjustment
14 will be trued-up as a function of the final agreed upon Net Rate Base.

15 The interest amount is calculated on the Test Year as follows:

16 + Net Rate Base

17 X Staff's Recommended (or Authorized) Weighted Cost of Debt

18 = Allowable Interest Deduction

19 - Company's Reported Interest Deduction

20 = Interest Coordination Adjustment

21 **Q. What is Staff's recommendation for the revenue requirement impact of**
22 **July 1, 2020, Cost of Capital Stipulation?**

1 A. I have proposed a reduction in the revenue requirement of \$7,496 for Cost
2 of Capital and an increase of \$2,024 for Interest Synchronization for a total
3 decrease of \$5,472.

4 **Q. Does this conclude your opening testimony?**

5 A. Yes.