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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 Second Partial Stipulation.

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 Second Partial Stipulation Regarding Rate
Spread and Rate Design Issues

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 200

**Joint Testimony of Pamela J. Archer, Max St. Brown, William Gehrke,
and Lance Kaufman**

August 28, 2020

TABLE OF CONTENTS

I. INTRODUCTION AND SUMMARY 1

II. BACKGROUND 2

III. TERMS OF THE STIPULATION 3

RATE SPREAD..... 4

RATE DESIGN..... 6

OUTSTANDING DATA REQUESTS 7

IV. STIPULATING PARTIES' SUPPORT FOR THE STIPULATION 7

CASCADE..... 7

OPUC Staff 8

CUB 8

AWEC..... 9

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 No. UG 390, by filing a
4 request for a general rate increase (Initial Filing). In its Initial Filing, Cascade requested a
5 revision to customer rates that would increase the Company's annual Oregon jurisdictional
6 revenues from base rates by \$4.507 million, or an approximate 6.67 percent increase over
7 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. Did the Company file testimony regarding cost of service, rate spread, and rate
12 design in this case?**

13 A. Yes. Cascade's witness Pamela J. Archer filed Direct Testimony presenting the
14 Company's proposed cost of service study, rate spread, and rate design proposals as part
15 of the Initial Filing.¹ Ms. Archer subsequently filed Supplemental Testimony on July 7,
16 2020 to correct an error in the cost of service study.²

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

18 A. Yes. Since the Initial Filing, Cascade has responded to over 295 data requests from Staff,
19 AWEC, and CUB with 19 of which relate to cost of service, rate spread, and rate design.
20 Many of these data requests had multiple sub-parts.

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

¹ See CNGC/500, Direct Testimony of Pamela J. Archer.

² See CNGC/600, Supplemental Testimony of Pamela J. Archer.

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

5 The Stipulating Parties subsequently participated in a settlement conference on
6 July 16, 2020 regarding cost of service, rate spread, and rate design, followed by
7 additional discussions via email correspondence on July 21, 22, and 23, 2020. These
8 discussions culminated in an agreement resolving rate spread and rate design issues in
9 this proceeding, and the Stipulation filed concurrently with this Joint Testimony.

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

11 A. In the Stipulation, the Parties agreed to recommend that the Commission approve a rate
12 spread in which the overall system average increase, which will be based on the final
13 revenue requirement established for this general rate case, is multiplied by a relative
14 increase amount for each individual rate schedule. For rate design, the Parties agreed to
15 recommend the Commission approve an increase in the monthly basic service charge for
16 four of the Company's seven customer classes, with the remaining increase for each rate
17 schedule going into volumetric charges.

18 In this testimony, the Parties will explain why they believe that the terms of this
19 Stipulation will result in fair and reasonable rates. As is common with stipulations, each
20 party has their independent perspective for why entering into a stipulation is reasonable,
21 and for that reason, each of the Testifying Parties has also included an independent
22 statement of support for this Stipulation.

23 **III. TERMS OF THE STIPULATION**

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

1 A. The Stipulating Parties believe that the Stipulation is reasonable, and, as discussed in more
2 detail below, appropriately moves customer classes toward parity and fairly distributes the
3 increase among classes that need an increase to move closer to parity.

4 **RATE SPREAD**

5 **Q. Please describe Cascade's proposed rate spread.**

6 A. In the Initial Filing, Cascade proposed a revenue allocation where Schedules 101, 105,
7 and 163 would receive a higher than average increase to move them closer to parity, while
8 the remaining schedules, which are below parity, would receive an average or below
9 average increase.³ The Company recommended increasing overall gas margin revenue
10 by 12.2 percent while moving rate schedules closer to parity, with the following increases
11 to the margin revenue:⁴

Schedule No. and Description	Average Increase
Schedule 101 – Residential Service	16.0%
Schedule 104 – Commercial Service	2.4%
Schedule 105 – Industrial Service	40.2%
Schedule 111 – Large Volume Service	1.8%
Schedule 163 – General Transportation	17.1%
Schedule 170 – Interruptible	--

12 In Supplemental Testimony, Cascade presented an updated cost of service model
13 to correct for an error identified by AWEC in the original cost of service study, in which the
14 Company had inadvertently allocated capacity costs to Schedule 163. Correcting for this
15 allocation error resulted in lower costs being allocated to Schedule 163 and increased
16 costs being allocated to all other firm customer classes, which moved Schedule 163 from
17 below to above parity relative to the initial study.⁵ Notwithstanding this change and the

³ CNGC/500, Archer/3.

⁴ CNGC/500, Archer/14.

⁵ CNGC/600, Archer/1-2.

1 results of the revised LRIC Study, Cascade proposed to continue with the original revenue
2 allocation proposal, which would result in Schedule 163 moving away from parity, to avoid
3 increasing the impact on residential and small commercial classes during the COVID-19
4 pandemic.⁶

5 **Q. Please describe the Parties' agreement regarding rate spread.**

6 A. As a result of their settlement discussions, the Stipulating Parties have agreed to the rate
7 spread shown in the table below:

Schedule No. and Description	Final Increase Relative to System Average
Schedule 101 – Residential Service	1.17x
Schedule 104 – Commercial Service	1.17x
Schedule 105 – Industrial Service	1.01x
Schedule 111 – Large Volume Service	0.33x
Schedule 163 – General Transportation	0.00x
Schedule 902-2 – Special Contract	0.00x
Schedule 170 – Interruptible	0.00x

8

9 **Q. How will the increase relative to system average be applied?**

10 A. The increase relative to system average approach will involve two steps. First, based on
11 the final revenue requirement amount, Cascade will determine the overall system average
12 increase. The Company's overall system average increase based on its Initial Filing was
13 12.29 percent, but this amount may change based on the final revenue requirement
14 amount. Second, Cascade will multiply the overall system average increase by the
15 relative increase amount of the individual rate schedule.

16 **Q. Please provide an example of how the increase will be applied for residential**
17 **customers.**

⁶ CNGC/600, Archer/4-5.

1 A. For residential customers (Schedule 101), if the overall system average is 10 percent,
2 then Schedule 101 customers would receive an increase of 11.7 percent (10 percent x
3 1.17 = 11.7 percent).

4 **Q. Why did the Stipulating Parties agree to the rate spread described above?**

5 A. The Stipulating Parties agree that, in the context of this second partial settlement, the
6 agreed-upon rate spread is reasonable, as it moves the rate schedules closer to cost parity
7 and fairly distributes the increase among rate schedules that require an increase to move
8 closer to parity.

9 ***RATE DESIGN***

10 **Q. Please describe Cascade's proposed rate design.**

11 A. In the Initial Filing, Cascade proposed increasing the monthly service charge to \$6, \$12,
12 and \$35 for Schedules 101, 104, and 105, respectively, to recover more fixed costs
13 through the basic service charge. The Company also proposed increasing the basic
14 service charge to \$144 and \$719 for Schedule 111 and Schedule 163, respectively, for
15 the same rationale.⁷

16 As noted above, In Supplemental Testimony, Cascade presented an updated cost
17 of service model in Supplemental Testimony, but the Company did not propose making
18 any changes to its original revenue allocation and rate design proposals to avoid impacting
19 residential and small commercial classes during the COVID-19 pandemic.⁸

20 **Q. Please describe the Parties' agreement regarding rate design.**

21 A. As a result of their settlement discussions, the Stipulating Parties have agreed to change
22 the monthly basic service charges as follows: (1) Schedule 101 will increase from \$5.00

⁷ CNGC/500, Archer/3, 17.

⁸ CNGC/600, Archer/4-5.

1 to \$6.00 per month; (2) Schedule 104 will increase from \$10.00 to \$12.00 per month; (3)
2 Schedule 105 will increase from \$30.00 to \$35.00 per month; and (4) Schedule 111 will
3 increase from \$125.00 to \$144.00 per month. The Stipulating Parties further agreed that
4 the monthly basic service charges will not change for any other rate schedule.

5 **Q. After applying the increase to the basic charge, how will the remaining increase be**
6 **applied?**

7 A. The remaining increase for each rate schedule will go into volumetric charges.

8 **Q. Why did the Stipulating Parties agree to the rate design described above?**

9 A. The Stipulating Parties agree that, in the context of this second partial settlement, the
10 agreed-upon rate design is reasonable.

11 ***OUTSTANDING DATA REQUESTS***

12 **Q. Please describe the Stipulating Parties' agreement with respect to outstanding data**
13 **requests.**

14 A. The Stipulating Parties have agreed to withdraw any outstanding data requests related to
15 cost of service issues and rate spread and rate design. The Stipulating Parties agree that
16 considering the agreement reached in the Stipulation, it is reasonable to withdraw
17 outstanding data requests on these issues.

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

19 ***CASCADE***

20 **Q. Ms. Archer, does Cascade support the Stipulation which resolves all rate spread**
21 **and rate design issues in this case?**

22 A. Yes. The Stipulation is a compromise among differing interests, and Cascade believes
23 the Stipulation strikes a reasonable balance among the Company's customers and
24 appropriately moves the Company's customers closer to parity, and does not result in any

1 customer class moving further away from parity. Accordingly, Cascade believes the
2 Stipulation presents a reasonable resolution of the rate spread and rate design issues in
3 this proceeding. For these reasons, the Second Partial Stipulation is in the public interest
4 and should be approved by the Commission.

5 **OPUC Staff**

6 **Q. Dr. St. Brown, please explain why Staff supports the Stipulation.**

7 A. Staff finds that the rates agreed upon appropriately reflect cost differences among
8 customer classes. Specifically, Staff agrees with Cascade that some large customer
9 classes are paying rates in excess of their cost of service and thus Staff supports the zero
10 rate increases for those large schedules in this settlement. Related to commercial service
11 Schedule 104, Staff identified issues in the marginal cost study related to the length of
12 mains per customer. This settlement results in additional costs allocated to Schedule 104
13 relative to the allocation initially proposed by the Company based on its cost of service
14 study. Based on Staff's analysis of length of mains per commercial customer, Staff finds
15 that an identical rate increase for residential and commercial schedules is appropriate in
16 this rate case.

17 **CUB**

18 **Q. Mr. Gehrke, does CUB support the Stipulation which resolves all rate spread and
19 rate design issues in this case?**

20 A. Yes. CUB is supportive of the stipulation because it makes a reasonable movement of
21 Cascade's customers to cost parity. Additionally, CUB finds an increase of the customer
22 charge from \$5 to \$6 to be a reasonable increase to the basic charge for Residential
23 customers. CUB recommends that the Commission adopt the Second Partial Stipulation.

1 **AWEC**

2 **Q. Mr. Kaufman, Please explain why AWEC supports the Stipulation.**

3 A. Cascade's initial filing contained an error in its marginal cost study which resulted in
4 excessive demand costs being allocated to Schedule 163, which is an interruptible rate
5 schedule. Cascade corrected this error in supplemental testimony filed on July 7, 2020.
6 The supplemental testimony increased Schedule 163's parity ratio from 0.85 to 1.38. This
7 result means that Schedule 163's rates are currently above the cost of service and could
8 reasonably be decreased. AWEC and other parties identified additional issues with the
9 marginal cost study which suggests Schedule 163's parity ratio may be even higher than
10 1.38. This Stipulation provides reasonable movement toward cost based rates for
11 Schedule 163.

12 Because of the movement towards cost of service, AWEC believes the Stipulation
13 is in the public interest and recommends the Commission approve the Stipulation on rate
14 spread and design issues. While the signing parties may each hold different positions on
15 rate spread and rate design, AWEC supports the Stipulation because any revenue
16 requirement increase that is approved by the Commission will be spread in a manner that
17 recognizes the actual costs to serve those customers, while also addressing the rate
18 disparities currently embedded in Cascade's rates. AWEC supports this Stipulation as an
19 overall 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.