Exhibit No. __ (MAC-1T)
Docket No. UG-170929
Witness: Mark A. Chiles

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-170929

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF MARK A. CHILES

March 23, 2018

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I. INTRODUCTION

Q. Please state your name, title and business address.

A. My name is Mark A. Chiles. I am the Vice President of Regulatory Affairs for Cascade Natural Gas Corporation ("Cascade", "CNGC", or "Company") and Intermountain Gas Company ("Intermountain") and the Vice President of Customer Service for the MDU Utilities Group (MDUG). My business address is 555 South Cole Road, Boise, ID 83709.

Q. Mr. Chiles, would you please summarize your educational and professional experience.

A. I am a graduate of Boise State University with a Bachelor of Business Administration degree in Accounting. I am a certified public accountant and a member of the American Institute of Certified Public Accountants and the Idaho Society of Certified Public Accountants. I have over 25 years of experience in the energy industry including time spent in the utility, gas marketing, and exploration and production industries. During my utility career, I have held various accounting positions including serving as the Vice President and Controller for Cascade and Intermountain from January 2013 through February 2016. I was appointed to my current position in March 2016. I am responsible for providing executive leadership and management for regulatory affairs and customer service including the scheduling and credit and collections functions.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain and support the cash management processes of Cascade, and to respond to specific arguments made by Staff witness, Ms. Betty Ehrdahl, on these subjects.

II. CASH MANAGEMENT

Q. Please describe the Company's philosophy regarding cash management.

A. Cascade strives to maintain adequate cash throughout the year in order to meet the monthly operating expense needs of the company, purchase natural gas, fund capital expenditures, service debt requirements, and pay shareholder dividends. The Company's sources of cash include internally generated funds, long and short-term borrowings, and equity infusions from the parent company. Each year, the Company goes through a comprehensive planning and budgeting process, which includes a review and projection of cash requirements, thereby allowing the Company to prepare in advance for potential financing needs.

As part of the overall cash management process, the Company strives to control costs through minimizing banking fees and borrowing transaction expenses, while taking advantage of low cost financing if available. The MDU Resources Group, Inc. treasury department is responsible for the daily cash management of Cascade and works to ensure the cash management goals are met in order to provide adequate cash resources at the lowest possible cost to our customers.

Q. Please explain how the test year cash is included in the Company's revenue requirement.

A. Cash is a component of investor supplied working capital, on which the Company earns a return. In our case, we took the average of monthly averages of the amounts in our Cash Account 131 (Cash Account)—which calculates to $34 million—and included that in our cash working capital calculation.

Q. Staff witness Betty Ehrdahl testifies that of the $34 million in the Cash Account, only $2 million should be included as working capital (and thus regarded as investor supplied) because the Company's amount is anomalous and excessive. Please respond.

A. I disagree that the cash amount is anomalous or excessive. The cash levels included in the Cash Account include funds received through a single debt issuance made through two separate draws. As previously stated, the Company goes through an annual budgeting process that helps in determining the cash needs projected through the upcoming year as well as for the following four years. Based on the annual planning process, it was determined that the Company would need to secure additional long-term funding to finance capital expenditures in years 2014 through 2016. The cash balance in the test year was the result of lower than planned capital expenditures and lower than expected natural gas prices which resulted in the over collection of commodity costs. Both of these events could not have been predicted or planned for, and in no way suggest that the Company failed to manage its cash in a reasonable manner.

Q. Please explain in detail the reasoning for and the timing of the debt issuances.

A. The annual budgeting process, which begins in June of the preceding year, and subsequent financial forecasts identified that Cascade would need to secure additional debt to finance planned capital expenditures in years 2014 through 2016. Specifically, the capital expenditures budgeted for years 2014, 2015 and 2016 were $59.5 million, $63.6 million, and $53.7 million, respectively, historically high capital investments for Cascade. Of these amounts, $100 million were intended to be invested in system upgrades needed to improve the Cascade system which do not generate additional revenues except through the general rate case process. In order to secure the appropriate funding, the borrowing process was initiated in mid-summer of 2014.

Q. What considerations went into the timing of the debt issuances?

A. The Company analyzed various borrowing scenarios and, based on a variety of factors, determined that it was most cost efficient to borrow long-term debt in a single issuance, made in two draws, with the second draw delayed to help postpone some interest costs.

Q. What factors did you consider in deciding to initiate a single borrowing versus multiple borrowings.

A. In deciding how to approach the issuance, we analyzed interest rates, legal costs, and loan initiation fees, all of which were less expensive with a single issuance with a delayed draw. At the time, upward pressure on long-term interest rates was a very significant concern. Ultimately, the Company was able to secure 30 and 40-year long-term notes at interest rates of 4.09% and 4.24%, respectively. In so doing, the Company locked in favorable long-term rates when the Prime Rate was 3.25%, before a series of rate increases were made which has now pushed the Prime Rate to 4.5%. Going forward, Cascade's customers will have the benefit of this low-cost debt for 30 to 40 years.

Q. When did the two draws occur?

A. The first draw occurred in November 2014 and the second occurred in January 2015.

Q. Did the Company end up needing the cash from these issuances precisely as had been planned in the budgeting process?

A. No, unfortunately delays in capital projects in 2014 and 2015 pushed spending out roughly one year.

Q. Please provide detail on the delays that occurred with respect to the planned capital projects for 2014.

A. The significant projects that were delayed include a Hanford main extension, a Hilderbrand main extension, and a Shelton high pressure system betterment. Because of these delays, we spent only $42.4 million of our $59.5 million planned capital spend for that year.

Q. Please provide detail on the delays that occurred with respect to the planned capital projects for 2015.

A. One significant variance in 2015 was that the Company received cumulative payments of $4.6 million from the U. S. Department of Energy pertaining to a project to provide natural gas for the Hanford Vitrification Project. The project included two phases, the first of which was for an Environmental Impact Statement leading to a Record of

Decision. The refunds pertain to reimbursement for Phase 1 costs which the DOE was required to refund due to delaying the second phase of the project. . Because of these delays and other circumstances, we spent only $51.6 million of our $63.4 million planned capital spend for that year.

Q. You also mentioned that the overcollection of commodity costs in 2015 affected the Company's cash balance in the test year. Can you explain?

A. Yes, in 2015 Cascade went from an under-collection of commodity costs of $8.9 million at December 31, 2014 to an over-collection of commodity costs at December 31, 2015 of $5.7 million. Rates were adjusted in November 2014 to account for the prior under-collection and for the estimated costs in 2015. Due to lower than expected natural gas prices, the adjusted rates caused an increase in cash of $14.6 million that was not anticipated and factors into the beginning test year cash balance.

Q. Please explain the changes in the cash balance that occurred in 2016.

A. At the beginning of the year, our cash balance was $31.8 million. However, during the course of the year we spent $58.8 million for capital additions, approximately $5 million more than planned. No additional debt was issued in 2016 and as a result, at December 31, 2016 our cash balance had decreased to $3.5 million.

Q. Do you believe that the Company acted prudently with respect to the cash balances from 2014 through the test year?

A. Yes, I do. As we manage the cash process there are factors that are outside the control of the Company that impact the cash balances. The Company has undertaken significant capital projects over the last several years in order to continue to provide safe reliable service to our customers. The magnitude of these projects is unprecedented for the Company and the timing can be affected by various factors including permitting, access to materials, and project management resources. Changes in commodity costs are outside the control of the Company and projections are based on known published factors and approved through the regulatory process. The other significant item affecting the cash balance was the refund of capital costs related to the Hanford project which was not known at the time of the debt decision. Company personnel continues to focus on proper cash management and relies on best information available at the current time. Given the circumstances, I believe the proper cash management decisions were made and ultimately will benefit our Cascade customers through lower debt costs.

Q. Staff argues that the Company should have invested the cash in a temporary investment account rather that carry such a high balance. Do you agree?

A. No, I do not agree. Given the rates available at the time for short-term cash investments there would not have been a reasonable return available on those dollars without adding risk. The Company chose to leave the money on deposit with the bank and use the cash balance as a means of offsetting bank service fees charged to the Company. The Company earned 0.22% on its cash balances during this period. Comparably, short-term investment rates were 0.05%. These earnings resulted in an $81,000 offset to service fees and the lower costs are included in this proceeding as a benefit for customers.

Q. Does this conclude your testimony?

A. Yes.