

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 2, 2010**

REGULAR _____ **CONSENT** X **EFFECTIVE DATE** _____ **NA** _____

DATE: January 26, 2010

TO: Public Utility Commission

FROM: Marion Anderson

THROUGH: Lee Sparling, Marc Hellman, and Michael Dougherty

SUBJECT: CASCADE NATURAL GAS: (Docket No. UI 290) Application for a Real Estate Purchase Agreement with Hap Taylor & Sons, Inc., an Affiliated Interest.

STAFF RECOMMENDATION:

The Public Utility Commission (the Commission) should approve the application of Cascade Natural Gas Corporation (Cascade or the Company) for the purchase of Bend, Oregon property from Hap Taylor & Sons, Inc., with the following conditions:

1. The Company shall provide the Commission access to all books of account, as well as all documents, data, and records that pertain to any transactions with affiliates.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this arrangement in any rate proceeding or earnings review under an alternative form of regulation.
3. The Company shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the agreement terms that alter the intent and extent of activities under the agreement from those approved herein, shall be submitted for approval in an application for a supplemental order (or other appropriate format) in this docket.

DISCUSSION:

This application was filed on December 8, 2009, pursuant to ORS 757.495 and OAR 860-027-0040. Hap Taylor & Sons, Inc. is a subsidiary of Knife River Corporation.

Cascade and Knife River Corporation are wholly owned by MDU Resources Group, Inc. which establishes the affiliated interest relationship.

This filing was accompanied by an application, docketed as UP 256, selling the Bend business office property currently utilized by Cascade for the same purpose to the Central Oregon Intergovernmental Council. Both transactions are comprised of administration office space and shop facilities. This swap will eliminate an operational expense covering a shop leasing arrangement with the city of Bend at an annual cost of \$62,000.

The following issues were investigated:

- Scope of the Purchase Agreement
- Transfer Pricing
- Determination of Public Interest Compliance
- Records Availability, Audit Provisions, and Reporting Requirements

Scope of the Purchase Agreement and Transfer Pricing

This Cascade acquisition consists of the following prorated calculation (based on the square footage purchased compared to the whole property):

Administration Office			
Building	8,681 square feet		\$907,825
Land	.705 acre		<u>25,954</u>
		Total	\$933,779
Shop			
Building	9,916 square feet		\$697,900
Land	1.04 acre		<u>38,286</u>
		Total	\$736,186
		Total Cost	<u>\$1,669,965</u>

The total cost (December 31, 2009, net book value) is obtained from a confidential attachment to the application, examined by Staff.

Under OAR 860-027-0048(3)(a), this transaction must be recorded at the lower of net book value or fair market value. No concurrent independent market appraisal accompanied the application. However, Staff will accept the following proxy analysis as a satisfactory alternative for an independent appraisal.

Summary reports performed by an Oregon certified appraiser in August 2008 covering the entire property on which the aforementioned prorated calculation is based showed a

valuation of \$10,340,000. The December 31, 2009 entire property net book valuation is \$4,333,680. The ratio between \$4,333,680 and \$10,340,000 is 41.9%. In the January 8, 2010 Bend newspaper, The Bulletin, Deschutes County Assessor Scot Langton estimated that real market values as of Jan. 1, 2010 would be 30 percent less than real market values were on Jan. 1, 2009. Given the date of the appraisal, the lower of net cost or market standard is met.

Determination of Public Interest Compliance

This purchase will eliminate a fragmented business location setup. The concomitant sale of the existing facility will allow the Central Oregon Intergovernmental Council to complete a regional transit center that peripherally benefits Cascade customers.

Records Availability, Audit Provisions, and Reporting Requirements

Staff Recommendation Condition No. 1 affords necessary access to any relevant records.

Based on the review of this application, Staff concludes the following:

1. The agreement's transfer pricing as qualified is not unreasonable.
2. This transaction will not harm customers and is not contrary to the public interest with the recommended conditions.
3. Necessary records are available.

PROPOSED COMMISSION MOTION:

Cascade Natural Gas Corporation's real estate purchase agreement with Hap Taylor & Sons, Inc. be approved, subject to the recommended conditions.