BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION

COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION Respondent.	)	DOCKET NO. UG 240008 **ALLIANCE OF WESTERN ENERGY CONSUMERS' BRIEF IN RESPONSE TO NOTICE OF BENCH REQUESTS AND ADDITIONAL BRIEFING**

1. On January 6, 2025, the Washington Utilities and Transportation Commission ("Commission") issued a Notice of Bench Request and Additional Briefing. The Alliance of Western Energy Consumers ("AWEC") hereby submits its responses to, and additional briefing on, the bench requests contained in the notice as follows:

AWEC RESPONSE TO BENCH REQUEST NO. 1:

2. **The Commission requests that the parties provide concise briefing addressing how the Commission should consider paragraph 34 of the settlement stipulation following passage of I-2066, specifically Section 4(13) of the Initiative, together with the broader Climate Commitment Act.**

3. In providing this response and additional briefing, AWEC is mindful of Paragraph 37 of the Stipulation that provides "[t]he Settling Parties agree to support the terms and conditions of this Settlement Stipulation as a settlement of all contested issues between them in the above-

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captioned proceeding."[1] Further, Paragraph 38 of the Stipulation provides: "[t]his Settlement Stipulation represents an integrated resolution of all issues in Cascade's general rate proceeding" and that "the Settling Parties recommend that the Commission adopt and approve this Settlement Stipulation in its entirety, without conditions."[2]

4. The Settlement Stipulation is the result of extensive negotiations. The Settlement Stipulation has many individual provisions, and each party may hold a different view of individual provisions of the Settlement Stipulation. Notwithstanding, the Settling Parties determined that the Settlement Stipulation, as a whole, results in rates that are fair, just and reasonable and is in the public interest. With respect to the impact of Ballot I-2066 on the Settlement Stipulation, AWEC is bound by the Settlement Stipulation to support it in its entirety, including the provisions of Paragraph 34, which outline the Settling Parties' agreement to tariff revisions phasing out natural gas line extension allowances to zero by March 1, 2027, for residential and commercial rate schedules 503 and 504.

5. The Settling Parties were engaged in settlement discussions from the early stages of this rate case proceeding, which was filed on March 29, 2024. On November 5, 2024, the same day that Parties notified the Commission that a settlement in principle had been reached in this proceeding, Ballot I-2066 was approved by the citizens of Washington ("Ballot I-2066").[3] The results of the election were not announced until the late evening of November 5, 2024, and thus, occurred after notification of settlement was submitted to the Commission. Therefore, during the

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1 *See Washington Utilities and Transportation Commission (WUTC) v. Cascade Natural Gas Corp (Cascade)*, Docket UG 240008, Full MutiParty Stipulation (12/11/2024)

2 *Id.*

3 *See WUTC v. Cascade*, Docket UG 240008, Notice that Full Multiparty Settlement Stipulation Reached (Nov. 5, 2024)

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timeframe in which the Settlement Stipulation negotiations took place, Ballot I-2066 had not yet been approved. AWEC cannot speak for other parties, but it had not considered the impact of Ballot I-2066 when it formed its agreement on the core terms of the settlement in principle. Because the provision of Paragraph 34 only impacted residential and small commercial customers, and did not impact AWEC member companies, AWEC did not object to including this provision as part of the global settlement which AWEC believes is in the public interest.

6. Section (4)(12) and (4)(13) of Ballot I-2066 both place new requirements on the Commission. Section (4)(12) prohibits the Commission from approving a multi-year rate plan that "requires or incentivizes a gas company or large combination utility to terminate natural gas service to customers." Section (4)(13) further prohibits the Commission from approving with or without conditions, a multi-year rate plan, that "authorizes a gas company or large combination utility to require a customer to involuntarily switch fuel use either by restricting access to natural gas service or by implementing planning requirements that would make access to natural gas service cost-prohibitive." In terms of the line extension provisions of the Settlement Stipulation Paragraph 34, Ballot I-2066(4)(13) appears to be the most problematic requirement. Section (4)(12) likely does not apply in this case, since the line extensions relate to the provision of new gas distribution service, not the termination of existing gas service.

7. The language in Ballot I-2066 Section (4)(13), as applied to Settlement Stipulation Paragraph 34, however, is somewhat complicated. At the outset, Ballot I-2066 generally prohibits the Commission from implementing a rate plan that authorizes a gas utility to require a customer to involuntarily switch fuel use. The initiative then enumerates two ways in which the Commission is prohibited from implementing such a requirement. First, the Commission cannot

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restrict access to natural gas service, and second, the Commission cannot implement planning requirements that would make access to natural gas service cost prohibitive. It is the second provision that may create conflict with Settlement Stipulation Paragraph 34. Eliminating a line extension allowance does not outright restrict access to natural gas service, but it does impact the cost and affordability of obtaining new gas service. Accordingly, the pertinent question for the Commission is whether, by eliminating line extensions for residential and small commercial customers, the Commission is implementing a planning requirement that would make access to natural gas service cost prohibitive, and that due to the prohibitive cost, a customer will be required to involuntarily switch fuel use.

8. Answering this question is hardly a straightforward analysis and could be subject to many different interpretations. The first inquiry is whether phasing out line extensions can be defined as a "planning requirement." While planning requirements typically occur in the context of an Integrated Resources Plan, the term planning requirement could reasonably be extended to include line extension allowance calculations and policies as they relate to planning for new customers. Line extension allowances reflect a planning strategy in which a utility covers some of the cost of new customers interconnecting to the system under an assumption that the volumes from new customers are generally beneficial to the system as a whole. As new volumes from new customers are introduced into the system, the fixed cost of existing plant is spread over more volumes, reducing the cost to all customers. At a minimum, the formula, used to establish the line extension allowance is likely a planning assumption reflecting the costs and benefits of adding new customers to the system, and thus, could fall under the general scope of Ballot I-2066 Section (4)(13).

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9. The second line of inquiry is whether eliminating the line extension allowance for residential and small commercial customers makes access to natural gas cost prohibitive. In other words, whether it makes the costs so high that accessing the natural gas system is not reasonably affordable in comparison to other fuel sources. AWEC is not able to answer this question based on the record in this case. Whether something is cost prohibitive is a factual question that depends on numerous factors, including the cost of electric versus gas appliances, and an individual customer's ability to pay. For customers with higher discretionary income, accessing natural gas service without a line extension may not be cost prohibitive, while for others it might be cost prohibitive even with a line extension allowance. One certainly could argue that there is no right to a line extension allowance, and that even if the line extensions were to be eliminated, customers can still access natural gas service by paying the actual cost to connect to the natural gas distribution system. Further, one might argue that paying the actual costs of gas service installation, while expensive, does not meet the definition of "cost prohibitive." On the other hand, even with the line extension policy that exists today, obtaining natural gas service may still be cost prohibitive for some customers.

10. If the Commission determines the cost of eliminating line extension allowances is prohibitive, the Commission must also determine whether the prohibitive costs will lead to involuntary fuel switching by customers. The Commission may also inquire about whether the purpose of eliminating the line extension allowance for residential and small commercial customers in Settlement Stipulation Paragraph 34 is to promote fuel switching. If it is, then the provision may be impermissible under Ballot I-2066 Section (4)(13). If, on the other hand, it is

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justified based on general regulatory principles, such as principles of cost causation and equity, then it may not run afoul of Ballot I-2066 Section (4)(13).

11. AWEC did not address Paragraph 34 in its Settlement Testimony because it did not directly impact AWEC's members or large volume customers in general. To AWEC's knowledge, no party has explicitly asserted that the purpose of Paragraph 34 was to promote fuel switching, but only limited testimony discussed the rationale for the change in policy. Staff, for example, took the position that the change was necessary to align with other utilities and to eliminate subsidies. Staff stated the following:

> This phase out process is consistent with other Commission-regulated utilities in the reduction of natural gas line extension allowances offered by those companies. This term does not eliminate the Company's ability to offer line extensions, it just eliminates the ability for those extensions to new customers to be subsidized by allowances paid for by other rate payers.[4]

Cascade, on the other hand, stated that the purpose was a "reasonable compromise because it aligns with Washington's clean energy goals, but also adopts a phased approach as state policy continues to evolve."[5]

12. Given the record on this matter and the issues identified above, AWEC is not able to conclusively demonstrate whether the provisions of Settlement Stipulation Paragraph 34 conflict with Ballot I-2066 Section (4)(13). Accordingly, AWEC continues to recommend that the Commission adopt and approve this Settlement Stipulation in its entirety as it agreed to do in the Settlement Stipulation. If the Commission concludes that Paragraph 34 conflicts with Ballot I-2066 and rejects the Settlement Stipulation, however, AWEC will work in good faith with the

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[4] *WUTC v. Cascade*, Docket UG 240008, Staff Settlement Testimony, Hawkins-Jones, Exh. JHJ-1T at 14:15-23.
[5] *Id.* at Blattner, Exh. LAB-4T 20:10-12.

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other parties to resubmit a settlement for the Commission's consideration. AWEC continues to believe that overall Settlement Stipulation benefits all customers and should be approved.

AWEC RESPONSE TO BENCH REQUEST NO. 2:

13. **For the purpose of this stipulation, is a significant cost overrun considered to be greater than 10 percent or $500,000 more than authorized as defined in Criteria 1?**

14. Yes. Criteria 1 states "[a]ctual costs versus authorized costs, as well as explanations for significant cost variances, defined as variances greater than 10 percent or $500,000 from the authorized cost." Thus, for purposes of the Settlement Stipulation, *significant cost variances* are defined as variances greater than 10 percent or $500,000 from the authorized cost. While Criteria 4 uses the terminology *significant cost overrun*, AWEC's interpretation and understanding is that the same definition of *significant cost variances* applies to *significant cost overruns*. A cost overrun is a cost variance where Cascade spends more than what it budgeted. This contrasts with a cost underrun, where Cascade spends less than it had budgeted. Because a *significant cost overrun* is a subclass of a *significant cost variance* it necessarily inherits the definition of *significant* from Criteria 1, absent a separately identified definition.

AWEC RESPONSE TO BENCH REQUEST NO. 5:

15. **Can you further describe what you refer to as a Capital Run Rate and the application of Capital Run Rate in the context of the portfolio vs. project-by-project review process resulting from this Settlement Agreement?**

16. The capital forecast analysis presented in AWEC's direct testimony classified forecast capital additions into four classes: (1) discrete RNG investments; (2) large discrete projects; (3) run-rate capital; and (4) small discrete projects. The delineation of the project classification for

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the first three project categories can be found in Mullins, Exh. BGM-7 at 1-2. The fourth category, related to small discrete projects, was not delineated by project, but rather included in aggregate on the line item titled *Unstudied Small Projects*.

17. The specific project classification that AWEC used in its analysis can be found in the workpaper version of Mullins, Exh. BGM-7, Excel Tab "24-25 Plant Additions (RunRate)", Columns "N:Q." The classification was performed by first determining which projects were discrete as opposed to continuous (i.e. run rate capital). This determination was made manually, on a project-by-project basis, by reviewing historical spending for each of the funding projects included in Cascade's capital forecast. In general, the criteria for determining whether a project was classified as "run rate" versus "distinct", was whether the project had historical spending spanning multiple years, rather than transfers to plant in a single year. This analysis included spending on capital items, such as meters, which Cascade is required to make on a continual, and annual basis a part of operating its business. It also included generically defined projects, such as regulation station growth or service line replacements, for which the budget was not tied to a specific investment, but to a group of investments typically made each and every year.

18. The projects that were not classified as run-rate were considered distinct projects, and subsequently sub-classified as RNG-related projects, large discrete projects (with a capital cost equal to or exceeding $1,000,000), and small discrete projects (with a capital cost less than $1,000,000).

19. The reason for making a distinction between run rate capital and distinct capital costs was the method employed to review the reasonableness of the capital projects included in Cascade's filing. Because run rate capital spending is continuous and ongoing, a review of the historical

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spending can inform whether the forecasted spending is reasonable. Where a project is distinct, with no historical data, such an analysis is not possible, and the reasonableness of the project budget must be evaluated on a project-by-project basis, evaluating various factors, such as the need for the project, prior cost projections (such as those presented in the Integrated Resource Planning context), and spending on the project to date. Such an analysis of the large distinct projects is discussed in detail in Mullins, Exh. BGM-1 at 27:18-31:20.

20. In contrast, the analysis of run rate capital additions was performed in relation to historical spending as presented in Mullins, Exh. BGM-7 at Excel Tab Summary, lines 53-112. In that exhibit, Mr. Mullins used the historical spending for each of the run rate capital projects that he reviewed to establish what level of spending in the test period was reasonable and sufficient, with a variety of techniques employed, such as historical averaging and regression analysis. The result of AWEC's analysis was a capital forecast for run rate capital that was $16,849,229 and $19,155,444 less than the amount of capital spending Cascade included in its initial filing for RY1 and RY2, respectively. Accordingly, based on the historical spending levels, it was AWEC's view that the run rate capital forecast Cascade had proposed was overstated.

21. The Settlement Stipulation resolved this issue in Paragraph 18 through agreement to a $600,000 revenue requirement reduction for both Rate Year 1 and Rate Year 2. This reduction amounted to a $4,599,290 and $4,736,945 reduction to forecast capital spending in Rate Year 1 and Rate Year 2, respectively. The capital reductions can be found on Attachment A to the Settlement Stipulation in Tab "MYRP Plant - Project_Portfolio" Excel Row "251," on the line titled "Settlement Adjustment." As noted in AWEC's settlement testimony, because of the

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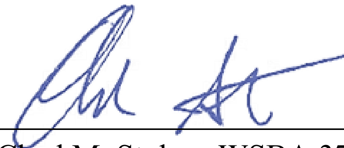
capital review process that was adopted, AWEC found this level of capital reduction for run rate capital to be reasonable. AWEC continues to believe that the Settlement Stipulation will result in rates that are fair, just and reasonable and is in the public interest.

Dated in Portland, Oregon, this 13h day of January 2025.

Respectfully submitted,



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