BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
Complainant,

v.

CASCADE NATURAL GAS CORPORATION,
Respondent.

DOCKET UG-200568

ALLIANCE OF WESTERN ENERGY CONSUMERS’ POST HEARING BRIEF

March 22, 2021
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I. INTRODUCTION

1. Pursuant to the Prehearing Conference Order dated July 13, 2020, Alliance of Western Energy Consumers (“AWEC”) submits this Post-Hearing Brief.

2. Cascade Natural Gas Company (“Cascade”) has requested a $14,281,139 rate increase in the middle of the COVID-19 pandemic crisis, at a time when many ratepayers are struggling. In Rebuttal Testimony, Cascade reduced its proposed revenue requirement increase to $7,393,210 through several proposed adjustments and revenue offsets, including a reduction in the Unprotected EDIT Amortization, and an extension of the deferred gas cost amortization associated with the Enbridge incident by one year.\(^1\) These offsetting adjustments, however, are illusory, since they simply accelerate monies due to customers, or postpone amounts due from customers. Accordingly, the effects of these adjustments would be to reduce rates today, only to increase rates in the future.

3. Based on AWEC’s analysis and proposed rate adjustments, as well as the proposed adjustments of Public Counsel and Commission Staff, it is evident that the rates recently approved in UG-190210 on March 1, 2020 are more than sufficient for Cascade to earn a fair rate of return and continue to be fair, just and reasonable. In fact, the only major change since UG-190210 rates became effective is that four (4) major pro forma capital projects that Cascade represented would be online in UG-190210 were never actually placed into service. Without justification, and without preserving the right to do so in UG-190210, Cascade is now requesting pro forma rate relief for these same investments. As described more fully below, AWEC

\(^1\) Parvinen, MPP-2T, p. 2-3.

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recommends that the Washington Utilities and Transportation Commission (“Commission”) reject Cascade’s proposed rate increase in its entirety.

II. EXECUTIVE SUMMARY

4. Cascade has failed to meet its burden of proof demonstrating that its proposed rate increase is justified and would result in fair, just, and reasonable rates. Rather, AWEC’s analysis of Cascade’s filed case demonstrates that a rate reduction would actually be warranted relative to the rates recently approved in Docket UG-190210. Notwithstanding this analysis, AWEC recommends that the Commission make no changes to Cascade’s rates in this proceeding. A summary of AWEC’s proposed revenue requirement adjustments and recommendations is as follows:

- **Cascade Rebuttal Case.** In Rebuttal Testimony, Cascade reduced its proposed revenue requirement increase to $7,393,210 through several proposed adjustments and revenue offsets, including a reduction in the Unprotected EDIT Amortization, and an extension of the deferred gas cost amortization associated with the Enbridge incident by one year.\(^2\) AWEC recommends that the Commission reject Cascade’s proposed revenue adjustments contained in its rebuttal case.

- **Cost of Capital.** Based on the cost of capital that has been approved for other gas utilities in the region, including Cascade, AWEC recommends a 9.4% return on equity (“ROE”), a 4.54% cost of debt and a debt-weighted capital structure, resulting in an overall cost of capital of 6.83%.

- **End-of-Period Rate Base.** Given the lack of justification to depart from using average rate base and Cascade’s pattern of annual rate cases, AWEC recommends the Commission reject Cascade’s proposal to use end-of period rate base and calculate revenue requirement using average rate base, the Commission’s preferred method.

- **UG-190210 Duplicate Pro Forma Plant Additions.** AWEC recommends removing the duplicate pro forma plant additions included in Cascade’s last rate case, UG-190210, that were also included as pro forma additions in this proceeding.

- **Pro Forma Plant Additions Not in Service.** If the Commission does not remove the duplicate pro forma plant additions referenced above, AWEC recommends removing the Walla Walla Gate Station pro forma plant addition anyway since

\(^2\) Id.
it had not been placed into service at the time Staff and Intervenors submitted rebuttal testimony.

- **Routine Capital Additions.** AWEC recommends removing blanket capital additions, including growth capital, from Cascade’s capital forecast because those amounts are not “major” plant additions, and will already be recovered through incremental accumulated depreciation in calendar year 2020.

- **Pro Forma Plant Retirements.** AWEC recommends including a pro forma adjustment to consider plant retirements subsequent to the test period based on retirements that occurred in the test period.

- **Pro Forma Plant Removal Costs.** AWEC recommends adjusting pro forma plant additions for removal costs based on removal costs incurred in the test period.

- **Affiliate Bonuses Payments.** AWEC recommends removing the cost of incentive awards allocated from Cascade’s affiliates, since Cascade has been unable to demonstrate that those amounts benefit Washington ratepayers.

- **Affiliate Wages and Salaries.** AWEC recommends removing escalation assumptions related to affiliate wages and salaries, which are allocated to Cascade through inter-corporate cross charges.

- **2021 Wage Escalation.** AWEC recommends eliminating 2021 wage escalation in consideration of the economic environment and fact that Cascade has been filing annual rate cases.

- **Director Fees.** AWEC recommends an adjustment to remove 50% of director fees, consistent with the Commission’s past practice. Cascade accepted this adjustment in Rebuttal Testimony.

- **Rate Spread.** AWEC recommends that the Commission affirmatively require Cascade to perform a load study prior to filing its next general rate case and also recommends that a new docket be opened to facilitate a stakeholder process to oversee the creation and progress of Cascade’s load study.

III. ARGUMENT

A. CASCADE HAS NOT MET ITS BURDEN OF PROOF AND NO CHANGE TO CASCADE’S REVENUE REQUIREMENT IS WARRANTED.

5. Cascade failed to present evidence that its proposed rate increase would result in rates that are fair, just, and reasonable. Accordingly, no change to Cascade’s revenue requirement is warranted. Based the analysis performed by AWEC, the Commission would be justified in
reducing Cascade’s currently approved rates by $4,728,930. AWEC’s proposed adjustments, as amended in is cross answering testimony, are summarized below:

<table>
<thead>
<tr>
<th></th>
<th>Cascade Proposed</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><strong>Adjustments</strong></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>RoR-1 Cost of Equity</td>
<td>(2,764,543)</td>
</tr>
<tr>
<td>4</td>
<td>RoR-2 Cost of Debt</td>
<td>(616,377)</td>
</tr>
<tr>
<td>5</td>
<td>RoR-3 Capital Structure</td>
<td>(982,542)</td>
</tr>
<tr>
<td>6</td>
<td>Depr-1 Depreciation Study (Staff DR 127)</td>
<td>(2,276,888)</td>
</tr>
<tr>
<td>7</td>
<td>R-4 EOP Rate Base</td>
<td>(2,332,145)</td>
</tr>
<tr>
<td>8</td>
<td>P-3 (A1) UG-190210 Pro Forma Additions</td>
<td>(3,970,462)</td>
</tr>
<tr>
<td>9</td>
<td>P-3 (A2) Pro Forma Additions Not in Service</td>
<td>(740,319)</td>
</tr>
<tr>
<td>10</td>
<td>P-3 (A3) Routine Capital Additions</td>
<td>(3,444,897)</td>
</tr>
<tr>
<td>11</td>
<td>P-3 (A4) 2020 Customer Growth</td>
<td>1,281,027</td>
</tr>
<tr>
<td>12</td>
<td>P-3 (A5) Pro Forma Retirements</td>
<td>(493,017)</td>
</tr>
<tr>
<td>13</td>
<td>P-3 (A6) Removal Costs</td>
<td>(153,064)</td>
</tr>
<tr>
<td>14</td>
<td>R-6 (A7) Affiliate Bonuses / Incentive Norm.</td>
<td>(1,255,374)</td>
</tr>
<tr>
<td>15</td>
<td>P-2 (A8) Affiliate Wages and Salaries</td>
<td>(498,092)</td>
</tr>
<tr>
<td>16</td>
<td>P-2 (A9) Cascade Wage Escalation</td>
<td>(1,046,762)</td>
</tr>
<tr>
<td>17</td>
<td>A10 Director Fees</td>
<td>(183,351)</td>
</tr>
<tr>
<td>18</td>
<td>R3 (A11) Tax Reform Revenue Normalization</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>P-1 Tax Benefit of Interest</td>
<td>466,736</td>
</tr>
</tbody>
</table>

|    | Total Adjustments | (19,010,069) |
|    | Adjusted | (4,728,930) |

Despite this analysis, and other adjustments proposed by Commission Staff and Public Counsel, AWEC is recommending that the Commission find that Cascade failed to carry its burden to show that its current rates are not fully sufficient to meet its needs, and order Cascade to make no change to the existing rates that were recently approved in UG-190210.

**B. CASCADE’S REBUTTAL CASE SHOULD BE REJECTED.**

6. In its Rebuttal Testimony, Cascade reduced its proposed revenue requirement increase to $7,393,210 through several proposed adjustments and revenue offsets, including a reduction in

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3 Mullins, BGM-7T, p. 2.
the Unprotected EDIT Amortization, and an extension of the deferred gas cost amortization associated with the Enbridge incident by one year. While on its face it appears that Cascade has significantly reduced its proposed revenue requirement, these offsetting revenue adjustments are illusory, because they simply accelerate monies due to customers, or postpone amounts due from customers. Cascade’s proposal, if approved, would reduce rates today only to increase rates in the future. AWEC Recommends that the Commission reject Cascade’s proposed revenue adjustments that were presented in its rebuttal case.

C. CASCADE’S PROPOSED COST OF CAPITAL DOES NOT REFLECT THE CAPITAL MARKETS OR RECENT DEBT ISSUANCES.

7. Cascade proposed a cost of capital that included a 10.3% ROE, which was reduced to a 9.8% ROE in Rebuttal Testimony, a cost of debt that does not consider recent debt issuances, and a capital structure that is inappropriately weighted towards the equity component. This inflated cost of capital would benefit shareholders to the detriment of customers and should be rejected.


8. Cascade’s proposed ROE, even as adjusted in its Rebuttal Testimony, is an outlier compared to other standalone gas utilities in the region and should be rejected. The ROE that the Commission has approved in recent years for stand-alone gas utilities, including for Cascade, has been nothing less than consistent. The Commission, for example, recently approved a 9.4% ROE for Cascade in Docket UG-190210, and only a few months ago, Cascade stipulated to a 9.4% return on equity in Oregon Docket UG 390, which was subsequently approved by the

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4 Bulkley, AEB-1T, p. 8.
5 Bulkley, AEB-4T, p. 8.
Public Utility Commission of Oregon (“Oregon Commission”). Cascade has presented no compelling reason or legitimate argument to deviate from its currently approved 9.4% ROE. In fact, a 9.4% ROE has been approved for every stand-alone natural gas utility that has filed a rate case in the Pacific Northwest since 2018 as shown below:

Approved Return of Equity for Northwest Gas Utilities\(^6\)

<table>
<thead>
<tr>
<th>Utility</th>
<th>State</th>
<th>Docket</th>
<th>Date</th>
<th>ROE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northwest Natural</td>
<td>OR</td>
<td>UG 388</td>
<td>11/1/2020</td>
<td>9.40%</td>
</tr>
<tr>
<td>Cascade Natural Gas</td>
<td>OR</td>
<td>UG 390</td>
<td>7/1/2020</td>
<td>9.40%</td>
</tr>
<tr>
<td>Avista Corporation</td>
<td>OR</td>
<td>UG 389</td>
<td>5/18/2020</td>
<td>9.40%</td>
</tr>
<tr>
<td>Avista Corporation</td>
<td>WA</td>
<td>UG-190335</td>
<td>3/25/2020</td>
<td>9.40%</td>
</tr>
<tr>
<td>Cascade Natural Gas</td>
<td>WA</td>
<td>UG-190210</td>
<td>2/3/2020</td>
<td>9.40%</td>
</tr>
<tr>
<td>Northwest Natural</td>
<td>WA</td>
<td>UG-181053</td>
<td>10/21/2019</td>
<td>9.40%</td>
</tr>
<tr>
<td>Cascade Natural Gas</td>
<td>OR</td>
<td>UG 347</td>
<td>1/22/2019</td>
<td>9.40%</td>
</tr>
<tr>
<td>Northwest Natural</td>
<td>OR</td>
<td>UG 344</td>
<td>11/1/2018</td>
<td>9.40%</td>
</tr>
<tr>
<td>Cascade Natural Gas</td>
<td>WA</td>
<td>UG-170929</td>
<td>7/20/2018</td>
<td>9.40%</td>
</tr>
</tbody>
</table>

9. The Commission and the Oregon Commission have each independently determined that a 9.4% ROE provides a fair and reasonable opportunity for the above referenced utilities to earn an adequate rate of return, and a strong ability to attract capital in today’s capital markets. Accordingly, a 9.4% ROE provides reasonable compensation to Cascade’s shareholders and there is nothing in the record that supports an alternative conclusion. If anything, the declining interest rate environment is justification to reduce the ROE to the 9.25 percent ROE recommended by Commission Staff\(^7\) or the 9 percent ROE recommended by Public Counsel.\(^8\) Because AWEC is recommending no change to revenue requirement, AWEC is also recommending no change to Cascade’s ROE in this case. If, however, the Commission is inclined to approve an increase to Cascade’s revenue requirement, AWEC would support the lower ROE recommendations of Staff and Public Counsel.

\(^6\) Mullins, BGM-1T, p.11.
\(^7\) Parcell, DCP-1T, p. 2.
\(^8\) Woolridge, JRW-1T, p. 4.
2. Cascade’s Cost of Debt Should Reflect Recent Low-Cost Issuances.

10. Cascade has proposed a cost of debt of 4.745 percent which was based on debt issuances as of the date Cascade submitted its initial filing in this proceeding.9 Since its initial filing, and as a result of the historically low interest rate environment, Cascade has issued three tranches of low-cost debt. Cascade should be required to pass these savings onto customers. As noted in response to AWEC Data Request 26, Cascade made two debt issuances in August 2020.10 As noted in responses to AWEC Data Request 26 and AWEC Data Request 55, Cascade made another debt issuance in November 2020.11 Each of these debt issuances had low interest rates relative to Cascade’s overall cost of debt, and therefore, reduce Cascade’s overall cost of debt. These low-cost debt issuances should be included in Cascade’s cost of debt and the overall cost of capital.

11. After considering these debt issuances, Cascade’s cost of debt declines to 4.540 percent, compared to the 4.745 percent included in Cascade’s initial filing.12 In Rebuttal Testimony, Cascade reduced its proposed cost of debt to 4.589 percent but did not explain the differences between its updated calculation and the values provided in response to AWEC data requests. The impact of reducing the cost of debt based on recent debt issuances as recommended by AWEC results in a $616,377 reduction to revenue requirement compared to Cascade’s filed case.13

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9 Nygard, TJN-1T
10 Mullins, Exh-4. The August debt issuances, for example had interest rates of 3.59% for 30-year debt and 3.79% for 40-year debt.
11 Id. Interest rates continued to decline and the November debt issuance had an interest rate of 3.35% for 40-year debt.
12 Mullins, BGM-1T, p. 13.
13 Id.
3. **Cascade’s Capital Structure Should Be Revised To Reflect Actual Financing Costs.**

12. Cascade’s capital structure should be revised to more fairly balance the interest of Cascade and its ratepayers. Cascade has proposed a capital structure that is weighted 49.6 percent debt and 50.4 percent equity. Cascade’s proposed capital structure is much more favorable to Cascade than the capital structured comprised of 49.1 percent equity and 50.9 percent debt approved in Docket UG-190210.\(^\text{14}\)

13. AWEC recommends increasing the debt percentage in Cascade’s capital structure to be more reflective of its actual financing costs. AWEC’s recommends a capital structure comprised of 47.1% equity and 52.9% debt, which would reduce Cascade’s revenue requirement by $982,542.\(^\text{15}\)

14. AWEC’s recommendation is based on AWEC’s analysis of Cascade’s leverage position which is found at Mullins BMG-1T, Table 5. AWEC’s analysis demonstrates that Cascade operates at a debt ratio of 65.60%.\(^\text{16}\) In other words, based on Cascades’ actual leverage position, the Commission would be warranted in increasing Cascade’s debt percentage by approximately 15%. Notwithstanding, AWEC recommends a gradual increase of the debt percentage to 52.9%, which is 2% higher than the debt ratio approved in UG-190210.

15. Cascade opposes AWEC’s recommendation.\(^\text{17}\) Cascade does not, however, dispute the accuracy of the 65.60% debt ratio that AWEC calculated in Mullins, BGM-1T at 15, Table 5. Rather, Cascade attempts to discredit this calculation by referring to AWEC’s analysis as

\(^{14}\) *Id.* at p. 16, lines 7-8.

\(^{15}\) *Id.* at p. 16, lines 10-15.

\(^{16}\) *Id.* at p. 15, Table 5.

\(^{17}\) Nygard, TJN-4T p. 10 line 10 through p. 11 line 4.
“novel” and “arbitrary”, and asserting that credit rating agencies gauge leverage based on a utility’s total balance sheet, not solely its rate base.

16. Cascade’s characterizations of AWEC’s analysis, however, are unpersuasive. First AWEC’s analysis is not a theory; it is simply a numerical calculation, which Cascade did not dispute. Second, asserting that leverage must be gauged based on a utility’s balance sheet, not its rate base, is a point without distinction. For regulatory purposes, the utility’s rate base is its balance sheet. To the extent differences between the balance sheet and rate base exist, those are considered in working capital, which was a component of AWEC’s adjustment. Third, the capital structure percentages are used to determine the portion of rate base that is financed by debt and the portion of rate base that is financed by equity. There is nothing novel or arbitrary about comparing actual debt issuances to the underlying rate base balances to determine a utility’s capital structure. Cascade was unable to identify any fault or flaw in the analysis advocated by AWEC, nor was it able to explain why AWEC’s analysis presented a result so different from Cascade’s proposed capital structure. Accordingly, AWEC continues to recommend that its proposed capital structure of 47.1% equity and 52.9% debt be adopted by the Commission.18

D. CASCADE’S PROPOSAL TO USE OF END OF PERIOD RATE BASE AND INCLUDE PRO FORMA AND BLANKET CAPITAL PROPOSALS ARE NOT SUPPORTED BY THE RECORD AND SHOULD BE REJECTED.

17. Cascade has made a number of proposals in its capital forecast that are unjustified and unsupported by the record. As described more fully below, AWEC recommends: (a) that the Commission establish revenue requirement using an average-of-monthly-averages rate base

18 Mullins, BGM-1T, p. 16, lines 10-15.
calculation, rather than Cascade’s proposal to use end-of-period rate base; (b) that the pro-forma capital additions that were included in Cascade’s 2019 General Rate Case, Docket No. UG-190210 not be considered again in this proceeding; (c) removing pro forma capital additions that have not been placed into service as of the time of Staff and Intervenors filed Response Testimony; (d) removing blanket capital items, which Cascade also refers to as growth related capital, from the pro forma capital forecast; (e) including removal costs in the context of pro forma plant additions; and (f) including a provision for expected plant retirements to offset the pro forma plant addition amounts.

1. **Cascade’s Proposal To Use End-Of-Period Rate Base Has Not Been Justified And Should Be Rejected.**

18. Cascade has failed to provide any justification for its proposal to use end-of-period rate base rather than the Commission’s preferred use of average-of-monthly-averages rate base. The Commission has only approved the use of end-of-period rate base when it has been shown to be appropriate on a case-by-case basis. The Commission has previously discussed four factors to consider where end of period may be an appropriate regulatory tool:

(a) Abnormal growth in plant;

(b) Inflation and/or attrition;

(c) Significant regulatory lag; or

(d) Failure of utility to earn its authorized ROR over an historical period.\(^{19}\)

19. Despite this clear guidance from the Commission, Cascade has not presented any evidence in this case to justify the continued use of end-of-period rate base, other than the fact that it was included in its last rate filing, which was settled as a black box settlement before other

\(^{19}\) *WUTC v. Pacific Power & Light Company*, Docket UE-140762, Order 08, ¶ 145.
parties had the opportunity to file testimony. In this case, Cascade has not made any showing of abnormal growth in plant or attrition or undue inflationary impacts. And Cascade has been filing annual rate cases, and therefore, is not subject to significant regulatory lag. Further, there has not been a sufficient time to determine whether the rates approved in UG-190210 have provided Cascade with a reasonable rate of return. Accordingly, because Cascade ignored the Commission’s guidance and failed to justify its request, Cascade’s proposal to use end of period rate base should be rejected. Rather, AWEC recommends that the Commission establish Cascade’s revenue requirement using average-of-monthly-averages rate base balances. The impact of AWEC’s recommendation is an approximate $2,332,145 reduction to revenue requirement.\(^{20}\)

2. Cascade Should Not Be Allowed To Include Pro Forma Plant Additions That Were Included In Its Last Rate Case.

20. Cascade has proposed to include the Wallula Gate Station project, the Bellingham 8” HP, the Arlington Gate Station project, and Aberdeen HP in pro forma capital additions notwithstanding the fact that these projects were also included in Cascade’s prior rate case.\(^{21}\) The total pro forma capital that Cascade has requested with respect to these four projects is $27,328,325, approximately one-half of the total pro forma capital that Cascade proposes in this case.\(^ {22}\)

21. The only justification given by Cascade for inclusion of these projects is that UG-190210 was settled as a black box settlement and that the projects were delayed and not placed into service on the dates that Cascade represented in Docket No. UG-190210. In fact, while Cascade

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\(^{20}\) Mullins, BGM-1T p. 23 lines 19 through p. 24 lines 1-5.

\(^{21}\) Id. p. 24, lines 7-17.

\(^{22}\) Id.
represented that the Wallula Gate Station project would be placed into service on December 31, 2019, nearly 11 months later, that project still had not been fully placed into service.\textsuperscript{23}

22. The revenue requirement in UG-190210 was established with the expectation that these investments would be used and useful and benefitting customers. The only record in UG 190210 related to capital consists of Cascade’s filed case which includes these pro forma capital additions, and the settlement agreement and supporting testimony. Cascade did not preserve the right to include these projects in a later case, nor were these projects discussed in the settlement agreement, testimony in support of the settlement, or at the settlement hearing. Accordingly, existing rates already compensate Cascade for those capital investments. If Cascade is allowed to include those investments again in this proceeding, it would result in a windfall to Cascade because it is already recovering the costs through existing rates even though the resources weren’t actually placed into service. It is not in the public interest for Cascade to be allowed to increase its rates in this case, simply because the projects it identified in UG-190210 have been materially delayed. AWEC recommends the Commission remove all pro forma plant additions that were also included in Docket No. UG-190210.\textsuperscript{24} The impact of this recommendation is a $3,970,462 reduction to revenue requirement.\textsuperscript{25}

3. The Commission Should Disallow Pro Forma Capital Additions That Were Not in Service as of the Date Staff and Intervenors Filed Response Testimony.

23. AWEC recommends that the Commission reject any pro forma capital project that was not in service as of the date Staff and Intervenors filed response testimony. AWEC BGM-6

\textsuperscript{23} Id.
\textsuperscript{24} Mullins, BGM-6.
\textsuperscript{25} Mullins, BGM-1T, p. 26.
details each capital addition that was not in service by this date. \(26^\) This exhibit also demonstrates that approximately $23,027,799 of the capital additions Cascade proposed in its initial filing had not yet achieved commercial operations, including the Wallula Gate Station project from UG-190210.\(27^\)

24. AWEC recommends excluding these projects because it is not possible to ascertain the prudence of the projects at this time, particularly in light of the delays and budget overages identified with respect to the capital projects Cascade identified in UG-190210. Removing the projects not yet in service as recommended by AWEC results in a $740,319 revenue requirement reduction.\(28^\)

4. **Cascade’s Blanket and Small Capital Projects Should Not Be Approved.**

25. Cascade has inappropriately included a significant amount of routine capital projects in its filing. AWEC recommends that such blanket and small pro forma capital items be removed from Cascade’s revenue requirement. These small pro forma capital items are detailed in AWEC Exh. No. BGM-6 and include $24,453,819 in routine, blanket capital additions.\(29^\) Cascade fails to specify what these investments represent. Further, Cascade also includes seven pro forma projects with capital budgets of less than $500,000.\(30^\) These seven projects comprise of $1,688,626 in pro forma capital.\(31^\)

26. Cascade’s routine capital investments represent a collection of unspecified, small capital projects, which do not meet the criteria for being considered a “major” pro forma plant addition.

\(26^\) Mullins, BGM-6
\(27^\) Id.
\(28^\) Mullins, BGM-1T, p. 27 lines 15-16.
\(29^\) Mullins, BGM-6
\(30^\) Mullins, BGM-1T, p. 27 lines 1-3.
\(31^\) Id.
Since the blanket accounts are not discrete and are not major investments, there is no basis to consider them as a post-test period capital addition. Further, since the amounts are not tied to any specific investment it is impossible to ascertain whether the investments are prudent in the context of a major pro forma capital additions.

27. Cascade’s proposal on its routine capital projects also amounts to double recovery because these amounts are already recoverable through incremental accumulated depreciation that also accrues subsequent to the test period. Depreciation of existing plant results in a reduction to rate base, which reduces or eliminates the capital requirements of new investments. Small investments are not typically considered on a post-test year basis, because they are offset by incremental accumulated depreciation associated with existing plant. Considering incremental routine capital on a post-test year basis, but not the incremental accumulated depreciation, results in a mismatch and incoherent test period results to the detriment of rate payers.

28. Cascade’s one-sided proposal is illustrated as follows. Cascades results for 2019 included $24,915,118 of depreciation for existing plant, on an average of monthly averages basis.\(^{32}\) After considering its updated depreciation rates and end of period plant balances, the existing plant in service as of December 2019 will accrue incremental accumulated depreciation of $29,358,446 in calendar year 2020, which Cascade has not considered in its pro forma capital adjustment.\(^{33}\) Because the blanket and small capital items constitute $26,142,445 in rate base, it is less than the incremental accumulated depreciation expected to accrue on existing plant in 2020.\(^{34}\)

\(^{32}\) Mullins, BGM 1T, p. 30 lines 22-23.

\(^{33}\) Id. at p. 30 line 22 through p. 31 line 3.

\(^{34}\) Id. at p. 31 lines 6-8.
29. Finally, in addition to the effects of accumulated depreciation, Cascade already has mechanisms in place to recover much of the routine capital investments outside of a rate proceeding. Because Cascade uses per customer decoupling, the incremental revenues that it earns from any particular customer through the decoupling mechanism already accounts for some amount of growth-related capital. In addition, Cascade has a Safety Cost Recovery Mechanism, which also provides recovery for these sorts of capital investments. Since Cascade failed to identify any discrete project with respect to these capital amounts, it is not known whether its proposal is duplicative of the amounts it will recover through these other mechanisms. Removing the blanket capital additions, along with the projects with a capital budget of less than $500,000, produces a $3,444,897 reduction to revenue requirement.35

5. Cascade Should Also Include Consideration of Plant Retirements In Its Proposed Revenue Requirement.

30. Cascade should also be required to include consideration of pro forma plant retirements in 2020. When plant is retired from service, the original cost of the plant is credited from gross plant and debited against depreciation reserves. The net impact of a retirement on rate base is, therefore, zero, since the reduction to gross plant is offset by the reduction to depreciation reserves. Retirements do, however, have an impact on depreciation expenses. Depreciation expenses are calculated as a percentage of gross plant, and since a retirement reduces gross plant, it also reduces depreciation expenses. Cascade’s consideration of only the incremental impact of pro forma plant additions and not the offsetting impacts of plant retirements on depreciation

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35 Id. at p. 32, lines 5-6.
expenses is one sided and should be rejected. The impact of AWEC’s recommendation is an $493,017 reduction to revenue requirement.\textsuperscript{36}

6. \textbf{Cascade Should Also Be Required To Consider Removal Costs In Revenue Requirement.}

AWEC also recommends that removal costs be considered in revenue requirement. While removal costs represent an addition to rate base, they are applied as a reduction to depreciation reserves, rather than an increase to gross plant. The cost of removal is considered in the capital forecast, and therefore, also needs to be removed from depreciation expenses when plant is retired. Since negative net salvage is recovered through depreciation expenses, including the negative net salvage amount in gross plant would result in a utility recovering negative net salvage on negative net salvage amounts, which would overstate recovery. In response to AWEC Data Request 64, Cascade provided the amount of removal costs that it incurred in Calendar Year 2019.\textsuperscript{37} In total, Cascade incurred removal costs of $3,554,683 in 2019.\textsuperscript{38} AWEC recommends that the 2019 removal costs be applied as a pro forma adjustment for removal costs expected to be incurred in 2020. This amount is applied as a reduction to gross plant, and the associated depreciation expenses. The impact of adjusting removal costs out of the capital forecast results in an approximate $153,064 reduction to revenue requirement.\textsuperscript{39}

\textsuperscript{36} See Mullins BGM-4. In response to AWEC Data Request 10, Cascade provided the plant retirements it experienced in calendar year 2019. Based on that response Cascade retired $11,449,588 of plant in 2019. These expected retirements have the effect of reducing depreciation expenses.

\textsuperscript{37} Mullins, BGM-1T, p 34, lines 12-14.

\textsuperscript{38} Id.

\textsuperscript{39} Id.; Mullins BGM-4.
E. WAGES AND SALARIES

32. Cascade proposes a number of adjustments for wages and salaries. AWEC recommends eliminating all incentive payments made to affiliate employees, since there is no evidence that the payments made to those employees was made for the benefit of Cascade’s Washington ratepayers. Second, AWEC recommends eliminating all wage escalation associated with Cascade’s affiliates. Third, in light of current economic conditions, AWEC recommends that wage escalation for Cascade non-union employees be limited to 2% in 2020, and exclude any further escalation assumptions for Union and Non-Union employees in 2021. Finally, AWEC recommends removing 50% of directors’ fees, consistent with the Commission’s practice, which Cascade accepted in Rebuttal Testimony.

33. Cascade’s test period includes employee incentive payments in the amount of $3,062,654. In its executive incentives adjustment R-6, Cascade removes $1,230,735 of these incentive expenses, leaving $1,831,919 of incentive payments in its revenue requirement. Only part of the remaining amount, however, was actually paid to Cascade employees. Approximately $750,019 of that amount was attributable to incentives paid to employees of affiliates, which were subsequently allocated to Cascade through inter-corporate cross-charges.

34. As described in AWEC’s testimony, it is not appropriate to include any incentive amount in revenue requirement in connection with those expenses. The individuals receiving the incentive payments are not employees of Cascade, and Cascade has not shown that these employees have a fiduciary responsibility to perform services in a way that benefit Washington ratepayers through reduced expense or improved customer service. In addition, the Commission

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40 Mullins, BGM-1T at p. 35, lines 17-18.
41 Id. at lines 18-19.
42 Id. at lines 20-23.
has no jurisdiction over these affiliate employees. These employees may be receiving bonuses that benefit the affiliate corporation where they work, but there is no way of knowing whether the incentives benefited Cascade’s ratepayers. AWEC recommends removing the incentive amounts charged from affiliates. Removing the affiliate bonuses results in a revenue requirement reduction of $784,983 after consideration of revenue sensitive costs.43

35. Cascade’s revenue requirement also includes employee costs that are allocated from its affiliates.44 In its pro forma wage adjustment P-2, Cascade proposes to increase the expenses allocated from its affiliates in connection with wage increases it expects at its affiliates in the pro forma period.45 Similar to the affiliate bonuses, these amounts represent time that an affiliate employee has attributed to Cascade’s operations and charged to Cascade through inter-corporate cross charges. The inter-corporate cross charges are not tied solely to wage levels at Cascade’s affiliates, but to inter-corporate services performed. Thus, even if one assumes that a wage increase at Cascade’s affiliate is known and measurable, the effect of the wage increase on inter-corporate cross charges is not known and measurable. Cascade’s wage adjustment proposes to increase these cross-charge amounts for two years of expected wage increases. Cascade assumes a 4 percent wage escalation per year, and proposes an additional $475,907 in operating expenses in connection with proposed affiliate wage increases.46

36. Since the Commission has no jurisdiction over the labor policies of Cascade’s affiliates, it is not appropriate to make assumptions about such labor policies, including proposals for wage increases, of Cascade’s affiliates. Since the Commission does have jurisdiction over the labor

43 Id. at p. 36, lines 19-21.
44 Id. at p. 37, lines 4-5.
45 Id. at p. 37, lines 5-7.
46 Id. at p 37, lines 11-12.
policies Cascade applies to its own employees, it may be appropriate to make some assumptions about wage increases at Cascade, since the Commission can hold Cascade accountable for those policies. If, for example, the wage increases at Cascade’s affiliates do not materialize, the Commission will have no ability to monitor or enforce the labor policies for the affiliate.

37. Further, it is not clear what factors Cascade’s affiliates might consider when approving wage increases of this magnitude. A four (4) percent wage increase is more than double the annual rate of inflation, and given the economic environment associated with the ongoing COVID-19 pandemic, it is not reasonable to assume such a large wage increase. Removing the affiliate wage escalation results in an approximate $493,017 reduction to revenue requirement.47

1. Cascade’s Wage Escalation Of Four Percent Per Year For Its Own Employees Is Not Reasonable.

38. For non-union employees, Cascade has assumed a four (4) percent per year wage escalation in 2020 and 2021, which is approximately an 8.2 percent escalation over test period levels.48 For union employees, Cascade has assumed three (3) percent per year wage escalation in 2020 and 2021, which equates to 6.1 percent over the test period levels.49 But as a result of the COVID-19 pandemic, the economy has experienced record levels of unemployment and a 8.2 percent wage escalation is not consistent with the current labor market conditions. It is not reasonable to assume such large wage increases in 2020 and 2021, when many of the ratepayers in Cascade’s service territory are experiencing hardship and unemployment. Further, it is not reasonable for Cascade to forecast wages so far ahead of the test period. Cascade proposes to escalate wages to 2021 which is two years beyond the test period. This is in contrast to the

47 Id. at p. 38, lines 23-24.
48 Id. at p. 39, lines 4-7.
49 Id.
Commission’s practice of only considering wage increases that are known and measurable. AWEC recommends removing all wage escalation in 2021 for both union and non-union employees. AWEC also recommends capping the 2020 wage increase for non-union employees at two (2) percent, which is the approximate rate of inflation. This recommendation results in a $1,046,762 reduction to revenue requirement.\(^{50}\)

2. Director Fees

Cascade identified $350,370 of director fees included in revenue requirement despite the Commission’s confirmation that its “practice is to allow the Company recovery of 50 percent of director fees from ratepayers.”\(^{51}\) AWEC recommends an adjustment to remove 50% of the director fees that Cascade identified in response to AWEC Data Request 50, consistent with the Commission’s past practice.\(^{52}\) This recommendation reduces revenue requirement by $183,351. Cascade accepted this adjustment in Rebuttal Testimony.\(^{53}\)

F. RATE SPREAD AND RATE DESIGN

Cascade has proposed to allocate the margin revenue requirement on an equal percent of margin basis, with no increases to fixed demand or customer charges. Cascade’s proposal is based on the fact that the Commission ordered Cascade to allocate its revenue increase on an equal percent of margin basis until it has completed a load study. Since Cascade has not yet completed a load study, Cascade did not present a cost of service study and has not modified its rate spread in this docket.

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\(^{50}\) Id. at p. 40, lines 1-2.
\(^{51}\) UE-150204, Order 05 at ¶ 220.
\(^{52}\) Mullins BGM-4.
\(^{53}\) Gresham, MCG-11T
In Docket UG-152286, Cascade agreed to initiate a load study prior to its 2017 general rate case. Cascade, however, never actually performed the load study in its 2017 general rate case. In light of the time period that has elapsed since rates were approved in UG-152286, AWEC recommends that the Commission affirmatively require Cascade to perform a load study prior to filing its next general rate case. AWEC further suggests that a new docket be opened to facilitate a stakeholder process to oversee the creation of Cascade’s load study, including periodic workshops where stakeholders can consider the results and the progress being made towards the completion of the load study.

IV. CONCLUSION

Cascade originally requested a $14,281,139 rate increase which it reduced to $7,393,210 in rebuttal testimony through several proposed adjustments and revenue offsets, including a reduction in the Unprotected EDIT Amortization, and an extension of the deferred gas cost amortization associated with the Enbridge incident by one year. These offsetting adjustments, however, are illusory, because they simply accelerate monies due to customers, or postpone amounts due from customers. The Commission should reject Cascade’s proposed adjustments on rebuttal because any rate reduction today will result in increased rates in the future.

Cascade has not met its burden of proof to show that its proposed rate increase, even as reduced on rebuttal, would result in rates that are fair, just, reasonable and sufficient. As demonstrated above, and through adjustments proposed by Staff and Public Counsel, the rates recently approved in UG-190210 on March 1, 2020 are more than sufficient for Cascade to earn a fair rate of return. While the Commission would be justified in decreasing Cascade’s rates,

54 Parvinen, MPP-2T, p 2-3.

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AWEC recommends that no changes be made to Cascade’s currently effective rates. Finally, Cascade should be required to file a load study before it files another general rate case.


Respectfully submitted,

[Signature]

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