Washington Utilities and Transportation Commission
v.
Cascade Natural Gas Corporation
Bench Request
UG-200568

Bench Request No. 8

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Introductory Comments to Bench Request No. 8 Regarding Compliance with WAC 480-90-257(2)(a):

> Cascade's response to Bench Request No. 3 fails to comply with the requirements set out in WAC 480-90-257 as described below.
>
> ***WAC 480-90-257(2)(a)***
> The rate of return calculations offered in the "Summary" tabs of Cascade's Commission Basis Reports ("CBRs") for the years 2015-2020 submitted in response to Bench Request No. 3 do not include **all** the necessary adjustments as accepted by the Commission in the applicable previous general rate cases.
> For example, the CBRs for the years 2015, 2016, and 2017 do not include those adjustments accepted by the Commission in Docket No. UG-060256, which was the most recent general rate case in which the Commission accepted adjustments relevant to those three CBR years. Additionally, the CBRs for the years 2018 and 2019 do not include those adjustments accepted by the Commission in Docket No. UG-170929, which was the most recent general rate case relevant to those two years.

Cascade's Response to Comments Regarding Compliance with WAC 480-90-257(2)(a).

It appears that there may have been some confusion about the restating adjustments to be applied to the Commission Basis Reports (CBRs) resulting from the settlements in Dockets UG-060256 and UG-170929. After a comprehensive review, Cascade determined that the CBRs for 2015-2017 included all appropriate restating adjustments required in accordance with WAC 480-90-257(2)(a), but that Cascade had inadvertently omitted the restating adjustment for Executive Incentives in the 2018-2020 CBR in response to Bench Request No. 3, and Cascade is updating those reports in this response. Cascade details its review of the restating adjustments from the settlements in Dockets UG-060256 and UG-170929 below.

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Docket UG-060256

The settlement in UG-060256 included eleven restating adjustments:

1. Restatement of Test Period at Current Rates
2. Removal of Management Services
3. Restate Gas Costs for Lost & Unaccounted for Gas
4. Reclassify Gas Transportation into Rate Schedules
5. Removal of Severance Expense
6. Restated Wages and Related Costs
7. Restated Property Tax Expense
8. Restated Franchise Fees Expense
9. Adjustment to Remove Promotional Expense
10. Restate Test Period for Normal Weather
11. Restate Uncollectibles to Actual

Of the eleven adjustments, six were specific to the test period in UG-060256 (twelve months ended September 30, 2005) and do not apply to the years 2015 – 2017. The six adjustments are items 2, 3, 4, 5, 8, and 11. Item 2, Removal of Management Services, accounted for a non-jurisdictional service that Cascade discontinued as a result of Docket UG-061256 and is no longer applicable. Item 3, Restate Gas Costs for Lost and Accounted for Gas, is no longer applicable due to lost and unaccounted for gas being included in gas cost deferrals. Item 4, Reclassify Gas Transportation in Rate Schedules, was eliminated and no adjustment was applied in the settlement. Item 5, Removal of Severance Expense, was for specific severance costs incurred as non-recurring costs during the test period and are not incurred beyond the test period. Item 8, Restate Franchise Fees, was a removal of expenses to be collected from the Municipal Tax tariff going forward. Item 11, Restate Uncollectibles to Actual, restated accrued expense to actual write-offs. The Company changed accounting procedures as a result of the rate case removing the need to include this adjustment going forward.

The five remaining restating adjustments include: Advertising Expense, Weather Normalization, Restate Wages, Restate Property Taxes, and Restate Test Period Revenues and Gas Costs at current rates. The Advertising Expense Adjustment has been applied consistently in the 2015 to 2020 CBRs. The Weather Normalization adjustment was applied in the 2015 and 2016 CBR, but was no longer applicable after the effective date of September 1, 2016 for the UG-152286 general rate case which authorized the decoupling mechanism, and accordingly was not applied in the 2017-2020 CBRs.

The remaining three adjustments include an annualization of union and non-union employees, an annualizing of property taxes, and an annualization to adjustment to current rates to revenues and gas costs. WAC 480-90-257(3) specifically excludes adjustments to annualize wages and other cost changes: "Commission basis reports should not include adjustments that annualize price, wage, or other cost changes during a reporting period, nor new theories or approaches that have not been previously addressed and resolved by the commission." Accordingly, consistent with WAC 480-90-257(3), Cascade did not include an adjustment to annualize wages, property taxes, or restate revenues and gas costs to current rates.

Therefore, Cascade believes that the CBR reports submitted in response to Bench Request No. 3 for the years 2015-2017 are correct and appropriately include all required restating adjustments.

Docket UG-170929

The settlement in Docket UG-170929 included nine restating adjustments:

- R-2 – Promotional Advertising
- R-4 – Low-Income Bill Assistance
- R-5 – SISP/SERP
- R-6 – Arbitration Expense
- R- 7 – Wage Adjustment
- R-8 – Market Data subscription Fees
- R-9 – Foros True Boutique
- R-10 – Incentive Pay
- MDUR Rental

Of the nine adjustments, five adjustments (R-4 – Low-Income Bill Assistance, R-6 – Arbitration Expense, R-8 – Market Data subscription Fees, R-9 - Foros True Boutique, MDUR Rental) were specific to the test period, 2016, and are not applicable to the CBRs for 2018-2020. Adjustment R-5 – SISP/SERP is no longer applicable as the company books these costs as a below the line item for years 2018 to current. The wage adjustment, R-7 is an annualization adjustment which is to be specifically excluded per WAC 480-90-257(3).

The remaining two adjustments that should be included in the CBRs are R-2 – Promotional Advertising and R-10 – Executive Incentives. As discussed above, Cascade has reflected the Advertising Expense Adjustment for its 2015-2020 CBRs. Cascade inadvertently did not include the Executive Incentive pay adjustment in its CBR reports for years 2018 – 2020 in response to Bench Request No. 3 and is updating those reports in this response.

Introductory Comments to Bench Request No. 8 Regarding Compliance WAC 480-90-257(2)(b):

> ***WAC 480-90-257(2)(b)***
> The rate of return calculations offered in the "Summary" tabs of Cascade's CBRs do not include the necessary adjustments to correct all material distortions related to earnings and rate base that occurred during the reporting period.
>
> In Exhibit MPP-2T at 25:1-8, Michael Parvinen testifies that asset retirement levels in 2018 and 2019 were approximately three times higher than average retirement expense levels between 2015-2017. No adjustment was made to the CBRs to normalize this amount. This raises concerns that there are likely other distortions to earnings and rate base that have not been accounted for in the CBRs presented in response to Bench Request #3. The Commission issues the following bench request to remedy the previous insufficient response.

Cascade's Response to Comments Regarding Compliance with WAC 480-90-257(2)(b):

As explained below, it appears there may have been some confusion about the statement in Mr. Parvinen's testimony regarding asset retirement, and accordingly no adjustment to the CBRs in connection with asset retirement is appropriate.

Mr. Parvinen's testimony states that the retirement levels were three times higher in 2018 and 2019 but the retirements were still actuals in those years and should not be adjusted. As AWEC points out in testimony, the retirements have <u>no impact on rate base</u>, and instead only impact future depreciation expense.[1] Therefore, the depreciation expense already reflects the impacts for those years on a going forward basis when depreciation

[1] Response Testimony of Bradley G. Mullins, Exhibit BGM-1T at 32:18-21.

expense is recorded. The actual results are not distorted nor is any adjustment appropriate. Mr. Parvinen's testimony simply states that for purposes of trying to normalize the impact to the **pro forma** plant additions, it would be inappropriate to assume the asset retirement levels from 2019 would be representative for inclusion in an adjustment related to **pro forma** plant additions. In its rebuttal filing, the Company identified the retirements adjustment as Restating Adjustment R-10, however, this adjustment more appropriately should have been included as a component of the Proforma Plant Adjustment P-3.

Finally, as a result of preparing its rebuttal case, Cascade discovered a possible adjustment that would potentially qualify as an "out-of-period" adjustment item per WAC 480-90-257(2)(b)[2] and has included the Remove Interim Period EDIT Benefits adjustment identified as R-7 in MCG-14, in its 2019 CBR, which is attached. This adjustment would also only be specific to 2019 and not appear in future CBRs.

BENCH REQUEST NO. 8:

Referring to Parvinen, Exh. MPP-3 and MPP-2T at 6, Table 1, provide in Excel format an updated exhibit MPP-3 consistent with the provisions of WAC 480-90-257, including actual calendar year 2020.
Additionally, for each calendar year in MPP-3 and for the actual calendar year 2020 provide the following details:

a. All required and separately stated restating adjustments,

b. Valuation of rate base exclusively on an average of monthly averages basis,

c. The calculated rate of return for the restated results of operations,

d. A comparison of the calculated restated results of operations rate of return to the authorized rate of return and include the docket number authorizing the referenced rate of return, and include the docket number in which the Commission authorized the referenced rate of return.

Response to Bench Request No. 8:
Each year's CBR is attached in Excel format including all supporting calculations. Each Excel file includes a tab labeled "Summary" which is then further summarized in table 1 and 2 below. The "Summary" tabs also contains the information responsive to Bench Request No. 8 parts a-d.

Referring to Table 1, for MPP-2T, if the ROR values were replaced with the adjusted CBR, the table would be revised as shown below:

[2] WAC 480-90-257(2)(b): "Results of operations adjusted for any material out-of-period, nonoperating, nonrecurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base."

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Table 1: Results of Operations

	2015	2016	2017	2018	2019	2020
ROR (MPP-2T)	5.01%	5.70%	6.45%	6.70%	5.54%	5.81%
ROR (Adjusted CBR)	5.73%	6.83%	6.39%	6.58%	5.89%	6.17%

Cascade's chronic under-recovery is reflected in Table 2 below. Cascade has under-recovered its cost of providing service since 2015, despite having filed three separate rate cases and a decreasing authorized ROR.

Table 2: Results of Operations Over/(Under) Recoveries

	2015	2016	2017	2018	2019	2020
ROR (Authorized)	8.85%	7.35%	7.35%	7.31%	7.31%	7.24%
ROR (Adjusted CBR)	5.73%	6.83%	6.39%	6.58%	5.89%	6.17%
Over/(Under) Recovery	(3.12%)	(0.52%)	(0.96%)	(0.73%)	(1.50%)	(1.07%)