REDACTED

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-200568

CASCADE NATURAL GAS CORPORATION'S POST-HEARING BRIEF

REDACTED

March 22, 2021

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

Washington Utilities & Transportation Commission Orders

Statutes

Other Authorities

I. INTRODUCTION

1 Cascade Natural Gas Corporation ("Cascade" or "Company") requests the Washington Utilities and Transportation Commission's ("Commission") approval for a base rate change of $7.4 million (or 2.82 percent) effective May 21, 2021. When combined with the Company's proposed rate mitigation proposals, most customers will see no rate change or even a decrease from this case until mid-2022. Since the COVID-19 pandemic began in 2020, Cascade has worked hard to address its customers' need for the continued provision of essential, safe, and reliable gas service with increased concerns about access and affordability. This general rate case ("GRC") balances these needs by (1) delivering significant new system infrastructure investments necessary to maintain a safe and reliable system, (2) providing fair compensation to Cascade's employees, and (3) ensuring ongoing access to low-cost capital—all while providing for comprehensive offsets that fully mitigate customer rate impacts in the near term.

2 This case is driven by the need to continue investing in essential infrastructure upgrades, and the associated costs for labor and capital. Cascade is in the midst of a multi-year safety and reliability investment program, expected to total more than $400 million from 2020-2024.[1] In 2020 alone, the Company invested $96.2 million in system infrastructure.[2] Of this total investment, Cascade sought recovery of only $66.1 million in pro forma capital projects, reduced to $57.3 million in rebuttal, for plant placed in service during 2020.[3] These prudent and necessary capital investments increase Cascade's revenue requirement by $7.4 million,[4] net of depreciation and other offsets, the recovery of which is consistent with both the Commission's pro forma policies and the need to ensure the safe and reliable provision of essential gas service.

[1] Kivisto, Exh. NAK-1T at 3:11-13.
[2] Parvinen, Exh. MPP-2Tr at 20:5-7.
[3] Darras, Exh. PCD-3T at 2:6-3:17.
[4] Gresham, Exh. MCG-14 (Pro Forma Plant Additions P-3, line 27).

3 Fairly compensating Cascade's dedicated employees is the second largest contributor to this case, resulting in a $1.5 million pro forma cost increase.[5] Cascade's employees have diligently worked to ensure the continuity of essential natural gas service in the face of the last year's unprecedented challenges and risks. Cascade's ability to place the vast majority of its planned pro forma projects in service demonstrates both the Company's effective project management as well as a highly capable and engaged workforce. Cascade remains committed to fairly compensating its employees consistent with average market levels and has demonstrated that its 2020 and 2021 wage increases are prudent, known, and measurable.

4 The third key component in this case is Cascade's need to acquire significant new capital in a period of heightened volatility and risk. Cascade has proposed a moderate increase in its return on equity ("ROE") to capture rising costs, from 9.4 percent to 9.8 percent, and seeks to increase the equity in its capital structure from 49.1 percent to 50.4 percent to reflect the actual equity required to support its credit rating. Both proposed increases are fully offset by the decrease in Cascade's cost of debt, however, resulting in a proposed reduction to Cascade's overall rate of return ("ROR") from 7.24 percent to 7.22 percent.

5 Cascade respectfully requests that the Commission approve both its rate request and mitigation measures, and support Cascade's critical efforts to upgrade its system, compensate its employees fairly, and strengthen its credit metrics—all with little or no near-term rate impact.

II. CASE OVERVIEW

A. This Case Effectively Balances Customers' Near-Term and Long-Term Needs.

6 When Cascade first filed this case, the Company anticipated that the economic impacts associated with COVID-19 would be ameliorated by the time rates took effect almost a year later.[6]

[5] Gresham, Exh. MCG-14 (Pro Forma Wage Adjustment P-2, line 27).
[6] Kivisto, Exh. NAK-2T at 5:17-20.

As it became clear that the hardship caused by the combined health and economic crisis would be longer-lasting, Cascade reduced its revenue requirement and presented two mitigation measures to avoid any rate increase for most customers until mid-2022.[7]

7 First, Cascade proposes to accelerate the remaining amortization period for its unprotected excess deferred income taxes ("EDIT") to just 12 months following the rate effective date. The original 10-year amortization schedule, approved in docket UG-170929, was based on the amortization Cascade proposed in all jurisdictions.[8] Other states have since approved shorter amortization periods, meaning that shortening the amortization period in Washington would not jeopardize alignment with other states.[9] Accelerating amortization of unprotected EDIT increases the customer rate credit in the near term—offsetting approximately $5 million of the Company's proposed rate increase.[10]

8 Second, if the final revenue requirement increase exceeds the unprotected EDIT offset described above, then Cascade proposes to offset that increase by extending the amortization of the increased gas costs associated with the Enbridge pipeline explosion.[11] Currently, the Company is recovering increased gas costs from residential and commercial customers over a three-year period, through March 31, 2022, totaling approximately $18 million per year.[12] Extending this amortization period by one year reduces rates in 2021-2022 by over $9 million.[13]

9 Cascade recognizes that extending the Enbridge amortization would increase the total amount of interest accrued over the life of the amortization period, and so proposes this offset as

[7] Parvinen, Exh. MPP-2Tr at 3:11-14.
[8] *Wash. Utils. & Transp. Comm'n v. Cascade Nat. Gas Corp.*, Docket UG-170929, Order 06 ¶¶ 52, 54 (July 20, 2018).
[9] *In the Matter of Cascade Nat. Gas Corp., Application for a Gen. Rate Revision*, Or. Pub. Util. Comm'n, Docket UG 347, Order No. 19-088 at 9 (Mar. 14, 2019).
[10] Parvinen, Exh. MPP-2Tr at 2:14-18.
[11] Parvinen, Exh. MPP-2Tr at 3:5-14.
[12] Parvinen, Exh. MPP-2Tr at 3:10-11.
[13] Parvinen, Exh. MPP-2Tr at 3:11-12.

a secondary mitigation mechanism, to be applied only if the unprotected EDIT offset is insufficient. In addition, Cascade recommends that the Enbridge amortization be modulated to extend only so far as necessary to offset the Commission's approved revenue requirement increase, thus avoiding any unnecessary costs.

10 In response testimonies, Staff, the Alliance of Western Energy Consumers ("AWEC"), and The Energy Project ("TEP") all lodged general objections to Cascade's rate case filing, pointing to customers' ongoing economic hardship resulting from the pandemic.[14] While Cascade recognizes these concerns, no party disputes that Cascade must continue to implement needed investments to ensure the long-term resiliency of essential gas infrastructure and extend necessary service. Pursuant to both statutory and constitutional dictates, Cascade's rates must continue to provide a reasonable opportunity to recover prudent costs of providing service.[15] Fortunately, Cascade's comprehensive rate mitigation proposals described above address these concerns by eliminating any rate impacts for residential and commercial customers until mid-2022.[16] Together, Cascade's proposed revenue requirement and rate offsets appropriately balance customers' near-term and long-term needs.

11 This case must be viewed in the context of Cascade's broader response to the ongoing economic hardship its customers face. Cascade has implemented significant new programs to ensure customers retain access to essential natural gas service. As described by Cascade witness Nicole Kivisto, the Company has temporarily suspended late payment charges, placed a moratorium on service disconnections associated with the pandemic, and proposed a temporary program to expand bill assistance to customers experiencing financial difficulty associated with

[14] McGuire, Exh. CRM-1T at 2:21-23; Mullins, Exh. BGM-1T at 2:14-20; Collins, Exh. SMC-1T at 13:18-14:2.
[15] *People's Org. for Wash. Energy Res. (POWER) v. Wash. Utils. & Transp. Comm'n*, 104 Wn.2d 798, 808 (1985) (*en banc*).
[16] Parvinen, Exh. MPP-2Tr at 3:11-14 (proposing rate mitigation in excess of the Company's revenue requirement increase request).

the pandemic.[17] This final program, an expansion of the Washington Energy Assistance Fund ("WEAF") called the Hardship Economic Assistance Receivable Temporary ("HEART") program, was recognized by TEP as a "proactive response" to customers in economic crisis.[18] These measures and other assistance currently being considered by the Commission are in addition to Cascade's preexisting customer support programs, such as the Winter Help program and Budget Payment Plan, that provide a robust support network for low-income customers through bill assistance and energy conservation support.[19]

B. Cascade Continues to Experience Chronic Under-Earning.

12 Cascade's request to increase base rates is driven by the Company's chronic under-recovery. As shown in Table 1 below, Cascade has under-recovered its cost of providing service since 2015, despite having filed three separate rate cases.[20] Specifically, Cascade's earned ROR in the 2019 test year was 5.89 percent, while the Company's latest 2020 results, accounting for the 2020 rate increase, still reflect an ROR of 6.17 percent—well below the Company's authorized ROR of 7.24 percent.[21]

Table 1: Results of Operations Over/(Under) Recoveries[22]

	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%)

This significant under-earning is largely tied to ongoing regulatory lag associated with the

[17] Kivisto, Exh. NAK-2T at 7:9-21.
[18] Collins, Exh. SMC-1T at 8:2-19.
[19] Kivisto, Exh. NAK-2T at 7:9-21.
[20] *Wash. Utils. & Transp. Comm'n v. Cascade Nat. Gas Corp*., Docket UG-152286; Docket UG-170929; *Wash. Utils. & Transp. Comm'n v. Cascade Nat. Gas Corp*., Docket UG-190210 (hereinafter "2019 GRC").
[21] Parvinen, Exh. MPP-2Tr at 6:9 (Table 1); Cascade's Response to Bench Request No. 8 (Mar. 22, 2021).
[22] Cascade's Response to Bench Request No. 8 (Mar. 22, 2021) (the Company's earnings levels in the row "ROR (Adjusted CBR") reflect Cascade's Response to Bench Request No. 8, and while the earnings levels in the adjusted CBRs differ from the 2015-2020 RORs included in Table 1 in rebuttal testimony (Parvinen, Exh. MPP-2Tr at 6:9 (Table 1)), they nonetheless demonstrate that Cascade has been continuously underearning in those years).

Company's infrastructure investment program; as noted above, this significant investment effort is expected to total more than $400 million between 2020 and 2024.[23]

13 Cascade previewed these deleterious effects in its last rate case, along with its anticipated need to file another rate case promptly "because of the harsh impact of regulatory lag[.]"[24] In response, the Commission noted that its recently issued guidance in the Policy Statement should "aid the Company in formulating its request to address issues related to regulatory lag" in future cases.[25] The Policy Statement, discussed in more detail below, supports the Company's effort to mitigate regulatory lag through the use of pro forma adjustments.

14 Despite Cascade's long record of under-earning, Staff claims that the Company has no need for a rate case because, in the absence of pro forma cost increases, the Company's test year earnings coupled with the 2020 rate increase would be adequate.[26] Specifically, Staff claims that Cascade's restated test year earnings were 8.01 percent.[27]

15 Staff's claims are misleading. Staff arrives at its 2019 test year results by unevenly accounting for the increase in 2020 *revenues* associated with Cascade's last rate case, but not the increase in 2020 costs reflected in Cascade's pro forma adjustments for new plant and wages.[28] To be clear, Cascade does not dispute that its pro forma adjustments are key to the need for a rate increase. Indeed, Cascade has been transparent that this case is largely driven by two types of pro forma cost increases—crucial ongoing infrastructure and compensation costs.[29] As part of a "traditional" rate case filing, these pro forma costs are prudent, known, and measurable cost of

[23] Kivisto, Exh. NAK-1T at 3:11-13.
[24] 2019 GRC, Order 05 ¶ 14 (Feb. 3, 2020) (quoting Parvinen, Exh. JT-1T at 11:22-12:2).
[25] 2019 GRC, Order 05 ¶ 15.
[26] McGuire, Exh. CRM-1T at 11:8-18.
[27] McGuire, Exh. CRM-1T at 11:18.
[28] Parvinen, Exh. MPP-2Tr at 7:6-14.
[29] Kivisto, Exh. NAK-2T at 6:3-7:6.

providing service.[30] After fairly accounting for both 2020 revenues *and costs*, Cascade continues to experience significant and ongoing under-earning associated with regulatory lag.

16 The fact that Cascade's rate request drivers are infrastructure and compensation increases indicates the Company has been effective in controlling costs.[31] In 2019, Cascade added almost $50 million in new investment to rate base—nearly double its depreciation expense for the year.[32] Nonetheless, were it not for the unavoidable post-test year pro forma cost increases, the Company would not need to seek any increase to base rates.[33] Cascade has succeeded in controlling its operational expenses where possible.

17 Cascade appreciates that the Commission has worked to facilitate innovative options, such as multi-year rate plans, designed to reduce the need for annual GRCs.[34] In this case, Cascade did not file a multi-year rate plan largely due to the COVID-19 pandemic.[35] A multi-year rate plan requires year-over-year certainty regarding capital and operating costs that, in the first half of 2020, had been destabilized by broader economic circumstances.[36] Fortunately, Cascade's dedicated capital projects team and longstanding operational efficiency efforts have allowed the Company to continue its infrastructure program in line with expectations, and avoid major instability in operational costs. Post-pandemic, Cascade fully intends to explore the multi-year rate plan option to address regulatory lag and eliminate annual rate case filings.

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[30] *In re the Comm'n Inquiry into the Valuation of Pub. Serv. Co. Prop. that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement ¶ 34 (hereinafter "Policy Statement") (Jan. 31, 2020).
[31] Parvinen, Exh. MPP-2Tr at 7:15-17.
[32] Parvinen, Exh. MPP-2Tr at 7:17-19.
[33] Parvinen, Exh. MPP-2Tr at 8:1-4.
[34] *See e.g. In re the Petition of Puget Sound Energy, Inc. and Nw. Energy Coalition for an Order Authorizing PSE to Implement Elec. and Nat. Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms*, Dockets UE-121697 *et al.*, Order 07 (June 25, 2013) (approving an expedited rate filing, EOP rate base, rate plan, and decoupling proposal as "innovative ratemaking mechanisms that fulfill the Commission's policy goal of breaking the recent pattern of almost continuous rate cases.").
[35] Docket UG 200568 Evidentiary Hearing Transcript, Vol III, 133:8-11 (Kivisto) (hereinafter "TR.") (Feb. 24, 2021).
[36] TR. 133:12-21 (Kivisto).

C. End-of-Period Rate Base Is Necessary and Supported by the Evidence.

18 End-of-period ("EOP") rate base reduces regulatory lag and more accurately represents the capital investments serving customers when rates take effect.[37] Historically, the Commission has used EOP rate base to respond to a range of conditions, including (a) abnormal plant growth; (b) inflation or attrition; (c) regulatory lag; and/or (d) under-earning over a historical period.[38] For instance, when a utility undertakes a significant, multi-year capital investment program, EOP rate base can help ensure that rates more accurately reflect the investments in service during the rate effective period.

19 Here, EOP rate base is appropriate to reduce regulatory lag because the Company is engaged in an ongoing, crucial capital investment program that is resulting in under-earning.[39] AWEC opposes the Company's request for EOP rate base, and recommends the use of average of monthly averages ("AMA") rate base, resulting in an adjustment of $2.3 million.[40] Staff and Public Counsel do not oppose Cascade's request, although Staff claims that the Company failed to provide adequate evidentiary support.[41]

20 AWEC claims that EOP rate base treatment is inappropriate because the Company has filed multiple rate cases in succession, and cites the Commission's decision in PacifiCorp's 2014 GRC.[42] However, in that case, the Commission found that the company had failed to demonstrate either abnormal plant growth or ongoing under-earning.[43] Since that order, the Commission has

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[37] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-190529 *et al.*, Order 08 ¶ 78 (July 8, 2020) (hereinafter "PSE 2019 GRC").
[38] *Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.,* Dockets UE-140762 *et al.*, Order 08 ¶ 145 (Mar. 25, 2015).
[39] Parvinen, Exh. MPP-2Tr at 4:10-14.
[40] Mullins, Exh. BGM-1T at 23:19-21.
[41] McGuire, Exh. CRM-1T at 13:8-20; Garrett, Exh. MEG-1Tr 11:10-11.
[42] Mullins, Exh. BGM-1T at 22:7-8, citing *WUTC v. Pac. Power & Light Co.*, Docket UE-140762, Order 08. AWEC also claims that the Company has been experiencing "regulatory lead" on the basis that the Company has been recovering costs in existing rates associated with projects not yet in service. Mullins, Exh. BGM-1T at 23:10-14. AWEC's claim that such projects are included in rates is incorrect, as explained in Section IV.F, below.
[43] Docket UE-140762 *et al.*, Order 08 ¶ 146.

made clear that EOP rate base is an effective tool to address regulatory lag, and is appropriate where, "absent the use of EOP rate base, a utility will experience losses."[44] In this case, Cascade is experiencing both abnormal plant growth and ongoing under-earning despite multiple GRCs filings, demonstrating that it will experience losses in the absence of EOP rate base.

21 In response to Staff's concerns, Cascade recognizes that its initial filing could have more specifically detailed its EOP rate base request.[45] However, the Company's filing amply supported the underlying justifications for EOP rate base—namely, significant plant growth, chronic under-earning, and a clear need to mitigate regulatory lag.[46] Cascade also addressed the need to include pro forma adjustments, which similarly seek to update rate base levels.[47] Nonetheless, the Company further clarified the need for EOP rate base on rebuttal.[48]

22 Public Counsel claims that EOP rate base alone, without any pro forma capital adjustments, is sufficient mitigation against regulatory lag,[49] partly based on the assumption that cost recovery risks associated with regulatory lag are already built into the Company's authorized ROE.[50] Public Counsel is incorrect. EOP rate base treatment, on its own, is insufficient to prevent the Company from under-earning when it is making significant capital expenditures.[51] Moreover, the authorized ROE for regulated gas utilities assumes that companies will have a reasonable and timely opportunity to recover prudently incurred costs.[52] In Cascade's case, the degree and duration of the Company's under-earning demonstrates that EOP rate base alone is insufficient to fully mitigate regulatory lag and allow Cascade a reasonable opportunity to earn its authorized ROR.[53]

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[44] Docket UE-190529 *et al.*, Order 08 ¶ 228.
[45] Parvinen, Exh. MPP-2Tr at 4:15-16.
[46] Peters, Exh. MCP-1T at 2-3; Parvinen, Exh. MPP-1Tr at 5:3-18.
[47] Parvinen, Exh. MPP-1Tr at 4:22-6:5.
[48] Parvinen, Exh. MPP-2Tr at 3:15-9:17.
[49] Garrett, Exh. MEG-1Tr at 11:10-11.
[50] Garrett, Exh. MEG-1Tr at 9:4-8.
[51] Parvinen, Exh. MPP-2Tr at 9:12-17; Gresham; MCG-14.
[52] Bulkley, Exh. AEB-4Tr at 120:15-18.
[53] Parvinen, Exh. MPP-2Tr at 6:13-15.

III. COST OF CAPITAL

A. Cost of Capital Overview.

23 In determining cost of capital, the Commission follows the standards set in the U.S. Supreme Court's *Hope* and *Bluefield* decisions.[54] These standards entitle a utility to a rate of return that is commensurate with returns on investments in other enterprises having corresponding risks, assures confidence in the utility's financial integrity, and maintains the utility's credit and attracts capital.[55] The Commission sets a range for a reasonable ROE considering all evidence, and then selects a specific point value within the range.[56] This selection is informed by detailed model results, capital market conditions, utility-specific risks, and other considerations—including the requirement that the result yields fair, just, reasonable, and sufficient rates,[57] and the principle of gradualism to avoid dramatic swings that may be disruptive to a regulated utility's ability to attract and retain capital.[58]

24 In this case, Cascade proposes an overall ROR of 7.22 percent, reflecting a gradual decrease from its current ROR of 7.24 percent.[59] This result is lower than or comparable to the current authorized returns of other Washington utilities.[60] As shown in Table 2, Cascade's recommendation reflects an ROE increase from 9.4 percent to 9.8 percent, an increase in the equity ratio from 49.10 percent to 50.4 percent, and a decrease in long-term debt costs from 5.155 percent

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[54] *Fed. Power Comm'n v. Hope Nat. Gas, 320 U.S. 591, 64 S. Ct. 281 (1944)*; *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Virginia, 262 U.S. 679, 43 S. Ct. 675 (1923).*
[55] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pac. Power & Light Co.*, Dockets UE-050684 *et al*., Order 04 ¶ 235 (Apr. 17, 2006).
[56] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-170485 *et al*., Order 07 ¶ 59 (Apr. 26, 2018).
[57] Docket UE-170485, Order 07 ¶ 59.
[58] *Wash. Utils. & Transp. Comm'n v. PacifiCorp,* Docket UE-152253, Order 12 ¶ 158 (Sept. 1, 2016).
[59] Cascade's current cost of capital was approved in Cascade's 2019 GRC, Order 05 ¶ 11.
[60] The Commission approved a 7.39 percent ROR for Puget Sound Energy ("PSE") in July 2020, PSE 2019 GRC, Order 08 ¶¶ 28, 108, and a 7.21 percent ROR for Avista Corporation ("Avista") in March 2020. *Wash. Utils. & Transp. Comm'n v. Avista Corp*., Dockets UE-190334 *et al.*, Order 09 ¶¶ 34, 38 (Mar. 25, 2020) (hereinafter "Avista 2019 GRC"). In addition, the Commission approved a ROR of 7.17 percent for PacifiCorp in December 2020. *Wash. Utils. & Transp. Comm'n v. PacifiCorp,* Dockets UE-191024 *et al*., Order 09/07/12 ¶ 56 (Dec. 14, 2020) (hereinafter "PacifiCorp 2019 GRC").

to 4.589 percent.

Table 2: Cascade's Recommended Cost of Capital

Component	% of Capital	Cost	Weighted Cost
Long Term Debt	49.60%	4.589%	2.276%
Common Stock Equity	50.40%	9.800%	4.939%
Total	100.0%		7.215%

25 Cascade's recommendation strikes a balance between the interests of the Company and its customers by maintaining overall low rates, while addressing the challenges associated with Cascade's ongoing capital investment needs, unprecedented volatility and cost swings in the capital markets, rising interest rates, and increased rating agency scrutiny and downgrades.

B. Cascade's Cost of Equity Has Increased, Justifying an Upward Adjustment in its Authorize ROE.

26 The Commission has recognized that capital markets are not static, but constantly changing,[61] and are influenced greatly by a complex mix of monetary and fiscal policies.[62] Since the Commission authorized a 9.4 percent ROE in Cascade's 2019 GRC order on February 3, 2020, utility stocks have underperformed and become riskier, financial markets have experienced unprecedented volatility, and Cascade's cost of equity has increased.[63] As summarized below, current and forward-looking capital market conditions support an increase in ROE to 9.8 percent, rather than a decrease to 9.25 percent or 9.00 percent, as recommended by Staff and Public Counsel, respectively.[64]

- Interest rates have increased. The rate for 30-year Treasury Bonds was 2.01 percent on February 3, 2020; while interest rates decreased in the spring and summer, they

[61] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc*., Dockets UE-111048 *et al.*, Order 08 ¶ 34 (May 7, 2012).
[62] *Wash. Utils. & Transp. Comm'n v. PacifiCorp,* Docket UE-130043, Order 05 ¶ 24 (Dec. 4, 2013).
[63] Bulkley, Exh. AEB-4Tr at 126:12-14 (capital markets have presented more overall risk to equity than were present in Cascade's last rate case).
[64] AWEC has filed testimony in support of maintaining Cascade's current ROE of 9.4 percent. AWEC's testimony is supported only by reference to other ROE decisions, however, so Cascade addresses AWEC's position in the section of this brief on average authorized ROEs.

increased to 2.21 percent as of the February 24, 2021, hearing in this case.[65] Contrary to a key premise of Public Counsel's advocacy for a reduced ROE, 30-year Treasury rates have not stabilized at 1.50 percent;[66] instead interest rates were 70 basis points above that at hearing and continue to rise.[67] This confirms Cascade witness Ms. Bulkley's observation that *long-term* interest rates, which are an input to some ROE models, are likely to increase as the economy recovers and expands in 2021—notwithstanding accommodative Federal Reserve policies for *short-term* interest rates that are not used to estimate ROE.[68]

- Dividend yields have increased. Utility stock values declined in 2020, resulting in dividend yields increasing to a level not seen since 2012, when the prevailing ROE in Washington was 9.8 percent.[69] For instance, Public Counsel witness Dr. Woolridge employed a dividend yield of 2.60 for his gas proxy group in the 2019 PSE GRC; one year later in this case, he used a much higher dividend yield of 3.65 percent.[70] Staff witness Mr. Parcell also acknowledged an increase of 100 basis points in utility dividend yields between 2019 and 2020.[71]

- Discounted Cash Flow ("DCF") model results have increased. At hearing, Mr. Parcell testified that the midpoint of his DCF results in this case was 115 basis points higher than it was one year earlier in the PSE 2019 GRC (9.5 percent vs. 8.35 percent).[72] He

[65] Parcell, Exh. DCP-16X at 2; TR. 60:24-25; 72:20-73:4.
[66] Woolridge, Exh. JRW-14T at 8:4.
[67] TR. 112:17-113:3 (Woolridge); *see also* https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/textview.aspx?data=yield.
[68] Bulkley, Exh. AEB-4Tr at 25:8-19. As Ms. Bulkley testified, the Federal Reserve has not signaled an intent to reduce *long-term* rates, analysts and investors expect increases in *long-term* interest rates in 2021, and *long-term* interest rates are relevant to setting Cascade's ROE. *Id.* at 29:5-11.
[69] TR. 105:1-16 (Woolridge); *see also* Woolridge, Exh. JRW-6 and Exh. JRW-1T at 5: Fig. 1.
[70] TR. 104:15-20 (Woolridge). Dr. Woolridge's and Mr. Parcell's testimonies in the PSE 2019 GRC case were filed on November 22, 2019; their testimony in this case was filed almost exactly one year later, on November 19, 2020.
[71] TR. 84:11-15 (Parcell).
[72] TR. 83:20-84:4 (Parcell).

also observed that his DCF range in this case, between 9.0 and 10.0 percent, was "almost identical" to Cascade witness Ms. Bulkley's results,[73] and the top of his DCF range in this case reflected an increase of 70 basis points over his DCF results in Cascade's 2018 general rate case.[74]

- Volatility has increased. The Chicago Board of Trade Volatility Index ("VIX") measures equity market volatility. The VIX went from an average of 13.89 in the month leading up February 3, 2020, to a peak of over 80 in the spring, to a 30-day average of 27.22 in November 2020.[75]

- Utility investment risk/beta coefficients have increased. In 2019, Dr. Woolridge testified that beta coefficients are the only relevant measure of investment risk according to modern capital market theory,[76] with higher betas reflecting higher risk.[77] While Dr. Woolridge justified his recommended ROE of 9.00 percent in this case, in part, because betas for gas utilities have been declining,[78] he acknowledged at hearing that betas actually increased throughout 2020.[79] Dr. Woolridge used a median beta of 65 for his gas proxy group in the 2019 PSE GRC, but used a median beta of 80 in this case.[80]

- Staff's and Public Counsel's ROE recommendations have increased. In November 2019, Dr. Woolridge recommended an 8.75 percent ROE for PSE, 25 basis points lower

[73] TR. 74:14-18 (Parcell).
[74] TR. 75:7-9 (Parcell).
[75] Bulkley, Exh. AEB-4Tr at 23: Fig. 5. In 2021, the VIX has fluctuated between a high of 37 and a low of 19. *See* https://www.cboe.com/tradable_products/vix/.
[76] Woolridge, Exh. JRW-17X at 27:22; TR. 107:1-14 (Woolridge).
[77] TR. 106:25-107:2 (Woolridge).
[78] Woolridge, Exh. JRW-1T at 56:12-13 (Woolridge).
[79] TR. 111:10-16 (Woolridge).
[80] TR. 110:19-25 (Woolridge).

than his recommendation here.[81] In that same case, Mr. Parcell recommended a 9.20 ROE for PSE, lower than the 9.25 percent he recommends here.[82]

C. Cascade's ROE Recommendation Is Supported by a Full Range of Model Results.

27 In rebuttal, Cascade acknowledged the continuing financial hardships facing its customers at this time and reduced its proposed ROE by fifty basis points. Cascade's revised ROE of 9.8 percent is well-supported by the updated results for the estimation models Ms. Bulkley used to inform her ROE recommendation: Constant Growth DCF, Capital Asset Pricing Model ("CAPM"), Risk Premium, and Expected Earnings.

28 Focusing on the DCF results, Ms. Bulkley identified a reasonable range of 9.4 percent to 10.16 percent (30-day average median and median-high results with adjusted Northwest Natural Holding Company ("NW Natural") growth rate) at hearing, with a midpoint of 9.8 percent.[83] Ms. Bulkley's CAPM results range from 11.72 percent to 12.81 percent, and her Empirical CAPM results are higher still, demonstrating the effect of increased betas and reinforcing the reasonableness of a 9.8 percent ROE.[84]

29 Ms. Bulkley also pointed to other factors to justify her recommendation including that, while the DCF results increased in the rebuttal update, they still likely understate the forward-looking cost of equity.[85] This is demonstrated by the much more significant increases in the CAPM results, which capture the increased risk utility stocks now face.[86] In this financial crisis, market volatility has not driven investors to utility equities, nor have utilities played their traditional role

[81] Woolridge, Exh. JRW-17X at 8:8.
[82] In July 2020, the Commission set a 9.4 percent ROE for PSE, a reduction of 10 basis points, because PSE's model results did not support maintenance of its 9.5 percent ROE. PSE 2019 GRC, Order 08 ¶¶ 104-108. In contrast, Ms. Bulkley's model results in this case support Cascade's requested 9.8 percent ROE, as does Mr. Parcell's DCF results.
[83] TR. 67:23-68:8 (Bulkley); Bulkley, Exh. AEB-4Tr at 20: Fig. 4.
[84] Bulkley, Exh, AEB-4Tr at 20: Fig. 4.
[85] Bulkley, Exh, AEB-4Tr at 32:5-15.
[86] Bulkley, Exh, AEB-4Tr at 6:17-23.

as a safe haven investment.[87] Utility stocks have underperformed during the pandemic relative to the broader market, in part, because of reduced demand for electricity,[88] and are expected to continue to underperform as the economy begins to recover.[89] This underperformance indicates that it has become more difficult—and expensive—for utilities to attract capital.[90] Utilities are underperforming the broader market because investors view the risk/reward relationship as less attractive than other market sectors.

30 In addition, Ms. Bulkley and Dr. Woolridge both agree that Cascade is higher risk than its peers, justifying a result at the higher end of a reasonable range.[91] This relative risk is due to Cascade's relatively small size, higher customer concentration, elevated level of projected capital spend, and above average regulatory and legislative risks in Washington.[92]

31 Mr. Parcell and Dr. Woolridge criticize Ms. Bulkley's DCF results primarily based on her reliance on analysts' earnings per share ("EPS") growth rates; [93] Mr. Parcell also questions the inclusion of NW Natural's growth rate, which he claims is an outlier.[94] But as Ms. Bulkley notes, Mr. Parcell and Dr. Woolridge ultimately relied on analysts' EPS growth rates in their own DCF modeling,[95] and Ms. Bulkley's adjusted DCF modeling removing NW Natural's high growth rate continues to support her 9.8 percent recommendation.[96] Mr. Parcell and Dr. Woolridge also criticize Ms. Bulkley's CAPM results, but fail to acknowledge the problems inherent in their recommended CAPM methodologies—evident from the fact that their CAPM models fail to

[87] Bulkley, Exh, AEB-4Tr at 4:1-4.
[88] Bulkley, Exh, AEB-4Tr at 4:1-4.
[89] Bulkley, Exh, AEB-4Tr at 28:13-15, 29:15-16.
[90] Bulkley, Exh, AEB-4Tr at 29:1-11.
[91] Bulkley, Exh, AEB-4Tr at 5:2-5; Woolridge, Exh. JRW-1T at 4:9.
[92] Bulkley, Exh, AEB-1T at 62:13-90:3; Bulkley, Exh, AEB-4Tr at 35:13-19.
[93] Parcell, DCP-1T at 34:9-10; Woolridge, JRW-1T at 7:3-4.
[94] Parcell, DCP-1T at 33: 18-22.
[95] Bulkley, Exh. AEB-4Tr at 37:5-7 (Mr. Parcell in effect relies primarily on analysts' EPS growth rates for his DCF results); and 66:5-6 (Dr. Woolridge gives "primary weight" to projected EPS growth rates).
[96] Bulkley, Exh. AEB-4Tr at 20: Fig. 4.

estimate a reasonable ROE, even utilizing now-prevailing increased betas.[97]

D. Cascade's Proposed ROE Is Within the Range of Recent Authorized Returns, While Staff's and Intervenors' Proposed ROEs are at or Below the Bottom of the Range.

32 Staff and Public Counsel claim that recent ROE decisions support their position that Cascade's ROE should be reduced. For its part, AWEC relies exclusively on this information to support its recommendation that Cascade's ROE remain at 9.4 percent.[98] While the Commission does not set ROEs by reference to the other decisions, it has at times used relevant comparative data to confirm the reasonableness of its range.[99]

33 As illustrated in Figure 2 in Ms. Bulkley's rebuttal testimony, the vast majority of authorized returns for gas companies (76 of 98 decisions) from 2018 to November 2020 have been between 9.4 percent and 10.25 percent.[100] Staff's and Public Counsel's recommended ROEs of 9.25 and 9.00 percent, respectively, are well below that range, and AWEC's 9.4 percent recommendation is at the very bottom of this range. In contrast, Ms. Bulkley's recommendation is at the mid-point of this range, which is conservative given that Cascade's higher-than-average risk profile should place it at the higher end of that range.[101]

34 Certain outlier results have pulled down average gas utility ROEs in the last two years to 9.59 percent and to an average of 9.46 percent in 2020, but these results are not predictive of forward-looking cost of equity expectations.[102] Key indicators in the capital markets now show an increase in the cost of equity and average authorized returns are necessarily backward-looking. In addition, the low outlier decisions have been costly for the credit quality of the utility and resulted in downgrades or other negative responses, as Ms. Bulkley described in testimony and at

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[97] Bulkley, Exh. AEB-4Tr at 5:12-16.
[98] Mullins, Exh. BGM-1T at 6:8-18.
[99] *See, e.g.,* Docket UE-050684, Order 04 ¶ 263-264.
[100] Bulkley, Exh, AEB-4Tr at 12: Fig. 2.
[101] TR. 67:18-20 (Bulkley).
[102] Bulkley, Exh, AEB-4Tr at 35:9-13.

hearing.[103]

E. Staff's ROE Recommendation Is Unreasonably Low.

35 Mr. Parcell's ROE recommendation of 9.25 percent is at the low end of his DCF range of 9.00 to 10.00 percent. Even though Mr. Parcell's DCF results were 115 basis points higher than his results in the PSE 2019 GRC, he increased his recommended ROE here by only 5 basis points, which is unreasonably low.[104] Mr. Parcell testified at hearing that the increase in his DCF results was a "COVID bump," which he refused to consider.[105] But Mr. Parcell produced no evidence to support this contention or the implication that the DCF increase is temporary. Nor did Mr. Parcell refute Ms. Bulkley's evidence that utility stocks are projected to continue to underperform as the economy recovers from COVID-19 in 2021—meaning that DCF results will remain higher in the rate effective period.[106]

36 Mr. Parcell also relied upon his Comparative Earnings ("CE") results and Risk Premium results to justify his low ROE recommendation. But Mr. Parcell's CE results were improperly depressed by the use of outlier data in the forecast period for Spire (*i.e.,* a 2.0 percent ROE resulting from a COVID-19 impairment),[107] and his Risk Premium results are understated because they rely in part on interest rates much lower than those prevailing at the time of hearing, and fail to account for the inverse relationship between interest rates and the equity risk premium.[108]

F. Public Counsel's ROE Recommendation Is Unreasonably Low.

37 Dr. Woolridge's recommendation of 9.0 percent fails to account for current market

[103] *See* Bulkley, Exh, AEB-4Tr at 16:20-17:12 (ALLETE downgraded after receiving 9.25 percent ROE); and at 13:3-14:1 (reduction of PSE ROE to 9.4 percent resulted in negative response from Fitch, S&P and Moody's); TR. 64:11-65:9 (Bulkley); 66:22-67:13 (Bulkley) (Southwest Gas, Consolidated Edison, NYSEG and RG&E all recently downgraded after receiving below average ROEs).
[104] TR. 83:20-84:4 (Parcell).
[105] TR. 84:25-85:4 (Parcell).
[106] Bulkley, Exh, AEB-4Tr at 28:13-18.
[107] TR. 77:7-80:21 (Parcell); Parcell, Exh. DCP-18X (removal of Spire increases ROE projections by 100 basis points).
[108] Parcell, Exh. DCP-1T at 50:8-12; Bulkley, Exh. AEB-4T at 55:7-12.

conditions. As outlined above, Dr. Woolridge expressly relied upon long-term interest rates stabilizing at 1.50 percent,[109] declining betas,[110] and decreasing dividend yields[111] to support his recommendation, but none of these assumptions are accurate.

38 Ms. Bulkley's testimony demonstrates that, irrespective of changing market conditions, Dr. Woolridge's DCF results have remained within a narrow band from 8.15 percent to 9.05 percent over nine years.[112] Based on a review of 69 cases since 2012, Ms. Bulkley demonstrated that, when dividend yields increase (such as in this case), Dr. Woolridge simply selects a lower growth rate to effectively cap his DCF results at or near 9.0 percent.[113] For example, in testimony filed in Montana three weeks before his testimony in this case, Dr. Woolridge's selected growth rate was 25 basis points higher than in this case, offsetting a dividend yield that was 25 basis points lower, to maintain an ROE estimate close to 9.00 percent.[114] In addition, Ms. Bulkley showed that Dr. Woolridge's ROE recommendations since 2012 have always been both significantly lower than the return actually authorized and, as here, well below the average authorized ROE at the time.[115]

G. Cascade's Proposed Capital Structure Appropriately Balances Safety and Economy.

39 Cascade is requesting a capital structure comprised of 50.4 percent common equity and 49.6 percent debt. This is based on the Company's actual average year-end capital structure in 2018-2019, normalized to back-out the impact of the multi-year amortization of Purchased Gas

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[109] Woolridge, Exh. JRW-14T at 8:4 (in testimony filed on January 8, 2021, stating that 30-year treasury rates had "stabilized" in the 1.50 percent range). Interest rates as of that date were already approximately 30 basis points higher.
[110] Woolridge, Exh. JRW-1T at 56:12-14 and 44:23-45:2 (justifying 9.0 percent ROE because, "[m]ost notably" betas for gas companies have been declining in recent years, indicating that industry risk has declined). In fact, gas utility betas increased substantially in this case because utility stocks have been much more volatile relative to market.
[111] Woolridge, Exh. JRW-1T at 27:1-2 (stating that the average dividend yield has declined steadily since 2009 and has been in the 2.7 to 2.9 percent range over the last three years). The dividend yields Dr. Woolridge used increased substantially to 3.65 percent.
[112] Bulkley, Exh. AEB-4Tr at 75:20-77:7.
[113] Bulkley, Exh. AEB-4Tr at 77: Fig. 9.
[114] Bulkley, Exh. AEB-4Tr at 77:8-78:4; Fig. 10.
[115] Bulkley, Exh. AEB-4Tr at 59:20-60:6; Fig. 7.

Adjustment ("PGA") balances related to the Enbridge incident, which temporarily and abnormally decreases the Company's equity ratio.[116] Cascade's year-end 2020 capital structure reflects a $20 million equity infusion in December 2020, resulting in a final, three-year adjusted average (2018-2020) equity ratio of 49.8 percent.[117]

40 Cascade's capital structure of approximately 50 percent equity and 50 percent debt reflects an appropriate balance of safety and economy.[118] This capital structure reasonably reflects the Company's actual, normalized equity ratio for the last three years and its target ratio for 2021, and is necessary to maintain Cascade's access to low-cost debt during its major capital expenditure program.[119] In addition, rating agencies have increased their scrutiny of utility balance sheets as a result of cash flow issues caused by the Tax Cuts and Jobs Act ("TCJA"), and business challenges related to the pandemic.[120] The Commission has acknowledged the negative effect of the TCJA on utility cash flows and credit metrics.[121] By adding a thicker equity base and requesting a 9.8 percent ROE, Cascade hopes to mitigate the financial risk caused by tax reform, improve its cash flow metrics, and maintain its current credit ratings.

41 The operating utilities that comprise the proxy group used by Cascade and Staff to estimate the Company's ROE have higher equity ratios than Cascade, with an average of 56.67 percent.[122] The relevant capital structure for this comparison is at the operating company level, not the holding company level, because that is the entity financing utility investments and providing utility

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[116] Nygard, Exh. TJN-4Tr at 4:20-5:2. This is the same approach Cascade used in its 2019 GRC. *See* 2019 GRC, Direct Testimony of Tammy J. Nygard, Exh. TJN-IT at 4:3-6 (Mar. 29, 2019).
[117] Cascade's Response to Bench Request No. 2 (Mar. 1, 2021) (providing final 2020 year-end average capital structure, updated from the 50.2 percent equity estimate in Ms. Nygard's rebuttal testimony, Nygard, Exh. TJN-4Tr at 5:8 and Table 2, to a three-year average of 49.8 percent equity).
[118] *See* Docket UE-111048, Order 08 ¶¶ 91-92 (approving PSE's equity ratio to provide regulatory support to allow PSE to earn authorized ROR; rejecting argument that balancing safety and economy required less equity).
[119] Nygard, Exh. TJN-4Tr at 4:4-7.
[120] *See* Bulkley, Exh. AEB-1T at 30:17-33:1.
[121] Docket UE-170485, Order 07 ¶ 72 (noting that "the TCJA will increase stress on the Company's balance sheet and credit metrics as short-term cash flows are impacted by customer refunds.").
[122] Bulkley, Exh. AEB-1T at 8:13-18; Bulkley, Exh. AEB-4Tr at 120:19-22.

service.[123]

42 If the Commission were to adopt a hypothetical capital structure with more debt—as Staff, Public Counsel, and AWEC recommend—then the ROE should be increased to reflect the higher financial risk.[124] The "greater the debt ratio, the greater is the return required by equity investors."[125]

H. The Equity Ratios Recommended by Staff, Public Counsel and AWEC Are Unreasonably Low.

43 Staff witness Mr. Parcell recommends a hypothetical capital structure reducing Cascade's equity ratio to 48.5 percent,[126] apparently based on the most recent equity ratios authorized for PSE and Avista.[127] But the issue was uncontroverted in PSE's case and settled in Avista's case, so there is no record from which to determine the reasonableness of a 48.5 percent capital structure as applied to Cascade.[128] The Commission approved a higher equity ratio of 49.1 percent for PacifiCorp, which is the same as Cascade's currently authorized equity ratio, but this was also presented to the Commission as a settlement.[129]

44 Mr. Parcell claims that Cascade's actual equity ratios in 2018 and 2019 were 49.1 percent and 46.6 percent, respectively,[130] based on Cascade's unadjusted capital structure—which includes the extraordinary costs associated with the three-year amortization of the PGA balance for the Enbridge incident. Mr. Parcell did not respond to Cascade's position that, because gas costs are normally recovered in one year, the financing impact of the three-year recovery period should be removed so that the capital structure is normalized for the rate period.[131] Instead, Mr. Parcell

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[123] Bulkley, Exh. AEB-4Tr at 120:3-18.
[124] Bulkley, Exh. AEB 4Tr at 127:12-15.
[125] Roger A. Morin, PhD, *New Regulatory Finance* at 484 (2006).
[126] Parcell, Exh. DCP-1T at 23:11-14.
[127] Parcell, Exh. DCP-1T at 24:2-4.
[128] PSE 2019 GRC ¶ 28; Avista 2019 GRC ¶ 34.
[129] PacifiCorp 2019 GRC ¶ 56.
[130] Parcell, Exh. DCP-1T at 21:3-4.
[131] Nygard, Exh. TJN-4Tr at 8:5-8.

claims that Cascade is recovering a FERC interest rate on the deferred PGA balances, so there is no basis for an adjustment to the capital structure.

45 The FERC interest rate corresponds to a debt rate, not an equity rate. Under Mr. Parcell's position, unless Cascade covers the cost of the deferred PGA balances with an additional equity infusion (the costs of which are not covered by the FERC interest rate), the deferred PGA balance will reduce the equity and increase the debt in Cascade's capital structure for purposes of setting rates in this case. Gas purchases are operating costs treated as a pass-through without any mark-up under the PGA. Cascade should not be forced to cover the deferred PGA balance with equity to establish its target equity ratio in the rate effective period, especially given the temporary and unusual nature of this cost.[132]

46 Mr. Parcell also claims that Cascade has had an equity ratio less than 50 percent for the last five years.[133] As adjusted to remove the deferred PGA costs, Cascade's most recent three-year average equity ratio between 2018-2020 is 49.8 percent, which is in line with the Company's request. Given Cascade's ratings downgrade in 2018 resulting from weak credit metrics (described below), equity ratios before that time should not be relied upon for determining a safe and economic equity ratio for the rate period.[134]

47 In addition, Mr. Parcell provides evidence undermining his proposed equity ratio and supporting Cascade's. First, Mr. Parcell testifies that the average equity ratio in his proxy group (which is the same as Cascade's proxy group) is 54.3 percent, 390 basis points higher than Cascade's proposed ratio and 580 basis points higher than Mr. Parcell's recommendation.[135]

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[132] Nygard, Exh. TJN-4Tr at 8:12-19.
[133] Parcell, Exh. DCP-1T at 21:5-6.
[134] Nygard, Exh. TJN-4Tr at 9:1-5.
[135] Parcell, Exh. DCP-1T at 22:2-4. Mr. Parcell's analysis was conducted at the holding company level. As noted above, the correct comparison is to the capital structures of the utility subsidiaries, which contain higher equity ratios.

Second, Mr. Parcell provides the average common equity ratios awarded to natural gas companies between 2012 and 2019. For this eight-year period, the average equity ratio was 50.6 percent, which is just above Cascade's proposed ratio and 210 basis points higher than Mr. Parcell's recommendation.[136] Analyzed against comparable companies, Cascade's requested equity ratio of 50.4 percent is at or below average, confirming its reasonableness. In contrast, Staff's recommendation for a 48.5 percent equity share is well below prevailing levels.

48 Public Counsel witness Dr. Woolridge recommends maintenance of Cascade's current equity ratio of 49.1 percent.[137] Dr. Woolridge claims that Cascade's average actual equity ratio between 2018-2020 is 48.52 percent,[138] impliedly rejecting Cascade's adjustment to normalize the impact of the deferred PGA balance. Dr. Woolridge also claims that the holding companies in his proxy group, which includes six of the eight companies in Cascade's proxy group, had an average common equity ratio of 46.1 percent in December 2019.[139] But as explained above, the appropriate comparison is to the equity at the utility operating company level, which reflects an average common equity ratio of 56.67 percent for the companies in Cascade's proxy group.

49 AWEC witness Mr. Mullins recommends an equity ratio of 47.1 percent.[140] Mr. Mullins claims that Cascade is highly leveraged because its debt issuances represent approximately 66 percent of Cascade's rate base.[141] For this reason, he proposes a reduction of 200 basis points from Cascade's current authorized equity ratio of 49.1 percent to 47.1 percent.[142] There is no theoretical or practical basis for measuring leverage using rate base as Mr. Mullins suggests. Mr. Mullins does not cite any support for his novel theory and his reduction to Cascade's proposed

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[136] Parcell, Exh. DCP-1T at 22:9-10.
[137] Woolridge, Exh. JRW-1T at 22:14-15.
[138] Woolridge, Exh. JRW-1T at 22:8-9.
[139] Woolridge, Exh. JRW-1T at 21:8-9.
[140] Mullins, Exh. BGM-1T at 16:11.
[141] Mullins, Exh. BGM-1T at 16:2-5.
[142] Mullins, Exh. BGM-1T at 16:7-12.

equity ratio appears to be arbitrary. Financial institutions, credit rating agencies, and regulators gauge leverage based on a utility's total balance sheet, not solely its rate base. Cascade, like other utilities, finances items other than rate base, so there is no rational basis to develop a capital structure by comparing debt to rate base.[143]

I. Cascade's Cost of Debt Reflects Significant Savings to Customers.

50 Cascade updated its cost of debt in rebuttal to reflect reductions associated with a $25 million debt refinancing in the fourth quarter of 2020, which will save customers $6 million over the 15-year term.[144] Cascade's 4.589 percent cost of debt reflects the actual costs and amortization of the new issuance.[145] AWEC's slightly lower figure of 4.54 percent is a less accurate estimate;[146] Staff's and Public Counsel's higher figure of 4.745 percent does not capture the effect of Cascade's most recent debt issuance.

J. Cascade's Proposed Cost of Capital Is Necessary to Maintain Its Credit Ratings.

51 Staff, Public Counsel, and AWEC all fail to consider the impact of their capital structure, ROE, and overall rate of return recommendations on Cascade's credit ratings. This is a significant omission given on-going rating agency concern about Cascade's weak credit metrics.

52 As explained in the Direct Testimony of Ms. Bulkley, Fitch Ratings ("Fitch") downgraded Cascade from A- to BBB+ in August 2018 based on weaker financial metrics resulting from the Company's elevated capital expenditures and a "less than favorable outcome in its Washington rate case."[147] Fitch's downgrade focused on the negative regulatory treatment of TCJA changes and "a below-average 9.4% authorized ROE and 49% equity ratio."[148]

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[143] Nygard, Exh. TJN-4Tr at 10:16-11:4.
[144] Nygard, Exh. TJN-4Tr at 11:10-15.
[145] Nygard, Exh. TJN-4Tr at 11:16-18.
[146] Nygard, Exh. TJN-4Tr at 12:4-7.
[147] FitchRatings, *Fitch Affirms MDU Resources, Centennial Energy; Downgrades Cascade; Outlook Stable* (Aug. 1, 2018).
[148] *Id.*

53 Fitch affirmed Cascade's credit rating in December 2020, but made note of Cascade's weakened credit metrics "as a result of the negative effects of tax reform and a large capex program focused on accelerated pipe replacement."[149] Fitch stated that, given Cascade's higher leverage, "balanced rate orders in pending and future proceedings will be key to maintaining existing ratings."[150] Fitch commented that, as a result of below-average ROEs and regulatory lag in Washington, Cascade has been under-earning its authorized return for several years.[151]

54 Similarly, S&P changed its outlook on Cascade to negative in March 2020. S&P noted that Cascade's standalone metrics did not support its current rating, and its smaller than average customer base increased its risk. S&P pointed to Cascade's credit-supportive relationship with its parent MDU Resources Group Inc. ("MDU"), as well as Cascade's ability to effectively manage regulatory risk, as the factors justifying retention of its current credit rating.[152]

55 Credit agencies are increasingly focused on utility credit metrics and downgrades and other negative credit actions have become much more frequent since passage of the TCJA. This is evident in the credit agencies' negative responses to the below-average ROE decisions in Washington and elsewhere over the last several years.[153] The parties' proposals to reduce Cascade's ROE and equity ratio to levels well below average present a clear risk of negative credit action, including a downgrade, at this challenging time. A rating agency downgrade would result in higher debt issuance costs in the future, and lead to a higher ROR.

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[149] *See* Nygard, Exh. TJN-5 (FitchRatings, *Fitch Affirms Ratings of MDU, Montana-Dakota, Cascade and Centennial Energy; Outlooks Stable* at 7 (Dec. 22, 2020)).
[150] *Id.* at 2.
[151] *Id.* at 7.
[152] *See* Nygard, Exh. TJN-5 at 21-28 (S&P Global Ratings Research Report, Cascade Nat. Gas Corp. (Mar. 31, 2020)).
[153] *See* note 101, *supra*.

IV. PRO FORMA CAPITAL PROJECTS

56 In considering pro forma adjustments to the modified historical test year, the Commission applies the known and measurable standard, the matching principle, and the used and useful standard,[154] while exercising "considerable discretion . . . in the context of individual cases."[155] In particular, the Commission has exercised its discretion to reduce regulatory lag for companies struggling with chronic under-earning.[156]

57 Under the known and measurable standard, pro forma adjustments typically cannot be the product of estimates, projections, or forecasts.[157] However, the Commission has made exceptions as part of its broader exercise of discretion to identify rates that are just, reasonable, and sufficient.[158] Consistent with the matching principle, pro forma adjustments must be netted against any measurable offsetting factors that diminish the impact of the adjustment.[159] Finally, pro forma adjustments must be used and useful to serve customers. Historically, this meant that plant would be in service before rates took effect.[160] However, in 2019, the Washington legislature significantly expanded the Commission's authority under the "used and useful" standard, allowing recovery of investments placed in service "by or during the rate effective period."[161] The Commission has classified pro forma additions for assets placed in service during the rate effective period as "provisional" adjustments, while pro forma additions for assets placed in service before the rate effective date are "traditional" adjustments.[162] In light of the legislature's expanded definition of the used and useful standard, the Commission has concluded that pro forma adjustments beyond

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[154] Policy Statement ¶ 21.
[155] *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-150204 *et al.*, Order 05 ¶ 35 (Jan. 6, 2016).
[156] Docket UE-150204, Order 05 ¶ 62 (noting that, in addition to attrition adjustments, "the Commission has been open to and employed other mechanisms to address regulated utility contentions of earnings deficiency").
[157] Policy Statement ¶ 23.
[158] Policy Statement ¶ 23.
[159] Policy Statement ¶ 24.
[160] Policy Statement ¶ 26.
[161] RCW 80.04.250(2).
[162] Policy Statement ¶ 20.

the test period but before the rate effective date are "no longer 'exceptional.'"[163]

58 Cascade's filing includes only "traditional" known and measurable pro forma adjustments, both specific and programmatic, with a cut-off date of December 31, 2020—over four months prior to the rate effective date.[164] Specifically, Cascade seeks to include 13 capital-related pro forma adjustments: 10 specific or "discrete" projects, and 3 categories of programmatic or "blanket" projects, for a total of $57.3 million in pro forma capital investment.[165] These adjustments represent less than 60 percent of the Company's plant investment placed in service through the end of 2020, which totaled $96.2 million.[166]

59 In Cascade's initial filing in June 2020, the Company included 15 discrete pro forma capital projects totaling approximately $43.4 million, as well as three categories of blanket funding projects totaling $22.7 million—for a combined total of $66.1 million in pro forma plant additions.[167] In direct testimony, Cascade provided detailed information about each of the discrete pro forma projects, including the nature of the project, the need for the project, how customers would benefit, alternatives considered, and the estimated timing and cost of the project.[168] Cascade also described its blanket funding projects, explained how the Company budgets for these projects, and provided a cost breakdown of blanket project components.[169] While Cascade provided robust information concerning its pro forma projects, the Company was also clear that the final costs and in-service dates would be provided on rebuttal. This approach maximized the information immediately available to parties, while ensuring that the Company's final pro forma adjustments

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163 PSE 2019 GRC, Order 08 ¶ 113.
164 Parvinen, Exh. MPP-2Tr at 13:10-14.
165 Darras, Exh. PCD-3T at 3:12-18.
166 Parvinen, Exh. MPP-2Tr at 20:5-7.
167 Darras, Exh. PCD-3T at 2:1-9. Together, Cascade's pro forma capital projects were expected to increase the Company's rate base by approximately $64.8 million. Parvinen, Exh. MPP-1Tr at 5:18.
168 Darras, Exh. PCD-1T at 11:14-68:18.
169 Darras, Exh. PCD-1T at 68:20-69:18; Peters, Exh. MCP-6.

would include only used and useful projects for which all costs are known and measurable.[170]

60 During the pendency of this case, Cascade continually reassessed its system needs budgets, and how projects were progressing.[171] Particularly in light of the pandemic, Cascade continued to examine planned projects and identified several that could be postponed.[172] Cascade informed parties of the updated in-service dates before confirming the full and final list on rebuttal.[173]

61 In rebuttal testimony, filed on January 8, 2021, Cascade provided the final in-service dates and actual booked costs for the Company's pro forma capital projects.[174] The Company's 2020 books are now closed and these costs are known and measurable.[175] Of the 15 initial discrete projects, four were delayed until 2021: three deliberately, and one due to delays in obtaining necessary easements.[176] A fifth project was completed in 2020, but at a reduced scope and budget that fell below the Company's "major" project threshold; Cascade therefore removed this project from the case.[177] The remaining 10 discrete capital projects were placed in service by December 31, 2020, reflecting $39.3 million in capital investment, along with $17.9 million in blanket projects.[178] The 10 discrete projects are as follows:

(1) Wallula Gate Project: Cascade installed a new gate station at the southernmost point of the Company's Attalia pipeline. The pipeline's existing feed was in the north, and was undersized to handle large loads at the pipeline's southern end.[179] In direct testimony, Cascade anticipated that this project would enter service in late summer of 2020 at a cost of $16.9 million.[180] The project was placed in service in December 2020 at a final cost of

[170] Parvinen, Exh. MPP-1Tr at 6:2-5.
[171] TR. 149:18-150:4 (Darras).
[172] Darras, Exh. PCD-3T at 5:1-2.
[173] Darras, Exh. PCD-3T at 6:13-16:9; TR. 155:24-157:15 (Darras).
[174] Darras, Exh. PCD-3T at 6:13-16:8.
[175] TR. 149:4-9 (Darras).
[176] Darras, Exh. PCD-3T at 5:1-9.
[177] Darras, Exh. PCD-3T at 4:7-5:9.
[178] Darras, Exh. PCD-3T at 3:12-18.
[179] Darras, Exh. PCD-1T at 11:22-12:4.
[180] Darras, Exh. PCD-1T at 22:16-18.

$17.0 million.[181]

(2) Othello Gate Project: This project upgraded gate station equipment to accommodate increased industrial load and to alleviate pipe pressures.[182] In direct testimony, Cascade anticipated that this project would enter service in fall 2020 at a cost of $6.1 million.[183] The project was placed in service in September 2020 at a final cost of $5.3 million.[184]

(3) Walla Walla Gate Project: This was a reinforcement project designed to increase resilience during cold weather events and to address supply issues in southern Walla Walla. In direct testimony, Cascade anticipated that this project would enter service in November 2020 at a cost of $5.5 million.[185] The project was placed in service in December 2020 at a final cost of $7.6 million.[186] Increased costs resulted from: (1) relocating the project when affected landowners would not permit the gate station to be built at the original location; (2) permitting delays associated with the COVID-19 pandemic that shortened the construction window; and (3) the need for on-site monitoring given the amount of horizontal directional drilling that was required.[187]

(4) Arlington Gate Project: This project included upgrading the existing Arlington Gate station and related systems to meet current winter capacities and accommodate gas load in the Arlington system.[188] In direct testimony, Cascade anticipated that this project would enter service in June 2020 at a cost of $4.7 million.[189] The project was placed in service in September 2020 at a final cost of $6.1 million.[190] Actual costs increased because the contractor encountered difficult underground construction conditions that increased installation costs for a portion of the project.[191]

(5) Bellingham 8" HP Project: This project involved relocating a pipeline to accommodate the City of Bellingham's rebuilding of the State Street Bridge.[192] This project was completed in January 2020 at a final cost of $1.6 million.[193]

(6) Moses Lake 4" PE Project: This project involved new pipe to improve system pressures under peak usage and to serve increasing load in the Moses Lake area.[194] The project was placed in service in April 2020 at a final cost of $214 thousand.[195]

(7) Walla Walla 6" Distribution Project: This project installed new 6" pipe to alleviate pressure

[181] Darras, Exh. PCD-3T at 6:13-15. Note, while this project became operational and was used to serve customers in December 2020, approximately 600 feet of the more than 5 miles of new pipeline was delayed due to difficulty obtaining railroad flaggers. The costs associated with this final work are not included in the case. Darras, Exh. PCD-3T at 6:17-7:2. The remaining 600 feet of the project was placed in-service in February 2021. TR. 195:17-18 (Parvinen).
[182] Darras, Exh. PCD-1T at 12:7-11.
[183] Darras, Exh. PCD-1T at 25:15-17.
[184] Darras, Exh. PCD-3T at 8:19-20.
[185] Darras, Exh. PCD-1T at 31:1-3.
[186] Darras, Exh. PCD-3T at 9:15-16.
[187] Darras, Exh. PCD-3T at 10:3-10.
[188] Darras, Exh. PCD-1T at 12:19-22.
[189] Darras, Exh. PCD-1T at 35:6-8.
[190] Darras, Exh. PCD-3T at 10:13-14.
[191] Darras, Exh. PCD-3T at 11:2-5.
[192] Darras, Exh. PCD-1T at 13:14-17.
[193] Darras, Exh. PCD-3T at 12:10-11.
[194] Darras, Exh. PCD-1T at 13:18-22.
[195] Darras, Exh. PCD-3T at 13:7-8.

on an existing 4” pipeline that had reached maximum capacity.[196] In direct testimony, Cascade anticipated that this project would enter service in fall of 2020 at a cost of $313 thousand.[197] The project was placed in service in October 2020 at a final cost of $403 thousand.[198] Costs increased due to unanticipated inspection and contractor costs, as well as the need for more boring and steel installation than expected.[199]

(8) Bremerton Reg Station Project: This project installed a new regulator station to replace five smaller regulator stations with access and leak issues.[200] In direct testimony, Cascade anticipated that this project would enter service in September 2020 at a cost of $177 thousand.[201] The project was placed in service in November 2020 at a final cost of $154 thousand.[202]

(9) Kennewick Odorizer Project: This project replaced an outdated odorizer with a new, correctly performing odorizer that can be more safely maintained.[203] In direct testimony, Cascade anticipated that this project would enter service in August 2020 at a cost of $144 thousand.[204] The project was placed in service in November 2020 at a final cost of $168 thousand.[205] The slight delay and cost increase were due to additional work required to relocate and upgrade the telemetry building to meet current electrical code.[206]

(10) Bremerton Office Project: This project remodeled the existing district office in Bremerton to accommodate additional district staff and meet current needs.[207] In direct testimony, Cascade anticipated that this project would enter service in late 2020 at a cost of $1.1 million.[208] This project was placed in service in December 2020 at a final cost of $863 thousand.[209]

In addition to the above discrete projects, the Company placed $17.9 million of plant in service as part of three categories of blanket projects: (1) $5.2 million of regulator station growth and gas meters, (2) $10.0 million of services for growth, and (3) $2.6 million mains for growth.[210]

62 All the above projects are prudent and in service. While no party expressly contests the

[196] Darras, Exh. PCD-1T at 14:8-13.
[197] Darras, Exh. PCD-1T at 58:5-7.
[198] Darras, Exh. PCD-3T at 14:1-2.
[199] Darras, Exh. PCD-3T at 14:7-11.
[200] Darras, Exh. PCD-1T at 14:15-17.
[201] Darras, Exh. PCD-1T at 59:21-23.
[202] Darras, Exh. PCD-3T at 14:19-20.
[203] Darras, Exh. PCD-1T at 14:20-21.
[204] Darras, Exh. PCD-1T at 61:7-10.
[205] Darras, Exh. PCD-3T at 15:9-10.
[206] Darras, Exh. PCD-3T at 15:14-18.
[207] Darras, Exh. PCD-1T at 15:9-13.
[208] Darras, Exh. PCD-1T at 68:16-18.
[209] Darras, Exh. PCD-3T at 16:1-2.
[210] Darras, Exh. PCD-3T at 16:20-17:22.

prudence of any of these capital investments,[211] Staff, AWEC, and Public Counsel each propose to remove much or all the Company's pro forma additions from rate base.

63 Staff accepts three of the ten discrete projects proposed by Cascade: (1) the Arlington Gate Project,[212] (2) the Bellingham 8" HP Project, and (3) the Moses Lake 4" PE Project. Staff rejects all other discrete projects because the projects were not placed in service until after Staff filed response testimony.[213] Staff claims that it was unable to review the prudence for the remaining projects because the prudence inquiry can begin only after all final costs and in-service dates are known.[214] At hearing, Staff also suggested that the Company failed to provide sufficient evidentiary support for not delaying the remaining discrete projects.[215] Staff opposes all blanket projects on the basis that Cascade failed to include offsetting factors and that Cascade lacks a plan for blanket project investments.[216] Based on these adjustments, Staff proposes a rate base increase of only $6.9 million.[217]

64 AWEC accepts two discrete projects: Othello Gate and Bremerton Office.[218] AWEC rejects all other discrete projects because they were not placed in service before AWEC filed response testimony, totaled less than $500,000, or were proposed in Cascade's last general rate case.[219] AWEC excludes all blanket projects on the basis that the projects are not "major" and are recoverable through incremental accumulated depreciation.[220] Based on these adjustments, AWEC

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[211] In a footnote, Staff states that it did not consider questions of prudence because the projects were not in service and final costs known and measurable. Panco, Exh. DJP-1T at 7 n.6.
[212] Staff accepts two out of three of the funding projects comprising the Arlington Gate Project. Panco, Exh. DJP-1T at 13:13-16; Panco, Exh. DJP-2 at 3.
[213] Panco, Exh. DJP-1T at 15:7-12.
[214] McGuire, CRM-1T at 34:7-16; Panco, DJP-1T at 7 n.6.
[215] TR. 150:17-20 (Callaghan).
[216] Panco, Exh. DJP-2; TR. 158:14-159:6 (Darras); TR. 153:2-8 (Callaghan).
[217] Panco, Exh. DJP-1T at 3:12.
[218] Mullins, Exh. BGM-6 at 2.
[219] Mullins, Exh. BGM-1T at 26:19-27:16.
[220] Mullins, Exh. BGM-1T at 28:16-21.

proposes a rate base increase of $7.1 million.[221]

65 Public Counsel opposes all of the proposed pro forma projects on the basis that the Company failed to account for offsetting adjustments such as accumulated deferred income tax ("ADIT") and accumulated depreciation related to the pro forma plant additions.[222] If the Commission considers a post-test-year adjustment, Public Counsel recommends a rate base increase of $10.3 million to reflect the amount of plant additions it believes were in-service when Staff and intervenors filed response testimony.[223]

A. Cascade's Twelve-Month Pro Forma Period Is Consistent with Precedent.

66 The Commission should reject Staff's and AWEC's approach that would require any pro forma projects to have entered service before parties file response testimony. The Commission has previously rejected Staff's attempts to establish a bright line cutoff for pro forma projects, and has previously authorized recovery of pro forma projects placed in service after parties filed response testimony.[224]

Most recently, in PSE's 2019 GRC, the Commission authorized a 12-month pro forma period, which allowed recovery of pro forma projects that were placed in service after Staff filed response testimony.[225] Staff claims that the Commission's decision in that case was limited to those investments "related to projects that were used and useful to ratepayers well before parties filed responsive testimony."[226] The Commission's order provides no basis for such a distinction. Rather, PSE had independently proposed a cutoff date for pro forma projects of June 30, 2019—

[221] Mullins, Exh. BGM-6.
[222] Garrett, Exh. MEG-1Tr at 7:15-8:11.
[223] Garrett, Exh. MEG-1Tr at 5:16-6:2; 11:15-18.
[224] *See, e.g.*, Docket UE-170485, Order 07 ¶¶ 196, 200 (noting Staff carries its interpretation of pro forma adjustments too far in advocating for a bright-line cost threshold using WAC 480-140-040, and further noting that the Commission has clearly and repeatedly rejected use of a bright line rule).
[225] PSE 2019 GRC, Order 08 ¶ 209.
[226] McGuire, Exh. MCG-1T at 31:11-19.

six months after the test year,[227] which was before Staff filed response testimony on November 22, 2019.[228] Despite PSE's support for this earlier cutoff date, the Commission unilaterally extended this deadline for the Company's identified pro forma projects to December 31, 2019.[229] This extension included assets "placed in service between January 1 and December 31, 2019"—meaning that projects were placed in service *after* Staff's testimony was filed.[230]

67 Even before issuance of the Policy Statement, the Commission had exercised its discretion to allow similar pro forma periods. For instance, in PSE's 2011 GRC, the Commission approved a pro forma adjustment that entered service several months after parties filed response testimony.[231] In that case, PSE sought recovery of a "nearly $780 million increase to rate base for plant investment in [the Lower Snake River wind power project (LSR-1)] and associated transmission that did not become operational until 14 months after the close of the test-year and near the end of [the] proceeding."[232] Staff proposed to limit recovery for LSR-1 to "the latest actual figures available at the time it filed its response testimony," reflecting "actual charges to [construction work in progress] as of October 31, 2011, and remaining contractual obligations."[233] The Commission denied Staff's limitation on the pro forma period and allowed recovery of all costs incurred through the project's in-service date the following February.[234]

68 Similarly, in Avista's 2009 GRC, the Commission approved a pro forma adjustment that was not placed in service until after rates took effect.[235] Specifically, the Commission approved a pro forma rate base adjustment relating to a turbine upgrade and mechanical overhaul of a

[227] PSE's test year was calendar year 2018. PSE 2019 GRC, Order 08 ¶ 38.
[228] PSE 2019 GRC, Staff's Testimony (Nov. 22, 2019).
[229] PSE 2019 GRC, Order 08 ¶¶ 111, 114.
[230] PSE 2019 GRC, Order 08 ¶ 209.
[231] Docket UE-111048, Order 08 ¶ 98.
[232] Docket UE-111048, Order 08 ¶ 98.
[233] Docket UE-111048, Order 08 ¶ 302.
[234] Docket UE-111048, Order 08 ¶ 306.
[235] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-090134 *et al.*, Order 10 ¶¶ 80-81. (Dec. 22, 2009).

hydroelectric facility that were scheduled to be in service three months into the rate year and 18 months after the conclusion of the test period.[236]

69 In this case, Staff claims that it was unable to evaluate the prudence of the Company's pro forma capital projects until after the projects entered service.[237] First, Staff's position is clearly inconsistent with the above precedent. In PSE's 2019 GRC, for example, Staff reviewed the projects' prudence before they were placed in service and despite the fact that subsequent costs were incurred, and the Commission appropriately evaluated the final costs and in-service dates.[238] Moreover, Staff's position is incompatible with the Commission's decision in PacifiCorp's 2015 Expedited Rate Filing ("ERF"), in which the Commission found that two of PacifiCorp's major investments were prudent *prior to either project entering service*.[239] While the costs remained subject to later review in the second year of that company's multi-year rate plan, the Commission squarely addressed the prudence of PacifiCorp's investments in that case. Here, Cascade provided detailed information on all the Company's pro forma capital projects;[240] the fact that the final costs and in-service dates remained subject to update on rebuttal did not undermine parties' ability to analyze prudence.

70 Staff claims that projects must be placed in service by the time response testimony is filed in order to provide "a reasonable opportunity to evaluate whether the actual final project costs were reasonably incurred[.]"[241] Staff's concern is unwarranted, as parties have had ample time to review the final costs and in-service dates since rebuttal testimony was filed on January 8, 2021, and in rebuttal testimony, the Company provided not only the actual in-service date and actual cost

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[236] Docket UE-090134, Order 10 ¶¶ 12, 58, 80-81. This type of pro forma adjustment in the rate year would now be considered a "provisional pro forma adjustment" under the Commission's latest Used and Useful Policy Statement.
[237] McGuire, Exh. CRM-1T at 34:4-16; Panco, Exh. DJP-1T at 7 n.6.
[238] Docket UE-152253, Order 12 ¶ 121.
[239] Docket UE-152253, Order 12 ¶¶ 121-22.
[240] Darras, Exh. PCD-1T at 11:14-68:18.
[241] McGuire, Exh. CRM-1T at 34:7-12.

of all projects but went further to explain every deviation from original estimate. To the extent that parties had questions or concerns regarding these final costs and in-service dates, three weeks remained to issue discovery requests.[242] If parties wished to revise their recommendations or raise additional concerns regarding these final costs and in-service dates, parties were free to seek the opportunity to provide supplemental testimony.[243] Staff was also free to raise any issues with the final costs and in-service dates at hearing and in briefing.[244] Finally, if the Commission is concerned about Staff and intervenors having insufficient ability to audit the final costs and effective dates, Cascade would not object to a short provisional rate period that would allow the opportunity for such an audit.

71 Staff's and AWEC's bright-line cutoff date is particularly inappropriate in this case due to the unavoidably seasonal nature of the Company's construction schedule and the particular challenges presented by COVID-19.[245] As explained by Mr. Darras, weather conditions in much of Cascade's service area make it difficult to construct projects in the winter and spring, meaning that projects are frequently begun in the summer months and completed in the early winter months.[246] As a result, an October cutoff date has a disproportionate impact on Cascade.

72 Even if parties were correct that their response testimony acted as a bright-line cutoff for projects to be placed in service, the parties' adjustments incorrectly characterize the amount of plant in service by the time parties filed response testimony. Five of the discrete projects were in service by the end of October 2020—Othello Gate, Arlington Gate, Bellingham 8" HP, Moses

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[242] In accordance with the Prehearing Conference Order in this case, the last day to issue data requests in this case was January 29, 2021. Docket UG-200568, Order 03, Appendix B (July 13, 2020).
[243] WAC 480-07-375(1)(d).
[244] Based on Staff's questions in discovery, it appears Staff was primarily concerned with the final in-service dates and actual costs of the projects—and not with any other specific project information—when determining which projects to accept in testimony.
[245] McGuire, Exh. CRM-1T at 21:7-8 (proposing an October 27, 2020 cutoff date).
[246] Darras, Exh. PCD-3T at 22:11-16.

Lake 4” PE, and Walla Walla 6” Distribution—totaling approximately $13.6 million. In addition, approximately $14.6 million in blanket projects had been completed by the end of October 2020. Applying the parties’ suggestion to exclude projects that were placed in service after response testimony was filed, the amount of the resulting pro forma adjustment would be approximately $28.2 million.[247]

B. Cascade’s Pro Forma Capital Projects Are Supported by Robust Evidence.

73 As described above, Cascade provided ample evidence supporting the prudence of its discrete and blanket pro forma projects in both direct and rebuttal testimony. Between testimony filings, Cascade updated parties on projects’ in-service dates through discovery. When Cascade discovered inconsistencies in the in-service dates provided, the Company corrected the discovery responses and explained the source of the inconsistency in rebuttal testimony.[248]

74 Despite this abundant evidence, Staff claims that Cascade’s initial filing failed to provide adequate evidentiary support because the final costs and in-service dates would be provided on rebuttal.[249] As an initial matter, Staff’s position is premised on the same faulty assumption, discussed above, that the prudence inquiry can begin only after all final costs and in-service dates are known. Yet the Commission can and has evaluated a project’s prudence before final costs are known.[250]

75 Staff witness Mr. McGuire’s objection to the adequacy of the evidence is undercut by Staff witness Mr. Panco, who recognized that the Company provided “a larger volume of narrative in support of the projects” in this case than it had in past cases, including “a more detailed description

[247] Darras, Exh. PCD-3T at 22:1-8.
[248] As explained by Mr. Parvinen, the Company learned through the discovery process that different types of in-service dates were being supplied by different divisions within the Company. Cascade has since resolved this issue. Parvinen, MPP-2Tr at 17:1-11.
[249] McGuire, Exh. CRM-1T at 24:6-9.
[250] Docket UE-152253, Order 12 ¶ 121.

of the . . . capital budgeting process[.]"[251] Indeed, Mr. Panco objected to Cascade's presentation of evidence as *excessive* and described the detailed information concerning the Company's capital investments as inappropriately "distracting."[252] Mr. Panco even refused to consider certain project updates provided in discovery—despite attaching the information to his testimony.[253]

76 At hearing, Staff further suggested that Cascade's evidence was inadequate because the Company failed to provide sufficient contemporaneous documentation to support the decision *not* to delay the 10 remaining discrete pro forma capital projects.[254] Staff's position overlooks Cascade's testimonial evidence, which detailed Cascade's project selection and budgeting process.[255] Staff did not seek further information on this process through discovery.

77 Moreover, application of the contemporaneous documentation standard in this context is inapposite. Contemporaneous documentation is required to support major investment and operational decision-making, such as responding to a generation plant outage or deciding to pursue a large capital project.[256] The Commission does not require utilities to document "business-as-usual" decisions, such as the ongoing evaluation of needed capital investments.[257] While the Commission has previously required companies to produce contemporaneous documentation to support the decision to proceed with a large, multi-year generation projects, such decision-making concerned whether the projects should be pursued *at all.*[258] Here, there is no dispute that Cascade's pro forma projects are necessary to safety and reliability and to provide delivery service to

[251] TR. 242:13-16 (Panco).
[252] TR. 242:19 (Panco).
[253] TR. 250:19-21 (Panco); Panco, Exh. DJP-5.
[254] TR. 200:4-6 (Callaghan) ("Doesn't Cascade have to provide evidence that it was continuously evaluating whether the decision to continue with these investments was prudent?"); *id.* at 201:4-6 (inquiring into contemporaneous documentation for the decision to continue pursuing the remaining 10 discrete projects).
[255] Darras, Exh. PCD-1T at 3:17-11:12
[256] *See, e.g.,* Docket UE-140762, Order 08 ¶ 104; Docket UE-152253, Order 12 ¶ 103.
[257] *In re Avista Corp. et al., Regarding Prudency of Outage and Replacement Costs,* Docket UE-190882, Order 05 ¶ 55. (Mar. 20, 2020).
[258] *See, e.g.,* Docket UE-152253, Order 12 ¶ 102-07.

customers. It would be wholly impractical to require contemporaneous documentation to support each instance in which such capital projects are *not* delayed.

C. Cascade Applied Offsetting Factors to Pro Forma Investments.

78 The Commission requires pro forma capital investments to be matched with offsetting benefits.[259] In the Policy Statement, the Commission affirmed that this standard for pro forma adjustments remains unchanged and requires utilities to identify "the offsetting factors" associated with pro forma adjustments, consistent with the matching principle.[260] Offsetting factors mitigate the cost increases associated with pro forma capital additions, and may include benefits such as "efficiency gains" or increased revenues.[261]

79 In Cascade's initial filing, the Company accounted for two types of offsetting factors.[262] First, Cascade accounted for offsetting revenue increases associated with increased distribution investments by updating its overall customer count to EOP 2020 levels.[263] While not all of Cascade's customer growth is tied to the Company's pro forma investments, the Company conservatively decided to include the full impact of customer growth in 2020 as offsetting revenue.[264] Cascade updated its customer count on rebuttal to reflect actual (rather than estimated) EOP numbers.[265]

80 Second, Cascade examined the impact of O&M cost reductions associated with the Company's safety and reliability investments. For example, several projects have the potential to reduce operating costs during peak cold weather events. However, because the Company's test

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[259] WAC 480-07-510(3)(c)(ii).
[260] Policy Statement ¶ 22.
[261] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 *et al.*, Order 11 ¶ 27 (Apr. 2, 2010).
[262] Parvinen, Exh. MPP-1Tr at 8:1-18.
[263] Parvinen, Exh. MPP-2Tr at 27:6-9.
[264] Parvinen, Exh. MPP-2Tr at 27:6-15.
[265] Myhrum, Exh. IDM-11T at 2:4-12.

year did not have a peak weather event, there were no test year costs to offset by these savings.[266] Stated differently, the types of costs that these projects avoid did not occur during the test year, and so there are no costs to be removed from the test year levels. The Commission has recognized that not all pro forma adjustments come with offsetting factors, and specifically stated that a pro forma adjustment "cannot be used to force the company into the position of proving the nonexistence" of an offsetting benefit.[267]

81 Staff is incorrect that Cascade failed to consider and account for offsets to blanket pro forma investments, and Public Counsel is similarly incorrect that neither blanket nor discrete investments were accompanied by offsets in this case. Not only did Cascade consider multiple potential offsets and include offsetting revenues, but the Company accepted AWEC's proposal to include additional offsetting benefits on rebuttal. These benefits include removing replaced and retired plant associated with the pro forma capital additions and incorporating the new projects' 2020 depreciation.[268] These factors reduce the Company's revenue requirement by $157,055.[269]

D. Cascade's Major Project Threshold of $120,000 Is Reasonable.

82 The Commission requires proposed projects to "meet some reasonable definition of major" in order to be eligible for a pro forma adjustment.[270] However, the Commission has "clearly and repeatedly rejected" attempts to establish a bright-line test for the cost of pro forma projects.[271] Here, Cascade proposes to include all projects with costs in excess of $120,000, which are major in Cascade's specific circumstances.[272] This threshold yielded a limited set of 15 initial and 10

[266] Parvinen, Exh. MPP-2Tr at 26:3-6.
[267] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas Co.*, Cause No. U-83-45, 1984 Wash. UTC LEXIS 63, Second Supp. Order at *22-23 (Feb. 10, 1984).
[268] Parvinen, Exh. MPP-2Tr at 24:5-8.
[269] Parvinen, Exh. MPP-2Tr at 25:18.
[270] Docket UE-170485, Order 07 ¶ 196.
[271] Docket UE-170485, Order 07 ¶ 200.
[272] Parvinen, Exh. MPP-1Tr at 10:10-12.

final pro forma capital projects in this case.

83 The only party explicitly opposing Cascade's definition of "major" investment in this case is AWEC. AWEC asks the Commission to set a threshold of $500,000 for pro forma projects, claiming that investments under this threshold are "too small to be considered on a post-test year basis[.]"[273] AWEC applies this threshold to remove certain discrete projects as well as the entirety of the Company's blanket capital projects.

84 AWEC's proposed threshold lacks any analytical or evidentiary support. The mere assertion that projects under $500,000 are "too small" is conclusory, and is unsupported by substantive reasoning or analysis. As Cascade has explained, gas companies do not encounter the kind of very large capital projects found in the electric utility context, such as generating facilities.[274] Indeed, Staff has previously recognized this distinction to support applying a lower threshold to Cascade than to electric utilities, explaining that "[n]atural gas local distribution companies (LDCs), such as Cascade, invest in many small individual projects," which "distinguishes them from electric utilities, where major, high-dollar projects such as generating plants dominate the investment dollars."[275]

85 Moreover, applying a $500,000 threshold to Cascade's blanket funding projects is inconsistent with Commission precedent, which recognizes that programmatic projects may consist of "small distribution system investments[.]"[276] These projects are akin to the ongoing public improvement projects in PSE's 2019 GRC, which covered the costs of responding to requests by municipalities to relocate facilities or to undertake other public improvement projects.[277] As in this case, AWEC opposed cost recovery for PSE's public improvement projects

[273] Mullins, Exh. BGM-1T at 29:9-12.
[274] Parvinen, Exh. MPP-1Tr at 10:7-13.
[275] *See* Panco, Exh. DJPX-9X at 6:9-19 (UG-170929, Testimony of David J. Panco).
[276] Policy Statement ¶ 11 n.19.
[277] PSE 2019 GRC, Order 08 ¶ 210.

on the basis that they did not meet the materiality threshold.[278] The Commission disagreed, authorizing recovery for projects placed in service during the full 12 months following the test year, "regardless of whether they fall below an established threshold[.]"[279] The Commission further noted that its decision comported with precedent from Avista's 2017 GRC, in which the Commission allowed a pro forma adjustment for public improvement projects on the basis that such projects "provide tangible value to ratepayers."[280]

E. Cascade's Blanket Projects Conform to the Commission's Pro Forma Policies.

86 The Commission has made clear that pro forma investments can include both "specific" and "programmatic" projects. While "specific" projects are "clearly defined, identifiable or discrete investment[s]," programmatic projects are not:

> Programmatic investments are, by their very nature, investments made according to a schedule, plan, or method such as the replacement of power poles or other small distribution system investments necessary to provide safe and reliable service to Washington ratepayers.[281]

For programmatic investments, companies can demonstrate their spending levels through historical trends associated with the given type of investment.[282]

87 The Commission has demonstrated considerable flexibility in reviewing programmatic investments placed in service after the test year.[283] For instance, in Avista's 2015 GRC, the Commission approved recovery of that company's proposed pro forma blanket project, even though Public Counsel objected that the project was neither major nor discrete.[284] Similarly, in Avista's 2017 GRC, the Commission approved cost recovery for the Gas Replacement for Roads

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[278] PSE 2019 GRC, Order 08 ¶ 213.
[279] PSE 2019 GRC, Order 08 ¶ 214.
[280] Docket UE-170485, Order 07 ¶ 201.
[281] Policy Statement ¶ 11 n.19.
[282] Policy Statement ¶ 35.
[283] Policy Statement ¶ 31 (referring to the Commission's ongoing flexibility).
[284] Docket UE-150204, Order 05 ¶ 41 (modified on remand on unrelated grounds).

Projects, which was a series of subsidiary projects required by local jurisdictions in which Avista operates.[285]

88 At hearing, Staff suggested that Cascade's blanket investments do not conform to the Commission's policies for programmatic investments because these projects are "generally unplanned and outside the Company's control."[286] To be clear, Cascade's pro forma blanket projects were pursued as part of an annual capital budget and planning process.[287] While individual projects (e.g., specific meter replacements) cannot be predicted, the Company reliably plans for yearly investments in certain categories of plant that "history has shown us . . . will happen every year."[288] As Mr. Darras explained, Cascade "consistently invests millions of dollars into these types of blanket projects,"[289] and the Company knows that it will incur these costs over the course of the year.[290]

89 Staff's opposition to including blanket projects as pro forma investments in this case is inconsistent with Staff's own position in prior cases. In Cascade's 2017 rate case, Staff witness Mr. Panco clearly supported a "less restrictive" definition of pro forma plant and supported recovery of ongoing investment in "many small individual projects, such as main or regulator replacements."[291] When asked to explain this change, Mr. Panco acknowledged the inconsistency,[292] but simply stated that Staff's "perspective has shifted" in the ensuing two years.[293] Staff's adoption of a more restrictive position on pro forma capital projects in the last two years is at odds with the more flexible position endorsed by the Commission in its Policy

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[285] Docket UE-170485, Order 07 ¶ 201.
[286] TR. 153:1-8 (Callaghan).
[287] TR. 158:19-159:6 (Darras).
[288] TR. 159:2-6 (Darras).
[289] Darras, Exh. PCD-3T at 19:4-6.
[290] Darras, Exh PCD-3T at 16:15-17; TR. 159:2-6 (Darras).
[291] Panco, Exh. DJP-9X at 6:13-19.
[292] TR. 248:23-249:1 (Panco) (agreeing that Staff's prior recommendation would have "likely included" the types of projects for which Cascade now seeks recovery).
[293] TR. 246:4-9 (Panco).

Statement. The Commission should continue to support recovery of necessary, programmatic pro forma investments as a major aspect of mitigating regulatory lag.

F. Cascade's Pro Forma Projects Are Not Already in Rates.

90 AWEC relies on a black box settlement to claim that certain projects are already included in Company rates. Specifically, AWEC claims that the Wallula Gate Project, Bellingham 8" HP, Arlington Gate, and Aberdeen HP projects must be in rates because these projects were previously identified as proposed pro forma projects in Cascade's 2019 GRC.[294]

91 While AWEC is correct that Cascade previously proposed to include these projects as pro forma adjustments in Cascade's 2019 GRC, AWEC is incorrect that the projects were included in rates in that case.[295] The case was resolved by a settlement stating that "no plant investment is deemed to have been included in or excluded from the agreed upon revenue requirement."[296] AWEC's counsel affirmed this point at hearing, stating that "no rate base adjustments were agreed to in the black box settlement."[297] Critically, Cascade's 2019 GRC settlement significantly reduced the Company's revenue requirement request, meaning that items originally proposed to be included in rates were removed. Indeed, Staff testified that the "black box" number reflected a significant reduction in the amount of pro forma plant that was proposed for inclusion in rates—presumably including projects such as these that were not yet in service at the time of the settlement.[298]

92 Finally, even if AWEC were correct, AWEC's adjustment improperly removes the identified investments twice: first by subtracting the amounts from rate base, and then again by

[294] Mullins, Exh. BGM-1T at 24:9-17.
[295] Parvinen, MPP-2Tr at 13:16-14:16.
[296] Docket UG-190210, Joint Settlement Agreement ¶ 8 (Sept. 20, 2019).
[297] TR. 219:25-220:1 (Parvinen).
[298] Docket UG-190210, Joint Testimony in Support of Settlement, Exh. JT-1T at 13:12-16 (Sept. 20, 2019).

removing the investment from the Company's proposed pro forma adjustment.[299]

V. PRO FORMA COMPENSATION EXPENSE

A. Cascade's Pro Forma Salary Increases Are Reasonable.

93 Cascade seeks recovery of prudent, known, and measurable post-test year wage increases for union and non-union employees in 2020, and for non-union employees in 2021. In Cascade's initial filing, the Company proposed to include a 4 percent non-union wage increase and a 3 percent union wage increase for 2020, as these amounts reflected budgeted and negotiated wage increases, respectively.[300] The Company also proposed to include a 3 percent union wage increase and a 4 percent non-union wage increase for 2021, reflecting the Company's budgeted amounts.[301]

94 On rebuttal, Cascade updated its cost recovery request to reflect final, actual compensation levels. This update kept the 2020 contractual 3 percent increase for union employees, but reduced the non-union wage increase to 3.55 percent—reflecting the Company's decision to significantly restrict the typical mid-year compensation increases.[302] Cascade also removed the union wage increase for 2021, as the Company's negotiations for 2021 wage increases will not be finalized until after March 2021 negotiations conclude.[303] Finally, Cascade reduced its wage increase for 2021 non-union employees to 3 percent.[304] While Cascade's actual 2021 wage increase for non-union employees, as incorporated into paychecks, is 3.3 percent, Cascade has nonetheless proposed to include only 3 percent in rates.[305] Together, these updates reduced the Company's revenue requirement request by $627,696.[306] Pro forma wage increases now comprise less than

[299] Parvinen, Exh. MPP-2Tr at 14:17-20.
[300] Peters, Exh. MCP-1T at 6:19-20.
[301] Peters, Exh. MCP-1T at 6:20-7:3.
[302] Kaiser, Exh. JEK-1CT at 7:3-12.
[303] Cascade's Response to Bench Request No. 4 (Mar. 1, 2021).
[304] Kaiser, Exh. JEK-1CT at 7:13-14.
[305] Kaiser, Exh. JEK-6X at 13 (showing the increase for Cascade employees at 3.31 percent). The MDU-wide wage increase is 3.34 percent. Kaiser, Exh. JEK-6X at 12.
[306] Kaiser, Exh. JEK-1CT at 7:14-16.

$1.5 million of the Company's proposed revenue requirement.[307]

95 In evaluating utilities' compensation recovery requests, the Commission considers "only whether the compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers."[308] In response testimonies, Staff, Public Counsel, and AWEC all opposed full recovery of the Company's initial 2020 and 2021 wage increase requests without reference to average market levels, but instead due to the broader economic conditions resulting from the COVID-19 pandemic.[309] Parties' proposals are shown in Table 3 below:

Table 3: Party Positions Regarding Pro Forma Compensation

	2020 Union	**2020 Non-Union**	**2021 Union**	**2021 Non-Union**
Cascade	3 percent	3.55 percent	-	3 percent
Staff[310]	3 percent	3 percent	-	-
Public Counsel[311]	3 percent	3 percent	-	-
AWEC[312]	2 percent	2 percent	-	-

1. <u>Cascade's Salary Increases Are Necessary to Fairly Compensate Employees.</u>

96 While Cascade has worked hard to minimize rate impacts in this case, salary increases remain necessary for several reasons. First, the current economic conditions have not lessened the need for qualified personnel, who are integral to the safe and reliable provision of natural gas service.[313] Second, to attract, motivate, and retain such personnel, the Company must compensate employees fairly.[314] Third, despite the broader economic conditions, Cascade has not experienced reduced competition for qualified employees—perhaps in part due to the essential nature of utility

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307 Gresham, Exh. MCG-14 (Pro Forma Wage Adjustment P-2, line 27).

308 PSE 2019 GRC, Order 08 ¶ 314 (quoting *Wash Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 250 (Mar. 25, 2010)).

309 Mullins, Exh. BGM-1T at 38:14-16; Garrett, Exh. MEG-1Tr at 13:22-14:1; Huang, Exh. JH-1T at 7:14-20.

310 Huang, Exh. JH-1T at 7:14-20.

311 Garrett, Exh. MEG-1Tr at 14:12-15.

312 Mullins, Exh. BGM-1T at 35:11-12 ("I recommend that wage escalation for Cascade non-union employees be limited to 2% in 2020[.]"); *id.* at 39:22-23 ("I also recommend capping the 2020 wage increase for union employees at 2%, which is the approximate rate of inflation.").

313 Kaiser, Exh. JEK-1CT at 8:6-10.

314 Kaiser, Exh. JEK-1CT at 8:11-14.

service.[315]

97 Staff recognized these unavoidable dynamics at hearing. Specifically, Staff agreed that customers benefit from having knowledgeable, skilled, and reliable workers,[316] that attracting and retaining such qualified workers requires Cascade to pay average market wages,[317] and that market levels for salaries are generally outside the Company's control.[318]

98 Moreover, salary increases are particularly necessary for Cascade because the Company's compensation levels continue to lag behind average market levels, due to the Company's conservative approach. Cascade's most recent third-party compensation survey, conducted in 2018 by Pearl Meyer ("Pearl Meyer Report"), indicates that the Company's compensation levels are below the market median.[319] In light of these results, Cascade must be careful to ensure that employee compensation does not lag further behind. Providing below-market wages would not only interfere with attracting and retaining qualified employees, but would also inappropriately penalize Cascade's employees, who have worked diligently to ensure the continuity of essential natural gas service in a year with significant challenges and risks.

99 Staff suggests that the Pearl Meyer Report may be too stale to support the need for ongoing salary increases.[320] Since the Pearl Meyer Report was issued in [redacted], the only salary increases that have occurred are those reflected in this case: 2019, 2020, and 2021.[321] Plainly, there has not yet been an opportunity for Cascade's compensation levels to catch up to the market average. Moreover, Staff accepts only the 2019 wage increase in full, reduces the Company's 2020

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[315] Kaiser, Exh. JEK-1CT at 8:15-18.
[316] TR. 279:17-19 (Huang).
[317] TR. 279:20-24 (Huang).
[318] TR. 279:13-16 (Huang).
[319] Kaiser, Exh. JEK-1CT at 6:1-2.
[320] TR. 282:4-10 (Huang).
[321] Kaiser, Exh. JEK-2C at 1.

wage increase to 3 percent, and rejects the Company's 2021 wage increase entirely.[322] If the Company were to provide only Staff's proposed wage increases, compensation levels would fall further behind average market levels.

100 Staff also claims that the Company's proposed wage increases are "aggressive[]" because they are purportedly higher than the average increase presented by other Washington utilities.[323] Staff is incorrect. Recent third-party data indicates that Cascade's competitors are continuing to plan for annual salary [redacted] in 2021.[324] Indeed, Avista's 2020 GRC includes two pro forma salary increases of 3 percent each for union and non-union employees in 2020 and 2021.[325] Similarly, NW Natural's 2020 GRC includes a March 2021 pay increase of 3 percent, plus an additional 0.60 percent for promotions and adjustments.[326] Clearly, rather than "aggressively" increasing salaries, Cascade's proposed 3.55 percent and 3 percent wage increases for 2020 and 2021, respectively, merely prevent the Company from falling further behind and are consistent with the increases proposed by the Company's peer utilities.

101 Staff's outright rejection of the Company's 2021 wage increase is also inconsistent with Staff's own prior position. In Avista's 2017 GRC, Staff did not oppose that company's request for two post-test year salary increases of 3 percent each.[327] The Commission has previously granted wage increases more than two years after the test year.[328]

102 AWEC similarly argues that Cascade's wage increases outpace the market. AWEC witness Mr. Mullins states that "[o]ther utilities are reducing wages in response to the current economic

[322] Huang, Exh. JH-1T at 3:14-20.
[323] TR. 274:4-10 (Huang).
[324] Kaiser, Exh. JEK-5C at 2.
[325] *Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-200900 *et al.*, Direct Testimony of Elizabeth M. Andrews, Exh. EMA-1T at 57:1-11 (Oct. 30, 2020).
[326] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas Co.*, Docket UG-200994, Direct Testimony of Melinda B. Rogers, Exh. MBR-1T at 8:4-7 (Dec. 18, 2020).
[327] Huang, Exh. JH-7X at 12:14-17.
[328] Docket UE-170485, Order 07 ¶ 313 (approving two years of pro forma union wage increases).

conditions," pointing to a single example of a voluntary pay reduction proposed by PacifiCorp for work-from-home employees, which was later suspended.[329] Based on this sole example, and citing the broader economic conditions associated with the pandemic, AWEC proposes to restrict both union and non-union 2020 wage increases to 2 percent to approximate inflation.[330]

103 First, AWEC is simply incorrect that the competitive market for employee labor is reducing wages. As explained above, both independent surveys and recent Washington rate cases demonstrate the employee wages are continuing to increase at approximately 3 percent or more per year.

104 Second, AWEC's critique of Cascade's 2020 wage increases is based on economic circumstances that arose following the pandemic's onset. By implication, AWEC assumes that Cascade's wage increases could be changed retroactively. On the contrary, union wages were already established by contract and could not be unilaterally reduced.[331] The Commission has previously recognized the fact that union wages are "fixed by contract," and has thus approved multiple years of contracted-for wage increases.[332] Similarly, Cascade's 2020 non-union wage increase was incorporated into employee paychecks in 2019—leaving only a small fraction left for mid-year wage increases.[333] As Cascade has explained, the Company largely omitted any mid-year wage increase in 2020, thereby reducing salary increases as much as possible after the pandemic's long-term economic impacts became clear.[334]

105 To the extent that AWEC proposes to limit recovery of prudently incurred costs to alleviate impacts on customers, Cascade has already resolved AWEC's concern through its proposed rate

[329] Mullins, Exh. BGM-1T at 38:16-19.
[330] Mullins, Exh. BGM-1T at 39:22-23.
[331] Kaiser, Exh. JEK-1CT at 9:7-12.
[332] Docket UE-170485, Order 07 ¶ 314.
[333] Kaiser, Exh. JEK-1CT at 10:13-21.
[334] Kaiser, Exh. JEK-1CT at 11:2-9.

offset proposals. If accepted, residential and commercial customers will not experience a rate increase until mid-2022. In addition, AWEC's reasoning would be troublingly inconsistent with the central cost-of-service utility compact, which requires the Commission to provide a reasonable and sufficient opportunity to recover the prudently incurred costs of providing service.[335] To the extent that AWEC proposes to reduce cost recovery irrespective of the need for and prudence of the Company's costs, the Commission should firmly reject such reasoning.

106 Finally, Public Counsel suggested at hearing that the Company's non-union wage increases might exceed market levels because they are higher than the negotiated wage increases established for union employees.[336] However, as Cascade witness Mr. Kaiser explained, union and non-union employees represent different subsets of the labor market.[337] The Company uses different market surveys to identify the average market levels for each group.[338] As a result, there is no evidentiary basis to assume that the market levels for union wages necessarily equate to the market levels for non-union wages.

2. Cascade's 2020 Compensation Increases Are Conservative.

107 Public Counsel objects to Cascade's 2020 wage increases, in part, because of the mistaken impression that the Company's actual overall compensation costs increased by only 2.6 percent for exempt and 2.2 percent for non-exempt employees.[339] As Mr. Kaiser explained, Public Counsel's calculation was incorrect in that it failed to include the first pay period in 2020, incorrectly included a non-base pay value, and failed to account for cross-charged and allocated labor costs.[340] When accounting for the missed pay period, removing the non-base pay error, and

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[335] *POWER*, 104 Wn.2d at 808; *Puget Sound Traction Light & Power Co. v. Pub. Serv. Comm'n*, 100 Wash. 329, 334 (1918); RCW 80.28.010(1).
[336] TR. 162:25-163:10 (Kaiser).
[337] TR. 163:15-164:1 (Kaiser).
[338] TR. 177:2-9 (Kaiser).
[339] Garret, Exh. MEG-1Tr at 14:4-10.
[340] Kaiser, Exh. JEK-1CT at 12:6-11.

accounting for cross-charged costs, Cascade's 2020 actual costs for non-union labor increased by more than 5 percent.[341] Nonetheless, Cascade continues to propose applying its actual wage escalation rate of 3.55 percent as a conservative adjustment to Test Year costs.[342]

3. Cascade's 2021 Non-Union Wage Increases Are Known and Measurable.

108 As with other pro forma adjustments, post-test year wage increases must be known and measurable.[343] Compensation increases can be known and measurable where a board of directors has authorized approval for non-union wage increases, or where there is a contractual agreement for union wage increases.[344] Previously, Staff and Public Counsel have agreed that "known and measurable company obligations, such as union wage increases resulting from collective bargaining agreements or non-union wage increases approved by the board of directors, are proper adjustments."[345]

109 In Avista's 2017 GRC, the Commission clarified that non-union wage increases approved by a board of directors might not be considered known and measurable if the Company could still "offset or even reverse those wage adjustments."[346] In that case, Avista sought recovery for a March 2018 wage increase based on a board of directors' decision from May 2017—well in advance of an actual salary change.[347]

110 Here, Cascade has demonstrated that the 2021 non-union wage increase is known and measurable. Specifically, Cascade has presented contemporaneous documentation showing the

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[341] Kaiser, Exh. JEK-4.
[342] Kaiser, Exh. JEK-1CT at 12:14-15.
[343] Docket UE-090134, Order 10 ¶ 110.
[344] Docket UE-090134, Order 10 ¶ 110.
[345] Docket UE-090134, Order 10 ¶ 105.
[346] Docket UE-170485, Order 07 ¶ 313.
[347] Docket UE-170485, Order 07 ¶ 306.

approved 3.5 percent budget for 2021 as of November 2020,[348] and further provided evidence showing the actual 3.3 percent increase incorporated into employees' salaries.[349] Clearly, the Company's 2021 non-union wage increases are known and measurable—and in excess of the 3 percent increase that Cascade requests in this case.

111 In response testimony, Staff stated that the 2021 wage increases "do not conform to the Commission's rule on pro forma adjustments, . . . which requires changes to test year costs to be known and measurable."[350] Given the timing of Staff's objection, it appears that Staff opposed the Company's wage increases because they were not yet final when Staff filed testimony. As noted above, the Commission has authorized pro forma increases that occur after Staff and intervenor testimony has been filed, so long as the increases are known and measurable by the time rates take effect.[351] Here, the 2021 wage increases are known and measurable, as the amounts have been approved and are included in employee paychecks.

112 At hearing, Staff also suggested that Cascade's 2021 wage increase is not known and measurable because the Company held back a portion of the 2021 budgeted amount for mid-year review.[352] Staff's point is irrelevant because the Company does not seek recovery of any amount held back for mid-year wage increases.

4. <u>Cascade's Pro Forma Wage Increases Are Not Offset by Other Factors.</u>

113 As with other pro forma adjustments, post-test year wage increases must be matched with any applicable offsetting factors.[353] However, not all pro forma adjustments are accompanied by

[348] The 3.5 percent budget included both a 3.0 percent initial amount for allocation by managers, plus a flexible 0.5 percent amount for affirmative action items, equity concerns, and compression issues, while also accounting for "[a]ny increase causing [managers] to go over budget[,]" as "justified on the spreadsheet int he notes section." Kaiser, Exh. JEK-6X at 8.

[349] Kaiser, Exh. JEK-6X at 12-14.

[350] Huang, Exh. JH-1T at 4:8-11.

[351] PSE 2019 GRC, Order 08 ¶ 209.

[352] TR. 282:14-17 (Huang).

[353] *See, e.g.*, Docket UE-090134, Order 10 ¶ 110.

such offsets, nor does the Commission require companies to prove their non-existence.[354] In this case, Cascade's budgeting process for wage increases accounts for factors that both increase and decrease wage-related costs, thus incorporating the potential for offsetting factors.[355]

114 Public Counsel claims that the Company failed to account for employee turnover as an offsetting factor, and proposes limiting the Company's 2020 non-union wage increase to 3 percent on that basis.[356] However, employee turnover is a complex factor that does not necessarily decrease costs. For instance, higher salaries may be necessary to attract qualified new employees and, given the highly technical nature of the industry, replacement personnel frequently must overlap with departing employees to ensure adequate training.[357] Indeed, turnover's potential to increase costs is part of the reason why Cascade appropriately seeks to *retain* qualified employees.[358]

B. Cascade's Test Year Incentive Compensation Expense Is a Reasonable Measure of Prudently Incurred Costs.

115 Cascade seeks recovery of actual 2019 incentive compensation expense, which totaled approximately $1.7 million (excluding executive incentives).[359] The amount of incentive compensation paid in a given year depends on the achievement of performance goals,[360] including individual job performance, effectively managing costs, providing excellent customer service, and ensuring secure cyber operations.[361]

116 The Commission recognizes that "incentive compensation is not a bonus or a level of pay

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[354] *Wash. Utils. & Transp. Comm'n v. Nw. Nat. Gas Co.*, Cause No. U-83-45, 1984 Wash. UTC LEXIS 63, Second Supplemental Order at *22-23 (Feb. 10, 1984).
[355] Kaiser, Exh. JEK-1CT at 12:16-13:9.
[356] Garret, Exh. MEG-1Tr at 12:13-15.
[357] Kaiser, Exh. JEK-1CT at 13:2-9.
[358] Kaiser, Exh. JEK-1CT at 13:2-5.
[359] Kaiser, Exh. JEK-1CT at 18:20-21.
[360] Kaiser, Exh. JEK-1CT at 18:5-7. The pool of incentive compensation available to be spent each year depends on the Company's threshold achievement of financial performance goals. Similar thresholds are employed by other utilities, such as PSE, and have been approved as reasonable by this Commission. *See* Docket UE-111048, Order 08 ¶¶ 116, 121-23.
[361] Kaiser, Exh. JEK-1CT at 17:16-18.

in excess of the maximum compensation for a position," but is instead "simply motivation for an employee to strive for the total compensation for his or her position by achieving certain individual and group goals."[362] Where the Company's total compensation, including both base salary and incentive compensation, is "equivalent to the market average," the Commission will approve full cost recovery.[363]

117 Here, no party claims that Cascade's incentive compensation, when combined with base salaries, exceeds the market average. Indeed, Cascade's most recent third-party compensation survey indicated that employees' incentive compensation opportunity is in fact *lower* than competitive market levels.[364] Moreover, full cost recovery of test year incentive compensation expense is appropriate because the amount reflects the Company's superior performance on measures that benefit customers within the test year.[365] The Commission should therefore authorize recovery of the Company's actual, test year incentive compensation expense.

118 Public Counsel and AWEC oppose full cost recovery of the Company's test year incentive compensation expense because the amount exceeded the Company's target, which was approximately $1.1 million.[366] Noting that this target amount is comparable to the previous five years' (2014-2018) average of $1.0 million, Public Counsel proposes limiting recovery to the Company's target incentive compensation.[367] AWEC applies the five-year average instead—excluding the Company's test year expense entirely.[368] Neither proposal is appropriate because (1) the Company's total compensation levels remain below market levels, (2) the Company's

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[362] Docket UE-100749, Order 06 ¶ 248.
[363] Docket UE-111048, Order 08 ¶ 122; Docket UE-100749, Order 06 ¶¶ 240-50.
[364] Kaiser, Exh. JEK-1CT at 6:2-4.
[365] Kaiser, Exh. JEK-1CT at 19:14-19.
[366] Garrett, Exh. MEG-1Tr at 19:8-12; Mullins, Exh. BGM-7T at 12:4-11.
[367] Garrett, Exh. MEG-1Tr at 19:8-12.
[368] Mullins, Exh. BGM-7T at 12:8-11; *see* Mullins, Exh. BGM-8 at 7. The sheet labeled "Executive Incentives" in Mr. Mullins' exhibit applies the 5-year average of incentive compensation between 2014-2018, as identified in the table in Mr. Garrett's Response Testimony. Garrett, Exh. MEG-1Tr at 19:6-7.

actual test year expense was prudently incurred, (3) incentive compensation is a portion of reasonable compensation placed at-risk to motivate superior employee performance, and (4) removing the Company's actual 2019 test year expense from any calculation would inappropriately penalize the Company for its superior performance on customer benefit measures that are reflected within the test year.

119 If the Commission nonetheless wishes to normalize incentive compensation, it should use a three-year average that includes the test year amount and the previous two year amounts.[369] Such an approach would minimize cost fluctuations over time, while reducing the impact of inflation on the calculation. A 3-year rolling average applied to this case would yield approximately $1.4 million in incentive compensation expense.

C. Cascade's Affiliate Compensation Is a Reasonable Cost Component.

120 AWEC generally objects to Cascade including wage increases or incentive compensation associated with affiliates. For wage levels, AWEC argues that it is inappropriate to allocate affiliate wage increases to Cascade because "[t]he actual amount of inter-corporate charges allocated to Cascade is not necessarily dependent on the wage levels of its affiliates," and recommends that all wage escalation associated with Cascade's affiliates should be eliminated.[370] For incentive compensation, AWEC claims that (1) Cascade has been unable to demonstrate that affiliate "bonuses" benefit Washington customers; and (2) the Commission has no jurisdiction over affiliate employees.[371] AWEC's objections are misplaced.

121 First, consistently allocating affiliate compensation is appropriate because Cascade's compensation approach—including both wages and incentives—is identical across all MDU's

[369] Kaiser, Exh. JEK-1CT at 19:20-20:2.
[370] Mullins, Exh. BGM-1T at 35:4-7; 37:16-17.
[371] Mullins, Exh. BGM-1T at 36:4-11.

affiliates.[372] Failing to allocate these costs would be inconsistent with the benefits customers derive from allocated employees. Sharing labor costs has allowed Cascade to make more efficient use of its employees and reduces overall costs for customers.[373]

122 Second, AWEC inappropriately refers to incentive compensation as "bonus payments" in the context of affiliate incentive compensation.[374] As the Commission has explained, incentive compensation is not a bonus, but is a portion of reasonable compensation placed at-risk to motivate superior employee performance.[375]

123 Third, allocating wage increases and incentive compensation is no different from allocating test year affiliate wages. The Commission has repeatedly recognized that affiliate costs and compensation may be appropriately allocated to the regulated entity, where those amounts are reasonable.[376] Indeed, RCW 80.16.030 specifically provides that "payment or compensation" made to affiliates may be recoverable in rates if the amounts are "reasonable."

VI. LOAD STUDY

124 Cascade is making steady progress toward completing a load study in compliance with its settlement commitments from the 2015, 2017, and 2019 rate cases and to meet the new requirements in the Commission's cost of service rules.[377] Cascade provided direct and rebuttal testimony detailing its progress to date, and in the Company's Response to Bench Request No. 6,

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[372] Kaiser, Exh. JEK-1CT at 20:15-17.
[373] Kaiser, Exh. JEK-1CT at 20:17-21:2.
[374] Mullins, Exh. BGM-1T at 36:1-11.
[375] Docket UE-100749, Order 06 ¶ 248 ("By its very definition, incentive compensation is not a bonus or a level of pay in excess of the maximum compensation for a position. It is simply motivation for an employee to strive for the total compensation for his or her position by achieving certain individual and group goals.").
[376] *See, e.g.*, *Wash. Utils. & Transp. Comm'n v. Waste Control, Inc.*, Docket TG-140560, Order 13 ¶ 19 (Aug. 6, 2015) ("(I"[t is reasonable to use measures of each affiliates' total number of employees, total revenues, and total assets to develop an allocation factor that . . . reasonably approximates the demands each affiliate places on any shared facilities.");"); *In re the Application of Avista Corp. for an Order Approving a Corporate Reorganization to Create a Holding Co., AVA Formation Corp.*, Docket UE-060273, Order 03 ¶ 11 (Feb. 28, 2007) (allowing for recovery of affiliate transaction costs where the Commission was able "to ensure that the allocations are reasonable and prudent").
[377] Kivisto, Exh. NAK-2T at 24:12-25:21.

Cascade provided additional support regarding its plans to install the infrastructure needed for a load study by the end of December 2022. Cascade also explained its plans to analyze the data collected over the 2020-2021 heating season and share its analysis with stakeholders.

Staff and AWEC criticize the Company for not having completed a load study before filing this case, and recommend the Commission require Cascade to complete a load study prior to filing its next general rate case.[378] AWEC also recommends that the Commission open a new docket "to oversee the creation of Cascade's load study, including periodic workshops where stakeholders can consider the results and the progress being made towards completion of the load study."[379]

A. Cascade's Progress Toward Completing a Load Study Is Consistent with Prior Settlement Commitments.

125 Staff and AWEC's criticism of the Company for not having yet performed a load study is misplaced and fails to account for the evolution of the settlement commitments over the 2015, 2017, and 2019 GRCs. To the contrary, Cascade has carefully considered how to meet its commitments in the most cost-effective way possible, and has made steady progress over the past five years to plan for and install the infrastructure needed to collect the data for a load study.

126 In its 2015 rate case, the Company entered into a settlement agreement that included a commitment to "initiate a load study" before filing its next rate case.[380] Thereafter, Cascade began investigating how it might collect the data needed to perform a load study. The Company's initial research suggested that installing the necessary equipment and logging usage data would cost millions of dollars and take several years to complete—in part due to Cascade's primarily rural and non-contiguous service territory.[381] To reduce the time and expense involved while still meeting the 2015 settlement objectives, Cascade proposed a new forecast demand model

[378] Higby, Exh. ANH-1T at 12:11-17; Mullins, Exh. BGM-1T at 45:17-18.
[379] Mullins, Exh. BGM-1T at 45:19-22.
[380] Docket UG-152286, Joint Settlement Agreement ¶ 46 (May 13, 2016).
[381] Kivisto, Exh. NAK-2T at 14:17-15:7.

alternative, which would provide a load forecast at the daily citygate level by each customer class, allowing for Cascade to determine the class core responsibilities of daily therms at the citygates.[382]

127 Cascade used this new load forecasting model in its 2017 GRC,[383] though ultimately, Staff did not agree that the model met the definition of a load study because it did not rely on actual individual usage data.[384] As a result, when the parties entered a new settlement in the 2017 GRC, Cascade committed to conduct a load study based on actual *collected* usage data.[385] The parties also recognized that Cascade would need time to install the infrastructure for this new load study effort and agreed to allow Cascade to proceed with future rate case filings while this effort was underway.[386] Until the new load study was completed, parties agreed that Cascade would propose no changes to basic charges and rate spread would continue to be applied on an equal percent of margin basis (with the exception of special contracts).[387] The 2017 GRC settlement did not include a specific deadline for a load study—a fact that the Commission noted in its final order.[388]

128 In the past four years, Cascade has made substantial progress on installing the infrastructure needed to collect customer usage data required for its load study. During the pendency of the 2017 GRC, Cascade began installing the Encoder Receiver Transmitters ("ERTs") necessary to transmit customer usage data.[389] Between late 2017 and 2020, Cascade completed nearly all of the ERTs' installations in its Washington service territory—requiring over $15 million in new investment in Washington—and Cascade expects to complete installation of the ERTs by June 2021.[390] In fall

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[382] Docket UG-170929, Direct Testimony of Brian Robertson, Exh. BR-1T at 8:15-18 (Aug. 31, 2017).
[383] Docket UG-170929, Robertson, Exh. BR-1T at 8:15-18; Docket UG-170929, Robertson, Exh. BR-2 (Forecast Model).
[384] Docket UG-170929, Testimony of Melissa Cheesman, Exh. MCC-1T at 5:11-17 (Feb. 15, 2018).
[385] Docket UG-170929, Partial Joint Settlement ¶ 27 (May 18, 2018).
[386] Docket UG-170929, Partial Joint Settlement ¶ 28.
[387] Docket UG-170929, Partial Joint Settlement ¶ 28.
[388] Docket UG-170929, Order 06 ¶ 69.
[389] Kivisto, Exh. NAK-2T at 16:18-17:3.
[390] Kivisto, Exh. NAK-2T at 19:5-7; *see also* Cascade's Response to Bench Request No. 6, BR-6 CNG 2021_22 Approved Budget at 1 (Mar. 15, 2021) (2021 budget for the ERT installation is included as part of FP #101210).

2020, Cascade began installing fixed network equipment in its Washington service territory, and as of January 2021, the Company has installed 12 collectors.[391] These collectors are capable of logging readings from just over 10 percent of Cascade's 215,000 Washington service area ERT meters and in all three regions of Cascade's Washington service area (Central, Northwest, and Western).[392] Cascade expects to complete the installation of the fixed network in 2022.[393] While installing the equipment has taken time, Cascade's progress is consistent with its settlement commitments.

B. The Commission Should Not Require Cascade to Complete a Load Study Before Filing Its Next Rate Case.

129 There is no reason for the Commission to include a condition in its order in this case requiring Cascade to complete a load study before filing its next case—and doing so would be punitive. Independent of Staff's and AWEC's recommendation, the new cost-of-service rules require that Cascade file a load study with its next rate case.[394] Accordingly, for its next case, Cascade will either need to make such a filing or show good cause for a waiver of the rule—which will be evaluated at that time and on the merits of the request for waiver.

130 Moreover, while Cascade has begun collecting data during the 2020-2021 heating season, it is not clear whether that data will be adequately representative to perform a load study. The Commission's new cost of service study rules also require an entire year's worth of data.[395] Cascade explained in its response to Bench Request No. 6 that it is possible that the load study may not be completed until after the fixed network is complete and Cascade has meaningful data from the 2022-23 winter season, assuming a peak weather event also occurs during that heating

[391] Kivisto, Exh. NAK-2T at 21:11-14.
[392] Cascade's Response to Bench Request No. 6, BR-6 Fixed Network – Load Study Overview at 6 (Mar. 15, 2021).
[393] Cascade's Response to Bench Request No. 6, BR-6 Fixed Network – Load Study Overview at 7.
[394] *See* WAC 480-85-050(1)(d).
[395] WAC 480-85-030(5).

season.[396] Although Cascade has not yet determined the timing for its next rate case, it plans to make significant plant investment in 2021—currently estimated at $75 million—making it reasonably likely that the Company will need to file another rate case in 2021 depending on the outcome in this case. Given the uncertainty as to when a load study may be completed, the Commission should not include any blanket prohibition on filing another rate case that would prejudge a request for waiver— when and if such a waiver is requested—without first considering the facts and circumstances involved, and without also balancing the Commission's obligation to provide the Company an opportunity to earn a fair return on its investment.

C. The Company's Proposals to Continue Engaging with Stakeholders Obviate the Need for a New Docket.

131 There is no need for a new docket, as recommended by AWEC, because the Company proposes to continue involving stakeholders in its efforts to develop a load study. The Company plans to share the results of the data collected during the 2020-2021 heating season with stakeholders in summer 2021,[397] as well as the methods for analysis of the data.[398] Cascade also plans to meet again with stakeholders in summer 2022 to discuss data collected during the 2021-2022 heating season.[399] Thus, given the Company's voluntary commitments, no formal proceeding to monitor the Company's progress is warranted.

VII. DISCONNECTION REDUCTION PLAN

132 TEP proposes that Cascade develop and file a Disconnection Reduction Plan within one year of the final order in this docket.[400] TEP explains that a Disconnection Reduction Plan is an important step to alleviate bill pressure associated with a range of factors, including "decoupling,

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[396] Cascade's Response to Bench Request No. 6, BR-6 Fixed Network – Load Study Overview at 8.
[397] Kivisto, Exh. NAK-2T at 27:9-13.
[398] Cascade's Response to Bench Request No. 6, BR-6 Fixed Network – Load Study Overview at 8.
[399] Kivisto, Exh. NAK-2T at 27:13-15.
[400] Collins, Exh. SMC-1T at 10:13-16.

costs of new technology, and costs of the transition to new energy."[401]

133 Cascade strongly supports TEP's stated goal of minimizing service disconnections, which Cascade views as a highly undesirable last resort. In response to the COVID-19 pandemic, the Commission has already imposed a disconnection moratorium that was recently extended through July 31, 2021, and which may be extended again in the future. Additionally, as described above and recognized by TEP, Cascade has voluntarily pursued measures to reduce disconnections, and believes such efforts can be in the best interest of all parties.[402]

134 At the same time, Cascade must also protect other, non-participating customers and Company shareholders from exposure to significant cost-shifting.[403] In light of these concerns, Cascade agrees to consult with the Company's WEAF Advisory Group in 2021 about developing a Disconnection Reduction Plan.[404] However, Cascade asks that the Commission *not* impose a firm filing deadline for a completed plan. Committing to a specific deadline presupposes the outcome of the Company's consultation with the WEAF Advisory Group—which could undermine Cascade's ability to protect other customers from cost-shifting.

135 In addition, Cascade would benefit from seeing other utilities' proposals before committing to filing a specific plan. PacifiCorp, PSE, and Avista have voluntarily agreed to file Disconnection Reduction Plans in their recent rate cases, but have not yet identified the elements of these plans.[405] For instance, PSE recognized that cost-shifting is a concern, but did not identify a means of reducing such impacts when it agreed to a one-year deadline.[406] Since no other plan has yet been filed, Cascade has been unable to evaluate the adequacy of the available protections. Thus, Cascade

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[401] Collins, Exh. SMC-1T at 10:18-11:2.
[402] Kivisto, Exh. NAK-2T at 12:3-6.
[403] Kivisto, Exh. NAK-2T at 12:6-7.
[404] Kivisto, Exh. NAK-2T at 12:7-8.
[405] Collins, Exh. SMC-1T at 11:16-17.
[406] *See* 2019 PSE GRC, Rebuttal Testimony of Andrew Wappler, Exh. AW-5T at 15:8-14 (Jan 15. 2020).

seeks a more flexible approach to allow the Company to work collaboratively with its WEAF Advisory Group, without committing to a path that may involve undue cost-shifting.

136 A flexible approach is particularly appropriate for Cascade because, as TEP notes, the Company has already demonstrated its ability to effectively consult with the WEAF Advisory Group in developing program modifications to the existing WEAF program.[407] Cascade will continue working proactively with these groups to support customers and to minimize unnecessary disconnections.

VIII. CONCLUSION

137 Cascade's rate request accounts for approximately $57 million in new infrastructure investments, essential compensation increases, and rising equity costs, all while avoiding any near-term rate increase for residential and commercial customers until mid-2022. In short, Cascade has presented a fair, just, and reasonable rate increase encompassing prudent and necessary costs. Cascade respectfully requests that the Commission grant the Company's rate request as consistent with Cascade's obligation to provide safe, reliable, and affordable service to Washington customers.

Respectfully submitted this 22nd day of March, 2021.

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[407] Collins, Exh. SMC-1T at 7:16-18.