

Exhibit No. __ (NAK-2T)
Docket No. UG-170929
Witness: Nicole A. Kivisto

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-170929

**CASCADE NATURAL GAS CORPORATION
REBUTTAL TESTIMONY OF NICOLE A. KIVISTO**

March 23, 2018

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I. INTRODUCTION

1

2 **Q. Are you the same Nicole A. Kivisto who filed direct testimony in this proceeding on**
3 **behalf of Cascade Natural Gas Corporation (“Cascade” or “Company”)?**

4 A. Yes, as Exhibit No. __ (NAK-1T).

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to:

- 7 • Provide an overview of the Company’s and other parties’ positions;
- 8 • Discuss the importance to Cascade of recovering its investment in capital additions
9 made in 2017, as presented in the Company’s pro forma capital additions adjustment;
- 10 • Address the tax impact of the Tax Cuts and Jobs Act of 2017;
- 11 • Address the view expressed by Staff of the Washington Utilities and Transportation
12 Commission (“Commission”) that the Company did not meet its obligation to initiate
13 a load study as required in the Joint Settlement Agreement approved in UG-152286;
14 and
- 15 • Present the other Company’s witnesses providing rebuttal testimony.

16 **Q. Are you sponsoring any exhibits in this proceeding?**

17 A. No.

II. GENERAL RATE CASE OVERVIEW

18 **Q. Please provide an overview of the Company’s initial request in this rate case.**

19 A. The Company’s initial filing requested an overall increase of \$5,884,984, or 2.71 percent,
20 a capital structure of 50 percent debt and 50 percent equity, and a return on equity
21 (“ROE”) of 9.9 percent.

22 **Q. Where there any major changes in law that impact the Company’s request?**

23 A. Yes. The Tax Cuts and Jobs Act of 2017 (“TCJA”) was enacted in December 2017,
24 several months after the Company made its rate case filing. Accordingly, the Company’s

1 initial filing did not include the impact that tax reform would have on the Company's
2 request. As discussed further in my testimony regarding the impacts of the TCJA, the
3 passage of the TCJA has a significant impact on the Company's request for a rate
4 increase.

5 **Q. What is the Company's revised revenue requirement taking into account the**
6 **impacts of the TCJA?**

7 A. Considering only the impacts of the TCJA and no other adjustment, the TCJA will
8 modify the Company's revenue requirement request from a \$5.9 million increase to a
9 \$0.9 million decrease.¹

10 **Q. Could you please summarize the parties' recommendations regarding revenue**
11 **requirement?**

12 A. In response testimony, Commission Staff recommended a reduction to revenue
13 requirement of \$2,636,90 without taking into account the tax rate change impacts, or a
14 reduction of \$6,188,193 taking into account the tax rate change. Public Counsel
15 recommended a reduction of \$4,262,276 if the ROE is 9.9 percent or a reduction of
16 \$5,199,506 if the ROE is 9.4 percent, and Public Counsel's position reflects the use of the
17 revised tax rate on a prospective basis. Northwest Industrial Gas Users ("NWIGU")
18 recommended a \$5,888,124 reduction in revenue requirement including the impacts of
19 the tax rate change, which amounts to a 2.7 percent reduction.

20 **Q. Do you have any general observations about parties' response testimony in this rate**
21 **case?**

22 A. The Company has considered the positions presented in the parties' response testimonies
23 and agrees with several of their recommendations. For instance, the Company agrees
24 with the parties' proposed adjustment to remove certain arbitration expenses and to
25 remove Supplemental Income Security Plan ("SISP") and the Supplemental Executive

¹ See Cascade's Response to Second Supplemental Response to Bench Request No. 1 (Mar. 15, 2018).

1 Retirement Plan (“SERP”) expense, as well as expense associated with the Company’s
2 Executive Incentive Plans. Additionally, the Company supports Commission Staff’s
3 proposal for a low-income discount rate and their proposal to continue meeting the
4 conservation commitments agreed upon in the Company’s last general rate case.²

5 Although there are several areas of agreement, there remain significant
6 differences between the Company’s and parties’ positions. For example, the Company
7 disagrees with the proposed adjustments addressing the Company’s pro forma plant
8 additions, the amortization of the deferral for expenses associated with validating and
9 recording the maximum allowable operating pressures (“MAOP”) on the Company’s
10 pipelines, and the treatment of working capital. In the Company’s rebuttal filing, the
11 Company’s witnesses will further explain and support the Company’s positions and
12 demonstrate that the increase proposed by the Company is needed to set rates that are
13 fair, just, and reasonable.

14 **Q. Taking into account the adjustments that the Company has accepted and other**
15 **updates to the Company’s case, what is the Company’s revised revenue requirement**
16 **proposal?**

17 A. The Company is proposing a revenue requirement reduction of \$1,677,214 or 0.77
18 percent.

19 **Q. Is the Company’s proposed capital structure and ROE the same on rebuttal as it**
20 **was in the initial filing?**

21 A. Yes.

² *Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket UG-152286, Order 04 (July 7, 2016).
(Order No. 04 issued in UG-152286 adopted Parties’ Settlement Agreement which included a list of commitments
the Company would meet regarding its conservation program).

III. PRO-FORMA CAPITAL EXPENDITURES

1 **Q. Were capital additions one of the major drivers for this rate case?**

2 A. Yes. The Company has made significant investments in capital additions since its last
3 rate case. In addition to the 2016 projects that are included in the Company's per books
4 results for the test year, the Company has proposed a pro forma adjustment for capital
5 additions completed through the end of 2017, where such projects are used and useful,
6 and the costs are known and measurable.

7 **Q. Please describe the projects included in the Company's pro forma capital additions
8 adjustment for 2017.**

9 A. The Company's pro forma capital additions adjustment includes only those projects that
10 are non-revenue producing—with the exception of one project that had increasing loads,
11 the Kennewick Main Project—and includes no 2017 projects that were completed as part
12 of the Company's pipeline replacement program and eligible for expedited cost recovery
13 through the Company's cost recovery mechanism ("CRM").

14 **Q. Why is it appropriate for the Company to recover the costs of these capital additions
15 made after the test year?**

16 A. The Company's significant level of investment in capital projects is one of the primary
17 drivers for this rate case. While the proposed pro forma adjustment for capital additions
18 incorporates only about a third of the investment that the Company made in 2017,
19 recovery of this amount will help mitigate regulatory lag. Including these projects in the
20 pro forma adjustment is particularly critical because the bulk of the 2017 investment
21 provides no additional revenues. As discussed in greater detail in the Rebuttal Testimony
22 of Company witness Michael Parvinen, the Company believes that its proposed pro
23 forma plant addition adjustment is appropriate and consistent with the Commission's
24 prior treatment of pro forma adjustments.

1 **Q. Has the Commission considered mitigation of regulatory lag as a factor in**
2 **approving a pro forma adjustment for plant additions?**

3 A. Yes. For example, in PacifiCorp's 2013 rate case and Avista's 2015 rate case, the
4 Commission considered regulatory lag when approving pro forma adjustments.³ And
5 while the Commission does not seek to eliminate all regulatory lag, it has previously
6 recognized that it is important to address regulatory lag, particularly where a utility has
7 added a significant amount of capital investment and is in a position of filing consecutive
8 rate cases year after year.⁴ The Company is in precisely this same position, having made
9 a significant amount of capital investment in 2017 and facing the prospect of filing
10 annual rate cases going forward.

IV. THE TAX IMPACT OF THE TAX CUTS AND JOBS ACT OF 2017

11 **Q. Please explain the impact the TCJA will have on the Company's revenue**
12 **requirement.**

13 A. With the passage of the TCJA, the corporate tax rate went from 35 percent to 21 percent.
14 Due to the timing of the TCJA, the Company's initial case did not include the impact of
15 the corporate rate change. The TCJA will modify its revenue requirement request from a

³ *Wash. Utils. & Transp. Comm'n v. PacifiCorp dba Pac. Power*, Docket UE-130043, Order 05 at ¶198-209 (Dec. 4, 2013); *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 35-46 (Jan. 16, 2016)..

⁴ *Wash. Utils. & Transp. Comm'n v. PacifiCorp dba Pac. Power*, Docket UE-130043, Order 05 at ¶181 (Dec. 4, 2013) ("The Commission historically has tolerated some degree of regulatory lag in its ratemaking practice, recognizing that it is a factor in encouraging utilities to operate efficiently. During recent periods, however, the impacts of regulatory lag on the ability of PacifiCorp and other utilities to earn their authorized revenue requirements have contributed to what the Commission has described as a —current pattern of almost continuous rate cases. Considering this, the Commission stated: 'This pattern of one general rate case filing following quickly after the resolution of another is overtaxing the resources of all participants and is wearying to the ratepayers who are confronted with increase after increase. This situation does not well serve the public interest and we encourage the development of thoughtful solutions.'" (citing *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049 (consolidated), Order 08 ¶ 507 (May 7, 2012)).

1 \$5.9 million increase to a \$0.9 million decrease absent other updated or agreed upon
2 adjustments.⁵

3 **Q. How does the Company propose the Commission incorporate the impact of the**
4 **TCJA?**

5 A. The Company proposes that the Commission handle the TCJA impact in the manner
6 proposed in the Company's First and Second Supplemental Responses to Bench Request
7 No. 1. The Company believes the deferred federal income tax during the period January
8 1, 2018, until the effective date of this case should be treated as a period cost and
9 included in 2018 actual results of operations. The Company proposes returning to
10 customers 100 percent of the amounts in excess of Cascade's authorized return through
11 the sharing mechanism established in UG-152286. For a more detailed discussion of the
12 impact and treatment of the TCJA, please see the Rebuttal Testimony of Donna Genora
13 (Exh. No. DG-1T) and Rebuttal Testimony of Michael Parvinen (Exh. No. MPP-7T).

14 **Q. Why is this a fair result?**

15 A. Cascade believes that this is a fair result because it flows through to customers any
16 benefits the Company may experience as a result of these tax savings that cause the
17 Company to earn above its authorized return, while allowing the Company to use those
18 savings to offset any under-earnings it might otherwise experience.

V. INITIATING A LOAD STUDY

19 **Q. Please explain the history behind the requirement that the Company initiate a load**
20 **study prior to filing this rate case.**

21 A. In the Company's most recent rate case, Docket UG-152286, Cascade entered into a
22 Settlement Agreement that included a requirement that Cascade initiate a load study prior
23 to its next rate case.⁶ In particular, the Settlement Agreement specified that the load

⁵ See Cascade's Response to Second Supplemental Response to Bench Request No. 1 (Mar. 15, 2018).

⁶ *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket UG-152286, Order 04 at ¶ 7, ¶ 19 (July 7, 2016).

1 study would sample the constituents of the Company's core class usage. The Company
2 was not required to complete the load study, but rather to initiate it prior to its next rate
3 case, which is this current case.

4 **Q. Did the Company initiate a load study prior this current rate case?**

5 A. The Company believes that we in good faith worked with Staff to implement the
6 requirement to initiate a load study by proposing an alternative approach intended to
7 provide core usage data and to determine the class core responsibilities for the amount of
8 gas that the Company distributes on a daily basis to each local service area. Company
9 witness Brian Robertson describes in detail Cascade's initial consideration of a load study
10 such as that defined in the Settlement Agreement, and our discussions with Staff
11 regarding Cascade's proposed alternative approach.

12 **Q. Does Staff agree that the Company has complied with the requirement to initiate a
13 load study prior to this case?**

14 A. No. Staff witness Melissa Cheesman asserts that the Company has violated the
15 Commission's order and Settlement Agreement by filing a rate case before initiating a
16 load study.⁷

17 **Q. Please respond to Staff's claims.**

18 A. Ms. Cheesman's assertions ignore the fact that the Company worked collaboratively with
19 Staff to present (1) its concerns about conducting a load study that would require
20 sampling using loggers; and (2) its enhanced citygate study which it proposed be used as
21 an alternative approach. In fact, the Company is uncertain whether Ms. Cheesman was
22 aware of or participated in Cascade's conversations with other representatives of Staff.
23 Company witness Brian Robertson explains in detail in his rebuttal testimony that the
24 Company worked in good faith with Staff to meet its obligation in a way that seemed

⁷ Response Testimony of Melissa C. Cheesman, Exh. No. MCC-1T at 20:6-10.

1 reasonable in light of the significant expense associated with deploying the equipment
2 that would be required to perform a load study.

3 The Company acknowledges that it could have done additional follow up with
4 Staff to ensure that Staff was comfortable with Cascade's proposed alternative approach,
5 and in the future will strive to continue to improve its communications with Staff and the
6 Commission—in both formal and informal settings. However, it is incorrect to suggest
7 that the Company did not work with Staff to fulfill its obligations under the Settlement
8 Agreement.

9 **Q. Ms. Cheesman asserts that the Company's noncompliance could have a chilling
10 effect on future settlements, because parties will have little assurance that the
11 Company will follow through with its commitments. Please respond.**

12 A. I strongly disagree that the Company's action in this case should have a chilling effect on
13 future settlement agreements. As I noted in my direct testimony, the Company has
14 worked hard to respond to Commission orders related to its Integrated Resource Plan and
15 its records of MAOP for its pipelines. The Company has been striving to demonstrate to
16 the Commission its sincere intent to comply with Commission policies and directives.
17 The Company's goal is to foster good and trusting relationships with the Commission and
18 other parties.

19 **Q. Why have you decided to address this issue in your testimony?**

20 A. I am addressing the claim of noncompliance because the Company's character and its
21 integrity is important, and I would like parties to know that Cascade takes its
22 commitments seriously and strives to foster a culture of compliance for all applicable
23 laws, rules, regulations, and Commission orders.

1 **Q. Do any other parties take issue with Cascade’s approach to fulfilling the**
2 **requirement to initiate a load study?**

3 A. NWIGU notes that it would have preferred the Company had completed a load study
4 prior to the rate case, and states that it does not support the Company’s approach to
5 providing the core usage data. NWIGU’s focus, however, is not on compliance to the
6 UG-152286 settlement agreement which is why NWIGU’s comments are not addressed
7 here.⁸

VI. OTHER COMPANY WITNESSES

8 **Q. Would you please introduce and provide a brief description of each of the witnesses**
9 **filing rebuttal testimony on behalf of Cascade in this proceeding?**

10 A. Yes. The following witness are presenting rebuttal testimony on behalf of Cascade:

- 11 • Mr. Michael Parvinen, Director of Regulatory Affairs, discusses investor supplied
12 working capital, pro forma plant additions, revenue impacts of tax reform,
13 amortization of the MAOP deferral, conservation commitments, rate case costs,
14 arbitration expenses, the Company’s pro-forma compliance department, the CRM
15 adjustment, pro-forma revenue, the interest coordination adjustment, the restating
16 revenue adjustment, the promotional advertising adjustment, and low-income
17 weatherization.
- 18 • Mr. Mark Chiles, Vice President of Regulatory Affairs and Customer Service,
19 discusses Cascade’s cash management philosophy and cash management in the test
20 year.
- 21 • Ms. Tammy Nygard, Controller, addresses the Company’s capital structure and
22 Public Counsel’s proposed adjustment to MDU rental charges.
- 23 • Ms. Jennifer Gross, Regulatory Analyst, discusses the low-income bill pay assistance
24 program and miscellaneous charges.

⁸ Response Testimony of Bradley G. Mullins, Exh. No. BGM-1T at 26-27.

- 1 • Mr. Brian Robertson, Senior Resource Planning Analyst, discusses weather
2 normalization and the Company's proposed approach for fulfilling the commitment
3 from the UG-152286 Settlement Agreement to initiate a load study.
- 4 • Ms. Linda Murray, Director of Human Resources, addresses incentive compensation,
5 restating wage adjustments, pro-forma wage adjustments, and SISP and SERP.
- 6 • Donna Genora, Tax Director, discusses implementation of the TCJA and its impact
7 on the Company's revenue requirement.
- 8 • Mr. Ron Amen, Director, Management Consulting at Black and Veatch, discusses
9 cost of service, rate spread, and rate design, and the requirement to perform a load
10 study.
- 11 • Dr. Stephen Gaske, Senior Vice President at Concentric Energy Advisors, discusses
12 cost of capital.

VII. CONCLUSION

13 **Q. Does this conclude your testimony?**

14 A. Yes.