Service Date: May 18, 2021

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-200568 FINAL ORDER 05 REJECTING TARIFF SHEETS; AUTHORIZING AND REQUIRING COMPLIANCE FILING

Synopsis: *The Washington Utilities and Transportation Commission (Commission) acknowledges the critical balance, particularly in these difficult economic times, between the Company's need to make ongoing investments and earn a reasonable return and the needs of customers, many of whom are financially vulnerable due to the COVID-19 pandemic. After considering all of the evidence, the Commission rejects the tariff sheets filed by Cascade Natural Gas Corporation (Cascade or Company) on June 19, 2020, and authorizes a revenue decrease of approximately $0.39 million, or 0.15 percent, for the Company's natural gas operations. The Commission requires Cascade to file revised tariff sheets to reflect these decisions.*

The Commission agrees, in part, with Commission staff (Staff) and the Public Counsel Unit of the Attorney General's Office (Public Counsel) that the Company has failed to demonstrate a revenue deficiency during the rate effective year. Rather than maintain currently effective rates, however, the Commission decreases the Company's revenue requirement as described above.

The Commission maintains the Company's equity ratio at 49.1 percent. This equity ratio provides stability for the Company's capital structure during a period of increased costs. The Commission also maintains the Company's return on equity at 9.40 percent. Cascade has not established the need for an increase in its currently authorized return on equity.

The Commission accepts the Company's updated cost of debt at 4.589 percent. This results in a 6.95 percent rate of return for Cascade.

The Commission also adopts the Company's proposal to value rate base on an End of Period (EOP) basis. This measure addresses regulatory lag by more closely reflecting rate base during the rate effective period and is appropriate as Cascade has established a history of under-earning from 2015 onwards. While Cascade has not demonstrated that its under-earning is caused by factors outside of its control, we apply EOP rate base to address sustained regulatory lag.

We agree with Cascade's proposal to remove executive incentives from the revenue requirement, and we accept Public Counsel's proposal to normalize incentive payments for non-executive employees based on a five-year rolling average.

The Commission accepts Cascade's proposed recovery of 2020 wage increases for both union and non-union employees. These wage increases reflect efforts to compensate employees at levels closer to market averages. However, we decline to authorize recovery for 2021 wage increases at the present time as these costs are not yet known and measurable.

We authorize recovery of the following pro forma capital additions through the period ending October 27, 2020: the Othello Gate Project, the Arlington Gate project, the Bellingham 8" project, the Moses Lake 4" project, and the Walla Walla Distribution Project. Although the Company proposed additional pro forma capital additions for property coming into service later in the general rate case, these did not meet our longstanding principles for pro forma adjustments.

The Commission adopts the Company's proposal to spread the rate change on an equal percentage margin across customer classes but accepts Staff's proposal to use 2019 EOP billing determinants. This decision is consistent with the Settlement Agreements resolving the Company's 2017 and 2019 general rate cases.

No party has recommended changes to the Company's low-income programs in this docket, and the Commission declines to order any such changes. Cascade has taken several steps to modify and expand its low-income programs during the COVID-19 pandemic. To document this progress, we require the Company to submit a status report on the Washington Energy Assistance Fund (WEAF) program by April 1, 2022. We also require the Company to file a Disconnection Reduction Plan within one year of the effective date of this Order.

The Commission orders the Company to file a progress report and written plan for completing its load study by August 21, 2021, and to file its completed load study by September 21, 2022. Despite commitments to work towards a load study over several years and over its last three general rate cases, the Company has yet to produce a detailed, written plan for completing the load study.

The Commission's decisions related to revenue requirement are summarized briefly in the Summary section of this Order at paragraphs 13-23.

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I. BACKGROUND

1 On June 19, 2020, Cascade Natural Gas Corporation (Cascade or Company) filed with the Commission revisions to its currently effective Tariff WN U-3 for natural gas service provided in Washington. Cascade requested an increase in annual revenues of approximately $13.8 million, which represents a 5.283 percent increase in base rates.

2 On June 25, 2020, the Commission entered Order 01 in this docket, suspending the tariff revisions and allowing further investigation to determine if the proposed tariff filing is in the public interest.

3 On July 8, 2020, the Commission convened a virtual prehearing conference. The Commission granted unopposed petitions to intervene filed by the Alliance of Western Energy Customers (AWEC) and The Energy Project (TEP), and established a procedural schedule.[1]

4 On July 27, 2020, Cascade filed supplemental testimony to correct test year rate base valuation to reflect average of monthly averages (AMA); propose an EOP restating adjustment; updating projected volumes and related revenues to reflect certain large customers changing rate schedules and to correct a metering error; and updating the decoupling baseline to reflect these changes. Although Cascade requested to maintain its initial revenue requirement increase of $13.8 million, its revenue requirement model supported an increase of approximately $14.2 million, or 5.46 percent.

5 On November 6, 2020, the Commission entered Order 04, Granting Motion to Amend Prehearing Conference Order.

6 On November 19, 2020, Staff, Public Counsel, AWEC, and TEP filed response testimony.

7 On January 8, 2021, Cascade filed its Response to Bench Request No. 1.[2] Cascade also filed rebuttal testimony updating its proposed revenue requirement, cost of capital, and reducing its additional revenue request to approximately $7.4 million or 2.82 percent.

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[1] Cascade, AWEC, TEP, Staff and Public Counsel are hereinafter collectively referred to as "the Parties."

[2] On December 18, 2020, the Commission issued Bench Request No. 1, requesting that the Company set forth the bill impacts for all affected tariff schedules of its proposed rate increase as required by WAC 480-07-510(5)(a)(v).

8 The same day, January 8, 2021, Staff, Public Counsel, and AWEC filed cross-answering testimony.

9 On January 26, 2021, the Commission held a virtual public comment hearing due to the ongoing COVID-19 pandemic. No person attended the public comment hearing.

10 The Commission conducted a virtual evidentiary hearing on February 24, 2021. By stipulation of the parties, the Commission entered into the record all pre-filed testimony and exhibits, as well as all cross-examination exhibits.

11 The parties filed post-hearing briefs on March 22, 2021.

12 Lisa Rackner, Jocelyn Pease, and Adam Lowney, McDowell Rackner Gibson PC, Portland, Oregon, represent Cascade. Nash Callaghan, Assistant Attorney General, Olympia, Washington, represents Staff. Ann N.H. Paisner, Lisa Gafken, and Nina M. Suetake, Assistant Attorneys General, Seattle, Washington, represent Public Counsel. Chad M. Stokes and Tommy Brooks, Cable Huston LLP, Portland, Oregon, represent AWEC. Simon J. ffitch represents TEP.

II. SUMMARY OF REVENUE REQUIREMENT DETERMINATIONS

13 In this Order, the Commission approves the inclusion of a number of investments in the Company's rate base, maintains the current rate of return, and rejects the Company's proposals to include certain costs and investments in rates where it has not demonstrated that customers should bear the costs in rates.

14 The Commission accepts all uncontested adjustments, resolves contested adjustments to the revenue requirement and rates, and resolves important policy issues presented by the parties. Based on the decisions in this Order, we authorize a decrease in Cascade's revenue requirement in the amount of $0.39 million, or 0.15 percent. A summary of the Company's revenue requirement is attached hereto at Appendix A.

15 We also authorize an overall rate of return (ROR) of 6.95 percent for Cascade, based on the capital structure approved in the 2019 Settlement Agreement in Docket UG-190210, of 49.1 percent equity and 50.9 percent debt. The Commission maintains the Company's return on equity (ROE) at 9.40 percent and updates the Company's cost of debt to 4.589 percent in light of recent debt issuances.

16 We approve EOP rate base valuation in order to address Cascade's under-earning resulting from regulatory lag.

17 The Commission accepts Cascade's proposal to remove executive incentives from the revenue requirement and agrees with Public Counsel's recommendation to normalize test year incentive compensation based on a five-year rolling average.

18 The Commission authorizes recovery of Cascade's 2020 wage increases for both union and non-union employees. As updated on rebuttal, Cascade seeks a 3 percent increase for union employees and a 3.55 percent increase for non-union employees in 2020. The Commission rejects Cascade's proposal to include 2021 wage increases.

19 The Commission authorizes recovery of five pro forma plant additions that were placed in service by October 27, 2020. We reject the remaining costs for pro forma plant projects the Company proposes to recover in this case.

20 The Commission accepts Cascade's proposal to spread the rate decrease on an equal percentage of margin to all rate classes except special contracts and finds that it is consistent with the Settlement Agreements that resolved the Company's previous general rate cases.

21 The Commission directs Cascade to develop a Disconnection Reduction Plan in consultation with its WEAF Advisory Group. The Company must file this Disconnection Reduction Plan within one year of the effective date of this Order.

22 Although we do not require any change in the Company's low-income assistance programs in this Docket, we require the Company to file a status report on its WEAF program by April 1, 2022.

23 We direct Cascade to file a progress report documenting its efforts towards completing a load study and to file a written plan for completing its load study by August 21, 2021. The Company must file its final load study by September 21, 2022.

III. DISCUSSION AND DECISION

A. CASE OVERVIEW

24 As updated in rebuttal testimony, Cascade requests that the Commission approve an increase to its base rate of $7.4 million or 2.82 percent.[3] Cascade uses a historical test year for the 12 months ending December 31, 2019, with pro forma adjustments through 2021. The Company also requests EOP treatment. The Company acknowledged in its

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[3] Cascade Brief ¶ 1.

filing the Commission's Used and Useful Policy Statement,[4] but declined to propose a provisional pro forma plant adjustment or multi-year rate plan in this proceeding due to the unknown impacts associated with the ongoing COVID-19 health crisis.

25 Cascade proposes 10 restating and four pro forma adjustments to its modified historical test year. The Company explains that three main factors drive its request for an increase in rates: (1) capital investments to ensure safety and reliability, (2) fair compensation for employees, and (3) the need to acquire significant new capital.[5] Cascade also submits that it has experienced chronic under-earning despite filing three separate rate cases since 2015 and relies on this data to support its proposed use of EOP valuation.[6]

26 Cascade proposes two measures to mitigate the impact of its requested rate increase, arguing that if the Commission applied these measures, most customers would see no rate change until mid-2022, and may even see a decrease in rates.[7]

27 All non-Company parties oppose Cascade's request for a rate increase. Staff argues that the Company is over-earning based on restated results of operations (after incorporating the rate increase the Company received on March 1, 2020, in Docket UG-190210) and that its revenue requirement should be reduced by $0.5 million.[8] Public Counsel argues that the Commission should reduce Cascade's rates by $2.4 million.[9] Public Counsel also urges the Commission to consider comments from the public, many of whom expressed frustration with the proposed rate increase.[10]

28 The intervening parties similarly oppose any rate increase. According to AWEC, the Commission would be justified in reducing Cascade's currently approved rates by $4.7 million. AWEC, however, recommends no change to the Company's revenue

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[4] *See In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date (Jan. 31, 2019) (Used and Useful Policy Statement).

[5] *Id.* ¶¶ 2-4.

[6] *Id.* ¶ 12.

[7] *Id.* ¶¶ 1-2.

[8] *E.g.*, McGuire, Exh. CRM-1T at 4:1-4. *See also id.* at 10:1-11:18.

[9] *E.g.*, Public Counsel Brief ¶ 3.

[10] *Id.* ¶¶ 52-55.

requirement.[11] TEP has concerns about the timing and impact of the proposed rate increase for low-income customers, and generally opposes any rate increase for the Company.[12]

B. ISSUES

29 The Commission received pre-filed testimony and exhibits from 21 witnesses. The Commission thoroughly reviewed the prefiled testimony and exhibits in preparation for an evidentiary hearing held February 24, 2021.

30 The following revenue requirement adjustments are ultimately uncontested:

a. Promotional Advertising (R-2)

b. Restate Revenue (R-3)

c. Restating Wages (R-5)

d. Interim Period Excess deferred income tax (EDIT) Benefits (R-7)

e. Directors' Fees (R-8)

f. Staff Per-Books Audit (R-9)

g. Interest Coordination Adjustment (P-1)

h. MAOP Deferral (P-4)

31 Of these adjustments, Cascade accepted the following on rebuttal to reduce the number of contested issues:

- **MAOP Deferral Amortization (P-4):** Cascade initially proposed pro forma adjustment P-4 reflecting the deferred accounting treatment of costs associated with its Maximum Allowable Operating Pressure (MAOP) Determination and Validation Plan.[13] Staff argued that Cascade should use a separate ten-year amortization for each MAOP investment cohort.[14] Cascade agrees with Staff's

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[11] AWEC Brief ¶ 5.

[12] TEP Brief ¶ 4.

[13] Peters, Exh. MCP-1T at 8:1-13.

[14] White, Exh. AIW-1T at 2:15-3:8.

proposal on rebuttal.[15] This adjustment increases the revenue requirement by $837,716.[16]

- **Per-Books Audit (UT-1)**: Staff proposed an adjustment to remove certain expenses from the Company's 2019 test year, which, it argues, are not appropriate for ratemaking purposes.[17] Cascade accepts Staff's proposed adjustment, which reduces the Company's revenue requirement by $47,961.[18]
- **Directors' Fees:** Public Counsel and AWEC proposed an adjustment to remove 50 percent of Directors' Fees from the Company's revenue requirement.[19] Cascade agrees to this adjustment, which decreases the Company's revenue requirement by $183,352.[20]
- **Cascade's TCJA Interim Period EDIT Benefits adjustment:** In rebuttal testimony, Cascade identifies an additional adjustment to correct one out-of-period item resulting in a decrease of a $406,245 to the Company's revenue requirement.[21] No party disputes Cascade's proposed adjustment on this issue.

32 Turning to the contested issues in this case, we first discuss whether the Company met its burden to establish that current rates are unfair, unjust, unreasonable, or insufficient. We then turn to Cascade's proposed hypothetical capital structure and cost of capital, followed by contested adjustments related to revenue requirement, including EOP rate base valuation, incentive compensation, pro forma adjustments for 2020 and 2021 wage increases, pro forma adjustments for capital additions, rate spread and rate design, a proposed Disconnection Reduction Plan, assistance for low-income customers, the Company's progress towards a load study, and tracking of EDIT.

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[15] Gresham, Exh. MCG-11T at 6:10-17.

[16] Gresham, Exh. MCG-11T at 6:10-17 and Exh. MCG-14.

[17] Hillstead, Exh. KMH-1T at 10:1-23. *See also* Hillstead, KMH-6.

[18] Gresham, Exh. MCG-11T at 7:5-19 and Exh. MCG-14.

[19] Garrett, Exh. MEG-1Tr at 21:11-16; Mullins, Exh. BGM-1T at 35:12-13; AWEC Brief ¶ 39; Public Counsel Brief ¶¶ 44-47.

[20] Gresham, Exh. MCG-11T at 7:1-4 and Exh. MCG-14.

[21] Parvinen, Exh. MPP-2Tr at 32:1-2. *See also Washington Utilities and Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-190755, Order 01 ¶ 2 (October 24, 2019) and Gresham, Exh. MCG-14.

1. Are current rates unfair, unjust, unreasonable, and insufficient?

33 All non-Company parties argue that Cascade failed to meet its burden to establish that its current rates are unfair, unjust, unreasonable, or insufficient. In light of the parties arguments, we address this as a threshold issue.

34 Cascade requests that the Commission approve an increase to its base rate of $7.4 million, or 2.82 percent. Notably, Cascade's claim that it under-earned during the test year is largely driven by pro forma adjustments, which reflect increased costs during the rate-effective year. Two of the main factors driving the Company's request for a rate increase are adjustments for pro forma capital additions and the pro forma wages.[22]

35 Staff argues in response that the Commission should *reduce* Cascade's rates or, in the alternative, dismiss the case and maintain Cascade's current rates.[23] Staff notes that the Commission approved a rate increase in the Company's last general rate case, effective March 2020, and that the Company failed to account for these increased revenues in its initial filing.[24]

36 Staff witness McGuire explains further that the Company's claim of a revenue deficiency depends on (1) adjusting rate base to an EOP basis, (2) adding pro forma adjustments, and (3) increasing its requested ROE.[25] McGuire argues that once the effects of the last rate increase are properly accounted for and EOP treatment is removed, the Company's restated test year ROR was actually 8.01 percent, which means the Company is overearning.[26]

37 Public Counsel notes that customers are facing hardships during the COVID-19 pandemic and cannot absorb a rate increase.[27] Public Counsel recommends that the Commission *reduce* Cascade's rates by $2.4 million.[28] It urges the Commission to

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[22] Cascade Brief ¶¶ 2-4

[23] Staff Brief ¶ 3.

[24] *Id.* ¶ 1-2. *See also WUTC v. Cascade Natural Gas Corporation*, Docket UG-190210 Order 05 (February 3, 2020) (2019 Cascade GRC Order).

[25] McGuire, Exh. CRM-1T at 10:1-10.

[26] *Id.* at 11:6-18.

[27] Public Counsel Brief ¶ 2.

[28] *Id.* ¶ 3.

consider comments from the public, many of whom expressed frustration with the proposed rate increase.[29]

38 AWEC argues that Cascade has failed to meet its burden in justifying its proposed rate increase. According to AWEC's analysis, the Commission would be justified in reducing Cascade's currently approved rates by $4.7 million. AWEC nevertheless recommends no change to the Company's revenue requirement.[30]

39 Similarly, TEP has concerns about the timing and impact of the proposed rate increase for low-income customers, and it generally opposes any rate increase for the Company.[31]

Commission Determination

40 After considering all of the evidence, we find that the Company has not met its burden to establish the need for a rate increase, and conclude that it is instead appropriate to require a rate decrease.

41 The legislature has entrusted the Commission with broad discretion to determine rates for regulated industries. Pursuant to RCW 80.28.020, whenever the Commission finds after a hearing that the rates charged by a utility are "unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered, the commission shall determine the just, reasonable, or sufficient rates, charges, regulations, practices or contracts to be thereafter observed and in force, and shall fix the same by order."

42 The burden of proving that a proposed increase is just and reasonable is upon the Company.[32] The burden of proving that the presently effective rates are unreasonable rests upon any party challenging those rates.[33]

43 As an overall matter, the Commission places both the burden of production and the burden of persuasion on the utility seeking a rate increase. Before we allow a utility to

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[29] Public Counsel Brief ¶¶ 52-55.

[30] AWEC Brief ¶ 5.

[31] TEP Brief ¶ 4.

[32] RCW 80.04.130(1).

[33] *WUTC v. Pacific Power and Light Company*, Cause No. U-76-18 (December 29, 1976) (internal citations omitted).

increase rates, we have required that the utility present the results of a *modified* historical test year with separately stated restating and pro forma adjustments, where pro forma adjustments follow both the known and measurable, and used and useful, standards to demonstrate a revenue deficiency during the rate effective year. The Commission considers whether the Company under-earned during the historical test year based on restated results of operations, and, in light of that information, whether the company is likely to under-earn during the rate-effective period.

44 Each rate case filing affects the public interest. Accordingly, the Commission's evaluation is broader than a private right of action in which a court must consider whether a plaintiff has failed to establish its claim against the defendant. As the Washington state Supreme Court observed, the Commission "must in each rate case endeavor to not only assure fair prices and service to customers, but also to assure that regulated utilities earn enough to remain in business -- each of which functions is as important in the eyes of the law as the other."[34] If the Company fails to establish the need for a rate increase, the Commission is not required to simply dismiss the case. We may instead order a rate decrease, order that rates be maintained, or require modifications to the company's services. Our broad discretion in rate cases reflects the quasi-judicial nature of ratemaking.

45 The Commission applied these same principles in *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-160228 and UG-160229 (consolidated), Order 06 (December 15, 2016) (2016 Avista order). In the 2016 Avista order, the Commission noted that the statute requires a threshold showing, explaining that:

> [T]he Commission must first determine the question whether the Company's existing rates "are unjust, unreasonable, unjustly discriminatory or unduly preferential, or in any wise in violation of the provisions of the law, or that such rates or charges are insufficient to yield a reasonable compensation for the service rendered." If, and only if, the Commission determines the answer to this threshold question is "yes," does the Commission have the authority, and the obligation, to determine revised rates that meet the fair, just, reasonable, and sufficient standard.[35]

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[34] *People's Org. for Wash. Energy Res. v. WUTC*, 104 Wn.2d 798, 809 (December 12, 1985).

[35] *Id.* ¶ 60.

46 The Commission found that Avista failed to meet the threshold requirement, and rejected Avista's request for a rate increase that was premised on a form of attrition study indicating that costs would increase by the rate-effective year.[36] While Avista claimed to present a modified historical test year with pro forma adjustments, these pro forma adjustments were adjusted to reflect "cross-check analyses," which were based on budget projections.[37] The Commission found that Avista's proposal failed to establish that the company was under-earning, and thus required Avista to maintain its currently effective rates.[38]

47 The 2016 Avista order is instructive with respect to the arguments advanced by the non-Company parties. The Commission rarely exercises its discretion to reject a company's case entirely and conclude that existing rates should remain in effect. Doing so, however, is wholly consistent with statutory requirements and Commission jurisprudence, which require utilities to demonstrate a revenue deficiency to justify increased rates.

48 Rather than simply accepting the Company's proposed restating and pro forma adjustments at their stated values, we must determine the extent to which these proposed adjustments are both supported by the evidence in the record and consistent with our longstanding principles.[39] As discussed above, Cascade bears the burden to establish that it will experience a revenue deficiency during the rate effective year.

49 As we have previously observed, Cascade's argument that it will experience a revenue deficiency absent approval of its proposed rate increase is driven by a handful of adjustments. These include a requested increase in the Company's ROE and overall ROR, a request for EOP valuation, a request for $57.3 million in pro forma plant additions, and pro forma wage increases for 2020 and 2021.[40] However, in the following sections of this decision we find that the Company's ROE should be maintained; that approximately $13.6 million, or five pro forma plant projects, should be recovered in rates, and that only the 2020 wage increases should be approved. The effect of our

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[36] *Id.* ¶¶ 62-63.

[37] *See id.* ¶ 63 ("For this reason, Avista's pro forma results cannot be relied upon to demonstrate a revenue deficiency.").

[38] *E.g., Id.* ¶¶ 111, 115.

[39] *See id.* ¶ 65 ("That is, even if we could accept Avista's stated results for electric service, Commission orders in the Company's rate cases over the past 10 years suggest it is unlikely that we would simply adopt Avista's pro forma results in a litigated case.").

[40] McGuire, Exh. CRM-1T at 3:5-12.

decisions results in a revenue surplus of approximately $0.39 million, rather than a revenue deficiency, during the rate effective year.

50 Although the Company has failed to meet its threshold burden under RCW 80.28.020 to establish a revenue deficiency during the rate-effective year, we nevertheless exercise our discretion, in this instance, to order that rates be reduced rather than maintained.

51 We share Staff's concerns that the Company's initial filing did not reflect the effects of the March 2020 rate increase as authorized by the last general rate case.[41] In its direct testimony, Cascade suggested that its "ROR for 2019 was 5.26 percent, and if rates remain unchanged, the Company expects that it would earn an ROR of 5.28 percent in the rate year . . ."[42] As Staff witness McGuire explains, however, "Cascade's rates did change. On March 1, 2020, after the conclusion of the Company's 2019 general rate case, Cascade increased customer base rates by 2.84 percent."[43] McGuire notes that it is therefore misleading for Cascade to suggest that the currently effective rates led to an ROR of 5.26 during the test year.[44] It is axiomatic that the Company should establish that *current* rates are unjust, unreasonable, insufficient, and unjust, rather than rates no longer in effect. Capital Structure and Cost of Capital

52 The parties in this case dispute Cascade's proposed hypothetical capital structure and its proposed ROE. AWEC disputes the Company's cost of long-term debt. In its rebuttal testimony, Cascade lowered its requested ROE to mitigate the effects of its proposed rate increase. We address each issue in turn.

a) Hypothetical Capital Structure

53 Cascade proposes to use a hypothetical capital structure, and the non-Company parties contest this proposal. Table 1, below, summarizes the parties' positions on the appropriate capital structure for the Company.

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[41] Staff Brief ¶ 1 (citing Parvinen, TR 183:15-20).

[42] Peters, Exh. MCP-1T at 2:19-3:2.

[43] McGuire, Exh. CRM-1T at 11:6-18 (citing 2019 Cascade GRC Order, Exhibit A, Joint Settlement Agreement ¶ 7).

[44] *Id.*

Table 1 – Parties' Positions on Cascade's Capital Structure

	Cascade	Staff	Public Counsel	AWEC
Debt	**49.6**	**51.5**	**50.9**	**52.9**
Equity	**50.4**	**48.5**	**49.1**	**47.1**

54 Cascade requests a hypothetical capital structure of 50.4 percent equity and 49.6 percent debt.[45] Cascade witness Nygard testifies that this proposal is "based upon Cascade's actual (and targeted) average capital structure for the last two years."[46] Nygard explains that the Company adjusts its actual capital structure to reflect the three-year amortization period of increased gas costs related to the Enbridge pipeline explosion.[47]

55 Nygard also submits that the Company has determined that a target capital structure of 50 percent equity and 50 percent debt will best support its intended capital investments.[48]

56 Company witness Bulkley provides an analysis of the capital structure for the proxy group used in the ROE analyses for this proceeding. The proxy group reflects an equity ratio range from 48.52 to 63.05 percent, with an average of 56.67 percent.[49] Bulkley argues that Cascade's equity component request is significantly lower than the proxy group and, coupled with the cash flow impact of the 2017 Federal tax reform legislation, could have a negative impact on the Company's credit rating.[50]

57 Staff recommends a capital structure comprising 48.5 percent equity and 51.5 debt.[51] Staff witness Parcell argues this hypothetical structure is "consistent with the

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[45] Nygard, Exh. TJN-1T at 5, Table 2.

[46] *Id.* at 4:4-5.

[47] *Id.* at 4:4-19. *See generally In the Matter of the Tariff Revisions of Cascade Natural Gas Corporation*, Docket UG-190145 Order 01 (March 28, 2019) (allowing Cascade to recover deferred increased gas costs associated with the Enbridge pipeline explosion in British Columbia on October 9, 2018).

[48] *Id.*

[49] Bulkley, Exh. AEB-2, Schedule 10.

[50] Bulkley, Exh. AEB-1T at 8:15-9:3.

[51] Parcell, Exh. DCP-1T at 2:12-15.

Commission's criteria for the capital structure selection,"[52] and believes the Company's proposed structure is a significant departure from its 2019 capital structure.[53] Parcell testifies that Cascade's actual equity ratio has not been over 50 percent in the past five years, and that the Commission has not decided on a capital structure since 2006, except through approval of settlement conditions.[54] Additionally, Parcell argues that Cascade failed to demonstrate its proposed structure will be substantially different from its 2019 actual structure, or to provide specific information about the financial strategies or capital injections that will take place during the rate year.[55]

58 Parcell does not support an adjustment to the Company's capital structure for the Enbridge gas cost amortization period because the Company is receiving the Federal Energy Regulatory Commission (FERC) interest rate through the deferral,[56] in the amount of 5.18 percent.[57]

59 Finally, Parcell contends that Staff's recommendation contains more equity than the Company's actuals, is consistent with other Washington utilities,[58] and is comparable to other equity ratios cited in regulated proceedings over the past seven years.[59]

60 On behalf of Public Counsel, witness Woolridge recommends the Commission retain the capital structure from the Company's last rate case because it is consistent with Cascade's capitalization in recent years.[60] Woolridge notes that the average quarterly equity ratio for the gas proxy group, as used in Woolridge's analysis, was 46.1 percent.[61]

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[52] *Id.* at 3:14-15.

[53] *Id.* at 21:2-4.

[54] *Id.* at 3:8-15; 21:2-4.

[55] *Id.* at 25:13-19.

[56] *Id.* at 26:4-13.

[57] The Commission takes administrative notice that FERC calculates the refund interest rate for natural gas utilities pursuant to 18 C.F.R. 154.501(d). These interest rates, and specifically the first quarter 2019 interest rate of 5.18 percent stated here, are published at FERC, *Interest Calculation: Rates and Methodology*, *available at* https://staging.ferc.gov/enforcement-legal/enforcement/interest-calculation-rates-and-methodology (last accessed May 14, 2021).

[58] Parcell, Exh. DCP-1T at 23:17-24:4.

[59] *Id.* at 26:16-20, DCP-1T at 22:8-10.

[60] Woolridge, Exh. JRW-1Tr at 4-:6-8.

[61] *Id.* at 21:5-11.

61 In cross answering testimony, Public Counsel agrees with Staff's proposed capital structure but does not formally adopt it and provides no supporting exhibits or workpapers.[62]

62 AWEC witness Mullins relies on a rate base leverage ratio for its capital structure recommendation. The results of that analysis provided a Washington debt ratio of 65.6 percent.[63] Although the Commission recently approved a capital structure of 49.1 percent equity and 50.9 percent debt for the Company, Mullins recommends a gradual increase to the debt component based on their leverage ratio analysis. Specifically, Mullins recommends a 2 percent increase in the debt component for a recommended capital structure of 47.1 percent equity and 52.9 percent debt.[64]

63 On rebuttal, the Company retains the normalization adjustment related to the multi-year amortization period for the Enbridge-related gas costs and includes the impacts of an equity infusion of $20 million in December 2020.[65] Nygard points to a ratings downgrade in August 2018 and rating agency outlook change to negative in March 2020, citing the "less than favorable outcome in its Washington rate case" and arguing that "Cascade's stand-alone metrics did not support its current rating, and its smaller than average customer base increased its risk."[66]

64 Responding to the non-Company parties, Cascade dismisses AWEC's theory as "arbitrary,"[67] disputes Public Counsel's proposal to compare proxy groups at the utility operating level,[68] and argues that Staff's witness Parcell compares Cascade's capital structure to recent cases for PSE and Avista that were either uncontested or settled.[69]

65 Nygard also takes issue with Staff and Public Counsel using the unadjusted capital structure that does not account for the change in the gas cost amortization period related

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[62] Woolridge, Exh. JRW-14T at 21:10-11.

[63] Mullins, Exh. BGM-1T at 15:6-9.

[64] *Id.* at 16:7-12.

[65] Nygard, Exh. TJN-4Tr at 2:8-10; 5:6.

[66] Nygard, Exh. TJN-4Tr at 6:3-18.

[67] *Id.* at 10:18-11:4.

[68] *Id.* at 10:6-9; Bulkley, Exh. AEB-4Tr at 120:19-22.

[69] *Id.* at 7:13-15.

to Enbridge,[70] arguing that "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."[71]

66 In its post-hearing brief, Cascade argues that its proposed capital structure "reasonably reflects the Company's actual, normalized equity ratio for the last three years, its target ratio for 2021, and is necessary to maintain Cascade's access to low-cost debt during its major capital expenditure program."[72] The Company notes that its equity ratio averaged 49.8 percent between 2018 and 2020, when adjusted to remove Enbridge costs.[73]

67 Cascade notes that the proxy utilities on which both Cascade and Staff relied have an average equity ratio of 56.67 percent when considered at the operating company level.[74] If the Commission were to adopt a lower equity ratio, Cascade argues that the ROE should be increased to reflect the relatively greater financial risk.[75]

68 In rejecting AWEC's recommended equity ratio of 47.1 percent, which would represent a reduction of 200 basis points from the current authorized capital structure, the Company notes, "Financial institutions, credit rating agencies, and regulators gauge leverage based on a utility's total balance sheet, not solely its rate base."[76] Because the Company finances items other than its rate base, it is inappropriate to compare debt issuances to rate base alone.[77]

69 Staff argues that Cascade's request for a 130 basis-point increase in its equity ratio departs from the principle of gradualism.[78] Staff also continues to contest Cascade's proposed adjustment to remove Enbridge costs from its capital structure.[79]

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[70] *Id.* at 8:2-4; 10:2-4.

[71] *Id.* at 8:16-19.

[72] Cascade Brief ¶ 40.

[73] *See id.* ¶ 39 (citing BE-2 (Response to Bench Request No. 2)).

[74] *Id.* ¶ 41.

[75] *Id.*

[76] Cascade Brief ¶ 49.

[77] *See id.*

[78] Staff Brief ¶¶ 43-44.

[79] *Id.* ¶¶ 52-54. *See also* 2019 Cascade GRC Order ¶ 10.

70 Public Counsel argues that its recommendation to maintain the Company's equity ratio at 49.1 percent, as approved by the Commission in the Company's last general rate case, reflects the Company's capitalization in recent years.[80] Public Counsel notes that Cascade is the only party advocating for an equity ratio above 50 percent.[81]

71 In its Brief, AWEC recommends a capital structure comprised of 47.1 percent equity and 52.9 percent debt.[82] Comparing the Company's debt issuances to underlying rate base balances, AWEC argues that Cascade actually operates at a debt ratio of 65.60 percent.[83] AWEC therefore recommends gradually increasing the debt percentage in the capital structure to more accurately reflect actual financing costs.

Commission Determination

72 We agree with Public Counsel that the Commission should maintain Cascade's capital structure at the levels approved in the Company's last general rate case. Cascade has not established that a hypothetical capital structure with a higher proportion of equity is warranted.

73 Establishing a capital structure for ratemaking purposes requires the Commission to strike an appropriate balance between debt and equity on the bases of economy and safety.[84] The economy of lower cost debt, on which the Company has a legal obligation to pay interest, must be balanced against the safety of higher cost common equity on which the Company has no legal obligation to pay a return at any particular time.[85]

74 The Commission has used actual, pro forma, or imputed capital structures to strike the right balance and determine overall rate of return on a case-by-case basis.[86] In past cases,

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[80] Public Counsel Brief ¶ 6.

[81] *Id.*

[82] AWEC Brief ¶ 13.

[83] *Id.* ¶ 14 (citing Mullins, Exh. BGM-1T at 15:5-16:5).

[84] *WUTC v. Puget Sound Energy*, Dockets UG-040640, UE-040641 (consolidated) Order 06 ¶ 27 (February 18, 2005) (citation omitted). *See also* 2017 Avista GRC Order at 39, ¶ 109.

[85] *Id.*

[86] *Id.*

we have used a hypothetical capital structure primarily as a means to address financial hardship or tight capital markets.[87]

75 In this case, we find that Cascade's 49.1 percent equity ratio is consistent with the Company's average capitalization over recent years. From 2015 to 2017, Cascade's equity ratio ranged from 47.1 percent to 49.2 percent.[88] In 2018, the Company's equity ratio was 49.1 percent.[89] Following the Enbridge pipeline explosion in British Columbia, however, Cascade faced increasing gas costs and higher debt reflected in the deferred PGA balance. In 2019, the Company's equity ratio decreased to 46.6 percent.[90]

76 Both Cascade and Staff recognize the impact of the Enbridge costs on the Company's equity ratio. Cascade proposes to remove Enbridge costs from its capital structure, thereby increasing the proportion of equity remaining.[91] Staff rejects this proposed adjustment but recommends a hypothetical capital structure to "stabilize" the regulatory capital structure during this period of volatility in the equity ratio.[92] Although Public Counsel witness Woolridge does not directly address the impact of Enbridge costs on the Company's equity ratio, we find that Woolridge's recommendation to maintain the Company's equity ratio at 49.1 percent provides stability and avoids penalizing the Company for the 2019 decrease in its equity ratio.[93]

77 Considering all of the evidence, we find that maintaining the Company's equity ratio at 49.1 percent strikes an appropriate balance between the principles of safety and economy and results in the most fair, just, and reasonable outcome. This provides stability during a time of volatility in the Company's equity ratio and avoids penalizing the Company with

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[87] *WUTC v. Avista Corporation d/b/a Avista Utilities*, UE-170485 and UG-170486 (consolidated) Order 07 ¶ 110 (April 26, 2018).

[88] *See* Parcell, Exh. DCP-1T at 26:7-8 (citing Parcell, Exh. DCP-6 at 1).

[89] Parcell, Exh. DCP-6 at 1.

[90] *Id.*

[91] *See* Nygard, Exh. TJN-1T at 4:5-8 ("Consistent with our approach in the last general rate case, the Company's 2018 equity ratio was adjusted for an unanticipated $17.5 million short-term debt increase from higher gas costs in November and December resulting from the Enbridge incident.").

[92] Parcell, Exh. DCP-1T at 24:15-25-7.

[93] *See* Woolridge, Exh. JRW-1Tr at 3:16-4:5.

a lower ROR resulting from increased gas costs. It is also consistent with Commission-authorized equity ratios for other investor-owned utilities in the state.[94]

78 We decline, however, to adjust Cascade's capital structure to remove Enbridge-related costs as proposed by the Company. The Commission has approved deferred recovery for these significant costs,[95] and Cascade is receiving interest on this balance at the FERC interest rate.[96] While we recognize the impact of this debt on the Company's capital structure, a more reasonable approach is to maintain the Company's equity ratio at 49.1 percent. Excluding Enbridge costs entirely from the capital structure would result in an artificially inflated equity ratio beyond the Company's capitalization levels in recent years, which would correspondingly increase its cost of capital.

79 We also decline to increase Cascade's equity ratio in order to meet its "targeted" 50 percent equity ratio.[97] The Company provides little evidence establishing that this targeted equity ratio is necessary for its intended investments or that this targeted ratio will be matched with future infusions of capital.[98] As we discuss below in section II.B.2.c, interest rates are at historic lows, and capital is readily available. There is insufficient justification in the record for providing a hypothetical capital structure to address financial hardship.

80 We have also considered Cascade's argument that Public Counsel improperly considers the equity ratios of proxy group companies at the level of the holding companies, rather than the operating utilities.[99] Our decision to maintain the Company's equity ratio at 49.1

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[94] *See, Wash. Utils. & Transp. Comm'n v. Cascade Nat. Gas Corp.,* Docket UG-190210, Order 5: Final Order, ¶ 10 (February 3, 2020) (Capital structure with 49.1 percent equity approved); *Wash. Utils. & Transp. Comm'n v. NW Nat. Gas Co.,* Docket UG-181053, Order 06, ¶¶ 51, 53 (October 21, 2019) (Capital structure with 49 percent equity approved); *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-152253, Order 12 (October 21, 2019) (Capital structure with 49 percent equity approved); *Wash. Utils. & Transp. Comm'n v. Avista Corp.,* Dockets UE-170485 & UG-170486 (*Consol*.), Order 07, ¶ 111 (April 26, 2018) (Capital structure with 48.5 percent equity approved); *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy*, Dockets UE-170033 & UG-170034 (*Consol*.), Order 08, ¶ 83 (December 5, 2017) (Capital structure with 48.5 percent equity approved).

[95] *See In the Matter of the Tariff Revisions of Cascade Natural Gas Corporation*, Docket UG-190145 Order 01 (March 28, 2019).

[96] Parcell, Exh. DCP-1T at 26:4-13.

[97] *See, e.g.,* Nygard, Exh. TJN-4Tr at 8:9:19.

[98] Parcell, Exh. DCP-1T at 25:9-22.

[99] *E.g.,* Cascade Brief ¶ 48.

percent is consistent with the Company's actual levels of capitalization in recent years, and it is consistent with the authorized capital structures for other investor-owned utilities in the state. We place relatively little weight on the capitalization levels of proxy group companies at the holding company level. Indeed, while Public Counsel witness Woolridge notes that the average quarterly equity ratio for the gas proxy group, at the holding company level, was 46.1 percent,[100] Woolridge does not recommend lowering Cascade's equity ratio to this level. Woolridge instead recommends the Commission retain the capital structure from the Company's last rate case because it is consistent with Cascade's capitalization in recent years.[101] We are similarly maintaining the Company's equity ratio at levels closely reflecting actual capitalization levels, rather than lowering it on the basis of holding company equity ratios.

81 Even if we agreed with Cascade witness Bulkley that the proper point of comparison was the operating utility level, this would not change our decision. Bulkley submits that the proxy group reflects an equity ratio range from 48.52 to 63.05 percent, with an average of 56.67 percent.[102] While Cascade's actual capitalization levels fall below this average of 56.67 percent, there is insufficient justification in the record for providing a higher, hypothetical equity ratio to address financial hardship.

82 Accordingly, we find that the Company has failed to meet its burden to establish that a material change in its capital structure is necessary. While a hypothetical capital structure could potentially lower the Company's costs of accessing capital and solidify its credit ratings, we are not persuaded that an increase in the Company's equity level is necessary. Instead, we conclude that it is reasonable to maintain Cascade's equity ratio at 49.1 to provide stability in the Company's capital structure in the face of increased gas costs. Cascade's capital structure should therefore be maintained at a ratio of 49.1 percent equity and 50.9 percent long-term debt, as approved in the Company's last general rate case.[103]

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[100] *Id.* at 21:5-11.

[101] Woolridge, Exh. JRW-1Tr at 4-:6-8.

[102] Bulkley, Exh. AEB-2, Schedule 10

[103] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-190210 Order 05 ¶ 10 (February 3, 2020).

b) Cost of Debt

83 In direct testimony, Cascade proposes a cost of debt of 4.745 percent.[104] Cascade witness Nygard explains that the Company plans to retire $15 million of debt and has issued $50 million of additional long-term debt, which has lowered the Company's cost of debt from past levels.[105]

84 AWEC disputes the Company's proposed cost of debt. AWEC witness Mullins also argues the Company's cost of debt should be updated to include new debt issuances as of June 2020 and recommends the Commission authorize Cascade's cost of debt at 4.54 percent.[106]

85 Staff accepts the Company's cost of debt,[107] and Public Counsel does not challenge the Company's cost of debt. While Woolridge does not provide testimony on the cost of debt, the Company's cost is included in Public Counsel's reference tables.[108]

86 On rebuttal, the Company updated its cost of debt from 4.745 to 4.589 percent,[109] which is approximately five basis points higher than AWEC's proposal. Cascade witness Nygard explains that the Company issued new debt after the filing of direct testimony in this case to take advantage of lower interest rates.[110]

87 In its Brief, Cascade argues that its updated cost of debt of 4.589 percent accurately reflects new debt issuances and that AWEC's slightly lower figure represents a less accurate estimate.[111] Cascade submits that the decreased cost of debt effectively offsets the proposed increase in its ROE.[112] This results in a decrease in Cascade's proposed

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[104] Nygard, Exh. TJN-1T at 2:2.

[105] *Id.* at 2:15-23.

[106] Mullins, Exh. BGM-1T at 4-16.

[107] Parcell, Exh. DCP-1T at 3:18.

[108] Woolridge, Exh. JRW-1Tr at 5, Table 1.

[109] Nygard, Exh. TJN-4Tr at 12:4-7.

[110] *Id.* at 11:6-15.

[111] Cascade Brief ¶ 50 (citing Nygard, Exh. TJN-4Tr at 12:4-7).

[112] *Id.* ¶ 4.

overall rate of return from the currently authorized level of 7.24 percent to 7.22 percent.[113]

88 AWEC argues on brief that the Company does not explain the difference between its updated cost of debt and the values provided in response to AWEC's data requests.[114] AWEC maintains that the Company's cost of debt should be set at 4.540 percent, reducing the Company's revenue requirement by $0.6 million.[115]

Commission Determination

89 We agree with Cascade that the Company's cost of debt should be set at 4.589 percent. The Company's rebuttal testimony provides evidence on the currently outstanding debt and provides supporting calculations to arrive at this updated figure.[116]

90 Although AWEC argues that there are disparities between the Company's discovery responses and its rebuttal testimony, AWEC does not support its claim with any persuasive details.[117] From our review of the record, Cascade provided AWEC and the Commission with accurate information related to the Company's new debt issuances.[118]

c) Return on Equity

91 The parties also dispute the appropriate level for Cascade's return on equity (ROE). Table 2, below, illustrates the positions of the parties that have offered cost of capital testimony.

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[113] *Id.* ¶ 4.

[114] AWEC Brief ¶ 11.

[115] *Id.*

[116] Nygard, Exh. TJN-4Tr at 12:4-7. *See also* Nygard, Exh. TJN-7C (Cascade's Cost of Currently Outstanding Debt).

[117] *See* AWEC Brief ¶ 11.

[118] *Compare* Nygard, Exh. TJN-7C (Cascade's exhibit describing outstanding debt) *with* Mullins, BGM-5C (AWEC's exhibit on the same issue).

Table 2 – Parties' Recommendations as to Cascade's ROE

	Cascade Direct	Cascade Rebuttal	Staff	Public Counsel
ROE	**10.3**	**9.8**	**9.25**	**9.0**

92 In direct testimony, Cascade witness Bulkley performs the ROE analyses and requests the Commission approve an ROE of 10.3 percent. This recommendation is based on Bulkley's Discounted Cash Flow (DCF) model, Capital Asset Pricing Model (CAPM), Empirical CAPM, Risk Premium (RP), and Comparable Earnings (CE) analyses, as well as other influencing factors. While the full range of ROE results is between 8.94 and 11.9, Bulkley contends that an appropriate range of consideration is between 9.9 and 10.4 percent.[119] Bulkley bases modeling inputs on forward-looking inputs and assumptions and considers both the high valuation of utility stocks and future expectations for interest rates.[120]

93 Cascade's recommended appropriate range of ROE was influenced by several factors, which include:

a. Cascade's small size risk;

b. Flotation costs;

c. The Company's customer concentration;

d. The capital expenditure plan that will place additional pressures on cash flow; and

e. The regulatory risk in Washington state.[121]

94 The Company argues that having a significant portion of customers from a single class places Cascade at increased risk due to the impact of COVID-19 and the potential for large industrial customers switching to an alternative fuel source. Bulkley states that 48

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[119] Bulkley, Exh. AEB-1T at 8:4-5.

[120] *Id.* at 6:7-11.

[121] *Id.* at 6-10.

percent of sales are derived from industrial customers, creating a higher business risk (*e.g.,* less diversity of customers, larger impact from economic conditions for the manufacturing industry).[122]

95 Cascade evaluates four factors when determining its Washington regulatory risk:

a. Test year convention (*e.g.*, forecast vs. historical) – Bulkley indicates that 42 percent of the proxy group use fully or partially forecasted test years;[123]

b. Method for determining rate base (AMA vs. EOP) – Bulkley indicates that 63 percent of proxy groups are allowed to use EOP;[124]

c. Use of revenue decoupling mechanisms or other clauses to mitigate volumetric risk – Bulkley argues that many of the proxy companies have decoupling and therefore Cascade's risk is not reduced;[125] and

d. Prevalence of capital cost recovery between rate cases (*e.g.*, capital trackers) – Bulkley testifies that only 12 percent of 2020 capital expenditures are contained within the Company's Cost Recovery Mechanism (CRM) and over half of the proxy companies have access to a similar mechanism.[126]

96 Finally, Bulkley discusses how current market conditions should be considered when performing ROE modeling and arriving at an appropriate ROE. First, Bulkley argues that the current market volatility associated with the COVID-19 pandemic has created a short-term aberration in the market and, specifically, that the DCF model does not support these conditions for the long-term expectations. Second, the high valuation associated with utility stocks are currently artificially elevated given investors' demand for defensive sector stocks. Finally, Bulkley points to the continued cash flow impacts that stem from the 2017 federal tax reform.[127]

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[122] Bulkley, Exh. AEB-1T at 72:2-5; 73:3-14; 75:23-27.

[123] *Id.* at 86:4-7.

[124] *Id.* at 88:8-12.

[125] *Id.* at 78:8-14.

[126] *Id.* at 81:10-20.

[127] Bulkley, Exh. AEB-1T at 7:3-5; 13:18-14:3.

97 In response, Staff recommends the Commission authorize an ROE of 9.25 percent based on Parcell's DCF, CE, and RP analyses. Staff identifies an appropriate range of consideration between 9.0 and 9.5 percent.[128] Parcell uses the same proxy group as Cascade for Staff's analyses.[129]

98 In completing its analysis, Staff relies on the following economic and financial conditions:

a. The level of economic activity;

b. The stage of the business cycle;

c. The level of inflation;

d. The level and trend of interest rates; and

e. Current and expected economic conditions.[130]

99 Additionally, Parcell argues that the current COVID-19 pandemic has directly impacted the above-listed conditions, which supports lower capital costs for utilities. Further, Staff believes the cost recovery mechanisms in place reduce the risk of Cascade's recovery of certain expenses and support a lower ROE to appropriately maintain the balance of risk between shareholders and customers.[131]

100 In response to the Company's analysis, Parcell raises a concern that Cascade's witness Bulkley primarily focuses on Earning per Share (EPS) forecasts.[132] Parcell argues it is not appropriate to believe that investors rely on a single forward-looking factor, and that history has shown that analysts cannot accurately predict EPS levels.[133] Additionally, Parcell points out that Bulkley's high DCF results are driven largely by a growth rate

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[128] Parcell, Exh. DCP-1T at 4:6-11. Staff does not directly incorporate the CAPM results because Parcell believes those results are too low at present. Parcell, Exh. DCP-1T at 4:9-11.

[129] *Id.* at 28:3.

[130] *Id.* at 8:5-13.

[131] *Id.* at 15:22-16:2; 19:7-18.

[132] *Id.* at 34:8-11.

[133] Parcell, Exh. DCP-1T at 34:15-35:9.

anomaly for Northwest Natural Gas that occurred in 2017. Parcell argues this result is an outlier and should be removed from Bulkley's DCF analysis.[134]

101 Public Counsel recommends the Commission authorize an ROE of 9.0 percent based on witness Woolridge's DCF and CAPM analyses, which result in an ROE range of consideration from 7.3 to 9.0 percent.[135] Woolridge uses a proxy group that includes the seven companies in Cascade's proxy group but also includes two additional companies that Bulkley excluded.[136]

102 Woolridge identifies four reasons to support Public Counsel's recommended ROE:

a. Long-term utility bond yields are at historically low levels with low inflationary expectations, slow global economic growth, and interest rates are expected to remain low;

b. The gas distribution industry is among the lowest risk industries in the U.S.;

c. The recommendation is at the high end of Public Counsel's modeling results; and

d. The average authorized ROEs for gas distribution companies have declined since 2012, with the norm below 10 percent.[137]

103 In response to Cascade's analysis, Woolridge, like Staff's witness, criticizes the Company's reliance on an "overly optimistic and upwardly biased EPS growth rate."[138] Further, Woolridge argues that "…investors would not be buying long-term Treasury bonds at current yields today if they followed economists' interest rate forecasts because a near-term increase in interest rates would result in a negative rate of return on those bonds."[139] Woolridge also questions whether Bulkley provides adequate support for a

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[134] *Id.* at 33:17-34:4.

[135] Woolridge, Exh. JRW-1Tr at 4:1-13, 57:2-4.

[136] *Id.* at 20:5-10.

[137] *Id.* at 56:3-58:15.

[138] *Id.* at 7:14-18.

[139] Woolridge, Exh. JRW-1Tr at 17:14-16.

10.3 percent ROE because only Cascade's CAPM analysis supports such a result .[140] Finally, in response to the other factors Cascade considered in its range of consideration recommendation, Woolridge does not agree with a size premium adjustment without an empirical study, and recommends the Commission not consider that factor. Additionally, Public Counsel discounts the need to consider flotation costs because the Company has not identified any specific costs. Public Counsel thus argues that it is not appropriate for Cascade to receive additional revenues in the form of a higher ROE for expenses not incurred.[141]

104 AWEC witness Mullins does not provide any ROE modeling analysis, instead arguing that Cascade has not provided any compelling reason to deviate from its currently authorized ROE of 9.4 percent.[142] Additionally, Mullins argues that in recent general rate cases, the Commission has consistently authorized ROEs of 9.4 percent for other Washington regulated energy companies. Further, AWEC points out that the Company's testimony is nearly identical to Cascade's most recent 2019 rate case, in which the Company also requested an ROE of 10.3 percent but then stipulated to an ROE of 9.4 percent. Finally, Mullins agrees with Public Counsel that, with the exception of the CAPM results, all Company results point to a lower ROE,[143] and that the ECAPM "is nothing more than a way to underweight the impact of the beta coefficient on the traditional CAPM calculation."[144]

105 TEP generally opposes Cascade's request for an increase in its ROE.[145] TEP Witness Collins argues that residential customers "can ill afford to provide Cascade with over $6 million in added annual revenue increases in the middle of a major economic crisis."[146] TEP does not provide any specific testimony, however, regarding cost of capital.

106 In cross-answering testimony, Woolridge agrees with Staff's position on the economic conditions for the Commission to consider when authorizing an ROE.[147] However,

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[140] *Id.* at 7:8-11.

[141] *Id.* at 92:8-15.

[142] Mullins, Exh. BGM-1T at 6:11-15.

[143] *Id.* at 7:4-11.

[144] *Id.* at 10:7-8.

[145] Collins, Exh. SMC-1T at 15:1.

[146] *Id*. at 13:17-18.

[147] Woolridge, Exh. JRW-14T at 3:7-9; 21:10-11.

Woolridge takes issue with Parcell's reliance on a midpoint for an entire range of results that disregards the mean and median results, for ignoring CAPM results, and for using subjective estimates.[148]

107 In cross-answering testimony, Mullins testifies that AWEC has not provided specific ROE analyses because it recommends no change in rates. However, AWEC takes the position that if the Commission were to authorize a rate increase in this proceeding, that AWEC would support the lower ROE recommendations of Staff and Public Counsel.[149] Mullins provides additional testimony to support leaving Cascade's ROE unchanged by pointing to the recent general rate case filed by Northwest Natural Gas, in which it requests a 9.4 percent ROE in its initial filing.[150]

108 On rebuttal, Bulkley updates the Company's ROE analyses based on November 2020 market data, which results in a higher range of ROE for consideration.[151] However, the Company reduced its requested ROE to 9.8 percent to help mitigate the rate impact on customers due to the difficult economic conditions created by the COVID-19 pandemic. Bulkley argues that the updated request is consistent with other jurisdictions in which Cascade operates.[152] The Company also argues that, since 2018, most of the authorized ROEs for natural gas distribution fall within the range of 9.4 to 9.8 percent.[153]

109 Bulkley also raises new arguments and reiterates previous factors that the Commission should consider and evaluate when selecting an appropriate ROE. These include:

a. The importance of investors' actual return requirements and the critical role of judgment in selecting the appropriate ROE;

b. The importance of providing a return that is comparable to returns on alternative investments with commensurate risk;

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[148] *Id.* at 6:13-7:3.

[149] Mullins, Exh. BGM-7T at 5:9-14.

[150] *Id.* at 5:17-20.

[151] Bulkley, Exh. AEB-4T at 18:18-9:6.

[152] *Id.* at 8:16-9:3.

[153] *Id.* at 7:6-9.

c. The need for a return that supports a utility's ability to attract needed capital at reasonable terms; and

d. The effect of current and expected capital market conditions.[154]

110 Cascade also responds generally to economic and financial factors addressed by other parties' ROE witnesses. First, Bulkley argues that the market volatility resulting from the COVID-19 pandemic, specifically declining yields for U.S. Treasury bonds, should not be used as a sole determining factor. Bulkley criticizes both Staff and Public Counsel for acknowledging the market volatility without incorporating the impact in their respective ROE analyses. Further, Cascade expects the economy to enter the "expansion phase" of recovery during the rate effective period and contends that utilities historically do not perform well in that phase. Bulkley also condemns other ROE witnesses for ignoring the cash flow impacts of the federal tax reform and encourages the Commission to ignore AWEC's recommendation as Mullins offers no quantitative analysis and relies only on recent settlements. Finally, Cascade argues that the *Hope* and *Bluefield* standard suggests the Commission should determine a just and reasonable return by considering factors other than the underlying methodology.[155]

111 In response to Staff and Public Counsel, Bulkley provides testimony criticizing certain aspects of their models and assumptions. Responding to Staff, Cascade points out that Parcell only lists the regulatory mechanisms available to the Company but not how those mechanisms change Cascade's risk in comparison to the proxy group.[156] Additionally, responding to Parcell's DCF model, Bulkley argues that the model is intended as a forward-looking model; as such, the appropriate measure of growth is forward-looking (expectations) rather than historical results. Further, Bulkley argues that if an analyst believes that historical performance is relevant to future performance, the growth rate incorporates that factor.[157]

112 In response to Public Counsel, Bulkley argues that Woolridge has not provided sufficient reasoning for recommending an ROE on the low end of the range of levels authorized for

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[154] Bulkley, Exh. AEB-4Tr at 17:15-20.

[155] *Id.* at 3:1-7:22. *See also Fed. Power Comm'n v. Hope Nat. Gas*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Virginia*, 262 U.S. 679 (1923).

[156] Bulkley, Exh. AEB-4Tr at 34:15-17.

[157] Bulkley, Exh. AEB-4Tr at 40:20-41:4.

natural gas distribution companies between 2018 and 2020.[158] Additionally, Bulkley refutes Public Counsel's criticism of their use of projected EPS growth rates because Woolridge also relies on EPS growth rates for their DCF analysis.[159]

113 In its Brief, Cascade maintains its request for an ROE of 9.8 percent and an overall ROR of 7.22 percent.[160] Cascade submits that its requested ROE is well-supported by each of the models Bulkley uses.[161] Cascade argues that utility stocks have underperformed during the pandemic and are expected to continue to underperform, which will raise the cost of capital for utility companies.[162]

114 Cascade argues that Staff's and Public Counsel's ROE recommendations are unreasonably low. For instance, Cascade notes that even though Parcell's DCF results were 115 basis points higher in this case than in the 2019 PSE general rate case, Parcell increased their recommended ROE by only 5 basis points.[163] The Company also argues that Parcell's CE analysis should have excluded Spire, with only a 2.0 percent ROE, as an outlier.[164] With respect to Public Counsel, Cascade argues that Woolridge relied on unsupported assumptions, such as interest rates stabilizing at 1.50 percent.[165]

115 Cascade also argues that the non-Company parties fail to account for the effect of their recommendations on the Company's credit rating. Cascade notes that "[t]he 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."[166]

116 Staff argues that its ROE recommendation of 9.25 percent respects the principle of gradualism.[167] Staff's recommendation represents the mid-point of the range of results for

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[158] *Id.* at 59:9-12.

[159] *Id.* at 75:16-19.

[160] Cascade Brief ¶ 24.

[161] *Id.* ¶¶ 27-28.

[162] *Id.* ¶ 29.

[163] *Id.* ¶ 35.

[164] *Id.*

[165] *Id.* ¶ 37.

[166] *Id.* ¶ 55.

[167] Staff Brief ¶¶ 44, 48.

the DCF, CE, and RP models, noting that Parcell excluded the CAPM results as being somewhat low compared to the other models.[168]

117 Public Counsel argues that interest rates are at historic lows and that this trend is reflected in the lower ROEs authorized by the Commission in recent cases.[169] Public Counsel critiques the analysis from Cascade witness Bulkley, and argues that Staff witness Parcell's recommendation arrives at inflated results by using the mid-points of model results rather than means or medians.[170]

118 AWEC recommends that the Commission maintain Cascade's ROE at 9.4 percent. AWEC argues that both the Commission and the Oregon Public Utility Commission have consistently approved a 9.4 percent ROE for stand-alone gas companies since 2018.[171]

Commission Determination

119 We must determine what adjustment, if any, should be made to Cascade's currently authorized ROE of 9.4 percent.

120 The Commission follows the long-standing precedents set by the *Hope* and *Bluefield* decisions.[172] In *Hope* and *Bluefield*, the United States Supreme Court recognized that rates for regulated monopoly utilities must incorporate a fair rate of return on equity that is comparable to returns investors would expect to receive on other investments of similar risk, sufficient to assure confidence in the utility's financial integrity, and adequate to attract capital at reasonable costs.[173]

121 The Commission's long-standing practice is first to identify within the range of *possible* returns shown by expert analyses a range of *reasonable* returns on equity considering all cost of capital testimony in the record. Then, the Commission weighs the analysts' more detailed results and considers other evidence relevant to the selection of a specific point value within the range. The Commission's final determination of an acceptable ROE

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[168] *Id.* ¶ 48.

[169] Public Counsel Brief ¶¶ 12-15.

[170] *Id.* ¶¶ 16-27.

[171] AWEC Brief ¶ 8.

[172] *See Fed. Power Comm'n v. Hope Nat. Gas*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Co. v. Pub. Serv. Comm'n of W. Virginia*, 262 U.S. 679 (1923).

[173] *Hope Nat. Gas*, 320 U.S. at 603.

recognizes fully the guiding principles of regulatory ratemaking that require us to reach an end result that yields fair, just, reasonable, and sufficient rates.

122 The Commission benefits significantly from the different perspectives of the witnesses in making their recommendations. However, we must carefully balance their results to establish the end points of a zone of *reasonable* returns within which we can select a specific ROE point value, considering both the modeling and other factors in evidence. The witnesses do not dispute that determining an appropriate ROE presents challenges. As discussed above, they rely on familiar analytic tools such as the DCF, CAPM, RP, and CE methods. And, as is customary, they use a variety of data sources to populate their models to arrive at and support their respective ROE recommendations. Accordingly, as we have noted in previous proceedings, the results of the analytic models the expert witnesses use to estimate ROE can vary significantly due to subjective judgments they make when selecting specific approaches and data inputs for each model.[174]

123 When considering changes to a regulated utility's authorized ROE, we endeavor to avoid material adjustments upward or downward in authorized levels to provide rate stability for customers and assurance to investors and others regarding the regulatory environment's support for the financial integrity of the utility. Based on the evidence produced by the various expert witnesses, we generally determine whether modest increases or decreases, if any, to currently authorized levels are appropriate given the evidence produced in the immediate proceeding.

124 Based on their individual analyses and modeling, the witnesses establish wide ranging ROE results. As Table 2 above demonstrates, the parties' overall ROE recommendations span 80 basis points between the lowest recommendation of 9.0 percent and the highest recommendation of 9.80 percent. This reflects the end points of the range of *possible* returns.

125 We then turn to an evaluation of the various analytical methods broadly employed by each expert witness to establish a narrower *range of reasonableness,* and ultimately determine an appropriate ROE.

126 We begin with a review of the expert witnesses' application of the DCF method, "the method to which the Commission generally has afforded material weight in determining a

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[174] *E.g., WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034 Order 08 ¶ 86 (December 5, 2017).

company's authorized ROE."[175] Cascade witness Bulkley describes a range of results for the constant growth DCF model, ranging from a median low of 8.84 percent to a median high of 9.97 percent.[176] On rebuttal, Bulkley updates this analysis to use an adjusted projected earnings rate for Northwest Natural Gas and arrives at a median low of 8.77 percent and a median high of 10.45 percent.[177] Staff witness Parcell notes a range of DCF results from a median low of 7.00 percent to a median high of 10.9 percent.[178] However, Parcell excludes the highest DCF result as an outlier, and finds that a range of 9.0 percent to 10.0 percent represents the appropriate range.[179] Public Counsel witness Woolridge arrives at an equity cost rate of 8.95 percent.[180] The expert testimony therefore describes a relatively wide, 345-basis point, range of DCF results.

127 The CAPM method presents even more widely varied results. Bulkley's CAPM analysis produces a range of 8.94 percent to 11.39 percent.[181] Bulkley's Empirical CAPM analysis produces a range between 10.07 percent and 11.90 percent.[182] On rebuttal, Bulkley updates the CAPM and Empirical CAPM analyses to arrive at a range of results between 11.72 percent and 13.13 percent.[183] Staff witness Parcell argues that an appropriate CAPM estimate falls between 6.0 percent to 6.4 percent.[184] Public Counsel arrives at a CAPM estimate of 7.3 percent.[185] That the expert witnesses' CAPM results vary by *713 basis points*[186] tends to temper our reliance on CAPM analysis in this particular case.

128 We observe that the two witnesses who provided risk premium, or "RP," analysis arrived at a narrower range of results. Cascade witness Bulkley's RP analysis results in a range of

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[175] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486 (consolidated) Order 07 ¶ 62 (April 26, 2018).

[176] Bulkley, Exh. AEB-1T at 49:1.

[177] Bulkley, Exh. AEB-4Tr at 20:1 (Figure 4).

[178] Parcell, Exh. DCP-1T at 31:9-10.

[179] *Id.* at 32:1-14.

[180] Woolridge, Exh. JRW-1Tr at 41:1-5.

[181] Bulkley, Exh. AEB-1T at 55:16-21.

[182] *Id.*

[183] Bulkley, Exh. AEB-4Tr at 20:1 (Figure 4). *See also* Bulkley, Exh. AEB-5 at 1.

[184] Parcell, Exh. DCP-1T at 39:8-11.

[185] Woolridge, Exh. JRW-9 at 1.

[186] 713 basis points describes the difference between Bulkley's highest CAPM result (13.13) and Parcell's lowest CAPM result (6.0).

recommended ROE's from 9.06 percent to 9.86 percent.[187] On rebuttal, Bulkley updates the RP analysis and arrives at a range between 9.20 percent and 9.70 percent.[188] Staff witness Parcell arrives at a range between 8.3 percent and 9.6 percent.[189] The RP method results therefore vary by 156 basis points.[190] This tends to support a narrower range of reasonableness between 9.06 percent and 9.86 percent.

129 \Applying the Expected Earnings CE Method, Bulkley arrives at a mean of 9.94 percent and a median of 9.74 percent.[191] Bulkley updates these figures on rebuttal to a mean of 9.59 percent and a median of 9.46 percent.[192] Parcell's CE analysis produces a range of results between 8.5 percent and 9.5 percent.[193] The CE method results therefore vary by 144 basis points.[194] We generally do not place material weight on the CE method, which is considered unreliable in other jurisdictions.[195] However, we have considered the results of the CE method when other cost of equity methods produce widely varying results.[196] The CE method results in this case tend to support the range of reasonableness described by both the DCF and RP methods.

130 Based on our review of these four specific methods, we find it necessary to exclude the CAPM results, which vary widely by 713 basis points. Specifically, we find that excluding CAPM results from our analysis tends to undermine any request for a higher

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[187] Bulkley, Exh. AEB-1T at 59:3-10.

[188] Bulkley, Exh. AEB-4Tr at 20:1 (Figure 4).

[189] Parcell, Exh. DCP-1T at 4:4-5.

[190] 156 basis points describes the difference between Bulkley's highest RP result (9.86) and Parcell's lowest RP result (8.3).

[191] Bulkley, Exh. AEB-1T at 61:19-62:2.

[192] Bulkley, Exh. AEB-4Tr at 20:1 (Figure 4).

[193] Parcell, Exh. DCP-1T at 45:10-23.

[194] 144 basis points describes the difference between Bulkley's highest CE result (9.94) and Parcell's lowest result (8.5).

[195] *See Assoc. of Businesses Advocating Tariff Equity v. Midcontinent Independent System Operator*, 169 F.E.R.C. ¶ 61,129, Opinion No. 569, ¶ 204 (2019) (finding that the CE method is "unable to effectively estimate the rate of return that investors require to invest in the market-priced common equity capital of a utility").

[196] *See WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486 (consolidated) Order 07 ¶ 65 (April 26, 2018) ("Although we generally do not apply material weight to the CE method, having stronger reliance on the DCF, CAPM and RP methods, we are inclined to include the CE method here given the anomalous CAPM results described previously.").

ROE.[197] Indeed, we are concerned that Bulkley relies on projected interest rates as the risk-free rate in the CAPM analysis. Parcell notes that Bulkley's use of a projected long-term interest rate of 3.20 percent greatly exceeds the current level of Treasury bonds.[198] Woolridge likewise notes that forecasted interest rates have been "notoriously wrong for a decade."[199] We are also concerned that Bulkley's CAPM analysis relies on an excessively high market risk premium. Woolridge addresses this issue in some detail, observing that Bulkley's CAPM results "assume that the return on the U.S. stock market will be a staggering 40 percent higher in the future than it has been in the past."[200] Although Bulkley defends these judgments, the fact remains that Cascade's CAPM results produced far higher results than those from Parcell and Woolridge, who each excluded the results of their CAPM method because they were too low. This supports our decision to place little weight on CAPM results in this case.

131 Even setting aside the CAPM results, however, we are presented with a range of returns between 8.3 percent and 10.45 percent. The record indicates significant disagreement among the expert witnesses as they attempt to account for investors' expectations during a period of volatility and change in the market.

132 In arriving at a specific point value, we place significant weight on the witnesses' DCF results while excluding the highest and lowest results as outliers. The DCF method has been the most common technique for estimating the cost of equity since at least 1988, and most witnesses consider it their primary method of analysis.[201] Although Staff witness Parcell's DCF results were "almost identical" to Bulkley's,[202] Parcell excluded the highest and lowest results of the analysis to arrive at a more reasonable range of 9.0 to 10.0 percent.[203] We find this reasonable under the circumstances. For example, Parcell explains that the highest DCF result, from ONE Gas, Inc., was excluded because this company was "spun off" from a parent company and this rate of return was not

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[197] *See* Mullins, Exh. BGM-1T at 7:4-11.

[198] Parcell, Exh. DCP-1T at 40:4-20.

[199] Woolridge, Exh. JRW-1Tr at 43:12-21.

[200] *Id.* at 68:16-18.

[201] *In the Matter of the Petition of Puget Sound Energy and Northwest Energy Coalition*, Dockets UE-121697 and UG-121705 (consolidated) Order 15 ¶ 129 (June 29, 2015) (internal citation and quotation omitted).

[202] Parcell, TR 74:14-18.

[203] Parcell, Exh. DCP-1T at 32:1-14

sustainable.[204] Parcell also excludes the result for South Jersey Industries, Inc., as unsustainable because it followed a period of depressed, negative Earnings per Share (EPS) forecasts.[205] We therefore agree with Parcell that a range between 9.0 percent and 10.0 percent represents the most appropriate and comparable results from the DCF methods.

133 We also share Staff's and Public Counsel's concern that Cascade focuses on forecasted EPS to the exclusion of other indicators when determining the growth rate component of its DCF analysis.[206] The cost of capital analysis is focused on investor expectations, and analyst EPS forecasts are only one item of information available to investors. In our past decisions, we have relied on cost of capital testimony and DCF analysis that takes into account both historical data and forecasted growth.[207] We accordingly find it reasonable to employ the same approach here.

134 In this case, both Parcell and Woolridge observe that Bulkley's high DCF results were affected by Value Line's forecast of a 22.5 percent growth rate for Northwest Natural Gas.[208] Both witnesses explain that this company had a significant asset impairment in 2017, meaning that the high growth forecast was not sustainable and should have been removed as an outlier.[209] When Bulkley adjusted to remove the asset impairment for Northwest Natural Gas in rebuttal testimony, the median high DCF results decreased by approximately 200 basis points[210] and median DCF results decreased by approximately 30 basis points.[211] Bulkley then reported median DCF results between 9.41 percent and

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[204] *Id.* at 31:16-32-14.

[205] *Id.* at 32:1-14. *See also* Parcell, Exh. DCP-9 at 3.

[206] *See* Bulkley, Exh. AEB-4Tr at 36-15-37:16.

[207] *E.g.*, *WUTC v. Puget Sound Energy*, Dockets UG-040640 and UE-040641 (consolidated), Order 06 ¶¶ 59-71 (February 18, 2005).

[208] Parcell, Exh. DCP-1T at 33:17-34:4. Woolridge, Exh. JRW-1Tr at 63:11-64:4.

[209] *See id.*

[210] *See* Bulkley, Exh. AEB-4Tr at 20 (Figure 4) (showing a median high 30-Day Average Constant Growth DCF of 12.49 percent compared to a median high 30-Day Average Constant Growth DCF of 10.16, when adjusted for Northwest Natural Gas).

[211] *See id.* (showing a median 30-Day Average Constant Growth DCF of 9.74 percent compared to a median 30-Day Average Constant Growth DCF of 9.44 percent when adjusted for Northwest Natural Gas).

9.52 percent.[212] This tends to underscore the importance of historical data in cost of capital testimony.

135 For these reasons, Staff witness Parcell and Public Counsel witness Woolridge arrive at a more reasonable result by including EPS forecasts as only one of several indicators of growth.[213]

136 While Cascade witness Bulkley defends relying on analysts' forecasts, we find these arguments unpersuasive. In response to Parcell's and Woolridge's skepticism of analyst forecasts, Bulkley cites to a FERC opinion on the subject.[214] In denying a petition for rehearing, FERC rejected the argument that Institutional Brokers' Estimate System (IBES) growth projections were overly optimistic and should not be used in the DCF analysis.[215] FERC noted that the appropriate growth rate for the DCF analysis was the growth rate expected by the market.[216] While FERC's guidelines related to cost of capital testimony are informative, we are not required to follow that same approach. Furthermore, we observe that FERC has taken other measures to moderate the use of forecasted company earnings in the DCF analysis. In natural gas pipeline cases, FERC has approved of the use of IBES short-term growth projection data, but it has also required that these short-term projects be averaged with long-term projections based on the growth rate of the Gross Domestic Product.[217] This does not persuade us to adopt higher DCF results that rely solely on analysts' forecasts of individual companies' EPS.

137 Considering all of the DCF analyses together, we conclude that the most reasonable specific point value falls within Parcell's recommended range of 9.0 percent to 10.0 percent. Cascade's own updated DCF analysis shows a median result between 9.41 percent and 9.52 percent.[218] These figures fall near the middle of Parcell's recommended range and are largely consistent with Cascade's currently authorized ROE.

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[212] *Id.*

[214] Bulkley, Exh. AEB-4Tr at 38:22-39:11.

[215] *Martha Coakley, Mass. Attorney Gen. v. Bangor Hydro-Elec. Co.*, 150 F.E.R.C. ¶ 61,165, 62,135 (March 3, 2015).

[216] *Id.*

[217] *Northwest Pipeline Corp.*, 79 F.E.R.C. ¶ 61,309, 62,385 (1997). *See also Transcontinental Gas Pipe Line Corp.*, 84 F.E.R.C. ¶ 61,084, 61,423 (1998).

[218] Bulkley, Exh. AEB-4Tr at 20:1-2.

138 We then consider the results of the RP and CE methods. As we have observed, the RP method results from Bulkley and Parcell fall within a relatively narrow 80 basis point range. With respect to the CE method, Bulkley's updated results show a mean of 9.59 percent and a median of 9.46 percent.[219] Parcell's CE analysis produces a range of results between 8.5 percent and 9.5 percent, with a mid-point of 9.0 percent.[220]

139 After considering all of the testimony in the record, including the results of the DCF, RP, and CE models, we conclude that Cascade's ROE should be maintained at 9.4 percent. This case was adjudicated during a period of significant market volatility. Nonetheless, the evidence weighs in favor of maintaining Cascade's currently authorized ROE. An ROE of 9.4 percent is also consistent with the results of the DCF model. It is higher than the mean results from the RP model and higher than the mid-point of Parcell's CE analysis. As AWEC witness Mullins observes, Cascade's request for an increase in its ROE relies heavily on its CAPM analysis, which we have given little weight in this case.[221]

140 While our decision is primarily informed by the DCF, CE, and RP analyses, we also consider the broader context of our decision. As the U.S. Supreme Court held in *Bluefield*, a utility is generally entitled to a rate of return "equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties . . ."[222] Our decision is consistent with the ROE currently authorized for other investor-owned utilities in Washington. In 2020, the Commission authorized a ROE of 9.4 percent for Puget Sound Energy, Avista, and Northwest Natural Gas Company.[223] The Commission approved a settlement authorizing a slightly higher ROE for PacifiCorp at 9.50 percent.[224]

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[219] *Id.* at 20:1 (Figure 4).

[220] Parcell, Exh. DCP-1T at 45:10-23.

[221] *See* Mullins, Exh. BGM-1T at 10:3-11:2.

[222] *Bluefield*, 262 U.S. at 692.

[223] *See WUTC v. Avista Corp.*, Dockets UE-190334, UG-190335, and UE-190222 (Consol.), Final Order 09 (Mar. 25, 2020) (approving a settlement that set Avista's ROE at 9.4 percent); *WUTC v. NW Nat. Gas Co.*, Docket UG-181053, Final Order 06 (October 21, 2019) (approving settlement that set NW Natural's ROE at 9.4 percent); *WUTC v. Puget Sound Energy*, Dockets UE-190529 and UG-190530, Final Order 08, ¶ 108 (July 8, 2020) (deciding on a ROE of 9.40 percent) (2019 PSE GRC Order).

[224] *WUTC v. Pacificorp, d/b/a Pacific Power and Light Company*, Docket UE-191024 *inter alia* Order 09 ¶¶ 50-57 (December 14, 2020).

Our decision in this case provides Cascade with a comparable rate of return to the other investor-owned natural gas distribution companies operating in Washington state and regulated by the Commission.

141 Moreover, as AWEC observes, Cascade recently stipulated to an ROE of 9.40 in its last general rate case before the Oregon Public Utility Commission (PUC).[225] We take administrative notice of PUC Order 21-001, which states that *Cascade itself* requested an ROE of 9.40 percent in its direct testimony filed on March 31, 2020.[226] While our decision is squarely based on the cost of capital testimony in the record before us, this broader context both informs and supports our decision to maintain Cascade's ROE at 9.4 percent.

142 Finally, Cascade's assessment of current market conditions is unpersuasive. Cascade argues that utilities have not played their traditional role as a safe-haven investment during the COVID-19 pandemic and that the Company is facing a higher cost of capital.[227] Company witness Bulkley provided testimony explaining the extreme volatility in the stock markets over the course of 2020.[228] Bulkley notes as well that Standard & Poors recently downgraded the outlook on the entire North American utilities sector.[229] However, these conditions should be appropriately considered in context. The COVID-19 pandemic has led to lower interest rates and a decline in investor expectations.[230] As interest rates have declined over a period of years, authorized ROEs for utilities have also decreased.[231] These declining investor expectations are generally reflected in the model results. Notwithstanding the trend in declining ROEs, utilities have had ready access to capital. As Woolridge notes, "you haven't seen interest rates in capital costs this low in literally decades, if ever."[232]

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[225] Mullins, Exh. BGM-1T at 6:7-18.

[226] *See In the Matter of Cascade Natural Gas Corporation*, Docket UG-390, Order 21-001 (January 6, 2021).

[227] Cascade Brief ¶ 29.

[228] *See, e.g.*, Bulkley, Exh. AEB-1T at 14:4-19:13.

[229] *Id.*

[230] Parcell, Exh. DCP-1T at 11:1-9.

[231] Woolridge, Exh. JRW-1Tr at 17:12-18:3.

[232] Woolridge, TR 115:6-9.

143 We acknowledge that Cascade experienced a credit rating downgrade in 2018, following the Company's decision to settle its general rate case.[233] Our decision, however, must be driven by a consideration of the cost of capital testimony in light of the findings in *Hope* and *Bluefield* . The credible testimony applying the DCF, RP, and CE models supports a finding that Cascade's ROE of 9.4 is comparable to other investments of similar risk, sufficient to assure confidence in the utility's financial integrity, and adequate to attract capital at reasonable costs.

144 Cascade also argues that its relatively small size places it at higher risk compared to other utilities.[234] We have not previously approved of a "small size" premium for Cascade or other investor-owned utilities in the state, and decline to approve such an adjustment at this time. Cascade seeks to be treated as part of its larger parent corporation in some respects in this case, while also seeking additional benefits on the basis that it is a small, rural company.[235] Cascade cannot have it both ways. In fact, Cascade witness Kivisto acknowledges that Cascade is able to deploy higher amounts of capital because it is part of a larger organization.[236] In light of all of the evidence available, we conclude that it is more consistent to treat Cascade as part of a larger parent corporation.

145 Furthermore, there is significant disagreement regarding whether a small size premium is appropriate for regulated public utilities. While Bulkley calculates a size premium of 1.18 percent, this is based on a cost of capital calculation that is not specific to regulated public utilities.[237] Further, Bulkley cites a recent article for the proposition that a small size premium exists, but fails to apply the underlying method (the Fama-French model) that is discussed in the article.[238] Public Counsel asserts that the Company provides relatively little evidence to support its request for a small size premium,[239] and sets forth the debate among analysts of whether such a premium ever existed[240] This testimony

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[233] *See* Bulkley, Exh. AEB-1T at 33:2-34:4.

[234] Cascade Brief ¶ 30.

[235] *See generally* Kivisto, TR 128:12-132:5 (testimony in response to bench questions from Commissioner Balasbas).

[236] Kivisto, TR 131:14-132:5.

[237] *See* Bulkley, Exh. AEB-2 (Schedule 7) (citing Duff & Phelps Cost of Capital Navigator - Size Premium: Annual Data as of 12/31/2019).

[238] *See* Bulkley, Exh. AEB-4Tr at 113:17-114:13.

[239] Woolridge, Exh. JRW-1Tr at 89:8-90:7.

[240] *Id.*

does not provide us sufficient assurance that a size premium would accurately reflect Cascade's actual cost of capital.

146 Finally, we decline to increase Cascade's ROE to account for flotation costs. We have declined to award flotation costs on the basis of generic cost information in the absence of any evidence that the utility actually incurred these costs.[241] Here, Bulkley submits that Cascade's flotation costs are approximately 0.09 percent.[242] However, as Public Counsel observes, Cascade has not paid any flotation costs.[243] The Company has not incurred any flotation costs since 2004.[244] According, we reject the Company's request to recover flotation costs.

147 Thus, after considering all of the cost of capital testimony and evidence, the Commission maintains the Company's equity ratio at 49.1 percent. The Commission accepts the Company's updated cost of debt at 4.589 percent and maintains the Company's ROE at 9.4 percent. This results in a 6.95 percent rate of return for Cascade

2. Restate End of Period Adjustment (R-4)

148 We now turn to another key disputed issue in the case: Whether to restate the Company's test year rate base amount using end of period (EOP) or average of monthly averages (AMA) balances.

149 Cascade proposes to calculate its revenue deficiency using EOP rate base balances rather than AMA balances through restating adjustment R-4. In direct testimony, Cascade witness Myhrum briefly describes the adjustment's impact on the Company's revenue requirement request but offers no evidentiary support for the use of EOP rate base.[245]

150 At Staff's request, Cascade filed supplemental testimony to remove the EOP rate base valuation from the test year results of operations and include EOP balances as a restating

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[241] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486 Order 07 ¶ 76 (April 26, 2018) ("We also agree with Mr. Gorman that Mr. McKenzie has failed to demonstrate the level of costs, if any, that Avista actually incurred during the test year, and developed his proposed flotation cost adjustment on information derived from other utilities.").

[242] Bulkley, Exh. AEB-1T at 70:20-71:4.

[243] Public Counsel Brief ¶ 21.

[244] *See also* Bulkley, Exh. AEB-2 (Schedule 8).

[245] Myrhum, Exh. IDM-1T at 18:4-8.

adjustment.[246] The result of this adjustment is a decrease in net operating income of $1,620,083.[247]

151 In response, Staff witness McGuire argues that Cascade has failed to prove that EOP rate base treatment is warranted.[248] Staff testifies that utilities must present ample evidence to demonstrate that EOP rate base treatment should be substituted for the traditional AMA approach. McGuire references Pacific Power's 2014 GRC Order, in which the Commission stated that EOP treatment is "an appropriate regulatory mechanism under specific, well documented facts supporting its use."[249] Staff argues that Cascade has failed to provide such facts.

152 McGuire also argues that an EOP adjustment is a ratemaking tool used to address regulatory lag and prevent companies from filing rate cases in consecutive years.[250] Because Cascade has stated its intent to file another rate case shortly after this current case concludes,[251] Staff believes the Company's justification for EOP treatment is further diminished.

153 Although Staff argues that Cascade failed to support its request for EOP treatment, Staff nevertheless does not contest such treatment. Denying the request, McGuire argues, would reverse nearly a third of the Company's most recent rate increase, which would not produce a reasonable result.[252] Staff neither supports nor opposes the adjustment, but makes clear that it believes Cascade's proposal is insufficient.

154 Public Counsel does not contest the use of EOP rate base in this case. However, its position is contingent on the Commission rejecting the Company's pro forma plant additions through December 2020.[253]

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[246] Peters, Exh. MCP-7T at 1:5-14.

[247] *Id.* at 4:19-20. *See also* Myrhum, Exh. IMD-8 (Revenue Adjustments).

[248] McGuire, Exh. CRM-1T at 13:9-10.

[249] *WUTC v. Pacific Power & Light Company,* Docket UE-140762 Order 08 ¶ 151 (March 25, 2015).

[250] McGuire, Exh. CRM-1T at 13:17-20.

[251] Parvinen, Exh. MPP-1Tr at 9:14-17.

[252] McGuire, Exh. CRM-1T at 15:12-15.

[253] Garrett, Exh. MEG-1Tr at 11:10-11.

155 AWEC is the only party that opposes Cascade's use of EOP rate base. To summarize its position, AWEC witness Mullins references the same Pacific Power 2014 GRC Order, noting that the Commission discussed four criteria under which EOP treatment may be appropriate:

a. Abnormal growth in plant;

b. Inflation and/or attrition;

c. Significant regulatory lag; or

d. Failure of the utility to earn its authorized ROR over a historical period.[254]

156 Specifically, Mullins argues that Cascade has not made any showing of attrition or undue inflationary impacts, and that filing annual rate cases has insulated the Company from the impacts of regulatory lag.[255] Lastly, AWEC argues that there has not been sufficient time to determine that rates approved in Cascade's 2019 general rate case will not provide a reasonable return.[256]

157 In rebuttal testimony, Cascade witness Parvinen responds to Staff's and AWEC's claims that the Company failed its obligation to justify the use of EOP treatment. Parvinen argues that Cascade's direct testimony established that the Company would under-earn without EOP treatment.[257] Referencing the four criteria under which EOP treatment is appropriate, Parvinen testifies that regulatory lag and heavy investment in infrastructure upgrades are key drivers behind Cascade's consistent under-earning.[258] As additional support for EOP treatment, the Company contends that it has been historically under-earning its authorized ROR.[259] Cascade further contends that EOP treatment is especially important at this juncture due to the Company's expected level of infrastructure upgrades

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[254] *WUTC v. Pacific Power & Light Company,* Docket UE-140762, Order 08 ¶ 145 (March 25, 2015).

[255] Mullins, Exh. BGM-1T at 22:11-14.

[256] Mullins, Exh. BGM-1T at 22:14-15.

[257] Parvinen, Exh. MPP-2Tr at 4:13-14.

[258] *Id.* at 5:16-18.

[259] *Id.* at 5:8-6:11.

through 2021.[260] Without EOP, the Company argues, Cascade will be subject to significant regulatory lag and its trend of under-earning will continue.

158 Cascade contests Staff's assertion that the Company is overearning relative to its approved ROR. Parvinen argues that Staff did not use actual 2019 net operating revenues, which resulted in an overstatement of the Company's actual earnings.[261] Second, Cascade contests Staff's exclusion of certain cost increases reflected in the pro forma adjustments, which include major capital investments and compensation increases.[262] Parvinen asserts that when these corrections are accounted for, Cascade does not earn its authorized ROR.

159 In its Brief, Cascade maintains that EOP treatment "is appropriate to reduce regulatory lag because the Company is engaged in an ongoing, crucial capital investment program that is resulting in under-earning."[263] The Commission has approved EOP treatment when it finds that, absent this treatment, a utility will experience losses.[264] Although the Company admits that its initial filing "could have more specifically detailed" its request for EOP treatment, it submits that the rate case documented the need for this treatment.[265]

160 *Commission Determination*

161 We find it appropriate to value Cascade's rate base on an EOP basis given the Company's ongoing capital investments and its failure to earn its authorized rate of return over several years. However, we have several concerns with the Company's request for EOP valuation and the evidence it has presented to establish a history of under-earning.

162 Pursuant to RCW 80.04.250(2), the legislature provides the Commission with broad authority to determine the fair value of utility property for rate making purposes. We have accordingly valued rate base on an EOP basis when warranted by certain economic conditions and the particular facts of a given case.

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[260] *Id.* at 5:8-18.

[261] Parvinen, Exh. MPP-2Tr at 7:7-9.

[262] *Id.* at 7:10-14.

[263] Cascade Brief ¶ 19.

[264] *Id.* ¶ 20 (citing 2019 PSE GRC Order ¶ 228 (July 8, 2020)).

[265] *Id.* ¶ 21. Staff, Public Counsel and AWEC repeat on Brief the arguments made in testimony. Staff Brief ¶ 4; Public Counsel Brief ¶ 30; AWEC Brief ¶ 19.

163 In the 1981 case *WUTC v. Washington Natural Gas,* we observed that AMA rate base was "the most favored" approach. But we approved EOP treatment under one or more of the following conditions:

(a) Abnormal growth in plant;

(b) Inflation and/or attrition;

(c) Significant regulatory lag; or

(d) Failure of utility to earn its authorized ROR over an historical period.[266]

164 In subsequent decisions, we have described AMA rate base as the "preferred" approach, with EOP rate base being the "exception."[267]

165 Our decision in *Washington Natural Gas,* which describes various conditions under which EOP rate base may be justified, remains relevant 40 years later. Our use of EOP as a regulatory tool, however, has evolved in recent years in response to changing markets and conditions.

166 As we recently held in the 2019 PSE rate case, "[t]he Commission continues to view EOP rate base as one of many tools available to address regulatory lag when a sufficient showing has been made that, absent the use of EOP rate base, a utility will experience losses."[268] In that rate case, we approved EOP rate base in response to evidence of the company's earnings erosion over time and the life of certain short-lived assets, which were at risk of under-recovery.[269]

167 In this case, we agree that Cascade has demonstrated the need for EOP treatment, in part, due to its ongoing capital investment program and its demonstrated historical underearning. We discuss the Company's capital investments in greater detail below, in section II.B.6. The Commission recognizes that Cascade's capital investment spending has impacted the Company's earnings to some degree, and further recognizes that some of the under earning is due to factors outside of the Company's control. Although the

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[266] *WUTC v. Pacific Power & Light Company*, Docket UE-140762 Order 08 ¶ 145 (citing *WUTC v. Wash. Nat. Gas Co.*, 44 P.U.R. 4th 435, 438 (September 24, 1981).

[267] *Id.* ¶ 149.

[268] 2019 PSE GRC Order ¶ 228.

[269] *Id.*

record is unclear as to what extent Cascade's capital spending has contributed to the Company's earnings erosion, the Commission's allowance of EOP valuation will help to alleviate the impact of the Company's capital investment program. Company witness Kivisto explains, "Cascade must maintain its focus on system improvements and estimates it will invest more than $428 million to ensure system safety and reliability between 2020 and 2024."[270] We will continue to review the Company's capital investments to ensure that these are prudent additions to rate base, but they are a significant factor.

168 The evidence also establishes that Cascade has failed to achieve its authorized ROR for several years. While the Commission is not convinced that the Company's underearning is completely outside of its control, the evidence is clear that EOP treatment is warranted. Both the rebuttal testimony from Company witness Parvinen and Cascade's updated Commission Basis Reports (CBRs) show a pattern of underearning from 2015 onwards, as shown below in Table 3:

Table 3 – Cascade's Authorized ROR Compared to Actual ROR

ROR Calculated In:	2015	2016	2017	2018	2019	2020
Authorized	8.85%	7.35%	7.35%	7.31%	7.31%	7.24%
Rebuttal[271]	5.01%	5.70%	6.45%	6.70%	5.54%	5.81%
Updated CBRs[272]	5.73%	6.83%	6.39%	6.58%	5.89%	6.17%

169 Finally, we observe that economic volatility may itself weigh in favor of allowing an EOP adjustment to rate base. As we noted in *Washington Natural Gas*, "there is sizeable and well-recognized authority that in an abnormal and less stable economic climate year-end rate base may be more appropriate and should be used to balance out the financial problems caused by abnormal and uncertain economy."[273] As Company witness Bulkley notes, 2020 was a time of "extreme" market volatility and unprecedented monetary

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[270] Kivisto, Exh. NAK-1T at 3:11-13.

[271] Parvinen, Exh. MPP-3.

[272] Exh. BE-8 (Response to Bench Request No. 8).

[273] *WUTC v. Wash. Nat. Gas Co.*, Cause No. U-80-111 44 P.U.R. 4th 435, 437 (Sept. 24, 1981).

policy measures.[274] These economic conditions weigh in favor of EOP treatment, much as heightened inflation weighed in favor of EOP treatment for utilities in the early 1980s.

170 We therefore find that EOP rate base is warranted under the circumstances. Without EOP rate base treatment, Cascade will likely continue to under-recover in the rate effective period due to the extreme economic volatility caused by the COVID-19 pandemic, which remains ongoing. Although Cascade has not established that its history of under-earning is entirely due to factors outside of its control, we find it appropriate to allow an EOP adjustment to rate base in light of the particular facts of this case.

171 We have two significant areas of concern, however, that the Company will need to correct going forward. First, in Cascade's initial filing, the Company presented a rate base calculation that incorporated an EOP adjustment, but proffered no testimony supporting its request.[275] Even though we have recently become more flexible in adjusting rate base to reflect EOP value, we have not abandoned our practice of considering such treatment on a case-by-case basis. Accordingly, we expect a company's initial filing to articulate, with specificity, why EOP treatment is appropriate. The Company should also present rate base on an AMA basis, then create a restating adjustment to reflect rate base valued on an EOP basis to allow the Commission to appropriately consider the issue without the need for supplemental filings and bench requests, as were necessary to reach our decision in this case.

172 Second, we emphasize the need for CBRs to include all necessary restating adjustments. Pursuant to WAC 480-90-257(2), the annual CBR must reflect "all necessary adjustments as accepted by the commission in the utility's most recent general rate case or subsequent orders" and should adjust "for any material out-of-period, nonoperating, nonrecurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base." In this proceeding, we issued Bench Request No. 3 because Cascade's CBRs on file with the Commission did not contain all necessary adjustments. After receiving an insufficient response, we issued Bench Request No. 8, noting that the Company's CBRs still appeared to be missing relevant adjustments. Cascade then acknowledged, at the very least, that it inadvertently omitted the restating adjustment for Executive Incentives in its 2018 to 2020 CBRs when responding to Bench Request No. 3.[276] It is crucial for investor-owned utilities to provide CBRs that comply with WAC

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[274] Bulkley, Exh. AEB-1T at 14:5-18.

[275] *See* Myrhum, Exh. IDM-1T at 18:4-8.

[276] *See* Exh. BE-8 at 1 (Response to Bench Request No. 8).

480-90-257, because these reports may inform later decisions in general rate cases or other proceedings. CBRs that fail to include appropriate adjustments will not be considered reliable or credible evidence that the Company is under-earning.

3. Incentive compensation (R-6)

173 Cascade witness Gresham (previously Peters) outlines the Company's "Executive Incentives" adjustment (R-6), which removes $1.2 million in compensation paid to the Company's executive group.[277] The result is an increase in net operating income of $972,281.[278]

174 Staff witness Huang does not contest the adjustment.[279]

175 Public Counsel witness Garrett concedes that the Company's removal of executive incentives from its revenue requirement is an appropriate step that results in shared costs between ratepayers and shareholders.[280] Executive incentives account for 40 percent of test-year incentive compensation.[281] However, Garrett argues that an additional adjustment is necessary to (1) normalize the remaining test year incentives cost with the Company's stated target level for these incentives and (2) align the costs more closely with the 5-year average.[282] To do so, Public Counsel recommends that the Commission require an additional adjustment of $0.6 million.[283]

176 AWEC witness Mullins contests Cascade's inclusion of incentive payments from affiliates in the Company's parent corporation, MDU Resources Group, Inc. (MDU or MDUR), in the revenue requirement.[284] Mullins argues that the $1.8 million in incentive payments remaining after Cascade's adjustment still includes $0.7 million in incentive payments paid to employees of affiliates.[285] AWEC argues against the inclusion of these

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[277] Peters, Exh. MCP-1T at 6:9-11 (citing Peters, Exh. MCP-5 (Summary of Proposed Adjustments to Test Year Results).

[278] *Id.*

[279] Huang, Exh. JH-1T at 5:15-17.

[280] Garrett, Exh. MEG-1Tr at 18:10-12.

[281] *Id.* at 18:3-6.

[282] *Id.* at 18:13-20:18.

[283] Garrett, Exh. MEG-1Tr at 20:7-9 (citing Garrett, Exh. MEG-7 (Incentive Compensation).

[284] Mullins, Exh. BGM-1T at 35:21-23.

[285] *Id.* at 35:18-23.

monies on several grounds. First, AWEC contends that the MDU and MDUR bonuses are allocated costs from affiliate employees that have no fiduciary responsibility to make decisions that benefit Washington ratepayers.[286] Second, Mullins contends that it is impossible to know if the incentive payments benefited Cascade ratepayers because the Commission lacks jurisdiction over these affiliate employees.[287] Removing these affiliate bonuses results in a decrease to the Company's revenue requirement of approximately $0.8 million.[288] This results in a total adjustment for executive incentive compensation of approximately $2.0 million.[289]

177 In cross-answering testimony, AWEC agrees in part with Public Counsel's recommendation to normalize the test-year incentive compensation.[290] However, Mullins continues to contest including incentive compensation for Cascade's affiliate employees.[291] Integrating both adjustments, Mullins recommends including only those incentives paid to Cascade employees on a normalized basis, which results in nearly an additional $0.5 million reduction.[292]

178 In rebuttal testimony, Cascade witness Kaiser opposes Public Counsel's recommendation to normalize incentive payments and argues that the incentive compensation awarded in 2019 reflects superior employee performance, which is ultimately tied to customer benefits.[293] In the alternative, Kaiser proposes using a three-year rolling average, as opposed to five years, to capture recently incurred costs more accurately.[294]

179 Cascade also opposes AWEC's proposed adjustment, which would disallow incentive compensation allocated to Cascade by its affiliates. Kaiser submits that incentive payments motivate superior performance and testifies that ratepayers benefit from the synergy created by having a corporate parent.[295] Kaiser additionally takes issue with

[286] *Id.* at 36:1-11.

[287] *Id.* at 36:8-11.

[288] *Id.* at 36:18-21.

[289] Mullins, Exh. BGM-3 (Executive Incentives).

[290] Mullins, Exh. BGM-7T at 11:11-12:11.

[291] *Id.*

[292] *Id.*

[293] Kaiser, Exh. JEK-1CT at 19:13-19.

[294] *Id.* at 19-20:20-2.

[295] *Id.* at 20:10-21:5.

AWEC's suggestion regarding the Commission's jurisdiction over Cascade's affiliates. Citing RCW 80.16.030, Kaiser argues that the law allows for recovery of compensation made to affiliates if the amounts are reasonable.[296]

Commission Determination

180 The Commission does not "wish to delve too deeply into the Company's management of its human resources and the manner in which it determines overall compensation policy."[297] We thus inquire "only whether the compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers."[298] These principles guide our decision here.

181 We accept Cascade's proposed adjustment to remove executive incentives from test year expenses.[299] Because executive incentive plans generally focus on benefits to shareholders rather than customers, these expenses should not be included in the Company's revenue requirement.[300]

182 We also accept Public Counsel's proposal to adjust non-executive incentive compensation to the Company's stated target level, which normalizes the amounts closely to the five-year average.[301] The Commission recognizes that non-executive incentive payments for performance are part of employees' total compensation and are not merely a "bonus."[302] However, when considering test year expenses, it is appropriate to normalize extraordinary items recorded during the test period.[303] We have accordingly

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[296] *Id.* at 21:6-11.

[297] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket UE-100749, Order 06 ¶ 250 (March 25, 2011).

[298] *Id.*

[299] Peters, Exh. MCP-1T at 6:9-11 (citing Peters, Exh. MCP-5 (Summary of Proposed Adjustments to Test Year Results)).

[300] *See, e.g., WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-150204 and UG-150205 (consolidated) Order 05 ¶ 213 (January 6, 2016) (modified on other grounds) ("Thus, we agree with the other parties that it is inappropriate for the Company to recover any [Long Term Incentive Plan] expenses, including the retention incentive, from ratepayers.").

[301] Garrett, Exh. MEG-1Tr at 18:13-20:18.

[302] *Avista Corporation d/b/a Avista Utilities*, Dockets UE-150204 and UG-150205 Order 05 ¶ 248 (January 6, 2016).

[303] *E.g.*, WAC 480-07-510(3)(c)(i)(F).

normalized incentive payments for other companies using a rolling average.[304] As Public Counsel witness Garrett explains, Cascade awarded $1.7 million in non-executive incentive compensation during the test year.[305] This was far above the $1.0 million five-year average for non-executive incentive compensation.[306] It would be unreasonable to carry forward the $1.7 million in incentive payments into the rate-effective year, when this is not representative of the Company's normal incentive compensation. We therefore approve an additional adjustment of approximately $0.6 million to normalize this expense.

183 While the Company proposes normalizing the amounts to a three-year rolling average, rather than a five-year rolling average,[307] we are concerned that this results in a cherry-picking of high-expense years. A three-year rolling average would reflect the relatively high incentive compensation levels in 2017 ($2.4 million) and 2018 ($1.8 million). It would exclude the relatively lower incentive payments in 2015 ($0.9 million) and 2016 ($1.7 million).[308] A five-year rolling average better serves to normalize these expenses and provides a reasonable assessment of rate year incentives based on greater historical data.

184 We reject AWEC's proposed adjustment to remove incentive payments to employees of corporate affiliates. Pursuant to RCW 80.16.030, the Commission may approve of payments to affiliated interests when a utility establishes the reasonableness of the payments and provides satisfactory proof of the reasonableness of the amount to the Commission. Here, we take notice of Cascade's affiliated interest and subsidiary transactions reports filed with the Commission, which provide further documentation related to this issue.[309] As Company witness Kaiser explains, albeit on rebuttal, incentive compensation is a valid part of employee compensation and does not represent a mere "bonus."[310] Kaiser notes that customers benefit from Cascade's corporate affiliates,

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[304] *WUTC v. Puget Sound Energy*, Dockets UE-111048 and UG-111049 (consolidated) Order 08 ¶ 120 (May 7, 2012) ("The Commission has accepted the 4-year average normalizing methodology for this adjustment in prior cases for PSE and there is no reason to question it here.").

[305] Garrett, Exh. MEG-1Tr at 19:3-13.

[306] *Id.*

[307] Cascade Brief ¶ 119.

[308] Garrett, Exh. MEG-1T at 19:6.

[309] *See 2019 Affiliated Interest Report*, Docket UG-200385 (April 28, 2020).

[310] Kaiser, Exh. JEK-1CT at 20:10-21:5.

explaining that MDU is able to centralize certain functions and reduce the number of required staff.[311] While AWEC witness Mullins asserts that these affiliate employees provide "no identifiable benefit" to Washington customers, this is a broad, unsupported assertion.[312] Mullins does not identify any specific, unreasonable payments to affiliates. We therefore find that Cascade's payments to affiliates for incentive compensation are reasonable and supported by sufficient evidence.

4. Pro Forma Wage Adjustment (P-2)

185 Cascade seeks to recover wage increases for both union and non-union employees for 2020 and 2021 through adjustment (P-2). The following Table 4 summarizes the parties' positions, including Cascade's position as updated on rebuttal:

Table 4 – Parties' Positions regarding 2020 and 2021 Wage Increases

	2020 Union	2020 Non-Union	2021 Union	2021 Non-Union
Cascade	3%	3.55%	--	3%
Staff	3%	3%	--	--
Public Counsel	3%	3%	--	--
AWEC	3%	2%	--	--

186 Cascade witness Gresham provides a brief description of the components included in the adjustment. These four components include:

a. Annualizing the 2019 union employee wage increase effective April 1, 2019;[313]

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[311] *See id.*

[312] *See* Mullins, Exh. BGM-1T at 36:12-17.

[313] Peters, Exh. MCP-1T at 6:17-18.

b. 2020 wage increase for union and non-union employees. The union increase is 3 percent, while the non-union increase is 4 percent;[314]

c. Estimated 2021 wage increases for union and non-union employees. The union increase is estimated to be 3 percent, while the non-union increase is estimated to be 4 percent;[315] and

d. 2020 and 2021 wage increases associated with MDU employees that are allocated to Cascade, rather than directly assigned.[316]

187 In response testimony, Staff witness Huang contests Cascade's 4 percent escalation of non-union wages for 2020, instead advocating for a 3 percent increase. Huang asserts that the 4 percent increase is an estimate from the Company's budget and therefore does not meet the known and measurable standard.[317] Staff further argues that ratepayers should not be liable for the extra 1 percent increase because it was budgeted to address compression, equity issues, affirmative action items, and promotions – all of which are within the Company's ability to control.[318]

188 Staff presents a two-fold argument against the inclusion of estimated 2021 wage increases. First, Huang argues that these wage increases are based on a speculative 2021 budget and therefore fail to meet the Commission's known and measurable standard.[319] Second, Staff is concerned about the impact of these wage increases on Cascade's ratepayers in light of the COVID-19 pandemic. Huang argues that a 3 percent increase in 2019, with a 3 to 4 percent increase in 2020, and another 3 to 4 percent increase in 2021, is not reasonable.[320]

189 On behalf of Public Counsel, Garrett recommends that the 2020 wage increase be capped at 3 percent for both union and non-union employees, and Public Counsel opposes including 2021 wage increases.[321] After analyzing payroll data provided in response to

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[314] *Id.* at 6:18-20.

[315] *Id.* at 6:16-7:7.

[316] Peters, Exh. MCG-1T at 7:3-5.

[317] Huang, Exh. JH-1T at 7:8-11.

[318] *Id.* at 7:16-18.

[319] Huang, Exh. JH-1T at 8:5-6.

[320] *Id.* at 8:14-19.

[321] Garrett, Exh. MEG-1Tr at 14:12-14.

Public Counsel Data Requests 52 and 53, Garrett testifies that 2020 payroll costs increased by 2.6 percent for exempt employees, and 2.2 percent for non-exempt employees.[322]

190 For 2021 increases, Garrett argues that because Cascade identified future wage increases but ignored potential cost decreases, Cascade's proposal in adjustment P-2 amounts to single-issue ratemaking.[323]

191 AWEC recommends capping the non-union 2020 increase to 2 percent, citing recent economic conditions.[324] Like Staff and Public Counsel, AWEC witness Mullins does not support rate recovery of 2021 wage increases.[325] AWEC argues that such recovery would conflict with the Commission's practice of only considering known and measurable wage increases.

192 While neither Staff nor Public Counsel explicitly discuss MDU wage increases, AWEC spends considerable time contesting their inclusion in rates. AWEC argues that these costs represent time that the affiliate has allocated to Cascade and are therefore not wholly dependent on the wage levels of the affiliated company.[326] Because of this, AWEC argues that it does not necessarily follow that these charges will rise due to a wage increase at the affiliated company. AWEC further highlights the magnitude of the proposed affiliate wage increase. Mullins argues that the proposed 4 percent increase is nearly double the annual inflation rate, and that the economic conditions created by the COVID-19 pandemic render an increase of this size unreasonable.[327]

193 In rebuttal testimony, Cascade witness Kaiser responds to the concerns voiced by Staff, Public Counsel, and AWEC. With respect to 2020 wages, Kaiser updates the wage

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[322] *Id.* at 14:7-8.

[323] Garrett, Exh. MEG-1Tr at 12-13:19-4.

[324] 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.").

[325] *Id.* at 39:17-18.

[326] *Id.* at 37:16-19.

[327] *Id.* at 38:14-16.

increase for non-union employees to 3.55 percent, which reflects the actual 2020 amount.[328] Union wages remain at the bargained amount of 3 percent.[329]

194 Kaiser first rebuts Staff's argument, arguing that managers who were given 3 percent of the budget to work with were also permitted to work with HR to allocate the remaining 1 percent for the issues noted in Staff's testimony.[330] Thus, approximately 3.5 percent was actually allocated over the course of the year.

195 Kaiser next argues that Public Counsel incorrectly calculated payroll costs by not including the first pay period in 2020, using an incorrect value for 2019 base pay, and failing to account for the allocated costs from affiliates.[331] Responding to AWEC, Kaiser objects to the proposed adjustment to disallow allocated wages from Cascade's affiliates, asserting that MDU wages increase the cost of affiliate employee time allocated to Cascade.[332] Lastly, Kaiser argues that current economic conditions do not limit Cascade's need to attract and retain qualified employees at competitive salaries.[333]

196 With respect to 2021 wages, Kaiser testifies that Cascade has budgeted a 3.5 percent wage increase for non-union wages in 2021, although 0.5 percent will be held back for mid-year raises. Because of this, Cascade has updated its request to 3 percent for non-union wages, an amount it claims is known and measurable. [334] Cascade withdrew its request to recover its anticipated 2021 union wage increase.[335]

197 Kaiser disagrees with removing non-union 2021 wages entirely, as advocated by Staff, Public Counsel, and AWEC. Cascade argues that the Company is aiming to maintain a competitive compensation structure to retain its high-quality employees.[336] Kaiser

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[328] Kaiser, Exh. JEK-1CT at 9:10-12.

[329] *Id.*

[330] Kaiser, Exh. JEK-1CT at 10:14-17.

[331] *Id.* at 12:10-14.

[332] *Id.* at 14:1-5.

[333] *Id.* at 14:7-10.

[334] *Id.* at 15:5-8.

[335] *Id.* at 15:9-10.

[336] *Id.* at 16:12-13.

contends that the Company's recommended 2021 salary increase are in line with a third-party survey conducted by an outside consulting firm.[337]

198 Responding to Public Counsel's assertion that the 2021 wage increase constitutes single-issue ratemaking, Kaiser asserts that the increases are known and measurable because Cascade has identified them as "firm and verifiable."[338] Kaiser additionally testifies that the 2021 non-union increase is known and measurable because it has already been incorporated into employee paychecks.[339] Kaiser did not respond to Public Counsel's concern regarding potential cost decreases.

199 In its Brief, Cascade argues that the Commission considers whether compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers.[340] Cascade argues that the broader economic conditions have not lessened the need to attract qualified employees or to compensate them fairly.[341]

200 Staff reiterates is positions on brief and asserts that the Company's 2021 wage increase for non-union employees is not known and measurable because the Company did not present evidence that this wage increase was approved by its board of directors.[342] Public Counsel also reiterates its argument that Cascade's 2020 wage increase for non-union employees should be limited to 3 percent.[343]

201 AWEC maintains its objections to Cascade's pro forma wages adjustment, including wages for affiliate employees, on brief.[344]AWEC argues that Cascade's proposed wage increases are not consistent with current labor market conditions and that it is unreasonable to forecast wages two years ahead of the test period.[345]

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[337] *Id.* at 16:13-16.

[338] *Id.* at 17:4-7.

[339] Kaiser, Exh. JEK-1CT at 15:14-20.

[340] Cascade Brief ¶ 95.

[341] *Id.* ¶ 96.

[342] *See* Staff Brief ¶¶ 38, 40.

[343] Public Counsel Brief ¶¶ 36-38.

[344] AWEC Brief ¶ 32.

[345] *Id.* ¶ 38.

Commission Determination

202 We grant Cascade's request for 2020 wage increases for both union and non-union employees. The Company's original request for a 4 percent non-union wage increase reflected budgeted amounts.[346] On rebuttal, Kaiser updated the wage increase for non-union employees to 3.55 percent, which reflects the actual 2020 amount. Because the rebuttal testimony reflects known and measurable expenses, it is appropriate for the Company to recover these 2020 wage increases.

203 Although we approve recovery of the 2020 wage increases, we observe that this is another occasion where the Company failed to provide important testimony until the rebuttal stage of the proceeding.[347] This decision limited the non-Company parties' ability to review the Company's case and may have protracted disputes that could have been resolved more easily through clear communication and negotiation.

204 Despite the Company's haphazard presentation of testimony and evidence, we decline to limit Cascade's recovery for 2020 non-union wage increases as advocated by the non-Company parties. As a general matter, the Commission considers "only whether the compensation exceeds the market average, is unreasonable, and offers benefits to ratepayers."[348] We acknowledge that the COVID-19 pandemic has led to a recession, and has had a significant impact on the ability of many of Cascade's customers to pay their bills. We address the impact on customers in this order in our decision directing Cascade to develop and file a Disconnection Reduction Program and to provide a status report on its WEAF program. Further, Cascade provides significant assistance to customers through the Big Hardship Economic Assistance Receivable Temporary (HEART) program, as well as Winter Help, and its Budget Payment Plan.[349]

205 Our focus on compensation in this Order addresses market averages for salary levels rather than the general economic outlook. On this issue, Cascade submits the most compelling evidence in the form of a third-party report demonstrating the Company's

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[346] Kaiser, Exh. JEK-1CT at 9:5-12.

[347] *See generally* Kaiser, Exh. JEK-1CT.

[348] *WUTC v. PacifiCorp dba Pacific Power & Light Co.*, Docket UE-100749, Order 06 ¶ 250 (March 25, 2011).

[349] *E.g., In the Matter of Response to the COVID-19 Pandemic,* Docket U-200281 Order 01 ¶¶ 18-22 (October 20, 2020).

compensation levels are below the market median.[350] As Staff witness Huang acknowledges, market salary levels are generally outside the Company's control, and the Company should pay at the average industry level to attract qualified workers.[351] It is therefore reasonable for the Company to seek wage increases to better match market salary levels and attract qualified workers.

206 Turning to the individual arguments of the non-Company parties, we reject Public Counsel's challenge to the amount Cascade used for 2020 non-union wage increases. We find that Cascade credibly addresses Public Counsel's arguments about actual payroll expenses on rebuttal. We also reject Staff's argument to limit 2020 non-union wages to 3 percent based on current economic circumstances and the concern that additional spending above 3 percent was discretionary. As noted previously, the Commission's precedent on compensation focuses on market averages, not general economic conditions. Further, Cascade's internal guidance asked managers to keep 2020 raises within three percent, but the remaining one percent was used to address compression, equity issues, affirmative action items, and promotions.[352] Cascade's witness Kaiser notes that Staff's objection may have reflected confusion resulting from an earlier discovery response.[353] Cascade must ensure its discovery responses are complete rather than choosing to clarify its positions on rebuttal. We nevertheless find that the Company's request for these 2020 wage increases produces a reasonable result. Lastly, we reject AWEC's proposal to limit 2020 non-union wages to 2 percent for the reasons stated above. We therefore agree with Cascade's request for a 2020 wage increase for non-union employees of 3.55 percent.

207 We agree with non-Company parties, however, that it would be premature to include Cascade's 2021 non-union wage increases in rates at this juncture. Kaiser asserts that the 2021 non-union wage increase was approved by a managing committee, as per normal procedure,[354] and is already reflected in employee paychecks as a 3.31 percent wage increase.[355] While these factors weigh in favor of granting the Company's request, we are less than halfway through the 2021 calendar year, and it not apparent that this adjustment

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[350] Kaiser, Exh. JEK-1CT at 6:1-2. *See also* Kaiser, Exh. JEK-2C (Pearl Meyer Compensation Program Review).

[351] Huang, TR 279:13-24.

[352] Kaiser, TR 168:5-12. *See also* Kaiser, Exh. JEK-6X at 5-6 (2020 Merit Increase Guidelines).

[353] Kaiser, Exh. JEK-1T at 10:5-21.

[354] Kaiser, TR 165:6-17.

[355] *See* Kaiser, Exh. JEK-6X at 13 (showing the increase for Cascade employees at 3.31 percent).

reflects known and measurable costs, properly accounting for offsetting factors. We have rejected pro forma adjustments for wage increases when there is insufficient evidence that the utility has accounted for offsetting factors.[356] Additionally, Cascade itself acknowledges that the 2021 wage increase is not finalized, and that the costs may actually increase over the course of the year.[357] This provides further evidence that the wage increase is not yet known and measurable.[358] As Public Counsel witness Garrett concisely observes, a *wage increase* does not necessarily result in an equal increase in *payroll expenses*.[359] It is not yet appropriate to include any 2021 wage increase in rates. Cascade may present these expenses for the Commission's consideration in its next general rate case.

208 Finally, we reject AWEC's objections for 2020 wage increases for employees of affiliates. As we have noted in section II.B.4, the Commission may approve payments to affiliates when a utility establishes that those payments are reasonable. Kaiser credibly explains that wage increases for corporate affiliates increase the costs of affiliate employee time allocated to Cascade,[360] and we have already found that granting Cascade's request for 2020 wage increases is reasonable and consistent with the public interest.

209 In fact, we observe that this is another occasion where Cascade benefits from being part of a larger parent corporation. Cascade witness Kivisto gives the example of centralized legal services, noting, "We are benefitting from the ability to use a legal department that supports multiple companies instead of just having a legal department to support Cascade in its entirety."[361] When customers benefit from the cost-savings of centralizing employees, it is reasonable for rates to support wage increases for those same employees.

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[356] *See WUTC v. Pacificorp d/b/a Pacific Power and Light Company,* Docket UE-100749, Order 06 ¶ 231 (March 25, 2011) ("First, although it appears that workforce levels are lower, there is insufficient evidence in this record to quantify a potential offset to the revenue requirement.").

[357] *See* Kaiser, Exh. JEK-1T at 15:13-20.

[358] Huang, TR 282:11-17.

[359] *See* Garrett, Exh. MEG-1Tr at 14:2-10 (discussing the request for 2020 wage increases).

[360] Kaiser, Exh. JEK-1CT at 13:20-14:5.

[361] Kivisto, TR 129:21-24.

5. Pro Forma Plant Additions (P-3)

210 In direct testimony, Cascade proposes a pro forma adjustment for plant additions based on estimated costs and with estimated in-service dates by December 31, 2020, during the pendency of this case. Cascade identifies 15 discrete capital projects and describes blanket funding for projects that typically occur annually but that are not actually known or identified in the Company's blanket funding budget. In rebuttal testimony, the Company removes five discrete projects from its adjustment, requests recovery of the remaining 10 discrete capital projects, identifies three blanket funding categories related to growth, reduces its blanket funding request, updates estimated to actual costs, and updates estimated in-service dates.

Cascade Direct Testimony

211 Cascade witness Parvinen acknowledges that the Commission encouraged the Company to look to the Commission's Used and Useful Policy Statement for guidance on rate period investment recovery, which may address the Company's concerns related to regulatory lag.[362] However, Parvinen testifies that given the uncertainties surrounding the COVID-19 pandemic related to its capital investment plan, the Company chose not to propose rate period investment recovery.[363] Instead, the Company plans to wait for its next rate case to propose such a strategy.[364]

212 Cascade therefore proposes to increase its rate base by approximately $64.8 million by including "major" capital projects estimated to be placed in service by the end of 2020.[365] The Company's proposal includes actual project costs for projects completed by May 31, 2020, and estimated costs and in-service dates for projects expected to be completed between June 1, 2020, and December 31, 2020.[366] Parvinen explains that the Company plans to update in its rebuttal testimony all capital project estimates to reflect known and measurable costs and in-service dates to only reflect used and useful investments.[367]

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[362] Parvinen, Exh. MPP-1Tr at 3:9-4:4 (citing *WUTC v. Cascade Nat. Gas Corp.*, Docket UG-190210, Order 05 at ¶ 14-15 (Feb. 3, 2020)). *See* Used and Useful Policy Statement.

[363] Parvinen, Exh. MPP-1Tr at 3:9-4:4.

[364] *Id.*

[365] Parvinen, Exh. MPP-1Tr at 5:11-18.

[366] *Id.* at 5:11-19.

[367] *Id.* at 6:1-5.

213 Much of the Company's pro forma capital addition request includes growth-related investment and offsetting revenues associated with new customers.[368] However, Parvinen claims that revenues from new customers are not sufficient to provide an adequate return in the early years of the growth-related investments.[369] Parvinen argues that including these growth-related investments for recovery will reduce the regulatory lag the Company is currently experiencing.[370]

214 The Company's proposal includes estimated annual revenue for all new customers added in 2020 as an offsetting cost.[371] Although Cascade does not propose any other offsetting factors, Parvinen argues that the Company attempted to identify and quantify additional offsetting factors.[372] While Cascade includes estimates, Parvinen testifies that the proposed projects will be used and useful and costs will be known and measurable by the end of 2020.[373]

215 Finally, Cascade proposes to define major capital additions as all projects for which the budget exceeds $120,000.[374] Parvinen argues that, while $120,000 itself may not be not major, the combination of several projects in this range together represent a significant investment and should be included for recovery.[375] Parvinen argues that this threshold is reasonable in this proceeding, which only includes 15 projects.[376] Parvinen explains that Cascade chose not to use a threshold of 0.5 percent of net utility plant in service, as Staff found this threshold unreasonable in the Company's 2017 GRC.[377] Further, such a threshold is not strictly applied in all cases and the Commission does not support a "bright-line" definition for defining major plant additions.[378]

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[368] *Id.* at 6:20-7:3.

[369] *Id.*

[370] *Id.*

[371] Parvinen, Exh. MPP-1Tr at 8:2-6.

[372] *Id.*

[373] *Id.* at 8:17-9:6.

[374] *Id.* at 9:7-12.

[375] *Id.*

[376] *Id.* at 10:10-13

[377]*Id.* at 9:18-10:13.

[378] *Id.*

216 The Company submits there is still pressure to file another GRC quickly after this case.[379] Parvinen states that there is approximately $30 million of investment from its capital budget that the Company is not currently seeking recovery for in this case but provides no further explanation.[380]

217 Cascade also presents testimony from witness Darras describing the specific projects at issue in this case. First, Darras provides an overview of the project selection and budgeting process.[381] Darras goes on to discuss the 15 proposed projects included in the Company's revenue request, which are estimated to total $43.4 million.[382] Darras also describes three types of "blanket" funding projects and the upgrades to the Company's customer care and billing system.[383] The bulk of the Company's projects are either pipeline replacement, system reinforcements, or expansions.[384]

218 Darras explains that blanket funding projects are used for certain types of projects that occur annually but are not specifically known or identified in time for budgeting. Blanket funding can provide for estimated costs below or above $0.1 million.[385] The Company bases its blanket funding on historical trends and communications with local government.[386] Darras states that $18 million of its $101 million capital budget is related to blanket funding projects.[387]

Staff's Response Testimony

219 Staff witnesses McGuire and Panco recommend that the Commission reject the Company's request to include plant placed into service by December 31, 2020, arguing that the non-Company Parties were limited by the information provided by the Company at the time of responsive testimony, did not have the opportunity to conduct a prudency review' were not able to obtain actual in-service dates through discovery, and that the

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[379] *Id.* at 9:13-17.

[380] *Id.*

[381] Darras, Exh. PCD-1T at 3:10-9:5.

[382] *Id.* at 2:14-3:9, 11:13-15:16, and Exh. PCD-2.

[383] *Id.* at 68:20-71:8.

[384] *Id.* at 3:17-4:3.

[385] *Id.* at 68:20-69:8.

[386] *Id.* at 69:9-14.

[387] *Id.* at 69:15-18.

Company failed to account for offsetting factors.[388] Staff therefore recommends including only three of the Company's 15 proposed pro forma capital additions, representing approximately $6.9 million.[389]

220 Staff witness McGuire discusses the policy implications of the Company's request. McGuire argues that $59.1 million of the Company's proposed $66.1 million adjustment "represents projects that are not (and may never be) in service."[390] McGuire argues that it is unclear whether these projects will be in service by year end.[391] Staff also submits that it is inappropriate and unnecessary to include cost and offsetting revenues for plant attributed to customer growth and recommends removing both from revenue requirement.[392] Staff also contends the Company has failed to demonstrate that its pro forma plant costs have not been offset by other factors.[393]

221 McGuire explains that Staff did not apply a materiality threshold because most of the Company's pro forma capital request was not placed in service by the time responsive testimony was due, and such application would therefore not have been a "worthwhile endeavor."[394] Based on estimated project costs, Staff does not believe that all projects would meet the 0.5 percent materiality threshold that the Commission has previously employed.[395]

222 McGuire submits that the Company's proposed adjustment is "grossly out of step" with reality and inconsistent with reports stating that projects have been halted or delayed.[396] For example, Cascade claims that it will have added $96 million in post-test year investment but is only requesting to recover $66 million in this case. Based on Staff's

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[388] McGuire, Exh. CRM-1T at 34:4-16; 34:17-22; Panco, Exh. DJP-1T at 13:18-14:4.

[389] *Id.* at 17:20-21; Panco, Exh. DJP-1T at 3:9-13.

[390] McGuire, Exh. CRM-1T at 17:12-19.

[391] *Id.* at 21:1-8.

[392] *Id.* at 33:13-34:2.

[393] *Id.* at 26:13-19.

[394] *Id.* at 35:1-7.

[395] McGuire, Exh. CRM-1T at 35:8-11. *See* Parvinen, Exh. MPP-1Tr at 9:9-12 ("Cascade proposes to include as major capital projects all projects for which the budget exceeded $120,000. While $120,000 in and of itself may not seem "major," there are several projects in this cost range that, together, represent significant investment, and therefore warrant inclusion for recovery.").

[396] *Id.* at 21:11-15.

review of the Company's quarterly reports pursuant to WAC 480-90-275, McGuire asserts that Cascade's net plant in service has only grown by $10 million (excluding CRM investments) over the first three quarters of 2020.[397] However, Staff is not recommending increasing its adjustment from $6.9 million to $10 million because Cascade has only provided support for a $6.9 million adjustment. McGuire argues that it is impossible to assess offsetting factors for the incremental investment.[398]

223 Predicting that the Company will make its case on rebuttal, McGuire argues that this violates due process and is unfair to non-Company parties, and further calls into question whether the Commission will have a complete record that will allow it to make an informed decision.[399]

224 McGuire also argues that Cascade misunderstands Commission rules on pro forma adjustments and the Commission's Used and Useful Policy Statement.[400] The core problem with Cascade's pro forma plant adjustment, according to McGuire, is that it only includes increases to the Company's cost of service without accounting for decreases in expense or increases in revenue.[401] McGuire argues that the Company has also failed to account for plant depreciation replaced by pro forma plant; other plant that has been removed from service after the test year; reduction to O&M; and other benefits Cascade notes in testimony but does not quantify.[402] Finally, McGuire argues that the Company's revenue growth is based on projection, which also fails to meet the pro forma standard.[403]

225 McGuire and Panco distinguish the Commission's recent order in the 2019 Puget Sound Energy GRC, where the Commission allowed certain capital investments into rates that were placed in service during the pendency of the case.[404] Staff asserts that the

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[397] *Id.* at 21:17-22:14.

[398] *Id.* at 23:4-15.

[399] *Id.* at 24:1-25:3.

[400] *Id.* at 25:5-11.

[401] *Id.* at 27:1-8.

[402] *Id.* at 27:19-28:17.

[403] *Id.* at 33:13-17.

[404] *Id.* at 29:15-31:2 (citing 2019 PSE GRC Order at 37-38, ¶¶ 112-14); Panco, Exh. DJP-1T at 18:5-17. *See also* 2019 PSE GRC Order at 163, ¶ 560 ("[W]e will base our acceptance or rejection of proposed pro forma adjustments on our evaluation of multiple factors relevant to the particular proposed adjustment, including, but not limited to, the life of the asset, whether the

Company's pro forma capital request in this proceeding is "distinctly different from those the Commission included in PSE's revenue requirement," because Cascade's request contains a relatively larger number of projects that do not appear to be multi-year projects, are not short-lived assets, and were not in service (even partially) prior to the deadline for filing responsive testimony.[405]

226 McGuire notes that for projects that have not yet been placed into service, the Company's request does not address the Used and Useful Policy Statement provision stating that approval is subject to future review and refund.[406] Panco notes that Staff considered the Used and Useful Policy Statement in its review of the Company's request, but does not propose inclusion of rate period investments.[407]

227 Staff witness Panco addresses the specific capital additions at issue. Panco recommends that the Commission only approve four funding projects that relate to three of the 15 discrete pro forma capital additions, representing approximately $6.9 million.[408] Staff bases its recommendation on information confirmed by Cascade as of October 27, 2020.[409]

228 Panco argues that the Company's actual costs, $6.9 million, are significantly less than the estimated total costs, $66 million, proposed in direct testimony, and that Cascade's estimates are significantly different than actual costs. The table below, included in Panco's testimony compares actual to estimated costs for the four funding projects Staff recommends the Commission approve:[410]

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asset is used and useful, whether the costs of the asset are known and measurable, and whether the costs were prudently incurred.").

[405] McGuire, Exh. CRM-1T at 31:4-32:6; Panco, Exh. DJP-1T at 9:12-10:2, 18:19-19:16.

[406] *Id.* at 32:8-12.

[407] Panco, Exh. DJP-1T at 8:5-10.

[408] *Id.* at 13:18-14:4.

[409] *Id.* at 3:9-13.

[410] *Id.* at 13:18-14:4.

Funding Project # and Description	**Estimated Funding Project Costs (1)**	**Actual Funding Project Costs (2)**	**Difference (2-1)**
FP-317060 - FRL; 10" HP; BELL; 2900'	$ 1,526,471.05	$ 1,512,200.81	($ 14,270.24)
FP-300233 - ARLINGTON 6" HP	$ 2,757,265.26	$ 4,130,605.97	$ 1,373,340.71
264 FP-316586 - RP; R-187 ARLINGTON	$ 1,015,615.47	$ 1,005,786.24	($ 9,829.23)
FP-318482 RF; 4"; PE; Moses Lake	$ 433,146.02	$ 212,170.31	($ 220,975.71)
Totals	**$ 5,732,497.80**	**$ 6,860,763.33**	**$ 1,128,265.53**

229 Panco submits that, at the time direct testimony was filed, only one project was in service and the remaining 14 in-service dates were estimated.[411] Further, Panco argues that the Company fails to account for operational cost reductions and other offsetting considerations.[412] Panco argues that Cascade did not provide citations to Commission guidance or decisions to support the inclusion of pro forma capital additions based on the Company's capital budgets.[413]

230 Panco explains that, when evaluating whether pro forma plant requests conform to Commission standards, Staff considers the following questions:

1. Is the new plant used and useful to serve Washington customers?

2. Are the costs associated with the new plant known and measurable?

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[411] Panco, Exh. DJP-1T at 11:10-14.

[412] *Id.* at 6:1-7, 12:4-9.

[413] *Id.* at 10:6-20.

3. Are the costs incremental and not offset by other factors? or, if costs are offset by other factors, does the Company account for those factors in its revenue calculations?[414]

231 If the answer to all three questions is "yes," then Staff generally supports including those costs in rates. However, if the answer to any one of the questions is "no," Staff is unable to confirm whether inclusion is appropriate or necessary.[415]

232 Finally, Panco argues that it would be inappropriate to allow Cascade to update its pro forma plant costs and in-service dates on rebuttal for several reasons:

a. Parties will not be able to review and submit testimony, which leads to an incomplete record;

b. Allowing the updates would violate the Commission's procedural rules;

c. Pro forma adjustments must reflect the utility's cost of service and not just additional costs in a vacuum; and

d. Both the offsetting factors and the pro forma plant additions must be known and measurable.[416]

233 Panco also recommends removing Cascade's proposed revenue growth offsetting factor because it is merely based on forecasts and is associated with projects that are not known and measurable or contributing to Cascade's overall cost of service.[417] Panco observes that the Company's proposed pro forma projects are both revenue and non-revenue producing, and that Cascade does not attribute its revenue growth to any particular or specific project.

234 Panco further argues that other offsetting factors exist that are not quantified by the Company. These factors include removing replaced equipment, reduced depreciation, and reduced operation and maintenance (O&M) expenses related to maintained efficiencies.[418] Although Cascade asserts in Exhibit MCP-6, Supporting Explanations,

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[414] Panco, Exh. DJP-1T at 7:12-21.

[415] *Id.* at 8:1-3.

[416] *Id.* at 15:5-16:7.

[417] *Id.* at 16:19-17:2.

[418] *Id.* at 17:4-8.

that there are offsetting benefits, Panco argues that the Company does not describe, quantify, or include these offsetting factors in its proposed revenue requirement.[419] For this reason, the parties cannot review the prudency of investments before they are placed in to service.[420]

Public Counsel Response Testimony

235 Public Counsel recommends the Commission completely reject Cascade's proposed pro forma capital additions, which would increase rate base by approximately $64 million.[421] Witness Garrett recommends, as an alternative "middle ground," allowing the test year EOP rate base approach with modifications that fully offset the results with lower depreciation rates and a lower cost of capital.[422] Garrett argues that this allows Cascade a full return on test year plant additions.[423]

236 If the Commission were to allow plant additions beyond the test year, however, Garrett argues it should not go beyond the $10.3 million in plant additions that were placed into service by September 30, 2020.[424] This is the latest date non-Company parties could review and verify plant additions.[425]

237 To support Public Counsel's proposal to exclude post-test-year plant, Garrett argues that the Company's request is based on future period cost projections, which the Commission has previously rejected.[426] Garrett submits that if Cascade is allowed recovery of projected costs, it will spend to achieve the projected costs.[427]

238 Garrett agrees with Cascade's decision to not project investment cost increases into the rate-effective period in light of the COVID-19 pandemic.[428] Even if Cascade relied on the

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[419] Panco, Exh. DJP-1T at 17:10-18:3.

[420] *Id.* at 18:19-19:16. *See also id.* at 7, n. 6 (noting Staff was unable to determine whether the capital investments were prudent).

[421] Garrett, Exh. MEG-1Tr at 11:6-18.

[422] *Id.*

[423] *Id.*

[424] *Id.* at 11:15-18 and 5:16-6:2.

[425] *Id.*

[426] Garrett, Exh. MEG-1Tr at 6:11-7:4.

[427] *Id.* at 7:5-9.

[428] Garrett, Exh. MEG-1Tr at 7:10-8:11.

Used and Useful Policy Statement, Garrett observes that the Company does not fully address ratepayer protections such as a future prudency review and offsetting cost adjustments.[429] For example, Cascade's pro forma plant extends through to the end of 2020 but does not recognize $27 million in rate recovery for depreciation related to existing plant that would offset growth in rate base.[430] Garrett contends it is inappropriate for the Company to ask for rate base increases without also including decreases over the same period.[431]

239 Finally, Garrett disputes Cascade's assertion that it is experiencing "progressive and deleterious" regulatory lag.[432] Garrett notes that a degree of regulatory lag is an "intentional part of the regulatory paradigm" and that regulatory lag is the primary reason utilities are authorized ROEs higher than those for risk-free capital.[433] Garrett argues that utilities cannot have it both ways: *i.e.*, reduce regulatory lag with a succession of rate increases and continue to request higher and higher ROEs.[434] Garrett also argues that regulatory lag serves to disincentivize utilities from gold-plating and over-spending.[435]

AWEC Response Testimony

240 On behalf of AWEC, witness Mullins recommends the following related to Cascade's pro forma plant request:

a. Remove pro forma plant additions that were pro forma plant additions in the Company's 2019 GRC;

b. Remove pro forma capital additions not yet in service as of the date response testimony was filed;

c. Remove all blanket capital forecasts;

d. Adjust plant removal costs; and

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[429] *Id.*

[430] *Id.* at 8:2-8.

[431] *Id.*

[432] Garrett, Exh. MEG-1Tr at 8:12-18 (citing Kivisto, Exh. NAK-1T at 4:17–5:14).

[433] *Id.* at 8:16-10:5.

[434] *Id.*

[435] *Id.* at 10:3-5.

e. Adjust expected plant retirements.[436]

241 Insofar as Cascade requests recovery of investments included in its 2019 GRC, AWEC characterizes such requests as a "second bite at the apple."[437] Mullins is specifically concerned with the following projects: Wallula Gate, Bellingham 8" HP, Arlington Gate, and Aberdeen HP.[438] These four projects total approximately $27 million.[439]

242 Using the Wallula Gate project as an example, Mullins argues that Cascade's credibility is diminished regarding its capital budgets.[440] First, the project has not yet been placed into service even though Cascade predicted in its last GRC that it would be in service by December 31, 2019.[441] Second, according to the current request, this project's budget is $5.6 million more than Cascade estimated in its last GRC; however, Cascade provides no explanation for this variance.[442]

243 Mullins argues that it would be inappropriate to allow the Company to recover the same pro forma plant additions in both the prior and current cases.[443] AWEC argues that, in the 2019 GRC settlement, the expectation was that the proposed projects would be in service and benefiting ratepayers.[444]

244 Mullins recommends removing all remaining pro forma plant additions not placed into service prior to the deadline for filing response testimony.[445] Similar to Staff, AWEC asserts that there is no basis for including these investments because non-Company parties had no opportunity to review actual capital costs, and Cascade shows a lack of accuracy in projecting in-service dates and budget overruns.[446] Mullins testifies that

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436 Mullins, Exh. BGM-1T at 20:8-21 (citing Docket UG-190210, Cascade 2019 GRC).

437 *Id.* at 26:3-18.

438 Mullins, Exh. BGM-1T at 24:7-17. *See also* Mullins, Exh. BGM-6 (identifying investments included in Cascade's 2019 GRC direct testimony).

439 *Id.* at 24:15-16.

440 *Id.* at 24:18-25:7.

441 *Id.*

442 *Id.*

443 *Id.* at 25:8-26:2.

444 *Id.*

445 *Id.* at 27:4-16.

446 *Id.*

approximately $23 million of the Company's proposed pro forma capital additions are not in service, including the Wallula Gate project.[447]

245 AWEC recommends removing all blanket funding and small pro forma plant additions and the associated offsetting revenue growth adjustment.[448] Mullins recommends the Commission reject post-test year blanket requests because they are neither discrete nor major and is impossible to determine prudency.[449] In the alternative, if the Commission allows the adjustment for blanket funding with associated revenue growth, Mullins recommends an additional offsetting adjustment to increase accumulated depreciation by $29.4 million to reflect existing 2020 plant.[450]

246 Mullins recommends limiting "major" pro forma capital additions to exclude blanket capital and project budgets less than $0.5 million, rather than Cascade's projected capital additions that include discrete projects as small as $0.1 million.[451] Presumably, the blanket capital projects comprise even smaller investments. AWEC argues that these projects are too small to review on a case-by-case basis, that they should not be included in the pro forma capital adjustment, and that such investments are not typically allowed because of the offsetting effects of incremental accumulated depreciation.[452]

247 Mullins explains that existing plant depreciation reduces rate base and thus reduces capitalization needs of new investments.[453] Further, Mullins reasons that it would violate the matching principle to allow incremental routine capital without also including the associated offsetting incremental accumulated depreciation.[454]

248 Mullins also argues that Cascade currently has mechanisms to recover routine capital through its decoupling and cost recovery mechanisms.[455] Mullins states that decoupling based on per customer revenue will compensate for growth in related capital, and that the

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[447] Mullins, Exh. BGM-1T at 26:20-27:3.

[448] *Id.* at 31:20-32:14.

[449] *Id.* at 28:16-21.

[450] *Id.* at 31:20-32:14.

[451] *Id.* at 29:1-12.

[452] *Id.* at 29:1-22.

[453] *Id.*

[454] *Id.*

[455] Mullins, Exh. BGM-1T at 31:9-19.

cost recovery mechanism provides recovery specific to these sorts of investments.[456] Finally, Mullins argues that because many of the projects are not discrete, it is unknown whether these mechanisms will result in double recovery.[457]

249 Mullins recommends two additional adjustments to Cascade's plant additions on behalf of AWEC. First, Mullins recommends adjusting the pro forma capital adjustment to include expected 2020 removal costs (negative net salvage) using calendar year 2019 removal costs.[458] Mullins argues that removal costs also impact depreciation expense.[459] Mullins further argues that, because removal costs are considered in forecasted capital, they also must be removed from depreciation when plant retires.[460] Mullins asserts that, because depreciation includes negative net salvage, including negative net salvage in gross plant, failing to exclude removal costs would lead to the Company recovering negative net salvage on negative net salvage.[461] Mullins notes that Cascade's 2019 removal costs were $3.6 million.[462] AWEC therefore recommends applying these 2019 removal costs as a pro forma adjustment to 2020.[463]

250 Second, Mullins recommends including a revenue requirement adjustment for 2020 pro forma plant retirements based on actual 2019 retirement costs.[464] Mullins's calculation is based on expected 2020 retirements.[465] AWEC argues that the Company only includes the impact of its proposed pro forma plant additions, and fails to address the offsetting impacts of 2020 plant retirements on depreciation expense.[466] Mullins notes that Cascade retired $11.4 million of plant in 2019, which Mullins recommends as a pro forma adjustment for plant retirement in 2020.[467]

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[456] *Id.*

[457] *See id.*

[458] *Id.* at 34:3-19.

[459] *Id.* at 34:15-23.

[460] *Id.*

[461] *Id.* at 34:1-10.

[462] *Id.* at 34:11-14.

[463] *Id.* at 34:15-19.

[464] *Id.* at 32:17-22.

[465] *Id.* at 33:15-22.

[466] *Id.* at 33:1-4.

[467] Mullins, Exh. BGM-1T at 33:1-14.

Cascade Rebuttal Testimony

251 Cascade mitigates its request for pro forma plant additions in rebuttal testimony. Witness Parvinen provides testimony to update the Company's inclusion of major capital projects. Of the 15 discrete projects Cascade initially proposed, three were "deliberately" delayed to 2021, one was delayed due to the need to obtain easements, and one completed project fell below the Company's "major" threshold and was removed from the Company's request.[468] Cascade thus requests recovery of $39.3 million for 10 remaining discrete projects and $17.9 million for blanket funding projects, totaling approximately $57.3 million for pro forma plant additions, which is approximately $8.9 million less than the Company requested in its initial filing.[469]

252 Parvinen maintains a "major" investments threshold of $120,000 and argues that all requested projects included in Cascade's rebuttal case are above this threshold.[470] Responding to AWEC, Parvinen argues that the Commission has not established a "bright-line" for determining what constitutes a capital project, and that this is a reasonable threshold given Cascade's relatively small size.[471]

253 Parvinen further argues that Cascade's rebuttal request is not "100 percent" of the Company's 2020 capital budget.[472] Parvinen argues that Cascade's initial filing has excluded from recovery about $30 million of the Company's 2020 capital budget.[473]

254 Parvinen argues that Cascade's request for both discrete projects and blanket funding is consistent with the Commission's standards and the Used and Useful Policy Statement.[474] Parvinen submits that the blanket funding projects are considered programmatic investments related to customer growth.[475] The Company included offsetting revenue

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[468] Parvinen, Exh. MPP-2Tr at 10:1-16.

[469] *See id.* at 10:7-16. *See also* Darras, Exh. PCD-4 (Updated Summary of 2020 Capital Projects)

[470] Parvinen, Exh. MPP-2Tr at 21:6-22:2 (citing *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-150204 and UG-150205, Order 05 at ¶ 40 (January 6, 2016)).

[471] *Id.*

[472] *Id.* at 11:1-6.

[473] *Id.*

[474] Parvinen, Exh. MPP-2Tr at 12:8-20.

[475] *Id.*

growth for the blanket funding projects, even though not all blanket funding projects are revenue producing.[476]

255 Continuing to respond to AWEC, Parvinen argues that the Company may request recovery for the pro forma plant additions that were included in its 2019 GRC because the settlement stated that the parties did not agree on the specific adjustments necessary to reach the agreed-upon increase to the Company's revenue requirement.[477] Parvinen argues that, because the settlement was a "black-box" and no rate base amount was identified, it cannot be assumed that the projects AWEC identified are included in rates, and AWEC's challenge in this future proceeding is thus without merit.[478] Parvinen argues that the settled revenue requirement represents a significant reduction to expense and pro forma plant, which, combined with the settlement's terms, means that the Company did not receive its full request. Finally, Parvinen contends that AWEC's adjustment is flawed because it doubles the size of the adjustment by removing the plant that was never included in the 2019 GRC rates and from the pro forma adjustment as not yet being in service.[479]

256 Responding to Staff, Parvinen argues that the Used and Useful Policy Statement addresses projects that are in service before the rate effective date because the Used and Useful Policy Statement addresses both "provisional" and "traditional" pro forma adjustments.[480] Parvinen argues that provisional and traditional pro forma adjustments should be treated the same because it would be illogical for rate-effective investments to receive more lenient treatment.[481]

257 Additionally, Parvinen contends that Cascade's proposed pro forma adjustment does not need to be subject to future review or possible refund because all materials necessary for a prudency review were filed in the Company's initial case and provided through discovery.[482] Parvinen states that actual costs and in-service dates were the only missing

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[476] *Id.*

[477] *Id.* at 13:16-14:20.

[478] *Id.*

[479] *Id.*

[480] *Id.* at 13:1-15.

[481] *Id.*

[482] Parvinen, Exh. MPP-2Tr at 14:21-15:8.

information, which has now been provided in rebuttal testimony, and that all information is still subject to discovery, cross-examination at hearing, and post-hearing briefing.[483]

258 Parvinen disagrees with Staff's assertion that Cascade intended to make its case on rebuttal.[484] Parvinen argues that it filed its direct case pursuant to WAC 480-07-510(3), presented evidentiary support for its entire pro forma plant request, and on rebuttal only updates the costs, in-service dates, and the actual 2020 number of customers.[485] Parvinen argues that these numbers "are now final and available for all parties' review."[486]

259 Parvinen disagrees with Staff's assertion that the Commission requires pro forma plant to be in service, and actual costs known, by the time non-Company parties file responsive testimony, arguing that the Commission has not established such a requirement.[487] Instead, Parvinen contends that the Commission retains its flexibility when allowing recovery of pro forma plant.[488]

260 Parvinen also disputes Staff's recommended approval of $6.9 million in pro forma plant placed in service as of September 30, 2020, because Staff fails to include blanket funding projects or other discrete projects placed in service before non-Company parties filed responsive testimony.[489] According to Parvinen, the actual amount in service, including blanket funding projects, is $28.2 million.[490] Cascade also takes issue with Staff's cutoff date of September 30, 2020, arguing that this cutoff date is "misleading" because the Company's construction projects normally begin in the summer and are mostly completed during or after the third quarter of the year.[491]

261 Parvinen argues that Staff's comparison of $19.6 million in quarterly net investment as of September 30, 2020, to Cascade's pro forma plant request of $66.1 million is not

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[483] *Id.*

[484] *Id.* at 15:9-16:2.

[485] *Id.*

[486] *Id.*

[487] *Id.* at 16:3-15.

[488] *Id.*

[489] *Id.* at 18:1:1-7.

[490] *Id.*

[491] *Id.* at 18:8-19:6.

appropriate because the Company's request is a gross, rather than net, value.[492] Parvinen contends that a better comparison for Cascade's $66.1 million request is the gross investment of $34.2 million calculated from total plant in the Company's quarterly results of operations in Docket UG-200911, filed on November 12, 2020.[493] Parvinen states that the Company's total capital addition for 2020 is $96.2 million and that the Company is only requesting to recover $57.3 million in its rebuttal case.[494]

262 In response to Public Counsel, Parvinen disagrees with limiting pro forma plant recovery to $10 million for projects placed in service by September 30, 2020[495] First, Parvinen argues that Public Counsel could have included more in-service projects before responsive testimony was due, arguing that it is unreasonable to limit capital requests to in-service projects well before the response testimony deadline.[496] Second, Public Counsel excluded blanket funding projects.[497]

263 Parvinen submits that no party has objected to Cascade's pro forma plant additions based on prudency.[498] Parvinen notes that Staff and AWEC both declined to evaluate prudency for projects not in-service by each parties' respective cutoff date, while neither Public Counsel nor TEP offered testimony related to prudency.[499]

264 Finally, Parvinen provides testimony on the Company's blanket funding projects. Parvinen rejects AWEC's argument that blanket funding cannot be included in pro forma capital, saying it encompasses small investments rather than discrete projects. Parvinen argues that the Commission has made clear in its Used and Useful Policy Statement that pro forma plant can include both specific and programmatic investments and that the Commission will be flexible in its review of plant placed in service before the rate-effective period.[500]

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[492] *Id.* at 19:7-13.

[493] *Id.* at 19:14-16 and Footnote 55.

[494] *Id.* at 20:3-7.

[495] *Id.* at 20:8-18.

[496] *Id.*

[497] *Id.*

[498] *Id.* at 20:19-21:5.

[499] *Id.*

[500] *Id.* at 22:3-17.

265 Referring to the final order in Avista's 2015 GRC, Parvinen argues that the Commission allowed pro forma blanket projects even though Public Counsel argued that the projects were not major or discrete.[501] Parvinen testifies that, contrary to AWEC's arguments, there is no double recovery of blanket funding projects in the Company's CRM.[502] Furthermore, CRM investments are discretely identified in the Company's bi-annual safety plan.[503]

266 Parvinen disagrees with AWEC's assertion that the Company recovers some growth-related blanket funding projects in its decoupling mechanism, arguing that while the mechanism allows Cascade to defer the differences between billed revenue and its authorized margin revenue per customer, it does not adjust rate base for known and measurable changes.[504]

267 In support of Cascade's request, witness Darras argues that most of Cascade's proposed pro forma plant was placed in service by the end of 2020.[505] Darras submits that Cascade's direct testimony provided "significant" explanation regarding proposed projects and that the Company would update estimated costs and in-service dates on rebuttal.[506]

268 Darras contends that the non-Company parties "significantly understated" plant placed in service by November 19, 2020, the date responsive testimony was filed.[507] Darras notes that Cascade updated its response to Staff Data Request 92 by providing actual in-service dates and costs for Cascade's proposed capital additions on October 27, 2020, and again November 13, 2020.[508] Cascade similarly updated its response to AWEC Data Request 62 on November 12, 2020.[509] Darras submits that the non-Company parties could have

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[501] *Id.* at 22:18-23:3. (citing Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 41 (modified on remand on unrelated grounds)).

[502] *Id.* at 23:4-8.

[503] *Id.*

[504] *Id.* at 23:9-17.

[505] Darras, Exh. PCD-3T at 21:7-17.

[506] *Id.*

[507] *Id.*

[508] Darras, Exh. PCD-3T at 18:3-20. *See also* Garrett, Exh. MEG-22 (Cascade 2nd Revised Supplemental Response to UTC Staff Data Request 92, with Attachment).

[509] *E.g.*, *id.* at 14:12-15.

included five additional discrete projects in their responsive testimonies. Those projects were the Othello Gate, Arlington Gate, Bellingham 8” HP, Moses Lake 4” PE, and Walla Walla 6” Distribution, representing $13.6 million of pro forma adjustments.[510] Additionally, Cascade argues that parties failed to include $14.6 million in blanket funding projects that were completed.[511]

269 Darras testifies that it is common for projects to be placed in service in November and December due to the “seasonal nature of construction.”[512] Thus, the typical project cycle includes planning in the spring and construction from summer to fall or early winter.[513]

270 Darras also points to delayed in-service dates caused by “challenges or delays” related to permitting, constructions site conditions, or easements that do not allow Cascade to provide perfectly estimated in-service dates before the projects are started and do not necessarily reflect all known variables.[514] However, Darras testified that, in the future, Cascade will prioritize the permitting and easement acquisition process to attempt to better understand delays.[515]

271 With respect to Cascade’s request for blanket funding projects, Darras testifies that these projects represent typical capital investments that occur every year, but that the Company does not exactly know when or where these investments will occur.[516] The Company cannot individually budget for these types of projects.[517] Darras testifies the Company spent $17.9 million on blanket funding projects as of December 31, 2020.[518] Darras argues that the dollars spent in 2020 are in line with the last five years, and that such investments are outside of the Company’s control because they are driven by new and existing customers and must be accounted for in Cascade’s budget.[519]

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510 Darras, Exh. PCD-3T at 21:18-22:8.

511 *Id.*

512 *Id.* at 22:9-16.

513 *Id.*

514 *Id.* at 22:17-23:8.

515 *Id.*

516 *Id.* at 16:10-19.

517 *Id.*

518 Darras, Exh. PCD-3T at 16:20-17:1.

519 *Id.* at 19:1-11.

272 In response to AWEC's claim that the Wallula Gate Project was $5 million over budget, Darras explains that this expense that was erroneously omitted from the Company's 2019 GRC.[520] Specifically, Darras identifies project code 302569, representing a $5.7 million payment to Transcanada that, while booked to construction work in progress, was accidentally excluded from the last GRC.[521]

273 Regarding claims that blanket funding projects are not discrete and major, Darras argues that the Company's request on rebuttal for $17.9 million for 2020 projects is "major" for Cascade and as a total amount far above the Company's threshold of $120,000.[522] Darras contends that this type of programmatic investment has been allowed by the Commission in the past, and that ignoring these investments and offsetting factors will only exacerbate the impact of regulatory lag.[523]

274 On rebuttal, Cascade expands its offsetting factors to include benefits related to replaced and retired plant.[524] The Company reduces depreciation expense by approximately $157,000 to reflect replaced and retired plant associated with its proposed pro forma plant adjustment.[525] Parvinen explains that the offsetting reduction to depreciation was calculated using AWEC's formula with Cascade's updated depreciation rate of 3.06 percent, uses 2020 figures, and uses a ratio to limit the offset to plant included for recovery.[526]

275 Parvinen disagrees with AWEC's recommendation to use 2019 retirements to project 2020 retirements because 2019 and 2018 were abnormal years with higher-than-average retirements related to encoder receiver transmitters retired for metering upgrades.[527]

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[520] *Id.* at 23:9-20.

[521] *Id.*

[522] *Id.* at 23:21-24:11.

[523] *Id.*

[524] Parvinen, Exh. MPP-2Tr at 24:1-8.

[525] *Id.*

[526] *Id.* at 24:9-25:18. *See also In the Matter of Cascade Natural Gas Corp. Petition for an Accounting Order Authorizing Revision to Depreciation Rates*, Docket UG-200278, Order 01, Attachment 1 (December 10, 2020).

[527] *Id.* at 25:1-8.

Parvinen instead uses actual 2020 retirements to yield the replaced and retired plant adjustment.[528]

276 Cascade disputes Staff's argument that the Company failed to include O&M expense offsetting factors. Although Parvinen acknowledges that there are potential O&M savings related to reduced operating costs during peak cold weather events, Parvinen argues that the test year did not have any peak cold weather events and, as such, there were no O&M savings to offset the proposed pro forma plant.[529] Parvinen states that the Company is not required to prove that offsetting factors do not exist.[530]

277 Additionally, the Company disagrees with Staff's argument that "aggregate offsetting revenue" based on forecasted load and customer counts is inadequate because it is not associated with a specific plant addition. Cascade claims that association with a specific plant addition is not necessary because the Company did not include all 2020 growth-related plant in its request but included all revenue growth as an offset.[531] Parvinen suggests that Staff is concerned that the Company is overestimating offsetting revenue impacts, and this should not be a reason to exclude recovery of the pro forma plant additions.[532]

278 Finally, Parvinen testifies that if the Commission finds Cascade's rebuttal pro forma plant request is known and measurable, used and useful, and prudently incurred, then the Commission should also use 2020 EOP billing determinants for the offsetting revenue growth.[533] However, if the Commission accepts Staff's pro forma plant adjustment, Parvinen recommends the Commission use 2019 EOP billing determinants.[534]

Staff Cross-Answering Testimony

279 In cross-answering testimony, Staff addresses the discrepancy between Staff's and Public Counsel's proposed pro forma plant recommendations. Public Counsel recommends rejecting Cascade's pro forma plant additions; however, if the Commission allows these

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[528] Parvinen, Exh. MPP-2Tr at 24:1-25:18.

[529] *Id.* at 25:19-26:6.

[530] *Id.* at 26:7-11.

[531] *Id.* at 27:3-15.

[532] *Id.*

[533] Parvinen, Exh. MPP-2Tr at 27:16-28:5.

[534] *Id.*

plant additions, Public Counsel witness Garrett argues it should not go beyond the $10.3 million representing plant additions that were placed into service by September 30, 2020.[535] Staff only recommends allowing $6.9 million of Cascade's pro forma plant additions.[536]

280 Staff witness Panco explains that both Staff and Public Counsel use similar in-service dates, October 27, 2020, and October 31, 2020, respectively.[537] Although Garrett's testimony refers to an in-service date of September 2020, Panco notes that Garrett's supporting figures reference plant balances as of October 31, 2020.[538] However, Staff did not include four projects that Public Counsel included, and the parties used different amounts for one project.[539] Panco argues that these four projects should not be included because the costs and in-service dates were estimates.[540] Staff maintains its position that estimates of this nature do not meet the Commission's standards for pro forma plant.[541]

AWEC Cross-Answering Testimony

281 AWEC witness Mullins does not agree with Staff's pro forma plant adjustment of $6.9 million, which includes two phases of Arlington Gate, Bellingham 8" HP, and Moses Lake 4" PE projects.[542] First, Mullins argues that because both the Arlington Gate and Bellingham 8" HP projects were included in the Company's revenue request in its 2019 GRC, the Commission should not allow Cascade a "second bite at the apple".[543] Second, Mullins argues that the Moses Lake project is not major (less than $0.5 million), and therefore should not be included because small and routine additions after the test year are accounted for through ongoing accumulated depreciation.[544]

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[535] Garrett, Exh. MEG-1Tr at 11:15-18.

[536] Panco, Exh. DJP-8T at 2:13-3:5.

[537] *Id.* at 3:12-4:11.

[538] *Id.*

[539] *Id.*

[540] *Id.* at 4:13-21.

[541] *Id.*

[542] Mullins, Exh. BGM-7T at 9:3-10:13.

[543] *Id.*

[544] *Id.* at 10:8-13.

Commission Determination

282 For the reasons discussed below, we exercise our discretion to approve $13.6 million in post-test year plant that was in service by October 27, 2020, before the deadline for filing response testimony. First, Cascade failed to establish that its other post-test year plant investments follow the longstanding principles for pro forma adjustments. Second, the Company's response to non-Company parties' data requests made it nearly impossible to discern between estimated and actual costs and in service dates. Third, Cascade's argument that it planned to update final costs and in-service dates on rebuttal limited the non-Company parties' ability to review prudency. Our decision to approve Cascade's other investments at this time does not prohibit the Company from including these investments in a future general rate case test year.

283 Under the recent amendments to RCW 80.04.250, the Commission has broad authority to consider "any property of the public service company acquired or constructed *by or during* the rate effective period, including the reasonable costs of construction work in progress, to the extent that the commission finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates." Thus, it is no longer "exceptional" to allow for pro forma adjustments more than a few months after the end of the historical test year.[545]

284 While we have greater discretion to consider pro forma plant additions after the end of the test year, the underlying principles for pro forma adjustments remain essentially unchanged. These principles may be summarized as follows:

a. The property must be used and useful for Washington customers;

b. The proposed adjustment must reflect only known and measurable changes that are not offset by other factors;

c. The costs were prudently incurred; and

d. The investment is "major."[546]

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[545] 2019 PSE GRC Order ¶ 113.

[546] *See WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-170485 and UG-170486, Order 07 ¶ 196 (April 26, 2018) (2017 Avista GRC Order)*; Wash. Utils. & Transp. Comm'n v. Pac. Power & Light Co.,* Docket UE-152253, Order 12 ¶¶ 94-95 (September 1, 2016) (2015 PacifiCorp GRC Order).

285 The Commission has applied these principles exercising "considerable discretion" in light of the financial and economic circumstances of individual cases.[547]

286 To a significant degree, we have balanced competing considerations. We rejected "bright line" cut off dates for capital additions placed into service after the historical test year in order to support the utility's need for timely recovery of its investments.[548] At the same time, we have recognized the difficulty of reviewing capital investments placed into service during the late stages of this proceeding. The non-Company parties cannot rely on mere budget estimates for projects under construction, and cannot be expected to continually review the prudency of investments throughout the pendency of a rate case.[549]

287 Accordingly, we have generally considered pro forma adjustments for capital investments placed into service by the time response testimony is filed. For example, in the 2009 Avista general rate case, we approved of Staff's proposal to allow pro forma plant through June 30, 2009. This was several months after the end of the test year, but before the deadline for filing response testimony in that case. We observed in that case that allowing pro forma plant placed in service by that date allowed the company significant recovery of its investments while providing properly audited, final costs for non-Company parties to review.[550]

288 In certain cases we have considered and approved capital additions that came into service *after* the filing of response testimony. For instance, in *WUTC v. Pacific Power and Light Company*, Docket UE-152253, we determined that certain capital additions were prudent before those additions came into service.[551] However, we provided for a review of the final costs associated with the additions before allowing them into rates in the second year of a two-year rate plan.[552] More recently in the 2019 PSE GRC, we allowed the company's adjustment for the *Get to Zero* program, noting this was a short-lived

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[547] 2017 Avista GRC Order ¶ 198.

[548] *Id*. ¶¶ 199-200

[549] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-090134 and UG-090135 (consolidated) Order 10 ¶ 78 (December 22, 2009) (noting the company's proposal was "tantamount to requiring either a continuous audit during the pendency of a rate proceeding or acceptance of budgeted or forecasted data as known and measurable.").

[550] *See id.* ¶ 71 (noting *inter alia* that "Staff is correct to focus on audited results to ensure that the costs it proposes to include in rates comply with both the known and measurable principle and the used and useful principle.").

[551] 2015 PacifiCorp GRC Order ¶¶ 69, 122.

[552] *Id.*

investment that may be at risk of under-recovery.[553] We found the investment prudent through December 31, 2019 (approximately one month after response testimony was filed in that case), but noted that prudency review would continue in subsequent rate cases.[554] It is evident that in each of these cases our decision sought to balance the competing considerations and the principles behind pro forma adjustments.

289 We therefore turn to Cascade's proposed pro forma plant additions. As updated on rebuttal, Cascade requests a total of $57.3 million for pro forma plant additions, representing 10 discrete projects and $17.9 million in blanket funding projects.[555] Cascade proposes a cut-off date of December 31, 2020, nearly a month and a half after the filing of response testimony.[556]

Approving five discrete projects in service by October 27, 2020

290 We agree, in significant part, with Staff's recommendation to approve certain investments that were placed into service by October 27, 2020, shortly before response testimony was filed in this case. Because these investments were in service, they were "used and useful" for Washington customers, and the final, actual project costs were "known and measurable." There is sufficient information in the record to establish the prudency of these investments. Accordingly, we approve the four funding projects identified by Staff witness Panco for inclusion into rates: partial inclusion of the Arlington Gate project, the Bellingham 8" project, and the Moses Lake 4" project.[557] However, we exercise our discretion to approve additional investments placed into service prior to the due date for filing response testimony.

291 The Company's presentation of its case does not make this a simple decision. Cascade provided misleading and unclear discovery responses as to when investments came into service. As we noted in our recent Used and Useful Policy statement, "The further a proposed adjustment considered in a GRC occurs from the end of the test year, the less

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[553] 2019 PSE GRC Order ¶¶ 130-32.

[554] *See id.*

[555] *See* Parvinen, Exh. MPP-2T at 10:7-16. *See also* Darras, Exh. PCD-4 (Updated Summary of 2020 Capital Projects)

[556] *See* Cascade Brief ¶ 58.

[557] Panco, Exh. DJP-1T at 14 (Figure 1). *See also* Panco, Exh. DJP-2 at 3 (Comparison of Company's and Staff's Proposed Pro Forma Plant and Proposed Pro Forma Plant Adjustments).

time Staff and other parties have to review a company's supporting evidence."[558] The Company therefore has a greater burden to establish that it complied with Commission requirements.[559] Here, Staff witness Panco described propounding follow-up data requests to the Company due to concerns that the original data request was not treated as ongoing in nature. The later data request responses were patently unclear. The Company provided an updated data request response indicating various "Estimated In-Service Date[s]," for investments, with some of these estimated dates falling before October 27, 2020.[560] As Company witness Darras admitted, it was not clear from this data request response that the Company was providing actual in-service dates rather than mere estimates.[561] These unclear and misleading discovery responses undermined the non-Company parties' ability to review Cascade's filing and resulted in significant confusion up until the date of the hearing.

292 With these admonitions in mind, we exercise our discretion to allow the Othello Gate, all of the Arlington Gate, Bellingham 8" HP, Moses Lake 4" PE, and the Walla Walla 6" distribution into rates because all of these projects came into service by October 27, 2020. As we have noted, the Commission exercises "considerable discretion" in light of the circumstances of individual cases in order to evaluate the relevant standards for pro forma plant additions and to respond to broader economic conditions.[562] The record is clear that the Othello gate project was in service as of September 28, 2020. The project was therefore used and useful, and its final costs of approximately $5.3 million were known and measurable. The record also supports the inclusion of funding project 317322 for the Arlington Gate project (which Staff did not include in its recommendation) that was placed into service on September 3, 2020, at the actual cost of approximately $0.9 million. This project is also used and useful, and its costs are known and measurable.

293 For the Walla Walla 6" distribution project, we have sufficient evidence from Company witness Darras explaining the purpose of this distribution pipe, the need for reinforcement in this service area, and the Company's consideration of alternatives.[563]

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[558] Used and Useful Policy Statement at 9, ¶ 25.

[559] *Id.*

[560] Panco, Exh. DJP-5 at 2 (Company's Revised Supplemental Response to UTC Staff Data Request No. 92). *See also* Darras, Exh. PCD-8X (same).

[561] Darras, TR 145:17-146:6.

[562] *E.g.*, *WUTC v. Pacific Power & Light Company*, Docket UE-140762 Order 08 ¶ 167 (March 25, 2015) (internal citation omitted).

[563] Darras, PCD-1T at 53:18-58:7.

This pipeline came into service on October 26, 2020, with a final cost of approximately $0.4 million.[564] Despite the Company's unclear data request responses, we have sufficient evidence to determine that these investments meet the requirements for inclusion in the revenue requirement as a pro forma adjustment. We approve recovery of these projects to support the Company's need for timely recovery and to arrive at a more fair, reasonable end result.

294 We agree with Staff and find that, given the limited number of projects being allowed into rates, defining "major" for the purposes of this case is not a worthwhile endeavor. As we have observed, "[w]hile the Commission does not support a bright-line definition of major investment, proposed projects should meet some reasonable definition of major."[565] Further, to establish whether a given project is "major," each party bears the burden to support its recommendation both quantitatively and qualitatively.

295 With respect to offsetting factors, we agree with the Company and Staff's recommendation to remove the revenue growth adjustment.[566] We also agree with AWEC's proposals to use 2019 figures for plant retirements and removals and to use the full offset unadjusted by Cascade's proposed ratio.[567] We also accept Cascade's recommendation to use the most recent depreciation rate. These figures were available to the non-Company parties when they filed response testimony and did not reflect mere estimates.

296 With respect to depreciation, we note that the Company updated its depreciation rate on rebuttal consistent with the direction in our order in Docket UG-200278.[568] This update reflects the results of the Company's recent depreciation study. We also approve the Company's tax formula correction noted in the same exhibit.[569]

297 Finally, we reject AWEC's argument that certain projects, such as the Arlington Gate project, should not be recovered because they were included in the Company's last

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[564] Darras, PCD-4 at 1.:21.

[565] 2017 Avista GRC Order ¶ 196.

[566] *See* Panco, Exh. DJP-1T at 16:9-17-2. *See also* Higby, Exh. ANH-1T at 7:6-11.

[567] *See* Mullins, Exh. BGM-1T at 32:15-34:23.

[568] Gresham, Exh. MCG-11T at 5:16-6:4.

[569] *See id.*

general rate case.[570] As Cascade accurately observes, the last general rate 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."[571] Including these projects in rates now does not result in double-recovery. Although we recognize that the 2019 settlement provided an opportunity for non-Company parties to challenge investments in a future rate case, no plant investments were deemed to be included or excluded in rate base in the 2019 settlement, and there is no basis for finding that Cascade's request for any individual project amounts to double recovery.

298 We therefore approve the five discrete projects identified above, finding sufficient evidence to determine that the pro forma adjustments for these projects comply with our longstanding precedent that such projects must be used and useful and that their costs must be known and measurable prior to the rate effective date.

Rejecting discrete projects that came into service after October 27, 2020

299 We now turn to Cascade's proposal to recover capital investments that came into service after Staff's proposed cut-off date on October 27, 2020, but before the Company's own proposed cut-off date on December 31, 2020. As we have noted, the Commission has considered pro forma plant additions after the deadline for filing response testimony to provide for timely recovery of investments. While rejecting any bright-line cutoff dates, our decisions have continually pointed to the need for an opportunity to fully review investments before they are placed into rates to protect utility customers.

300 Our authority to consider post-test year capital additions has expanded with recent statutory amendments, and there may be need for further policy development regarding circumstances in which we will consider extending the pro forma period beyond the deadline for filing responsive testimony. Cascade's approach in this case, however, suffers from multiple infirmities. As an overall matter, we are concerned that Cascade overlooked the principles underlying our approval of pro forma adjustments in its push to extend the pro forma period one year after the test year. These concerns come into sharp focus when the Company seeks recovery of investments beyond the deadline for responsive testimony, selectively choosing offsets and other operations and maintenance changes, and not allowing adequate time for prudency review.

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[570] *See* AWEC Brief ¶ 20.

[571] Docket UG-190210, Joint Settlement Agreement ¶ 8 (September 20, 2019).

301 Even if these discrete projects eventually came into service before the filing of rebuttal testimony, there was a lack of a meaningful opportunity for the parties to review the prudence of these investments. A utility must act prudently throughout the life of a project, from its inception when assessing the need for the project to its end when incurring the final construction expense.[572] The utility bears the burden of proving that it acted prudently.[573] For these reasons, we generally do not pre-approve capital projects, But instead make them "after the fact, usually after the capital project is complete at which time the Commission can evaluate whether it is used and useful and provides benefits to ratepayers commensurate with its final costs."[574]

302 While the Company suggests that the non-Company parties may review the prudence of its investments *before* they come into service,[575] it has not established that these investments are of such a crucial, time-sensitive nature that they should be excepted from our traditional retrospective prudency review. Further, the Company does not define a reasonable review process as required by the Used and Useful Policy Statement, stating only that parties should be engaging in prudence review while preparing testimony, briefs, and for hearing.

303 In fact, there are several indications that it would be *unreasonable* to make a prudency determination before these investments came into service. We share Staff's concern that the Company has made varying statements between its initial filing and rebuttal filing regarding whether certain projects could be delayed.[576] Cascade initially claimed that certain projects could not be postponed, three of which were later delayed to reduce the Company's capital budget in light of the pandemic. The Company's reversal of its position raises valid questions regarding why the Company did not delay other

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[572] 2015 PacifiCorp GRC Order at 33, ¶¶ 94–95.

[573] *Id.* ¶ 94.

[574] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-160228 and UG-160229 Order 06 ¶ 72 (December 15, 2016).

[575] *E.g.*, Parvinen, Exh. MPP-2T at 20:19-21:5 (stating that "both Staff and AWEC declined to evaluate the prudence of the Company's 3 decision to pursue these investments.").

[576] Staff Brief ¶ 24-26.

projects.[577] There is also evidence Cascade's final project costs vary widely from budgeted amounts.[578]

304 Thus, it was not reasonable to believe that non-Company parties had adequate information to review the prudence of these investments prior to filing their response testimony. It was not reasonable, either, to suggest that the non-Company party witnesses engage in a continual prudence review throughout the pendency of this proceeding.[579] The utility bears the burden of ensuring an opportunity for non-Company parties to review and comment on these projects, as have been offered by other utilities in other proceedings before the Commission.

305 We have similar concerns with respect to Cascade's efforts to account for offsetting factors. It is well-established that utilities must account for offsetting costs when proposing pro forma adjustments. "Offsetting factors include, but are not limited to, removing rate-year retirements, dispositions, and non-depreciating plant, including revenue growth, and operations and maintenance (O&M) expense offsets."[580] There should be evidence demonstrating that the Company considered whether the investment "directly produces any offsetting benefits" and any other changes in revenue or expenses "that are not directly related to the proposed pro forma adjustment, but which offset its financial impacts."[581] And generally, the further a proposed adjustment considered in a general rate case occurs from the end of the test year, the greater the burden the company has to establish that it considered the principles for pro forma adjustments.[582] In other words, any utility that proposes to extend the pro forma period late into the rate case should thoroughly consider the issue of offsetting costs when proposing this adjustment in its initial filing.

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[577] *Compare* Darras, Exh. PCD-1T at 38:12-39:14, 43:16-23 (asserting the Aberdeen 6" HP and Richland Keene Rd. projects could not be delayed) *with* Darras, Exh. PCD-3T at 5:1-2 (noting the same two projects were delayed" until 2021 to reduce its capital budget in light of the ongoing COVID-19 pandemic.").

[578] *E.g.*, Mullins, Exh. BGM-7T at 10:14-19 (describing the Company's budgets as "wildly inconsistent.").

[579] *See* Panco, TR 269:4-11 ("I would have only been able to present it had I had it prepared and happened to have been asked it in cross-examination. Other than that, I don't have a voice.").

[580] Useful and Useful Policy Statement at 7, n.25.

[581] *WUTC v. Puget Sound Energy*, Dockets UE-090704 and UG-090705, Order 11, 12, ¶ 28 (April 2, 2010) (2009 PSE GRC Order)

[582] Used and Useful Policy Statement at 9, ¶ 25.

306 As Staff argues, Cascade failed to demonstrate such consideration. In response to the Company's initial filing, Staff witness Panco noted that the Company did not account for factors such as removing replaced equipment, reduced depreciation, and reduced O&M related to maintained efficiencies.[583] AWEC witness Mullins identified similar concerns.[584] Cascade later accepted AWEC's adjustment for plant retirements and removals on rebuttal.[585] But the fact remains that the Company's lack of diligence undercuts the non-Company parties' ability to thoroughly consider and address this issue for each discrete capital investment. As the regulator, we benefit from the non-Company parties' ability to review potential offsetting factors based on final costs.[586]

307 We encouraged the Company to consider the Used and Useful Policy Statement in its last general rate case order.[587] The Used and Useful Policy Statement is primarily concerned with property that comes into service by or during the rate effective period.[588] Nonetheless, it provides relevant guidance for both "traditional" pro forma adjustments, such as those proposed here, and provisional pro forma adjustments. For both traditional and provisional adjustments, we emphasized the need for companies to "provide sufficient information to facilitate the review, including a prudence review, by Staff or other parties."[589] Parties will "continue to be afforded due process (including receiving notice and sufficient time for review)."[590] Regardless of whether Cascade proposes traditional or provisional adjustments in its next general rate case, we expect the Company to more closely follow the guidance set forth in the Used and Useful Policy Statement rather than cherry-picking selected portions. If the Company again seeks recovery of pro forma plant scheduled to be placed in-service following the deadline for filing response testimony, it should separately state this request from other pro forma plant adjustments; plan for communicating with the parties and the Commission on

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[583] Panco, Exh. DJP-1T at 17:4-8.

[584] Mullins, Exh. BGM-1T at 31:20-32:14.

[585] *Id.* ¶ 79-81.

[586] *See WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-090134 and UG-090135 (consolidated); Order 10 ¶ 70 (December 22, 2009) ("Staff concludes that, based on careful auditing and analysis, those projects that it could confirm are in service and unlikely to have offsetting factors are appropriate to include in a pro forma adjustment.").

[587] *WUTC v. Cascade Nat. Gas Corp*., Docket UG-190210, Order 05 at ¶ 14-15 (Feb. 3, 2020).

[588] Used and Useful Policy Statement at ¶ 9.

[589] *Id.* ¶ 40.

[590] *Id.*

updates to costs and in-service dates; propose a reasonable opportunity for non-Company parties to conduct a prudence review; and provide a detailed discussion of each project and why it is necessary rather than discretionary.

308 For these reasons, we reject the Company's proposed pro forma adjustments for projects coming into service after October 27, 2020. As stated above, these investments may be included in a future rate case test year.

Rejecting blanket funding projects

309 We reject the Company's request to recover "blanket funding" projects. The Company's request for meters, services, and mains for growth may reflect recoverable costs, but this property should not be subject to pro forma treatment.

310 If the utility intends to seek recovery of programmatic investments in a pro forma adjustment, it should establish that these investments were made according to a written plan. As we noted in our recent Used and Useful Policy Statement, "[p]rogrammatic 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."[591]

311 Any utility that proposes an adjustment for a programmatic investment must also consider the longstanding principles applicable to all pro forma adjustments.[592] This includes accounting for offsetting factors.[593]

312 Cascade's blanket funding projects are not "programmatic investments" as that term is used in the Commission's Used and Useful Policy Statement. In Cascade's initial filing, approximately one page is devoted to describing blanket growth projects generally, but the Company does not provide any specific narrative to demonstrate the prudence of these investments.[594] In rebuttal testimony, Company witness Darras notes that the blanket funding requests reflect work that "historically occurs every year but is not

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[591] Used and Useful Policy Statement ¶ 11, n.19.

[592] *See id.* ¶¶ 28-29.

[593] *See id.*

[594] *See* Staff's Brief ¶ 26. *See also* Darras, Exh. PCD-1T at 68:19- 69.

specifically known at the time of budgeting."[595] These projects "encompass costs that are *generally unplanned* and outside the Company's control."[596]

313 The pro forma plant standard is not an arbitrary requirement. We agree with AWEC's observation that it is not possible to review the prudency of these investments when the Company fails to specify what these blanket funding investments represent.[597]

314 The Company also failed to provide sufficient assurances that it has accounted for offsetting factors. Company witness Parvinen submits that "[w]hile there are typically new customers—and therefore new revenues—associated with growth-related projects, the additional revenues are not sufficient to provide an adequate return in the early years."[598] Parvinen notes that the Company still accounted for customer growth as an offsetting factor.[599] This may be a reasonable judgment. Yet it is also true that the blanket funding projects are described in minimal detail and are not executed according to a specific plan. They continued throughout the pendency of this case and were not complete by the time response testimony was filed. This makes it far more difficult for the parties to determine that the Company has properly accounted for offsetting factors.

315 These facts should be compared to our decision in the 2015 Avista general rate case,[600] in which the Commission approved a pipeline replacement program as a pro forma adjustment as a means of addressing the company's under-earning.[601] In that case, Staff was able to review the company's expenditure reports to ensure that the pipeline replacement program reflected only appropriate, known, and measurable costs.[602] Cascade has not provided similar assurances in this case.

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[595] Darras, Exh. PCD-3T at 16.

[596] *Id.*

[597] *Id*. ¶ 25.

[598] Parvinen, Exh. MPP-1Tr at 6:20-7:3.

[599] *Id.* at 7:18-8:6.

[600] *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-150204 and UG-150205 (consolidated) Order 05 (January 6, 2016)

[601] *Id.* ¶ 41.

[602] *Id.* ("Staff's reliance on and careful auditing of the Company's ERs meet our purpose of providing results for a modified test year that are known and measurable.")

316 We therefore reject Cascade's proposed $17.9 million in blanket funding projects. The Company is generally entitled to recover the costs of meters, services, and mains in rates, but these costs are not appropriate for a pro forma adjustment.

6. TCJA

317 In cross-answering testimony, AWEC withdrew its proposed adjustment to remove Tax Cuts and Jobs Act (TCJA) TCJA sur-credit revenue.[603] However, Mullins continues to express concerns regarding the Company's accounting for TCJA benefits.

318 Mullins argues that, when calculating the revenue requirement, it would be more appropriate for Cascade to remove all supplemental tariff schedule costs and revenues through a restating adjustment.[604] Mullins observes through the Company's response to AWEC Data Request 38 that Cascade was unable to produce Excess Deferred Income Tax (EDIT)[605] balances because they are not being separately tracked from accumulated deferred income taxes.[606] Mullins contends that knowing these balances will be important if the tax rate is increased under the current federal administration.[607]

319 Parvinen explains that "the sur-credit is included in operating revenues, which after subtracting tax and revenue sensitive items and the ARAM amortization equals zero net income effect."[608] In other words, Cascade argues that both sides of the equation, revenues and expenses, completely offset each other.

320 Parvinen testifies that Cascade has been returning TCJA benefits consistent with Commission orders.[609] In rebuttal testimony, Cascade witness Parvinen explains that the Company tracks and returns EDIT to customers through two separate schedules. Separate Tariff Schedule 581 was created to return $40.3 million grossed-up protected-plus EDIT (or $30.4 million before gross-up).[610] This schedule is trued-up and adjusted annually to

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603 *See* Mullins, Exh. BGM-7T at 13:18-14:4.

604 *Id.* at 14:5-15:2.

605 While Mullins uses the term Excess Deferred Federal Income Taxes (EDFIT), we use the term "EDIT" in this Order.

606 *Id.*

607 *Id.*

608 Parvinen, Exh. MPP-2Tr at 31:7-33:6.

609 *Id.* at 30:17-31:6.

610 *Id.* at 30:1-12.

ensure consistency with the Average Rate Assumption Method (ARAM).[611] Separate Tariff Schedule 582 was created to return $8.1 million grossed-up unprotected EDIT (or $6.1 million before gross-up) over 10 years.[612] Parvinen notes that the Commission required the return of $1.6 million in interim period over-collected federal income taxes, which was return to customers over a 15 month period from August 1, 2018, to November 1, 2019.[613]

Commission Determination

321 We share AWEC's concerns related to Cascade's lack of transparency when adjusting its model and direct the Company to use a restating adjustment to remove all supplemental tariff schedule costs and revenues from the revenue requirement in future filings.

322 We also share AWEC's concerns regarding the Company's accounting for TCJA benefits, and issued Bench Request No. 7 to seek clarification from Cascade. After reviewing the Company's response, we are satisfied that Cascade is using Other Regulatory Liabilities accounts for its EDIT balances consistent with our prior order. In Cascade's 2017 general rate case, we approved a partial joint settlement agreement, which addressed the treatment of tax savings following the passage of the TCJA.[614] That order required Cascade to separately track Protected and Unprotected EDIT in separate FERC Account 254 – Other Regulatory Liabilities.[615] We observe that the Company's data request responses related to this issue may not have been clear and may not have provided enough information for AWEC to understand the Company's calculations. We nevertheless conclude that Parvinen's rebuttal testimony, coupled with the Company's clarifying response to Bench Request No. 7,[616] provide sufficient evidence that the Company is complying with our previous order.

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[611] *Id.*

[612] *Id.*

[613] *See id.* at 30:1-3.

[614] *See generally WUTC v. Cascade Natural Gas Corporation*, Docket UG-170929, Order 06 (July 20, 2018) (2017 Cascade GRC Order).

[615] *Id.* ¶ 52.

[616] *See* Exh. BE-7 (Response to Bench Request No. 7).

7. Rate Spread and Rate Design

323 On behalf of Cascade, witness Myhrum applies an equal percentage of margin to spread its proposed additional revenue increase to all rate classes except Special Contracts.[617] Cascade has not proposed changes to its basic charges.[618]

324 Cascade submits that these proposals are consistent with the terms of the Settlement Agreement in Docket UG-170929.[619] This Settlement required Cascade to keep basic charges unchanged and to spread revenue changes on an equal percentage of margin until the Company completes a load study.[620]

325 Cascade also proposes to use 2020 EOP billing determinants in the revenue calculations, including the Cost Recovery Mechanism (CRM) Adjustment (R-1), where the Company anticipates customer growth in specific rate schedules. The Company's 2020 customer counts are projections provided by its Integrated Resource Planning Department.[621] The rationale for using 2020 customer counts is to match the revenue growth directly related to customer growth to partially offset 2020 growth-related investments.[622]

326 With respect to its decoupling mechanism, Cascade calculates the monthly authorized margin revenue per customer by dividing the proposed margin revenue per customer class by annual 2020 EOP therms to produce rates. These rates are then multiplied by monthly 2020 EOP therms per customer class and then divided by 2020 EOP customer counts to arrive at the proposed authorized annual revenue per customer per month.[623]

327 In response testimony, Staff witness Higby recommends that the Commission reject Cascade's proposed projected 2020 EOP billing determinants. Higby instead recommends the Commission use actual 2019 EOP customer counts and therm usage,

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[617] Myhrum, Exh. IDM-1T at 19:3-10. *See also* Myhrum, Exh. IDM-4 (Revenue Distribution).

[618] Myhrum, Exh. IDM-1T at 20:10-12.

[619] *Id.*

[620] *See* 2017 Cascade GRC Order ¶ 66 (July 20, 2018) ("We also find that applying revenue changes on an equal percentage margin increase or decrease to each schedule is a reasonable compromise that maintains the status quo during the pendency of the cost of service rulemaking.").

[621] Myhrum, Exh. IDM-1T at 11:9-11.

[622] *Id.* at 11:21-12:6.

[623] *Id.* at 21:1-10.

which Staff argues is consistent with the methodology used in Cascade's 2019 GRC,[624] and because it is verifiable and defensible for spreading rates.[625]

328 Finally, Staff objects to using forecasted 2020 EOP billing determinants for the CRM. Staff proposes using 2019 EOP billing determinants consistent with its recommendations for rate spread and rate design, the CRM adjustment, and decoupling.[626]

329 No other party objects to Cascade's rate spread or rate design, CRM adjustment, or decoupling annual revenue per customer per month calculation.

330 On rebuttal, Cascade witness Myhrum updates the Company's 2020 EOP billing determinants to reflect actual figures rather than a forecast.[627] This adjustment also impacts the authorized revenue per customer in the decoupling mechanism, and for the proposed billing impact for the CRM.[628]

331 In its Brief, Staff recommends accepting the Company's rate spread and rate design. Staff argues, however, that using 2019 EOP billing determinants is consistent with the Commission's approach in the Company's last general rate case.[629]

Commission Determination

332 We agree with Cascade's proposal to leave basic charges unchanged and to spread the Commission's ordered annual revenue decrease of approximately $0.39 million by an equal percentage of margin to all rate classes except Special Contracts. In Docket UG-170929, Cascade agreed to leave basic charges unchanged and to apply revenue changes on an equal percentage of margin to each schedule in future rate cases until the Company completes its load study.[630]

333 We agree with Staff, however, that it is more reasonable to use actual EOP 2019 customer counts and therm usage (billing determinants) for rate spread and rate design,

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[624] Higby, Exh. ANH-1T at 3:4-8.

[625] *Id.* at 4:12-16.

[626] Hillstead, Exh. KMH-1T at 11 n. 8.

[627] Myhrum, Exh. IDM-11T at 1:7-12.

[628] *Id.*

[629] Staff Brief ¶ 55.

[630] 2017 Cascade GRC Order ¶ 66. *See also* Docket UG-170929, Order 06 App. A (Settlement Agreement) ¶ 28.

the CRM adjustment, and decoupling. The Commission may consider a number of factors when determining rate spread and rate design, including "fairness, perceptions of equity, economic conditions in the service territory, gradualism, and rate stability."[631] Although Cascade was able to provide actual 2020 customer counts and therm usage in its rebuttal testimony, it is reasonable to base rate spread and rate design on 2019 customer counts and therm usage. EOP 2019 billing determinants, not actual EOP 2020 billing determinants, were available to the non-Company parties to review, and using test year customer counts for purposes of rate design is consistent with the Company's last general rate case.

334 We therefore agree with Staff that 2019 customer counts and therm usage should be used for purposes of rate design, as well as the Company's CRM and decoupling mechanism.

8. Disconnection Program

335 Cascade "has implemented a moratorium on service disconnections for non-payment related to customer hardships resulting from the COVID-19 pandemic."[632] The Company has also implemented other measures to assist customers, as detailed below in section II.B.10.

336 In response testimony, TEP recommends that Cascade be directed, in consultation with the WEAF Advisory Group, to develop a Disconnection Reduction Plan and to file the Disconnection Reduction Plan with the Commission within one year of the effective date of this Order.[633] TEP witness Collins explains that low-income customers have faced increasing rates before the pandemic and that "[o]n top of these trends has now been layered the economic, health, and personal impacts of the COVID-19 crisis."[634]

337 Collins submits that the conditions under COVID-19 have shown the need to reexamine credit and collection practices, including disconnection practices.[635] Collins notes that

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[631] WAC 480-85-010(2).

[632] Kivisto, Exh. NAK-1T at 6:6-9.

[633] Collins, Exh. SMT-1T at 10:10-16.

[634] *Id.* at 11:3-4.

[635] *Id.* at 11:8-12.

Puget Sound Energy, Avista, and PacifiCorp have agreed to adopt Disconnection Reduction Plans in their most recent general rate cases.[636]

338 Collins argues that a Disconnection Reduction Plan is necessary even though there are other, broader efforts taking place to address the impact of COVID-19 on customers.[637] Collins submits that a Disconnection Reduction Plan can be informed by stakeholders' participation in the Commission's workshop and can incorporate information from the utility's Arrearage Management Plan.[638] Because the Commission adopted broad reporting requirements in Order 01 in Docket U-200281, Collins does not recommend data reporting requirements as part of the proposed Disconnection Reduction Plan.[639]

339 In rebuttal testimony, Cascade witness Kivisto maintains that the Company has several programs to assist customers, including Hardship Economic Assistance Receivable Temporary (HEART), Winter Help, and the Budget Payment Plan.[640] Kivisto argues that the Company has sought to balance the need for investment with customers' needs for rate stability, and submits that the Company's rebuttal filing is designed to minimize the impact of any rate increase on customers.[641]

340 With respect to TEP's proposed Disconnection Reduction Plan, Cascade agrees to consult with the Company's WEAF Advisory Group in 2021 about developing such a Disconnection Reduction Plan.[642]

341 In its Brief, Cascade notes that it "strongly supports" the goal of minimizing disconnections, but that it must also protect other non-participating customers and shareholders from significant cost shifting.[643] Cascade agrees to work towards a Disconnection Reduction Plan but advises against imposing a specific deadline for filing a completed plan.[644]

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[636] *Id.* at 11:14-17.

[637] *Id.* at 12:1-13:7.

[638] *Id.*

[639] *Id.* at 13:8-13.

[640] Kivisto, Exh. NAK-2T at 7:21.

[641] *Id.* at 8:1-13.

[642] *Id.* at 12:1-8.

[643] Cascade Brief ¶¶ 133-34.

[644] *Id.* ¶ 134.

342 TEP notes in its Brief that the COVID-19 disconnection moratoria will keep customers connected to vital services and that "[t]he ultimate goal should be elimination of disconnection from service to the maximum extent possible."[645] TEP argues that Cascade agrees there are benefits to a Disconnection Reduction Plan but then departs from the other three investor-owned utilities in the state by failing to agree to develop and file such a Plan within one year.[646]

Commission Determination

343 Disconnection moratoriums have emerged as one of the primary tools to protect ratepayers struggling during the COVID-19 pandemic. Both investor-owned utilities and regulators have worked together to extend these protections over the last year.

344 Early in the pandemic, on March 16, 2020, Cascade voluntarily suspended disconnections for nonpayment.[647] Governor Inslee later extended this moratorium through proclamation.[648] The Commission has extended the moratorium on disconnections for nonpayment through July 31, 2021.[649] Most recently, Governor Inslee also extended the disconnection moratorium until July 31, 2021.[650]

345 We appreciate Cascade's continued efforts on this issue both in its general rate case and as part of the broader efforts in Docket U-200281. For the purposes of this case, however, we agree with TEP that the Company should be directed to develop a Disconnection Reduction Plan in consultation with the WEAF Advisory Group and to file the Disconnection Reduction Plan with the Commission within one year of the effective date of this Order.[651] As TEP explains, the efforts to develop a company-specific Disconnection Reduction Plan are complementary to the Commission's broader efforts in the industry-wide credit and collection rulemaking.[652] If new rules, policies, or Arrearage

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[645] TEP Brief ¶ 19.

[646] *Id.* ¶¶ 21-22.

[647] *Letter Re: U-200281 Workshop, Cascade Natural Gas Response to COVID-19*, Docket U-200281 (July 23, 2020).

[648] *E.g.*, Proclamation 20-23.2 (April 17, 2020).

[649] *In the Matter of Response to the COVID-19 Pandemic*, Docket U-200281 Order 02 ¶ 19 (February 18, 2021).

[650] Proclamation 20-23.15 (March 18, 2021).

[651] Collins, Exh. SMT-1T at 10:10-16.

[652] TEP Brief ¶¶ 24-35.

Management Plans are adopted in the rulemaking, the Disconnection Reduction Plan can incorporate those requirements.[653] Cascade should also continue to report data to the Commission as required by the Commission following the May 12, 2021 open meeting in Docket U-200281.[654]

346 We do not agree with Cascade's suggestion that a one-year timeframe for the development and filing of the Disconnection Reduction Plan will place the Company at a disadvantage.[655] Three other investor-owned utilities in the state have voluntarily agreed to develop and file Disconnection Reduction Plans within a one-year timeframe.[656]

9. Low Income programs

347 In addition to placing a moratorium on disconnections, Cascade describes various programs for assisting low-income customers. Witness Kivisto explains that the Company provides assistance to customers both through its WEAF and its Winter Help programs.[657] Kivisto notes that Commission recently approved increasing the spending cap for WEAF and that WEAF is projected to grow to $1,467,400 by program year 2020-2021.[658] The Company is prepared to request additional funds if the demand for assistance exceeds the current cap.[659]

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[653] *Id.*

[654] *See* Third Revised Term Sheet, Docket U-200281 (May 12, 2021).

[655] *See* Cascade Brief ¶ 134

[656] *See* 2019 PSE GRC Order ¶ 537 ("On rebuttal, PSE accepts TEP's proposals to . . . develop a disconnection reduction plan in consultation with the Company's Low-Income Advisory Committee to be filed one year after the effective date of this Order."); *WUTC v. Avista Corporation d/b/a Avista Utilities*, Dockets UE-190334 and UG-190335 (consolidated) Order 09 ¶ 58 (March 25, 2020) ("This plan will be developed with the Energy Assistance Advisory Group, which will deliver a recommendation to the Commission within one year of the date of this Order."); *WUTC v. Pacificorp d/b/a Pacific Power and Light Company*, Dockets UE-191024 (consolidated) Order 09 ¶ 128 ("PacifiCorp agrees to develop a Disconnection Reduction Plan and file it with the Commission within one year of this Order.").

[657] Kivisto, Exh. NAK-1T at 7:18-21. *See also WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286 Order 04 ¶ 12 (July 7, 2016) (approving a settlement creating and funding Cascade's WEAF program); Collins, Exh. NAK-1T at 4:6-8 (noting the Winter Help program is a donation-based program outside of Cascade's tariffs).

[658] *Id.* at 8:2-6.

[659] *Id.*

348 Kivisto also notes that the Commission recently approved the Company's HEART program.[660] The HEART program is a temporary modification to WEAF,[661] providing hardship grants of up to $400 from WEAF funds and lifting the $500 annual per-household cap on assistance.[662] HEART also relaxes the low-income verification requirements to expedite aid to customers.[663]

349 Kivisto notes that the Company has taken several other steps to assist customers during the COVID-19 pandemic. The Company's Budget Payment Plan allows customers to opt-in for a flat payment.[664] Approximately 9.5 percent of the Company's customers participate in the Budget Payment Plan.[665] The Company also works with customers to establish longer-than-normal repayment plans when necessary.[666] And finally, the Company provides conservation programs for all customers, including conservation programs through community action agencies for low-income customers.[667]

350 In response, TEP observes that Cascade's direct testimony does not propose any changes to its low-income programs and that TEP agrees with Cascade that these programs are working well.[668] TEP "commends Cascade for its recent modifications" to the WEAF program, such as increasing the eligibility threshold from 150 percent to 200 percent of the Federal Poverty Level, and for the Company's support for increased funding.[669]

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[660] *Id.* at 6:9-13 (citing *In the Matter of the Request of Cascade Nat. Gas Corp. for Less Than Statutory Notice in Connection with Tariff Revisions*, Docket UG-200355, Order 01 at ¶ 13 (April 23, 2020).

[661] *Id.* at 6:15-20.

[662] *In the Matter of the Request of Cascade Natural Gas Corporation*, Docket UG-200355, Order 01 at ¶ 1 (April 23, 2020).

[663] Kivisto, Exh. NAK-1T at 6:19-7:1.

[664] *Id.* at 8:7-11.

[665] *Id.*

[666] *Id.* at 6:9-13.

[667] *Id.* at 8:12-16.

[668] Collins, Exh. SMT-1T at 7:7-18.

[669] *Id.*

351 Collins observes that the 2019-2020 WEAF program year was the second most successful year for distributing funds to applicants.[670] Collins anticipates a further increase in WEAF funding in light of the Commission's recent Order 01 in Docket U-200281.[671]

352 TEP does not recommend any changes to the Company's WEAF program.[672] Although the WEAF five-year budget plan ends with the 2020-2021 program year, Collins clarifies that the WEAF program does not itself expire on that date and that funding would be frozen at the current level.[673] Because of the uncertainty surrounding the COVID-19 pandemic, Collins believes it is premature to argue for an extension of the WEAF funding plan.[674]

353 Collins similarly notes that the Company's low-income weatherization program is "working well" and has been "producing substantial increases in energy savings."[675]

354 Thus, TEP simply recommends that the Commission require Cascade to file a status report on the WEAF program by April 1, 2022.[676]

355 In rebuttal testimony, Cascade witness Kivisto notes that the Company agrees to TEP's proposal to provide a status report on the WEAF program by April 1, 2022.[677]

Commission Determination

356 We commend Cascade's efforts to assist customers experiencing financial hardship during the COVID-19 pandemic. The Company has taken a number of steps to expand and support its existing low-income assistance programs. For example, in October 2020, Cascade and other investor-owned utilities agreed to form temporary COVID-19 assistance programs funded at a level of 1 percent of each utility's Washington retail

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[670] *Id.* at 5:9-13.

[671] *Id.* at 6:16-7:5.

[672] *Id.* at 7:18-19.

[673] *Id.* at 9:1-6.

[674] *Id.* at 9:6-12.

[675] *Id.* at 10:1-9.

[676] *Id.* at 9:17-20.

[677] Kivisto, NAK-2T at 11:15-19.

revenues.[678] Most recently, on March 25, 2021, the Commission allowed Cascade's new low-income assistance program, the Big Hardship Economic Assistance Receivable Temporary (HEART) program, to go into effect.[679] The Big HEART program provides for $2.5 million in additional funding for low-income programs.[680] Big HEART provides an automatic hardship grant, up to $2,500, for low-income customers with outstanding past due balances, and provides a financial hardship grant to other customers who have not received low-income assistance in the last 24 months.[681]

357 The record contains sufficient assurances that Cascade is taking appropriate steps to assist customers and minimize the costs of bad debt during these unprecedented times. As we have noted, the efforts to combat the pandemic are evolving, and the Commission is "committed to remaining flexible" to address the changing circumstances.[682] Accordingly, we conclude that it is not necessary to order any changes to the Company's low-income programs at the present time. Pursuant to the parties' agreement, we require Cascade to provide a status report on its WEAF program by April 1, 2022.

10. Load Study

358 In its direct testimony, Cascade notes that it agreed to design and conduct a load study as part of the settlement in its 2017 general rate case.[683] Witness Kivisto submits, however, that the Commission did not establish a deadline for the completion of this load study.[684] For the purposes of this case, the Company has proposed an equal percentage of margin rate spread and no change to basic charges in this proceeding.[685]

359 According to Company witness Kivisto, Cascade continues to consider its options for collecting load study data.[686] Kivisto argues that the overall investments and costs related

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[678] *In the Matter of Response to the COVID-19 Pandemic*, Docket U-200281 Order 01 ¶ 18 (October 20, 2020).

[679] *See* Revisions to Tariff WN-U3, Original Sheet No. 304, Docket UG-210145 (March 1, 2021).

[680] *Id.*

[681] *Id.*

[682] *In the Matter of Response to the COVID-19 Pandemic*, Docket U-200281 Order 02 ¶ 22 (February 18, 2021).

[683] Kivisto, NAK-1T at 9:10-18.

[684] *Id.* at 9:19-10:7.

[685] Kivisto, Exh. NAK-1T at 9:10-18.

[686] *Id.* at 12:7-15.

to the load study must be balanced with the benefits.[687] Based on its preliminary assessment of the costs and benefits, Cascade has decided to install Encoder Receiver Transmitters (ERT) and utilize existing personnel, which should provide a shorter load study completion time at a lower cost.[688]

360 Kivisto states that the Company is planning to use ERT with reprogramming Mobile Meter Reading equipment to measure class usage over a specific period. Kivisto states that Cascade did not begin collecting 2019-2020 load data because the ERT installations were not complete.[689] Kivisto anticipates ERT installation will be complete by winter 2020-2021.[690]

361 Cascade hopes to begin data collection during the 2020-2021 heating season, contingent on the Company completing the equipment modification and final study design during the summer of 2020 and weather conditions.[691] Kivisto argues that for the data to be relevant a peak usage event needs to occur during the study period. Absent peak weather day(s) collecting appropriate usage data may require one or more heating seasons.[692] Finally, Kivisto testifies that the Company plans to share its final draft load study data collection strategy with the Commission and interested parties prior to implementation.[693]

362 Kivisto briefly discusses the potential investment in Fixed Area Network (FAN) as alternative technology for collecting customer usage data for a load study. However, Kivisto indicates that it is still too early to tell if the investment will be cost effective.[694]

363 In response, Staff witness Higby recommends that the Commission order Cascade to complete a load study and cost of service study (COSS) before the Company files its next

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[687] *Id.* at 10:8-14.

[688] *Id.* at 10:15-18.

[689] *Id.* at 11:20-12:1.

[690] *Id.*

[691] *Id.* at 11:8-12.

[692] Kivisto, Exh. NAK-1T at 11:13-19.

[693] *Id.* at 12:2-6.

[694] *Id.* at 12:7-15.

GRC.[695] Staff argues that Cascade was required to initiate a load study nearly five years ago and has not even begun to collect data.[696]

364 Higby observes that the Commission's newly adopted cost of service rules require that any future rate proceeding include a completed load study if AMR/AMI is not installed.[697] Finally, Staff is concerned that, without a load study and an accompanying COSS, allowing Cascade to continue to spread revenue on an equal percentage of margin can have "cascading, disastrous consequences" because there are no bases for cost allocation.[698] Specifically, Staff is concerned that, by the time a COSS is filed, rates could be so out of parity that the necessary correction could cause rate shock.[699]

365 Staff recommends that Commission not allow the Company to use an equal percentage of margin rate spread in its next GRC.[700] Staff also requests that the Commission not grant an exemption from cost of service rules if the Company fails to complete a load study and COSS before filing its next GRC.[701]

366 Finally, Staff argues that a load study can provide useful information about how customers are using the system. Higby contends that this information provides additional benefit for utility planning, daily operations, and to calculate weather-normalized therm usage. In response to Staff Data Request 88 (ANH-6), Staff testifies that Cascade concedes it cannot update its weather normalization methodology without a load study.[702]

367 AWEC witness Mullins recommends that the Commission "affirmatively require" Cascade to complete a load study prior to its next GRC.[703] Further, because Cascade has not performed the required load study during the past five years, Mullins recommends that the Commission open a separate docket to facilitate stakeholder monitoring and

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[695] Higby, Exh. ANH-1T at 3:4-12.

[696] *Id.*

[697] *Id.* at 3:9-16.

[698] *Id.* at 13:17-14:5.

[699] *Id.*

[700] *Id.*

[701] Higby, Exh. ANH-1T at 14:14-21.

[702] *Id.* at 9:16-21.

[703] Mullins, Exh. BGM-1T at 45:16-22.

review of the Company's process and completion of its load study, including periodic workshops.[704]

368 AWEC also expresses concern regarding Cascade's proposal to allocate revenue requirement on an equal percentage of margin basis with no increases to basic charges in this proceeding.[705] Mullins argues that, because Cascade has failed to provide a load study, the rate spread will not reflect class core responsibilities of city gate daily therms.[706] Additionally, Mullins notes that the Commission has issued new rules regarding cost of service studies.[707]

369 In rebuttal testimony, Kivisto argues on behalf of Cascade that Staff and AWEC overlook the complexity and costs of building out a system to collect load data; the efforts Cascade has made to install necessary infrastructure; and the parties' agreements in various settlements.[708] Kivisto contends that Cascade's commitment in the 2015 Settlement to initiate a load study before its next GRC did not specify a completion date.[709] Further, Kivisto maintains that the 2017 and 2019 GRCs included settlements on rate spread and rate design to allow the Company the time to plan a load study and make the needed infrastructure investments.[710]

370 Kivisto disputes Staff's assertion that the Company appears to disregard its settlement load study commitments and the previous three Commission GRC orders.[711] Kivisto argues that Staff's assertion fails to understand the Company's internal process for evaluating the best approach and most cost-effective solution and ignores the progress the Company has made over the last three years.[712]

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[704] *Id.*

[705] *Id.* at 44:8-45:2.

[706] *Id.*

[707] *Id.*

[708] Kivisto, Exh. NAK-2T at 13:1-12.

[709] *Id. Accord* Kivisto, Exh. NAK-2T at 13:17-14:14.

[710] *Id.* at 15:12-18:14.

[711] Kivisto, Exh. NAK-2T at 24:12-25:8.

[712] *Id.*

371 Kivisto argues that Staff and AWEC's concern that Cascade has not already begun to collect data is unfounded because it has, in fact, begun to collect such data.[713] The Company also disagrees with Staff's and AWEC's request for the Commission to require Cascade to complete a load study before it files its next GRC because the Commission's cost of service rules already require the Company to file a load study.[714] However, Kivisto acknowledges that the Company may need to request a waiver from the rules depending on the timing of its next rate case and the adequacy of the data collected.[715]

372 Kivisto argues that requiring a completed load study before it can file its next GRC would essentially prohibit Cascade from filing a GRC for an indeterminate amount of time, and that the Company will likely need to file another GRC in 2021 due to its investment plan.[716] Further, Kivisto believes the Commission should not impose such limitations because Cascade must be given the opportunity to earn a fair rate of return.[717]

373 In response to AWEC, Kivisto argues that its recommendation to initiate a new proceeding is unnecessary.[718] Kivisto states that the Company is planning to voluntarily hold a 2021 summer workshop to discuss data collected from the 2020-2021 heating season and seek stakeholder feedback on using that data for a load study.[719] Kivisto also states that it is willing to host a 2022 summer workshop for the same purpose, but related to the 2021-2022 heating season data.[720]

374 Kivisto also provides an update on the Company's progress installing relevant infrastructure during the pendency of this case. When Cascade filed this GRC in June 2020, the Company was planning to begin collecting data using ERTs during the 2020-2021 heating season and anticipated investing in a fixed network by 2024-2025.[721] However, Kivisto notes that after the Company filed its direct testimony it determined that it could expedite installation of a fixed area network by first installing equipment on

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[713] *Id.* at 25:9-21.

[714] *Id.*

[715] *Id.*

[716] *Id.* at 26:11-27:6.

[717] *Id.* at 27:2-6.

[718] Kivisto, Exh. NAK-2T at 27:7-15.

[719] *Id.*

[720] *Id.*

[721] *Id.* at 19:18-21:15.

Company-owned locations, which may be representative of its customer base.[722] Kivisto notes that the Commission's recent COSS rulemaking was a factor in this decision.[723] As of December 31, 2020, Cascade has installed 12 fixed network collectors throughout its non-contiguous system. This provides the capability to collect meter reads from approximately 10 percent of the Company's 215,000 meters in Washington.[724]

375 Cascade claims that it is collecting data during the 2020-2021 heating season while the Company works to complete its installation of the fixed network.[725] Cascade also states that it plans to continue to install fixed network equipment through 2022.[726] The Company has $2.5 million budgeted in 2021, and an additional $4.5 million in 2022, system-wide, to complete the fixed network,[727] and Washington's allocated share will be available once deployment is determined.[728] While the Company estimates that the fixed network will be completed by the end of 2022, there may be some additional installation work required in 2023.[729] The Company is analyzing the data and plans to share with the stakeholders at a proposed summer 2021 workshop, and plans to continue collecting data during the 2021-2022 heating season to the extent possible.[730]

376 In post-hearing briefing, Cascade submits that it is making "steady progress" towards completing a load study and that it plans to install necessary infrastructure by the end of December 2022.[731] Cascade argues that it has made efforts consistent with its settlement commitments.[732] Because it is possible that the load study may not be completed until after the 2022-23 heating season, the Company argues that it would be punitive to require it to complete a load study before filing its next general rate case.[733]

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[722] *Id.* at 20:4-14.

[723] *Id.* at 20:15-21:8.

[724] *Id.* at 21:9-22:3.

[725] *Id.* at 22:1-23:4.

[726] *Id.*

[727] *Id.* at 23:5-9.

[728] *Id.*

[729] *Id.* at 23:10-13.

[730] Kivisto, Exh. NAK-2T at 23:5-24:11.

[731] Cascade Brief ¶ 124.

[732] *Id.* ¶¶ 125-28.

[733] *Id.* ¶¶ 129-30.

377 Staff argues that the Commission should reject any future request from Cascade that seeks an exemption from the requirement for a load study.[734] Staff submits that Cascade's testimony at the hearing demonstrates that the Company "does not have a unified plan for implementing a load study."[735]

378 Public Counsel notes in its brief that it would be reasonable to require the Company to create and provide a written plan for developing its load study and complying with prior settlements.[736]

379 In its brief, AWEC recommends that the Commission open a new docket to facilitate and oversee the creation of the load study.[737]

Commission Determination

380 We require Cascade to file a progress report and written plan for completing its load study by August 21, 2021, and to file its completed load study by September 21, 2022. This issue has remained unresolved since Cascade's 2015 rate case and five years later after it agreed in settlement to develop a load study the Company does not even have a written plan to complete a load study.[738] We thus have no assurances that the Company is in any way prioritizing the completion of its load study.

381 When considering a proposed rate increase, the Commission seeks to allocate costs to customers on the basis of the best available data. Shortly after Cascade filed this case we concluded our COSS rulemaking. As of August 7, 2020, we require all regulated utilities, including Cascade, to file a COSS with its general rate cases.[739] The COSS must be based on customer usage data from the best available source.[740] For a utility that does not have

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[734] Staff Brief ¶ 55.

[735] *Id.*

[736] *See* Public Counsel Brief ¶ 51.

[737] AWEC Brief ¶ 41.

[738] We recognize that Cascade has filed its intentions for a load study in response to Bench Request 6, but this was prepared only in response to questions posed at hearing and not of its own volition.

[739] WAC 480-07-510(6).

[740] WAC 480-85-050(1).

advanced metering technology, such as Cascade, this requires a load study that shows daily estimates of customers' natural gas use.[741]

382 Over the past six years, Cascade has repeatedly committed to performing a load study but has not agreed to a deadline for completing this task. In Cascade's 2015 rate case, the Company agreed to "initiate" a load study before filing its next general rate case.[742] In its 2017 rate case, the Company agreed to perform a load study but did not agree to a specific deadline.[743] In 2019, the Company again agreed to perform a load study without any specific deadline.[744]

383 As time drags on, this issue only becomes more concerning. Since the Company's 2017 rate case, the parties have agreed to spread rate increases on an equal percentage of margin among customer classes as a temporary solution until a load study is completed. This is the third general rate case in which we rely on the same compromise solution in order to address the lack of underlying customer usage data. We share Staff witness Higby's concern that, at this point, continuing to allow Cascade to spread revenue on an equal percent of margin may have "cascading, disastrous consequences" and may cause rate shock for customers once the Company seeks a rate increase after completing an actual COSS.[745]

384 It is not necessary here to rehash the Company's progress in installing ERTs over the last four years, or its more recent efforts to install a fixed network as noted in the rebuttal testimony. Cascade itself admits that "[t]here is currently no formal written plan for completing a load study . . ."[746] Although Cascade recently determined to install a fixed network, the Company was still in the process of hiring a project manager as of March 15, 2021.[747]

385 Under these circumstances, we find it appropriate to set specific deadlines for Cascade to complete its load study. In response to Bench Request No. 6, the Company prepared a

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[741] *See* WAC 480-85-050(1)(d); WAC 480-85-030(5).

[742] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04 ¶ 7 (July 7, 2016).

[743] 2017 Cascade GRC Order ¶ 69.

[744] *WUTC v. Cascade Natural Gas Corporation*, Docket UG-190210, Order 05 ¶ 19-20.

[745] Higby, Exh. ANH-1T at 13:17-14:5.

[746] Exh. BE-6 (Response to Bench Request No. 6). *See also* Kivisto, TR 125:3-128:2.

[747] *See id.* (Load Study Overview at 7). *See also* Kivisto, Exh. NAK-2T at 19:18-20:14 (describing the Company's recent decision to install a fixed network).

Load Study Overview, which indicates that the Company may be able to prepare a load study this year if it has sufficient data from the February 2021 peak weather event.[748]

386 We therefore order Cascade to file a progress report and written plan for completing its load study by August 21, 2021. The Company intends to meet with stakeholders at a summer 2021 workshop.[749] Cascade must file its completed load study, consistent with the provisions of WAC chapter 480-85, by September 21, 2022.

387 Because we have decided to set specific deadlines for Cascade's load study, we decline to order the Company to complete a load study before filing its next general rate case. We also decline to open a new docket to oversee the creation of the load study. The Company has committed to meeting with stakeholders in summer 2021, and the recently issued regulations in WAC chapter 480-85 set forth the minimum requirements for load studies.

IV. FINDINGS OF FACT

388 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate rates, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including natural gas companies.

389 (2) Cascade is a "public service company" and a "gas company" as those terms are defined in RCW 80.04.010 and used in Title 80 RCW. Cascade provides natural gas utility service to customers in Washington.

390 (3) Cascade's current rates became effective March 1, 2020, and were determined on the basis of the settlement agreement approved in the Commission's Final Order in Docket UG-190210.

391 (4) On June 19, 2020, Cascade filed this general rate case with the Commission proposing revisions to its currently effective Tariff WN U-3 for natural gas service.

392 (5) Cascade requests an increase in its annual revenue requirement of approximately $7.4 million (2.821 percent).

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[748] *Id.*

[749] Kivisto, Exh. NAK-2T at 23:5-24:11.

393 (6) The evidence and the Commission's decision provide for an annual revenue decrease of $0.39 million during the rate effective period.

394 (7) A hypothetical capital structure representing 49.1 percent equity and 50.9 percent debt closely follows Cascade's capitalization levels in recent years while providing stability in the face of increased gas costs following the Enbridge pipeline explosion.

395 (8) Adjusting the capital structure to remove Enbridge costs results in an inflated equity ratio.

396 (9) Cascade's cost of debt should be updated to 4.589 percent to reflect the most recent debt issuances.

397 (10) The record evidence demonstrates a range of reasonable returns between 8.3 percent and 10.45 percent. However, the cost of capital witnesses' recommendations fall within a narrower range of 9.0 percent to 9.80 percent.

398 (11) The evidence supports a specific, reasonable ROE point value of 9.40 percent, consistent with the ROE as authorized in the Company's last general rate case.

399 (12) Valuing rate base on an EOP basis to address regulatory lag is warranted given the Company's ongoing capital investments and history of under-earning from 2015 onwards. However, the record is unclear to what extent Cascade's under-earning is outside of its control.

400 (13) Cascade's proposal to remove executive incentives from the revenue requirement appropriately places these costs with shareholders.

401 (14) Because test year incentive compensation for non-executive employees is significantly higher than average levels, this incentive compensation should be reduced to the Company's budgeted amount, which normalizes the amounts closely to the five-year average.

402 (15) Cascade's request for 2020 wage increases, specifically a 3 percent increase for union employees and a 3.55 percent increase for non-union employees, is reasonable, consistent with average market compensation levels, and benefits ratepayers.

403 (16) The payroll expenses associated with the Company's 2021 wage increases are not final and may change over the course of the calendar year.

404 (17) The Arlington Gate project, the Othello Gate project, the Bellingham 8" project, the Moses Lake 4" project, and the Walla Walla 6" Distribution project are serving customers, and final costs for each project are available.

405 (18) The Arlington Gate project, the Othello Gate project, the Bellingham 8" project, the Moses Lake 4" project, and the Walla Walla 6" Distribution project are considered sufficiently "major" investments to support a pro forma adjustment.

406 (19) The non-Company parties did not have a reasonable opportunity to review the following investments, which came into service after October 27, 2020: Wallula Gate Project, Walla Walla Gate Project, Bremerton Regulator Station Project, Kennewick Odorizer Project, and Bremerton Office Project.

407 (20) There is insufficient evidence to establish the prudence of the Company's investments in the Wallula Gate Project, Walla Walla Gate Project, Bremerton Regulator Station Project, Kennewick Odorizer Project, and the Bremerton Office Project.

408 (21) Cascade's blanket funding projects are not conducted according to a plan, schedule, or mechanism as contemplated by the Commission's Used and Useful Policy Statement.

409 (22) Cascade tracks protected EDIT and unprotected EDIT in separate FERC Accounts 254, and it returns these savings to customers according to separate schedules.

410 (23) Cascade's proposal to spread the rate increase by an equal percentage of margin to all rate classes except special contracts most appropriately allocates the rate increase across customer classes.

411 (24) 2019 EOP customer counts and therm usage provide an appropriate basis for determining rate spread and rate design, the CRM adjustment, and the decoupling authorized annual revenue per customer per month.

412 (25) Disconnection Reduction Plans serve the public interest by seeking to maintain customers' connections to necessary utility services.

413 (26) Cascade agrees to develop a Disconnection Reduction Plan in consultation with its WEAF Advisory Group.

414 (27) Cascade's low-income programs are functioning well. The Company recently increased funding for its low-income programs and began the Big HEART program.

415 (28) Although Cascade committed to developing a load study in three separate settlement agreements, as of March 15, 2021, the Company still does not have a written plan for completing the load study and has not hired a project manager for its proposed installation of a fixed area network.

416 (29) The record raises significant concerns that continuing rate increases without the benefit of a cost of service study may eventually result in rate shock for customers once a proper study is completed.

417 (30) Cascade's proposal includes six uncontested restating and two uncontested pro forma adjustments to its revenue requirement. These uncontested adjustments are depicted in Appendix A to this Order, including revenue requirement impacts. These uncontested adjustments are supported by substantial competent evidence in the record of this proceeding.

418 (31) On rebuttal, Cascade added one adjustment and fully adopted two adjustments and partially adopted one adjustment from other parties' proposals. Each of the issues resolved on rebuttal achieve outcomes that are reasonable and well supported by the record.

419 (32) Cascade's currently effective rates recover more revenue than is necessary to recover fair, just, reasonable, and sufficient rates from customers and to provide a rate of return adequate to compensate investors at a level commensurate to what they might expect to earn on other investments bearing similar risks.

V. CONCLUSIONS OF LAW

420 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefor, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

421 (1) The Commission has jurisdiction over the subject matter of, and parties to, these proceedings.

422 (2) Cascade is a natural gas company and a public service company subject to Commission jurisdiction.

423 (3) At any hearing involving a proposed change in a tariff schedule the effect of which would be to increase any rate, charge, rental, or toll theretofore charged, the burden of proof to show that such increase is just and reasonable will be upon the public service company. RCW 80.04.130(4). The Commission's determination of whether the Company has carried its burden is adjudged on the basis of the full evidentiary record.

424 (4) Cascade's existing rates for natural gas service are neither fair, just, and reasonable, nor sufficient, and should be adjusted prospectively after the date of this Order.

425 (5) Cascade's capital structure should be maintained at a ratio of 49.1 percent equity to 50.9 percent debt in order to provide stability in the face of increased Enbridge costs.

426 (6) The Commission should approve Cascade's updated cost of debt at 4.589 percent.

427 (7) Consistent with the evidence presented in the record and the principle of gradualism, Cascade's ROE should be maintained at 9.40 percent.

428 (8) Based on an equity ratio of 49.1 percent, a cost of debt of 4.589 percent, and a ROE of 9.40, the Commission should approve and adopt an overall rate of return of 6.95 percent for purposes of establishing revenue requirements and rates in this proceeding.

429 (9) Valuing rate base on an EOP basis will result in rates that are fair, just, reasonable, and sufficient.

430 (10) Executive incentives should be excluded from the Company's revenue requirement.

431 (11) Cascade should be allowed to recover non-executive incentive compensation in rates.

432 (12) Non-executive compensation should be normalized to the Company's budgeted amount, aligning the amounts with the five-year rolling average.

433 (13) Cascade should be allowed to recover 2020 wage increases in rates for both union and non-union employees.

434 (14) Cascade's request for 2021 wage increases does not reflect known and measurable costs.

435 (15) Extending the pro forma period until October 27, 2020, is consistent with RCW 80.04.250 and will result in rates that are fair, just, reasonable, and sufficient.

436 (16) Cascade should be allowed to recover through its pro forma plant adjustment the Arlington Gate project, the Othello Gate project, the Bellingham 8" project, the Moses Lake 4" project, and the Walla Walla 6" Distribution project.

437 (17) The record evidence demonstrates that Cascade's decision to install the Arlington Gate project, the Othello Gate project, the Bellingham 8" project, the Moses Lake 4" project, and the Walla Walla 6" Distribution project were prudent.

438 (18) Cascade should not be allowed to recover through its pro forma plant adjustment the Wallula Gate Project, Walla Walla Gate Project, Bremerton Regulator Station Project, Kennewick Odorizer Project, and the Bremerton Office Project in rates at this time.

439 (19) Cascade should not be allowed to recover its blanket funding projects through its pro forma plant adjustment.

440 (20) Cascade has established that it accounts for TCJA customer tax benefits consistent with the 2017 Cascade GRC Order.

441 (21) Cascade's proposed rate design and rate spread will result in rates that are fair, just, reasonable, and sufficient.

442 (22) The rate decrease that we adopt in this order should be spread by an equal percentage of margin to all rate classes except special contracts.

443 (23) The Commission should direct Cascade to develop a Disconnection Reduction Plan in consultation with its WEAF Advisory Group and file this plan within one year of the effective date of this Order.

444 (24) The Commission should decline to order any changes to Cascade's low-income programs in this docket beyond requiring the Company to file a status report on its WEAF program by April 1, 2022.

445 (25) The Commission should order Cascade to file a progress report and written plan for completing its load study by August 21, 2021 and to file the completed load study by September 21, 2022.

446 (26) The Commission should accept each of the uncontested restating and pro forma adjustments and issues resolved on rebuttal.

447 (27) The Commission should authorize and require Cascade to make a compliance filing in this docket to reduce its prospective rates by $0.39 million annually.

448 (28) The Commission should authorize the Commission Secretary to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.

449 (29) The Commission should retain jurisdiction over the subject matters and the parties to this proceeding to effectuate the terms of this Order.

VI. ORDER

THE COMMISSION ORDERS THAT:

450 (1) The Commission rejects the proposed tariff revisions Cascade Natural Gas Corporation filed in these dockets on June 19, 2020, and suspended by prior Commission order.

451 (2) The Commission authorizes and requires Cascade to make a compliance filing in this docket including all tariff sheets that are necessary and sufficient to effectuate the terms of this Final Order. The stated effective date included in the compliance filing tariff sheets must allow five business days after the date of filing for Commission review.

452 (3) The Commission authorizes the Commission Secretary to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Final Order.

453 (4) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Lacey, Washington, and effective May 18, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

SEPARATE STATEMENT OF CHAIR DANNER

1 In my Separate Statement in Docket UG-190530, I dissented from those portions of the 2019 Puget Sound Energy general rate case order that allowed the continued use of the perpetual net present value (PNPV) methodology for assigning costs for natural gas line extensions.[1] I stated in that case that I believe the PNPV methodology has the potential in many cases to require existing gas customers to subsidize the costs of bringing new customers onto the system, contrary to the Legislature's intent to reduce the direct use of fossil fuels. For the reasons stated in my partial dissent in that case, I continue to oppose the use of PNPV for connecting new gas customers.

2 In 2016, the Commission approved in Docket UG-160967 the same PNPV methodology for Cascade Natural Gas that I found problematic in the Puget Sound Energy rate case.

3 In the proceeding before us today, no party raised objections to Cascade's continued use of PNPV, and it is not discussed in the record. Therefore, our Order today effectively allows Cascade's continued use of the PNPV methodology.

4 I write to clarify that even though I join the Commission's Order, my objections to the PNPV methodology remain. It is my hope and expectation that the Commission will address the continued use of PNPV in a future proceeding involving all the natural gas utilities.

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[1] 2019 PSE GRC Order (Separate Statement of Chair Danner, Dissenting in Part).