

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION

Respondent.

Docket No. UG-200568

CASCADE NATURAL GAS  
CORPORATION’S PETITION FOR  
RECONSIDERATION OF  
ORDER 05

**I. INTRODUCTION**

*I* In accordance with WAC 480-07-850, Cascade Natural Gas Corporation (Cascade or Company) respectfully petitions the Washington Utilities and Transportation Commission (Commission) to reconsider a single aspect of Order 05 entered on May 18, 2021.<sup>1</sup> Specifically, Cascade requests reconsideration of the retirement and removal (R&R) adjustment adopted to offset Cascade’s 2020 pro forma capital additions. The Commission allowed only a fraction of Cascade’s 2020 pro forma capital additions—14.12 percent of Cascade’s total 2020 capital additions, or 21.97 percent of the 2020 pro forma capital additions Cascade proposed in this case. Application of the full 2020 R&R offset is thus unwarranted, especially because the offset is based on abnormally high 2019 R&R levels. Additionally, the full value of the 2019 R&R levels are already included in the 2019 test year results. Cascade requests that the Commission instead adopt an offset using the actual 2020 R&R value adjusted to reflect the fraction of 2020 plant approved in Order 05

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<sup>1</sup> *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-200568, Order 05 (May 18, 2021) (hereinafter “Order 05”).

or, in the alternative, allow a reduction to the 2019 R&R value to reflect the fraction of 2020 plant approved. In either case, Cascade requests that the Commission clarify that the R&R adjustment is a pro forma adjustment rather than a restating adjustment since the adjustment is an offset to pro forma plant.

## II. BACKGROUND

2 In its direct testimony on pro forma plant additions, Cascade identified fifteen major capital projects along with certain programmatic capital investments, all with estimated in-service dates before December 31, 2020.<sup>2</sup> Cascade proposed pro forma adjustments to increase its rate base by \$64.8 million based on the actual costs of these projects through May 31, 2020, and estimated costs and in-service dates for projects completed between June 1, 2020, and December 31, 2020.<sup>3</sup> Cascade sought recovery of these capital projects to reduce regulatory lag associated with new investments.<sup>4</sup>

3 While the Company believed that it accounted for offsetting factors in conformity with the Commission’s matching principle,<sup>5</sup> Commission Staff<sup>6</sup> and other parties<sup>7</sup> argued that the Company failed to fully account for offsetting decreases in expenses or increases in revenue. Specifically, the Alliance of Western Energy Consumers (AWEC) proposed

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<sup>2</sup> Darras, Exh. PCD-1T at 11:19–15:14 (briefly describing the fifteen projects included as proposed pro forma additions).

<sup>3</sup> Parvinen, Exh. MPP-1Tr at 5:11–18.

<sup>4</sup> *Id.* at 6:20–7:3.

<sup>5</sup> *See, e.g., Wash Utils. & Transp. Comm’n v. Puget Sound Energy Inc.*, Docket UE-090704 & UG-090705, Order 11 at ¶ 27 (Apr. 2, 2010) (explaining the matching principle); *Wash. Utils. & Transp. Comm’n v. Avista Corp. dba Avista Utils.*, Dockets UE-160228 & UG-160229, Order 06 at ¶ 82 (Dec. 15, 2016) (discussing offsetting factor requirements); *see also In the Matter of the Comm’n Inquiry into the Valuation of Pub. Serv. Co. Prop. that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date at ¶¶ 20, n.24 & 24 (re-affirming the matching principle) (hereinafter “Policy Statement”).

<sup>6</sup> McGuire, Exh. CRM-1T at 27:1–8; Panco, Exh. DJP-1T at 17:4–8.

<sup>7</sup> Garrett, Exh. MEG-1Tr at 8:2–8; Mullins, Exh. BGM-1T at 32:17–33:4.

that the Commission offset any pro forma adjustments for 2020 by \$15 million to reflect the R&R amounts reported during the 2019 test year.<sup>8</sup> AWEC argued that Cascade’s expected R&R amounts for 2020 would exceed the 2019 amounts and asserted that the 2019 amounts would therefore be an appropriate estimate.<sup>9</sup> AWEC’s proposed R&R adjustment reduced depreciation expense, resulting in a \$646,081 decrease in the Company’s revenue requirement.<sup>10</sup>

4           The Company objected to three aspects of AWEC’s adjustment. First, the Company noted that AWEC had inappropriately used an outdated depreciation rate to calculate the R&R adjustment and should have instead used the Company’s most recently approved depreciation rate.<sup>11</sup> Second, Cascade explained that its R&R level for 2019 was abnormally high because the Company retired its encoder receiver transmitters (ERTs) as part of its metering system upgrades.<sup>12</sup> These ERT replacements resulted in R&R levels of \$13.1 million in 2018 and \$11.5 million in 2019, compared to \$2.9 million in 2017.<sup>13</sup> Cascade argued that rather than use the artificially inflated 2019 R&R value as a proxy, the Commission should use the Company’s actual 2020 R&R value of \$8.61 million.<sup>14</sup> Third, to recognize that the proposed pro forma plant additions reflected only a portion of the plant added in 2020, Cascade proposed that the R&R value be adjusted proportionally.<sup>15</sup>

To determine that amount, Cascade calculated a ratio of 2020 plant for which the Company

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<sup>8</sup> Exh. BGM-1T at 33:5–9 (\$11.4 million for retirement), 34:12-19 (\$3.6 million for removal).

<sup>9</sup> *Id.* at 33:10–19, 34:11-19.

<sup>10</sup> *Id.* at 33:20–22 (\$493,017 for retirement), 34:20:23 (\$153,064 for removal).

<sup>11</sup> Parvinen, Exh. MPP-2Tr at 24:12–16; *see also In the Matter of Cascade Nat. Gas Corp. Petition for an Accounting Order Authorizing Revision to Depreciation Rates*, Docket UG-200278, Order 01, Attachment 1 (Dec. 10, 2020) (showing revised depreciation rates).

<sup>12</sup> Exh. MPP-2Tr at 25:1–4.

<sup>13</sup> *Id.* at 25:4–6.

<sup>14</sup> *Id.* at 25:9–14.

<sup>15</sup> *Id.* at 25:16–18.

sought recovery in its rebuttal filing (\$57.3 million) to total plant the Company added in 2020 (\$96.2 million) (2020 Plant Ratio),<sup>16</sup> which equals 59.49 percent.<sup>17</sup> Using the Company's updated depreciation rate, the 2020 R&R value, and the 2020 Plant Ratio, Cascade proposed an R&R adjustment of \$157,055.<sup>18</sup>

5           The Commission ultimately decided to allow only \$13.6 million in 2020 pro forma plant additions, a reduction of 76.27 percent from the Company's rebuttal request.<sup>19</sup> This is 14.12 percent of the total plant Cascade added in 2020. While denying recovery of most of Cascade's 2020 pro forma capital additions, the Commission adopted AWEC's proposal for a full 2020 R&R offset based on the full 2019 R&R value unadjusted by the 2020 Plant Ratio.<sup>20</sup> The Commission did agree to use the Company's most recent depreciation rate, resulting in a 2020 R&R offset of \$459,131.<sup>21</sup>

### III. PETITION FOR RECONSIDERATION

6           The Commission will grant a petition for reconsideration of a final order if the petition: (1) identifies each portion of the challenged order the party contends is erroneous or incomplete; (2) cites each portion of the record, statute, Commission rule, or other law on which the petition relies; and (3) presents a brief argument in support of the requested

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<sup>16</sup> MPP-2Tr at 20:5-7.

<sup>17</sup> Parvinen, Exh. MPP-5.

<sup>18</sup> MPP-2Tr at 25:16-18; *see also* Exh. MPP-5 (outlining the Company's calculation of the R&R adjustment). As explained below, Cascade's rebuttal exhibit incorrectly labeled the R&R adjustment as a restating adjustment. Gresham, Exh. MCG-14 (Adjustment R-10). Because the R&R adjustment offsets the Company's 2020 pro forma additions, the R&R adjustment should have been referred to as a pro forma adjustment.

<sup>19</sup> Order 05 at ¶ 282.

<sup>20</sup> Order 05 at ¶ 295.

<sup>21</sup> Order 05 at ¶ 295.

relief.<sup>22</sup> If the Commission grants the petition, it may “modify its prior order or take other appropriate action.”<sup>23</sup>

7 Cascade respectfully requests reconsideration of the Commission’s decision to use AWEC’s full 2019 R&R value as an offset to the \$13.6 million in 2020 pro forma capital additions allowed in Order 05. Instead, Cascade requests that the Commission use the proportionate share of the full 2020 R&R value related to the authorized 2020 pro forma capital additions (i.e., 14.12 percent). This results in a revised R&R offset of \$37,197. Alternatively, if the Commission continues to use the 2019 R&R value as a proxy, it should reduce the 2020 R&R offset to 14.12 percent of this amount, or \$64,822.

8 The Company provided its actual R&R values for 2020, which reflect the most accurate offset for 2020 pro forma adjustments and best align with the matching principle. The abnormally high 2019 R&R value is already reflected in Cascade’s 2019 test year, and its application to 2020 plant additions is unwarranted. Whether the Commission continues to use the Company’s 2019 R&R value or applies the 2020 R&R value, however, the Commission should reduce the offset amount to match the percentage of 2020 pro forma investments the Commission included in rate base, using an updated 2020 Plant Ratio of 14.12 percent. Without this adjustment, the Commission is using a total R&R value to offset the small fraction of pro forma plant adjustments allowed. Finally, to avoid confusion in future cases and Commission Basis Report (CBR) filings, the Company seeks confirmation that its R&R adjustment—which is an offset to pro forma plant—should be characterized as a pro forma adjustment, not a restating adjustment.

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<sup>22</sup> WAC 480-07-850(1)(b).

<sup>23</sup> WAC 480-07-850(3).

**A. The 2020 R&R value provides the most accurate offset.**

9 In its rebuttal testimony, Cascade detailed its R&R values for the last five years to show how the 2019 number proposed by AWEC represented an extraordinarily high R&R value when compared to other years.<sup>24</sup> The Company presented its historical R&R values between 2015 and 2017, which averaged \$5.35 million in retired assets.<sup>25</sup> Cascade then demonstrated that its actual R&R value for 2020 was \$8.61 million.<sup>26</sup> No party directly disputed the accuracy of the 2020 R&R value at the hearing or in its post-hearing briefing.

10 Even though Cascade provided the 2020 R&R value, the Commission directed that the 2019 R&R value be used to determine the offset to Cascade’s 2020 pro forma plant additions. This result inaccurately mismatches a 2019 R&R value with capital additions from 2020. In its 2020 Used and Useful Policy Statement (Policy Statement), the Commission made clear that it intended to match pro forma adjustments with “*related* offsetting factors”.<sup>27</sup> The Policy Statement warns that mismatching pro forma adjustments and offsets can distort “the rate-year relationship among revenues, expenses, and rate base.”<sup>28</sup>

Here, AWEC proposed using the 2019 R&R numbers because it incorrectly assumed that the 2019 data would be similar to or exceed the 2020 value.<sup>29</sup> But Cascade presented evidence that the 2018 and 2019 R&R numbers were unusually high due to ERT retirements. In Order 05, the Commission noted that Cascade’s testimony stated “2019

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<sup>24</sup> Exh. MPP-2Tr 25:1-8.

<sup>25</sup> *Id.* at 25:10–11; *see also* Exh. MPP-5 (breaking down R&R values for each year between 2015 and 2020).

<sup>26</sup> Exh. MPP-5; Exh. MPP-2Tr at 25:12–13.

<sup>27</sup> Policy Statement at ¶ 20 n.24 (“The matching principle for the purposes of this Policy Statement means the effect of including an investment with *related* offsetting factors.”) (emphasis added).

<sup>28</sup> Policy Statement at ¶ 24.

<sup>29</sup> Exh. BGM-1T 33:10–14.

and 2018 were abnormal years with higher-than-average retirements related to encoder receiver transmitters retired for metering upgrades.”<sup>30</sup> The Commission may have elected to use the 2019 R&R value because the 2020 R&R value was not available until the Company’s rebuttal testimony, so the parties had less time to review it. Weighed against the evidence that the 2019 R&R value was not an accurate proxy because of the ERT retirements, however, the 2020 R&R value was a more reasonable basis for calculating the R&R offset.

11           Using the anomalously high 2019 R&R value to offset the 2020 pro forma plant additions is a mismatch which results in a disproportionately large R&R offset. Application of the actual R&R 2020 value avoids this mismatch and mitigates an unduly harsh result.

**B.       Regardless of whether the Commission uses the 2019 or 2020 R&R value, it should decrease the offset to match the fraction of pro forma plant allowed for 2020.**

12           When the Commission approved \$13.6 million of the Company’s \$57.3 million in pro forma plant additions, the Commission essentially reduced Cascade’s proposed pro forma plant adjustment by 76.27 percent.<sup>31</sup> But the Commission did not reduce the corresponding offsetting benefits associated with the R&R adjustment to match this sharp reduction. As the Commission has recognized, offsets must be harmonized with the effect of any pro forma adjustments to maintain a balance between revenues, expenses, and rate

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<sup>30</sup> Order 05 at ¶ 275.

<sup>31</sup> Order 05 at ¶ 282.

base.<sup>32</sup> Accordingly, the R&R adjustment should be modified to match the corresponding fraction of the pro forma plant allowed for 2020.

13 As Cascade has shown in Attachment 1 to this Motion, the 2020 Plant Ratio resulting from Order 05 is 14.12 percent. Application of the updated 2020 Plant Ratio to the 2020 R&R value produces an adjusted R&R offset of \$37,197; application of this ratio to the 2019 R&R value produces an adjusted R&R offset of \$64,822. To avoid distorting the relationship between revenues, expenses, and rate base,<sup>33</sup> Cascade respectfully requests that the Commission reduce the R&R offset by the 2020 Plant Ratio regardless of whether the Commission uses the 2019 or 2020 R&R value.

**C. The R&R adjustment is properly characterized as a pro forma adjustment rather than a restating adjustment.**

14 AWEC proposed the R&R adjustment as a pro forma adjustment.<sup>34</sup> In its rebuttal exhibit outlining the Company's proposed adjustments to test year results, Cascade inadvertently mislabeled the 2020 R&R adjustment as a restating adjustment.<sup>35</sup> The Commission then reflected the R&R adjustment as a contested restating adjustment on line 13 of Attachment A of Order 05, instead of a contested pro forma adjustment.

15 In accordance with the definitions provided in WAC 480-07-510, a restating adjustment modifies the test period results to cure a defect or remove an extraordinary expense, whereas a pro forma adjustment will give effect for the test period to all known and measurable changes.<sup>36</sup> Because the R&R adjustment directly relates to the Company's

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<sup>32</sup> See Policy Statement at ¶ 24.

<sup>33</sup> See *id.*

<sup>34</sup> Exh. BGM-1T at 5:15-19.

<sup>35</sup> Exh. MCG-14.

<sup>36</sup> WAC 480-07-510(3)(c).



post-test year pro forma plant adjustments, it is also correctly characterized as an offsetting pro forma adjustment.<sup>37</sup> Cascade requests that the Commission clarify this point to avoid confusion in future cases and CBR filings.

#### IV. CONCLUSION

16 To best implement the Commission’s policy goal to match pro forma adjustments with corresponding offsetting factors, Cascade respectfully requests that the Commission apply actual 2020 R&R values as an offset to 2020 pro forma capital additions, instead of using abnormally high 2019 R&R values as a proxy. Cascade further requests that, regardless of whether the Commission chooses to use the 2019 or 2020 R&R values, the Commission reduce the full R&R value to reflect the Commission’s decision to allow only 14.12 percent of Cascade’s total 2020 plant additions. Finally, Cascade asks the Commission to clarify that an R&R adjustment is a pro forma adjustment, not a restating adjustment.

Respectfully submitted this 25th day of May 2021.

*/s/ Jocelyn Pease*

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<sup>37</sup> See Policy Statement at ¶ 20 n.25 (including “rate-year retirements” and “non-depreciating plant” as offsetting factors for pro forma adjustments).