Exhibit No. __ (MPP-7T)
Docket No. UG-170929
Witness: Michael P. Parvinen

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-170929

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF MICHAEL P. PARVINEN

March 23, 2018

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I. INTRODUCTION AND SCOPE

Q. Are you the same Michael P. Parvinen who filed direct testimony in this proceeding on behalf of Cascade Natural Gas Corporation (Cascade or Company)?

A. Yes, as Exhibit No. ____ (MPP-1T).

Q. What is the purpose of your rebuttal testimony?

A. First, I will provide a revised revenue requirement based on the Company's corrections, updated information, and acceptance of adjustments proposed by other parties. I will also respond to specific adjustments or topics proposed by several Staff and intervenor witnesses. The following is a list of contested adjustments or topics I will be addressing along with the name of the witness raising the issue.

Table 1. Contested Adjustments

Adjustment	Witness (Party)
Investor Supplied Working Capital	Erdahl (Staff)
Revenue Adjustments	Liu (Staff)
Interest Coordination or Pro Forma Debt	Hillstead (Staff), Ramas (PC), Mullins (NWIGU)
Pro Forma Plant Additions	Panco (Staff), Ramas (PC), Mullins (NWIGU)
Rate Case Costs	Panco (Staff), Ramas (PC), Mullins (NWIGU)
MAOP Costs	Erdahl (Staff), White (Staff), Ramas (PC)
SISP/SERP	Mullins (NWIGU)
Tax Reform	Erdahl (Staff), Cheesman (Staff), Ramas (PC), Mullins (NWIGU)
Low Income Weatherization	Collins (TEP)

Q. Are there proposed adjustments from other parties that the Company is accepting?

A. Yes. The parties have proposed several adjustments or corrections to Cascade's initial filing, which Cascade accepts. Cascade has updated its case to include the following adjustments:

Table 2. Accepted Adjustments

Adjustment	**Net Income Amount**	**Witness (Party)**
Arbitration Expense	$166,497	White (Staff), Ramas (PC), Mullins (NWIGU)
SISP/SERP	$100,731	Hillstead (Staff), Ramas (PC)
Restate Wages	($60,852)	Hillstead (Staff)
Pro forma Compliance Department	($157,379)	Panco (Staff)
Data Subscription	$41,870	Ramas (PC)
Foros True Boutique Costs	$41,617	Ramas (PC)

Q. Are there adjustments accepted by the parties but that have differing revenue requirements?

A. Yes. Specifically, the CRM adjustment shown in Column P-8. While the parties conceptually agree with the Company's proposed adjustment and method of calculation, the parties' differing presentations of federal income tax, rate of return, and conversion factor all affect the calculation of the recommended revenue requirements on this adjustment. This adjustment will need to be updated based on the final outcome of the above identified components.

II. SUMMARY OF TESTIMONY

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits, which are described in my testimony:

Exhibit No. __ (MPP-8)	Results of Operation Summary Sheet
Exhibit No. __ (MPP-9)	Revenue Requirement Calculation
Exhibit No. __ (MPP-10)	Conversion Factor Calculation
Exhibit No. __ (MPP-11)	Summary of Proposed Adjustments to Test Year Results
Exhibit No. __ (MPP-12)	2017 Plant Additions
Exhibit No. __ (MPP-13)	Updated Staff Proposed 2017 Plant Additions
Exhibit No. __ (MPP-14)	Working Capital Calculation

III. REVENUE REQUIREMENT AND RATE REQUEST PROPOSAL

Q. Please summarize the results of the proposed revenue requirements for the Washington jurisdiction.

A. After taking into account all accepted adjustments and updates, Cascade's revised revenue decrease request is $(1,677,214). This revenue decrease can be found in Exhibit No. _____ (MPP-8) and Exhibit No. ____ (MPP-9). The overall base revenue decrease requested is (0.77) percent. Cascade's revised revenue request takes into account the impact of federal tax reform.

Q. Please describe the contents of Exhibit No. __ (MPP-8).

A. Exhibit No. ____ (MPP-8) is an updated version of Exhibit No. ____ (MPP-2). The figures shown in column (a) are the actual Washington booked figures for the test year, which is the twelve months ended December 31, 2016. The Working Capital figure on line 24 is a calculation from the Company's actual average of monthly average balance sheet as revised and updated based on Staff's analysis to the extent the Company agrees. Exhibit No. ___ (MPP-14) provides the calculation for the working capital figure. Also, the federal income tax figure shown in Column (a), line 16 is adjusted to reflect the new 21 percent tax rate. The explanation of this calculation is provided in the supplemental, supplemental response to Bench Request

No. 1. Column (b) is the summation of all adjustments, both restating and pro forma, to achieve the pro forma results of operation. Each adjustment that is included in column (b) is identified separately in Exhibit No. __ (MPP-11), and will be described later in my testimony. Column (c) is the sum of columns (a) and (b) and represents the expected results of operations in the rate year absent any rate change. Column (d) identifies the proposed revenue change and the net income impact of the revenue increase. The proposed revenue increase is also calculated in Exhibit No. __ (MPP-9). Column (e) is the results of operation expected during the rate year with proposed rates.

Q. Please describe Exhibit No. __ (MPP-9).

A. Exhibit No. __ (MPP-9) is an update of Exhibit No. ____ (MPP-3) which shows the calculation of the proposed revenue decrease of ($1,677,214) necessary to achieve the proposed rate of return of 7.60 percent.

Q. Would you please describe Exhibit No. __ (MPP-10)?

A. Exhibit No. __ (MPP-10) is an update of Exhibit No. ____ (MPP-4) and shows the calculation of the conversion factor which is applied to the required net income to produce the required revenue increase. The conversion factor has been adjusted to reflect the new federal income tax rate of 21 percent. No party takes issue with the conversion factor calculation. The revised conversion factor is calculated to be 0.75499.

Q. Please describe Exhibit No. __ (MPP-11).

A. Exhibit No. __ (MPP-11) shows each of the Company's proposed adjustments, culminating in the total column which is also shown in column (b) of Exhibit No. ____ (MPP-8). The adjustments highlighted in orange are the accepted adjustments from other parties and the blue highlighted columns are those adjustments the

Company in its rebuttal filing, which differ from those made by various parties. These differences will be explained later in my testimony.

Q. Are there adjustment shown in blue that are explained by another witness?

A. Yes. The Executive Incentive adjustment in in column R-10 and the Pro forma Wage Adjustment in column P-2. These adjustments are further explained by Ms. Linda Murray.

Q. Please briefly explain these adjustments and the impact in this case.

A. The Executive Incentive adjustment removes from the test year those incentive earned by executive officers. The expense amount removes is $818,796. The pro forma payroll adjustment has been updated to include actual granted increases for 2017 and 2018—with the exception of the 2018 union increase. Cascade is reflecting a placeholder for the 2018 union contract as negotiation are currently taking place as described in Ms. Murray's testimony.

Q. Please describe Exhibit No. ____ (MPP-12).

A. Exhibit No. ____ (MPP-12) is an update of Exhibit No. ____ (MPP-6) which contains the updated plant additions expense for inclusion in this case based on 2017 actual expense. In the Company's direct case, Cascade proposed updating the Plant Addition adjustment to include only actual projects in service by the end of 2017 for which the costs are known and measurable. I provide additional discussion of these projects further on in my testimony.

Q. Please continue with your next exhibit, Exhibit No. ____(MPP-13).

A. Exhibit No. ____(MPP-13) updates Table 1 on page 7 of David J. Panco's Response Testimony (Exhibit No. ____(DJP-1Tr)). This exhibit is based on December 31, 2017, actual costs for only projects in service at December 31, 2017. This exhibit shows an alternative increase to plant increase of $ 13,959,614.88 as opposed to

Staff's plant increase of $13,023,840.[1] My exhibit shows the costs associated with 20 percent of projects—which is the standard proposed by Staff-- but I include only those projects actually completed which is now lower than originally estimated thus only ten projects are included.

Q. Does the Company accept the Staff's approach for Pro Forma Plant Additions?

A. No, as described later in my testimony. However, if the Commission were to accept Staff's proposed method, the Company proposes to update the figures based on actual cost and projects in service at the end of 2017 as opposed to November 30, 2017, as proposed by Staff.

Q. Please describe Exhibit No. ____ (MPP-14).

A. Exhibit No. ____ (MPP-14) supports the working capital figure included in Exhibit No. ____ (MPP-8), column (a), line 23. This exhibit presents Cascade's ISWC in the same format as Staff witness Erdahl's Exhibit No. ____ (BAE-3). The differences between the two exhibits are highlighted in orange in Exhibit No. ____ (MPP-14). The highlights are explained later in my testimony.

ISSUES

WORKING CAPITAL

Q. Please explain the Company's original working capital calculation.

A. The Company performed an investor supplied working capital (ISWC) calculation based on the Average of Monthly Averages of the Balance Sheet (trial balance) for the period ended December 31, 2016. The Company's approach compares the credit side of the balance sheet with the debit side of the balance sheet, excluding current assets and current liabilities.

The Company also considers the nature of the funds reflected in each account on the balance sheet, and categorizes accounts with funds that are provided by

[1] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 7:4-13.

shareholders as either “operating investment” or “non-operating investment”. Operating investments are primarily comprised of rate base items and non-operating investments are generally other balance sheet items that earn or pay a return on the balance.

The method proposed by the Company has been accepted and preferred by the Commission in numerous dockets over the years, including in recent Puget Sound Energy and PacifiCorp dockets.[2]

Q. Did any party propose an adjustment to working capital?

A. Yes. Staff witness Betty Erdahl proposes an adjustment to reduce working capital by approximately $13 million, from $25.6 million to $12.6 million.[3]

Q. Does Staff use the same overall methodology as Cascade for calculating working capital?

A. Yes. Staff and Cascade both use the same methodology but differ regarding the appropriate categorization of certain accounts. Specifically, Staff proposes recategorizing 16 accounts.[4] Staff also requests that the Company alter its presentation for clarity purposes, which the Company did in response to WUTC Data Request No. 54, the format provided is included as the basis for Exhibit No. __ MPP-(14). Although this revised presentation does not change the end results, for ease of comparison, the Company updated its analysis to use the format that Staff used for its ISWC calculation.

Q. Does the Company agree with Staff’s proposed recategorizations?

A. Cascade agrees with 13 of the 16 recategorizations proposed by Staff and disagrees with the remaining three.

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[2] *See Wash. Utils. & Transp. Comm’n v. PacifiCorp dba Pac. Power*, Docket UE-130043, Order 05 at ¶240 (Dec. 4, 2013); *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 ¶ 196-205 (May 7, 2012).
[3] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 17:9-11.
[4] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 16:7-11.

Q. Please describe Staff's proposed recategorizations with which the Company disagrees.

A. Staff's proposed recategorizations that the Company disputes are as follows:

- First, Staff' proposes to recategorize the significant majority of the cash on the Company's balance sheet as non-operating investment because (a) Staff believes that the balance is anomalous and too high and (b) it includes funds from bond issuances that were made to fund capital investments, and because the cash in the account was ultimately used to refund PGA over-collections.
- Second, Staff argues that the Company's categorization of amounts in the Customer Deposits Account as non-operating investment is inappropriate because it increases the proportion of working capital that is categorized as "investor supplied."[5]
- Third, Staff argues that deferred accounts reflecting post-code MAOP expenses should be categorized as non-operating, because such expense has been "disallowed."[6]

Q. Please briefly explain why you disagree with Staff's recategorization of certain accounts?

A. The Company believes that it has accurately categorized the amounts in each of these accounts. Specifically, both cash and MAOP deferrals are properly categorized as working capital supplied by investors, while customer deposits are supplied by customers and so are properly categorized as non-operating. These differences are highlighted in Exhibit No. ____ (MPP-14) and each will be expanded upon later in my testimony. After reflecting the changes that Cascade has agreed are appropriate and recategorizing 13 of the 16 accounts proposed by Staff, Cascade believes that it

[5] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 14:21-16:4.
[6] Response Testimony of Amy I. White, Exhibit AIW-1T at 9:14-19.

has accurately and fairly categorized the accounts in its ISWC calculation to reflect the source of the funding.

Cash

Q. Please explain the test year level of cash in the Company's ISWC calculation.

A. The cash included in the Company's case is the average of monthly averages of Cash Account 131 (Cash Account), which equals $34 million.[7]

Q. What is the primary source of the cash in that account?

A. As discussed in more detail in Mr. Chiles's testimony, the cash included in the Cash Account comes from a variety of sources. However, the significant majority of that cash is the result of a debt issuance made in two separate tranches. The funds from those issuances resulted in an abundance of cash early in the test year that was ultimately spent on utility operations, resulting in a substantially reduced level of cash by the end of the test year.

Q. Please describe Staff's proposal to recategorize a portion of the Cash Account as a non-operating investment for purposes of the working capital calculation.

A. Staff's argues that the amount contained in the Company's Cash Account, is anomalous and too high. Therefore, in an effort to "normalize" this amount, Staff reviews the Company's end-of-year Cash Account balances for the past 10 years, and excludes four high years and one low year, to calculate what Staff terms as a reasonable and appropriate level of cash.[8] Based on this approach, Staff determines that all cash in the Cash Account, except for $2 million, should be recategorized as a non-operating investment.[9]

Q. Does Staff make any additional arguments to support its proposal to recategorize virtually all of the cash as a non-operating investment.

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[7] Direct Testimony of Michael P. Parvinen, Exhibit MPP WP-1 at 78:36

[8] Exhibit BAE-5 at 1.

[9] Response Testimony of Betty A. Erdahl, Exhibit BAE-1Tr at 20:17-19.

A. Staff also expresses concerns about a double recovery, based on the fact that the debt issuances were made for capital projects, arguing that these monies also earn AFUDC.[10] Finally, Staff argues that because the cash in the account was ultimately used to fund the Company's regulatory liability associated with the PGA, inclusion as working capital would inappropriately allow the Company to earn a return on amounts owed to customers.[11]

Q. Do you agree with Staff's approach to its analysis?

A. No, for the following reasons:

- The amounts included in the Cash Account were actually supplied by investors and represents the appropriate level prudently supplied by investors for the Company's operations.
- The fact that the debt issuance was made to fund capital investment does not suggest that categorization as working capital would allow a double recovery—nor does the fact that cash was used to refund PGA over-collections.
- Staff's approach to normalizing the test year amounts is arbitrary and ignores half of the data set in order to arrive at an unreasonably low amount. Staff proposes an alternative which includes the full ten-year end of year amounts as a possible reasonable level for inclusion but even that approach ignores the source of funds and the use of those funds and distorts the overall ISWC calculation.

Q. Please explain your point that the cash was supplied by investors and was maintained at the appropriate levels.

[10] Response Testimony of Betty A. Erdahl, Exhibit BAE-1Tr at 11:9-17.
[11] Response Testimony of Betty A. Erdahl, Exhibit BAE-1Tr at 15:3-13

A. As Staff has testified in previous cases working capital or more specifically "investor-supplied capital" is supplied by investors.[12] Cash, being a current asset, is a primary component of working capital. Therefore, cash is supplied by investors. Again Mr. Chiles testifies to the appropriateness of the cash balance.

Q. Can you explain further how working capital is supplied by investors?

A. Yes. Investors supply working capital by providing equity and debt to fund operations. In other words, the items in the long-term credit side of the balance sheet are the sources of investor supplied capital. The capital is then used for operating investments, non-operating investments, and working capital to manage the day to day operations.

Q. Is Staff claiming that cash is not part of working capital?

A. No. Staff is however claiming that the levels of cash in the Cash Account are abnormally high and that not all the cash should be treated as working capital.

Q. What evidence does Staff point to as support for its view that Cascade's cash balance is too high?

A. Staff has prepared a comparison of Cascade's end-of-year (December 31) cash levels with those of the other Washington natural gas utilities in an effort to demonstrate that Cascade's cash levels are out of line with typical gas utility cash balances. Staff's analysis relies on the annual end-of-period numbers from the gas utilities' FERC Form 2 reports.[13]

Q. Are end-of-period cash levels a useful comparator?

A. No. Cascade and Staff's ISWC calculations rely on an average of monthly averages approach to calculating working capital—which provide a fair view of average

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[12] *Wash. Utils. & Transp. Comm'n v. PacifiCorp, d/b/a Pac. Power & Light Co.*, Docket UE-100749, Testimony of Thomas E. School, Exhibit TES-1T at 11 (Oct. 5, 2010) ("Investors supply money to the company in two primary forms. One is equity, the direct ownership in stock of the corporation. The other is debt; the investor supplies money in return for the corporate promise to pay money back on a date certain with interest payments along the way. Collectively, these are known as "investor-supplied capital."

[13] Response Testimony of Betty A. Erdahl, Exhibit BAE-1Tr at 21:1-11.

balances over the course of a year. On the other hand, the end-of-period numbers used by Staff for comparison purposes are simply a snapshot of cash on the last day of each year and therefore are not necessarily reflective of the utility's overall cash levels over the course of a year. This approach is particularly misleading because cash will be particularly lumpy correlated with the timing of debt and equity infusions, fluctuations in gas prices, and the dates of required payouts for taxes or regulatory liabilities.

Q. Did Cascade's cash balance remain constant or decline throughout the test year?

A. It increased and decreased. Cash is very fluid. On January 1, 2016, the cash balance was $31,796,378.11; it then grew to $52,398,976.44 by March 31, and by December 31 dropped to $3.5 million.[14]

Q. What caused these fluctuations?

A. During the winter months, sales increase significantly, and there is less construction than during summer and fall months.

Q. How could Staff have used end of period numbers to provide a more apt comparison?

A. In order to perform an apples-to-apples comparison, Staff could have used the average of end-of-year balances and compared that to the actual end-of-year balance.

Q. What would have the result been?

A. Staff calculated $2 million as the average end-of-year balance by removing the four highest end of year balances and the lowest year-end balance.[15] The actual end-of-year balance in the test year was $3.5 million which is certainly not that much of a difference.[16]

[14] Exhibit BAE-6 at 3 and 4.
[15] Response Testimony of Betty A. Erdahl, Exhibit BAE-5 at 1.
[16] Direct Testimony of Michael P. Parvinen, Exhibit MPP WP-1 at 79:36.

Q. What was staff's alternative balance and how does that compare to the actual $3.5 million end of year cash balance?

A. Staff proposed an alternative balance of $10.3 million which is substantially over the $3.5 million actual end of year balance.[17]

Q. What conclusion can be drawn from your review of Staff's analysis?

A. First, my analysis shows that if one is going to use end-of-period cash balances, it can be used to show that the Company's test year cash balance is fairly consistent with the Company's average end-of-year balances. However, the major takeaway is that using a point in time to determine investor supplied cash produces distorted and unhelpful results, and that therefore Staff's approach should be rejected.

Q. How do the Cash Account levels for 2016 compare to other years?

A. Although cash can be volatile month over month, the average of monthly averages (AMA) view helps stabilize the balance. In fact, three out of the last six years, including the test year, are relatively close in balance with only one of the remaining years being significantly higher and two lower. The one higher year was primarily driven by the execution of the debt issuance discussed by Mr. Chiles.

Average of Monthly Averages (Cash Account 131)[18]

2016	2015	2014	2013	2012	2011
$33,727,222	$53,372,484	$5,779,327	$1,303,192	$39,101,876	$30,869,787

These figures are derived from Exhibit BAE-6.

Q. And has the Commission previously acknowledged that for certain accounts, balances may fluctuate significantly?

A. Yes. In PSE's 2011/2012 rate case, the Commission considered Staff's proposal to remove approximately $47.3 million from the working capital calculation because

[17] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 24:5.
[18] Exhibit BAE-6 at 2.

Staff claimed it was abnormal for the particular account (Account 236, accrued taxes payable), to have a large debit balance, and because the debit balance was largely reversed in the year after the test year.[19] In response to Staff's proposed adjustment, the Company provided evidence that it was not unusual for the account to have large debit balances.[20] The Commission ultimately determined that high balances should not be rejected out of hand:

> A demonstrably aberrational amount in such an account might be a sufficient reason to investigate and determine whether there are reasons to disallow all or a portion of the balance, but it is not a reason in itself to ignore the balance during the ratemaking process.[21]

In that case, the Commission rejected Staff's proposed adjustment to working capital with respect to the tax account.

Q. Is there anything else interesting from the same PSE order on the topic?

A. Yes. PSE testified that the proceeds from the volatile tax payable account would be converted to cash and not a temporary investment account. As a result, PSE's cash account would reflect this "aberrational" amount, which the Commission found was appropriately included in working capital.

Q. Staff argues that the Company's levels of cash exceed that necessary for the Company's day to day operations. Do you agree?

A. Absolutely not. Mr. Chiles's testimony explains the sources of the funds in the Cash Account, and the reasons for those amounts. However, I would also point out more generally that cash is needed for all aspects of the Company's operations, whether to pay for operating expenses, capital projects, deferred items, etc. Cash also comes in throughout the year from a variety of sources, and may come in the form of tariffed operations, deferred items, equity infusions, or debt issuances. For example, looking

[19] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 ¶ 199 (May 7, 2012).
[20] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 ¶ 200 (May 7, 2012).
[21] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-111048 and UG-111049, Order 08 ¶ 205 (May 7, 2012).

at Exhibit No. ___(MPP-2), there was $205 million of revenue in 2016 (Washington Operations alone), which can be considered cash. Additionally, the cash balances tend to be cyclical because more is typically available in the winter than the summer due to increased revenues. Additionally, in 2016, net income, or net cash was $16.6 million plus depreciation expense of $19 million equals $36 million of available cash for dividends, interest ($9 million in 2016), below the line expenses, and most importantly capital investment. Cascade's 2017 capital budget for Washington was $47 million, far exceeding the total system cash available.

Also, in 2016 gas costs were $104 million. A 10 percent swing up or down creates volatility in the cash balance which could be doubled in the second year depending on gas prices. In other words, cash can be and is highly volatile and can have a large range. It is important to note that with all the inputs and outputs to cash, the balance at the end of the test year was only $3.5 million.

Q. Please respond to Staff's argument that the cash in this case should must be recategorized as a non-operating investment to avoid the Company double collecting through the use of AFUDC.[22] Is this comment accurate?

A. Staff appears to have some confusion about the application of AFUDC. AFUDC is no different than interest paid on customer deposits or deferred gas costs. AFUDC is only accrued on Construction Work in Progress (CWIP). CWIP is not included in rate base. In fact, CWIP and any accrued AFUDC is included as a non-operating investment thus having the mathematical impact of reducing working capital and further increasing the portion of working capital assigned to non-operating investment. Because of this treatment of AFUDC on Cascade's balance sheets, Cascade could not possibly be double-collecting cash as both working capital and AFUDC.

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[22] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 15:14-17.

Q. Please comment on Staff's argument that cash should be recategorized because it was used to repay PGA overcollections.

A. This argument has no merit. If the Company has a debt in the form of a PGA refund balance or any other obligation such as increasing gas costs, wages, etc., it is necessary to acquire the cash to pay such debt, and the entire point of the ISWC calculation is to recognize and compensate investors for the use of that cash. There is no support for Staff's attempt to eliminate part of the cash balance that is required to pay legitimate debts prudently incurred by the utility on customers' behalf.

Moreover, Staff's concern about double-counting ignores the fact that as soon as the debt is repaid, the cash balance is significantly reduced—a fact that is captured by the Company's approach of accounting for cash based on the average of monthly averages. Therefore, there is no possibility of "double-counting."

Q. Why do you say that Staff's overall approach is arbitrary and inappropriate?

A. First, Staff's approach to "normalizing" the Company's cash is drastic and unreasonable. Staff's method looks at 10 years of values, but then eliminates the four years with the highest values and only one year with a low value. In doing so, Staff not only eliminates half of the data set, but appears to be doing so in an attempt to arrive at the lowest possible estimate of investor-supplied cash. This approach should be rejected out of hand as discussed earlier in my testimony.

Furthermore, to remove cash from the equation is to remove a key component of total working capital. The purpose of the investor supplied working capital method is to determine how much of the working capital, with cash being a primary component, is provided by investors. Therefore, Staff's approach significantly distorts the ISWC equation

Q. Does Staff make an alternative proposal regarding treatment of the Cash Account?

A. Yes. Staff offers that if the Commission is not persuaded to re-categorize all but $2 million of the Cash Account as non-operating investment, it would accept an alternative proposal of re-categorizing all but $10.3 million.[23]

Q. How did Staff develop its alternative proposal?

A. Staff's alternative proposal is the unadjusted average of the Company's end-of-year cash balances from the previous 10 years. This average includes the "anomalous" years that Staff had proposed to exclude in its initial proposal for the Cash Account.

Q. Is Staff's alternative proposal for the Cash Account reasonable?

A. No. As I described in my testimony earlier the end-of-year analysis is misleading and inappropriate as the actual balances can vary greatly throughout the year for reasons also described earlier in my testimony.

Customer Deposits

Q. Please provide detail on Staff's proposal to recategorize Customer Deposits as an operating investment?

A. Because the Customer Deposits reflect a credit on Cascade's balance sheet, inclusion of Customer Deposits as a "non-operating" investment results in an increase to the overall amount of working capital calculated by the Company. Staff therefore proposes to categorize Customer Deposits as an operating investment in order to "recognize that a portion of rate base is funded by customer deposits that earn interest.."[24]

Q. Do you agree with this Staff's reasoning?

A. No. Customer Deposits are not an operating investment, and therefore these amounts are properly categorized as non-operating investment. It would be inaccurate to categorize them otherwise. Customer Deposits are merely held and refunded back to

[23] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 24.

[24] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 25:12.

customers after one year with interest. Therefore, they should continue to be treated as non-operating investment.

Q. Does Staff contradict its own recommendation for the Customer Deposits account and support the Company's presentation?

A. Yes. Staff notes that items included in non-operating investment include accounts earning interest on behalf of customers.[25] That is exactly what this account is. Further, items included in operating investment are those items included in rate base, customer deposits are not included in rate nor should they be.

Q. Why should customer deposits not be included in rate base?

A. That would result in a double recovery to customers. Customers would receive a full rate of return on the balance through a general rate reduction from a lower rate base and on top of that customers would receive interest on the balance when the balance is returned. In accordance with WAC 480-90-113, interest on deposit is required to be returned to customers along with the deposit.

Q. Can you provide another example of funds provided by customers that are then refunded back to customers with interest?

A. Gas cost deferrals are another example of funds provided by customers that may later be refunded to customers. When customer rates, which include a component for gas costs, are greater than the actual gas costs incurred the difference is deferred and refunded to customers with interest.

Q. How are deferred gas cost accounts treated in the working capital calculation?

A. Deferred gas cost accounts are treated as a non-operating investment again as Staff points out, non-operating investments include those item that provide a return to company or customer but are not operating or included in rate base.

MAOP Deferral

[25] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 20.

Q. What is Staff's proposal regarding the MAOP deferral?

A. Staff is proposing to not allow recovery of certain deferred MAOP costs associated with what has been deemed post-code pipe.[26] Therefore, it has placed the AMA portion of the MAOP deferral associated with post-code pipe as a non-operating investment.

Q. Do you agree with Staff's position that a portion of the MAOP deferral balances should be recategorized as a non-operating expense?

A. No. First, the Company disagrees with Staff's proposal that certain deferred expenses related to work on "post-code" pipeline should not be included and the allocation of unassociated cost not specific to either pre or post code.[27] This issue is discussed in greater depth later in the section of my testimony addressing amortization of the MAOP deferral. Second, assuming that the Commission were to agree with Staff regarding its proposed treatment of pre and post code expense, Cascade believes that it is inappropriate to categorize the post-code portion of the expense as non-operating investment.

Q. Please explain why placing the item in the non-operating category is inappropriate.

A. If the costs were not allowed for recovery they would need to be reversed or removed from the deferred asset account. That entry would essentially include the cost in retained earnings which would be in the invested capital column of the working capital calculation.

Q. Could you please summarize the Company's position on working capital and describe the amount of working capital included in the Company's revised revenue requirement on rebuttal?

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[26] Response Testimony of Amy I. White, Exhibit AIW-1T at 9:14-19. For additional discussion of the "post-code pipe," please see my rebuttal testimony regarding MAOP costs.
[27] For additional discussion of the "post-code pipe," please see my rebuttal testimony regarding MAOP costs.

A. The Company accepts 13 of the 16 reclassified accounts. Of the remaining three accounts:

- The Company has fully justified the prudence and levels of cash during the test year, demonstrated that staff's analysis using end-of-period balances is flawed, demonstrated the double recovery arguments staff presents are false and therefore is including cash in working capital.
- Cascade has demonstrated that staff is misguided on its classification of customer deposits as an operating investment and has shown that even by staff's definition of non-operating investment that customer deposits are appropriately placed in the non-operating investment column of the working capital calculation.
- Adjusted MAOP deferred costs based on the Company's position and demonstrated that Staff's placement of the post-code costs in the working capital calculation is inappropriate.

The Company's revised working capital is $ 36,585,683 as calculated in Exhibit No. ___(MPP-14).

REVENUE ADJUSTMENTS FROM WEATHER-NORMALIZED VOLUMES

Q. Did the Company include restating and pro forma revenue adjustments to reflect weather-normalized volumes in its initial filing?

A. Yes. As explained in my direct testimony, the Company included a "Weather Normalization Adjustment," which is an adjustment to the test period results to reflect customer usage given normal weather, and which resulted in an increase to net operating income of $3,077,609.[28] The Company also included a "Restate Revenue Adjustment," which relies on weather-normalized volumes, and which resulted in a

[28] Direct Testimony of Michael P. Parvinen, Exh. No. MPP-1T at 4:15-19.

decrease in net income of $1,501,021.[29] Additionally, the Company included a "Pro Forma Revenue" adjustment, which adjusts weather normalized volumes to the most current rates, and which increases net income by $3,242,702.[30]

Q. Staff makes significant adjustments to the Company's Weather Normalization, Restate Revenue, and Pro Forma Revenue adjustments. Can you explain these adjustments?

A. Yes. The revisions made by Staff to the Company's adjustments stem primarily from Staff's application of a different weather normalization methodology which results in different weather-normalized volumes than those produced by the Company's methodology. All other components of the adjustments are the same, although Staff organizes them differently for presentation purposes. For example, even though Staff weather normalizes the volumes for the test period, it doesn't reflect the impact of those volumes until it determines the pro forma revenue adjustment. The Company reflected the change in its Weather Normalization Adjustment. Staff also reflects the reversal of the decoupling deferral in its pro forma revenue adjustment whereas the Company reflected it in its Restating Revenue adjustment.

Q. Does Staff's reorganization impact the net of the Weather Normalization, Restate Revenue, and Pro Forma Revenue adjustments?

A. No. When all three adjustments are netted together the only difference between the Staff presentation and the Company is the difference in weather normalized volumes times current tariff rates.

Q. Do you agree with Staff's weather normalization methodology?

A. No. Cascade disagrees with Staff's methodology for determining weather-normalized volumes, and believes that the Company's methodology for determining weather-normalized volumes produces more accurate and reasonable results. Because Staff's

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[29] Direct Testimony of Michael P. Parvinen, Exh. No. MPP-1T at 5:1-3.
[30] Direct Testimony of Michael P. Parvinen, Exh. No. MPP-1T at 10:10-14.

adjustments rely on less accurate estimates of weather-normalized volumes, Cascade believes that the adjustments are inappropriate. Company witness Mr. Robertson provides rebuttal testimony supporting the Company's analysis regarding weather normalization and rebutting the staff position.

Q. Does the Company's revised revenue requirement reflect the same adjustments for Weather-Normalized Volumes, Restate Revenue, and Pro Forma Revenue that were filed in the Company's initial case?

A. Yes. Because the Company believes that Staff's methodology for determining weather-normalized volumes is less accurate than the Company's methodology, Cascade proposes to use the weather-normalized volumes produced using the Company's methodology.

INTEREST COORDINATION OR PRO FORMA DEBT

Q. What Interest Coordination Adjustment did Cascade propose in its initial filing?

A. The Interest Coordination Adjustment that Cascade presented in its initial filing was a decrease in net income of $274,827, which represents an increase to revenue requirement of $442,415.[31]

Q. Do the parties propose different amounts for the Interest Coordination Adjustment?

A. Yes. Staff's proposed Interest Coordination Adjustment amount was a decrease in net income of $299,869, which represents an increase to revenue requirement of $482,727.[32] Public Counsel's proposed Interest Coordination Adjustment amount was a decrease in net income of $263,991, which represents an increase to revenue requirement of $349,660.[33] NWIGU's proposed Interest Coordination Adjustment amount was a decrease in net income of $392,122, which represents an increase to

[31] Direct Testimony of Michael P. Parvinen, Exhibit MPP-5 at 1.
[32] Response Testimony of Kristen M. Hillstead, Exhibit KMH-1Tr at 18:19-19:2.
[33] Response Testimony of Donna M. Ramas, Exhibit DMR-2 at 1:6.

revenue requirement of $631,237.[34] Both the Public counsel and NWIGU adjustments reflect a twenty-one percent federal income tax rate.

Q. All the parties present a different Interest Coordination or Pro Forma Debt calculation. Can you please explain the differences?

A. Yes, it is quite simple. The difference the Interest Coordination Adjustments is explained by the fact that the parties have included different amounts for rate base in the calculation—and Staff is also proposing a different capital structure than the Company, so the weighted average cost of debt is also slightly different in Staff's model. Cascade's recommended rate base is found in Exhibit No. ____ (MPP-8), Column (3), row 24. Company witness Ms. Nygard provides rebuttal testimony supporting the Company's proposed capital structure.

Q. Do all the parties agree that the final approved rate base multiplied by the weighted average cost of debt should be used as the basis of this adjustment?

A. Yes.

Q. Has Cascade updated the value of its proposed interest coordination adjustment?

A. Yes. Cascade used the same weighted average cost of debt from its initial filing, but updated its rate base amount to $311,355,995. Based on these updates, Cascade's revised proposed interest coordination adjustment results in a net income reduction of $106,534.

PRO FORMA PLANT ADDITIONS

Q. Please summarize the Company's initial filing in this case.

A. As of the date of filing its direct case, the Company proposed a pro forma adjustment to include all supported 2017 projects that were projected to be in service by year-end 2017, based on estimated costs. The Company included only those projects that are

[34] Response Testimony of Bradley G. Mullins, Exhibit BGM-3 at 8.

non-revenue producing projects—with the exception of one project that had increasing loads, the Kennewick Main Project, for which we analyzed and included anticipated offsetting revenues—and included no 2017 projects that had been completed as part of the Company's pipeline replacement program and eligible for expedited cost recovery through the Company's cost recovery mechanism ("CRM"). As of the date of the Company's initial filing, in August 2017, the Company expected that its pro forma plant additions for 2017 would increase rate base by $17,820,193.[35]

Q. Did the Company propose to update its initial filing?

A. Yes. The Company stated that in its rebuttal testimony, it would provide an update providing actual costs for projects in-service by the end of 2017.

Q. What is the Company's update based on actual costs for plant in service by December 31, 2017?

A. As of the end of 2017, Cascade completed 49 of the 59 projects anticipated to be in service by the end of 2017, and the Company's actual costs for these projects was $17,609,896.23. The Company has updated its project list, originally filed as Exhibit No. __ (MPP-6), to include only the Company's non-revenue producing plant (and the Kennewick Main Project) that is complete and in service at the end of 2017, and thus used and useful, and for which all costs are known and measurable. The Company's updated project list is included in Exhibit No. ____ (MPP-12).

Q. Does Cascade's updated position for rebuttal reflect all of these costs?

A. Yes. The Company believes that using the end of 2017 as a cutoff date and including only projects that are complete in its pro forma plant addition adjustment is a reasonable approach and consistent with the Commission's practice of allowing certain pro forma adjustments for projects completed after the test year to be included in rates.

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[35] Direct Testimony of Michael P. Parvinen, Exhibit MPP-1T at 7:20-23.

Q. Why is the Company proposing a pro forma plant addition adjustment in this case?

A. Capital investments are a primary driver for Cascade's rate case. The proposed pro forma plant addition adjustment only incorporates about a third of the investment the Company made in 2017, but helps to mitigate regulatory lag—particularly because the bulk of the 2017 investment provides no additional revenues or offsetting cost reductions.

Q. Were there other options the Company could have proposed to address regulatory lag?

A. Certainly. The Commission has addressed the topic with various approaches including the use of attrition studies or the use of year end rate base. However, from Cascade's perspective, the simplest and cleanest approach seemed to be to include a fully vetted rate base adjustment.

The Parties' Proposed Adjustments to Pro Forma Capital Additions

Q. Do the parties propose modifications to the Company's pro forma plant addition adjustment?

A. Yes. Public Counsel, NWIGU, and Staff each propose adjustments to the Company's pro forma plant addition adjustment.

Q. Can you summarize the parties' positions regarding the pro forma plant adjustment?

A. Public Counsel and NWIGU's positions overlap thematically to some extent, though they end up with different proposed adjustment amounts. The concerns expressed by both parties include: (1) the size of the projects Cascade proposes to include in its pro forma adjustment with respect to a "major" resource threshold; (2) potential violation of the matching principle if all projects from 2017 are included without regard to potential offsetting factors; and (3) potential double-counting for certain projects that were completed at the end of 2016 but not booked until January 2017.

Public Counsel and NWIGU contend that only one project included in Cascade's list of projects, the Kennewick Main Project, is large enough to be considered a "major" resource. While NWIGU expresses concern that the project is revenue-producing, NWIGU nonetheless proposes to allow the project with the understanding that Cascade will provide additional information to demonstrate that Cascade has considered potential revenues associated with the project in its rebuttal filing. NWIGU's proposed adjustment—which includes the Kennewick Main Project and excludes all other projects—reflects an increase to rate base of $4,744,665.[36] Public Counsel, on the other hand, proposes to exclude the Kennewick Main Project on the basis that it will provide opportunities for growth for the Company and will produce additional revenues not considered in the Company's initial filing, and thus concludes that inclusion of the Kennewick Main Project would violate the matching principle. Public Counsel also generally criticizes the quality of Cascade's data, noting variances between estimates and actuals, and noting that certain projects included in Cascade's original estimates were not in service at the end of 2017. Public Counsel recommends that no pro forma adjustment for any investment beyond the end of the test year should be allowed, and proposes reducing Cascade's pro forma plant addition adjustment to zero.[37]

Staff, however, takes a somewhat different approach. While Staff also considers application of a "major" resource threshold, Staff recognizes that strict application of the "major" resource threshold for Cascade would produce an unreasonable result, and thus has proposed a more flexible approach, designed to produce a reasonable result in this case. Specifically, Staff proposes to include the top 20 percent of projects which make up about 80 percent of total costs, and based

[36] Response Testimony of Bradley G. Mullins, Exhibit BGM-1T at 9-10.
[37] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 23:8-10.

on this assumption, proposes for inclusion 12 out of the 59 projects (or about 20 percent) that the Company had identified. Applying this screening method, Staff proposed to allow 12 projects, which total $13,023,840 of additional rate base.[38]

Q. Do you agree with the parties' proposed adjustments?

A. No, for the following reasons:

- Contrary to Public Counsel's and NWIGU's arguments, this Commission has taken a flexible approach to pro forma adjustments for capital projects, which recognizes the particular circumstances of each utility with the ultimate goal of mitigating regulatory lag. Cascade believes that, in the instant case, the Commission should not apply a major resource threshold to exclude certain projects because the Company has experienced on-going under-earning, and because the projects proposed to be included have been thoroughly vetted by the parties.
- Cascade disagrees that acceptance of its pro forma capital adjustment will result in a violation of the matching principle, because Cascade has considered all potential offsetting revenues and other offsetting factors and addressed this point in its direct case and included the impacts of offsets where identifiable.
- In light of concerns about double-counting projects that were completed at the end of 2016 and booked in early 2017, Cascade has reviewed its project list to ensure that those projects have been excluded.
- Cascade has ensured that all costs included in its pro forma capital additions adjustment are known and measurable by truing up the list of projects included in the adjustment so that in-service and costs based on 2017 actuals.
- With regard to Staff's alternative proposal, Cascade appreciates Staff's flexibility and creativity in developing an approach that produces a more reasonable result

[38] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 7:4-13.

for Cascade. In the event that the Commission agrees with Staff's approach, Cascade recommends that the Commission apply Staff's approach using the 2017 actuals provided as Exhibit No.__ (MPP-13).

Major Resource

Q. Could you please describe your understanding of the Commission's standards for inclusion of post-test year pro forma adjustments?

A. Yes. The Commission's "long-standing practice is to set rates using a modified historical test year with post-test year adjustments following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases."[39]

Q. Has the Commission provided any additional guidance on the application of its standards for pro forma plant additions?

A. Yes. The Commission has in the past applied a "major resource" threshold, stating that the plant additions included in a pro forma adjustment should be both major and discrete.[40] Additionally, to avoid violating the matching principle, offsetting factors must be considered.[41] Importantly, however, the Commission has demonstrated considerable flexibility in the application of its pro forma plant additions standards. In particular, the Commission has historically declined to adopt bright line rules to implement its standards associated with pro forma capital additions, preferring instead to consider the particular circumstances presented in each case.[42] For example, in rejecting a bright line standard for a cutoff date for plant additions that had been proposed by Staff, the Commission has noted:

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[39] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 35 (Jan. 16, 2016).
[40] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils*., Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 40-41 (Jan. 16, 2016).
[41] *Wash. Utils. Transp. Comm'n v. PacifiCorp*, Dockets UE-140762, *et al.*, Order 08 at ¶ 170 (Mar. 25, 2015).
[42] *Wash. Utils. & Transp. Comm'n v. PacifiCorp dba Pac. Power*, Docket UE-130043, Order 05 at ¶199 (Dec. 4, 2013).

> The Commission requires flexibility in most cases to exercise its informed judgment in ways that respond adequately and appropriately to the dynamic economic and financial circumstances that are characteristic of the utility industry and the general economy. Just as there are times when it is appropriate to depart from the preferred use of AMA rate base, as discussed above, there are times when it is appropriate to be more flexible in allowing post-test period pro forma adjustments and times when it is appropriate to be less flexible.[43]

Q. Do the parties propose some type of "major" resource threshold be applied in this case?

A. Yes. Staff, Public Counsel, and NWIGU all contend that the Commission should apply some threshold for a "major" plant addition.

Q. Do the parties propose a specific threshold for a major resource?

A. Neither Public Counsel nor NWIGU articulate a particular standard. Instead, those parties note that the only project that would be large enough to be considered "major" is the Kennewick Main Project, which was a $4.9 million project.[44]

Q. How does Staff approach the major resource determination?

A. Staff begins by using one-half of one percent of the Company's rate base, and establishes a threshold of $2,346,750.[45] However, Staff notes that if the threshold were applied, the Kennewick Main Project would be the only project that would qualify as "major," which Staff finds to be an unreasonable result.[46] Accordingly, Staff instead proposes its alternative approach of allowing the top 20 percent of projects, which includes 12 projects.[47] Staff refers to these 12 projects as being the "major projects" that Staff supports as "reasonable additions to rate base in this general rate case."[48]

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[43] *Wash. Utils. & Transp. Comm'n v. PacifiCorp dba Pac. Power*, Docket UE-130043, Order 05 at ¶199 (Dec. 4, 2013).
[44] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 17:4-5; BGM-1T at 8:5-8.
[45] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 6:18-21.
[46] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 6:21-7:2.
[47] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 7:5-13.
[48] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 8:1-6.

Q. Does Staff provide additional support for its proposal to take a more flexible approach for defining "major" projects?

A. Yes. In addition to noting that application of a major resource threshold would yield an unreasonable result, Staff also notes that, unlike electric utilities, which typically have significant high dollar generating plants representing a substantial portion of their capital investment, natural gas local distribution companies invest in many small individual projects.[49] Staff noted that this distinguishing factor justified a broader notion of "major," and led Staff to its development of an alternative approach to identifying major projects.[50]

Q. Do you agree that the Commission should apply a major resource threshold in this case?

A. No. While the Commission has used a major resource threshold in the past, it has not suggested that it would do so in every case, and has instead focused on the utility's particular circumstances.

Q. Please explain.

A. In Avista's 2015 rate case, the Commission considered whether and how to apply a major resource threshold. In adopting a screen for major resources, the Commission noted that it believed that the threshold was appropriate "*in the instant case*,"[51] suggesting that the Commission may consider whether and how to apply a major resource threshold on a case-by-case basis.

Moreover, in deciding this issue, the Commission noted that even Public Counsel had recommended taking a flexible approach and proposed to allow a

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[49] Response Testimony of David J. Panco, Exhibit DJP-1T at 4:12-14.
[50] Response Testimony of David J. Panco, Exhibit DJP-1T at 4:15-18.
[51] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils., Dockets UE-150204 and UG-150205 (consolidated),* Order 05 at ¶ 40-41 (Jan. 16, 2016) (emphasis added). The one-half of one percent of rate base threshold was proposed by Staff based on the Commission's rule WAC 480-140-040 regarding budgets. The Commission noted in the Avista case that although the rule was established in a different setting, it could be relevant because it created a standard proportional to the utility's rate base.

blanket project to be included in the pro forma adjustment, even though the project did not meet Public Counsel's proposed standard for a major and discrete project.[52] Public Counsel justified the departure from its proposed major and discrete standard for the blanket project on the basis that Avista had been suffering from chronic under earning.[53] The Commission also noted that Staff's careful vetting of the Company's projects "met [the] purpose of providing results for a modified test year that are known and measurable."[54] The Commission's conclusion here suggests that it will consider the totality of the circumstances, and may be more inclined to be flexible when parties have the opportunity for rigorous review and auditing of projects.

Q. You mentioned that in the 2015 Avista case, Avista was experiencing challenges with under earning. Is Cascade also experiencing under earning?

A. Due to the amount of year-over-year capital additions, Cascade has entered a period of under-earning that has thus required the Company to seek rate recovery. As shown in the table below, Cascade's most recent Commission Basis Reports (CBR) demonstrate that Cascade has not been able to earn its authorized return for the past several years.

Table X. Cascade's Earnings Compared with Authorized Return, 2014-2016

Year	Actual ROR per CBR	Authorized ROR
2016	6.83%	7.35%
2015	5.73%	8.85%
2014	6.41%.	8.85%

Q. How does the Company recommend the Commission resolve the "major" project issue?

[52] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 41.
[53] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 41.
[54] *Wash. Utils. & Transp. Comm'n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 41.

A. Cascade believes that, in the instant case, the Commission should not apply a major resource threshold to exclude certain projects because the Company has experienced on going under earning, and because the projects proposed to be included have been thoroughly vetted by the parties.

Matching Principle

Q. Public Counsel and NWIGU note that to avoid violation of the matching principle, offsetting factors must be considered—for example, additional revenues or decreased maintenance expense for new plant, or retirement of existing plant. Has the Company appropriately reflected all potential offsetting revenues associated with the Kennewick Main Project?

A. Yes. The Company reflected the only known off-setting revenues anticipated either prior to or during the rate year tied to this project, which is $199,944[55]. The Company testified in its direct case that any offsetting expenses would be insignificant and are immeasurable.[56] The retirement of the existing plant has no impact on rate base as the original asset would be written off at original costs and accumulated depreciation would also be reduced by the original cost of the plant, therefore no change to rate base.

Q. Public Counsel witness Ms. Ramas recommends disallowance of the Company's single largest project because it *could* result in additional revenues beyond those revenues already included in the Company's analysis. Do you agree with this logic?

A. No, I do not. The upgrade in question was performed because of a system constraint and the inability to meet ***current*** peak requirements. So, the reason for the project was not growth-related. The Company acknowledges that the upgrade will allow for a certain amount of growth in peak loads; indeed, it would be imprudent to perform

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[55] Exhibit DMR-22.
[56] Direct Testimony of Michael P. Parvinen, Exhibit MPP-1T at 6.

upgrades to meet current requirements without considering potential growth. But the project was not designed for that purpose—nor does the Company expect significant growth in this area during the rate effective period.

Q. NWIGU suggests that if the Company is using end of period plant, that it should also use end of period depreciation reserve to properly match gross plant and depreciation reserve balances. Had the company proposed an end of period rate base, what would be the difference as compared to an average of monthly averages calculation?

A. Rate base would have been nearly $16 million higher[57], taking into account end of period plant, accumulated depreciation, deferred taxes, and customer advances.

Double-Counting

Q. Both Public Counsel and NWIGU express concern that Cascade may be double-counting certain projects that were finished in late 2016 and not booked until early 2017. Has Cascade confirmed that there is no double-counting in its adjustment?

A. Yes. First the projects in question were indeed in service by the end of 2016. The amounts associated with projects completed in 2016 that were booked in 2017 were residual billed amounts that did not get billed to the Company until 2017. Because these projects were not booked in 2016, they *were not* included in the per books results for 2016. Nonetheless, these were small dollar amounts—$239,783.01 in total—and for complete avoidance of doubt, the Company has removed the projects from those included in the rebuttal update.

Known and Measurable and Used and Useful

Q. Ms. Ramas criticizes the accuracy of the Company's estimates, and notes that certain projects cost more or less than the budgeted amounts, and certain

[57] See Parvinen workpapers tabs "Plant in Serv & Accum Depr" and "Adv for Const. & Def Tax" December 2016 balances.

projects that Cascade had expected to be in service by 2017 were not actually completed by the end of the year. Do you agree that there were errors in the data?

A. No. The issue is not so much that there were errors in the data as it is that certain adjustments were made in truing up budgeted amounts to reflect actuals. The Company's original adjustment was based on the 2017 capital budget of the Company with estimated in-service dates and estimated costs. For this reason, the Company-proposed updating the exhibit describing 2017 capital projects using only those projects that were actually completed and in-service by the end of 2017. The 2017 actuals for costs and in-service dates went both ways—there were projects that ultimately did not get completed or were postponed, and the costs associated with those projects were removed. With respect to project costs, there were also projects that ended up being more or less than the original estimate for various reasons, ***and those costs have been trued up to actuals***. And, there were certain additional projects that were completed in 2017 that were not included in Cascade's initial filing, but the Company is not including those projects as the parties would not be able to adequately review the projects.

Q. Ms. Ramas also states that as of the date her testimony was filed, she was not aware of Cascade revising its pro forma plant addition adjustment based on the actual known and measurable amounts placed into service subsequent to the test year. Did Cascade provide an update?

A. Yes. In response to Public Counsel Data Request No. 45, Cascade provided an update of costs and projects as of November 31, 2017[58].

Q. Have the parties had sufficient time to review the support for the Company's 2017 capital additions?

[58] Exhibit DMR-13

A. Yes. In response to Public Counsel Data Request No. 45, which was provided to parties on December 6, 2017, Cascade provided a status update regarding project timing and costs for its 2017 projects as of November 30, 2017. The updated project list includes 92 percent of the projects and a vast majority of the project costs for which Cascade is seeking recovery. The parties had 75 days to review and audit the November 30, updated 2017 actuals information in advance of the date of parties' response testimony, thus, the parties have had ample time to review and audit the projects that Cascade proposes to include in its adjustment. Cascade is also providing the updated project information through December 31, 2017 with this rebuttal filing.

Q. Ms. Ramas suggests that Cascade's support for the projects it included in its adjustment is "scant." Do you agree?

A. No. Not only did the Company provide a description and support for each project in its direct case,[59] it responded to 34 data requests providing further data on each project and the Company proposed Plant Additions Adjustment.

Q. In your view, do the projects included in the adjustment meet the known and measurable and used and useful standards?

A. Yes. All of the projects included in the adjustment are currently in service and providing benefits to Washington customers, and the project costs are based on actuals.

Q. Does Staff also agree that the projects meet these standards?

A. Staff limits its adjustment to just the top 12 projects but agrees that the 12 projects that it proposes for inclusion meet the known and measurable and used and useful standards.[60] Though Staff does not offer its opinion for the remaining projects, Staff did not identify any projects as not meeting the known and measurable or used and useful standards in its testimony.

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[59] Direct Testimony of Michael P. Parvinen, Exhibit MPP-6 at 4-7.
[60] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 8:1-6.

Prudence

Q. Do the parties take issue with the prudence of these projects or the overall levels of expense?

A. No. No party has questioned the Company's decisions to undertake the projects included in the pro forma capital additions adjustment, and no party has challenged the levels of expense for any particular project as being unreasonable or imprudently incurred.

Staff's Proposal

Q. Do you agree with the Staff adjustment to include the top 20 percent of the projects?

A. While I don't agree with the results, I applaud Staff's willingness to propose a flexible approach.

Q. Do you have any changes to the Staff approach if the Commission were to accept it?

A. Taking the top 20 percent of projects (or top 12 projects), Staff's total Major Pro Forma Plant Additions is $13,023,840.[61] Staff's calculation is based on the response to Public Counsel Data Request 45 including costs and projects as of November 30, 2017. If the Commission were to accept Staff's adjustment, the Company believes Staff's numbers should be updated to reflect actual costs and projects that are in-service and used and useful at the end of 2017. In Exhibit No. ____ (MPP-12), I have highlighted the top twelve projects and provide actual costs and projects that are in-service and used and useful at the end of 2017. The total of those projects is $14,520,158. In Exhibit No. ____ (MPP-13), I applied the Staff methodology of the top 20% of actual 2017 projects completed by the end of 2017, which resulted in ten projects being included. The total of the ten projects is $13,959,615.

[61] Response Testimony of David J. Panco, Exhibit DJP-1Tr at 7:4-13

NWIGU's Adjustment

Q. Do you have any further comments on NWIGU's proposed adjustment?

A. Yes. While I disagree with the rationale underlying NWIGU's adjustment, if the Commission were to adopt NWIGU's position, the amount of the adjustment should be modified to reflect 2017 actual costs for the Kennewick Main Project.

Q. What are the actual costs for 2017 for the Kennewick Main Project?

A. The actual cost for the Kennewick Main Project at the end of 2017 is $5,196,436.

Q. NWIGU also expected a Cascade to provide additional information to demonstrate that Cascade has considered potential revenues associated with the project in its rebuttal filing. Has this been provided?

A. Yes. Documentation was provided during audit and is included as Exhibit DMT-22. The Company has testified that no other known revenue source are identified for the period prior to the rate year or during the rate year.

Conclusion

Q. How do you recommend that the Commission approach the pro forma plant addition adjustment in this case?

A. Cascade believes that all of the projects in its forma plant addition adjustment should be allowed.

Q. Why do you recommend that all of the projects in the Company's pro forma plant additions be allowed?

A. Cascade has demonstrated that its proposed pro forma plant additions are both known and measurable and used and useful. Additionally, as described in my opening testimony, the plant at issue in our adjustment is largely non-revenue producing and does not include other offsetting factors, and for the one project that *is* revenue producing, Cascade reflected the offsetting revenues in its initial filing.

Moreover, the Company has experienced on-going challenges with under earning. Therefore, it would be appropriate for the Commission to allow Cascade's proposed projects to be included in its pro forma adjustment without applying a major resource threshold.

RATE CASE COSTS

Q. What did the Company originally propose regarding rate case costs?

A. The Company proposed full recovery of the rate case costs associated with this general rate case filing. Because the Company anticipates needing to come in for annual rate case filings, the Company did not propose to normalize its rate case costs. The Company's adjustment simply took the estimated cost to prepare, file, respond, and defend this current case, which include costs expected to be incurred in 2017 and 2018. Cascade also removed any rate case costs imbedded in the test year from Cascade's previous rate case. Cascade's proposal was a reduction to net operating income of $194,033. Cascade also proposed to update its estimated costs based on actual costs and more updated estimated costs to complete this rate case. On December 16, 2017, Cascade provided an update in response to Public Counsel Data Request No. 67[62], based on actual invoices processed as of the response date, and a revised estimate for the remainder of the current proceeding.

Q. What did each of the parties propose in response to the Company's filing?

A. Each of the parties propose something different from the others. Staff proposed to average the last three years of actual rate case costs, which results in a reduction to net operating income of $79,950.[63] Public Counsel proposes a three-year amortization of the actual and expected cost of the current case, and explains that this approach is appropriate to normalize costs and to protect customers from paying excessive rate case costs if Cascade does not actually come in for annual rate cases.[64] Public Counsel's adjustment uses 2017 actual rate case costs and 2018 projected costs

[62] Exhibit DMR-25
[63] Response Testimony of David J. Panco, Exhibit DJP-1T at 10:10-13.
[64] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 29:6-17.

for the remainder of the current case, resulting in total rate case expense of $482,060, and then amortizes that amount over three years, which results in a reduction to Cascade's pro forma rate case adjustment from $298,512 (as proposed by Cascade) to $51,054.[65] NWIGU claims that the Company is proposing to recover two years of rate case expense in a single year, by including the actual rate case costs incurred in both 2016 and 2017, and NWIGU proposes that the Company instead use an average of 2016 and 2017 rate case expense,[66] which results in a revenue requirement increase of $98,818; relative to Cascade's adjustment, NWIGU's recommendation results in a $213,535 reduction to revenue requirement.[67]

Q. Does the Company agree with any of these approaches?

A. No. Each proposal is flawed. Staff's proposal does not consider the cost to sponsor a single, complete rate case. Instead, Staff takes partial costs from two rate cases incurred in three years and averages the three, thus providing for a much lower cost than would actually be incurred to put on a complete rate case in a single year. NWIGU's proposal is similar, but NWIGU only considers two years of costs, 2016 and 2017, neither of which represent a full year of rate case costs.

Public Counsel's approach is much more straight forward, but does not match the Company's expectations for frequency of rate case filings. Public Counsel proposes using the cost of this case and normalizes using a three-year period (meaning the expectation is a rate case filing every three years) instead of a more realistic period.

Q. Is NWIGU correct that the Company is essentially trying to recover two years' worth of rate case expenses in a single year?

[65] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 30:3-16.
[66] Response Testimony of Bradley G. Mullins, Exhibit BGM-1T at 16:10-16.
[67] Response Testimony of Bradley G. Mullins, Exhibit BGM-1T at 16:17-21.

A. No. As explained above the Cascade proposal is to include for the recovery the costs of the current rate case in a single year to properly recover costs associated with annual rate case filings. Due to the timing of the filing, the single year of rate case costs is spread over two years—but that does not mean there are two years' worth of expense in Cascade's request. Additionally, Cascade removes the 2016 costs associated with its last rate case and replaces those costs with the estimated cost of this rate case.

Q. NWIGU and Staff both propose using an average of rate case expenses from prior years—NWIGU's approach includes a two-year average, whereas Staff's approach is a three-year average. Why do you disagree with the approach of averaging prior years' rate case costs?

A. As notes above, neither approach recognizes the actual cost to put on a rate case as both approaches use actual—but only partial—costs of a complete case. As Cascade anticipates annual rate case filings, it will eventually have embedded in the test year the full cost of a rate case. Until full costs are embedded in actual results, however, it is necessary to provide a pro forma adjustment for the difference.

Q. Why is Public Counsel's proposed three-year amortization inappropriate?

A. It really comes done to how long will the period be between rate cases? The Company agrees with Public Counsel that the cost of a rate case should be amortized over the period expected between rate case. In reality, the company filed this rate case twenty-two months after its last general rate case. The Company stated in its direct case, it is anticipating filing a rate case every year for the foreseeable future due primarily to the capital needs of the business. Therefore, recovery of a complete rate case over one year is appropriate and will reflect costs are the Company expects to incur during the rate effective period. Until a complete rate case is embedded in a test year, an adjustment to represent a full rate case is appropriate.

Q. Since the Company has only filed two recent rate cases and those have had twenty-two months between filing dates, would the company accept an alternative proposal until it has further evidence of filing rate cases each year?

A. The Company would accept the Public Counsel calculation except use a two-year amortization instead of three. The result would be an increase in expense over the test year of $131,397, but a decrease from the Company's original pro forma expense of $298,512.

MAOP COSTS

Q. Please summarize the Company's original position regarding the deferred MAOP Costs.

A. In Docket UG-160787, Cascade requested deferred accounting treatment of incremental costs to implement the MAOP Determination and Validation Plan (MAOP Plan) submitted to the Commission on May 2, 2016 in Docket PG-150120. The Commission approved the accounting petition on November 10, 2016.[68] As described in the order approving deferred accounting, the Commission approved deferral of incremental third party costs paid to outside vendors, contractors, and consultants.[69] The Company has been deferring third party MAOP expenses since the accounting petition was approved on November 10, 2016, and those expenses have included third-party work associated with records review, in situ testing, pressure testing, mapping and GIS work, and baseline assessments.

In the Company's initial filing in this case, the Company proposed to begin amortizing the deferred balance that was anticipated at May 31, 2018 over ten years. Company expected the deferred balance as of May 31, 2018 to be approximately

[68] *In the Matter of the Petition of Cascade Natural Gas Corp. for an Accounting Order Authorizing Deferred Accounting Treatment of Expenses Related to Maximum Allowable Operating Pressure Determination and Validation Plan*, Docket UG-160787, Order 01 at ¶7 (Nov. 10, 2016).

[69] *In the Matter of the Petition of Cascade Natural Gas Corp. for an Accounting Order Authorizing Deferred Accounting Treatment of Expenses Related to Maximum Allowable Operating Pressure Determination and Validation Plan,* Docket UG-160787, Order 01 at ¶7 (Nov. 10, 2016).

$9,590,868. The net income effect was a reduction of $623,406. The Company also proposed to continue to defer associated costs going forward for later inclusion in future cases.

Q. Do parties take issue with the proposal?

A. Yes. Staff witness Amy White proposes disallowing expenses[70] that are included in the deferral for certain work associated with "post-code pipe," or pipe that was installed after 1970 and which is subject to the documentation requirements of 49 C.F.R. 192.619.[71] Additionally, both Staff and Public Counsel disagree with Cascade's proposal to amortize the expected balance for 2018. Accordingly, both parties propose excluding the Company's estimates for 2018 deferral amounts.

Q. Do you agree with Staff and Public Counsel's proposal to exclude the 2018 estimates for the deferral amounts?

A. Yes, the Company agrees to exclude the 2018 estimated amounts from its proposed amortization of the MAOP deferral expense, but will continue to defer expenses associated with the MAOP Plan and will seek amortization of those expenses in a subsequent rate case.

Q. Please elaborate on Staff's proposed treatment of expenses associated with post-code pipe.

A. Staff proposes to disallow all expenses associated that can readily be associated with post-code pipe, and for costs that cannot readily be allocated as either post-code or pre-code, Staff proposes application of an allocation factor that Staff derived by comparing the pre-code and post-code pipeline segments on a lineal foot basis, and determined that post-code pipe accounted for 55.7 percent on a lineal foot basis.[72]

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[70] Response Testimony of Amy I. White, Exhibit AIW-1T at 9:14-19.
[71] Response Testimony of Amy I. White, Exhibit AIW-1T at 7:12-21.
[72] Response Testimony of Amy I. White, Exhibit AIW-1T at 8:7-9:5.

Staff then applied by a 55.7 percent disallowance to expenses that could not be readily attributed to pre-code or post-code work.[73]

Q. What support does Staff provide for its proposed exclusion of post-code pipe?

A. Staff provides two arguments to support its adjustment. First, Staff relies on an order from the Company's pipe replacement plan filing ("PRP Order") in which the Commission noted that replacement of certain pipe may not be eligible for cost recovery through the Company's cost recovery mechanism ("CRM").[74] From that order, Staff appears to conclude that the Commission has prohibited the Company from recovering any expenses associated with post-code pipe.[75] Second, Staff reasons that because the federal MAOP documentation requirements have been in place since 1971, it is unfair to make customers pay for these costs now.[76]

Q. Do you agree with Staff's proposal?

A. No. I disagree that the PRP Order establishes a bright line rule prohibiting cost recovery for expenses associated with post-code pipe, and I believe it is fair that customers should pay for all MAOP-related costs in light of the benefits that are being provided to customers through the Company's implementation of the MAOP Plan.

Q. Regarding the first argument, that the PRP Order prohibits recovery of post-code pipe, do you agree with Staff's interpretation of the PRP Order?

A. No. The PRP Order addresses the Company's plans for pipeline replacement, and indicates that pipeline lacking MAOP documentation *may* not be eligible for recovery in the CRM context, in which the Commission is considering expedited recovery for pipeline replacement.

[73] Response Testimony of Amy I. White, Exhibit AIW-1T at 8:17-9:5.
[74] *In the Matter of Cascade Natural Gas Corp.'s Pipe Replacement Program*, Docket UG-160293, Order 01 (Apr. 7, 2016).
[75] Response Testimony of Amy I. White, Exhibit AIW-1T at 8:1-5.
[76] Response Testimony of Betty A. Erdahl, Exhibit BAE-1T at 24:18-25:4.

Q. What is the Company's perspective on the impact of the PRP Order on future cost recovery for MAOP-related work?

A. Cascade interprets the PRP Order to say that if there is overlap for projects that are both post-code MAOP and CRM related, that due diligence by all parties is needed to ensure that the project meets the CRM guidelines before any recovery through the CRM will be granted. In other words, the Company must demonstrate that a project is considered high risk through the DIMP model, independent of the lack of documentation, for the project to be eligible for recovery in the CRM. However, if the post-code pipe is listed as high risk in DIMP simply due to lack of documentation, it would not be eligible for recovery through the CRM. Hence, the Commission explained that such projects *may* not be eligible for cost recovery—suggesting that further analysis would be required to determine whether cost recovery would be appropriate.

Q. And was the Commission considering the same type of costs in the PRP Order as are at issue in this case?

A. No. The PRP Order considered the Company's two-year plan for pipeline replacement. On the other hand, in this case, Cascade is seeking recovery for incremental third-party costs associated with records review, in situ testing, pressure testing, mapping and GIS work, and baseline assessments—and not pipeline replacement.

Q. Has the Commission issued other orders subsequent to the PRP Order addressing cost recovery for MAOP validation expenses that are more relevant to the costs at issues in this proceeding?

A. Yes. After issuing the PRP Order that Staff is relying on, the Commission approved Cascade's petition for deferred accounting of the expenses for which Cascade is seeking recovery in this case,[77] and approved the settlement agreement ("MAOP Settlement Agreement") in docket UG-150120.[78] Both orders contemplate that Cascade will seek cost recovery for its MAOP-related expenses.

Q. Did the Commission comment on future cost recovery in its order authorizing deferred accounting?

A. While the Commission noted that its approval of deferred accounting did not constitute preapproval of the costs, and prudency of costs would be determined in a future regulatory proceeding, the Commission also recognized "that these measures are critical to achieving and maintaining pipeline safety."[79]

Q. Is Staff's interpretation of the PRP Order consistent with the parties' MAOP Settlement Agreement in Docket UG-150120?

A. No. Parties anticipated that Cascade would seek recovery of its costs to comply with the MAOP Settlement, and agreed that Cascade "may seek recovery of its costs to comply with the terms of this Agreement including but not limited to recovery through deferral and amortization, general rates and a tracker."[80]

Q. Did the MAOP Settlement Agreement include any specific prohibitions on cost recovery?

A. Yes. The Company was expressly prohibited from recovering any of the penalties imposed under the MAOP Settlement Agreement. Cascade is not seeking recovery for any penalties associated with the MAOP Settlement.

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[77] *In the Matter of the Petition of Cascade Natural Gas Corp. for an Accounting Order Authorizing Deferred Accounting Treatment of Expenses Related to Maximum Allowable Operating Pressure Determination and Validation Plan*, Docket UG-160787, Order 01 (Nov. 10, 2016).

[78] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket PG-150120, Order 03 (Mar. 20, 2017).

[79] *In the Matter of the Petition of Cascade Natural Gas Corp. for an Accounting Order Authorizing Deferred Accounting Treatment of Expenses Related to Maximum Allowable Operating Pressure Determination and Validation Plan*, Docket UG-160787, Order 01 at ¶7 (Nov. 10, 2016).

[80] *Wash. Utils. & Transp. Comm'n v. Cascade Natural Gas Corp.*, Docket PG-150120, MAOP Settlement Agreement at Section V.B.9. (Dec. 15, 2016).

Q. Could you please explain Staff's second argument, that it is not fair that customers should pay for the post-code expenses?

A. Staff states that because the Company did not incur expenditures to comply with federal requirements, cost savings flowed to shareholders during the period of noncompliance, and it is not fair to now require that customers bear these costs.

Q. Do you agree with Staff's reasoning?

A. No. While it is true that the lack of documentation was the basis for the MAOP complaint case and MAOP Settlement, the lack of documentation did not result in a reduction of costs as Staff suggests.

More importantly, the work that Cascade agreed to perform as part of the MAOP Settlement includes remediation and additional measures beyond what benefits original documentation would have provided in the form of the assurance and validation of the safety and integrity of the Company's pipeline system, and thus provides very real and current benefits to customers. The benefits to customers are described in Mr. Martuscelli's direct testimony[81] and as contemplated in the Commission order approving deferred accounting for these expenses and noting "that these measures are critical to achieving and maintaining pipeline safety."[82]

Q. Does Staff dispute that customers have benefited from the work the Company performed?

A. No. While Staff has expressed concern about asking customers to pay for documentation of MAOP given that the requirement has existed since 1971, Staff does not dispute the benefits to customers from the work that is being performed now. In the Company's initial filing, the Company demonstrated that the work being performed for MAOP validation is providing substantial benefits to customers in terms of enhanced safety, early compliance with new PHMSA requirements, and

[81] Direct Testimony of Eric Martuscelli, Exhibit EM-1T at 8-12.
[82] Docket UG-160787, Order 01 at ¶7

accelerated schedule for validation. An additional potential benefit is that the testing and validation work being performed may demonstrate continuing pipeline integrity such that certain pipe segments that may otherwise have been planned to be replaced can continue to operate. Cascade anticipates that the validation work—including work on post-code pipe—may present a cost savings for customers by deferring replacement of certain segments that, through testing, demonstrate better than anticipated pipeline integrity.

Q. Even assuming the Commission were to accept Staff's proposed treatment for post-code pipe, is it appropriate to exclude the expenses associated with document review for post-code pipe as Staff has proposed?

A. No. The Company sees these costs as having a benefit to all customers and is including these costs for recovery. As Mr. Martuscelli explained in his direct testimony on this matter, the Company's review goes well beyond simply original documentation and makes certain that the Company can meet current PHMSA requirements of "verifiable, traceable, and complete."[83] This standard did not exist in 1971 and is an example of the MAOP Settlement going beyond the bare minimum required for the Company to achieve compliance with the MAOP validation requirements. Therefore, the allocation Staff applies to costs is inappropriate.

Q. Could you please summarize the deferred MAOP expenses that Cascade proposes should be amortized in this case?

A. Cascade proposes to include both pre-code and post-code actual expenses incurred through the end of 2017. Cascade has removed estimates of 2018 expenses. Cascade also will continue the use of the deferred account to accrue ongoing MAOP validation costs for 2018 and beyond for amortization in a future case. Public Counsel notes that it does not oppose ongoing deferral of these expenses.[84]

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[83] Direct Testimony of Eric Martuscelli, Exhibit EM-1T at 8, 11-12.
[84] Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 34.

Q. Please describe the Company's proposed modification to its original filing and the costs proposed for recovery.

A. The Company's original filing resulted in an increase in expense of $959,087 and is modified to an increase of $603,869.

SISP/SERP

Q. Do all parties recommend removing Supplemental Income Security Plan (SISP)/Supplemental Employee Retirement Plan (SERP) expenses included in the test year?

A. Yes.

Q. Does the Company agree with the adjustments?

A. Yes, in principle. However, NWIGU's adjustment proposes removing an incorrect amount of SISP/SERP expenses.

Q. Please explain.

A. NWIGU calculated its adjustment based on Cascade's response to NWIGU's data request No. 8, which asked for total SISP/SERP expense. Cascade correctly answered that question, but NWIGU included only the figures from the actuarial reports not the actual booked totals. The correct amount of the adjustment is ($127,508), as proposed by Staff and Public Counsel.

Q. Did Cascade provide a response to a data request that shows the SISP/SERP expense, including offsetting amounts?

A. Yes. The offsets to the SISP/SERP expense are reflected in a response to Public Counsel data request 31 which is referred to by both Staff witness Hillstead and Public Counsel witness Ramas.

Q. If the NWIGU adjustment is modified to the net expense as reflected in the Staff and Public Counsel testimonies, does the Company agree with removing the SISP/SERP expense?

A. Yes.

TAX REFORM OR TCJA

Q. Did the Company address the Tax Cut and Jobs Act (TCJA) in its original filing?

A. No. The Company filed its direct case on August 31, 2017. The TCJA was not signed into law until December 22, 2017. However, the Company did provide an analysis of the impacts of the TCJA on its current case and a proposal for the interim period through its response to the Commission's Bench Request No.1.

Q. Have parties addressed the issue in their cases?

A. Yes. All parties agree that the tax rate embedded in rates going forward should reflect the impacts of the change from a 35 percent federal income tax rate to a 21 percent rate.

Q. Does the Company agree that the change in the tax rate should be reflected in general rates in this case?

A. Yes.

Q. Do the other parties address the period from January 1, 2018, until rates are expected to become effective in this case on August 1, 2018 ("Interim Period")?

A. In general, yes. Staff, Public Counsel, and NWIGU all generally contend that any benefits accruing during the Interim Period should be returned to customers.[85] However, NWIGU is the only party that advanced a specific proposal for capturing those benefits.[86]

Q. You mentioned that NWIGU is the only party that proposed specific treatment for the Interim Period. Could you please briefly explain NWIGU's proposal?

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[85] Response Testimony of Melissa Cheesman, Exhibit MCC-1T at 23:15-24:4; Response Testimony of Donna M. Ramas, Exhibit DMR-1T at 55:3-11; Response Testimony of Bradley G. Mullins, Exhibit BGM-1T at 17:10-13.

[86] Response Testimony of Bradley G. Mullins, Exhibit BGM-3 at 15-18.

A. NWIGU proposes an adjustment that represents a deferral for excess taxes collected during the Interim Period. NWIGU calculates an over-collection during the Interim Period of $2,713,094, and proposes a two-year amortization for the deferral.[87]

Q. Do you find anything problematic with NWIGU's approach?

A. Yes. NWIGU's approach assumes that a deferral is in place. As noted in Staff's testimony, Staff specifically asked Cascade *not* to file for a deferral.[88] Without a deferral in place, NWIGU's proposed approach would constitute retroactive ratemaking.

Q. Does NWIGU's calculation correspond with the Company's response to Bench Request No 1?

A. No. Cascade's response to Bench Request No. 1 is based on the actual amount of Excess Deferred Income Taxes (EDIT) booked by the Company at December 31, 2017. The amortization of the excess is based on the required use of Average Rate Assumption Method (ARAM) for plant related EDIT and a ten-year amortization of non-plant EDIT. Company witness Ms. Genora provides further testimony on this topic.

Q. Does the Company agree with the parties' assertions that all benefits from the revised tax rate accruing to the Company during the Interim Period should be given to customers?

A. Not necessarily. The Company's view is that the revised tax is simply one of many expense items that impact the Company's results of operation during the course of the year. All expenses change from year to year. Some changes may be within the Company's power to control or influence, while others may not be. Some expenses go up, while others go down. Because the tax is just one of various expense items that may fluctuate in a year, Cascade does not believe that the tax expense should be

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[87] Response Testimony of Bradley G. Mullins, Exhibit BGM-3 at 17-18.
[88] Response Testimony of Melissa Cheesman, Exhibit MCC-1T at 24:19-23.

singled out for separate treatment, and instead, it is appropriate for the Commission to view the tax issue in the context of the Company's results of operation.

Q. What specifically is the Company proposing for the Interim Period?

A. As described in Cascade's supplemental response to Bench Request No. 1, Cascade proposes to book tax expenses at the current 21 percent rate. In early 2019, Cascade will evaluate its overall earnings in 2018, and Cascade will then use its earnings sharing mechanism to pass back any earnings beyond the Company's authorized return from the current proceeding. For 2018 only, Cascade proposes to alter the sharing mechanism to pass back to customers 100 percent of any earnings beyond its authorized return instead of the 50-50 sharing per the current mechanism. In other words, Cascade will treat the tax expense as any other expense the Company incurs.

Q. Why does Cascade feel it is fair to treat the change in the corporate tax rate as a period expense and potentially benefit from the reduced expense?

A. There are several reasons why it is appropriate:

- Consistent with past Commission determinations
- Regulatory lag
- Result is fair to customers
- One sided nature of the earnings sharing mechanism
- Benefits are going to customers prospectively

Q. Can you elaborate on each item starting with "Consistent with past Commission determination?"

A. Yes. The Commission previously considered a significant change in the corporate tax rate back in 1986/87 when the federal income tax rate changed from 46 percent to 34 percent, the Commission investigated the impacts of the tax change on each of the regulated companies.[89] For both Northwest Natural and Washington Water Power

[89] *See In re Requirement of Specified Jurisdictional Utilities to Report to the Commission the Impact of Revisions to the Federal Tax Code*, Cause No. U-86-130, First Suppl. Order (Apr. 13, 1987).

(gas operations), the Commission determined that those companies demonstrated that they would not earn in excess of their authorized return—even when taking into account the tax change—and the Commission did not require any action from those companies to reduce their rates.[90] In this case, because Cascade has an earnings sharing mechanism already in place, the Commission and the Company's customers can be assured that if the Company is over-earning it will pass back any excess. Conversely, if Cascade is under-earning, the reduced expense will help mitigate the impact.

Q. Does Cascade anticipate that it will be under-earning without any benefits of tax reform?

A. Yes. As addressed earlier in the discussion regarding the Company's proposed adjustment for rate case expense and in the testimony of Ms. Kivisto, Cascade has significant capital needs that put Cascade in a position of constant rate cases to seek recovery. Since a majority of the investment is non-revenue producing investment, Cascade is experiencing regulatory lag associated with those investments, resulting in significant rate pressure. This can also be seen by the Company's actual results over the last few years as described in my earlier testimony.

Q. How does regulatory lag impact this case and the tax reform issue?

A. Essentially this rate case is premised on a 2017 rate year. The only proposed adjustment that addresses 2018 is the pro forma wage adjustment. With rates not going into effect until August 1, 2018, there is nearly a year between the measurement of costs and when rates go into effect. All cost increases and capital additions in 2018 will not be addressed in this case thus creating regulatory lag. Cascade simply proposes to treat the tax reduction for the Interim Period as a period

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[90] *In re Requirement of Specified Jurisdictional Utilities to Report to the Commission the Impact of Revisions to the Federal Tax Code*, Cause No. U-86-130, First Suppl. Order at 5-6 (Apr. 13, 1987).

expense, no different than any other expense to help offset the regulatory lag impacts already inherent in this case.

Q. Why do you believe this result is fair?

A. This result is fair because it prevents Cascade from using the Interim Period tax benefits to earn above its authorized rate of return. Any earnings beyond the Company's authorized return will be passed back to customers through the modified earnings sharing mechanism. This approach strikes a balance that is fair to both the Company and to customers.

Q. Can you elaborate on what you mean by the "one sided nature of the earnings sharing mechanism?"

A. The Company's earning sharing mechanism only shares if the Company over-earns, and is not triggered if the Company under-earns. It seems only fair to allow the expense reduction to be taken into account in order to offset under-earning when over-earning will go back to customers.

Q. Are customers harmed by the Company proposal?

A. No. Customers will receive any benefits over and above the Company's authorized return and the Company is not harmed either as it is given the opportunity to earn its authorized return and no more.

Q. If the Company were to defer all benefits as suggested by NWIGU, what would be the impact on earning?

A. NWIGU states that the Company should defer the benefits associated with the change in the corporate tax rate. Both Public Counsel and Staff seem to suggest the same, but do not make that proposal explicitly. As stated before, if the Company would defer the benefits it would have the impact of reducing earnings during the period. If the Company incurred other costs savings it would not be required to defer those, however they would impact earnings and the potential for sharing. The Company's proposal seeks a fair and equitable sharing of the savings for the period between January 1 and the implementation of rates on August 1, 2018.

Q. Please expand on your next bullet point "Benefits are going to customers prospectively."

A. All parties agree that the new 21 percent tax rate is a proper pro forma adjustment that should be incorporated into this rate case. Customer rates effective August 1, 2018, will reflect the new tax rate, so customers will be receiving the benefits of tax reform in rates effective August 1, 2018.

LOW INCOME WEATHERIZATION

Q. Did the Company propose any changes to its low-income weatherization program in this case?

A. No. The Company is not proposing any changes to the low-income weatherization program. As explained in my direct testimony, the Company is proposing to make no changes to allow time for implementation and evaluation of the significant changes in the program that were recently adopted through the settlement in Docket UG-152286.[91]

Q. What modifications were made to the program at the conclusion of the last rate case?

A. The settlement in Docket UG-152286 required that the Company work with the advisory group and Communication Action Partnership (CAP) agencies to identify and remove barriers of success on the current low-income conservation program.

Q. Can you describe the modifications Cascade has made to the program?

A. In consultation with the advisory group, the program was modified to include all measures listed in the Weatherization Priority List issued by Washington State Department of Commerce. The program was also further modified to pay full

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[91] Direct Testimony of Michael P. Parvinen, Exhibit MPP-1T at 11:5-10.

measure costs up to $10,000 per home instead of just the avoided cost for 30-year measures times annual therm savings. The program also included a fixed payment for an audit fee and inspection fee.

Q. Do these modifications provide significant funding for low-income weatherization projects besides just paying for energy savings?

A. Yes. The program has two components, the Washington Incentive Program (WIP) and the Enhanced Washington Incentive Program (E-WIP). The WIP program is the payment specifically for the energy savings. The E-WIP is for payment of the rest of the installation cost of the measure under the priority list. Again, the cost of the audit and inspection are also covered.

Q. Are there costs not included under the program?

A. Yes. Any very limited health and safety costs outside the direct installation of the specific measures and any administrative costs outside the inspection and audit costs are to be covered by other sources. The program is not intended to be a sole source of funding but provides a very significant portion of total costs.

Q. What is The Energy Project proposing in this case?

A. The Energy Project is proposing to:

- Remove the $10,000 cap on a home or project.
- Change from a fixed amount for inspection and audit fee to a percentage entitled "project coordination allowance"
- Add another percentage rate called "indirect rate" for other administrative costs.[92]

Q. Does Cascade agree with these suggestions at this time?

A. In general, no. Cascade believes The Energy Project's proposals add significant costs to the program without demonstrating that the program as modified will reach more

[92] Response Testimony of Shawn M. Collins, Exhibit SMC-1T at 7:12-17.

homes, and without any change in overall energy savings. In other words, Cascade's customers are paying significantly more per therm than the avoided cost and The Energy Projects proposal only adds further costs.

Q. Why does The Energy Project propose removing the $10,000 cap?

A. The Energy Project notes that because certain projects require additional health, safety, and ventilation measures, which add cost to standard measures, projects costs in some cases exceed the $10,000 cap, and such projects may be deferred due to insufficient funds.[93]

Q. Please explain why you disagree with removing the $10,000 cap.

A. Cascade does not believe that the $10,000 cap is a barrier to completing weatherization work for more low-income homes. Cascade believes that the program requires additional time to ramp up to its full potential, but that removing the $10,000 cap at this time is premature and unnecessary.

Q. Why do you believe the program requires additional time to ramp up?

A. Based on our experience implementing a similar enhancement to the low-income weatherization program in Oregon, it took several years for most agencies to get comfortable with the program and adjust personnel to maximize participation. In fact, in Oregon, the Commission has limited the annual budget or number of participants because it was so successful but expensive. In Washington, only six out of 12 agencies participated in 2017. In Washington the program has only been in place for just over a year, which is a relatively short time.

Q. Why was the $10,000 cap put into place?

A. The cap was put in place simply as a way to contain costs and have some sort of program parameter. The $10,000 was based on a limiting factor used in the Oregon program at the time the E-WIP was put in place.

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[93] Response Testimony of Shawn M. Collins, Exhibit SMC-1T at 8:14-9:15.

Q. Were projects not being completed because of the $10,000 cap?

A. Of the 29 projects completed in 2017, eight had total project costs over $10,000 so it is not clear that the $10,000 was a limiting factor as the projects were still undertaken.

Q. What has been the average cost of each project over in 2017 under the E-WIP program as compared to the year before under just the WIP program?

A. Even though we are still reviewing the data it looks like the average cost to the program was $3,271 per project under WIP and under E-WIP it was $7,602. If the $10,000 limit would not have been in place the average would have been $8,332 per project.

Q. Surely the therms saved were much greater under the E-WIP program year correct?

A. No. The average annual therm savings per project went from 489.3 in 2016 to 205.93 in 2017. Granted this is a function of the measures performed but it is also indicative of the amount of costs going out under the E-WIP program. In 2016 the average cost per annual therm under WIP was $6.69 and in 2017 under E-WIP it was $36.91 and if the $10,000 cap had not been in place that figure would be even greater.

Q. How many more homes were served as a result of the significant E-WIP changes?

A. The results of the first year are rather disappointing. In 2016 there were 24 homes served under the WIP program and in 2017 there were 29 served under the E-WIP program. This is a 20 percent increase but only an increase of 6 homes.

Q. Do the results suggest further changes need to be made?

A. Possibly, but at this time it is not clear that lifting the project cap is the appropriate solution. There are other factors that could be causing the issue such as changes in the LHEAP program and funding, funding available from other sources, and even the energy burden component that keeps gas homes as a low priority even if funds are made available by the utility.

Q. Could you please explain The Energy Project's proposals for changes to agency funding for low-income weatherization?

A Yes. The Energy Project proposes to modify the project coordination allowance from a fixed to a percentage based amount, and to allow the delivery agency an "indirect rate" of a set percent of administrative costs.[94] These recommended percentages total 30 percent.

Q. What is The Energy Project's rationale for these recommendations?

A. The Energy Project claims that the fixed payment structure does not adequately cover the agencies' costs, and that implementation of The Energy Project's proposed changes will bring Cascade's program more in line with other utilities.[95]

Q. What do other utilities provide in administrative costs?

A. All the utilities have unique programs, some that specifically provide for health and safety and others that don't. However, if one looks at administrative costs it appears that Avista and Northwest Natural are at 15% and PSE at 20%. It also appears that Avista may be the only utility able to possibly fund beyond $10,000.

Q. Cascade pays a fixed amount for Inspections and Audit fees and has the ability to reimburse a small amount of health and safety measures. In 2017, what percentage of total payout would those administrative costs translate to?

A. Approximately 13 percent.

Q. Do you agree with The Energy Project's reasoning for its proposed changes to agency funding?

A. No. The Energy Project's recommendation goes substantially beyond what any other utility is providing. Cascade's program is not intended to cover all costs. It is important that Cascade not be the sole provider of remediation costs because there are

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[94] Response Testimony of Shawn M. Collins, Exhibit SMC-1T at 7:15-17.
[95] Response Testimony of Shawn M. Collins, Exhibit SMC-1T at 9:16-10:13.

other sources of funds. This has been a fundamental premise in program design for as long as I can remember.

Q. What is the overall objection Cascade has to The Energy Projects requested changes?

A. Simply, that the changes add a significant amount of cost to the program with no demonstration of added savings or participation.

Q. If added participation were achieved would that be considered a success of the program?

A. Possibly, but at what cost? The program as demonstrated above is very expensive to all customers. Cascade requests guidance from the Commission to determine an appropriate level of funding for the program.

Q. Doesn't the Commission have the authority to act in the public interest and grant the modifications?

A. Yes it does, as demonstrated by approving the E-WIP program. However, by approving the modification suggested by The Energy Project's recommendation means that all customers become the primary if not the sole funder of the low-income weatherization measures. Currently, a portion of the funding comes from other sources, but it appears that Cascade or more specifically Cascade's customers are being asked to pick up more and more of the costs. Cascade questions whether the added costs should be borne by customers.

Q. Do the recommendations of The Energy Project guarantee or even demonstrate any more homes will be served?

A. No, in fact, other than possibly lifting the $10,000 cap, the other suggestions only add costs to each project. In fact, the suggestions only seem to increase administrative fees without providing benefits to the program itself.

Q. What do you recommend at this point?

A. I recommend the Commission provide guidance on the appropriate level of customer-sponsored funding for the program. As the cost of these programs escalate they look more and more like contributions and donations which are not recoverable expenses. In the alternative, Cascade recommends continuing with the current Commission-approved programs until benefits of specific changes can be measured and evaluated in the context of the whole program.

CONSERVATION COMMITMENTS

Q. Did the Company address the conservation commitments from the Settlement in Docket UG-152286?

A. Yes. My direct testimony addressed each point of the settlement.

Q. Did Staff witness Jennifer Snyder elaborate further on any topic and reiterate Staff's acceptance of the conservation commitments in the Settlement in Docket UG-152286?

A. Yes. Ms. Snyder provided a status update on many of the ongoing commitments such as the Potential Assessment Study and its impact on the IRP and Conservation Targets.

Q. Does Staff make any recommendations about Cascade achieving 100 percent of its conservation targets?

A. Staff is recommending that Cascade starting in 2019 be held responsible for achieving 100 percent of its stated target.

Q. Does Cascade agree with Staff about the update and progress on the conservation commitments?

A. Generally yes. While Cascade makes every effort to achieve its annual conservation target, ultimately, the Company has no control on the customer's decisions. Accordingly, I believe it is important to revise that commitment to "Cascade makes every effort to achieve 100 percent of its target".

Q. Why do you propose the change in language?

A. Cascade can make the incentives as attractive as feasibly possible and come up with creative ways to try and entice customers to participate in the programs, but at the end of the day, the customer must choose to participate, and the Company has no control over customer choice. It's the proverbial saying "you can lead a horse to water, but you can't make it drink."

Q. Does the Company think it should be relieved of its obligation to achieve 100 percent of its target?

A. No. Cascade must be able to adequately explain to the CAG and the Commission measures it has taken achieve the target and why it has not if the situation should arise.

Q. Does this conclude your testimony?

A. Yes it does.