

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-200568

STAFF RESPONSE TO PETITION
FOR RECONSIDERATION

I. INTRODUCTION

1 Commission Staff of the Washington Utilities and Transportation Commission
(Commission) submits this Response to Cascade Natural Gas Corporation's (Cascade or the
Company) Petition for Reconsideration.

II. RELIEF REQUESTED

2 Commission Staff (Staff) requests that the Commission deny in part the motion to
reconsider. Staff requests that the Commission approve only Cascade's request to clarify
that the approved adjustment proposed by AWEC is a part of the pro forma adjustment
rather than a restating adjustment. Staff requests that the Commission deny the Company's
other requests.

III. ARGUMENT

3 Cascade makes three requests in the motion for reconsideration. The first is that the
Commission reverse its decision to adopt AWEC's proposal to use the 2019 retirement and
removal (R&R) figures, and instead use the 2020 R&R figures as the Company previously
argued in rebuttal testimony. The second request (whether the Commission uses the 2019 or

2020 R&R figures) is that the Commission reduce the R&R offset amount “proportionally” based on the pro forma plant the Commission accepted into rates compared with the total pro forma plant claimed by Cascade. The third request is that the Commission clarify whether the adjustment initially proposed by AWEC is a pro forma adjustment or a restating adjustment. Staff agrees with the Company as to the third request, as Staff believes that AWEC’s proposal should be characterized as a pro forma adjustment. The other requests should be denied. The second request -to use a ratio to reduce the R&R offset- has the largest impact on revenue requirement, and therefore will be addressed first.

A. The Commission Should Deny Cascade’s Request For A Ratio Adjustment To The R&R Offsetting Factor

4 Cascade requests that the Commission adopt a ratio adjustment to R&R offsetting factors that would reduce those offsets to a fraction of their true amount. The Company argues that the Commission “should decrease the offset to match the fraction of pro forma plant allowed for 2020.”¹ The Commission rejected this proposal in the final order, and instead adopted AWEC’s proposal to use 2019 R&R figures, unadjusted by Cascade’s proposed ratio.² Cascade explains its proposed ratio in its motion to reconsider: “Cascade calculated a ratio of 2020 plant for which the Company sought recovery in its rebuttal filing (\$57.3 million) to total plant the Company added in 2020 (\$96.2 million) (2020 Plant Ratio), which equals 59.49 percent.”³ Cascade uses what it claims as the total plant the company added in 2020, \$96.2 million, as the denominator of its proposed ratio.⁴

¹ *Cascade Natural Gas Corporation’s Petition for Reconsideration of Order 05*, Docket UG-200568, 7, ¶ 12 (filed May 25, 2021) (Motion).

² *Washington Utilities and Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-200568, Order 05, 89, ¶ 295 (May 18, 2021) (Final Order), *citing* Mullins, Exh. BGM-1T at 32:15-34:23.

³ Motion at 3-4, ¶ 4.

⁴ *Id.* at 5, ¶ 7.

5 First, Cascade’s ratio proposal fails as a matter of policy and logic. Cascade asks the Commission to make an adjustment by relying on its “total 2020 plant additions[.]”⁵ Cascade mentions this figure in testimony but did not provide evidence to substantiate it in the record, since the Company sought approval of only a portion of what it *claims* were its total plant additions in 2020. Even if the Company had limited the denominator of this proposed ratio to the pro forma plant additions it proposed on rebuttal, the Commission rejected that figure due to a lack of evidence.⁶ Cascade now asks that the Commission rely on this unsubstantiated figure to reduce the R&R offsetting factor “proportionally.”

6 Under Cascade’s logic, if a utility’s initial filing claims \$100 billion in proposed pro forma plant, and the Commission finds evidence to support only \$1 million, then the R&R offsetting factor should be proportionally reduced to almost nothing. The flaw in this logic is obvious - it would allow a utility to effectively nullify any R&R offsetting amounts simply by claiming an outlandish pro forma plant addition figure in its initial filing. Cascade may be implicitly arguing that the plant the Commission rejected in the final order is in fact prudent and in-service, and therefore if the plant is excluded, the retirements directly associated with the excluded plant should be excluded as well. Besides assuming facts not found by the Commission, if this is Cascade’s argument, it misconstrues the fundamental purpose of a pro forma adjustment.

7 As Staff argued in both testimony and post-hearing brief,⁷ the fundamental purpose of the pro forma adjustment analysis is to determine whether there is a significant increase to the Company’s *overall cost of providing service* since the test year that justifies making an

⁵ Motion at 7-8, ¶¶ 12-13; *see also*, Motion Attachment 1, line 30.

⁶ Final Order at 85, ¶ 282.

⁷ McGuire, Exh. CRM-1T at 25:18-26:11 (filed Nov. 19, 2020); Commission Staff Post-Hearing Brief at 8, ¶ 14 (filed March 22, 2021).

adjustment. Therefore, approved pro forma plant additions are weighed against both direct *and indirect* offsetting factors in order to determine whether a utility's overall cost of providing service has increased since the test year.⁸ Indirect offsetting factors include R&R not directly related to the approved pro forma plant additions.⁹ Therefore, whether directly related to the pro forma plant that the Commission ultimately approves or not, the total R&R figure -not a fraction of it- should offset the cost of approved pro forma plant additions.¹⁰ The purpose of weighing approved pro forma plant additions against offsetting factors is to determine whether a pro forma adjustment is warranted at all. Cascade's proposed ratio arbitrarily reduces an offsetting factor that the Commission *did* find sufficient evidence to support by equating it with proposed pro forma plant additions that the Commission *did not* find sufficient evidence to support.¹¹ This approach is antithetical to the fundamental goal of determining whether there is any significant increase in the Company's *overall* cost of providing service. It is therefore no surprise that Cascade's request has no basis in Commission rules, policy, or precedent.

8 Cascade cites no prior instances in which the Commission has granted a similar "ratio adjustment" to offsetting factors in its motion. The Commission rules outlining pro forma adjustments make no mention of reducing any offsetting factor by a ratio of accepted pro forma plant over claimed pro forma plant.¹² Nor does the used and useful policy

⁸ In re Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date, Docket U-190531, Policy Statement on Property that Becomes Used and Useful after Rate Effective Date, 7, n.25 (Jan. 31, 2020) (Policy Statement); *see also* Final Order at 92, ¶ 305.

⁹ *See Id.*

¹⁰ *See* Final Order at 92, ¶ 305.

¹¹ And plant that was never included in the case to begin with.

¹² *See* WAC 480-07-510(3)(c)(ii).

statement.¹³ The motion cites the used and useful policy statement in support of the proposed ratio,¹⁴ but if anything, the cited paragraph undermines Cascade’s proposal:

9 The Commission’s longstanding practice of using the matching principle continues to require netting of known and measurable changes with *any offsetting factors* that diminish the impact of the known and measurable event. *Including post-test-year plant in rates without considering these offsetting factors creates a mismatch that overstates the effect of the known and measurable event*, thus distorting the rate-year relationship among revenues, expenses, and rate base.¹⁵ (Emphasis added).

10 The motion summarized this paragraph by stating: “offsets must be harmonized with the effect of any pro forma adjustments to maintain a balance between revenues, expenses, and rate base”¹⁶ In fact, paragraph 24 supports considering *any* offsetting factors, and states that failure to do so creates a mismatch. Reducing offsetting factors based on how much pro forma plant is approved versus claimed by the utility is not considering any offsetting factors. As the policy statement makes clear, pro forma adjustment analysis determines whether the cost of pro forma plant additions outweigh offsetting factors, it does not impose “balance” or “harmony” between plant additions and offsets where there is none.

B. The Commission should Reject Cascade’s Request To Reconsider Approval Of AWEC’s Proposal To Use 2019 R&R Figures

11 In the motion for reconsideration, Cascade asks the Commission to reconsider its approval of AWEC’s proposed adjustment to R&R offsetting factor using the 2019 R&R figures. Cascade argues that using the 2019 retirement amounts to a violation of the matching principle.¹⁷ The Company argues that the 2019 R&R amount was abnormally

¹³ See generally Policy Statement.

¹⁴ Motion at 7-8, ¶ 12; citing Policy Statement at 9, ¶ 24.

¹⁵ Policy Statement at 9, ¶ 24.

¹⁶ Motion at 7-8, ¶ 12.

¹⁷ Motion at 5, ¶ 8.

high, and therefore the Commission should use the 2020 R&R figure.¹⁸ The final order describes Cascade’s objections to this proposal, citing Cascade’s rebuttal testimony that argues for use of 2020 actual retirements.¹⁹ Although not explicitly stated, the Commission appears to have adopted AWEC’s proposal due to the overall concerns it expressed about Cascade’s presentation of offsetting factors. If the Commission was concerned about the reliability of the 2020 R&R figures, using the 2019 R&R figures is not a violation of the matching principle. Lastly, the Commission clearly considered these same arguments when Cascade made them on rebuttal and rejected them.²⁰ While Staff did not take a position on this issue in testimony, Staff believes that AWEC’s proposal is justifiable given the circumstances outlined below, and therefore the Commission should deny the request to reconsider this adjustment.

1. The record does not contain sufficient evidence of the 2020 retirement amounts.

12 Although the final order does not explicitly state the basis for accepting AWEC’s proposal and rejecting the Company’s proposal, a prevalent theme throughout the pro forma adjustment section of the order was that the Commission found insufficient evidence to support many of Cascade’s claims, and that non-company parties were given insufficient time to challenge or evaluate the evidence presented.²¹ The Commission described Cascade’s presentation of offsetting factors as “selectively choosing offsets”²² and stated that it had “concerns with respect to Cascade’s efforts to account for offsetting factors.”²³ The 2020 R&R figures were reported in this docket in rebuttal testimony, a time period in which the Commission concluded that there was insufficient time to review pro forma plant

¹⁸ *Id.* at 3, ¶ 4.

¹⁹ Final Order at 82-83, ¶ 275; *citing* Parvinen, Exh. MPP-2Tr at 24:1-25:18.

²⁰ *Id.* at 89, ¶ 295.

²¹ *Id.* at 85, ¶ 282.

²² Final Order at 90, ¶ 300.

²³ *Id.* at 92, ¶ 305.

additions that the Company claimed went into service.²⁴ In the final order, the Commission also states: “As the regulator, we benefit from the non-Company parties’ ability to review potential offsetting factors based on final costs.”²⁵ It seems likely that the Commission concluded that either a) there was insufficient evidence of the 2020 R&R figures in the record, or b) there was insufficient time for non-company parties to review those figures, or both. Therefore, the Commission accepted AWEC’s proposal to use the 2019 R&R figures as a proxy. If that was the Commission’s basis for using the 2019 R&R figures, then the Company’s matching principle argument holds no merit.

2. The matching principle does not prohibit use of 2019 R&R figures.

13 Cascade argues that using the 2019 retirement amounts to a violation of the matching principle.²⁶ However, this argument presumes that the Commission finds the 2020 R&R figures reported by the Company to be sufficiently vetted and accurate. The matching principle assumes that the figures being “matched” together are both sufficiently reliable. If there is insufficient or unreliable data to match costs and benefits during a given period, then a proxy or estimate can (and depending on the circumstances, should) be used instead. The matching principle does not stand for the proposition that unreliable data about the relevant period is preferable *in all instances* to a reliable proxy figure from a different period. It stands for the proposition that, *all else equal*, costs and benefits from the relevant period should be matched together. But, as noted above, all else is not equal in this case. The Commission apparently did not find that the 2020 R&R figures were sufficiently vetted or reliable. In that case, the matching principle does not prevent the Commission from using 2019 R&R figures as a proxy. The matching principle is an important concept in

²⁴ *Id.*

²⁵ *Id.* at 93, ¶ 306.

²⁶ Motion at 5, ¶ 8.

ratemaking, but in this case a key underlying assumption of the matching principle (reliable data) is not present. Under these circumstances, the Commission is not required by statute, policy, or even the matching principle itself to use the 2020 R&R figures reported by Cascade on rebuttal.

3. This argument was already made by Cascade in rebuttal and rejected.

14 Motions to reconsider are typically brought when a party believes that the Commission has made an oversight in its decision by overlooking or misinterpreting an argument made on a given issue. With the wide array of issues brought by parties within a general rate case, issues and specific arguments can sometimes be missed or go unaddressed in a final order. That is not the case here. The motion to reconsider essentially rehashes the same argument made by Cascade in rebuttal testimony, the only substantive addition is the matching principle argument discussed above. The Commission did not overlook Cascade's rebuttal arguments, it clearly cited to and discussed Cascade's arguments on this issue in the final order.²⁷ While nothing prevents Cascade from bringing this issue for reconsideration, ideally motions to reconsider should only be made when a material and convincing argument was initially overlooked or misinterpreted. Here, Cascade's motion to reconsider only marginally expands on the arguments it already made on rebuttal, but for the most part it simply asks for a different outcome.

C. The Commission Should Clarify That The Adjustment Is A Pro Forma Adjustment

15 Although this does not impact setting rates, Cascade correctly points out in its motion that AWEC's adjustment should be considered a pro forma adjustment, because the 2019 R&R figures are being used as an offsetting factor to the approved pro forma plant

²⁷ Final Order at 82, ¶¶ 274-75; 89, ¶ 295.

additions. A restating adjustment is typically a direct change to test year figures that accounts for some anomaly in the actual figures of the test year.²⁸ Because AWEC's proposal was to use the 2019 R&R figures as an offsetting factor in the pro forma adjustment analysis, and not as a direct adjustment to the test year retirement figures, this adjustment should be considered a pro forma adjustment.

IV. CONCLUSION

16 Commission Staff requests that the Commission deny in part the Respondent's Petition for Reconsideration.

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Respectfully submitted,

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²⁸ See WAC 480-07-510(3)(c)(i) "Restating adjustments adjust the booked operating results for any defects or infirmities in actual recorded results of operations that can distort test period earnings."