**Exhibit No. \_\_ (JGG-1T)**

**Docket No. UG-15\_\_\_\_**

**Witness: Jennifer G. Gross**

**BEFORE THE**

**WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

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| WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant,v.CASCADE NATURAL GAS CORPORATION, Respondent. | DOCKET UG-15\_\_\_\_\_\_ |

**CASCADE NATURAL GAS CORPORATION**

**DIRECT TESTIMONY OF JENNIFER G. GROSS**

**December 1, 2015**

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# INTRODUCTION

**Q. Please state your name and business address**

A. My name is Jennifer G. Gross. My business address is 8113 W. Grandridge Boulevard, Kennewick, Washington 99336-7166. My email address is jennifer.gross@cngc.com.

**Q. By whom are you employed and in what capacity?**

A. I am employed by Cascade Natural Gas Corporation (Cascade or Company) as a Regulatory Analyst IV.

**Q. How long have you been employed by Cascade?**

A. I have been with the Company since May 4, 2015.

**Q. What are your educational and professional qualifications?**

A. I graduated from Oregon State University in June 1993 with a Bachelor of Arts in English and from Portland State University in December 1995 with a Master of Arts in English.

 I worked for Portland General Electric for twelve years in various capacities including seven years as a Regulatory Analyst in Rates and Regulatory Affairs. Following my time at Portland General Electric, I worked seven years as a Tariff and Compliance Consultant in the Rates and Regulatory Department at Northwest Natural Gas Corporation. In 2015, I began working for Cascade Natural Gas Corporation as a Regulatory Analyst.

**Q. Have you testified before the Washington Utility and Transportation Commission (Commission) before?**

A. No. I have not filed direct testimony before but I have prepared materials and assisted in other utility proceedings including advice filings, rulemakings, and various Commission investigations.

# SCOPE AND SUMMARY OF TESTIMONY

**Q. What is the purpose of your testimony in this docket?**

A. My testimony explains Cascade’s proposed Decoupling Mechanism and addresses how the Company’s request meets the filing requirements and criteria for a proposed decoupling mechanism as established by the Commission in its Policy Statement on Decoupling issued in docket UG-100522 (Policy Statement).

My testimony requests Commission action on two items:

* First, the Company requests approval of two proposed tariffs: proposed Rule 21, “Decoupling Mechanism,” which establishes how the mechanism will work and Schedule 594, “Decoupling Mechanism Adjustment,” which will apply the rate associated with the Rule 21 mechanism. Both Rule 21 and Schedule 594 are included in Exhibit No. \_\_ (PJA-3).
* Second, the Company requests Commission authorization to defer 100 percent of the differential between Actual Revenues billed and the Authorized Revenue per customer, as those terms are defined below.

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

A. Yes, I am sponsoring the following exhibit which is explained in my testimony:

 Exhibit No. \_\_ (JGG-2) Authorized Margin Revenue Summary Sheet

# REVENUE PER CUSTOMER DECOUPLING

1. **Please explain why the Company is requesting a decoupling mechanism?**
2. Cascade believes a decoupling mechanism will benefit the Company and its customers by serving the following important purposes:
* Allowing the Company to maintain a low basic customer charge;
* Allowing the Company to recover the costs incurred to serve customers;
* Breaking the link between usage and cost recovery, thereby removing a disincentive for the Company to invest in energy efficiency and provide customers with access to conservation programs; and
* Balancing risk between the Company and customers by offering rate and cost recovery stabilization to both.

**Q. Has the Company had a decoupling mechanism in the past?**

A. Yes. In 2006 the Commission approved for Cascade a weather-normalized, revenue-per-customer decoupling mechanism that was filed as Cascade’s Rule 21, Conservation Alliance Plan Mechanism, (CAP Mechanism) in the Company’s general rate case, docket UG 060256.[[1]](#footnote-1) The CAP Mechanism remained in effect through October 1, 2010.

In order to extend the term of the CAP Mechanism beyond October 1, 2010, the Company would have had to file a general rate case—which it chose not to do as it was managing a number of changes including moving its headquarters from Seattle to Kennewick in 2010.

The CAP Mechanism was subsequently reviewed by Dr. H. Gil Peach and Associates LLC/ Scan America,® the results of which were issued in a report entitled, Independent Examination of Cascade Natural Gas Corporation’s Washington Decoupling Mechanism, dated May 23, 2011, and included in the record in docket UG-060256.

**Q. Is the Decoupling Mechanism you are requesting in this case the same as the CAP Mechanism?**

A. No, it is not.

**Q. Why not?**

A. The CAP Mechanism was determined by taking the difference between actual weather normalized margins and expected margins. While Dr. Peach’s report confirms “the decoupling mechanism work[ed] as planned and the mathematics of the calculations [were] correctly performed,”[[2]](#footnote-2) he also observes that the amounts deferred were more often negative and showed no consistency in size or in being either negative or positive. He notes that the preponderance of negative deferred amounts is not desirable for a mechanism designed to be an award for conservation. Due to this feedback, the Company is proposing a different mechanism than its 2007 Conservation Alliance Plan.

**Q. Is there a precedent for the Company’s proposed Decoupling Mechanism?**

A. Yes. In designing the proposed Decoupling Mechanism, the Company has borrowed heavily from Puget Sound Energy’s (PSE) Schedule 142, “Revenue Decoupling Adjustment Mechanism,” and Avista’s Schedule 175A, “Decoupling Mechanism – Natural Gas.”

**Q. Please provide an overview of Cascade’s proposed Decoupling Mechanism.**

A. Cascade’s proposed Decoupling Mechanism is a full decoupling mechanism based upon a “revenue-per-customer” approach. Under the Decoupling Mechanism, the Company will annually establish a rate applied to bills for bundled gas service that will either credit or charge the incremental difference between Actual Margin Revenues and the Authorized Margin Revenue per customer.

Actual Margin Revenues are the sum of monthly billed margin revenue, net of unbilled margin revenues. Actual Margin Revenues will not include revenues from the Basic Customer Charges, charges from Schedules 594, 595, 596, 597 and 598,[[3]](#footnote-3) or uncollectibles.

The Authorized Margin Revenue per Customer, which is determined on a customer class basis, is the revenue requirement for non-gas costs established in this rate case, divided by number of customers. As with Actual Margin Revenue, Authorized Margin Revenue does not include collections from the Basic Service charge or other temporary technical adjustments.[[4]](#footnote-4)

Subject to specific provisions outlined in Rule 21, this mechanism will levelize extremes related to under- or over-recovery of costs. The proposed Decoupling Mechanism, Rule 21 and the corresponding Adjustment, Schedule 594, are included as Exhibit No. \_\_ (PJA-3).

**Q. What is the purpose of the Decoupling Mechanism?**

A. The Decoupling Mechanism minimizes the risk of volatility to both customers and the Company by recovering or crediting variances in the collection of its revenue requirement as established in this rate case. Revenue requirement—the sum of all non-gas costs the Company incurs to serve its utility customers—is collected through both the Basic Service Charge and the volumetric rate (specifically, the margin charge). Recovering the cost of some portion of the revenue requirement through volumetric rates is a typical rate design intended to send a usage-based price signal to customers to encourage efficient use of natural gas and to protect low use customers from the burden of a high monthly customer charge.

With this general rate case filing, rates are being set to collect 100 percent of the Company’s revenue requirement as experienced at a point of time. But actual costs incurred readily get out of sync with billed revenue due to changes in weather, conservation, economic outlook and number of customers served. This mechanism seeks to restore recovery of needed revenue over time.

**Q. How will the Decoupling Mechanism work?**

A. On a monthly basis, the Company will perform the following steps separately for each customer class to which Rule 21 and Schedule 594 are applicable:

Step One:

Record the number of customers served in a month.

Step Two:

Determine Actual Margin Revenues by taking the total amount of margin charges billed in a month, adjusting for unbilled revenue, then subtracting the sum charged to the applicable customer for the Basic Service Charge. This amount is then reduced by the uncollectible rate of 0.00417 percent. *See* Exhibit No. \_\_ (MPP-4).

Step Three:

Determine the Authorized Margin Revenue per customer class by multiplying the Authorized Margin Revenue per customer as established in Exhibit No. \_\_ (JGG-2) by the number of customers served.

Step Four:

Determine the monthly Deferral Amount by subtracting the Authorized Margin Revenue (Step Three) from Actual Margin Revenues (Step Two).

Step Five:

Annually determine the annual Schedule 594 rate by taking the total Deferral Amount (Step Four) for the prior twelve month period and dividing it by forecasted volumes per customer class, as used in the Company’s Purchased Gas Adjustment filing.

**Q. What is the Authorized Margin Revenue per each customer?**

Please see Exhibit No. \_\_ (JGG-2), which establishes the per month margin revenue required by each customer in each applicable customer class.

**Q. How was the Authorized Margin Revenue per Customer determined?**

A. The Authorized Margin Revenue per Customer was determined by taking the monthly margin forecast per customer class[[5]](#footnote-5) and dividing that by the number of forecasted customers assumed in setting rates

**Q. How is Cascade’s proposed deferral mechanism similar to PSE’s and Avista’s mechanisms?**

A. Cascade’s proposed mechanism, like both PSE’s and Avista’s mechanisms, is a revenue-per-customer decoupling mechanism that seeks to credit or charge annual variances between billing revenues and an established cost to serve a customer. Rather than comparing weather normalized billings with established volumes in a “normal” year to determine conservation related savings and then making a second adjustment for weather variances, the Company is using its margin forecast as the foundation for its decoupling baseline.

The Company’s proposal further borrows both the earnings test with sharing and the 3 percent rate cap from Avista’s proposal.[[6]](#footnote-6)

PSE’s mechanism is notably different from Cascade’s and Avista’s proposals in that it includes escalating costs-to-serve per year for five years. The escalations, which are lower than PSE’s historical increases in costs, were included to encourage cost efficiency and reduce the frequency of rate cases. The Company chose not to include an escalation factor as Cascade does not have a recent history of frequent rate cases.

**Q. How are the PSE and Avista mechanisms superior to Cascade’s original CAP mechanism approved in docket UG-060256?**

A. The approach PSE and Avista use—and the approach Cascade proposes in this case—is simpler than the CAP mechanism because it directly compares collections to the amount needed to serve a customer as opposed to adjusting billed volumes for weather and then comparing weather normalized revenues to expected revenues. This more direct approach is less likely to result in a theoretical or mathematical error.

**Q. Does the Company’s proposed mechanism shift risk to customers?**

A. No. Risk is not shifted to customers. Rather, the Decoupling Mechanism balances risk between customers and the Company, thereby reducing volatility for both. This result is consistent with the goal announced in the Commission’s 2010 Decoupling Policy Statement:

We believe a properly constructed full decoupling mechanism that is intended, between general rate cases, to balance out both lost and found margin from any source can be a tool that benefits both the company and its ratepayers.[[7]](#footnote-7)

**Q. How does the Decoupling Mechanism balance risk?**

A. The Decoupling Mechanism balances risk in three ways:

1. The mechanism is set up to enable the Company to recover the costs it needs to serve each account. Subject to the special conditions of the mechanism, customers will generally receive a credit when annual collections exceed the cost to serve a customer class.
2. The Special Conditions in Rule 21 include the application of an earnings test. When the Company is earning more than 100 basis points in excess of its authorized rate of return on equity, the amount recovered under Rule 21 is reduced by 50 percent, or the amount credited is increased by 50 percent.
3. Rate increases for the effect from this mechanism alone are capped at 3 percent.

# APPLICATION OF COMMISSI**O**N’S 2010 DECOUPLING POLICY STATEMENT

**Q. Has the Company provided all information required for a request for a full decoupling mechanism under the Commission’s Policy?**

A. Yes. In the Commission’s 2010 Decoupling Policy Statement, the Commission adopted four elements that must be addressed in a utility’s request for a full decoupling mechanism. Cascade’s proposal addresses all four elements.

**Q. What is the first element?**

A. The Commission’s first element is that the decoupling mechanism should allow the utility to true up revenues on an annual basis when customer use by class between rate cases deviates either higher or lower from that determined by the Commission when setting rates.[[8]](#footnote-8)

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**Q. Does the Decoupling Mechanism include a true up mechanism?**

A. Yes. As described above, the Company will defer the difference between Actual Margin Revenue and the Authorized Margin Revenue per customer. Subject to the limitations of the earnings test and the rate increase cap, rates will be trued-up to either collect or return the resulting deferred balance each year in the Company’s Temporary Technical Adjustment filing that is submitted concurrently with the Purchased Gas Adjustment rate change.

**Q. The second element is evidence evaluating the impact of the mechanism on the utility’s rate of return. Could you please address that issue?**

1. The Company is proposing a decoupling mechanism as opposed to an attrition mechanism, and as such, it does not reduce the Company’s risk. Rather the mechanism simply enables the Company to restore its ability to recover the costs it incurs.

The Company’s view on this point is consistent with the opinions of many experts. In fact, in Commission Order No. 7 issued in UE-121697, the Commission states,

Mr. Cavanagh, who is a nationally recognized expert on the subject of decoupling, testifies further that there is simply no empirical evidence in any jurisdiction on the rate impacts of decoupling mechanisms and its specific correlation to the utility‘s cost of capital.[[9]](#footnote-9)

On this issue, the Commission concludes:

In terms of the arguments that implementing decoupling reduces the Company‘s cost of equity there again is no empirical evidence to show this is so. Indeed, the record does not even fully support the proposition that equity markets recognize and respond to the forms of risk reduction that accompany the implementation of decoupling mechanisms. While this cannot be said to disprove the theory that decoupling reduces risk and, therefore, cost of capital, the more important point from the Commission‘s perspective is that absent evidence actually demonstrating the theory‘s effect in practice on either the debt or equity markets there is no evidentiary basis upon which the Commission can order a reduction in the Company‘s cost of capital.[[10]](#footnote-10)

Similarly, The Brattle Group issued a study on March 20, 2014, entitled, “The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation,” which stated:

The results of our models of the effect of decoupling on the cost of capital are consistent and collectively demonstrate that there is no statistically significant evidence of a decrease in the cost of capital following adoption of decoupling.[[11]](#footnote-11)

Moreover, as pointed out by Mr. Gaske in his direct testimony, 59.3 percent of the peer utilities he analyzed in making his ROE recommendation have decoupling mechanisms.[[12]](#footnote-12) Thus, even if the presence of a decoupling mechanism reduces a Company’s cost of capital, the Company’s recommendation in this case should not be reduced if the Commission adopts the Decoupling Mechanism.

**Q. The third element is an earnings test that the utility proposes must be applied at the time of true-up. Will the recovery of costs under this mechanism be subject to an earnings test?**

A. Yes. The Company is proposing the application of an earnings test prior to the approval of a charge. Earnings will be reviewed using the Commission Basis Report filed annually in compliance with WAC 480-90-257. If prior to the application of charges under the Decoupling Mechanism Adjustment, the Company is earning more than 100 basis points above its authorized rate of return, the total amount subject for recovery under the Schedule 594, Decoupling Mechanism Adjustment will be reduced by 50 percent. If the Company is earning more than 100 basis points above its authorized rate of return, a credit will be increased by 50 percent. No changes are applied to credits or surcharges if the Company is earning less than its authorized rate of return.

**Q. The fourth element is accounting for off-system sales and avoided costs. Please address this element.**

A. This element does not apply to Cascade as 100 percent of the Company’s gas costs are passed through annually with the Purchased Gas Adjustment filing, and rates for those gas costs are established based on forecasted volumes which account for anticipated levels of conservation.

**Q. In addition to the elements discussed above, in the Commission’s 2010 Decoupling Policy Statement, the Commission articulated 6 criteria by which it will judge a decoupling mechanism. Please address these criteria.**

1. The first criterion relates to the customer classes to which the decoupling mechanism is applied. The Commission notes that generally a full decoupling proposal should cover all customer classes. However, the Commission specifically recognizes that the Commission will consider a proposal that would apply to fewer than all classes, where it is in the public interest and non-discriminatory or preferential.
2. **To which customer classes does the Cascade Decoupling Mechanism apply?**
3. Our Decoupling Mechanism is applicable to all bundled gas service customers—the same customers who have access to the Company’s conservation programs. The adjustment rate is determined on a customer class basis, meaning that this mechanism ensures that customers are paying the cost their class incurs and no more. For instance, any lost margin associated with the residential class will be trued-up within the residential class. (The commercial and industrial classes will not bear these costs.) Similarly, credits due to high heating load will be received by the customer class that experienced the higher than normal heating bills.

**Q. The second criterion addresses a weather adjustment mechanism—which the Commission states it generally supports. Does the Decoupling Mechanism contain a weather adjustment mechanism?**

A. Unlike the CAP Mechanism, the Decoupling Mechanism does not require annual bill volumes to be weather normalized. Instead, weather normalization is indirectly achieved by this mechanism through a charge or credit. A customer who has experienced higher than normal heating bills due to a cold winter is likely to experience a credit. Importantly, this mechanism caps the costs the Company seeks to recover which protects customers from unusual weather events.

**Q.** **The third criterion is evidence describing the incremental conservation the utility intends to pursue in conjunction with the mechanism. Is the Company combining the proposed Decoupling Mechanism with changes to its conservation program or its savings targets?**

A. No. While this mechanism is inextricably linked to conservation in that it removes the link between usage and revenues thus removing the disincentive for the Company to promote efficient use of gas, the Company is not combining its request for a decoupling mechanism with increased conservation targets. Establishing short term, future targets is a process that began in the Company 2014 Integrated Resource Plan (IRP)[[13]](#footnote-13) and will be finalized in the Company’s Conservation Plan, which is the program plan that will be filed in December of this year. Prior to filing the Conservation Plan, the Company will share results with its Conservation Advisory Group (CAG), the group of interested parties which provides program oversight.

Cascade’s programs have undergone significant changes recently. The Company recently began using the Utility Cost Test as the cost-effective screening metric in response to low gas costs and the Commission’s Policy Statement on the Cost Effectiveness of Natural Gas Conservation Programs issued in docket UG-121207. Currently, Cascade is working on moving its program administration in-house with the goals of achieving tighter cost controls and greater impact. Towards this end, the Company will minimize the introduction of additional challenges and remain engaged with its CAG.

**Q. The fourth criterion relates to low income customers, and specifically whether low income customers have equal access to affordable weatherization services in the Company’s service territory. Could you address this issue?**

A. Yes. The Company provides low income weatherization services under Schedule 301. Costs for this program are deferred and then annually amortized for collection at the time of the Purchased Gas Adjustment filing. This process for funding ensures Cascade does not over-collect for the program, while allowing the Company to spend what is needed based on the response experienced in the market. While the Company values low income weatherization as the best long term solution for addressing high bills, it has been frustrated by the lack of program penetration experienced in Washington as well as in Oregon. Cascade is willing to discuss this issue with the CAG and propose actions it could take to increase awareness of the program and ultimately program participation.

**Q. The fifth criterion is the term of the mechanism. The Commission will generally approve a decoupling mechanism for the period required to achieve its objectives, or until the utility’s next general rate case. Does the mechanism have a defined term after which it will either expire or need to be renewed?**

A. Yes. The mechanism is proposed to remain effective for five years.

**Q. The sixth criterion requires the utility to file periodic reports so that the Commission may evaluate the success of the program. What reporting will the Company provide related to this mechanism?**

A. With each annual true-up filing, which will be made concurrently with the Purchased Gas Adjustment filing, the Company will submit work papers demonstrating the monthly deferral amount and the monthly customer count as well as a work paper showing the amounts amortized for collection.

The Company will also submit in December of each year a Conservation Plan. This Plan will include an explanation of the cost effective methodology used for the program and annual performance metrics such as an annual budget and a therm savings target.

 Cascade believes it is premature to assume a third party study of the mechanism is either necessary or a worthwhile expense to customers. Cascade has had a review performed on its previous mechanism, the results of which helped us to formulate the current proposal. Also, since PSE and Avista will both be having a third-party study performed on very similar mechanisms,[[14]](#footnote-14) the Company believes it would be wise to observe and learn from their processes.

**Q. The seventh criterion relates to any other factor impacting the public interest. Are there any such factors that you would like to address?**

A. No.

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# DEFERRAL MECHANISM

**Q. This mechanism requires the Company to defer costs. Does the Company have Commission-granted authority to defer costs for this mechanism?**

A. No. As part of my testimony, I request the Commission grant the Company the authorization to defer 100 percent of the cost differential between Actual Revenues and the Authorized Revenue per customer, as described above.

# CONCLUSION

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

A. Yes.

1. *See Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket No. UG 060256, Order 05 (Jan. 12, 2007). The approval of the mechanism was conditioned upon the Commission’s review and approval of the Company’s conservation plan, which was accepted in Order 06, issued in that same docket. [↑](#footnote-ref-1)
2. *See Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corp.*, Docket No. UG-060256, Independent Examination of Cascade natural Gas Corporation’s Washington Decoupling Mechanism at 29 (May 23, 2011). [↑](#footnote-ref-2)
3. Schedule 594 is the “Decoupling Mechanism Adjustment,” Schedule 595 is the “Temporary Technical Adjustment,” Schedule 596 is the “Conservation Program Adjustment,” Schedule 597 is the ”Cost Recovery Adjustment,” and Schedule 598 is the “General Revision of Rate Schedule Charges.” [↑](#footnote-ref-3)
4. The referenced adjustments are those listed in footnote 3 above. [↑](#footnote-ref-4)
5. *See* Exhibit No. \_\_ (PJA-2), tab entitled, “Total Operating Revenue”. [↑](#footnote-ref-5)
6. *See Wash. Utils. & Transp. Comm’n v. Avista Corp. dba Avista Utils.*, Docket Nos. UG-150205, *et al.*, Direct Testimony of Patrick D. Ehrbar, Exhibit No. \_\_ (PDE-1T) (Feb. 9, 2015). [↑](#footnote-ref-6)
7. *In the Matter of the Wash. Utils. & Transp. Comm’n’s Investigation into Energy Conservation Incentives*, Docket No. U-100522, Report and Policy Statement on Regulatory Mechanisms, Including Decoupling, to Encourage Utilities to Meet or Exceed their Conservation Targets, ¶27 (Nov. 4, 2010) (hereinafter referred to as the Commission’s 2010 Decoupling Policy Statement). [↑](#footnote-ref-7)
8. Commission’s 2010 Decoupling Policy Statement, ¶28. [↑](#footnote-ref-8)
9. *See* *In the Matter of the Petition of Puget Sound Energy, Inc., and Nw. Energy Coalition for an Order Authorizing PSE to Implement Electric and Natural Gas Decoupling Mechanisms and to Record Accounting Entries Associated with the Mechanisms,* Docket Nos. UE 121697, *et al.*, Order 07, ¶103 (June 25, 2013). [↑](#footnote-ref-9)
10. *See* *id.* at ¶104 [↑](#footnote-ref-10)
11. Michael J. Vilbert, *et al.*, *The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation*, at 18 (The Brattle Group, Mar. 20, 2014) (accessed online, available at <http://www.brattle.com/system/publications/pdfs/000/004/995/original/Effect_of_Electric_Decoupling_on_the_Cost_of_Capital.pdf?1395776507>). [↑](#footnote-ref-11)
12. Exhibit No. \_\_ (JSG-1T) at 32-33. [↑](#footnote-ref-12)
13. *See Cascade Natural Gas Corp. 2014 Integrated Resource Plan*, Docket No. UG-140008, Cascade’s 2014 IRP (July 20, 2015). [↑](#footnote-ref-13)
14. *See Wash. Utils. & Transp. Comm’n v. Avista Corp., dba Avista Utils.*, Docket Nos.UG-140188, *et al.*, Order 05, ¶5 (Nov. 25, 2014). [↑](#footnote-ref-14)