

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-200568

ORDER 06

DENYING PETITION FOR
RECONSIDERATION IN PART,
GRANTING IN PART; MODIFYING
FINAL ORDER 05

BACKGROUND

- 1 On May 18, 2021, the Washington Utilities and Transportation Commission (Commission) entered its Final Order 05, Rejecting Tariff Sheets; Authorizing and Requiring Compliance Filing (Order 05) in the above-captioned docket. Order 05 resolved all of the contested issues in Cascade Natural Gas Corporation's (Cascade or Company) general rate case (GRC) and required Cascade to file revised tariff pages consistent with the Commission's decisions contained therein.
- 2 On May 25, 2021, Cascade filed a Petition for Reconsideration of Order 05 (Petition). In its Petition, Cascade requests reconsideration of the retirement and removal (R&R) adjustment adopted to offset Cascade's 2020 pro forma capital additions. Cascade requests that the Commission use 2020 R&R values related to the authorized 2020 pro forma capital additions, rather than 2019 R&R values. Additionally, whether the Commission uses 2020 or 2019 R&R values, Cascade requests that the Commission approve the use of a ratio that reduces the R&R adjustment value proportionate to the fraction of 2020 plant allowed in its pro forma adjustment. In either case, Cascade requests that the Commission clarify that the R&R adjustment is a pro forma adjustment rather than a restating adjustment because the adjustment is an offset to pro forma plant.
- 3 On May 27, 2021, the Commission issued a notice providing the non-Company parties an opportunity to respond to the Petition on or before June 4, 2021.
- 4 On June 4, 2021, Commission staff (Staff), the Public Counsel Unit of the Attorney General's Office (Public Counsel), and the Alliance of Western Energy Consumers

(AWEC) filed responses to the Petition. The non-Company parties generally opposed Cascade's Petition with one exception. Staff recommended that the Commission grant the Petition, in part, to clarify that the R&R adjustment is a pro forma rather than a restating adjustment.

5 On June 10, 2021, the Commission issued a notice indicating that it would issue a decision on the Petition by June 25, 2021.

DISCUSSION

6 We deny Cascade's Petition in part and grant it in part, for the reasons discussed below.

1. The use of 2019 versus 2020 R&R values

7 Cascade has not established that the Commission erred by basing the R&R adjustment on 2019 values. We decline to change our ruling on this issue.

8 Pursuant to RCW 80.04.250(2), the Commission has the power to determine the fair value for ratemaking purposes of the property of any public service company used and useful for service in the state. The Commission has the discretion to include property in service by or during the rate effective period "to the extent that the commission finds that such an inclusion is in the public interest and will yield fair, just, reasonable, and sufficient rates."¹

9 In this case, Cascade proposed pro forma adjustments for capital additions that came into service after the historical test year. Citing the Commission's Used and Useful Policy Statement, Order 05 observed that the utility must account for offsetting factors when proposing a pro forma adjustment to the test year.² Offsetting factors include removing rate-year retirements, dispositions, and non-depreciating plant.³ The utility should consider whether the investment directly produces any offsetting benefits and whether

¹ *Id.*

² Order 05 ¶ 305 (citing *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date at 7 n.25 (Jan. 31, 2019) (Used and Useful Policy Statement)).

³ *Id.*

there are any other changes in revenue or expenses that indirectly offset the financial impacts of the investments.⁴

10 In Order 05, the Commission expressed its concern that Cascade did not fully account for offsetting factors, such as R&R, in its direct testimony.⁵ Even though Cascade later partially accepted AWEC's proposed adjustment for R&R on rebuttal, we observed that "the fact remains that the Company's lack of diligence undercuts the non-Company parties' ability to thoroughly consider and address this issue for each discrete capital investment."⁶ The Order noted that the Commission benefits from the Company providing the non-Company parties an opportunity to review final costs and resulting testimony.⁷

11 Order 05 therefore required the Company to use 2019 R&R values.⁸ We observed that "[t]hese figures were available to the non-Company parties when they filed response testimony and did not reflect mere estimates."⁹

12 Despite our concerns with the Company's presentation of its case, Cascade again requests that the Commission reconsider Order 05 based on actual 2020 R&R values provided only in rebuttal testimony.¹⁰ Cascade complains that the 2019 R&R values were "abnormally high."¹¹ This is unpersuasive for several reasons.

13 Cascade failed to respond to our overarching concern regarding the presentation of its case. Cascade witness Michael Parvinen noted that 2018 and 2019 R&R values were abnormally high because of the retirement of Encoder Receiver Transmitters (ERTs).¹² The Company possessed this information when developing its case and when selecting the test year ending in December 2019. Rather than consider and account for this issue in the presentation of its direct case, the Company waited until rebuttal testimony to argue

⁴ *Id.*

⁵ *Id.* ¶ 306.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.* ¶ 295.

⁹ *Id.*

¹⁰ *See* Petition ¶¶ 8-11.

¹¹ *Id.*

¹² Parvinen, Exh. MPP-2Tr at 25:1-18.

that AWEC's reliance on 2019 R&R figures to develop the R&R offsetting adjustment was incorrect and that 2020 R&R values were more accurate.¹³ It is thus evident that the Company's failure to fully consider its burdens in its initial filing had downstream repercussions throughout the case. The Commission is not required to use unvetted 2020 R&R values in its decision to remedy oversights made by the Company in its initial filing.

14 Despite what the Company suggests, the "matching principle" does not require the Commission to "match" unvetted 2020 R&R figures against 2020 pro forma capital additions.¹⁴ As Staff observes, the matching principle "stands for the proposition that, *all else equal*, costs and benefits from the relevant period should be matched together."¹⁵ When figures are not sufficiently vetted and reliable, it may be more appropriate for the Commission to use figures from a different period as a proxy.¹⁶

15 We therefore decline to use 2020 R&R values as an offsetting factor.

2. Cascade's proposed ratio

16 We similarly decline to reduce the R&R adjustment on the basis of Cascade's proposed ratio.

17 In rebuttal testimony, Cascade witness Michael Parvinen submitted that the R&R adjustment should be reduced based on a ratio.¹⁷ The ratio is the percentage of pro forma plant additions sought for recovery compared to the Company's 2020 total plant additions.¹⁸ The Commission specifically rejected Cascade's proposed ratio and used the full amount of 2019 R&R values as the basis for the offset.¹⁹

¹³ *See id.*

¹⁴ *Id.* ¶ 10.

¹⁵ Staff's Response to Petition for Reconsideration ¶ 13 (emphasis in original).

¹⁶ *Id.*

¹⁷ Parvinen, Exh. MPP-2Tr at 25:9-18.

¹⁸ *See* Parvinen, Exh. MPP-5 at 2:28-33.

¹⁹ Order 05 ¶ 295.

- 18 In its Petition, Cascade argues that the Commission only approved 14.12 percent of the Company's 2020 plant additions.²⁰ The Company argues that the ratio should be used to avoid distorting the relationship between revenues, expenses, and rate base.²¹
- 19 We again decline to reduce the R&R adjustment on the basis of Cascade's proposed ratio. As Public Counsel observes, this ratio was proposed only in rebuttal testimony, and the non-Company parties did not have a sufficient opportunity to review this proposal.²² Cascade does not point to any past Commission decisions adopting such a ratio.
- 20 Furthermore, we are concerned that such a ratio departs from the longstanding principles for pro forma adjustments. We agree with Staff that the fundamental purpose of a pro forma adjustment is to determine whether there is a significant increase in the utility's *overall cost of service* since the test year.²³ It is not logical to exclude certain savings or expenses from consideration merely because the utility states that it made *other* capital investments that are not sought for inclusion in rates.
- 21 Indeed, while the Company states that it made \$96.2 million in 2020 total plant additions, the Company does not provide any evidence describing the approximate \$39 million in projects that were not included in its GRC. The non-Company parties did not review these investments, and we do not have any evidence about the effects of these investments on the Company's overall cost of service. It would be unwarranted to reduce the R&R adjustment when there is no evidence describing how these investments impacted the Company's overall cost of service.
- 22 We also observe that the Company's proposed ratio does not reflect the approximate \$8.9 million reduction that the Company made between its direct and rebuttal filings, which reflected projects that were delayed or did not warrant a pro forma adjustment.²⁴
- 23 For these reasons, we again reject Cascade's proposed ratio for reducing the R&R adjustment.

²⁰ Petition ¶ 13.

²¹ *Id.*

²² Public Counsel Response to Petition for Reconsideration ¶ 4.

²³ Staff Response to Petition for Reconsideration ¶ 7.

²⁴ *See, e.g.*, Order 05 ¶ 289 (noting that Cascade limited its request on rebuttal to \$57.3 million in pro forma plant additions).

3. Clarifying that the R&R adjustment is a pro forma adjustment

24 We grant Cascade's request to clarify that the R&R adjustment is properly characterized
as a pro forma, rather than a restating, adjustment.

25 In response to Bench Request 08, the Company briefly mentioned the following:

In its rebuttal filing, the Company identified the retirements adjustment as Restating Adjustment R-10, however, this adjustment more appropriately should have been included as a component of the Proforma Plant Adjustment P-3.²⁵

26 As Staff observes, this clarification does not have any effect on the Company's rates.²⁶ It is also unclear how this clarification would have a material impact on the Commission Basis Reports that the Company files with the Commission. We nevertheless grant the Company's request to clarify and modify this portion of Order 05 to reflect the Company's comment in Bench Request 08 and to reflect the accurate use of these terms.

ORDER

- 6 (1) Cascade Natural Gas Corporation's Petition for Reconsideration of Order 05 is DENIED in part and GRANTED in part, as discussed in paragraphs 15, 23, and 26 of this Order.
- 7 (2) Order 05 is modified as described in paragraph 26 of this Order, and as reflected in Revised Appendix A, attached to this Order.
- 8 (3) The Commission retains jurisdiction over the subject matters and parties to this proceeding to effectuate the terms of this Order.

Dated at Lacey, Washington, and effective June 18, 2021.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

²⁵ Exh. BE-8 (Bench Request 08) at 5.

²⁶ Staff Response to Petition for Reconsideration ¶ 15.

ANN E. RENDAHL, Commissioner

JAY BALASBAS, Commissioner