

Agenda Date: August 27, 2015  
Item Number: A3

**Docket:** UG-151309  
**Company:** Cascade Natural Gas Corporation

**Staff:** Betty Erdahl, Regulatory Analyst  
Jing Liu, Regulatory Analyst  
Joanna Huang, Regulatory Analyst  
Juliana Williams, Regulatory Analyst

### **Recommendation**

Allow the revised Tariffs filed by Cascade Natural Gas Corporation in Docket UG-151309 on August 25, 2015 to be effective September 1, 2015, by operation of law.

Grant waiver of WAC 480-07-505(1)(c).

### **Background**

On June 24, 2015, Cascade Natural Gas Corporation (Cascade or company) submitted a tariff filing with a proposed rate increase of 1.59 percent for an overall revenue increase of \$3.9 million, effective September 1, 2015. This proposed increase is based on the Commission Basis Report (CBR) filed in Docket UG-150668.<sup>1</sup> Cascade's stated intent of this filing is to: adjust rates in an expeditious manner; use reports already on file with the commission; reduce cost of litigation and review; reduce regulatory lag; and produce a result that is fair, just, and reasonable. In addition, Cascade filed its annual affiliated interest report on April 29, 2015, in Docket UG-150733. This report includes expenses that are allocated to Cascade in 2014 impacting the rate proposal that has been filed.

On August 24, 2015, Cascade revised its tariff request in response to staff's analysis and conclusion for compliance with the CBR rule. This revised revenue request is for \$1.25 million, which results in an increase of about 0.5 percent. The revised request includes an increase to low-income grants of \$150,000 which is collected from customers in general rates.

This rate proposal covers increases in expenses and the increase in rate base since 2006.<sup>2</sup> It does not include restating adjustments (except for weather normalization), and does not include pro forma adjustments. The proposal decreases the rate of return from 8.86 percent to 7.49 percent, resulting in a return on equity of 9.45 percent.<sup>3</sup>

The company's last general rate case (GRC) in 2006 was ultimately settled. Additionally, since the 2006 GRC, MDU Resources Group, Inc. (MDUR) acquired Cascade, receiving commission

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<sup>1</sup> Cascade filed a CBR for the year ended December 31, 2014, on April 24, 2015. This report was refiled with corrections on June 19, 2015.

<sup>2</sup> Cascade's last GRC was in Docket UG-060256.

<sup>3</sup> Because the company proposed a change to its authorized rate of return, it filed petition for waiver of WAC 480-07-505(1)(c), General Rate Proceedings.

approval in Docket UG-061721.<sup>4</sup> This acquisition results in an allocation of expenses from MDUR to Cascade replacing some of the overhead costs formerly incurred by Cascade.

Cascade serves approximately 200,000 gas customers in various locations in Washington including Bellingham, Mt. Vernon, Bremerton, Longview, Yakima, Kennewick, Walla Walla and Aberdeen.

### **Overall rate impacts**

The impact of the filing on a residential customer's monthly bill, with consumption of 53 therms, would be an increase of \$0.30, increasing the average bill from \$56.35 to \$56.65 (0.5 percent).

The rate increase was applied to margin resulting in the following percentage increases by customer class:

	<b>Current 12/31/2014 Rate</b>	<b>Total Proposed 9/1/2015 Rate</b>	<b>Percent Rate Change</b>
503 Residential	\$0.98771	\$0.99344	0.58%
504 Commercial	\$0.95409	\$0.95918	0.53%
505 Industrial-firm	\$0.86466	\$0.86818	0.41%
511 Comm-Industrial	\$0.84975	\$0.85295	0.38%
570 Industrial Int.	\$0.75423	\$0.75572	0.20%
577 Institutional	\$0.78278	\$0.78487	0.27%
663 Non-Core	\$0.03561	\$0.03638	2.14%

### **Staff Analysis**

In an effort to streamline the process used to review a company's rate filing and also determine rates that are fair, just, reasonable and sufficient, staff agreed to base its review of the company's filing on information routinely provided to the commission such as the CBR and affiliated interest report. Once the 2014 CBR was filed in late April, staff sent out informal data requests as early as May 6 to begin its analysis of the CBR and the affiliated interest report. The company responded to these data requests on June 24, 2015, concurrent with its proposed tariff filing. Staff has worked diligently during the past several weeks to analyze the filing. In its efforts to support staff's expeditious review of the filing, the company has provided most of the responses to staff data requests within three business days of their issuance.

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<sup>4</sup> Approval was granted on June 27, 2007, in Order 06.

Staff analyzed the company's available supporting financial documents and offers the following comments and conclusion.

The CBR rule<sup>5</sup> requires the company to file results of operations based on the utility's most recent general rate case or subsequent orders. Staff's review of the present case revealed a substantive variance in how working capital was determined in the prior rate case versus now. The calculation issue concerns the use of "end of period" account balances rather than the "average of monthly averages" and the treatment of retained earnings in working capital. The change correcting these issues results in a decrease in the requested \$3.9 million revenue increase to \$1.1 million. Cascade accepts this revision.

Staff has concerns about two other issues, weather normalization and the overhead allocations from MDUR. Staff's initial review of the allocations shows a few de minimus potential adjustments. The weather normalization adjustment in the 2006 filing was a compromise between competing methods and no agreement on a specific method. Staff can accept the present values in today's filing as reasonable. For both of these issues, we suggest the company and interested parties work out specific methods for determining these adjustments prior to Cascade's next general rate case.

Thus, given Cascade's acceptance of the CBR results advocated by staff, we conclude that the revised proposed revenue increase of \$1.1 million is fair, just, reasonable, and sufficient.

### **Conservation and Low Income**

On July 13, 2015, staff circulated a proposal to the company and stakeholders outlining procedural changes to Cascade's conservation program. Cascade refused to engage in discussion on the staff proposal, citing the other parties' reluctance to negotiate and stating that the proposal should be discussed through the Conservation Advisory Group (CAG) process. Although staff recognizes the value of discussion through the CAG, staff believes that the CAG process is inadequate to address some of the proposed changes, which may require a commission order to implement. If the commission approves this filing, staff recommends that the commission also require that Cascade's annual conservation plans be subject to approval by commission order.

Cascade's filing in this case did not propose any changes to the low-income assistance program, but indicated that the company was open to discussing changes to the funding level and revenue collection mechanism. The company's cover letter stated that Cascade currently provides about half the level of assistance as Northwest Natural and Puget Sound Energy's natural gas low income program. Staff notes the number of customers receiving grants has dramatically increased in the last two years. Staff believes that low-income assistance funding should to some extent increase with the greater need in Cascade's service areas. Staff recommends that the commission

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<sup>5</sup> WAC 480-90-257

increase Cascade's annual low-income budget to \$950,000 from \$800,000.

### **Customer Comments**

On June 23, the company began mailing bill inserts to customers explaining its request to increase rates. The commission received four customer comments opposing the increase: it will make it harder to pay the bill; two customers are retired and on a fixed income; and one customer complained the company lowered its comfort billing plan to gain support for this rate increase.

Public counsel, the Northwest Industrial Gas Users, and The Energy Project filed petitions with the commission requesting that Cascade's original filing be suspended, deny Cascade's request for a waiver and reject the filing as defective.

### **Conclusion**

Staff appreciates the idea of a streamlined filing process using the CBR. Staff and the utility worked out differences of opinion on the proper costs allowable for a depiction of Cascade's operations per the CBR. Some issues were determined to be in compliance with the CBR rule, but are recognized as ones to be addressed in a general rate case. The results of our review show that per the CBR there is a need for a small rate increase supported by the facts.<sup>6</sup> This is quite reasonable given Cascade's lengthy absence from general rate cases.<sup>7</sup>

Cascade collects the funds to support its low-income programs through general rates rather than in a separate tariff schedule as other utilities do. By adding the recommended increase to low-income programs of \$150,000 to the revenue requirement of \$1.1 million we derive a recommended total revenue increase of \$1.25 million for Cascade.

If the commission determines that this docket must be suspended, we suggest the commission give Cascade the opportunity to withdraw the present filing.

### **Recommendation**

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<sup>6</sup> See Attachment A, Results of Operations per the CBR

<sup>7</sup> See Attachment B, Revenue Increases By Utility excluding gas, 2006-2014