

Agenda Date: October 24, 2019

Item Number: A3

**Docket:** UG-190775  
Company: Cascade Natural Gas Corporation

Staff: Cristina Steward, Regulatory Analyst

### **Recommendation**

Issue an order suspending revisions to tariff Schedule 583, filed by Cascade Natural Gas Corporation on September 13, 2019, in Docket UG-190775, and set the matter for hearing. Alternatively, the commission can either (a) affirm Cascade's interpretation of Order 06 and allow the proposed tariff to go into effect, or (b) reject Cascade's interpretation of Order 06, reject the filing, and order Cascade to file a revised tariff pages consistent with the commission's prior determination.

### **Overview of Filing**

On September 13, 2019, Cascade Natural Gas Corporation (Cascade or company) filed with the Washington Utilities and Transportation Commission (commission) revisions to its tariff Schedule 583, Temporary Federal Income Tax Rate Credit, for rates effective November 1, 2019. Schedule 583 rates refund taxes that ratepayers over-paid between January 1, 2018, and July 31, 2018, when the federal corporate tax rate was reduced to 21 percent but the 35 percent tax rate remained embedded in customer rates (the "Interim Period over-collection of taxes").

Through these revisions to Schedule 583, Cascade proposes to implement a surcharge, collecting amounts the company claims it over-credited to customers. The commission ordered Cascade to return an estimated \$1.6 million; however, Cascade reports that its actual interim period benefit was \$1.12 million, and by the effective date of this tariff (November 1) the company will have refunded approximately \$1.76 million. Cascade requests that it collect the \$645,000 balance through a Schedule 583 surcharge.

With Cascade's proposed tariff revisions, the average residential customer using 55 therms per month would see a bill increase of 1.0 percent, or \$0.47 per month.

### **Summary of Core Issue**

In Order 06 of Cascade's 2017 general rate case, the commission ordered Cascade to return an estimated \$1.6 million using commission staff's (staff) calculation of the Interim Period over-collection of taxes.<sup>1</sup> Cascade filed a motion for clarification of Order 06. In response to that motion, the commission entered Order 07, further clarifying Order 06.

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<sup>1</sup> *WUTC v. Cascade Natural Gas Company*, Docket UG-170929, Order 06, ¶ 44 (July 20, 2018) ("Order 06").

Cascade interprets the commission's Orders 06 and 07 to mean the calculation should be based on the tax benefit received by the company in 2018 during the interim period, which it claims is \$1.12 million and not \$1.6 million. To resolve this issue, the commission need only accept or reject Cascade's interpretation of these commission's orders.

## **Discussion**

In Cascade's 2017 general rate case, staff and the company disagreed on how to calculate the amount owed to customers for the Interim Period over-collection of tax. Staff had argued that the calculation should simply re-price the level of taxes collected from customers through authorized rates over the interim period. The rationale was that the tax expense embedded in authorized rates reflects the amount collected from ratepayers at a 35 percent tax rate, and the over-collected amount could be calculated by estimating the taxes that would have been in rates had the tax rate been 21 percent.

In Order 06, the commission directed the company to pass back an estimated \$1.6 million using staff's calculation, but allowed the company to "...file a true up, effective November 1, 2019, once the actual Interim Period EDIT benefit owed to customers is known."<sup>2</sup>

In Order 08, denying staff's motion for clarification, the commission stated:

In Order 06, we accepted Staff's recommendation to use the rate base and rate of return authorized in Cascade's 2015 GRC to calculate the Interim Period EDIT benefit. Based on Staff's estimate of that calculation, we directed Cascade to return \$1.6 million dollars to customers over 15 months beginning August 1, 2018, and authorized Cascade to file a true up at the conclusion of that period. In Order 07, we clarified that the true up should be calculated based on the actual Interim Period EDIT benefit owed to customers once that amount is known.<sup>3</sup>

The correct interpretation of that last sentence, and in particular the meaning of "actual...benefit," remains at issue. Cascade's current filing relies on the interpretation that the commission intended the benefit to refer to the "actual benefit received by the company, based on its 2018 tax filing."<sup>4</sup> Cascade calculates the "interim period benefit" of \$1.12 million as its actual tax liability owed to the IRS plus the tax deferral amount recorded over the same period.

Staff and Cascade each argued its position in the company's 2017 general rate case, and the commission made a final determination on this issue. Cascade offers an interpretation of the commission's intent. On this matter, the commission requires nothing further from staff; it need only accept or reject Cascade's interpretation of the commission's Order 06.

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<sup>2</sup> Order 06, ¶ 44, as modified by Order 07 (July 31, 2018).

<sup>3</sup> *WUTC v. Cascade Natural Gas Company*, Docket UG-170929, Order 08, ¶ 4 (August 7, 2018).

<sup>4</sup> *Id.*, Motion for Clarification of Order 06 on behalf of Cascade Natural Gas Corporation, at 1 (July 30, 2018) (emphasis added).

**Table 1. Comparison of Calculations for Total Interim Period Over-Collection Amounts**

Staff's Method (per GRC)	Company's Proposed Method
\$1.6 million	\$1.1 million

**Table 2. Comparison of Amounts Over-Refunded to Customers**

Staff's Method (per GRC)	Company's Proposed Method
\$0.16 million	\$0.65 million

Using either of these methods, the company has over-refunded some amount. Cascade requests that the over-refunded amount be collected from customers as a surcharge on Schedule 583. Staff disagrees with this approach. It is not unreasonable that a refund schedule not clear a balance to exactly zero, and allowing the schedule rates to persist simply because the balance is not exactly zero is unnecessary. For any material over-refunded amount, staff recommends the commission allow Cascade to defer a regulatory asset for recovery in the company's next general rate case.

### **Alternative Approach**

If the commission wishes to entertain additional options, staff offers for the commission's consideration a hybrid method that attempts to balance the methods previously used by staff and the company while adhering to the basic principles underlying each. This alternative approach calculates the Interim Period over-collection by using the relationship of tax to revenue embedded in authorized rates over the interim period, and applies that percentage, pro rata, to the company's revenue over the period of over-collection. This hybrid approach considers how rates in effect over the interim period were originally set, but also considers the company's actual revenue and expenses during the interim period. This method produces a total refund amount of \$1.4 million, and an over-refunded amount of \$0.28 million.

### **Conclusion**

Given Cascade's uncertainty about how the commission intended for the interim period benefit be calculated, staff cannot confirm that the revised tariff, as filed, complies with amended Order 06 and, therefore, cannot recommend the commission allow the proposed rates to go into effect. To resolve this issue, staff recommends the commission issue a suspension order and set the matter for hearing. Alternatively, the commission can resolve this issue either by (a) affirming Cascade's interpretation or (b) rejecting Cascade's interpretation, rejecting the filing, and ordering Cascade to file a revised tariff consistent with the commission's prior determination.