

EXH. JT-1T
DOCKET UG-170929
WITNESSES: Michael P. Parvinen
Betty A. Erdahl
Carla A. Colamonic
Donna M. Ramas
Bradley G. Mullins
Shawn M. Collins

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**CASCADE NATURAL GAS
CORPORATION,**

Respondent.

DOCKET UG-170929

JOINT TESTIMONY OF

Michael P. Parvinen
Betty A. Erdahl
Carla A. Colamonic
Donna M. Ramas
Bradley G. Mullins
Shawn M. Collins

Joint Testimony in Support of Settlement

May 18, 2018

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1 **I. INTRODUCTION**

2 **Q. What is the purpose of this Prefiled Joint Testimony?**

3 A. This Prefiled Joint Testimony (“Joint Testimony”) recommends that the
4 Washington Utilities and Transportation Commission (“Commission”) approve
5 the Partial Settlement Agreement (“Settlement”) in this case between Cascade
6 Natural Gas Corporation (“Cascade” or the “Company”), Staff of the Washington
7 Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of the
8 Washington State Attorney General’s Office (“Public Counsel”), the Alliance of
9 Western Energy Consumers (“AWEC”), and The Energy Project (individually,
10 “Party,” and collectively, “Parties”). The Settlement resolves most, but not all,
11 issues in this docket, and is supported by all Parties to this docket. Accordingly,
12 the Settlement is a “partial settlement” pursuant to WAC 480-07-730(2). The
13 Settlement is the embodiment and the culmination of a significant expenditure of
14 time and effort by the Parties, and all Parties believe that approval of the
15 Settlement is consistent with the public interest. The purpose of this Joint
16 Testimony is to present the common recommendations of the Parties and to
17 request that the Commission approve the Settlement in its entirety and without
18 condition.

19 **Q. Please state your names, titles, and the party you represent in this matter.**

20 A. Our names, titles, and representation are as follows:

- 21 • Michael P. Parvinen, Director of Regulatory Affairs, Cascade
- 22 • Betty A. Erdahl, Regulatory Analyst, WUTC Staff
- 23 • Carla Colamonici, Regulatory Analyst, Public Counsel
- 24 • Donna M. Ramas, Consultant, Public Counsel
- 25 • Bradley G. Mullins, Consultant, AWEC
- 26 • Shawn M. Collins, Director, The Energy Project

1 **Q. Mr. Parvinen, please provide information pertaining to your educational**
2 **background and professional experience.**

3 A. My name is Michael P. Parvinen. I am employed by Cascade as the Director of
4 Regulatory Affairs, and I am responsible for the management of all economic
5 regulatory functions at the Company. Please see Exhibit No. MPP-1T filed on
6 August 31, 2017, for testimony describing my education and relevant experience.

7 **Q. Ms. Erdahl, please provide information pertaining to your educational**
8 **background and professional experience.**

9 A. My name is Betty Erdahl and I am a Regulatory Analyst employed by the
10 Commission, and I served as the lead analyst on this case. Please see Exhibit
11 No. BAE-1T, filed on February 15, 2018, for testimony describing my education
12 and relevant experience.

13 **Q. Ms. Colamonici, please provide information pertaining to your educational**
14 **background and professional experience.**

15 A. My name is Carla A. Colamonici, and I am employed as a Regulatory Analyst with
16 Public Counsel. Please see Exhibit No. CAC-1T, filed on February 15, 2018, for
17 testimony describing my education and relevant experience.

18 **Q. Ms. Ramas, please provide information pertaining to your educational**
19 **background and professional experience.**

20 A. My name is Donna M. Ramas, and I am a Certified Public Accountant licensed in
21 the State of Michigan. I am appearing on behalf of the Public Counsel Unit of the
22 Washington Attorney General's Office. Please see Exhibit No. DMR-9, filed on
23 February 15, 2018, for a summary of my regulatory experience and qualifications.

1 **Q. Mr. Mullins, please provide information pertaining to your educational**
2 **background and professional experience.**

3 A. My name is Bradley G. Mullins, and I am an independent energy and utilities
4 consultant representing large energy consumers before state regulatory
5 commissions. I am appearing in this matter on behalf of the AWEC. Please see
6 Exhibit No. BGM-1T, filed on February 15, 2018, for testimony describing my
7 education and relevant experience.

8 **Q. Mr. Collins, please provide information pertaining to your educational**
9 **background and professional experience.**

10 A. My name is Shawn Collins, and I am the Director of The Energy Project. Please
11 see Exhibit No. (SMC-2), filed on February 15, 2018, for testimony describing
12 my education and relevant experience.

13 **Q. Would you briefly summarize the Settlement?**

14 A. Yes. As part of the Settlement, Cascade's annual revenues would increase by
15 \$750,000 before considering the impacts of the tax rate decrease resulting from
16 the Tax Cuts and Jobs Acts ("TCJA"), down from the Company's original request
17 of \$5.9 million or 2.71 percent. After taking into account the impacts of the
18 TCJA, the Parties agree that the result will be a revenue requirement decrease of
19 \$2,919,365, or a decrease of 1.4 percent overall.

20 The Parties also agree to a cost of equity ("ROE") of 9.4 percent and a
21 capital structure of 49 percent equity and 51 percent debt. The agreed overall rate
22 of return ("ROR") is 7.31 percent.

23 The other issues that are addressed in the Settlement, and that are
24 discussed in greater detail later in our testimony include:

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- **Rate base.** The Parties agree that the revenue requirement is based on a rate base of \$280,726,628;
- **Tax issues related to the TCJA.** The Parties agree to resolve certain issues related the TCJA, including reflecting the lower tax rate in rates collected on a going-forward basis and returning excess deferred income tax (“EDIT”) through two new tariffs;
- **Recoverable Maximum Allowed Operating Pressure (“MAOP”) expenses.** The Parties agree that the revenue requirement includes a portion of the MAOP expenses that the Company had proposed for recovery, and will be amortized over 10 years;
- **Cost of service, rate spread, rate design, and elimination of certain tariffs.** The Parties did not agree to a cost of service study, and agree instead to address cost of service in the on-going generic proceeding, Docket UG-170003. The Parties further agree that the Company’s basic charge will be increased by 25 percent, with rounding up or down to the nearest dollar, except there will be no change to Special Contracts. Additionally, the Parties agree that the decrease to revenue requirement of \$2,919,365 will be spread on an equal percentage of margin basis. The Parties also agree that Cascade will eliminate certain tariffs, and merge customers served on those tariffs onto remaining tariffs.
- **Load study.** The Company will perform either a load study or a detailed load analysis tied to the completion of the Company’s advancement metering infrastructure (“AMI”) program and associated fixed network. Cascade will not propose any changes to rate spread or the basic charge in future general rate cases until the Company presents the results of its load study or load analysis.
- **Low-income weatherization.** The Parties agree that the Company will revise Schedule 301 to remove the \$10,000 project cap, allow an agency indirect-rate budget component of 10 percent and allow actual expenses associated with project coordination up to a maximum program average of 15 percent of total project cost, and together with the Conservation Advisory Group and partnering agencies, develop and report goals regarding low-income weatherization.
- **Washington Energy Assistance Fund (“WEAF”).** The Parties agree to make no changes to the WEAF, but the low-income advisory group will consider potential issues with over-subsidization and uniformity of benefit calculation and will file a report with the Commission on these issues by August 15, 2018. The low-income advisory group will also consider redesign options for the WEAF program.
- **Restating adjustments.** The Parties agree to the specification of certain restating adjustments.
- **Working capital.** The Parties do not resolve their differences with respect to working capital, but agree that the Company will present its

1 working capital calculation in future Commission Basis Reports
2 (“CBRs”) in the format that Staff had proposed.

- 3 • **Weather normalization.** The Parties agree that the revenue
4 requirement is based on the weather normalization approach that was
5 adopted in Cascade’s last rate case, Docket UG-152286. Cascade will
6 continue to use this approach for future CBRs, though in a future rate
7 case, Cascade may present a different weather normalization
8 methodology.
- 9 • **Miscellaneous Charges.** The Parties agree that the Company will
10 make no changes to its Miscellaneous Charges, except to eliminate
11 Pilot Light Service.
- 12 • **No change to programs not identified in the Settlement.** The Parties
13 agree that other programs not specifically identified in the Settlement
14 (decoupling, conservation, etc.) will remain in effect and will not be
15 modified.

16 **Q. You indicated that the Settlement is a partial settlement. What outstanding**
17 **issue is not addressed by the Settlement?**

18 A. The Parties agree that the calculation and treatment of the TCJA impact on rates
19 concerning taxes collected at 35 percent for the period from January 1, 2018 to
20 July 31, 2018 (“Interim Period”) remains contested, and that the issue will be
21 litigated and presented to the Commission for resolution.

22 **Q. Do you recommend approval of the Settlement?**

23 A. Yes. All Parties recommend This Joint Testimony recommends approval of the
24 Settlement by the Commission. The Settlement represents a compromise among
25 the Parties’ differing points of view, and all Parties made concessions to reach a
26 reasonable balancing of interests. As will be explained in the following Joint
27 Testimony, the Settlement received significant scrutiny and is supported by sound
28 analysis and sufficient evidence. Its approval is in the public interest. The
29 Settlement is attached and has been marked as Attachment 1.

1 **Q. What is the proposed effective date of the Settlement?**

2 A. The Settlement will be implemented consistent with the rate effective date for this
3 proceeding, August 1, 2018.

4 **II. BACKGROUND**

5 **Q. Please describe the Company's initial filing in this proceeding.**

6 A. On August 31, 2017, Cascade filed a general rate case requesting a revenue
7 increase of about \$5.9 million, or approximately 2.71 percent. The filing was
8 based on an historic twelve-month period ending December 31, 2016. The
9 Company's request was based on a proposed ROR of 7.598 percent, a debt/equity
10 ratio of 50/50, a ROE of 9.9 percent, a return on debt of 5.295 percent, and a rate
11 base of \$300,860,726.

12 **Q. Since the initial filing of Cascade's case on August 31, 2017, have any major
13 events impacted the Company's filing?**

14 A. Yes. On December 22, 2017, the TCJA was signed into law, reducing the federal
15 corporate income tax rate to a flat 21 percent. The changes to the tax landscape
16 significantly impacted the Company's filing, and the Commission asked about the
17 impact to the Company's filing in its Bench Request No. 1. As described in the
18 responses to Bench Request No. 1, in addition to the change in the revenue
19 requirement calculations due to the change in the tax rate, the change also resulted
20 in EDIT.

21 **Q. Did the Parties conduct discovery on the Company's filing?**

22 A. Yes. The Commission suspended the filing and commenced discovery by
23 Order 01, dated September 14, 2017. Pursuant to Order 01, Staff, Public Counsel,
24 AWEC, and The Energy Project conducted extensive discovery on the Company's

1 direct testimony. The Company responded to 362 data requests. All Parties had
2 access to, and were able to review and analyze, that discovery.

3 **Q. Did the Parties engage in settlement discussions?**

4 A. Yes. The Parties met multiple times over the course of this proceeding—on
5 February 2, 2018, February 27, 2018, April 13, 2018, and April 18, 2018—and
6 ultimately reached the partial settlement presented below.

7 **Q. Do all Parties support the Settlement?**

8 A. Yes. All Parties support the Settlement.

9 **III. ELEMENTS OF THE AGREEMENT**

10 **Q. Please describe the scope of the Settlement and its key aspects.**

11 A. The Settlement is a partial settlement of the issues presented in this proceeding,
12 leaving only the issue of the calculation and treatment of the TCJA impact on
13 rates concerning taxes collected at 35 percent for the period from January 1, 2018
14 to July 31, 2018 (“Interim Period”) for litigation. All Parties join the Settlement.
15 The Settlement contains a revenue requirement and overall ROR that are lower
16 than the Company proposed in its original filing. The Settlement sets forth the
17 Parties’ agreements on certain contested issues in this case, including the total rate
18 base, capital structure, various tax issues, MAOP expenses, the Company’s rate
19 spread and rate design, the requirement to conduct a load study, and low-income
20 support and weatherization, as well as other issues discussed in greater detail
21 below.

1 **A. Revenue Requirement Decrease**

2 **Q. Please describe the revenue requirement increase agreed upon by the Parties.**

3 A. Due to the timing of the filing of Cascade’s rate case and subsequent passage of
4 the TCJA, the Parties agreed upon the appropriate revenue requirement amounts
5 both before and after considering the impacts of the TCJA. The Parties agree that,
6 prior to incorporating impacts of the TCJA, Cascade’s revenue requirement—as
7 initially filed on August 31, 2017—should be increased by \$750,000.

8 As we discuss in more depth later in our testimony, the Parties also agree
9 upon adjustments to incorporate the TCJA. After incorporation of the TCJA
10 adjustments to the proposed revenue requirement, the Parties agree that Cascade
11 will implement base rate changes for its Washington natural gas customers
12 designed to decrease its annual revenues by \$2,919,365—a decrease of
13 approximately 1.4 percent overall—effective for service on and after August 1,
14 2018. Neither the total decrease of \$2,919,365 to revenue requirement nor the
15 average residential customer’s monthly bill decrease of \$0.69 includes the return
16 of Protected-Plus EDIT, discussed later in our testimony, or Unprotected EDIT
17 identified in Section III.D.

18 **Q. How did the parties reach the agreed upon revenue requirement?**

19 A. The Parties did not agree upon a specific methodology or adjustments, except as
20 specified, to reach the revenue requirement reflected in the Settlement. Instead,
21 the revenue requirement contained in the Settlement is a compromise for all
22 Parties.

1 **B. Rate Base**

2 **Q. Did the Parties agree to an amount of rate base for the Company?**

3 A. Yes. The Parties agree that the Company's revenue requirement described above
4 is based on a total rate base of \$280,726,628.

5 **Q. How did the Parties determine this rate base amount?**

6 A. While the Parties did not agree to specific adjustments for all elements of revenue
7 requirement, the Parties agree that the rate base amount of \$280,726,628
8 reasonably reflects a compromise of Parties' positions as presented in their
9 testimony.

10 **C. Cost of Capital**

11 **Q. Please describe the Parties' agreements regarding cost of capital.**

12 A. The Parties agree to a capital structure comprised of 49 percent equity and 51
13 percent long-term debt, an ROE of 9.4 percent, and a cost of long-term debt of
14 5.295 percent. The overall ROR that the Parties agree to is 7.31 percent.

15 **Q. How did the Parties determine the appropriate capital structure?**

16 A. Cascade proposed a 50 percent equity/50 percent debt capital structure, and Staff
17 proposed an alternative capital structure of 47.31 percent equity and 52.69 percent
18 long-term debt. Therefore, the agreed upon 49 percent/51 percent ratio represents
19 a reasonable compromise between the Parties' positions.

20 **Q. Please describe the Parties' agreement on ROE and cost of debt.**

21 A. The Parties also agree to a ROE of 9.4 percent and a cost of long-term debt of
22 5.295 percent.

1 **Q. How did the Parties determine ROE?**

2 A. The agreed upon ROE of 9.4 percent resulted from a compromise of Parties'
3 initial positions, which ranged from 9.35 to 9.90 percent.

4 **Q. What is the agreed upon overall ROR?**

5 A. The overall ROR that the Parties agree to is 7.31 percent. The Parties believe that
6 this is fair to customers and sufficient for Cascade to attract capital at a reasonable
7 cost. This ROR sets the threshold for determining any sharing in the decoupling
8 true-up filing each year.¹

9 **D. Tax Issues Related to the TCJA**

10 **Q. How did the Parties agree to implement the tax cut resulting from the**
11 **TCJA?**

12 A. Consistent with the TCJA, the Company's tax rate will be updated from 35
13 percent to 21 percent going forward. The per books Federal Income Tax ("FIT")
14 expense amount will be restated to 21 percent, and the related conversion factor
15 was updated to reflect the tax rate change and will be increased from 0.6212 to
16 0.75499.

17 **Q. Does the Parties' proposed revenue requirement decrease of approximately**
18 **\$2.9 million reflect the tax rate decrease and updated conversion factor?**

19 A. Yes. The proposed revenue requirement decrease includes the impacts of the tax
20 rate decrease and updated conversion factor.

21 **Q. Did the Parties reach agreement regarding the treatment of taxes collected at**
22 **35 percent during the Interim Period before new rates will take effect?**

¹ The decoupling mechanism was approved in Docket UG-152286.

1 A. No. The calculation and treatment of taxes collected at 35 percent during the
2 Interim Period remains contested and will be presented to the Commission for
3 resolution.

4 **Q. What did the Parties agree to regarding the calculation of EDIT?**

5 A. The Parties agree to use the EDIT calculation as of December 31, 2017 presented
6 in the Company's Reply to Parties' Responses to the Commission's Bench
7 Request No. 1. The total amount is \$36,485,666, grossed-up to \$48,325,853,
8 which is the sum of Protected-Plus EDIT and Unprotected EDIT.

9 **Q. What is Protected-Plus EDIT?**

10 A. As used in the Settlement and this Joint Testimony, the term "Protected-Plus
11 EDIT" includes both protected and unprotected plant-related EDIT.

12 **Q. And what is Unprotected EDIT?**

13 A. As used in the Settlement and this Joint Testimony, the term "Unprotected EDIT"
14 is non-plant-related EDIT.

15 **Q. What amount did Parties agree to for Protected-Plus EDIT?**

16 A. The Parties agree that the Protected-Plus portion of EDIT is \$30,387,775, and that
17 the grossed-up Protected-Plus EDIT amount is \$40,249,098.

18 **Q. What treatment did the Parties agree to for Protected-Plus EDIT?**

19 A. The Parties agree that the Commission should direct the Company to transfer the
20 grossed-up amount to FERC Account 254 – Other Regulatory Liabilities, and that
21 Cascade will specifically identify the amount of Protected-Plus EDIT in a sub-
22 account. The deferred amount on the balance sheet will receive rate base
23 treatment as an offset to plant, and interest will not be accrued on this deferred
24 amount.

1 **Q. How will the Protected-Plus EDIT be returned to customers?**

2 A. The Parties agree that Cascade will create a new tariff, Schedule 581, to return
3 reversals of the Protected-Plus EDIT.

4 **Q. Why did Parties choose to use a tariff?**

5 A. Using a tariff will avoid potential normalization rule violations and provide
6 transparency and accountability for returning the benefits to ratepayers.

7 **Q. When will the tariff become effective?**

8 A. Schedule 581 will be effective August 1, 2018.

9 **Q. What is the estimated amount and timing of the first reversal?**

10 A. The first reversal is estimated to be \$1,272,294 reversal (grossed-up by the
11 conversion factor to \$1,685,174) and will initially be refunded to customers over
12 15 months.

13 **Q. Will the Company update this estimate?**

14 A. Yes. After completing its 2017 tax return, the Company will propose a rate
15 adjustment to Schedule 581 on October 1, 2018, to update the reversal amount
16 being refunded to ratepayers on November 1, 2018.²

17 **Q. Will the Company also update Schedule 581 in subsequent years?**

18 A. Yes. The tariff schedule will be updated annually by the Company as a
19 subsequent filing, as shown in Table 2 in the Settlement, for the purposes of
20 truing-up the previous reversal and returning the next reversal amount to
21 ratepayers.

² The update will adjust the Protected-Plus EDIT and reversal amounts to include actual 2017 tax and book timing differences. Cascade will maximize its deductions for tax year 2017.

1 **Q. When will the update filing and true-up occur?**

2 A. The Company will propose a rate adjustment and true-up to Schedule 581 every
3 October 1 in each subsequent year to coincide with the annual Purchased Gas
4 Adjustment (“PGA”) filings. The effective date of the Schedule 581 rate
5 adjustment will also coincide with the effective date of the Company’s annual
6 PGA and the annual reversal, grossed-up through the application of the
7 conversion factor, and will be refunded over 12 months.

8 **Q. May the Parties revisit the Schedule 581 tariff in subsequent rate cases?**

9 A. Yes. The Parties agree that the decision to use Schedule 581 for the Protected-
10 Plus EDIT Reversals may be, but is not required to be, revisited in a future
11 general rate case when the reversals can be adequately averaged and included in
12 base rates, in consideration of potential risk of normalization violations and the
13 impact on the parties that such a change may create or relieve. In future general
14 rate cases, each Party is free to take any position it desires regarding reversals of
15 Protected-Plus EDIT in Schedule 581.

16 **Q. Regarding the Unprotected EDIT, what amount did the Parties agree to?**

17 A. The Parties agree that the Unprotected portion of EDIT is \$6,097,891, and that the
18 grossed-up Unprotected EDIT amount is \$8,076,755.

19 **Q. What treatment did the Parties agree to for Unprotected EDIT?**

20 A. The Parties agree that the Commission should direct the Company to transfer the
21 grossed-up amount to FERC Account 254 – Other Regulatory Liabilities, and that
22 Cascade will specifically identify the Unprotected EDIT in a sub-account. The
23 deferred amount on the balance sheet will receive rate base treatment as an offset
24 to plant, and interest will not be accrued on this deferred amount.

1 **Q. How will the Unprotected EDIT be returned to customers?**

2 A. The Parties agree that the Company will return the Unprotected EDIT amount to
3 customers through a new tariff, Schedule 582, and that the full amount will be
4 amortized over 10 years. Thus, \$609,789 will be returned to ratepayers annually
5 before application of the conversion factor. The amount returned annually, after
6 application of the 0.75499 conversion factor, will be \$807,675. The first
7 amortization amount will be returned over 15 months as described in the
8 Settlement.

9 **Q. Will the Company update Schedule 582?**

10 A. Yes. Similar to the Schedule 581 update described above, after completing its
11 2017 tax return, the Company will propose an update to Schedule 582 on
12 October 1, 2018, to reflect the 2018 Unprotected EDIT amount and grossed-up
13 amount beginning on November 1, 2018.³

14 **Q. Please describe the update schedule in subsequent years.**

15 A. The update schedule for Schedule 582 is the same as described above for
16 Schedule 581. The Company will propose a rate adjustment and true-up to
17 Schedule 582 every October 1 in each subsequent year to coincide with the annual
18 PGA filings. In future years, the effective date of the Schedule 582 rate
19 adjustment will coincide with the effective date of the Company's annual PGA
20 and the amortization amount will be refunded over 12 months.

³ The update will adjust the Unprotected EDIT and the 2018 amortized amount of Unprotected EDIT to include actual 2017 tax and book timing differences. Cascade will maximize its deductions for tax year 2017.

1 **E. MAOP**

2 **Q. Please explain the Parties' agreement regarding the Company's proposed**
3 **amortization of certain expenses associated with the Company's MAOP**
4 **Plan.⁴**

5 A. The Parties agree that, for pre-code pipe—that is, pipe installed prior to July 1,
6 1970—MAOP expenses are included in the revenue requirement for recovery
7 from ratepayers. For post-code pipe—that is, pipe installed after July 1, 1970—
8 expenses are excluded from the revenue requirement and will not be recovered
9 from ratepayers.

10 **Q. Why did Parties agree to make a distinction between pre-code and post-code**
11 **pipe?**

12 A. The Parties agree that the settlement of the MAOP expenses that are identified as
13 recoverable and included in revenue requirement in this case represents a
14 compromise of the positions that Cascade and Staff took in their testimony.

15 **Q. What amortization period did the Parties agree to for recoverable MAOP**
16 **expenses?**

17 A. Consistent with the Company's proposal in its direct testimony, the Parties agree
18 to a 10-year amortization of recoverable MAOP expenses.

⁴ Cascade proposed to amortize the deferral of certain expenses that were incurred in connection with the Company's MAOP Plan resulting from the settlement agreement in Docket UG-150120. These expenses had been deferred in accordance with the Commission's Order 01 in Docket UG-160787.

1 **Q. Do the Parties agree to eliminate certain tariffs?**

2 A. Yes. The Parties agree to the elimination of the following tariff schedules:

- 3 • **Tariff Schedule 502, Building Construction Temporary Heating**
4 **and Dry-Out Service.** Customers formerly under Tariff Schedule 502
5 will merge into the Residential Service Tariff Schedule (Tariff
6 Schedule 503).
7 • **Tariff Schedule 512, Compressed Natural Gas Service.** Customers
8 formerly under Tariff Schedule 512 will merge into the General
9 Commercial Service (Tariff Schedule 504).
10 • **Tariff Schedule 577, Limited Interruptible Service.** Customers
11 formerly under Tariff Schedule 577 will merge into the Interruptible
12 Service (Tariff Schedule 570).

13 **G. Load Study**

14 **Q. Please explain the Parties' agreement regarding the Company's load study.**

15 A. The Parties agree that the Company will provide actual core class usage by
16 performing either a load study, or a detailed load analysis. Until it performs such
17 study or analysis, the Company agrees to maintain the basic charges at the agreed
18 upon level discussed above. Cascade also agrees that, in any future rate case
19 before it performs the load study, it will present a rate spread that applies an equal
20 percentage of margin increase or decrease to each schedule, except for Special
21 Contracts. Finally, Cascade will maintain the status quo for allocating its pipeline
22 capacity and storage costs in its PGA until changes can be informed by either the
23 load study or the detailed load analysis.

24 **Q. What information does the Company plan to gather in its load study or load**
25 **analysis?**

26 A. The Company expects to gather actual core class usage data.

1 **Q. By entering into this Settlement, are the Parties preapproving cost recovery**
2 **for infrastructure required to perform either the load study or the detailed**
3 **load analysis?**

4 A. No. While the Parties agree that the Company may seek cost recovery for the
5 infrastructure required to perform either the load study or the detailed load
6 analysis, the latter of which may include some level of investment in AMI meters
7 and fixed network equipment, the Parties do not express preapproval of such new
8 infrastructure or the inclusion of these infrastructure costs in rates.

9 **H. Low-Income Weatherization**

10 **Q. Please describe the Parties' agreement regarding low-income weatherization.**

11 A. The Parties accept The Energy Project's proposal as modified by Staff's proposal
12 in its cross-answering testimony, which consisted of the following modifications
13 to the Company's low income weatherization program: First, the \$10,000 project
14 cap will be removed, and the Conservation Advisory Group will monitor
15 spending. Second, the project coordination expenses will be funded at actual
16 cost—up to a maximum program average of 15 percent of the total project cost as
17 billed to the Company—which replaces the current fixed pay points for audits and
18 inspections totaling \$850 per project. Third, the program will include an agency
19 indirect-rate budget component at 10 percent of the total project cost as billed to
20 the Company. And finally, Cascade, together with the Conservation Advisory
21 Group and the agencies that deliver low-income weatherization programs, will
22 develop and report goals for low-income weatherization based on the number of
23 projects to be completed annually, and the Conservation Advisory Group will

1 monitor and review project budgets annually to ensure proper fiscal management.
2 This process will be integrated with Cascade's existing conservation planning and
3 reporting process.

4 **Q. Are any tariff revisions required to implement the changes to the low-income
5 weatherization program?**

6 A. Yes. Cascade will file revisions to its Schedule 301 to implement these changes.

7 **I. Washington Energy Assistance Fund ("WEAF")**

8 **Q. What did the Parties propose regarding the low-income energy assistance
9 provided through the WEAF program?**

10 A. In the Company's last rate case, Docket UG-152286, the parties to the settlement
11 agreed to numerous changes to the WEAF program. In its initial filing, Cascade
12 proposed no changes to the WEAF. Staff expressed concerns about over-
13 subsidization, the need for a uniform benefit calculation among agencies, and
14 proposed modifying the WEAF program to provide a monthly bill credit to
15 customers instead of a one-time, lump-sum credit. Staff proposed no changes to
16 the overall level of funding.

17 **Q. What agreement did the Parties reach regarding the WEAF program?**

18 A. The Parties agree that potential changes to the WEAF program will be considered
19 by the Low-Income Energy Assistance Advisory Group. The Advisory Group
20 will file a status report with the Commission by August 15, 2018, recommending
21 any program updates to be implemented in the 2018-2019 program year to
22 address over-subsidization and benefit uniformity. In order to ensure a timely
23 filing of the report with the Commission on August 15, 2018, the group will

1 address over-subsidization and benefit calculation uniformity before addressing
2 program design issues, such as the rate discount proposed by Staff in this case.

3 The Parties agree that, within three months of the date of the final order in this
4 proceeding, issues related to the potential redesign of the program should be sent
5 to the Advisory Group for consideration.

6 **J. Restating Adjustments**

7 **Q. Please describe the Parties' agreement regarding restating adjustments.**

8 A. The Parties agree to specify certain restating adjustments for purposes of
9 settlement, but do not agree upon the basis or methodology for any of these
10 adjustments. The Parties agree to specify the MDUR Rental Charge adjustment
11 (PC-4), and the following restating adjustments designated in the Company's
12 rebuttal testimony: R-2 (Promotional Advertising), R-4 (Low-Income Bill
13 Assistance, R-5 (SISP/SERP), R-6 (Arbitration Expense), R-7 (Restating Wage),
14 R-8 (Market Data Subscription Fees), R-9 (Fors True Boutique), and R-10
15 (Incentive Pay).

16 **Q. Did the other Parties address the restating adjustments in their testimony?**

17 A. Yes, some of the restating adjustments in the Company's rebuttal testimony were
18 also addressed in the testimony of Staff, Public Counsel, and AWEC. Table 5 in
19 the Settlement provides a cross-reference for the Company's designation of the
20 restating adjustments with the designations provided by other parties.

21 **Q. By agreeing to include specific restating adjustments, do the Parties agree on
22 the underlying bases or methodology of the adjustments?**

23 A. No, the Parties agree to specifying the adjustments and the amounts of those
24 adjustments for settlement purposes only. However, the Parties specifically and

1 expressly reserve the right to contest the underlying bases, methodology, or
2 calculation for any adjustment in future proceedings without prejudice.

3 **K. Other Settlement Components**

4 **Q. Did the Parties reach agreement regarding investor supplied working
5 capital?**

6 A. No, the Settlement does not resolve the Parties' disagreement on investor supplied
7 working capital. However, the Company agrees that it will include its working
8 capital calculation, in the form presented in Staff's case and the Company's
9 rebuttal presentation, in its future CBRs.⁸

10 **Q. Please describe the Parties' Settlement regarding Miscellaneous Charges.**

11 A. The Parties agree that Cascade will discontinue the Pilot Light Charge, but
12 otherwise Cascade's Miscellaneous Charges will remain unchanged.

13 **Q. Please describe the Parties' Settlement regarding weather normalization.**

14 A. For the current docket and for future CBRs, Cascade agrees to use the weather
15 normalization approach contained in the Joint Settlement Agreement in Docket
16 UG-152286. The revenue requirement in the Settlement includes the impact of
17 this approach. The Company will continue to refine its weather normalization
18 methodology and reserves the right to present a different methodology in a future
19 case.

⁸ Refer to Response Testimony of Betty A. Erdahl, Exh. BAE-1T and Exh. BAE-3; Rebuttal Testimony Michael P. Parvinen, Exh. MPP-9T and Exh. MPP-14.

1 **Q. Will the Company make changes to other programs not identified in the**
2 **Settlement?**

3 A. No. The Parties agree to make no other changes to other programs not identified
4 in the Settlement, such as the decoupling and conservation programs. Attachment
5 A to the Settlement contains the Company’s existing conservation compliance
6 obligations.

7 **IV. THE SETTLEMENT SATISFIES THE PARTIES’ INTERESTS**
8 **AND IS CONSISTENT WITH THE PUBLIC INTEREST**

9 **Q. What are the legal standards that must be satisfied with respect to any**
10 **settlement?**

11 A. The Commission’s charge is to regulate in the public interest. The Commission’s
12 settlement approval standards are set forth in WAC 480-07-750(1), providing that
13 “[t]he Commission will approve [a] settlement[] when doing so is lawful, when
14 the settlement terms are supported by an appropriate record, and when the result is
15 consistent with the public interest” The settlement, if approved, must result
16 in rates that are fair, just, reasonable, and sufficient.⁹ As such, the Commission
17 must not only assure fair rates to a company’s customers, but also provide a
18 company with rates that will be sufficient to cover its prudently incurred costs and
19 an opportunity to recover a reasonable return on its investment. The Settlement in
20 this case represents the Parties’ best efforts to arrive at an end result that satisfies
21 these requirements.

⁹ RCW 80.28.010.

1 **A. Statement of Cascade (Michael P. Parvinen)**

2 **Q. What are the primary factors driving the Company’s need for a natural gas**
3 **rate increase?**

4 A. The Company’s need for a rate increase is driven primarily by increased rate base
5 additions and increased pressures on operating and maintenance (“O&M”)
6 expenditures.¹⁰ Over the past several years, the Company has made substantial
7 investments to assure the safety and reliability of its system.¹¹ While the Cost
8 Recovery Mechanism (“CRM”) allowed the Company to recover some of its
9 investments on an accelerated basis, not all of the investment has been included in
10 the CRM. Additionally, despite the Company’s efforts to control costs, it has
11 experienced increases in O&M expenditures.

12 **Q. Please explain why the Settlement satisfies the interests and concerns of**
13 **Cascade.**

14 A. The Settlement provides reasonable values for the Company’s revenue
15 requirement and cost of capital, and allows Cascade to focus on operations rather
16 than continuing to expend time and resources on litigation. The revenue decrease
17 appropriately reflects the impacts of the TCJA and due to the timing of the rate
18 case, Cascade’s customers will begin to receive benefits resulting from the change
19 in the tax rate immediately upon the rate effective date—August 1, 2018.

20 Additionally, agreeing upon restating adjustments in the Settlement was
21 important to Cascade, as it will allow the Company the flexibility in the future to
22 file an ERF instead of a general rate case filing. Filing an ERF may benefit the

¹⁰ Direct Testimony of Nicole A. Kivisto, Exhibit No. NAK-1T at 4.

¹¹ Direct Testimony of Nicole A. Kivisto, Exhibit No. NAK-1T at 4.

1 Company and customers by avoiding the time and expense associated with
2 putting on a full general rate case. Though Parties do not specifically agree that
3 ERF is appropriate for the Company by agreeing to the restating adjustments—
4 and the Company is not committing to filing an ERF rather than a general rate
5 case the next time it needs to adjust its rates—Cascade nonetheless will have the
6 benefit of increased optionality with respect to its next filing.

7 **Q. Please explain why Cascade believes the Settlement is in the public interest.**

8 A. The Settlement is in the public interest because it strikes a reasonable balance
9 between the interests of Cascade and its customers on all issues raised in
10 Cascade’s initial filing, including revenue requirement, cost of capital, and rate
11 spread. The public interest is further served because the Settlement provides for
12 continuation of the Company’s low-income and conservation programs, and
13 provides for enhanced customer benefits for low-income weatherization.

14 **Q. Does the Settlement result in a fair and reasonable outcome?**

15 A. Yes. Overall, the Settlement reflects a compromise among the Parties, each with
16 differing interests, and achieves a fair and reasonable outcome. Cascade believes
17 that the Settlement is consistent with the public interest.

18 **Q. Does this complete your testimony on behalf of Cascade?**

19 A. Yes.
20

1 **B. Statement of Commission Staff (Betty A. Erdahl)**

2 **Q. Please explain why the Settlement satisfies the interests and concerns of Staff.**

3 A. While the Settlement provides for a decrease to revenue requirement without any
4 agreement from the Parties as to how that revenue requirement is reached, it
5 tackles several important issues and specifies principles that were necessary
6 components for any agreement to be reached. Several of these issues are of
7 particular importance in satisfying the interests and concerns of Staff.

8 For example, the Settlement addresses Staff's concern with the
9 Company's initial proposal for a revenue requirement increase of approximately
10 \$5.9 million, resulting in a limited increase of \$0.75 million prior to the
11 incorporation of the TCJA's impacts. The Settlement also addresses the
12 accounting treatment for EDIT and how Cascade will return that excess to
13 customers. Additionally, the Settlement explicitly addresses whether or not
14 Cascade may recover costs associated with validating the MAOP of pre-code or
15 post-code pipe. As a final example of how the Settlement satisfies the interests
16 and concerns of Staff, the Settlement provides guidelines, boundaries, and
17 incentives for the Parties on cost of service, rate spread, and rate design, including
18 a reasonable path forward for Cascade's completion of either a load study or a
19 detailed load analysis using AMI. These, among many others that the Settlement
20 explicitly addresses, are issues that Staff maintains are necessary for any
21 agreement.

22 Staff is cognizant of the amount of effort it, as well as the other Parties,
23 has dedicated to this case. It devoted significant time and resources into
24 conducting a complete and appropriate evaluation of the case presented by the

1 Company. Staff sent, reviewed, and analyzed responses to 183 data requests,
2 while also tracking and analyzing the 237 data requests submitted by the other
3 Parties, as well as the responses to those data requests. Staff conducted numerous
4 telephone conference calls with Company personnel as well as staff members
5 from Public Counsel, AWEC, and the Energy Project. Staff even accepted the
6 mantle of bringing to light issues that were not initially part of the Company's
7 case, including highlighting concerns with Cascade's low-income program. Even
8 considering the significant investment that Staff has made in establishing and
9 defending its litigated position, Staff recognizes that this Settlement provides for a
10 fair resolution of the issues presented and supports it in its entirety.

11 **Q. Please explain why Staff thinks the Settlement is in the public interest.**

12 A. This Settlement provides rates that are fair, just, and reasonable to Cascade's
13 customers, as well as providing the Company an opportunity to earn a fair return
14 on its investments. Staff bases its affirmation that the Settlement is in the public
15 interest on its comprehensive review of Cascade's filing. The Settlement resulted
16 from compromises by all Parties and was negotiated as a comprehensive package.
17 In Staff's opinion, the Settlement – taken as a whole and with consideration of the
18 issues Staff intended to present if the case were to be fully litigated – provides a
19 fair and reasonable outcome that is in the public interest and will result in rates
20 that are fair, just, reasonable, and sufficient.

21 To give a specific example of how this Settlement is in the public interest,
22 one need only to consider how the Settlement incorporates the impacts of the
23 TCJA to provide immediate benefits to ratepayers: \$1,685,174 through the return
24 of the 2018 Reversal of Protected-Plus EDIT amount, \$807,675 through the first

1 return of Unprotected EDIT amortization amounts, and, through incorporation of
2 the other elements of the TCJA, an overall decrease to base rates of \$2,919,365.
3 Staff notes for the Commission's attention that the 2018 Reversal of Protected-
4 Plus EDIT and the first amortization of Unprotected EDIT are returned to
5 customers over a 15-month period, not over a single year.

6 **Q. Does Staff support the decrease to the Company's revenue requirement?**

7 A. Yes. Staff supports the agreed-upon decrease to the revenue requirement of
8 \$2,919,365 as well as the return of \$2,492,849 in EDIT to customers over the next
9 15 months, as indicated in Table 1 of the Settlement. To help contextualize the
10 immediate return of these amounts returned over 15 months, Staff has calculated
11 the annualized amount (the portion of the 15-month amount that ratepayers should
12 see returned over the next 12 months) as \$2,238,023. These decreases will
13 substantially benefit Cascade's ratepayers. The decrease from the Company's
14 original request of approximately \$5.9 million is due to several factors, the largest
15 being the incorporation of the impact of the TCJA. Overall, with Staff's
16 estimation of the litigation risk posed by this case, Staff concluded that a \$0.75
17 million revenue increase, updated to be a revenue decrease of \$2,919,365 after the
18 incorporation of the TCJA, was reasonable.

19 **Q. Why does Staff support the Settlement's resolution of all but one of the tax**
20 **issues?**

21 A. The parties could not agree to terms for the calculation and treatment of the TCJA
22 impact on interim rates concerning taxes collected at 35 percent for the period
23 January 1, 2018 – July 31, 2018. The Commission will still need to determine the
24 appropriate amount of these taxes to return to ratepayers and how that amount

1 should be returned to ratepayers. The Settlement’s resolution of all other tax
2 issues is, in Staff’s opinion, one of its most important attributes.

3 First, the Settlement resolves the Company’s corporate tax rate going
4 forward so that Cascade’s rates reflect the current 21 percent federal income tax
5 rate and increases the related conversion factor from 0.6212 to 0.75499. The
6 purpose, and importance, of the conversion factor is to convert the net income
7 deficiency/sufficiency into a gross revenue deficiency/sufficiency. This allows the
8 utility the opportunity to earn its revenue while also allowing the utility to recover
9 the correct amount necessary to pay taxes on that revenue.¹²

10 The Parties have also accurately and transparently resolved two distinct
11 EDIT elements: Protected-Plus EDIT and Unprotected EDIT. Protected-Plus
12 EDIT includes all protected plant-related EDIT and unprotected plant-related
13 EDIT.¹³ Unprotected EDIT consists of all unprotected, non-plant-related EDIT.
14 The Parties agree that the total amount of EDIT (both Protected-Plus and
15 Unprotected) that will be returned to customers is \$48,325,853 when grossed up
16 using the updated conversion factor.¹⁴

17 Cascade will return the grossed-up Protected-Plus EDIT amount of
18 \$40,249,098 to ratepayers using a separate tariff, Schedule 581, using the Average

¹² Cascade’s conversion factor also includes allowances for revenue sensitive items like uncollectibles, state Business and Occupation tax, and Commission fees.

¹³ Staff’s understanding of the Company’s filed testimony and its Responses to Bench Request No. 1 is that the Company used the term “plant EDIT” due to the inability of its asset software to distinguish and separate plant EDIT between protected and unprotected. Staff, therefore, used the term “Protected-Plus EDIT” to eliminate any confusion with what Staff has termed “protected EDIT” and “unprotected EDIT.” For the purpose of ratemaking, IRS normalization rules are applied to all of “Protected-Plus EDIT,” as the Parties have dubbed it in this Settlement.

¹⁴ It is Staff’s understanding that EDIT is subject to true-up in October 2018, to reflect actual 2017 tax and book timing differences.

1 Rate Assumption Method (“ARAM”). Cascade will return the first reversal,
2 which amounts to \$1,685,174 (grossed-up),¹⁵ over 15 months from August 1,
3 2018, through October 31, 2019. After the first reversal, which the Parties have
4 dubbed the “2018 Reversal,” Cascade will true-up the 2018 Reversal and begin to
5 return the next reversal amount to ratepayers.

6 The Parties have created a timetable laying out the schedule for returning
7 Protected-Plus EDIT that aligns the true-up and proposed reversal amounts on
8 Schedule 581 with the Company’s PGA filing, as seen in Table 2 of the
9 Settlement. The advantage of this is three-fold. First, the delayed timeline
10 mitigates the possibility of normalization rule violations by the Company while
11 simultaneously providing the maximum benefit to customers. Second, use of a
12 separate tariff provides transparency and accountability for returning the correct
13 amount owed to ratepayers. Last, aligning the proposed rate adjustment with the
14 Company’s PGA filing means that ratepayers will experience a single change to
15 rates, instead of multiple changes, which provides for greater rate stability.

16 Cascade will amortize and return \$8,076,755 (grossed-up) of Unprotected
17 EDIT to customers over 10 years using a separate tariff, Schedule 582. It will
18 return the first \$807,675 amortization amount to customers over 15 months,¹⁶ from
19 August 1, 2018, through October 31, 2019, after which Cascade will true-up the
20 first amortization amount and begin to return the next amortization amount to
21 ratepayers beginning November 1. Cascade will return all Unprotected EDIT on

¹⁵ The annualized amount (the 12-month portion of the amount returned over 15 months) associated with the 2018 Reversal is \$1,512,911.

¹⁶ The annualized amount (the 12-month portion of the amount returned over 15 months) associated with this first amortization amount is \$725,113.

1 the timeline found in Table 3. Through negotiations and as part of the
2 compromises necessary in reaching an agreeable outcome, Staff supports
3 returning the Unprotected EDIT amortization amount over 10 years using a
4 separate tariff schedule because it provides the Company more flexibility in
5 returning this amount as well as ensuring an accurate and transparent return to
6 ratepayers.

7 **Q. Does Staff support the cost of capital elements specified in the Settlement?**

8 A. Yes. Unlike the agreement reached in the Company's 2015 general rate case,
9 Docket UG-152286, this Settlement specifies all elements of the cost of capital:
10 capital structure; ROE; cost of debt; and, ROR. The Parties agree to these
11 elements as a fair and just compromise between their respective litigated
12 positions. Further, specifically enumerating these elements provides greater
13 clarity going forward, as these elements have importance in future filings by the
14 Company, notably its CBR and its decoupling earnings sharing mechanism.

15 **Q. What is Staff's position regarding the resolution of the cost of service, rate
16 spread, and rate design issues in this Settlement?**

17 A. Staff supports the Settlement on all issues related to cost of service, rate spread,
18 and rate design. The natural gas generic proceeding for cost of service, Docket
19 UG-170003, is the more appropriate forum to collaboratively address cost of
20 service issues. To that end, Staff supports the Parties' agreement to maintain the
21 status quo of parity among the rate classes and apply any increase or decrease on
22 an equal percentage of margin to each class, except for Special Contracts. This
23 spread will not unduly burden any individual class of customers and results in
24 margin rates that are fair, just, and reasonable.

1 The Parties' agreement to eliminate certain schedules and move the
2 customers on those eliminated schedules to other schedules, was uncontested by
3 Staff and results in a fair and reasonable outcome.

4 Except for Special Contracts, the Company proposed a 50 percent increase
5 in monthly basic charges for all rate classes as part of its initial case. The
6 Settlement provides a compromise of a 25 percent increase to basic charges, with
7 any resulting charge being rounded to the nearest dollar. This compromise to the
8 increase in basic charges for each schedule, except Special Contracts, further
9 reduces volumetric rates and is a fair and reasonable result. See Table 4 of the
10 Settlement for details. Referring to the residential customer basic charge, for
11 example, this means that the basic charge will increase from \$4.00 to \$5.00.

12 **Q. What is Staff's position regarding the Settlement's requirements for a load
13 study or a detailed load analysis?**

14 A. The Company is required to perform a load study. The Settlement provides an
15 alternative compromise that would allow Cascade to perform a detailed load
16 analysis using the AMI that it intends to deploy. This element of the Settlement is
17 of particular importance to Staff because actual daily therm data is necessary for
18 understanding core-class usage. It has been approximately 24 years since the
19 Commission last adjudicated a Cascade general rate case ("GRC") with
20 competing cost-of-service studies and Staff thinks it is necessary to have actual
21 core-class usage to inform a cost-of-service study for the allocation of peaking
22 costs.

23 As an alternative to a load study, the Parties agree that Cascade may
24 satisfy this element of the Settlement by conducting a detailed load analysis of

1 actual class usage tied to the completion of the Company's plan to pursue AMI.
2 Staff views such a load analysis in the same light of a load study. With AMI, the
3 Company would not need to sample core class usage: it would have actual usage
4 data for each class. Importantly, neither Staff nor any other Party agrees to the
5 preapproval of the costs for the Company to pursue such AMI should it decide to
6 meet this commitment via this alternative.

7 The Settlement's terms provide an adequate incentive to the Company to
8 conduct the load study, or detailed load analysis. The Settlement does not allow
9 the Company to propose any increase to basic charges, anything other than a rate
10 spread that applies an equal percentage of margin increase or decrease, or any
11 change to its PGA pipeline capacity and storage allocations until the Company
12 has performed either a load study or a detailed load analysis. These conditions
13 will ensure that the Company hastens its performance on this element without
14 restricting its ability to ask for rate relief, or any increase to revenue, in a future
15 GRC.

16 **Q. Does Staff support the Settlement with regard to the low-income issues?**

17 A. Yes. Staff initially proposed updating the WEAFF program to include a bill
18 discount. Staff's proposal did not meet with universal acceptance. The Settlement,
19 however, provides a fair and reasonable compromise between Staff's position and
20 those of the other Parties because the low-income issues raised by Staff will be
21 directed to the low-income advisory group. The first issues to be addressed by the
22 low-income advisory group will be the issues of over-subsidization and benefit
23 calculation uniformity, which were central concerns that Staff had with the
24 current program. The low-income advisory group will then file a status report to

1 the Commission in this docket by August 15, 2018; this report will contain its
2 recommendations for program updates for the 2018-2019 Program Year. Staff
3 remains optimistic about the collaboration with the low-income advisory group's
4 members and the prospect of developing thoughtful solutions to these problems.
5 Additionally, the low-income advisory group will consider the question of
6 redesigning the WEAF low-income funding program. Staff notes that its
7 optimistic expectations for this element of the Settlement does not convey any
8 relinquishment of desire to see improvements to Cascade's low-income program.
9 These elements of the Settlement, however, satisfy Staff's immediate concerns for
10 the design of the WEAF program and Staff looks forward to collaborating with
11 the low-income advisory group in pursuit of agreeable solutions.

12 **Q. Does Staff agree with how the Settlement addresses recovery for certain**
13 **expenses related to MAOP?**

14 A. Yes, the Settlement is reasonable on this issue and is consistent with recent orders
15 issued by the Commission in other dockets regarding these costs. Specifically,
16 Staff supports the Settlement's determination that MAOP expenses specifically
17 identified by the Company as being performed in connection with the validation
18 of pipe installed after July 1, 1970 ("post-code pipe") are unrecoverable from
19 ratepayers. Staff also supports the Settlement's term that specifies that MAOP
20 expenses specifically identified by the Company as being performed in
21 connection with pipe installed prior to July 1, 1970 ("pre-code pipe") are
22 recoverable.

1 **Q. Does Staff recommend that the Commission accept the Settlement?**

2 A. Yes. Staff recommends that the Commission accept this Settlement in its entirety,
3 as being in the best interest of the ratepayers, satisfying the interests of Staff, and
4 reaching a result that is consistent with the public interest.

5 **Q. Does this complete your testimony on behalf of Staff?**

6 A. Yes.

7 **C. Statement of Public Counsel**

8 **Carla A. Colamonici**

9 **Q. Please generally describe why Public Counsel believes the Settlement**
10 **Stipulation is in the public interest.**

11 A. This Settlement is the result of negotiations between all parties in this proceeding,
12 and as such, represents a reasonable compromise among the parties' positions.
13 Public Counsel believes that the resulting revenue requirement decrease and other
14 terms in the Settlement Stipulation are fair, just, reasonable, and in the public
15 interest.

16 **Q. Please summarize the terms in the Settlement.**

17 A. The Settlement Stipulation includes the following terms:

- 18 • An increase in revenue requirement of \$750,000 (before adjustments to
19 incorporate the Tax Cut and Jobs Act (TCJA) are included) and a decrease in
20 revenue requirement of \$2,919,365 (after adjustments to incorporate the TCJA
21 are included).
- 22 • Cost of capital terms including a capital structure of 49 percent equity and 51
23 percent long-term debt, return on equity (ROE) of 9.4 percent, cost of debt of
24 5.295 percent, and an overall rate of return (ROR) of 7.31 percent.
- 25 • Recovery is allowed for Maximum Allowed Operating Pressure (MAOP)
26 expenses for pipe installed prior to July 1, 1970 (pre-code pipe).

- 1 • Parties do not agree on a cost of service methodology and believe that cost of
2 service is more appropriately addressed in the cost of service proceeding,
3 Docket UG-170003.
- 4 • Rate spread will be applied on an equal percentage of margin increase or
5 decrease for all schedules, except Special Contracts.
- 6 • Basic Charges will increase 25 percent for each schedule except for Special
7 Contracts.
- 8 • The Company will perform a load study or detailed load analysis of actual
9 core class usage. Until the load study or analysis is completed, Cascade will
10 present a rate spread that employs an equal percentage of margin. Further,
11 Cascade will maintain the Basic Charges agreed upon in the Stipulation until
12 the load study or analysis is completed.
- 13 • Low-income weatherization projects will no longer have a cap of \$10,000 per
14 project, project coordination will be funded up to 15 percent of total project
15 costs, agency indirect-cost are allowed up to 10 percent, and all
16 weatherization projects will require reporting and monitoring.
- 17 • The low-income advisory group will address issues of over-subsidization of
18 the program and provide a benefit calculation for low-income energy
19 assistance.
- 20 • Most miscellaneous Charges will remain at current rates, but Cascade will
21 discontinue its Pilot Light Program.

22 Public Counsel Witness Ms. Donna Ramas expands on terms related to
23 revenue requirement and the impact of the TCJA in her Settlement Testimony. I
24 address the remaining terms in my testimony below.

25 **Q. Please explain why Public Counsel agrees with the Cost of Capital in the**
26 **Settlement.**

27 A. Public Counsel believes that the Settlement’s capital structure of 49 percent
28 equity, 51 percent long term debt, ROE of 9.4 percent, and an ROR of 7.31
29 percent is a reasonable compromise between all the positions of the parties. For
30 example, Staff’s Response Testimony recommends an ROE of 9.35 percent and a
31 ROR of 7.21 percent, while the Company requested an ROE or 9.9 and a ROR of

1 7.598 percent in its initial filing.¹⁷ Furthermore, the settled upon ROE and ROR
2 are similar to the Company’s current ROE of 9.4 percent and ROR of 7.35
3 percent.¹⁸

4 **Q. Please provide an explanation as to why Public Counsel supports the MAOP**
5 **terms.**

6 A. Public Counsel believes that it is appropriate for the Company to recover costs
7 associated with MAOP activities only for “pre-code pipe,” which is pipe installed
8 prior to July 1, 1970, when the MAOP requirements of 49 CFR 192.619 went into
9 effect. The costs for MAOP activities associated with “post-code pipe,” or those
10 installed after July 1, 1970, are expressly excluded from recovery from ratepayers
11 in this Settlement Stipulation. This is consistent with Order 01 in Docket
12 PG-160293. Public Counsel firmly believes that ratepayers should not be
13 responsible for the recovery of costs associated with MAOP activities for “post-
14 code pipe,” as the pipes were subject to the requirements of 49 CFR 192.619, in
15 this case or any future rate proceeding.

16 **Q. Please explain why Public Counsel agrees with the Cost of Service, Rate**
17 **Spread, and Rate Design terms in the Settlement.**

18 A. Public Counsel supports the efforts underway in the generic cost of service
19 proceeding, Docket UG-170003. Until that work is completed, it would be
20 inefficient and counterproductive to engage in piecemeal decisions on cost of

¹⁷ Staff witness David C. Parcell, Exh. DCP-3 and Cascade witness J. Stephens Gaske, Exh. JSG-1T at 2.

¹⁸ Direct Testimony of J. Stephen Gaske, Exh. JSG-1T at 3; *WUTC v. Cascade Nat. Gas Corp.*, Docket UG-152286, Final Order 04 ¶ 18 (Jul. 07, 2016).

1 service. As a result, Public Counsel supports the Settlement’s term in which
2 Parties do not agree on a cost of service methodology in this proceeding.

3 In regards to rate spread, Public Counsel believes that until the Company
4 initiates a load study, as was agreed upon in the 2015 GRC Settlement,¹⁹ rate
5 spread should be set at an equal percentage of margin to maintain the status quo
6 until better data is available.

7 Finally, the Settlement provides that the Basic Charge for residential
8 customers increase by \$1, increasing the charge from \$4 to \$5. While this
9 represents a 25 percent increase,²⁰ Public Counsel recognizes that a small increase
10 to a low Basic Charge will produce a large percentage increase. In this case,
11 Public Counsel believes that an incremental increase to the Basic Charge is
12 reasonable and acceptable for settlement purposes. Limiting the increase to the
13 charge is consistent with gradualism, which prevents customers from bearing too
14 much of an increase too quickly.

15 **Q. Please provide an explanation as to why the Load Study and the Purchased**
16 **Gas Adjustment (PGA) allocations are fair and reasonable.**

17 A. As part of the Settlement in Docket UG-152286, Cascade was to initiate a load
18 study to determine the amount of natural gas usage attributable to each rate class
19 on a daily basis in each local service area prior to filing its next rate case.²¹
20 Indeed, the Commission in Order 04 stated that, “we encourage Cascade to
21 provide as much information as possible about its customers’ gas usage in its

¹⁹ Docket UG-152286, Final Order 04 ¶ 7.

²⁰ This 25 percent does not include the rounding up or down to the nearest dollar.

²¹ Docket UG-152286, Final Order 04 ¶ 7.

1 future rate filings to support an appropriate rate spread.”²² Given that the
2 Company did not initiate a load study or provide any information on customer
3 usage for this filing, it is appropriate to maintain Cascade’s current status
4 regarding its rate spread. Allowing the Company to present a rate spread of equal
5 percent of margin (increase or decrease) in future rate filings achieves this.
6 Further, it is appropriate to maintain the basic charge to the levels provided for in
7 this Settlement until the load study is completed.

8 Public Counsel notes that this commitment to complete a load study does
9 not dictate preapproval of any expenses and infrastructure procured for the
10 compliance of the load study.

11 **Q. Please explain why Public Counsel agrees with the low-income**
12 **weatherization terms.**

13 A. Public Counsel considers the low-income weatherization terms reasonable to
14 efficiently employ weatherization dollars in the areas where they are needed the
15 most and allows for more functionality for the agencies administering the
16 program.

17 First, by removing the \$10,000 project cap, agencies can complete more
18 work within the home at the time the agency is conducting a project, such as for
19 health and safety issues, and deeper retrofits. Based on recent program data, the
20 number of projects with budgets expected to exceed \$10,000 is small.²³

21 Second, by allowing for expenses allocated to project coordination of up
22 to 15 percent of total projects costs, funds can be used to meet health and safety

²² Docket UG-152286, Final Order 04 ¶ 19.

²³ Cross-Answering Testimony of Corey J. Dahl, Exh. CJD-1CT at 34:12-17.

1 gaps before weatherization is completed. Without this term, such gaps can
2 prevent weatherization from taking place in a home.

3 Third, agencies will be allowed to bill Cascade for administrative costs
4 incurred by the agency at an indirect rate of 10 percent of total project costs. This
5 will improve the likelihood that an agency will be reimbursed for administering
6 the weatherization project.

7 Finally, Cascade and its conservation advisory group will oversee and
8 monitor all project costs for proper fiscal management. This oversight is
9 important to ensure that overall costs do not exceed reasonable bounds or
10 improperly escalate.

11 **Q. Please explain why Public Counsel agrees with the low-income energy**
12 **assistance terms.**

13 A. Public Counsel believes that addressing the issue of over-subsidization and a
14 consistent calculation of the benefits is better suited for the low-income advisory
15 group, where all interested parties, experts, and agencies can discuss appropriate
16 solutions. We are confident that parties within the low-income advisory group
17 will work collaboratively to ensure a timely filing to the Commission on
18 August 15, 2018. Furthermore, Public Counsel believes that the advisory group is
19 the appropriate body to consider program changes for the Washington Energy
20 Assistance Fund (WEAF).

21 **Q. Please justify why Public Counsel's supports the other Settlement**
22 **Components.**

23 A. As part of the Settlement Stipulation, Cascade agrees to Public Counsel's
24 recommendation to discontinue the Pilot Light Service. Cascade also agrees to

1 maintain its Miscellaneous Charges at the current rates.²⁴ For settlement purposes,
2 Public Counsel supports leaving the current rates of the Miscellaneous Charges,
3 including the Returned Check Fee, unchanged.

4 **Q. What is Public Counsel’s position with respect to whether the Commission**
5 **should approve the Stipulation?**

6 A: Public Counsel recommends that the Commission approve the Stipulation without
7 condition.

8 **Q. Ms. Colamonici, does this conclude your testimony?**

9 A. Yes.

10 **Donna M. Ramas**

11 **Q. What is the purpose of your testimony?**

12 A. My testimony addresses several components of the proposed settlement
13 stipulation (Stipulation), dated May 18, 2018, to which Public Counsel is a
14 signatory. In this proceeding, I assisted Public Counsel in the areas of revenue
15 requirement and the impacts of the Tax Cuts and Jobs Act (“TCJA”). My
16 testimony addresses the revenue requirement and TCJA provisions contained in
17 the Stipulation.

18 **Q. In your opinion, do the revenue requirement and TCJA provisions of the**
19 **Stipulation result in a fair and reasonable outcome for Washington’s**
20 **residential and small business customers?**

21 A. Yes. Taken as a whole, the Stipulation produces a fair and reasonable revenue
22 requirement for Washington’s residential and small business customers. The

²⁴ Response Testimony of Carla A. Colamonici, Exh. CAC-1T.

1 Stipulation results in rates that should allow Cascade the ability to collect the
2 funds needed to provide reliable service to customers in the State of Washington.
3 With the exception of the remaining unresolved issue, the Stipulation also ensures
4 that the benefits of the TCJA are passed on to Cascade’s customers in the State of
5 Washington.

6 **Q. What issue remains unresolved?**

7 A. The issue reserved for litigation is the calculation and treatment of the excess tax
8 expense collected from Cascade’s Washington ratepayers for the period
9 January 1, 2018, through July 31, 2018. The Stipulation refers to this period as
10 the “Interim Period.” Revenues collected from Washington ratepayers during the
11 Interim Period were based on the 35 percent federal corporate income tax rate,
12 while the actual federal corporate income tax rate during the Interim Period was
13 21 percent, as provided for in the TCJA. Section III.D, paragraph 12, of the
14 stipulation states the following regarding the Interim Period:

15 Interim Period. The Parties agree that the calculation and treatment
16 of the TCJA impact on rates concerning tax expense collected at
17 35% for the period January 1, 2018 – July 31, 2018 (“Interim
18 Period”) remains contested, and that the issue will be litigated and
19 presented to the Commission for resolution.

20 **Q. How does the remaining litigated issue effect the reasonableness of the**
21 **Stipulation?**

22 A. The Stipulation is reasonable on a stand-alone basis. As the parties recognize in
23 the Stipulation, the Commission’s decision on the Interim Period tax expense
24 over-collection could affect the rates customers pay, depending on how the

1 Commission resolves the issue.²⁵ As indicated in my March 23, 2018, cross-
2 answering testimony, it is Public Counsel’s position that the excess income taxes
3 recovered in rates from January 1, 2018, to the effective date of new rates (i.e., the
4 Interim Period) must be refunded to ratepayers.²⁶ I identified three ways in which
5 to implement the refund:

- 6 (1) the amount could be returned to ratepayers through a separate mechanism;
- 7 (2) the amount could be deferred and returned to ratepayers at a future time;
- 8 or
- 9 (3) the amount could be amortized and included as a reduction to revenue
10 requirements as part of this proceeding.²⁷

11 Although the over-collected tax expense is still subject to litigation and may
12 be resolved by the Commission through a number of methods, the revenue
13 requirement set by this Stipulation is a reasonable compromise between the
14 Parties’ positions and is not dependent upon the outcome of the litigation.

15 1. Revenue Requirement

16 **Q. What revenue requirement amount is provided for in the Stipulation?**

17 A. The Stipulation, at paragraph 4 in Section III.A, expresses the agreement that
18 Cascade’s revenue requirement should be increased by \$750,000 prior to
19 adjustments made to incorporate the impacts of the TCJA. Paragraph 4 also
20 provides for a reduction in current revenue requirement of \$2,919,365 after
21 incorporating the change in the federal corporate income tax rate from 35 percent

²⁵ Stipulation ¶ 4.

²⁶ Cross-Answering Testimony of Donna M. Ramas, Exh. DMR-42T at 17:14 – 18:5.

²⁷ *Id.* at 18:1-5.

1 to 21 percent. This \$2,919,365 reduction in revenue requirement is separate from
2 the flow-back of the Excess Deferred Income Taxes (EDIT) resulting from the
3 TCJA that will be returned to ratepayers through separate tariffs under the
4 Stipulation. This separate flow-back of EDIT through Schedules 581 and 582 is
5 discussed in the next section of my testimony.

6 **Q. How does the amount of rate decrease incorporated in the Stipulation**
7 **compare to the revenue requirement requested by Cascade and the revenue**
8 **requirement recommended by Public Counsel?**

9 A. In its original Application, filed on August 31, 2017, Cascade requested an
10 increase to the current revenue requirement of \$5,884,984.²⁸ The original
11 Application was submitted before the TCJA became law. Subsequently, in its
12 rebuttal filing submitted on March 23, 2018, Cascade revised its position from the
13 requested increase in revenue requirement of approximately \$5.9 million to an
14 overall reduction of \$1,677,214.²⁹ The \$1,677,214 reduction presented in
15 Cascade’s rebuttal testimony incorporated the impacts of the TCJA and included a
16 reduction in revenue requirements of \$2,546,351 associated with the flow-back of
17 EDIT to customers.³⁰ If the flow-back of the EDIT to customers is removed from
18 Cascade’s rebuttal position to reduce the revenue requirement by \$1,677,214, the
19 result would be a proposed increase of \$869,137.³¹

²⁸ Direct Testimony of Nicole A. Kivisto, Exh. NAK-1T at 2:15 - 16.

²⁹ Rebuttal Testimony of Michael P. Parvinen, Exh. MPP-7T at 3:11 - 12.

³⁰ Parvinen, Exh. MPP-11 at 1, Adjustment P-10, line 27 (“2017 Actual EDIT Turn Around & Amortization P-10 From Bench Request 1”).

³¹ Calculated as $(\$1,677,214) + \$2,546,351 = \$869,137$.

1 Public Counsel recommended a reduction in revenue requirement of at
2 least \$4,262,276 based on Cascade’s requested return on equity of 9.90 percent
3 and a reduction of \$5,199,506 based on the current authorized return on equity of
4 9.40 percent.³² The recommended \$5.2 million reduction based on the current
5 authorized return on equity included the impacts of the change in the federal
6 corporate income tax rate to 21 percent resulting from the TCJA but did not
7 include the flow back of the EDIT to customers, which was separately addressed
8 in my cross-answering testimony.

9 In my opinion, the \$2,919,365 revenue requirement reduction provided for
10 in the Stipulation is a reasonable compromise between Cascade’s rebuttal position
11 and Public Counsel’s position on the appropriate revenue requirement in this
12 proceeding. It is also my opinion that the revenue requirement reduction, coupled
13 with the flow-back of the EDIT to Washington ratepayers through Schedules 581
14 and 582, will result in fair and reasonable rates upon implementation.

15 **Q. Paragraph 36 of the Stipulation, under Section III.J, agrees to the**
16 **specification of certain restating adjustments. Are the specified restating**
17 **adjustments consistent with Public Counsel’s position in this proceeding?**

18 A. Yes. I incorporated each of the specified restating adjustments identified in
19 Section III.J of the Stipulation into the revenue requirements recommended in my
20 response testimony.³³ Adjustment R-7 – Restating Wages, specified in the
21 Stipulation, was originally a component of Cascade’s pro forma wage adjustment
22 with which I did not challenge.

³² Ramas, Exh. DMR-1T at 6:5-9 and 7:10-1.

³³ See, Ramas, Exh. DMR-1T and DMR-2.

1 On the other hand, I recommended certain reductions to the test year
2 incentive compensation expense in my response testimony. Specifically, I
3 recommended removal of the executive incentives contained in Restating
4 Adjustment R-10 – Incentive Pay, as well as other reductions to test year
5 incentive compensation expense. For settlement purposes, Public Counsel is
6 willing to accept specification of Restating Adjustment R-10. However, it is
7 important to note that Public Counsel is not agreeing to the basis or methodology
8 of Restating Adjustment R-10 and reserves the right under the Stipulation to
9 challenge executive incentives based on achieving earnings goals, return on
10 invested capital goals, or earnings per share goals in future proceedings.³⁴
11 Similarly, if the Company files an Expedited Rate Filing (ERF) based on the
12 Stipulation’s specified adjustments, Public Counsel reserves the right to evaluate
13 whether the ERF is appropriate and may challenge or support the filing without
14 prejudice.

15 Each of the remaining specified restating adjustments were incorporated in
16 the revenue requirements presented in my response testimony either as a Cascade
17 restating adjustment or as a Public Counsel recommended adjustment. Thus, I do
18 not take issue with the specified restating adjustments.

19 **2. TCJA Provisions**

20 **Q. In your opinion, are the impacts of the TCJA on revenue requirements**
21 **adequately addressed in the Stipulation?**

³⁴ Stipulation ¶ 35; Ramas, Exh. DMR-1T at 45:22 – 51:13.

1 A. Yes. The \$2,919,365 reduction to revenue requirement provided for in Section
2 III.A of the Stipulation is based on the current federal corporate income tax rate of
3 21 percent. This is confirmed by Paragraph 11 of the Stipulation in Section III.D,
4 which indicates that the Company's tax rate will be updated from 35 percent to 21
5 percent going forward.

6 Additionally, the full balance of the EDIT that results from lowering the
7 federal corporate income tax rate will be returned to ratepayers through Schedules
8 581 and 582, ensuring that Washington ratepayers will receive the full amount of
9 excess deferred income taxes owed to them. As indicated in Paragraph 13 under
10 Section III.D of the Stipulation, the total grossed-up EDIT balance is
11 \$48,325,853. This entire \$48.3 million will be refunded to Washington ratepayers
12 over time, subject to certain true-ups. This substantial amount to be refunded will
13 be returned to Washington ratepayers under Schedules 581 and 582, as provided
14 for in Paragraphs 16 and 19 of the Stipulation.

15 Finally, Paragraph 12 of the Stipulation leaves the issue of the calculation
16 and treatment of the TCJA impact on rates regarding income tax expense
17 collected from ratepayers at the 35 percent rate for the Interim Period to be
18 litigated and presented to the Commission for resolution. Thus, Public Counsel's
19 position regarding the excessive federal income taxes collected from Cascade's
20 Washington ratepayers during the Interim Period remains intact, and the
21 Stipulation does not negatively impact Public Counsel's ability to present its
22 recommendation on the issue.

1 **Q. Is the flow-back period associated with the EDIT provided for in the**
2 **Stipulation consistent with Public Counsel’s previously expressed position in**
3 **this proceeding?**

4 A. Yes. In my cross-answering testimony, I indicated that since the vast majority of
5 the plant-related EDIT is protected under the normalization rules, I did not oppose
6 utilizing the Average Rate Assumption Method (“ARAM”) for amortizing the
7 entire plant-related EDIT balance.³⁵ I also indicated that I did not oppose the
8 Company’s proposed 10-year amortization period for the non-plant related EDIT
9 balances.³⁶ The provisions contained in Section III.D of the Stipulation to return
10 of the EDIT balances to ratepayers through Schedules 581 and 582 are consistent
11 with these amortization periods.

12 **Q. What is Public Counsel’s position with respect to whether the Commission**
13 **should approve the Stipulation?**

14 A. Public Counsel recommends that the Commission approve the Stipulation without
15 condition.

16 **Q. Ms. Ramas, does this conclude your testimony in support of settlement?**

17 A. Yes, it does.

18 **Q. Ms. Colamonici and Ms. Ramas, does this complete your testimony on behalf**
19 **of Public Counsel?**

20 A. Yes.

21

³⁵ Ramas, Exh. DMR-42T at 16:7 – 9.

³⁶ *Id.* at 16:10 – 13.

1 **D. Statement of AWEC (Bradley G. Mullins)**

2 **Q. Please explain why the Settlement satisfies the interests and concerns of**
3 **AWEC.**

4 A. In testimony, AWEC addressed several revenue requirements issues, the impacts
5 of the TCJA, and rate spread and rate design. AWEC’s specific goals were to
6 ensure the validity of Cascade’s Pro Forma Plant Additions, to ensure that the
7 benefits associated with the TCJA are returned to customers in an expeditious
8 manner, and to spread any increase or decrease in revenue requirement in a
9 manner consistent with the results of the recent Puget Sound Energy and Avista
10 rate proceedings—which recognized that cost of service methodologies should
11 not be litigated because of the ongoing cost of service collaborative addressing
12 these issues. Although the Settlement does not incorporate all of AWEC’s
13 litigation positions, it does incorporate many of AWEC’s positions. Accordingly,
14 the overall result is fair and provides a significant benefit to customers over the
15 filed case and is in the public interest.

16 **Q. Please explain why AWEC believes the Settlement is in the public interest.**

17 A. AWEC believes the Settlement is in the public interest and recommends the
18 Commission approve the settlement because the best interests of Cascade’s
19 natural gas customers are served by the underlying fair compromise on certain
20 revenue requirement and rate spread and design issues. Furthermore, the
21 Settlement also includes resolution of certain issues related to the TCJA. While
22 the signing parties may each hold different positions on the individual
23 components of Cascade’s natural gas revenue requirement addressed in the
24 Settlement, AWEC supports the Settlement because it has decreased the original

1 gas revenue requirement increase of \$5,888,124 by \$5,150,000 million—which
2 results in a revenue requirement increase of \$750,000, before consideration of the
3 impacts of the TCJA. After incorporation of the Settlement on certain
4 adjustments related to the TCJA, the overall revenue decrease will be \$2,919,365.
5 AWEC supports this Settlement as an overall result that is a fair compromise
6 between Cascade and its customers.

7 AWEC also finds the Settlement to be in the public interest as the spread
8 of the gas rate decrease is done on an equal percent of margin basis, which is an
9 appropriate outcome in light of the ongoing cost of service collaborative
10 addressing cost of service issues in Washington. Spreading the decrease on an
11 equal percent of margin basis allows that collaborative process to continue. The
12 equal percent of margin approach is also appropriate in this particular case
13 because the Company has not performed a load study, which is critical to
14 developing data for a cost of service study, which informs rate spread proposals.
15 For the reasons set forth above, AWEC believes the Settlement is in the public
16 interest and should be approved by the Commission.

17 **Q. Does this complete your testimony on behalf of AWEC?**

18 A. Yes.

19 **E. Statement of The Energy Project (Shawn M. Collins)**

20 **Q. Mr. Collins could you please summarize the purpose of your testimony?**

21 A. The purpose of my testimony is to provide support for approval of the Settlement
22 Stipulation (Settlement) in this docket, filed with the Commission on May 18,
23 2018. My testimony focuses on the elements of the Settlement that impact low-

1 income populations within Cascade’s service territory and explains why The
2 Energy Project (TEP) believes the Settlement is in the public interest.

3 **Q. Please discuss why The Energy Project supports the low-income**
4 **weatherization elements of the settlement.**

5 A. The Settlement includes a limited set of targeted changes to the Cascade
6 weatherization program, specifically: (1) removal of the \$10,000 project cap for
7 individual weatherization projects; (2) modification of the project coordination
8 allowance from a fixed amount to a percentage-based amount (actual cost up to a
9 maximum program average of 15 percent of project cost); and (3) an agency
10 “indirect” rate of 10 percent of project cost. These low-income weatherization
11 elements of the Settlement were discussed in the Advisory Group and are based
12 on feedback gathered by TEP from agencies in Cascade’s service territories which
13 identified issues making it more challenging to deliver weatherization services to
14 eligible Cascade customers. The existence of a project cap and uncertainty about
15 recovery of administrative costs needed to run agency weatherization programs
16 has tended to discourage agency weatherization activity in Cascade territory. The
17 changes are intended to bring the Cascade program more in line with other
18 investor-owned (IOU) weatherization programs in the state and to increase
19 penetration so that more eligible customers can participate. These changes were
20 previously discussed in more detail in my Response Testimony, Exh. SMC-1T at
21 7:2-12:8. The Energy Project supports the development and reporting of goals for
22 low-income weatherization by Cascade, in collaboration with the conservation
23 Advisory Group, and the agencies, integrated with Cascade’s existing
24 conservation planning and reporting processes.

1 The Energy Project did not propose changes to the Cascade low-income
2 weatherization budget in this docket. It is TEP’s understanding that Cascade is
3 committed to providing adequate funds for all the eligible projects that agencies
4 are able to deliver annually. It was, therefore, not necessary to address specific
5 budget levels in this case.

6 **Q. Please discuss why The Energy Project supports the referral of Washington**
7 **Energy Assistance Fund (WEAF) issues to Cascade’s low-income Advisory**
8 **Group.**

9 A. The Energy Project strongly supports the role of utility company Advisory
10 Groups as a venue for robust discussion, analysis, and potential resolution of low-
11 income program issues that avoids the need for litigation of issues in rate cases or
12 other adjudications. Accordingly, TEP supports the referral of WEAF issues to
13 the low-income Advisory Group as provided in the Settlement.

14 Cascade’s WEAF bill assistance program was comprehensively revised as
15 a result of the Joint Settlement Agreement in Cascade’s 2015 General Rate Case,
16 approved by the Commission in Order 04.³⁷ The Joint Settlement took effect in
17 mid-2016, establishing a five-year funding program for WEAF, and modifying
18 the WEAF program design in multiple areas to make improvements in the
19 program. The WEAF program had completed one full program year (2016-2017)
20 at the time of the rate case filing. Cascade did not propose any changes to the
21 WEAF program as part of its initial GRC filing.

³⁷ *Washington Utilities & Transportation Commission v. Cascade Natural Gas Corp.*, Docket UG-152286, Order 04 (July 7, 2016), Exhibit A, Joint Settlement Agreement, ¶¶ 27-42.

1 In its Response Testimony in this case, Staff raised concerns about the
2 potential for over-subsidization of individual customers resulting from the lack of
3 a uniform WEAFF benefit calculation formula between the different agencies
4 serving Cascade’s customers. While TEP does not necessarily agree with Staff’s
5 analysis of the data or the scope of the problem, TEP does agree that the potential
6 for over-subsidization is a concern that is best addressed by adopting a uniform
7 benefit calculation developed through the collaborative efforts of the Advisory
8 Group, the Company, and agencies. The Settlement provides that the Advisory
9 Group will work to develop such an approach and provide it to the Commission in
10 time for the 2018/2019 program year.

11 Staff also proposed in its testimony the adoption of a new bill discount
12 program as a replacement for the recently approved WEAFF program. The Energy
13 Project is open to consideration of alternative rate assistance program designs
14 such as bill discount or percentage of income programs.³⁸ However, as I
15 expressed in testimony, TEP was concerned that the complete replacement of the
16 WEAFF program in this rate case would be premature and disruptive, given that
17 less than two years have elapsed since major revisions were approved for WEAFF.
18 Consistent with the approach laid out in the 2015 Joint Settlement, the Settlement
19 in this case provides that discussion of alternative program design will occur in
20 the Advisory Group, with the opportunity for more in-depth participation by
21 stakeholders, and for input from agencies who can provide operational
22 perspectives on the new proposals. The Energy Project supports this approach

³⁸The Joint Settlement in 2015 provide that the Advisory Group would explore such options as a complement to the WEAFF program.

1 and looks forward to reviewing Staff's proposal and other alternatives during that
2 process.

3 **Q. Please explain why The Energy Project supports the agreements on rate**
4 **spread and rate design.**

5 A. The Energy Project prefers not to see basic charge increases due to their
6 disproportionate impact on low-volume users, and their harmful effect on energy
7 efficiency incentives. In this docket, TEP supports the Settlement as a reasonable
8 compromise of Cascade's proposed increase in the monthly basic charge,
9 moderating the impact of the increase by limiting it to just \$1.00, one half of the
10 original proposal. In addition, the basic charge will remain at the agreed level
11 until Cascade has performed the load analysis required by the Settlement.
12 Cascade is not permitted to propose a customer charge increase in a general rate
13 case filing until a study is completed. This is likely to provide some rate stability
14 for customers with regard to the charge, a benefit for low-income customers.

15 The Energy Project also supports the rate spread and cost-of-service
16 provisions of the settlement. By reserving policy and analytic questions regarding
17 cost-of-service to the Commission's generic gas cost-of-service docket, the parties
18 and the Commission avoid duplication of effort, unnecessary use of resources,
19 and litigation expense. The rate spread provision fairly balances the rate effects
20 of the Settlement by spreading effects on an equal percent of margin. A further
21 benefit to low-income customers is that Cascade is required to continue this
22 approach in future cases until its load analysis is complete, thereby helping parties
23 avoid unnecessary litigation expense.

1 **Q. Do you wish to comment on any other portions of the Settlement?**

2 A. Yes. The Energy Project supports the Settlement in terms of its overall impact for
3 low-income customers. The combination of the agreed revenue requirement and
4 the effect of the TCJA results in a welcome reduction of natural gas rates for
5 customers.

6 An additional component of the Settlement important to TEP is the
7 specification that the Settlement does not give preapproval or make any prudence
8 determination regarding AMI or other infrastructure investments that would allow
9 inclusion of these costs in rates. These are significant issues of concern to The
10 Energy Project and will require careful review by the Commission in future
11 proceedings.

12 **Q. Does The Energy Project support approval of the Settlement?**

13 A. Yes. The Energy Project believes that the Settlement is in the public interest.
14 The Energy Project recommends that the Settlement be approved by the
15 Commission.

16 **Q. Does this conclude The Energy Project's testimony?**

17 A. Yes.

18 V. CONCLUSION

19 **Q. What is the effect of the Settlement reached by the Parties?**

20 A. The Settlement represents a negotiated compromise among the Parties. Thus, the
21 Parties agree that no particular Party shall be deemed to have approved the facts,
22 principles, methods, or theories employed by any other in arriving at these
23 stipulated provisions. In addition, the Parties have the right to withdraw from the

1 Settlement if the Commission makes any additional material conditions or rejects
2 any material part of the Settlement.

3 **Q. In conclusion, why is this Settlement “in the public interest?”**

4 A. This Settlement should be approved for the following reasons.

5 The Settlement strikes a reasonable balance between the interests of the
6 Company and its customers, including its low-income customers. As such, it
7 represents a reasonable compromise among differing interests and points of view.

8 The Company’s original filing in this case has been subjected to great
9 scrutiny through the discovery process: over eight months have passed since the
10 case was filed and the Company has responded to approximately 362 data
11 requests.

12 All the Parties have been afforded ample opportunity to participate
13 meaningfully in the settlement process and the exchange of information. All
14 Parties participated fully and comprehensively in the settlement conference and
15 negotiations, leading to the Settlement presented now for the Commission’s
16 consideration.

17 Any settlement, including this Settlement, reflects a compromise and is the
18 result of the give-and-take inherent in negotiations. In this case, the result of the
19 Parties’ extensive settlement negotiations produces an Settlement, supported by
20 sound analysis and sufficient evidence, for the Commission’s consideration. All
21 the Parties agree that Commission approval of this Settlement would be “in the
22 public interest” and would satisfy the requirement that rates be fair, just,
23 reasonable, and sufficient.

1 **Q. What action do the Parties recommend the Commission take with respect to**
2 **the Settlement?**

3 A. The Parties recommend that the Commission find that this Settlement is in the
4 public interest and would produce rates for the Company that are fair, just,
5 reasonable, and sufficient. Accordingly, the Parties recommend that the
6 Commission adopt this Settlement in its entirety.

7 **Q. Does this conclude the Parties' Joint Testimony in support of the Settlement?**

8 A. Yes.