

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET UG-170929

ORDER 06

FINAL ORDER REJECTING  
TARIFF SHEETS; RESOLVING  
CONTESTED ISSUE; APPROVING  
AND ADOPTING SETTLEMENT  
AGREEMENT; AND  
AUTHORIZING AND REQUIRING  
COMPLIANCE FILING

***Synopsis:** The Washington Utilities and Transportation Commission (Commission) approves and adopts a Joint Settlement Agreement (Settlement) that all parties to this proceeding support as a proposed resolution of all but one contested issue. The Settlement would establish a new revenue requirement for Cascade Natural Gas Corporation (Cascade or Company), resolve several tax issues, define which Maximum Allowed Operation Pressure (MAOP) expenses are recoverable, and revise the low-income weatherization tariffs. The Settling Parties agreed to, and the Commission approves in this Order, an overall natural gas revenue increase of \$750,000. After applying agreed-upon tax related adjustments, Cascade's revenues will decrease by \$5.4 million, or approximately 2.6 percent overall for the Company's Washington customers. The Settlement also addresses cost of service, rate spread, and rate design; eliminates certain schedules; and requires Cascade to perform a load study.*

*The Commission also resolves a single contested issue related to the calculation and treatment of taxes collected at a 35 percent rate between January 1 and July 31, 2018. The Settling Parties agreed this issue should be reserved for decision on the basis of a fully developed record and the parties' oral arguments at hearing.*

*The Commission determines that Cascade failed to demonstrate that allowing the Company to retain the excess deferred income tax collected between January 1 and July 31, 2018, will benefit customers or result in rates that are fair, just, reasonable, and*

*sufficient. We require Cascade to return the excess deferred income tax collected between January 1 and July 31, 2018, to ratepayers through a separate tariff schedule over a 15-month amortization period consistent with the period required by the Settlement for returning the first year of other tax benefits. We adopt Staff's calculation of \$1.6 million for the excess deferred income tax benefits, which uses inputs determined in Cascade's last general rate case.*

### **SUMMARY**

- 1 **PROCEDURAL HISTORY.** On August 31, 2017, Cascade filed with the Commission revisions to its currently effective Tariff WN U-3 for natural gas service provided in Washington. Cascade requested an increase in annual revenues of approximately \$5.9 million, or 2.71 percent in base rates.
- 2 On September 14, 2017, the Commission entered Order 01 in this docket, suspending the tariff revisions and allowing further investigation to determine if the proposed tariff filing is in the public interest.
- 3 On October 9, 2017, the Commission convened a prehearing conference at its headquarters in Olympia, Washington. The Commission granted unopposed petitions to intervene filed by the Alliance of Western Energy Customers (AWEC) and The Energy Project (TEP), and established a procedural schedule.
- 4 During the pendency of this proceeding, President Trump signed the Tax Cuts and Jobs Act (TCJA) into law on December 22, 2017. The TCJA amended the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. The most notable impact for regulated utilities was the reduction of the federal corporate tax rate from 35 percent to 21 percent effective January 1, 2018.
- 5 The Commission issued Bench Request No. 1 (BR-1) on January 3, 2018, requiring Cascade to provide certain information related to the impacts of the TCJA on the Company's revenue requirement and the Company's proposed ratemaking treatment to account for those impacts. Cascade filed its Response to BR-1 on January 12, 2018, followed by its Supplemental Response on January 29, 2018.
- 6 The Commission entered Order 05 on March 9, 2018, granting Staff's motion requesting an opportunity to respond to BR-1, allowing all other parties an opportunity to respond, and approving Cascade's request for leave to reply to any responses filed.

7 Cascade filed its Second Supplemental Response on March 15, 2018. Staff and the Public  
Counsel Unit of the Washington State Attorney General’s Office (Public Counsel) filed  
their respective responses on March 23, 2018. Cascade filed its reply on April 11, 2018.

8 Staff’s counsel filed a letter on April 27, 2018, informing the Commission that the parties  
had reached a partial settlement that resolved all but one issue in this proceeding. The  
Commission suspended the procedural schedule and established deadlines for filing the  
parties’ agreement and supporting testimony. The parties submitted their Settlement and  
filed joint testimony in support of the Settlement on May 18, 2018. They reserved for  
litigation the question of how Cascade would account for taxes collected at a 35 percent  
rate between January 1, 2018, and July 31, 2018 (Interim Period).<sup>1</sup>

9 The Commission conducted an evidentiary hearing on the Settlement and the single  
contested issue on June 20, 2018, in Olympia. The Commission, in addition, held public  
comment hearings on March 20, 2018, in Bremerton, on March 27, 2018, in Kelso, and  
on April 4, 2018, in Kennewick.

10 **PARTY REPRESENTATIVES.** Lisa Rackner, McDowell Rackner & Gibson PC,  
Portland, Oregon, represents Cascade. Chad M. Stokes, Cable Huston LLP, Portland,  
Oregon, represents AWEC. Simon ffitich, Attorney at Law, Bainbridge Island,  
Washington, represents The Energy Project. Lisa W. Gafken and Nina Suetake, Assistant  
Attorneys General, Seattle, Washington, represent Public Counsel. Andrew J. O’Connell,  
Assistant Attorney General, Olympia, Washington, represents Staff.

11 **COMMISSION DETERMINATIONS.** We find that the rates, terms, and conditions in  
the Settlement are fair, just, reasonable, and sufficient. We accordingly approve the  
proposed Settlement in full, without conditions.

12 The Commission determines that Cascade failed to demonstrate that allowing the  
Company to retain the Interim Period excess deferred income tax will benefit customers  
or result in rates that are fair, just, reasonable, and sufficient. We require Cascade to  
return the Interim Period excess deferred income tax to ratepayers through a separate  
tariff schedule over a 15-month amortization period consistent with the period required  
by the Settlement for returning the first year of other tax benefits. We adopt Staff’s

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<sup>1</sup> *Washington Utilities and Transportation Commission v. Cascade Natural Gas Corporation*,  
Docket UG-170929, Partial Joint Settlement Agreement ¶ 1.

calculation of \$1.6 million for the Interim Period benefits, which uses inputs determined in Cascade's last general rate case in Docket UG-152286 (2015 GRC).

## MEMORANDUM

### I. CONTESTED ISSUE

- 13 The single issue left unresolved by the proposed Settlement is the treatment of the Interim Period TCJA impacts. The tax rate reduction, which took effect January 1, 2018, requires utilities to revalue the balance of accumulated deferred income taxes collected at 35 percent at the lower rate of 21 percent, which creates excess deferred income taxes (EDIT).
- 14 BR-1 required that Cascade provide, among other things, the following information:
- The Company's Accumulated Deferred Federal Income Tax (ADFIT) balance as of December 31, 2017.
  - The amount of EDIT expense the Company is currently collecting as of January 1, 2018, until the anticipated effective date of this general rate case.
  - Proposed amortization schedules and a supporting rationale for each schedule, including the amortization assumption upon which the schedule is based.
  - An updated revenue requirement based on the Company's direct filing position that accounts for the anticipated impacts of the TCJA.
- 15 Cascade responded to BR-1 on January 12, 2018, stating that the Company needed additional time to complete its tax impact analysis. Nevertheless, Cascade estimated a decreased revenue requirement, relative to its original request for \$5.9 million, of \$1.7 million, including the going-forward rate impact of the reduced federal corporate income tax rate, but not accounting for the Interim Period EDIT.
- 16 In its supplemental response to BR-1, Cascade used 2016 test year data to estimate that EDIT collected in current rates during the Interim Period would total approximately \$1.4 million. The Company also stated that it "cannot provide a reasonable tax expense

estimate for 2018 at this time due to all the unknown variables for 2018, including investment, revenues, expenses, other tax deductions, and conditions.”<sup>2</sup>

- 17 In Cascade’s 2015 GRC, the Commission approved a full settlement, the terms of which modified Cascade’s decoupling mechanism to include an earnings test. The earnings test requires Cascade to return to customers 50 percent of any decoupling rebate balance that exceeds the Company’s 7.35 percent authorized rate of return (ROR). Similarly, if the Company has a surcharge balance at year-end, the surcharge recorded for the year will be reduced or eliminated by 50 percent of the portion of the ROR that exceeds 7.35 percent. Cascade proposes treating the Interim Period EDIT as a “period cost,”<sup>3</sup> which would “allow for proper matching of rate base with income and expenses in 2018,” and would be incorporated into the Company’s existing earnings sharing mechanism.<sup>4</sup> As such, Cascade seeks to retain the Interim Period EDIT. If retaining these benefits produces earnings that exceed the Company’s authorized return, Cascade will return 100 percent of the excess to its customers.
- 18 Cascade proposes to accomplish this by revising its sharing percentage for 2018 to 100 percent for the tax benefit portion of the rebate only, then reverting back to a 50 percent sharing rate in 2019. The Company argues that it is reasonable to use the benefits of over-collection as a potential offset to increased costs not reflected in this rate case, such as health insurance increases in 2018 that were unknown when the rate case was filed.<sup>5</sup>
- 19 To support its position, Cascade points to the Commission’s First Supplemental Order in Docket U-86-130 (First Supplemental Order). In that order, which concerned the Tax Reform Act of 1986, the Commission calculated the tax benefit amount each company was required to pass back to customers on a case-by-case basis. Specifically, Cascade points to the Commission’s determination that because Northwest Natural Gas Company

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<sup>2</sup> Cascade’s January 29, 2018, Response to BR-1 at subpart C ¶ 2.

<sup>3</sup> A period cost is any cost that cannot be capitalized into prepaid expenses, inventory, or fixed assets. A period cost is more closely associated with the passage of time than with a transactional event.

<sup>4</sup> Cascade’s January 29, 2018, Response to BR-1 at subpart D ¶ 2.

<sup>5</sup> *Id.*

would not exceed its authorized rate of return, no action was required for the 1986 change in effective tax rate.<sup>6</sup>

- 20 In its second supplemental response to BR-1, Cascade revised the Company's ADFIT and EDIT calculations based on a Washington rate base allocation rather than system figures. This correction further reduced the revenue requirement requested in the Company's original filing from a \$5.9 million increase to an \$871,000 decrease.
- 21 In its response to BR-1, Staff recommended that the Company refund to customers the full amount of EDIT collected under the new tax law without any sharing. Staff stated that "[t]hese benefits represent monies that Cascade has collected from ratepayers for current and future tax liabilities that no longer exist because of the reduction to the federal corporate income tax rate."<sup>7</sup>
- 22 Staff disagreed with the Company's proposed methodology for calculating the Interim Period EDIT amount embedded in current rates for two reasons. First, Staff contended that the 2016 adjusted income tax expense in the Company's proposed pro forma results of operations has not been approved by the Commission. Second, Staff argued that the 2016 adjusted income taxes were not used to set current rates; rather, current rates were set in the 2015 GRC using a 12-month test year ending June 30, 2015. As such, Staff recommends the Commission use revenues based on current rates to calculate Cascade's over-collection during the Interim Period.<sup>8</sup> Staff estimates that Cascade over-collected approximately \$1.6 million during the Interim Period, and recommends this amount be refunded to customers through a separate tariff schedule over a one year period, at most.<sup>9</sup>
- 23 In its response to BR-1, Public Counsel recommended that 100 percent of the benefits from the TCJA be returned to customers.<sup>10</sup> Public Counsel's witness, Donna Ramas, disagrees with Cascade's Interim Period tax benefit calculation, instead estimating that the tax benefit is approximately \$1.8 million based on her proposed adjustments to the 2016 test year. Ms. Ramas recommends Cascade return the tax benefit to ratepayers

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<sup>6</sup> *In re Requirement of Specified Jurisdictional Utilities to Report to the Commission the Impact of Revisions of the Federal Tax Code*, Cause No. U-86-130, First Supplemental Order at 5 (April 13, 1987).

<sup>7</sup> Staff's Response to BR-1 at Section I ¶ 5.

<sup>8</sup> *Id.* at Section II B ¶ 1.

<sup>9</sup> *Id.* at Section II B ¶ 2.

<sup>10</sup> Ramas, Exh. DMR-1T at 54:20-55:2.

either: (1) through a separate mechanism, (2) by deferring the amount and returning it to ratepayers in the future, or (3) by amortizing the amount and including it as a reduction to revenue requirements as part of this proceeding.<sup>11</sup>

24 In lieu of responding to BR-1, AWEC addressed the Interim Period tax issues through testimony. AWEC's witness, Bradley Mullins, estimates the Interim Period tax impact is \$2.7 million based on the Company's level of rate base and cost of capital, and recommends the Commission require Cascade to accrue interest at the Company's pre-tax cost of capital until rates are effective.<sup>12</sup> Mr. Mullins supports a two-year amortization period and recommends that the amortization of all tax effects occur through base rates rather than a separate tariff schedule.<sup>13</sup>

25 On rebuttal, Mr. Parvinen argued that, without a deferral in place, AWEC's proposed treatment amounts to retroactive ratemaking.<sup>14</sup> Mr. Parvinen further argued that, "[b]ecause the tax is just one of various expense items that may fluctuate in a year, Cascade does not believe that the tax expense should be singled out for separate treatment, and instead, it is appropriate for the Commission to view the tax issue in the context of the Company's results of operations."<sup>15</sup>

26 In cross-answering testimony, Staff also opposed AWEC's basis for calculating the Interim Period EDIT using the proposed rate base amounts from this proceeding.<sup>16</sup> Staff believes the amortization of the Interim Period EDIT should be passed back to customers over the same amount of time it was collected rather than over the two-year period Mr. Mullins proposes.<sup>17</sup> Finally, Staff compares the new tax law to an "act of God," and therefore does not support accruing interest for an impact that was completely beyond the Company's control when the amount will be passed back over a relatively short period.<sup>18</sup>

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<sup>11</sup> Ramas, Exh. DMR-42T at 18:1-5.

<sup>12</sup> Mullins, Exh. BGM-1T at 24:22-25:1, 25:20-21, 25:15-16.

<sup>13</sup> *Id.* at 25:11-17.

<sup>14</sup> Parvinen, Exh. MPP-7T at 50:6-8.

<sup>15</sup> *Id.* at 50:24-51:2.

<sup>16</sup> Cheesman, Exh. MCC-9T at 6:2-4.

<sup>17</sup> *Id.* at 7:8-11.

<sup>18</sup> *Id.* at 7:16-8:3.

- 27 In its reply to the parties' responses to BR-1, Cascade argued that Staff's method for calculating the Interim Period tax benefit is no more accurate than the Company's method. Although both are estimates, Cascade maintains its position that estimating the Interim Period using 2016 test year data yields a more accurate result. Cascade further argues that its earnings test is already in place to pass excess earnings back to customers, which is "fair, equitable, and consistent with past precedent."<sup>19</sup>
- 28 The parties presented oral arguments on the contested issue during the hearing. Cascade reiterated its proposal that, to the extent the tax decrease causes the Company to earn more than its authorized rate of return, the Company would flow 100 percent of those earnings back to customers through the decoupling mechanism for 2018 only. Cascade pointed to the Commission's decision related to the Tax Reform Act of 1986, arguing that the Commission found that two regulated utilities would not earn their respective rates of return and thus declined to order those companies to reduce their rates.<sup>20</sup> Cascade claimed that it has been under-earning for four years, and that the Company's proposal would mitigate what "could be an extremely harsh impact" if the Commission orders the Company to return the tax benefit to its customers.<sup>21</sup> Cascade also expressed concerns about estimating the impact of the tax change based on uncertain calculations in the record, noting that no two parties agreed on the benefit amount.
- 29 Finally, Cascade requested that, in the event the Commission orders the Company to return the tax benefits to customers regardless of the Company's earnings in 2018, the Commission do so based on the actual results for 2018. The Company proposed to make that information available after it files its 2018 tax return, then return the excess tax benefits to customers through its October 1, 2019, filing when it trues up its excess deferred tax estimate for its TCJA-related tariff schedules.
- 30 Public Counsel argued that adjusting Cascade's rates for changes in the tax law does not constitute retroactive ratemaking because it does not "correct for past errors or adjust the rate in relation to Cascade's earnings or the utility's ability to manage soundly or otherwise."<sup>22</sup> Public Counsel contended that the funds at issue were not intended to supplement Cascade's earnings; rather, they were intended to pay taxes to the IRS. Public

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<sup>19</sup> Cascade's Reply ¶32.

<sup>20</sup> Cascade, TR 123:11-16.

<sup>21</sup> *Id.* at 124:1-2.

<sup>22</sup> Public Counsel, TR 128:17-19.



Counsel recommends the Commission require Cascade to pass back 100 percent of the benefit to its customers.

- 31 Staff argued that requiring Cascade to return the over-collected taxes to customers is not harsh in light of the fact that, “it is money they collected for something that they did not have to pay.”<sup>23</sup> Staff urged the Commission to reject the Company’s proposal to share only excess earnings with customers, which ultimately amounts to a guarantee that the Company will earn its authorized ROR. Moreover, Staff pointed to Mr. Parvinen’s testimony that it is unlikely there would be any money left over to pass back to customers. Staff asserted that the Company gave up any claim to its arguments concerning retroactive ratemaking by virtue of the fact that it declined to file with the Commission a separate accounting petition when prompted to do so by BR-1. Moreover, Staff argued that the tax change falls into a well-established exception to the rule against retroactive rulemaking because it was “unforeseeable and extraordinary.”<sup>24</sup> Finally, Staff observed that it is the only party that used current rates to determine the amount collected during the Interim Period. Staff recommends the Commission accept its calculation to establish the amount that should be refunded to customers.
- 32 TEP argued that Cascade was on notice that the over-collected funds should be tracked for the benefit of customers. TEP also argued that Washington regulation is not designed to establish a risk-free economic environment for regulated utilities, and Cascade should not receive a windfall simply because it did not earn its authorized ROR.
- 33 AWEC argued that Cascade’s proposal to retain the tax benefit is unjust and unreasonable. AWEC contended that even if retroactive ratemaking were at issue, the Commission may engage in retroactive ratemaking “where doing so is consistent with the public interest and sound regulatory policy.”<sup>25</sup> Ultimately, AWEC argued, Cascade seeks to retain the tax savings to ensure it earns its ROR regardless of how it manages or mismanages its operations; even if the Company operates imprudently, it would still earn its ROR, which is not sound policy. Finally, AWEC argued that the state of Idaho recently ordered Intermountain Gas Company, which shares a parent company with Cascade, to return Interim Period tax benefits to customers. AWEC requests the Commission order Cascade to do the same.

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<sup>23</sup> Staff, TR 131:24-25.

<sup>24</sup> *Id.* at 133:12.

<sup>25</sup> AWEC, TR 138:4-5.

34 **DECISION.** Cascade relies on the Commission’s First Supplemental Order in Docket U-86-130 to support its proposal to pass back Interim Period tax benefits through its decoupling mechanism *only* if it earns more than its authorized ROR in 2018. In that docket, the Commission initiated an investigation on its own motion to examine the effects of the Tax Reform Act of 1986 (TRA) upon certain regulated companies. The Commission adopted Staff’s recommendations, which took into account certain negative impacts of the TRA and considered those impacts on a case-by-case basis. Specifically, Cascade points to the Commission’s decision to leave Northwest Natural Gas Company’s rates intact despite the tax decrease. The Commission based its decision in the First Supplemental Order on Staff’s conclusion that, “even giving full effect to the impact of the Tax Reform Act of 1986, Northwest Natural Gas will not exceed its authorized rate of return.”<sup>26</sup>

35 Cascade’s argument is misplaced for several reasons. First, the Commission directed Staff in that case to undertake a limited investigation on its own motion. As such, the determinations made in that docket were not part of a fully-litigated rate case that examined all aspects of the companies’ operations. Rather, Staff analyzed a discrete set of factors, including various offsets and other tax implications (such as the inability to take investment tax credits, the requirement that construction-related payroll taxes and benefits be capitalized rather than expensed, and other negative impacts) that are not at issue here. Second, the First Supplemental Order provided no analysis to support its conclusion that Northwest Natural Gas Company would not exceed its authorized ROR, nor did it provide any rationale for its decision. Any suggestion that Northwest Natural Gas Company’s circumstances more than 30 years ago are comparable to those Cascade faces today would be mere speculation. Finally, the Commission made clear in that order that its determinations were case specific. Accordingly, we find that the Commission’s decision in the First Supplemental Order does not provide precedential guidance that can be applied in this proceeding.

36 Cascade next argues that because it may earn less than its authorized return in 2018, it should retain the tax benefit up to the amount of its authorized ROR. Specifically, Cascade argues that “[a]ll cost increases and capital additions in 2018 will not be addressed in this case, thus creating regulatory lag. Cascade simply proposes to treat the tax reduction for the interim period as a period expense, no different than any other expense[,] to help offset the regulatory lag impacts already inherent in this case.”<sup>27</sup> We

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<sup>26</sup> *First Supplemental Order* at 9.

<sup>27</sup> Parvinen, MPP-7T at 52:22-53:2.

find this argument unpersuasive for two reasons. First, taxes are fixed costs that are passed through to customers, not “just one of various expense items that may fluctuate in a year.”<sup>28</sup> Although the total amount of tax due may fluctuate based on revenues, the embedded tax rate for ratemaking purposes is a fixed percentage that historically has remained static for decades at a time. Unlike other expenses, the amount and recovery of which is determined by the Commission, federal tax rates are mandated by the IRS. The Commission neither sets the amount nor requires companies to demonstrate the need for recovery. As such, federal income taxes are not comparable to other expenses, as Cascade argues.

37 Second, retaining tax benefits without demonstrating the prudence of the investments or increased expenses the Company seeks to offset is not an accepted method for addressing regulatory lag. Regulatory tools such as end-of-period rate base, the flexible use of Construction Work in Progress during periods of increased plant investment, and multi-year rate plans with escalation factors are all methods the Commission has used, but Cascade has not proposed. Accordingly, the Company may seek to recover the expenses it incurs during 2018 in a future general rate case. As AWEC observed, Cascade has control over when it files a rate case. If the Company is under earning, it can seek relief in a more traditional and transparent way.<sup>29</sup>

38 We also reject Cascade’s argument that allowing the Company to retain the Interim Period EDIT will benefit customers. At hearing, the Company claimed that customers would benefit “by having the potential of increasing the return and avoiding potential further rate changes. It also allows the Company to have the opportunity to come closer to its authorized rate of return, which is a benefit ... trying to do things like financing ... which also [has] a circular effect of benefitting customers.”<sup>30</sup>

39 As the Commission stated in its final order in another recent general rate proceeding, the Commission has indicated its expectation that customers should realize the benefits of the reduced tax rate following the enactment of the TCJA through refunds or rate credits.<sup>31</sup> Indeed, on January 8, 2018, the Commission issued a press release stating that it had “directed regulated companies to track federal tax savings resulting from the federal Tax Cuts and Jobs Act to ensure those savings will benefit utility customers.” The press

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<sup>28</sup> *Id.* at 50:24-25.

<sup>29</sup> AWEC, TR 139:1-4.

<sup>30</sup> Parvinen, TR 69:24-70:6.

<sup>31</sup> *WUTC v. Avista*, Dockets UE-170485 and UG-170486, Order 07/02/02 ¶ 22 (April 26, 2018).

release further advised that “utilities are on notice that we expect customers will reap the benefits.”<sup>32</sup>

40 Finally, we reject Cascade’s argument that returning Interim Period benefits to customers may “implicate” retroactive ratemaking.<sup>33</sup> As Public Counsel and Staff argued at hearing, changes in federal tax law may create a windfall to utilities, the proper treatment of which does not constitute prohibited retroactive ratemaking.<sup>34</sup> In fact, tax changes, which are unforeseeable and extraordinary, can be treated as an exception to retroactive ratemaking. As the Utah Supreme Court explained:

The extraordinary and unforeseeable nature of the expenses recognized under the exception differentiates them from expenses inaccurately estimated because of a misstep in the rate-making process, such as the inability to predict precisely, or from mismanagement. An increase or decrease in expenses that is unforeseeable at the time of a rate-making proceeding cannot, by hypothesis, be taken into account in fixing just and reasonable rates. Furthermore, because the increase or decrease must have an extraordinary effect on the utility’s earnings, the increase or decrease will necessarily be outside the normal range of variance that occurs in projecting future expenses.<sup>35</sup>

41 The impacts of the TCJA were extraordinary and unforeseeable. As such, requiring Cascade and other regulated utilities to pass the related benefits back to customers should not be considered retroactive ratemaking. Conversely, allowing Cascade to retain the Interim Period tax benefits, following the Company’s rationale, could, in fact, be perceived as retroactive ratemaking. As the Supreme Court of Utah held in *Utah Dep’t of Business Regulation, Div. of Pub. Utils. v. Public Serv. Comm’n*, utilities may not “recoup lost earnings caused by costs greater than projected or by revenues less than

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<sup>32</sup> Commission Press Release, dated January 8, 2018.

<sup>33</sup> Cascade’s Reply to BR-1 at ¶40.

<sup>34</sup> Public Counsel, TR 128:19-129:9, citing *MCI Telecom Corp v. Public Service Commission of Utah*, 840 P.2d 765, 771-773 (1992) and *Turpen v. Oklahoma Corporate Commission*, 769 P.2d 1309, 1332 (Okla. 1988).

<sup>35</sup> *MCI Telecom Corp* at 771-772.

projected in the prior rate case,” and a utility “may not have retroactive adjustments in order to guarantee shareholders the rate of return initially anticipated.”<sup>36</sup>

42 Cascade further argues that “[a]t no time during this proceeding has any other party requested that Cascade file a petition for deferred accounting for the tax savings during the Interim Period, and Staff, in fact, asked Cascade *not* to file an accounting petition at the end of December 2017 when all of the other energy companies were filing petitions for deferred accounting to address the impacts of the TCJA.”<sup>37</sup> This does not affect our conclusion above. We note that Cascade had a pending rate case at the time the TJCA became effective, and Staff’s request could have been based on the assumption that the tax treatment could be addressed in that proceeding. Regardless, the Commission, in BR-1, expressly requested information from the Company about if and when it intended to file an accounting petition to address the impacts of the TCJA.

43 Turning to the amount of Interim Period EDIT, each party used a different methodology or inputs to create an estimate that would pass the amount back to ratepayers.<sup>38</sup> The Company argues that 2016 test year information provides a reasonable result and adds the true amount for the period that will not be fully known until the 2018 tax return is completed.<sup>39</sup> Staff recommends the Commission use revenues determined in the 2015 GRC to calculate Cascade’s over-collection during the Interim Period. Based on those inputs, Staff estimates that the annual over collection of taxes embedded in rates is \$2.4 million. Staff uses a ratio of January to July volumetric data to determine that the pro rata amount of over collection during the Interim Period is \$1.6 million.

44 For the reasons discussed above, we find that Cascade failed to carry its burden to prove that allowing the Company to retain the Interim Period EDIT would benefit customers or result in rates that are fair, just, reasonable, and sufficient. We decline to allow Cascade to treat TCJA benefits as period costs and direct Cascade to amortize the Interim Period EDIT through a separate schedule over a 15-month period consistent with the first year amortization schedules for the Company’s Protected and Unprotected EDIT amounts. As we have repeatedly expressed, the excess deferred taxes should inure to the benefit of

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<sup>36</sup> *Utah Dep’t of Business Regulation, Div. of Pub. Utils. v. Public Serv. Comm’n*, 720 P.2d 420, 423 (May 22, 1986).

<sup>37</sup> Cascade’s Reply to BR-1 at ¶40.

<sup>38</sup> We note that Public Counsel used the same methodology as the Company but incorporated its own proposed adjustments to the 2016 test year.

<sup>39</sup> Cascade’s Reply to BR-1 at ¶¶21-26.

ratepayers as soon as reasonably practicable. To address any discrepancy, Cascade may file a true up, effective November 1, 2019, once its actual 2018 tax liabilities are known.

45 We also agree with Staff that using the rate base and ROR authorized in Cascade's 2015 GRC is the appropriate calculation for the Interim Period EDIT. As Staff stated in its Response to BR-1, the 2016 adjusted income taxes were not used to determine current rates, and we have not approved the 2016 adjusted income tax expense in the Company's proposed pro forma results of operations.<sup>40</sup> Staff's method, which matches the rate at which the taxes were collected, is consistent with how rates are established in the first place, and with how we have treated other regulated companies.<sup>41</sup> Additionally, the Company must update its decoupling rate per customer, as Staff identified in its Response to BR-1, concurrent with the rate effective date of this Order.

## II. SETTLEMENT

46 The Commission's statutory duty is to establish rates, terms, and conditions for natural gas service that are "fair, just, reasonable and sufficient."<sup>42</sup> In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.<sup>43</sup>

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<sup>40</sup> Staff's Response to BR-1 at 3.

<sup>41</sup> In *Washington Utilities and Transportation Commission v. Avista Corporation*, Dockets UE-170485 and UG-170486 (April 26, 2018), we directed Avista to amortize its EDIT for the period between January 1, 2018, and April 30, 2018, over a one year period, and calculated the EDIT using the rate base and ROR authorized in Avista's most recent general rate case in 2015. The Parties also argued at hearing that other jurisdictions have similarly required regulated utilities to return interim period benefits to ratepayers.

<sup>42</sup> RCW 80.28.010(1); RCW 80.28.020.

<sup>43</sup> *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923); see *People's Organization for Washington Energy Resources v. Washington Utils. & Transp. Comm'n*, 104 Wn.2d 798, 807-13, 711 P.2d 319 (1985) (describing rate setting process in Washington).

47 “The commission will approve settlements when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.”<sup>44</sup> The Commission may approve the Settlement, with or without conditions, or reject it. We discuss each component of the Settlement below.

**A. Tax Issues Related to the TCJA**

48 The settling parties (Parties) agree to the calculation and treatment of the following TCJA impacts: (1) the reduction of the corporate tax rate from 35 percent to 21 percent effective August 1, 2018; (2) the Company’s ADFIT balance as of December 31, 2017; (3) the protected portion of the excess ADFIT balance as of December 31, 2017 (Protected-Plus EDIT)<sup>45</sup> and the unprotected portion of the excess ADFIT balance as of December 31, 2017 (Unprotected EDIT), and (4) how the excess ADFIT balances will be passed back to customers.

49 First, the Parties agree that the Company’s tax rate should be adjusted to reflect the corporate tax rate reduction from 35 percent to 21 percent effective August 1, 2018. The Company’s per books Federal Income Tax expense amount will be restated from 35 percent to 21 percent, and the related conversion factor will increase from 0.6212 to 0.75499.<sup>46</sup>

50 Second, the Parties agree that the total amount of ADFIT as of December 31, 2017, is \$48.3 million, grossed-up for taxes.<sup>47</sup> The excess ADFIT assets and liabilities are categorized as Protected-Plus EDIT and Unprotected EDIT. Protected-Plus EDIT is generally defined as capital assets depreciated under Internal Revenue Code (IRC) section 167, and these timing differences are required to be recorded and then reversed (*i.e.* normalized) over the depreciable lives of the capital assets that created the ADFIT. Unprotected EDIT makes up the remainder of the Company’s excess ADFIT, mainly representing non-plant related deferred assets and liabilities. The Unprotected EDIT

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<sup>44</sup> WAC 480-07-750(1).

<sup>45</sup> The Parties refer to this as “Protected-Plus EDIT” because it includes both protected and unprotected plant-related EDIT. The unprotected EDIT represents all non-plant.

<sup>46</sup> A number of expenses comprise the conversion factor; federal taxes are the largest component.

<sup>47</sup> Settlement ¶ 13. The conversion factor, or “gross-up” increases the amount of revenue required from customers to include deductions, such as taxes, that are incurred by Cascade, thereby making the Company whole for its expense, rate base, and authorized return.

balances have no comparable IRC requirement that prescribes when they must be reversed. The Parties agree to a \$40,249,098 grossed-up Protected-Plus EDIT amount, and an \$8,076,755 grossed-up Unprotected EDIT amount.

51 Finally, the Parties agree that the Company will amortize Protected-Plus EDIT benefits using the average rate assumption method (ARAM) required by IRC section 167. Under these rules, the estimated reversal for 2018 is \$1,685,174. The Company will pass back the Protected-Plus EDIT benefits through a separate tariff schedule (Schedule 581), which will include an annual true up every October 1 to coincide with the November 1 effective date of the Company's annual PGA filing. The Parties reserve the right to take any position desired in future general rate proceedings if the decision to use Schedule 581 for Protected-Plus EDIT reversals is revisited.

52 In addition, by approving the Settlement, the Parties agree that the Commission instructs the Company to transfer Unprotected EDIT to FERC Account 254 – Other Regulatory Liabilities. Cascade agrees to identify that amount in a subaccount and amortize it over 10 years.<sup>48</sup> The Parties also propose to use a separate tariff schedule (Schedule 582) for Unprotected EDIT. The amortized amount of \$807,675 will be passed back to customers over a 15-month period for the first year of tax benefits, subject to the same annual true-up process as the Protected-Plus EDIT.

53 **DECISION.** The Parties' agreement, which adopts Cascade's calculation of total EDIT based on actual amounts booked, is reasonable and supported by the evidence in the record.<sup>49</sup> At the outset, we observe that Protected-Plus EDIT is tied to depreciable property and must be returned to customers over a specific time period using normalization principles pursuant to the IRC.<sup>50</sup>

54 As described above, however, the Commission retains authority to determine the method and timeframe for returning Unprotected EDIT to ratepayers. Although we have concerns about the intergenerational inequities that may arise from amortizing the \$8,076,755 portion of Unprotected EDIT over 10 years, we nevertheless find that the Parties'

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<sup>48</sup> Settlement ¶¶ 18-19.

<sup>49</sup> Cascade's First Supplemental Response to BR-1, January 29, 2018.

<sup>50</sup> This specific time period is prescribed as the average remaining life of the underlying assets, or ARAM.



proposal is a reasonable compromise for the purposes of settlement that will mitigate the overall rate impact of simultaneously passing back multiple tax benefits to ratepayers.

**B. Revenue Requirement**

55 The Parties agree that Cascade’s revenue requirement should be increased by \$750,000 prior to adjustments made to incorporate TCJA impacts. After those adjustments are made, Cascade’s annual revenues will decrease by 2.6 percent, or \$5.4 million.

56 The table below displays the immediate decreases that ratepayers will see as a result of the Settlement:

<b>Change to Revenue Requirement</b>	<b>(\$2,919,365)</b>
<b>ARAM, 2018 Reversal of Protected-Plus EDIT (estimated, grossed-up, 15-month return)</b>	<b>(\$1,685,174)</b>
<b>Amortization of Unprotected EDIT (1/10, estimated, grossed-up, 15-month return)</b>	<b>(\$807,675)</b>

57 The Parties do not agree on the specific adjustments necessary to reach the agreed revenue requirement, which is based on a total agreed rate base of \$280,726,628.

58 The Parties agree to a capital structure comprised of 49 percent equity and 51 percent long-term debt; a cost of equity of 9.4 percent; a cost of long-term debt of 5.295 percent; and an overall rate of return (ROR) of 7.31 percent.

59 In its initial filing, Cascade proposed an ROR of 7.6 percent based on a 50/50 common equity ratio with an ROE of 9.9 percent and a debt cost of 5.295 percent.<sup>51</sup>

60 **DECISION.** The Parties agree to an overall ROR of 7.31 percent, which is: (1) consistent with rates of return the Commission has approved for other natural gas utilities,<sup>52</sup> (2) 29 basis points lower than the Company’s original request, and (3) four

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<sup>51</sup> Gaske, Exh. JSG-1T at 2:18.

<sup>52</sup> See, e.g., *WUTC v. Puget Sound Energy*, Dockets UE-170033 and UG-170034, Order 08 (December 5, 2017) (ROR of 7.6 percent for PSE); and *WUTC v. Avista Corporation*, Dockets UE-170485 and UG-170486, Order 07 (April 26, 2018) (ROR of 7.5 percent for Avista).

basis points lower than the Company's current ROR.<sup>53</sup> We conclude that this is a reasonable outcome, and are satisfied that the Company's costs justify the modest \$750,000 rate increase, which is significantly less than the Company's original request for \$5.9 million in additional revenue. Although this is a "black box" agreement, we appreciate that the Settlement specifies the agreed-upon capital structure, ROE, and cost of debt. Establishing these elements, even by agreement, clarifies how the ROR was calculated.

**C. Maximum Allowable Operating Pressure (MAOP).**

61 The Parties agree that MAOP expenses incurred in connection with pipe installed prior to July 1, 1970 (Pre-Code Pipe), will be included for recovery from ratepayers in the revenue requirement, and that MAOP expenses incurred in connection with validation of pipe installed after July 1, 1970, (Post-Code Pipe) are excluded from recovery. The Parties agree to a 10-year amortization period for recoverable MAOP expenses.<sup>54</sup>

62 **DECISION.** We approve the Parties' proposed treatment of the recovery of Pre-Code and Post-Code Pipe for the purposes of this Settlement, recognizing that it represents a compromise of the Parties' positions. We determine, however, that the question of whether or how Post-Code Pipe expenses should be recovered remains undecided, and we expressly reserve judgment on that issue until a future proceeding. The risk-management approach inherent in the Commission's Distribution Integrity Management Plan policy recognizes that a gas pipeline operator must consider many factors, not simply the age of pipe, when determining what measures are appropriate to maintain the safety, reliability, and integrity of a distribution system.<sup>55</sup> We appreciate the Company's assurances that disallowing recovery of Post-Code Pipe will not compromise pipeline safety or in any way impede or slow the Company's efforts to replace and repair its pipes.

**D. Cost of Service, Rate Spread, and Rate Design**

63 Cascade's initial filing included a cost of service study and proposed rate spread adjustments for three customer classes. The Parties agree, however, to address cost of

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<sup>53</sup> See *WUTC v. Cascade Natural Gas Corporation*, Docket UG-152286, Order 04 ¶ 18 (July 7, 2016). In that docket, the Commission approved a settlement agreement that included an ROR of 7.35 percent.

<sup>54</sup> Settlement ¶ 21-22.

<sup>55</sup> See Docket UG-120715, Commission Policy on Accelerated Replacement of Pipeline Facilities with Elevated Risk ¶ 11 (December 31, 2012).

service issues in the Commission's generic proceeding in Docket UG-170003,<sup>56</sup> and agree to apply the revenue changes approved by the Commission on an equal percentage of margin, except for Special Contracts.<sup>57</sup> The Settlement also includes the elimination of three underutilized schedules.<sup>58</sup>

64 The Parties further agree to a 25 percent increase for each rate schedule's basic charge for all rate classes, with the exception of Special Contracts. Cascade will not change the current System Balancing Charge of \$0.0004 per therm of gas transported for customers on the Distribution System Transportation Service and for customers with Special Contracts. The Parties agree that any revenue from the System Balancing Charge will be credited to the PGA, consistent with the Company's proposal. Finally, the Parties agree that any increase or decrease within Schedule 663 will be applied equally to each of the schedule's blocks.<sup>59</sup>

65 **DECISION.** On July 19, 2018, the Commission filed with the Code Reviser a Preproposal Statement of Inquiry (CR-101) in Dockets UE-170002 and UG-170003 to examine the extent to which cost of service studies should be defined by rule, and address policy issues regarding the methods and practices used to calculate and present cost of service studies. As part of this inquiry, the Commission will hold stakeholder workshops and develop draft rules in collaboration with regulated companies to create a more uniform approach to cost of service studies. Reserving this issue until the conclusion of the rulemaking docket is reasonable because the rulemaking and associated policy statement will provide significant guidance for all regulated utilities that will impact how cost of service studies are performed.

66 We also find that applying revenue changes on an equal percentage margin increase or decrease to each schedule is a reasonable compromise that maintains the status quo during the pendency of the cost of service rulemaking.

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<sup>56</sup> WAC 480-07-510(6) currently requires cost studies in general rate proceedings, but does not specify how such cost studies must be prepared or presented. The Commission's inquiry in Dockets UE-170002 and UG-170003 will evaluate: the extent to which cost studies can be standardized; the core principles and methods cost studies should utilize; how to streamline the implementation of rates based on a cost study; and the information necessary to ensure an accurate and uniform understanding of the principles upon which a cost study should be based.

<sup>57</sup> Settlement ¶ 23-24.

<sup>58</sup> *Id.* ¶ 25.

<sup>59</sup> Settlement ¶ 26.

- 67 Similarly, the Parties' agree to increase each rate schedule's basic charge by 25 percent, with the exception of Special Contracts. This increase, which will remain unchanged until such time the Company performs a load study or detailed load analysis, is a reasonable solution that applies equitably, on a percentage basis, across all customer classes.
- 68 Finally, the Parties agree to eliminate Schedule 502 – Building Construction Temporary Heating and Dry-Out because the Company does not want to promote the inefficient use of natural gas as a unique service.<sup>60</sup> This is a laudable goal. The Parties also agree to eliminate Schedule 512 – Compressed Natural Gas Service, based on a lack of participation.<sup>61</sup> Finally, the Parties agree to eliminate Schedule 577 – Limited Interruptible Service and consolidate those customers with Schedule 570 – Interruptible Service, which will result in more equitable treatment of similarly-situated customers.<sup>62</sup> We accept the Settlement terms concerning modifications to these schedules.

#### **E. Load Study**

- 69 As part of the Settlement, the Company agrees to perform a load study or, in the alternative, to determine actual core class usage tied to the Company's future Advanced Metering Infrastructure (AMI) program. There is no deadline identified for this condition. However, in the absence of the load study commitment, Cascade agrees to a rate spread design based on an equal percent of margin increase (or decrease) to each schedule except Special Contracts. The Company further agrees to maintain basic charges at the levels agreed to in the Settlement until it performs the load study or detailed load analysis. Cascade also agrees to continue allocating its pipeline capacity and storage costs in its PGA filings consistent with its 2017 PGA.<sup>63</sup>
- 70 The parties agree that Cascade may seek future cost recovery for equipment or new infrastructure to accomplish the required load study or load analysis, but the Settlement does not address how costs will be recovered or contain any agreement regarding whether

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<sup>60</sup> Gross, Exh. JGG-1T at 4:7-12. Those customers will merge into Schedule 503 – Residential Service.

<sup>61</sup> The single customer on Schedule 512 will merge into Schedule 504 – General Commercial Service.

<sup>62</sup> Gross, Exh. JGG-1T at 3:14-25.

<sup>63</sup> Settlement ¶¶ 27-30.

the costs and benefits of Cascade's planned AMI investment meet the prudence requirements. The Settlement also specifies that Cascade is not relieved of its obligation to demonstrate the prudence of its planned AMI investment.

71 **DECISION.** The settlement agreement in Cascade's 2015 GRC required Cascade, before filing its next rate case, to initiate a load study to determine the class core responsibilities of daily therms at each of the Washington system's city gates. The settlement also required a report of unbilled revenues, a sample of constituents of the Company's core usage classes, and work papers demonstrating the daily volumes at each of the city gates.

72 Although the Company did not perform a load study as required in the Commission's final order in the 2015 GRC, we are satisfied that the Settlement here imposes appropriate parameters and restrictions on the allocation of future rate increases until such time as a load study or detailed load analysis is complete. Cascade is precluded by the terms of the Settlement from seeking a further basic charge increase, and the Company has also agreed to apply any rate increases on an equal margin basis until appropriate load data is obtained, including maintaining the status quo for allocating its pipeline capacity and storage costs in its PGA.<sup>64</sup>

#### **F. Low-Income Weatherization**

73 The Parties agree that the Company should revise Schedule 301 and other tariffs as necessary to remove the \$10,000 cap for low-income weatherization projects. The Conservation Advisory Group (CAG) will monitor spending on these projects. The Parties agree that the Company should revise Schedule 301 and other tariffs to provide that expenses associated with project coordination will be funded at actual cost, up to a maximum program average of 15 percent of the total project cost as billed to the Company, which replaces the current fixed pay points for audits and inspections of \$850 per project.

74 The Parties also agree that the Company should revise Schedule 301 and other tariffs to allow an agency indirect-rate budget component at 10 percent of the total project cost as billed to the Company.

75 Finally, the Parties agree that Cascade will develop and report goals for low-income weatherization based on the number of projects to be completed annually in conjunction with its CAG and the agencies that deliver low-income weatherization programs. The

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<sup>64</sup> Joint Testimony, JT-1T at 17:21-23.

CAG will monitor and review annually project budgets to ensure proper fiscal management. These activities will be integrated with Cascade's existing biennial and annual conservation planning and conservation reporting processes.

76 **DECISION.** Cascade's initial filing proposed no modifications to the Company's low-income weatherization. We commend the Parties for working together to agree on significant improvements to the Company's low-income weatherization program that will reduce or remove barriers to weatherization projects, thereby increasing access to cost-saving measures for those customers most in need.

### **G. Washington Energy Assistance Fund (WEAF)**

77 The Parties agree to address the issues of cross-subsidization and benefit calculation uniformity within the low-income advisory group and will file a status report by August 15, 2018, for program updates that will be implemented in the 2018-2019 program year. Additionally, the Company commits to bringing the program redesign issue before the advisory group within three months of the date of this Order.<sup>65</sup>

78 **DECISION.** The modifications to the WEAF program in the Settlement advance the Commission's goal of providing consumers who have insufficient means with financial assistance to meet their energy needs. Addressing the issues of over-subsidization and benefit calculation uniformity will help ensure that benefits are distributed equitably and reach a larger segment of customers in need. Moreover, the Parties agree that issues related to the potential redesign of the program, such as the rate discount proposed by Staff, will be sent to the Advisory Group for consideration with three months of the date of this Order.<sup>66</sup> We appreciate that the parties are willing to engage in discussions about how the program can be improved to better serve low-income customers, including increasing customer participation.

### **H. Restating Adjustments.**

79 The Parties agree to certain restating adjustments, but do not agree on the basis or methodology for those adjustments.<sup>67</sup> By agreeing to these adjustments, Cascade believes

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<sup>65</sup> Settlement ¶ 35.

<sup>66</sup> Joint Testimony, Exh. JT-1T at 20:1-5.

<sup>67</sup> *Id.* at 20:8-10.

the Settlement provides the Company with the flexibility to file an expedited rate filing (ERF) in the future instead of a GRC.<sup>68</sup>

80 **DECISION.** Although Cascade recognizes that the Parties do not specifically agree that filing an ERF in lieu of a general rate case is appropriate,<sup>69</sup> the Company expressed its appreciation that the agreement on certain restating adjustments expands its options for its next rate filing. The Commission remains open to nontraditional ratemaking mechanisms, including ERFs, provided that any such request is supported by sound principles and demonstrates the need for the particular relief sought.

### I. Other Terms

81 Cascade agrees to use the weather normalization approach specified in the settlement agreement in the 2015 GRC both in this proceeding and in future CBRs. The Company reserves the right to bring forward an alternative weather normalization methodology in future rate cases.<sup>70</sup>

82 The Parties do not resolve the dispute regarding investor supplied working capital in this proceeding. Instead, the Parties only agree on a total rate base amount of \$280,726,628.<sup>71</sup> Additionally, the Company agrees to include its working capital calculation in future CBRs as initially presented in Staff's case and adopted in the Company's rebuttal testimony.<sup>72</sup>

83 The Parties agree to make no other changes to other programs not identified in the Settlement, such as decoupling and conservation programs.<sup>73</sup> The parties also agree that Cascade will discontinue the Pilot Light Charge, but that all other miscellaneous charges will remain unchanged.

84 **DECISION.** The terms of the settlement agreement in the 2015 GRC required Cascade to implement extensive changes to its weather normalization methodology and reporting. These changes increase the consistency and reliability of the information the Company

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<sup>68</sup> *Id.* at 23:20-24:6.

<sup>69</sup> *Id.* at 24:2-3.

<sup>70</sup> Settlement ¶ 40.

<sup>71</sup> Settlement ¶ 37, ¶ 6.

<sup>72</sup> Settlement ¶ 38.

<sup>73</sup> Joint Testimony, Exh. JT-1T at 22:3-6.

provides to the Commission. Cascade agrees to continue to use that same approach for future Commission Basis Reports (CBRs), and commits to continue to refine its weather normalization methodology.<sup>74</sup>

85 Although the Settlement does not resolve the Parties' disagreement on investor supplied working capital, the Company agrees to include its working capital calculation in the form presented in Staff's case in its future CBRs.

86 The Settlement also eliminates the pilot light service fee and leaves all other remaining miscellaneous charges unchanged. In its initial filing, Cascade proposed increases to its reconnection charges, disconnect visit charge, returned check fee, and pilot light service fee, and proposed to eliminate its new premise charge. Public Counsel recommended discontinuing the pilot light service fee because Cascade is the only utility that offers this particular service. Maintaining the status quo for all miscellaneous charges and eliminating the pilot light service fee is a reasonable outcome that prevents increases to those charges that disproportionately affect low-income customers, such as disconnect visit and reconnection charges.

87 We have reviewed the Settlement and supporting evidence and conclude that the resulting rates, terms, and conditions are fair, just, reasonable, and sufficient. The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission. We therefore approve the Settlement without conditions.

### FINDINGS OF FACT

88 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:

89 (1) The Commission is an agency of the State of Washington vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including natural gas companies.

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<sup>74</sup> *Id.* at 21:14-19.



- 90 (2) Cascade is a “public service company” and a “natural gas company” as these terms are defined in RCW 80.04.010 and these terms are otherwise used in Title 80 RCW. Cascade is engaged in Washington state in the business of supplying utility services and commodities to the public for compensation.
- 91 (3) On August 31, 2017, Cascade filed with the Commission revisions to its currently effective Tariff WN U-3 for natural gas service provided in Washington. Cascade requested an increase in annual revenues of approximately \$5.9 million, or 2.71 percent in base rates.
- 92 (4) On December 22, 2017, the TCJA became effective. Among other things, the TCJA reduced the federal corporate income tax rate from 35 percent to 21 percent. Cascade has collected in rates excess deferred income tax for the period January 1, 2018, through July 31, 2018.
- 93 (5) Cascade, Commission Staff, Public Counsel, The Energy Project, and AWEC entered into a Settlement to resolve all but one issue in this proceeding, which they filed with the Commission on May 18, 2018.
- 94 (6) The Parties reserved for hearing the issues of whether and how the excess deferred income tax collected during the period January 1, 2018, through July 31, 2018, should be returned to customers. The Parties also reserved for hearing a determination regarding the amount of excess deferred income tax Cascade collected from customers during the period January 1, 2018, through July 31, 2018.
- 95 (7) The TCJA was an unforeseeable and extraordinary event.
- 96 (8) Based on Cascade’s rates in effect at the time the excess deferred income tax for the period January 1, 2018, through July 31, 2018, was collected, Cascade over-collected \$1.6 million dollars from ratepayers.
- 97 (9) Cascade failed to demonstrate that allowing the Company to retain excess deferred income tax for the period January 1, 2018, through July 31, 2018, will benefit customers or result in rates that are fair, just, reasonable, and sufficient.

### CONCLUSIONS OF LAW

98 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the

following summary conclusions of law, incorporating by reference the pertinent portions of the preceding detailed conclusions:

- 99 (1) The Commission has jurisdiction over Cascade, the other parties, and the subject matter of this proceeding.
- 100 (2) The Commission has an independent obligation to determine whether the Settlement is lawful, supported by the evidence, and consistent with the public interest.
- 101 (3) The rates, terms, and conditions in the Settlement are fair, just, reasonable, and sufficient.
- 102 (4) The Commission should approve the Settlement without condition.
- 103 (5) Cascade failed to meet its burden to prove that retaining the excess deferred income tax for the period January 1, 2018, through July 31, 2018, would benefit customers or results in rates that are fair, just, reasonable, and sufficient.
- 104 (6) Staff's method for calculating the excess deferred income tax for the period January 1, 2018, through July 31, 2018, based on rates set in Cascade's 2015 GRC is reasonable because it matches what was collected from customers and is based on rates approved by the Commission.
- 105 (7) Cascade must return to its customers the \$1.6 million in excess deferred income tax it collected between January 1, 2018, and July 31, 2018, over a 15-month amortization period.
- 106 (8) Requiring Cascade to return to its customers the \$1.6 million in excess deferred income tax it collected between January 1, 2018, and July 31, 2018, does not constitute retroactive ratemaking.

## ORDER

### THE COMMISSION ORDERS:

- 107 (1) The Commission approves the Joint Settlement Agreement, which is attached as Exhibit A to, and incorporated into, this Order, and adopts the Joint Settlement Agreement as its final resolution of the issues in this docket that it addresses.

- 108 (2) The Commission rejects the revisions to Cascade Natural Gas Corporation's currently effective Tariff WN U-3 previously filed and suspended in this docket. Cascade Natural Gas Corporation must file tariff sheets in compliance with this Order no later than 5 business days prior to their stated effective date.
- 109 (3) Cascade Natural Gas Corporation must refund to its customers the \$1.6 million in excess deferred income tax it collected between January 1, 2018, and July 31, 2018, through a separate tariff schedule. The amount will be amortized over a 15-month period beginning August 1, 2018.
- 110 (4) The Commission retains jurisdiction to enforce the terms of this Order and delegates to the Executive Director and Secretary the authority to confirm compliance with this Order.

Dated at Olympia, Washington, and effective July 20, 2018.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

**NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.**