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Steven V. King
Executive Director and Secretary
Washington Utilities and Transportation Commission
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RE: Docket U-150040 – Cascade Natural Gas' Comments

Cascade appreciates the opportunity to provide comments regarding its perspective on earnings attrition and potential solutions to the issue.

Cascade is experiencing attrition of earnings primarily due to increased infrastructure investment. The pipeline replacement Cost Recovery Mechanism (CRM) Cascade has in place has relieved a portion of the overall effect but not completely as Cascade will be filing for a rate increase later this year. Much of Cascade's year over year investment has been for non-revenue producing infrastructure replacement, not all of which is included in the CRM.

In 2014, Cascade invested approximately $41 million system-wide in capital additions of which approximately $9 million was included in the CRM. Cascade plans on an additional $64 million of capital additions in 2015 with approximately $15 million to be included in the CRM. Cascade's 2014 depreciation expense was $17 million system-wide. With new growth at less than two percent, there is a significant amount of investment remaining with no associated revenue recovery.

A quick, rough calculation looks like this for 2014 with the next several years showing more dramatic results:

Capital Investment		$41 million
Less:	CRM	9
	Depr. Exp.	17
	Supported by new revenue	7
Investment providing rate pressure		$8 million

Under historical rate making methodologies, the only way to get direct recovery of the $8 million would be to file a rate case after the investment has been incurred. For a utility such as Avista, this methodology has resulted in a pretty constant stream of rate cases. Cascade is just entering a period which will yield the same result as Avista, which is constant general rate case filings.

Historical rate making has been in place in Washington for most, if not all, of the Commission's existence. The method, in general, works. There are cyclical investment periods, over time, that require increased levels of investment and there are periods of lower levels of investment. There have been periods of high investment (nuclear and coal generation facilities) over long periods of time that resulted in modifications to the traditional recovery model. Cascade, similar to Avista, is in a period of high investment without a supporting growth in revenues, which results in virtually no chance of achieving an authorized rate of return.

Cascade proposes a simple method that would allow the utility the opportunity to earn a reasonable return but provides protections to customers and assurances to the Commission to avoid over-earning. Cascade proposes adding onto, or in conjunction with the pipeline replacement Cost Recovery Mechanism (CRM) investments, all non-revenue producing investments. All non-revenue producing plant would be eligible for recovery if the amount is above total depreciation expense (there may be a reason to not include depreciation associated with certain types of rate base). This method still puts extreme pressure on the utility to control costs because revenue producing investment rarely earns a full return in the first year. An earnings test could also be incorporated into the mechanism to provide additional assurances to prevent over-earning. Cascade also proposes the same four year requirement to file a general rate case.

This proposal maintains the use of the historical test period rate making but yet addresses very real financial implications to the utilities.

Cascade anticipates that the above mechanism will result in a potential annual increase in revenues of less than 1% to 2% on top of the CRM mechanism with a general rate case filed every three to four years. Absent this or some sort of recovery mechanism, Cascade anticipates back to back rate cases for the foreseeable future.

Thank you again for the opportunity to provide comments.

Sincerely,

Mike Parvinen
Director, Regulatory Affairs