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October 23, 2019

Mr. Mark L. Johnson  
Executive Director and Secretary  
Washington Utilities & Transportation Commission  
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UTIL. AND TRANSP.  
COMMISSION

**Re:** UG-190775, Temporary Federal Income Tax Rate Adj., Comments

Dear Mr. Johnson:

Cascade submits the following comments regarding the October 24, 2019, Commission Staff Memo in this docket.

First, it is wholly unnecessary for the Commission to set this matter for hearing. As explained in greater detail below, the issue here is the calculation for Cascade's true up of the Interim Period (January 1, 2018 – July 31, 2018) tax benefit resulting from the Tax Cuts and Jobs Act, which was credited to customers in accordance with Order 06 in Docket UG-170929. The calculation of the true up was the subject of two separate motions for clarification in Docket UG-170929 and conclusively resolved in Orders 07 and 08. In its Memo, Staff urges a proposed calculation methodology that the Commission declined to adopt in Order 08. The Commission should reject Staff's calculation (and alternative "hybrid" proposal) and instead affirm Cascade's interpretation of Order 06 (as modified by Order 07) and allow the rates filed in Docket UG-190775 to become effective November 1, 2019, by operation of law.

Second, the Commission should reject Staff's proposal that the residual balance of the deferral be classified as a regulatory asset to be recovered in Cascade's next general rate case instead of a surcharge amount, as proposed in Cascade's filing. If the Commission prefers to avoid a surcharge, the Company would instead recommend that the residual balance at the end of the amortization period be rolled into the Unprotected Excess Deferred Income Tax (Unprotected EDIT) balance which is currently being amortized over ten years with a true up every year to account for volumetric changes over time.

### **Discussion**

In Order 06, the Commission directed Cascade to refund customers the Interim Period tax benefit, which amount was an estimate calculated based on the data available at that time. The amount that Cascade was directed to refund to customers was \$1.6 million. Recognizing that the \$1.6 million amount of the Interim Period tax benefit was simply an estimate—and the actual

amount of the benefit remained unknown—the Commission authorized Cascade to file a true up to reflect the actual amount of the Interim Period benefit. Order 06 at ¶44.

Following the issuance of Order 06, Cascade filed for clarification regarding the calculation of the true up, as Staff had informally indicated that its approach (truing up the difference between the amount refunded to customers and the amount of the estimate) differed from Cascade’s proposed approach (truing up the amount refunded to customers to the actual benefit amount). To avoid future confusion or uncertainty on this issue at the time of Cascade’s true up filing, Cascade filed a motion for clarification, specifically asking the Commission to clarify “that the true up contemplated by the Commission is intended to allow Cascade to make a filing based on the Company’s actual 2018 tax liabilities, which will either (1) return to customers additional benefits in excess of \$1.6 million; or (2) recover from customers amounts paid to customers if the actual tax benefits are less than \$1.6 million.”

The Commission granted Cascade’s motion for clarification, and in order 07, the Commission clarified that the “purpose of the true up, therefore, is to ensure that the Interim Period EDIT benefit is neither over- nor under-refunded to customers.” Order 07 at ¶3. The Commission specifically directed that Cascade may file a true up to reflect the *actual* Interim Period benefits:

To address any discrepancy, Cascade may file a true up, effective November 1, 2019, once the actual Interim Period EDIT benefit owed to customers is known.

Order 07 at ¶4. Based on the Commission’s clear direction, Cascade believes that its proposed approach is consistent with the Commission’s direction in Order 06 and 07.

In Staff’s motion for clarification of Orders 06 and 07, Staff requested that the Commission clarify its direction regarding the true up filing to mean the calculation would result in a true up of the actual amounts refunded to customers to the \$1.6 million estimate. In Order 08 in Docket UG-170929, the Commission declined to adopt Staff’s recommendation. Now, Staff is again proposing precisely the same approach in the October 24, 2019 Staff Memo. (Table 2). Staff also proposes a “hybrid” approach, which again fails to adequately consider the actual Interim Period benefits. These recommendations are inconsistent with the clear direction provided in Order 07, and Cascade urges the Commission to reject them, and instead affirm that Cascade appropriately calculated the true up amount based on actual Interim Period benefits, using a with and without tax reform calculation. This approach implements the Commission’s direction that the Company should refund the actual benefit, without over- or under-refunding the benefit to customers.

Finally, Cascade believes that its proposed approach to implement a surcharge in its true up filing is consistent with the Commission’s direction in Orders 06 and 07. While the Commission has discretion to create a regulatory asset for recovery in the Company’s next general rate case, this approach was not contemplated by the Commission in Orders 06 and 07, and Cascade’s proposed surcharge will appropriately balance out the amounts refunded to customers with the actual benefits during the Interim Period. If the Commission prefers to avoid a surcharge, the Company would instead recommend that the residual balance at the end of the amortization period be rolled into the Unprotected EDIT balance. Using this approach, the residual balance

would serve as an offset to the amount refunded to customers through the amortization of the Unprotected EDIT. Cascade further notes that the customer class allocation for the Unprotected EDIT and the Interim Period benefit are the same.

### **Conclusion**

In conclusion, it is Cascade's recommendation, that the Commission should follow Staff's alternative recommendation (a) and affirm Cascade's interpretation of Order 06 (as modified by Order 07) again and allow the rates filed in Docket UG-190775 to become effective November 1, 2019, by operation of law.

If you have any questions, please direct them to me at (509) 734-4593.

Sincerely,

*/s/ Michael Parvinen*

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