BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS CORPORATION,
Respondent.

CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF MICHAEL P. PARVINEN

June 19, 2020
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I. INTRODUCTION

Q. Please state your name and business address.
A. My name is Michael P. Parvinen. My business address is 8113 W. Grandridge Blvd., Kennewick, Washington 99336-7166.

Q. By whom are you employed and in what capacity?
A. I am employed by Cascade Natural Gas Corporation (“Cascade” or “Company”) as the Director of Regulatory Affairs. In this capacity, I am responsible for the management of all economic regulatory functions at the Company.

Q. How long have you been employed by Cascade?
A. I have been employed by Cascade since September 2011. Prior to joining Cascade, I was employed by the Washington Utilities and Transportation Commission (“WUTC” or “Commission”) for nearly 25 years. I was employed as a Regulatory Analyst, later as a Deputy Assistant Director, and lastly as the Assistant Director of the Energy Section.

Q. What are your educational and professional qualifications?
A. I graduated from Montana College of Mineral Science and Technology in May 1986, with a Bachelor of Science degree in Business Administration with an emphasis in accounting.

I have testified numerous times before both the WUTC and the Public Utility Commission of Oregon. I have also analyzed or assisted in the analyses of numerous other utility rate filings and participated in many utility rulemaking proceedings before the WUTC. Finally, I attended the Seventh Annual Western Utility Rate Seminar in 1987 and the 1988 Annual Regulatory Studies Program, sponsored by the National
II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony in this docket?

A. My testimony will cover two areas. First, I will address the Company’s current response to the Commission’s policy statement in Docket U-190531. Second, I will explain the regulatory background regarding pro forma plant adjustments and how the Company’s proposed pro forma plant adjustments are consistent with the Commission’s requirements.

Q. Are you sponsoring any exhibits in this proceeding?

A. No.

III. RESPONSE TO COMMISSION POLICY STATEMENT IN U-190531

Q. Please briefly summarize the Commission’s “used and useful” policy statement in Docket U-190531.

A. The Clean Energy Transformation Act, which passed in 2019, required the Commission to “establish an appropriate process to identify, review, and approve public service company property that becomes used and useful for service in this state after the rate effective date.”¹ In response, the Commission opened an investigation and ultimately issued a policy statement to establish a process for review of capital projects that will become used and useful after the rate effective date and to provide for provisional recovery of such projects subject to refund (“Policy Statement”).² The Commission

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¹ In the Matter of the Comm’n Inquiry into the Valuation of Pub. Serv. Co. Property that Becomes Used and Useful after Rate Effective Date, Docket U-190531, Policy Statement on Property That Becomes Used and Useful After Rate Effective Date at ¶ 1 (Jan. 31, 2020) (“Policy Statement”).
² Id. at ¶¶ 19-20, 38.
explained that companies must identify and separately propose rate-effective-period investment, including providing estimated costs, descriptions, and expected in-service dates. After such investments are placed in service, then the Commission will review them to verify that they have been placed in service on or near the projected in-service date and to confirm that the estimated costs are accurate, known and measurable.

Companies may propose an appropriate process for such review, which must include providing sufficient information to the Commission to facilitate review and affording due process for parties.

Q. Did the Commission also comment on the Policy Statement in its Order 05 in Docket UG 190210, Cascade’s last rate case?

A. Yes, in its Order 05, which was issued less than a week after the Policy Statement, the Commission noted that Cascade had expressed concern about the impacts of regulatory lag in the case, and stated: “We encourage Cascade to carefully review the Policy Statement prior to filing its next general rate case . . . We expect the Policy Statement will aid the Company in formulating its request to address issues related to regulatory lag.”

Q. Is Cascade making a proposal for a multi-year rate plan consistent with the Policy Statement?

A. No, not at this time. The Company appreciates the Commission’s new direction towards a more flexible approach for capital projects that become used and useful after

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3 Id. at ¶ 34.
4 Id. at ¶ 41.
5 Id. at ¶¶ 40, 47.
the rate effective date, and Cascade is very interested in filing a multi-year rate plan using the parameters identified in the Commission’s Policy Statement. However, given the current uncertainty in the Company’s capital planning related to the COVID-19 global pandemic, Cascade will wait until its next rate case to make a proposal.

Q. **Please explain the impacts of COVID-19 on the Company’s capital planning in greater detail.**

A. Due to the impacts of the pandemic in the past several months, access to capital has become more restricted, some new construction has been halted or delayed, and cash flows have dramatically changed. These impacts led Cascade to reevaluate its capital budget and to postpone certain projects, resulting in an approximately 10 percent decrease in the Company’s 2020 Washington capital budget. In addition to impacting the Company’s ability to execute its original 2020 capital budget, these adjustments to the capital budget have a ripple effect on future years’ capital spending, thus creating uncertainty.

Q. **Does Cascade plan to propose a mechanism in the future pursuant to the Commission’s Policy Statement?**

A. Absolutely. Regulatory lag and the inability to receive timely recovery of and on investment have been key drivers in the Company’s need to file frequent general rate cases. Cascade is very interested in presenting a mechanism that can be applied to reduce the regulatory lag, thus better allowing the Company an opportunity to earn its authorized return.

IV. **PROPOSED PRO FORMA PLANT ADDITIONS**

Q. **Company witness Patrick Darras testifies about the Company’s proposed pro**
forma capital additions. Please describe your understanding of the Commission’s standards for inclusion of pro forma adjustments.

A. I understand that the Commission has declined to adopt bright-line rules and that its “long-standing practice is to set rates using a modified historical test year with post-test year adjustments following the used and useful and known and measurable standards while exercising the considerable discretion these standards allow in the context of individual cases.”7 I understand that to be used and useful, a resource must provide quantifiable benefits to Washington customers during the rate year.8 To be known and measurable, an investment must be in service during, or reasonably soon after, the test year and remain in service during the rate year.9

Q. Please explain the Company’s approach to including pro forma capital additions in this case.

A. Cascade proposes to include all major projects, or sections of multi-stage projects, that are projected to be in service by the end of 2020. The Company’s proposal currently is based on actual costs for those projects completed prior to May 31, 2020, and on estimated costs for those projects that are expected to be complete between June 1, 2020 and December 31, 2020. In total, the Company expects that its pro forma capital additions will increase rate base by $64,780,798. Mr. Darras provides detailed explanation regarding each of the proposed projects and their budgets and timelines.

Q. Will the Company provide an update regarding actual project costs and in-service

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9 Id. at ¶ 167.
A. Yes. Cascade will provide an update in its Rebuttal Testimony with actual costs for all projects placed in service by the end of 2020 to ensure that Cascade’s adjustment includes only those projects that are used and useful and for which all costs are known and measurable.

Q. For work that will be performed in the latter half of 2020, does the Company anticipate that its actual investment may vary from the budgeted amounts?

A. Yes. Even under normal circumstances, the Company expects that its actual investment may differ slightly from budgeted amounts. The COVID-19 pandemic has added a layer of uncertainty with the Washington Governor’s stay at home order halting construction from March 23 through May 4 and also affecting permitting and land acquisition agencies. As I explained above, Cascade has carefully evaluated its capital budget in light of the operational and economic impacts of the pandemic and reduced its planned 2020 capital budget for Washington projects by approximately 10 percent.

To ensure that Staff, parties, and the Commission have the most recent information regarding the Company’s capital projects budgets and timelines, Cascade will provide updates regarding changes to budgeted amounts or actual investments, and any relevant changes in schedule, through discovery (as requested) and through the Company’s Rebuttal Testimony.

Q. Mr. Darras testifies that many of the Company’s investments relate to customer growth. Can you please explain why Cascade has included growth-related investments and offsetting revenues in this case?

A. Yes. The primary reason is to help reduce regulatory lag for these growth-related
projects. While there are typically new customers—and therefore new revenues—
associated with growth-related projects, the additional revenues are not sufficient to
provide an adequate return in the early years.

Q. **Does the Company’s proposal to include growth-related investments and**
**offsetting revenues take into account the matching principle?**

A. Yes. The Commission’s long-standing policy requires that proposed pro forma plant
additions must adhere to the matching principle by identifying and reflecting any
offsetting factors.\(^{10}\)

Q. **What is your understanding of the Commission’s evaluation of offsetting factors**
**for proposed pro forma adjustment?**

A. I understand that, for a rate base addition, the Commission evaluates whether the
project directly produces benefits, such as increased revenues or efficiency gains, that
would offset the increased expense.\(^{11}\) The Commission also considers whether any
unrelated but contemporaneous changes in revenues or expenses indirectly offset the
financial impacts of the addition.\(^{12}\) To allow consideration of the impacts of unrelated
changes, the proposed adjustment must be known and measurable reasonably soon after
the test year.\(^{13}\)

Q. **Please explain how Cascade’s proposal accounts for offsetting factors.**

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\(^{10}\) See, e.g., Wash. Utils. & Transp. Comm’n v. Puget Sound Energy Inc., Docket UE-090704 and UG-090705
Comm’n v. Avista Corp. dba Avista Utils., Dockets UE-160228 and UG-160229 (consolidated), Order 06 at
¶ 82 (Dec. 15, 2016) (affirming known and measurable, used and useful, and offsetting factors requirements);
Policy Statement at ¶ 20, n.24 & 24 (re-affirming matching principle).

\(^{11}\) Docket UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 28.

\(^{12}\) *Id.* at ¶¶ 28, 30.

\(^{13}\) *Id.* at ¶¶ 29-31.
A. Cascade is proposing to include all new revenues associated with the proposed pro-
forma capital additions. Specifically, Cascade is proposing that the annual revenue
associated with all new customers added in 2020 be included as an offsetting factor to
the plant additions occurring in 2020. Company witness Isaac Myhrum testifies to the
calculation of the revenues. Cascade also attempted to identify and quantify other
offsetting factors.

Q. Can you provide an example of another offsetting factor that the Company
considered?

A. For a number of the projects included in Mr. Darras’s testimony, system capacity
limitations were a primary driver of the upgrade. Accordingly, under current
conditions, there are additional operating costs incurred during peak cold weather
events, when extensive on-site personnel are required to maintain pressures and keep
the system operating. By performing the upgrades, Cascade will not incur these
additional operating costs during peak cold weather events, which can be viewed as an
offsetting cost savings. However, as a practical matter, there were no peak weather
events during the test year, and thus Cascade did not incur these additional operating
costs during the test year, and so Cascade is not proposing any adjustment to account
for this offsetting factor.

Q. Please continue explaining the Company’s proposal regarding identifying actual
cost and offsetting factors.

A. Additionally, Cascade’s proposed adjustment will be known and measurable well
before the effective date of this rate request. As I explained above, the Company
proposes to include only the actual investment that will be in service and used and
useful by the end of 2020. This is just one year after the test year and at least four months prior to the rate effective date.

To allow consideration of actual investment and offsetting customer revenue, Cascade proposes to provide updates through discovery and final values in its Rebuttal Testimony. Cascade’s Rebuttal Testimony will include the actual capital investment for the 2020 projects and actual number of customers as of the end of 2020.

Q. Mr. Darras characterizes the proposed projects as “major.” Please explain Cascade’s approach to identifying major capital projects in this case.

A. Cascade’s proposes to include as major capital projects all projects for which the budget exceeded $120,000. While $120,000 in and of itself may not seem “major,” there are several projects in this cost range that, together, represent significant investment, and therefore warrant inclusion for recovery.

Q. Is Cascade including its total capital budget in this request?

A. No. There is significant investment that is not included that will put pressure to file an additional rate case shortly after the conclusion of this rate case. In fact, approximately $30 million of proposed investment is not included in either this docket or the Cost Recovery Mechanism recently filed in Docket UG-200493.

Q. Has the Commission applied a cost threshold for “major” capital projects?

A. I understand that the Commission “does not support a bright-line definition of major investment,” but requires proposed projects to “meet some reasonable definition of
major” in order to be eligible for a pro forma adjustment.\(^\text{14}\) I understand that, in the past, the Commission has in some cases defined a “major” resource consistent with its rule on budgets as 0.5 percent of net utility plant in service,\(^\text{15}\) however that threshold has not been strictly applied in all cases.

Q. Has Commission Staff also taken a more flexible approach to the application of a “major” resource threshold in the past?

A. Yes. In Cascade’s 2017 rate case, Commission Staff recognized that application of the 0.5 percent threshold to Cascade would be unreasonable and that natural gas local distribution companies like Cascade invest in many small, individual projects—unlike electric utilities.\(^\text{16}\) Here, the Company’s proposal to include all projects with budgets over $120,000 encompasses those projects that are major in Cascade’s specific circumstances presented in this case. In addition, this threshold results in a reasonable number of projects—just 15—for Staff and intervening parties to review.\(^\text{17}\)

Q. Does this conclude your testimony?

A. Yes, it does.


\(^\text{15}\) Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶¶ 30, 40.


\(^\text{17}\) See Dockets UE-170485 and UG-170486 (consolidated), Order 07 at ¶ 198.