

Exhibit No. __ (MPP-1T)
Docket No. UG-20____
Witness: Michael P. Parvinen

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,
Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,
Respondent.

DOCKET UG-20_____

**CASCADE NATURAL GAS CORPORATION
DIRECT TESTIMONY OF MICHAEL P. PARVINEN**

June 19, 2020

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I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is Michael P. Parvinen. My business address is 8113 W. Grandridge Blvd.,
3 Kennewick, Washington 99336-7166.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by Cascade Natural Gas Corporation (“Cascade” or “Company”) as the
6 Director of Regulatory Affairs. In this capacity, I am responsible for the management
7 of all economic regulatory functions at the Company.

8 **Q. How long have you been employed by Cascade?**

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

14 **Q. What are your educational and professional qualifications?**

15 A. I graduated from Montana College of Mineral Science and Technology in May 1986,
16 with a Bachelor of Science degree in Business Administration with an emphasis in
17 accounting.

18 I have testified numerous times before both the WUTC and the Public Utility
19 Commission of Oregon. I have also analyzed or assisted in the analyses of numerous
20 other utility rate filings and participated in many utility rulemaking proceedings before
21 the WUTC. Finally, I attended the Seventh Annual Western Utility Rate Seminar in
22 1987 and the 1988 Annual Regulatory Studies Program, sponsored by the National

1 Association of Regulatory Utility Commissioners.

2 II. SCOPE AND SUMMARY OF TESTIMONY

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

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

8 **Q. Are you sponsoring any exhibits in this proceeding?**

9 A. No.

10 III. RESPONSE TO COMMISSION POLICY STATEMENT IN U-190531

10 **Q. Please briefly summarize the Commission's "used and useful" policy statement in**
11 **Docket U-190531.**

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

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.

1 explained that companies must identify and separately propose rate-effective-period
2 investment, including providing estimated costs, descriptions, and expected in-service
3 dates.³ After such investments are placed in service, then the Commission will review
4 them to verify that they have been placed in service on or near the projected in-service
5 date and to confirm that the estimated costs are accurate, known and measurable.⁴
6 Companies may propose an appropriate process for such review, which must include
7 providing sufficient information to the Commission to facilitate review and affording
8 due process for parties.⁵

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

11 A. Yes, in its Order 05, which was issued less than a week after the Policy Statement, the
12 Commission noted that Cascade had expressed concern about the impacts of regulatory
13 lag in the case, and stated: “We encourage Cascade to carefully review the Policy
14 Statement prior to filing its next general rate case . . . We expect the Policy Statement
15 will aid the Company in formulating its request to address issues related to regulatory
16 lag.”⁶

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

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

³ *Id.* at ¶ 34.

⁴ *Id.* at ¶ 41.

⁵ *Id.* at ¶¶ 40, 47.

⁶ *Wash. Utils. & Transp. Comm’n v. Cascade Nat. Gas Corp.*, Docket UG-190210, Order 05 at ¶ 14-15 (Feb. 3, 2020).

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

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

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

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

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

IV. PROPOSED PRO FORMA PLANT ADDITIONS

22 **Q. Company witness Patrick Darras testifies about the Company’s proposed pro**

1 **forma capital additions. Please describe your understanding of the Commission’s**
2 **standards for inclusion of pro forma adjustments.**

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

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

13 A. Cascade proposes to include all major projects, or sections of multi-stage projects, that
14 are projected to be in service by the end of 2020. The Company’s proposal currently
15 is based on actual costs for those projects completed prior to May 31, 2020, and on
16 estimated costs for those projects that are expected to be complete between June 1,
17 2020 and December 31, 2020. In total, the Company expects that its pro forma capital
18 additions will increase rate base by \$64,780,798. Mr. Darras provides detailed
19 explanation regarding each of the proposed projects and their budgets and timelines.

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

⁷ *Wash. Utils. & Transp. Comm’n v. Avista Corp. dba Avista Utils.*, Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶ 35 (Jan. 6, 2016).

⁸ *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-140762, Order 08 at ¶ 166 (Mar. 25, 2015).

⁹ *Id.* at ¶ 167.

1 **dates?**

2 A. Yes. Cascade will provide an update in its Rebuttal Testimony with actual costs for all
3 projects placed in service by the end of 2020 to ensure that Cascade's adjustment
4 includes only those projects that are used and useful and for which all costs are known
5 and measurable.

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

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

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

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

23 A. Yes. The primary reason is to help reduce regulatory lag for these growth-related

1 projects. While there are typically new customers—and therefore new revenues—
2 associated with growth-related projects, the additional revenues are not sufficient to
3 provide an adequate return in the early years.

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

6 A. Yes. The Commission’s long-standing policy requires that proposed pro forma plant
7 additions must adhere to the matching principle by identifying and reflecting any
8 offsetting factors.¹⁰

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

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

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

¹⁰ See, e.g., *Wash. Utils. & Transp. Comm’n v. Puget Sound Energy Inc.*, Docket UE-090704 and UG-090705 (consolidated), Order 11 at ¶ 27 (Apr. 2, 2010) (explaining matching principle); *Wash. Utils. & Transp. 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.

1 A. Cascade is proposing to include all new revenues associated with the proposed pro
2 forma capital additions. Specifically, Cascade is proposing that the annual revenue
3 associated with all new customers added in 2020 be included as an offsetting factor to
4 the plant additions occurring in 2020. Company witness Isaac Myhrum testifies to the
5 calculation of the revenues. Cascade also attempted to identify and quantify other
6 offsetting factors.

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

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

19 **Q. Please continue explaining the Company's proposal regarding identifying actual**
20 **cost and offsetting factors.**

21 A. Additionally, Cascade's proposed adjustment will be known and measurable well
22 before the effective date of this rate request. As I explained above, the Company
23 proposes to include only the actual investment that will be in service and used and

1 useful by the end of 2020. This is just one year after the test year and at least four
2 months prior to the rate effective date.

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

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

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

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

14 A. No. There is significant investment that is not included that will put pressure to file an
15 additional rate case shortly after the conclusion of this rate case. In fact, approximately
16 \$30 million of proposed investment is not included in either this docket or the Cost
17 Recovery Mechanism recently filed in Docket UG-200493.

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

19 A. I understand that the Commission “does not support a bright-line definition of major
20 investment,” but requires proposed projects to “meet some reasonable definition of

1 major” in order to be eligible for a pro forma adjustment.¹⁴ I understand that, in the
2 past, the Commission has in some cases defined a “major” resource consistent with its
3 rule on budgets as 0.5 percent of net utility plant in service,¹⁵ however that threshold
4 has not been strictly applied in all cases.

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

7 A. Yes. In Cascade’s 2017 rate case, Commission Staff recognized that application of the
8 0.5 percent threshold to Cascade would be unreasonable and that natural gas local
9 distribution companies like Cascade invest in many small, individual projects—unlike
10 electric utilities.¹⁶ Here, the Company’s proposal to include all projects with budgets
11 over \$120,000 encompasses those projects that are major in Cascade’s specific
12 circumstances presented in this case. In addition, this threshold results in a reasonable
13 number of projects—just 15—for Staff and intervening parties to review.¹⁷

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.

¹⁴ *Wash. Utils. & Transp. Comm’n v. Avista Corp. dba Avista Utils.*, Dockets UE-170485 and UG-170486 (consolidated), Order 07 at ¶ 196 (Apr. 26, 2018).

¹⁵ Dockets UE-150204 and UG-150205 (consolidated), Order 05 at ¶¶ 30, 40.

¹⁶ *See Wash. Utils. & Transp. Comm’n v. Cascade Natural Gas Corporation*, Docket UG-170929, Rebuttal Testimony of Michael P. Parvinen, (MPP-7T) at 29-30 (Mar. 23, 2018).

¹⁷ *See* Dockets UE-170485 and UG-170486 (consolidated), Order 07 at ¶ 198.