Docket No. UG-95____
Exhibit ____ (PAS-Testimony)
Witness: Peter A. Schwartz

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

GENERAL RATE APPLICATION
OF
CASCADE NATURAL GAS CORPORATION

DECEMBER 11, 1995

Prepared Direct Testimony of

Peter A. Schwartz

Restatement of Test Period Sales at Margins Effective at 1/1/94
Weather Normalization Adjustment
Demand Side Management Program Expense
Reconnect and Collection Fee Revenue Adjustment

WUTC UG-950326,
DOCKET NO. -951415
EXHIBIT # T-32
ADMIT ☒ W/D ☐ REJECT ☐

PREPARED TESTIMONY OF PETER A. SCHWARTZ

RE: EXHIBIT ___ (PAS-1)
EXHIBIT ___ (PAS-2)
EXHIBIT ___ (PAS-3)
EXHIBIT ___ (PAS-4)

Q. Please state your name and address for the record.

A. Peter A. Schwartz, 222 Fairview Avenue North, Seattle, Washington 98109.

Q. By whom are you employed?

A. I am employed by Cascade Natural Gas Corporation as the Director of Planning and Rates.

Q. Please describe your education and employment background.

A. I graduated from the University of Washington in 1982 with a Bachelor of Arts degree in Sociology and Society and Justice. In January, 1983, I was employed by Cascade Natural Gas Corporation as a Contract and Sales Analyst. In 1988, I graduated from Pacific Lutheran University with a Master of Business Administration degree. Upon completing my graduate studies, I was assigned the duties of Manager of Planning and Special Studies with principal responsibility of Integrated Resource Planning. In January, 1995, I was assigned the duties of Director of Planning and Rates.

Q. What are your primary responsibilities as the Director of Planning and Rates at Cascade?

A. I am responsible for the preparation of rate related exhibits in "tracking" and general rate filings as well as integrated resource planning.

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Q. Have you previously sponsored testimony before utility commissions?

A. Yes, I have sponsored testimony before the Oregon Public Utilities Commission.

Q. Do you sponsor exhibits in this filing?

A. Yes. I sponsor four exhibits. The exhibits are Exhibit ___ (PAS-1), Actual Test Period Therm Sales Repriced at Rates Effective at January 1, 1994; Exhibit ___ (PAS-2), Adjustment Required to Reflect Normal Weather for the Twelve Months Ended December 31, 1994; Exhibit ___ (PAS-3), Community Action Council Demand Side Management Program Expense Adjustment; and Exhibit__ (PAS-4) Reconnection and Collection Fees Revenue Adjustment.

Q. Were these exhibits prepared by you or under your direct supervision?

A. Yes.

Q. Will you please describe the general purpose for restating revenues, adjusting revenues for weather normalization, adjusting expenses for deferred weatherization costs, and adjusting revenues for reconnection and collection fees.

A. Revenues are first restated in Exhibit ___ (PAS-1) to account for several non-recurring revenue related items occurring in the test period including; changes in gas costs that are included in rates in the test year, customers who shift from one rate schedule to another, out of test period therm adjustments and overrun penalties. Revenues are adjusted in Exhibit__(PAS-2) on a pro forma basis for weather normalization purposes to account for the impact of weather on margins resulting from gas sales.

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Expenses are adjusted for Demand Side Management program (DSM) costs shown in Exhibit ___ (PAS-3). These DSM program costs were deferred from a pilot Community Action Council (CAC) DSM program in 1992, and are now being expensed.

EXHIBIT ___ (PAS-1)

Actual Test Period Therm Sales Repriced at Rates Effective at 1/1/94

Q. Will you please describe the contents of Exhibit ___ (PAS-1)?

A. Exhibit ___ (PAS-1) is the development of the net adjustment required to restate test period gas sales at base rates which were in effect on January 1, 1994. Based on discussions with WUTC Staff, Cascade has agreed to analyze its revenue requirement on a margin only basis. Therefore, the revenue adjustment from this revenue restatement will include removing revenues associated with gas costs. The revenues associated with gas costs will be addressed in a separate purchased gas adjustment (PGA) rate application. The volumes used by those customers that switched to a different rate schedule during the test period have been restated as though they had been on their current rate schedule the entire test period, with the corresponding adjustment to the rate schedules under which they were previously served. The development of the restated revenue adjustment consists of a summary page listing actual twelve months ended December 31, 1994 gas sales revenue and therms sold, the revenue from actual therms sold recalculated at the January 1, 1994 base rate level, revenues associated with gas cost and applicable gross revenue fees, margin and the revenue adjustment resulting from the

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margin less the revenue from actual therms sold restated at January 1, 1994 rates. The format of this schedule divides Cascade's customers into six classifications: residential, commercial, industrial firm, industrial interruptible, institutional and non-core. The "non-core" customer class has been included as a separate customer class due to Cascade unbundling gas supply, transportation and distribution services for its large volume customers in the Company's 1989 general rate case. Column (b) identifies the rate schedules. Column (c) lists the average number of bills issued. Column (d) is the test period therms sold as adjusted for the shift from one rate schedule to another and any appropriate in-period or out of period adjustments. Column (e) is a listing of the test period gas sales revenues, adjusted for the revenue associated with the corresponding therm shifts in column (d).

Column (f) shows what the revenues would have been for the period, had the base rates which were in effect January 1, 1994 been the only rates in effect for the full test period. Column (g) states gas costs at rates effective January 1, 1994. Column (h) restates the revenue component associated with gas costs to include applicable gross revenue fees. Column (i) shows margin as a function of revenues associated with gas cost plus applicable gross revenue fees (column (h)) subtracted from revenues at January 1, 1994 rates (column (f)). Column (j) is the difference "between" adjusted actual revenues (column (e)) and margin (column (i)). The net change in revenues less revenues associated with gas cost and applicable gross revenue fees is listed on line 51, column

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(i). (Revenues associated with gas costs have been removed from this revenue adjustment to reflect revenues from margin as a basis to make further adjustments using margins only to ultimately determine revenue requirement.)

Also included in this schedule are the adjustments as booked for the test period. These adjustments include netting out B&O tax revenues. The adjustments also include removing billing and technical adjustments.

Each customer class' net unbilled revenues and company use revenues have been removed and are shown within each customer class as line items.

Q. What is the total revenue adjustment resulting from Exhibit ___ (PAS-1)?

A. The total change in gas sales revenue appears on line 51, column (j) and is a decrease in revenue of $103,110,887. This total change in gas sales revenue also appears on Exhibit ___ (JTS-1), page 2 of 3, Schedule of Restating Adjustments, column (b) line 1.

EXHIBIT ___ (PAS-2)

Adjustment Required to Reflect Normal Weather for the Twelve Months Ended December 31, 1994

Q. Will you please describe the contents of Exhibit ___ (PAS-2)?

A. Exhibit ___ (PAS-2) is the development of the adjustments required to normalize the test period therm sales and resulting margins for variances in weather. The weatherization methodology used by Cascade in this Ex__(PAS-2) is the same methodology used and approved in Cascade's

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last two general rate cases, UG-100 and the Unbundling Cas approved in 1989. Cascade is currently discussing with WUTC Staff alternate methods to the one filed herein to determine if another weather normalization approach may be more appropriate.

Q. Why is it necessary to adjust test period therm sales, revenues and gas costs?

A. For a residential or commercial customer, weather is a significant variable in determining the number of therms customers will use. Since, overall, the weather during the test period was warmer than normal, the effect of that variable on therm consumption should be measured and the actual therms, revenues and gas costs should be adjusted to reflect normal weather conditions.

Schedule 2 shows the development of the weather normalizing therm adjustment. Page 1 shows the therm adjustment for the residential class for each of the four Washington weather areas served by Cascade for each of the weather sensitive months of the test period. Line 45 on Page 1 shows the total therm adjustment for each month for the residential customers, the total of which appears on Line 45 of Page 2.

Q. Please describe how the weather normalizing therm adjustments were calculated.

A. With Cascade's Washington service areas divided into four weather areas, the actual billing therm sales by area were listed. These billing month sales were then adjusted by the unbilled therms to restate the actual sales to calendar month sales which are then compatible with the monthly degree days. These calendar month sales were then reduced by the non-weather sensitive or base load therms to develop net weather sensitive

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monthly gas sales. These net weather sensitive therm sales were then divided by the number of customers and the actual degree days to develop an average use per customer per degree day. The average use per degree day was then multiplied by a figure representing normal degree days and by customer count to develop normalized weather sensitive gas sales. These normalized weather sensitive gas sales were then compared to the actual weather sensitive sales and the difference is the weather adjustment in therms. This procedure was followed for each weather sensitive month for each weather area for both classes of customers. A period of 20 years with the highest and the lowest years excluded (18-year average) is the basis for determining average weather patterns. The total monthly therm adjustments shown on Schedule 2, Line 45 of Page 1 and Page 2 were then totalled and brought forward to Schedule 1, Page 1. Therm sales to the residential class during the test period would have been 2,685,990 therms more under normal weather conditions and, at current rates, $607,329 more margin would have been generated. These numbers are shown on Exhibit __(PAS-2), Schedule 1, Page 1, Lines 1 and 2. The commercial therm sales would have increased by 2,594,975 therms and, at current rates $442,425 more margin would have been generated as shown on Schedule 1, Page 1, Lines 3 and 4. Therefore, under normal weather conditions Cascade would have sold 5,280,965 additional therms to these two customer groups. This weather normalization adjustment also appears in Exhibit __(JTS-1), Schedule 1 of 1, Page 3 of 3, Column (h), Line 1.

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EXHIBIT ___ (PAS-3)

Consumer Action Council Demand Side Management Program Adjustment

Q. Please describe the contents of Exhibit___(PAS-3).

A. Exhibit ___ (PAS-3) shows the total costs of the Consumer Action Council (CAC) demand side management (DSM) program during 1992.

Q. Please describe the CAC DSM program.

A. Cascade's CAC DSM program was the first pilot DSM program the Company experienced. The program involved payments to four CACs to complete an energy audit and weatherize participants' homes, educate program participants about using energy efficiently and paying for the CACs' related program administrative costs. Through the CACs' cooperation with Cascade, 66 CAC clients using gas for space heating benefitted by participating in the program.

Q. How were these CAC DSM program investments fair, just and reasonable?

A. The CAC DSM program's cost effectiveness on a total resource cost basis was based on engineering estimates of energy savings for several residential weatherization measures to be installed in CAC client homes in four of Cascade's Washington service areas. The Washington program participants have thus far saved an average of 7,977 therms per year over a two-year period resulting in a $0.837 per therm levelized cost over 30 years. Cascade's avoided cost identified in its 1993 Integrated Resource Plan (IRP) is $0.39 per

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therm over 30 years.

Cascade's Washington ratepayers received valuable information resulting from this program. The Company has used the energy savings and weatherization measure cost data from this CAC DSM program along with similar data from other Cascade pilot DSM programs to identify potential cost effective DSM resources in Cascade's service area. This information of actual Cascade service area DSM energy savings and costs has allowed the Company to include DSM as an energy resource in its IRP which helps to reduce long term energy costs to Cascade's Washington ratepayers. Cascade believes there are other non-energy benefits to ratepayers and society beyond the value of the data collected from this pilot program. These include the potential for reduced bill collections and service disconnect efforts, increased comfort for program participants and reduced reliance on government subsistence programs such as the Low Income Home Energy Assistance Program (LIHEAP).

Q. Please describe why DSM program costs incurred outside the test period are reasonable to include as an expense adjustment in this general rate application.

A. In the WUTC's open meeting on May 13, 1992, the Commission authorized the accounting treatment for this CAC DSM investment proposed at that time by Cascade in its filing in Docket Number UG-920527. The specific accounting procedures requested by Cascade and approved by the Commission included deferring all payments made to CACs as part of the Company's 1992 DSM program with those agencies, until the

Company's next general rate case in which recovery of those expenditures may be requested. The payments which are to be deferred were not to exceed $100,000. The Commission authorization specified that no return on the net deferred expenses was to be earned and therefore the DSM investments were not placed in rate base, but included as an expense adjustment. Cascade proposes to include one third of the deferred amount as an annual expense which recognizes a three-year amortization of these DSM investments.

By including the pilot program's DSM investments in rates as an expense adjustment, Cascade will have an annual amount equal to this adjustment available for future DSM program activities. Possibilities include future low income weatherization programs, a low flow showerhead program, a school weatherization program and other residential and commercial DSM programs.

Q. Please identify the total CAC DSM program expense adjustment in Exhibit ___ (PAS-3).

A. The total CAC DSM program expense adjustment shown on Exhibit ___ (PAS-3), schedule 1 of 1, page 1 of 1, column (j), line 15 is $32,440. This adjustment also appears on Exhibit ___ (JTS-1), page 2, column (i), line Z.

EXHIBIT ___ (PAS-4)

Reconnection and Collection Fees Revenue Adjustment

Q. Will you please describe the contents of Exhibit__(PAS-4).

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A. Cascade has had the same meter reconnection fee since 1972 and the same meter site bill collection fee since 1976 as specified in the Company's Rule 5 (Tariff Sheet No. 9). As shown in Exhibit PAS-4, Schedule 1 of 1, Page 1 of 1, test period booked revenues for these services to a select set of customers do not nearly reflect the test period expenses identified. If this inequity of matching revenues collected from customers who have their meter reconnected, to the expenses generated from these utility services, other ratepayers will be harmed by subsidizing the portion of these costs not remediated by the fees currently specified in Cascade's Rule 5.

The only personnel Cascade has to officially turn off a gas meter are service mechanics. Exhibit PAS-4 shows the major expense associated with meter disconnection, meter-site collection and meter reconnection is the labor cost. These utility services are far more costly during non-business hours due to the overtime pay requirements associated with labor after business hours.

Q. What level of fees are appropriate now?

A. The Company proposes to change the fee structure in its Rule 5, Tariff Sheet No. 9, to reflect $25.00 as a fee for meter reconnection during business hours, $20.00 as a fee for meter-site collections and $90.00 as a fee for reconnections during non-business hours. This fee structure still does not fully recover the cost of these utility services from the customers that are causing the costs to occur. Therefore, even under this new fee structure, other ratepayers will still be subsidizing a portion of the costs. However, these

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proposed fees will recover a majority of the utility costs thereby making the subsidy by other ratepayers much smaller.

Q. Does this complete your testimony?

A. Yes, it does.

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