8113 W. GRANDRIDGE BLVD., KENNEWICK, WASHINGTON 99336-7166 TELEPHONE 509-734-4500 FACSIMILE 509-737-9803
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Via UTC Web Portal

Mark L. Johnson
Executive Director and Secretary
Washington Utilities & Transportation Commission
1300 621 Woodland Square Loop S.E.
P.O. Box 47250
Olympia, Washington 98504-7250

RE: **Docket U-190531 – Comments of Cascade Natural Gas Corporation**

Dear Mr. Johnson,

Cascade Natural Gas Corporation ("Cascade" or "Company") responds to the questions presented in the Washington Utilities and Transportation Commission's ("Commission") "Notice of Opportunity to File Written Comments" ("Notice")[1] by respectfully submitting the following comments for the Commission's consideration.

Introduction

Cascade very much appreciates the Commission's inquiry into SB 5116 regarding the valuation of public service property that becomes used and useful for service after the rate effective date. Cascade welcomes this opportunity to express its views and provide recommendations or guidance to improve the Commission's current regulatory framework.

[1] The Commission's Notice was filed in Docket U-190531 on July 5, 2019.

Cascade provides these initial comments in this docket in conjunction with comments submitted on January 17, 2019, in Docket U-180907 also addressing capital investment incurred after the final order in a general rate case.

Summary

Cascade believes that a number of regulatory mechanisms designed to recognize capital investments made during the rate year and beyond could successfully be implemented to not only provide an adequate opportunity for utilities to earn their authorized rates of return but in a manner that meets such regulatory principles as the used and useful concept. Such mechanisms can be implemented to reduce regulatory lag, reduce rate case fatigue, protect against possible over-earning, as well as promote investment to provide safe, reliable, and sufficient service.

Cascade provides the following responses:

1. In order for property to be considered for inclusion in rates during the rate effective period, should such property specifically be identified in the general rate case giving rise to those rates, or can specific property be identified in a subsequent proceeding? If such property may be identified in a subsequent proceeding, what proceeding would that be and why?

Response: Speaking specifically to a general rate case in which the rate period has yet to occur, no, as specifically identified property becomes problematic. Cascade, plans/budgets its capital investment by both project and total investment for any given year months in advance of the year. As the budget year proceeds, any number of projects may not come into fruition or be completed on time or higher priority projects may be identified or focused on. The point is that a company must be proactive and yet reactive in managing its capital investment and Cascade is just that. However, the one constant that remains throughout the year is the authorized level of investment. If one project is not undertaken for any given reason, another will take its place given the total board authorized level of investment. The important point is that the total level of investment that is used and useful during the rate effective period is much more constant and predictable looked at in total versus a project by project basis.

There are many mechanisms or proceedings at the Commission's disposal for evaluating investments after the rate effective date that not only assure that rates are set at a fair, just, reasonable, and sufficient manner, but that assure that such investments are used and useful.

Mechanisms or proceedings suggested for consideration include but are not limited to:

- Expanded Pro-Forma Adjustments (Future Test Year),
- Multi-Year Rate Plans, and
- Modified Cost Recovery Mechanism (CRM).

Expanded Pro-Forma Adjustments (Future Test Year): A pro-forma adjustment is one that adjusts for known and measurable changes without offsetting benefits. The historical purpose of a pro-forma adjustment is to identify costs that will be incurred in the rate year. Plant investments can be identified to a reasonable level as those that expect to be made in the rate year (the 12-month period after rates go into effect). The used and useful standard has been a hinderance for the Commission to allow recovery of and on investments past a certain point in time in order to verify complete prudence of each project. The Commission can allow investments that are reasonably expected to occur subject to verification at a later point in time. Cascade would offer the annual Commission Basis Report as a tool to verify the level of rate base during any calendar year. Another approach would be an attestation from a company officer that rate base at the end of the rate year is greater than the rate base used to set rates. Both these approached deal with verification of investments. General rate cases will still b e the proper forum for completing a full prudence determination.

One can take the concept of matching the rate base expected to be in place during the rate year and adjust all expected expenses and revenues in order to keep true to the matching principle. This proposal is a move toward or to a full future test year. The use of Commission Basis Reports is an appropriate tool for again verifying accuracy of results and verification of level of capital investment.

Multi-Year Rate Plans: The concept of setting rates for current expectations and then again to account for future expectations helps reduce regulatory lag and rate case fatigue from continuous general rate case filings. Multi-year rate plans typically put tremendous pressure on the company to maintain costs at or below those approved for rates. The Commission can again use the Commission Basis Report or other reporting as deemed appropriate for verification that the relationships approved in a multi-year rate plan are reasonable and that the approved level of capital investment was achieved.

Modified Cost Recovery Mechanism (CRM): The Commission has approved the use of the CRM mechanism to encourage companies to replace their most at-risk pipe. The mechanism can simply be expanded to include other types of investment as deemed appropriate. The most logical investment would be other non-revenue producing investment not already included in the CRM. The current CRM requires a general rate case no less than four years after rates go into effect. This requirement assures that if companies are able to contain costs and actually achieve their authorized returns that such earnings will not continue indefinitely.

With any of the proposals above, the goal is to reduce regulatory lag thus providing a more reasonable opportunity for a company to achieve its authorized rate of return. Cascade would point out that it has an earnings sharing mechanism in place so that in any given year if it achieves above its authorized return that it returns a portion to customers.

2. How should plant-in-service be valued (for the determination of rate base) for each year of a rate plan? Does this valuation depend on prospectively identifying specific plant investments across the rate plan during the general rate case giving rise to the rates? Why or why not?

Response: Rate base for each year of a rate plan should be based on expectations approved in a current rate case. Reviews to verify accuracy of investment should be based on total rate base and not just specific projects or investments. See response to item 1 above for specific budgeting and actual investment detail.

3. What should be the review process for property included in rates that becomes used and useful after the rate effective date? Is this review process the same for plant placed in service both up to and during the rate-effective date?

Response: Cascade would propose a two-prong approach. First, any such investment included in rates should be reviewed to verify that projects are reasonable and appropriate for recovery. Typically, this investment would be based on budgets of which any material or major project would have been scrutinized internally and supporting documentation would be made available for a reasonableness review. Second, through either the use of the Commission Basis Report or other review process the Commission deems appropriate, the company should be required to provide supporting documentation of each major project actually included in Plant in Service but not identified in the rate base included in a general rate case.

4. Should *pro forma* plant additions placed in service after the test year but before

the rate effective date be considered using the same process that the Commission will use to identify, review, and approve property that becomes used and useful after the rate effective date? Or should these post-test year plant additions be considered under a separate process? What is the best way to incorporate the participation of all of the parties to the underlying rate proceeding in the process of reviewing the prudence of these post- test year plant additions?

Response: Plant additions included in pro forma adjustments after the test year but prior to the rate year can be reviewed very similarly to investments made after the rate effective date. Verification of actuals can be performed using the CBR or other reporting as deemed appropriate by the Commission.

5. If the rate base used to establish rates for a multi-year rate plan relies on a formula or plant-in-service projections (rather than a prospective identification of specific investments), what is the appropriate process for identifying, reviewing, and approving property that becomes used and useful for service after the initial rate-effective date? How should actual plant-in-service relate to the plant-in-service used to establish rates?

Response: As stated in previous responses, the use of the CBR or other reporting as deemed appropriate can be used to verify levels of investment beyond the rate effective period where actual plant in service is provided. The actual plant in service totals should be at least as great as the investment allowed for recovery in rates.

In closing, Cascade appreciates the opportunity to provide these comments and looks forward to participating in any further proceeding. Please refer all questions to Michael Parvinen at 509-734-4593 or at michael.parvinen@cngc.com.

Sincerely,

/s/ Michael Parvinen

Michael Parvinen
Director, Regulatory Affairs
Cascade Natural Gas Corporation
8113 W Grandridge Blvd
Kennewick, WA 99336-7166
michael.parvinen@cngc.com