

**BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of

CASCADE NATURAL GAS
CORPORATION,

Petitioner,

For An Accounting Order Authorizing
Deferred Accounting Treatment of
Expenses Related to the Maximum
Allowable Operating Pressure
Determination and Validation Plan.

DOCKET UG-160787

ORDER 01

ORDER GRANTING ACCOUNTING
PETITION

BACKGROUND

- 1* On June 1, 2016, Cascade Natural Gas Corporation (Cascade or Company) filed with the Washington Utilities and Transportation Commission (Commission) a petition (Petition) pursuant to WAC 480-07-370(1)(b) requesting an order authorizing deferred accounting treatment of incremental third-party costs incurred to implement the Maximum Allowable Operating Pressure Determination and Validation Plan (MAOP Plan).
- 2* On May 2, 2016, Cascade filed its MAOP Plan as required by Order 01 in Docket PG-150120.¹ In its Petition, Cascade asserts that the implementation of its MAOP Plan will result in significant incremental costs that were not accounted for in Cascade's most recent general rate case in Docket UG-152286. Cascade projects it will incur a total of \$2.6 million in 2016 and between \$6 and \$8 million in 2017 in incremental third-party costs to comply with its completion of its MAOP Plan.
- 3* In Docket PG-160293, Cascade filed its 2015 Pipe Replacement Program Plan.² The Company's 2015 Plan included both a Master Plan for replacing all facilities with an

¹ See Order 01 Accepting Agreement and Closing Docket (February 12, 2015).

² In Order 01 in Docket PG-160293 the Commission approved in part and rejected in part Cascade's 2015 Pipe Replacement Program. The Commission rejected the portion of Cascade's Plan that addressed the sections of pipeline that fail to comply with the requirements of 49 CFR 192.619 due to insufficient MAOP documentation, but found that its 2015 Two-Year Plan was

elevated risk of failure and a Two-Year plan that specifically identified the pipe replacement program goals for the upcoming two-year period. According to the Company's Two-Year Plan, the work related to its MAOP Plan includes:

- a. Records review of all of Cascade's high pressure pipeline segments operating above 60 psig (pounds per square inch gauge)
- b. In situ testing (material testing in place)
- c. Pressure testing
- d. Mapping/GIS work
- e. Baseline assessments for line segments preliminarily calculated at greater than 20 percent Specified Minimum Yield Strength that are incorporated into Cascade's transmission integrity management program.

4 The Company requests an accounting order authorizing deferral of incremental third-party costs because (a) the costs are material; (b) the potential benefits to customers of the program could result in capital cost reductions; (c) deferral treatment properly matches Cascade's ability to embed these ongoing costs in general rates. The Company requests to record the deferred costs in FERC Account 182.3, Other Regulatory Assets.

5 Staff has investigated the circumstances underlying the Company's request, and agrees that deferred accounting treatment is appropriate because the costs are currently unknown. In light of the fact that prudence and cost recovery will be determined at a later date and the final disposition not yet known, Staff recommends the Company record the deferred costs in FERC Account 186, Miscellaneous Deferred Debits. Staff supports the accounting treatment subject to the following conditions:

- (a) The Company will record the deferred costs in FERC Account 186, Miscellaneous Deferred Debits.
- (b) Costs eligible for deferred accounting treatment will include only those amounts paid to outside vendors, contractors, and consultants, and will not include internal employee salaries, legal costs, directly assigned or allocated overhead, or other incidental employee costs, such as hotels, meals, etc.

otherwise consistent with the Commission's Policy Statement on Accelerated Replacement of Pipeline Facilities with Elevated Risk in Docket UG-120715.

- (c) The prudence of the deferred costs will be determined in a future rate proceeding. Deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes.
- (d) The deferred costs, if approved for recovery in a general rate case, will be amortized over a period determined in that proceeding.
- (e) The Company will not accrue interest on the MAOP Plan deferred costs.

DISCUSSION

6 We approve the Petition subject to the conditions proposed by Staff. We agree with Staff that the Company should record deferred costs in FERC Account 186, Miscellaneous Deferred Debits, because the incremental third-party costs for compliance with Cascade's completion of its MAOP Plan are currently unknown.

7 Further, our decision in no way constitutes a preapproval of the Company's incremental third-party costs, and the Commission makes no finding regarding the prudence of those costs, which will be addressed in a future regulatory proceeding. We do, however, recognize that these measures are critical to achieving and maintaining pipeline safety. Accordingly, we grant Cascade's Petition subject to the conditions set out above.

FINDINGS AND CONCLUSIONS

- 8 (1) The Commission is an agency of the State of Washington vested by statute with the authority to regulate the rates, rules, regulations, practices, accounts, securities, transfers of property and affiliated interests of public service companies, including gas companies.
- 9 (2) Cascade is a gas company and a public service company subject to Commission jurisdiction.
- 10 (3) WAC 480-07-370(1)(b) allows companies to file petitions including that for which Cascade seeks approval.

- 11 (4) Staff has reviewed the Petition in Docket UG-160787 and finds that an accounting order to defer Cascade's incremental third-party costs is reasonable and should be granted, subject to the conditions outlined above in paragraph 5 of this Order.
- 12 (6) This matter came before the Commission at its regularly scheduled Open Meeting on November 10, 2016.
- 13 (7) After reviewing Cascade's petition filed on June 1, 2016, in Docket UG-160787, and giving due consideration to all relevant matters and for good cause shown, the Commission finds that the proposed petition should be granted, subject to the conditions outlined above in paragraph 5 of this Order.

ORDER

THE COMMISSION ORDERS:

- 14 (1) Cascade Natural Gas Corporation's Petition to defer the costs associated with its Maximum Allowable Operating Pressure Determination and Validation Plan is granted, subject to the following conditions:
- (a) Cascade Natural Gas Corporation will record the deferred costs in FERC Account 186, Miscellaneous Deferred Debits.
 - (b) Costs eligible for deferred accounting treatment will include only those amounts paid to outside vendors, contractors, and consultants, and will not include internal employee salaries, legal costs, directly assigned or allocated overhead, or other incidental employee costs, such as hotel, meals, etc.
 - (c) The prudence of the deferred costs will be determined in a future rate proceeding. Deferred costs shown to be imprudent or inappropriate will be subject to disallowance for rate recovery purposes.
 - (d) The deferred costs, if approved for recovery in a general rate case, will be amortized over a period determined in that proceeding.
 - (e) Cascade Natural Gas Corporation will not accrue interest on the MAOP Plan deferred costs.

- 15 (2) This Order shall not affect the Commission's authority over rates, services, accounts, valuations, estimates, or determination of costs, on any matters that may come before it. Nor shall this Order granting Petition be construed as an agreement to any estimate or determination of costs, or any valuation of property claimed or asserted.
- 16 (3) The Commission retains jurisdiction over the subject matter and Cascade Natural Gas Corporation to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective November 10, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner