Exh. JT-1T
Docket UG-210755
Witnesses: Mark A. Chiles
Joanna Huang

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-210755**

JOINT TESTIMONY OF

MARK A. CHILES (CASCADE)
JOANNA HUANG (STAFF)

IN SUPPORT OF

MULTIPARTY SETTLEMENT STIPULATION

MARCH 22, 2022

JOINT TESTIMONY (NONCONFIDENTIAL)

IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION

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JOINT TESTIMONY (NONCONFIDENTIAL)

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I. INTRODUCTION

Q. Please state your names, titles, and the party you represent in this proceeding.

A. My name is Mark A. Chiles. I am the Vice President of Regulatory Affairs and Customer Service for Cascade Natural Gas Corporation ("Cascade" or "Company") and Intermountain Gas Company. I represent Cascade in this proceeding, and I am the same Mark A. Chiles who previously submitted direct testimony and exhibits in this proceeding. My professional qualifications are described in my prefiled direct testimony, Exh. MAC-1T.

My name is Joanna Huang. I am a Regulatory Analyst. I represent staff of the Washington Utilities and Transportation Commission ("Staff"). My work at the Commission generally includes financial, accounting and other analyses for general rate case proceedings and other tariff filings by the electric and natural gas utilities regulated by the Commission. I testified in Avista Corporation d/b/a Avista Utilities ("Avista" or "Company") general rate cases in Dockets UE-190334 and UG-190335, Dockets UE-170485 and UG-170486, Dockets UE-160228 and UG-160229, Dockets UE-140188 and UG-140189, Dockets UE-120436 and UG-120437, Dockets UE-090134 and UG-090135, and Dockets UE-991606 and UG-991607; and Puget Sound Energy (PSE) general rate cases in Dockets UE-090704 and UG-090705, and in Dockets UE-072300 and UG-

072301; a PSE Power Cost Only Rate Case in Docket UE-130617; Pacific Power general rate cases in Dockets UE-152253, UE-130043 and UE-032065; a Cascade Natural Gas Company Rate Case in Docket UG-200568 and a Northwest Natural Gas Company (NW Natural) filing in Docket UG-111233 regarding cost recovery of the Encana gas reserves through NW Natural's annual purchased gas adjustment.

Together, Staff and Cascade are the "Settling Parties."

Q. What is the purpose of your Joint Testimony?

A. This joint testimony supports the Multiparty Settlement Stipulation executed by and between Staff and Cascade in this proceeding. The Settling Parties recommend approval of the Multiparty Settlement Stipulation by the Commission. If approved, the Multiparty Settlement Stipulation resolves all issues in this proceeding. The Multiparty Settlement Stipulation represents a compromise among differing methodologies and points of view. This joint testimony explains and demonstrates the thorough analysis and deliberations that went into resolving the limited issues in this case. Its approval is in the public interest. As explained below, the Multiparty Settlement Stipulation is supported by sound analysis and sufficient evidence.

Q. Please summarize your joint testimony.

A. This Joint Testimony addresses Cascade's limited issue general rate case filing, describes the principal aspects of the Multiparty Settlement Stipulation, and sets forth why the Settlement is supported by Cascade and Staff, is in the public interest, and should be approved by the Commission. It also includes a statement of the Settling Parties' views about why the Multiparty Settlement Stipulation satisfies their concerns and is in the public interest.

II. THE SETTLEMENT PROCESS

Q. Please describe the process that led to the filing of the Multiparty Settlement Stipulation.

A. Prior to the first settlement conference scheduled in this proceeding, counsel for Staff and other non-Company parties met to discuss their relative interests and positions regarding a potential settlement. Representatives of all parties convened virtually on the date set for the initial settlement conference in this proceeding, January 10, 2022. A second settlement conference was held on February 7, 2022. The parties considered multiple settlement proposals but did not reach a settlement at that conference. The second settlement conference was valuable in identifying certain components of Cascade's filing that one or more parties disputed, such as depreciation methodology and the Jurisdictional Allocation factor.

Staff and Cascade engaged in subsequent discussions, both by phone and email, and ultimately agreed to a settlement in principle that reflected a compromise on the limited issues raised and contested in this rate case, which include (1) Cascade's treatment of depreciation related expenses, (2) a reduction in director and officer expenses, and (3) prudency of Cascade's new and renewed resources within Cascade's filing. On February 17, 2022, Staff notified the non-Company parties of the joint settlement in principle and offered the parties an opportunity to respond with questions or objections to suspending the procedural schedule. On February 18, 2022, Staff notified the presiding officer that Cascade and Staff had reached a settlement in principle.

Significant discovery over approximately six months inform this Multiparty Settlement Stipulation. Cascade responded to over 200 data requests and provided responses to all parties. As a result, the Settling Parties believe that the issues in this case were thoroughly vetted by all participants.

III. THE REVENUE INCREASE IS A REASONABLE COMPROMISE

Q. Please explain the revenue increases outlined in the Multiparty Settlement Stipulation.

A. The Settling Parties have agreed to a revenue requirement reduction from Cascade's initial filing of $13,725,286 (11.10%) to $10,692,992 (8.64%). This reduction reflects four compromises.

First, the majority of this reduction is based on a compromise of Cascade's treatment of its depreciation related expenses. The parties recognize there are differing methodologies for calculating depreciation related expenses in the test year that are likely to produce rates that are just, fair, and reasonable. The parties analyzed depreciation expenses using end of period depreciation, 2020 actual depreciation, and 2021 actual depreciation. Each methodology includes benefits and drawbacks, but no methodology is clearly "better" or more appropriate than the other. After considering all parties' positions, Cascade and Staff agreed to a compromise that recognizes the differences in end of period and 2021 actual depreciation expense. Through reciprocal concessions, the Settling Parties agree that Cascade will restate its end of period depreciation expense, resulting in a decrease to its revenue requirement of $3,000,000.

Second, the Settling Parties agree that Cascade will reclass rate base for a net increase to its revenue requirement of $4,973. In 2015, two assets were transferred between FERC sub-plant accounts. In that process, they were inadvertently assigned to Oregon rather than Washington. This adjustment correctly allocates the plant and associated depreciation to Washington.

Third, in its initial filing, Cascade based its Washington State Jurisdictional Allocation factors on calendar year 2019 data because the allocation factors are based off books that are closed. Accordingly, data for the year prior to the test year must be used as an allocator. In this case, 2019 was used to allocate the 2020 test year. As a settlement compromise, Cascade agrees to apply calendar year 2020 data to its State Jurisdictional Allocation factors, for a reduction in revenue requirement of $10,741.

Fourth, the Settling Parties agree that a reduction in the amount of $26,526 is warranted to reflect a more accurate amount of Director and Officer expense that should be removed from Cascade's revenue requirement. Cascade's Adjustment R-6, as provided in Exh. MCG-5, removes 50 percent of Director Fees from Cascade's revenue requirement. In its initial filing, Cascade inadvertently omitted a subaccount that would have raised the amount of Direct and Officer expense in Adjustment R-6 from $152,764.02 to $178,117.18. Accordingly, the Settling Parties agree that Cascade will reduce its revenue requirement by $25,526 to exclude the additional Director Fees. The revenue requirement model reflecting the Multiparty Settlement Stipulation is provided as Exh. JT-2.

IV. THE MULTIPARTY SETTLEMENT STIPULATION IS IN THE PUBLIC INTEREST

Q. Please describe why the Multiparty Settlement Stipulation is consistent with the Settling Parties' and the public interest?

A. The Multiparty Settlement Stipulation represents a negotiated compromise of a few, limited issues. This proceeding was initiated shortly after the Commission issued its Final Order in Cascade's previous rate case, Docket UG-200568. In that case, the Commission ordered a reduction in rates following a fully contested adjudication. The need for a rate increase so soon after Cascade's previous rate case is primarily the result of additional new plant that came into service and wage increases that went into effect in 2021. Cascade did not propose any change to its authorized rate of return on common equity or to its capital structure. Additionally, because this case was initiated in September 2021, prior to the effective date of RCW 80.28.425, the proceeding is not a multiyear rate plan pursuant to that new statutory obligation.

Cascade's issues in this case are limited to (1) updating its 2020 actual costs with new plant that was placed in service during the 2020 test year, (2) adjusting its cost of debt for a known 2022 debt acquisition, and (3) one pro forma adjustment to include known and measurable 2021 wage increases. The remainder of Cascade's case merely implements the Commission's Final Order in Docket UG-200568.

Other parties have not joined this settlement and may object to what we believe are legitimate adjustments that are not only known and measurable but, in the case of capital additions, used and useful. Given the limited scope of issues presented, the joint settling parties believe that the concerns raised by the other parties fall outside the scope of the requested relief. The few issues in this case have been thoroughly vetted over approximately six months. The parties have engaged in meaningful discovery that has shed light on elements of Cascade's proposal that could be altered and fine-tuned. The result is this Multiparty Settlement Stipulation, which provides Cascade the ability to recover only known and measurable costs in a manner consistent with longstanding practice and, more importantly, the Commission's recent order in Docket UG-200568. It is not in the public interest to litigate additional issues that were adjudicated less than one year ago and are not up for dispute in this case.

V. INDIVIDUAL STATEMENTS IN SUPPORT OF THE MULTIPARTY SETTLEMENT STIPULATION

Q. Please explain why the Multiparty Settlement Stipulation satisfies Cascade's and the public's interests.

A. Cascade's purpose in filing this limited issue rate case was to implement a stop gap measure to help reduce regulatory lag primarily caused by Cascade's significant 2020 plant investments and to bridge the gap to a more comprehensive rate case in late 2022 or 2023. By reaching agreement with Staff on this Multiparty Settlement Stipulation, Cascade believes it has succeeded in producing a clean and clear case that addresses Cascade's concerns in a manner consistent with established Commission precedent and the public interest.

Through six months of extensive and productive discovery and multiple settlement negotiations, Cascade identified adjustments that it believes have improved the final product. Although other parties presented alternative methodologies for calculating Cascade's revenue requirement, no party identified any compelling reason why those methodologies are superior to the ones this Commission recently adopted in Docket UG-200568 and which Cascade applied in this proceeding.

Q. Please explain why the Staff believes the Multiparty Settlement Stipulation is in the public interest.

A. Staff believes the Settlement is in the public interest because the revenue requirement increase reflected in the settlement stipulation are attributable to a limited set of adjustments that are justified by the record in this case. This Settlement reflects a compromise between the settling Parties and represents an increase that maintains the financial integrity of the utility – providing the Company with an opportunity to earn its authorized rate of return, which was determined in Cascade's recently general rate case in Docket UG-200568. This authorized rate of return is to protect rate payers from an increase that is not more than necessary and justified. In addition. Cascade did not propose any pro forma plant additions in this general rate. Furthermore, the Company requested wages increase for both union and non-union for 2020 is based on the outcome of Cascade's recently general rate case in Docket UG-200568. Thus the Company's requested wages increase for 2021 is based on actual payout to non-union employees and a three-year union contract which became effective on May 21, 2021.

Like Cascade's initial filing, the multiparty settlement in this case is limited to specific adjustments that Staff believes are well supported by the record. A majority of the revenue requirement increase under this settlement is attributable to increases within the test year and a pro forma adjustment to wages that is known and measurable. Staff thoroughly reviewed the Company's initial filing and made some adjustments to the company's initial case, which are reflected in the settlement stipulation. Although the specific terms reached in this case are the result of compromises in each party's positions, Staff believes that overall the settlement stipulation would result in fair just and reasonable rates

VI. CONCLUSION

Q. Does that conclude your joint testimony?

A. Yes, it does.