## Docket No. UG-190210 - Vol. III

## Washington Utilities and Transportation Commission v. Cascade Natural Gas Corporation

November 5, 2019

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## BEFORE THE WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND,) DOCKET UG-190210
TRANSPORTATION COMMISSION)
Complainant, )
vs.
CASCADE NATURAL GAS CORPORATION,

Respondent. )

SETTLEMENT HEARING, VOLUME III
Pages 20-42
CHAIRMAN DANNER, COMMISSIONER RENDAHL, COMMISSIONER BALASBAS, JUDGE PEARSON

November 5, 2019

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JUDGE PEARSON: Let's get started. Good morning. Today is Tuesday, November 5th, 2019, at 9:04 a.m., and we're here today for a settlement hearing in Docket UG-190210, which is captioned Washington Utilities and Transportation Commission versus Cascade Natural Gas Corporation.

My name is Rayne Pearson. I'm an administrative law judge with the Commission, and I am joined today by Chair Dave Danner, Commissioner Ann Rendahl, and Commissioner Jay Balasbas.

So let's begin by taking short form appearances from the parties beginning with the Company and then we'll go around the room.

MS. PEASE: Jocelyn Pease with McDowell Rackner Gibson for Cascade Natural Gas.

MR. STOKES: Chad Stokes with the Cable Huston law firm for the Alliance of Western Energy Consumers.

MR. FFITCH: Simon ffitch, Attorney, appearing on behalf of The Energy Project.

MS. GAFKEN: Lisa Gafken, Assistant Attorney General, appearing on behalf of Public Counsel.

MR. ROBERSON: Jeff Roberson, AAG, appearing on behalf of Commission Staff.

JUDGE PEARSON: Okay. Thank you.
For the record, I will ask the parties if they're willing to stipulate to the admission of all of the prefiled exhibits and testimony up to and including the settlement testimony and exhibits.

MR. ROBERSON: Staff has no objection.
MS. GAFKEN: Public Counsel stipulates.
MR. FFITCH: Energy Project stipulates, Your Honor.

MR. STOKES: AWEC has no -- no objection. MS. PEASE: And Cascade stipulates to the admission.

JUDGE PEARSON: Okay. Thank you. Then all prefiled exhibits are admitted, and I will provide a copy of the exhibit list to the court reporter so it can be made part of the record.
(All prefiled exhibits admitted.)
So I understand that Mr. Roberson will be making an opening statement on behalf of all parties. So, Mr. Roberson, I'll turn it over to you. MR. ROBERSON: Good morning, Judge Pearson,

1 Commissioners. Before you this morning is the
2 settlement, which resolves all issues in Cascade's 2019
3 general rate case filing. Per WAC 40-07-700, the
4 Commission supports the parties' informal efforts to
5 resolve disputes. Per WAC 480-07-740, the Commission
6 will approve the settlement if the terms are lawful and 7 in the public interest.

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1 mechanism, it approved a method for weather
2 normalization, it dealt with cost of service by
3 requiring the Company to conduct a load study to measure
4 the usage of its core classes, it addressed rate spread
5 by requiring any change in Cascade's revenue requirement
6 be spread on an equal percent of margin basis except for
7 special contracts.

1 changing -- changing operating expenses and investment 2 in the utility and its property for public service.

So with that in mind, turning to the terms of the settlement. The settlement provides for a $\$ 6.5$ million increase to Cascade's revenue requirement. It specifies all the elements of the rate of return, so the capital structure is specified at 49.1 percent equity, 50.9 percent debt. Cascade's cost of debt is specified at 5.155 percent. Cascade's return on equity is specified at 9.4 percent. I believe that leads to an overall rate of return to 7.24 percent. I'm pretty sure that's right, but go with whatever's written down.

There are other miscellaneous terms. The change in revenue requirement is spread per what I just discussed, which is the terms of the Commission's order in the last rate case, which is equal percentage of margin basis except for special contracts. And the final settlement term is that Cascade will continue to comply with the conservation targets that it agreed to in its -- the settlement of its 2015 rate case.

As mentioned before, the Commission will approve rates when they're lawful and in the public interest. In terms of lawfulness, the rates must be fair, just, reasonable, and sufficient and free of defects such as unreasonable preference or prejudice to

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1 certain classes of ratepayers. In terms of whether or
2 not rates are fair, sufficient, and in the public
3 interest, the Commission balances the interest of
4 Cascade with the interest of its ratepayers.

Here you should note that this is an all-party settlement, which means Cascade has affirmed that the settlement appropriately takes into account its interest in recovering its expenses and allowing it to earn a reasonable rate of return on its investment and property dedicated to public service.

And Cascade's ratepayers are represented by residential ratepayers, Public Counsel's on board with the settlement, small business as well, Public Counsel. Cascade's low income customers are represented by The Energy Project, Cascade's industrial customers are represented by AWEC. The representatives from all those parties have signed onto the settlement.

From that, you can tell that it balances Cascade's customers' interest and reasonable rates for the services they receive. Commission Staff, which has no ratepayer constituency but which exist to make sure that the Commission assesses rates that are fair, just, reasonable, and sufficient, is also signatory to the settlement.

So with that in mind, I will turn the

1 proceeding over to the witnesses for questions unless
2 you have questions for me.

JUDGE PEARSON: Okay. Any questions for counsel before we bring the witnesses up?

Okay. So let's bring the witnesses forward to this table in front, and $I$ will swear them in and make them available for questions from the Commissioners. Just if -- counsel, if you want to take seats behind the witnesses for now.

And, Mr. Mullins, are you on the line?
MR. MULLINS: I am on the line. Can you
hear me?
JUDGE PEARSON: We can hear you loud and clear. Thank you.

MR. MULLINS: Great. Thank you.
JUDGE PEARSON: Mr. Parvinen, if you want to grab that other microphone.

Okay. So I will have you all please stand and raise your right hand.

Mr. Mullins, that goes for you too.
I will swear you all in together.
(Witness panel sworn.)
JUDGE PEARSON: Okay. You may be seated.
Okay. So please introduce yourselves for the record and identify who you're representing. We'll

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1 start with Mr. Parvinen followed by Ms. Erdahl,
2 Mr. Collins, and Ms. Laycock.

And then, Mr. Mullins, you can go last.
MR. PARVINEN: Sorry about that. Playing with the microphones. I missed the instructions. What did you want me to do?

JUDGE PEARSON: If you could just identify yourselves and who -- who you represent.

MR. PARVINEN: All right. Michael Parvinen, representing Cascade Natural Gas.

MS. ERDAHL: Betty Erdahl, Commission Staff.
MR. COLLINS: Shawn Collins, director of The Energy Project.

MS. LAYCOCK: Sarah Laycock with Public Counsel.

MR. MULLINS: And Brad Mullins with the Alliance of Western Energy Consumers.

JUDGE PEARSON: Okay. Thank you.
So we, at this point, will open it up to questions from the Commissioners.

COMMISSIONER RENDAHL: Okay. I guess I'll start. So this question is for -- for all the parties. And after listening to Mr. Roberson's opening statement, my concern is, while I appreciate all the parties that have come in for an all-party settlement, and I think

1 that's great that you've all been able to resolve your 2 issues, but it is a complete black box settlement in 3 many ways. And one of the issues that Cascade brought 4 forward in their case was the concern about being able 5 to sufficiently recover the investment and property and 6 reduce the lag, the regulatory lag, but we don't have 7 any idea of how much investment actually the parties 8 have agreed to. We expect the Company to come back to 9 us with a rate case soon.

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1 with what was approved from the previous rate case and
2 then examine everything that was added since that -3 since that time.

Anybody has anything to add, go forward, otherwise my colleagues have a question.

CHAIRMAN DANNER: All right. Thank you. Good morning. My question is for Mr. Parvinen. In Ms. Kivisto's testimony, in her direct testimony on page 7, she mentioned that -- the question was, does the Company believe the regulatory outcomes from Washington influence the recent downgrade of the Company stock. And in there, she quoted Fitch as saying that the Company has a challenging regulatory environment. And of course since we're the regulators, we're concerned about a statement like that if we have a challenging regulatory environment.

I actually looked at the Fitch report. First, I would note that because our last rate case settled, this rate case is a proposal to settle, the MAOP penalty was settled, how do you know what the challenging regulatory environment is and is it -should we be approving settlements or should we actually mitigate a case so that you can find out what the regulatory environment really is? I mean, is Fitch -is Fitch concerned about cases settling or is there another issue that they have with the regulatory environment in Washington?

MR. PARVINEN: That's a tough question.

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1 Yeah, it's -- it's hard to -- it's hard to gauge how
2 Fitch views the regulatory regime. Yes, I would agree
3 that, with being the settlement is particularly the
4 black box settlements, that -- that that does make it --
5 make things a little more -- more difficult when all the
6 parties agree that the -- that the outcomes are fair,
7 just, reasonable, and sufficient.
8 I think particularly concerning on the last
9 rate case in particular was -- was it -- it became more
10 of a convoluted rate case because of tax reform too and
11 how that impacted the final outcome. So the final outcome looks substantially different than what was -was originally filed, tax reform in the middle so...

CHAIRMAN DANNER: But the tax -- I mean, the tax issue, though, is not present in this case. And so the fact that this is included in the testimony in this case, I'm trying to figure out what the link to this case is. I mean, there's a challenging regulatory environment, take the taxes aside, I assume there's still -- because this is in the testimony, there's still a challenging regulatory environment. I noticed that they talked about the 94 being low average with the ROE, but, again, that was settled.

So I mean, if -- if there's challenging regulatory environment here, I want to figure out what

1 there is that -- you know, what are we addressing here?

MR. PARVINEN: Yeah, it -- it -- it is difficult. I would say that one of our perspectives in -- in settling is -- is -- is as a settling party, we take into account what we think a litigated outcome would be as one of the -- as one of the conditions on -on taking into account when we come up with a -- with a settlement offer or settlement proposal and accepting the settlement is -- is weigh that against what we think the possible outcomes will be.

So it's -- I would say that I guess it's true that we take into account, for example, the 944 that we've settled on. We -- we think that's in the ballpark of what the Commission is likely to come out with. It's -- it's our assumption that that's -- that that's a reasonable outcome without -- right, but without having that -- without having that -- that -that -- that hearing, is that true -- is that true or not.

CHAIRMAN DANNER: Yeah, I think that's my point. I mean, there's a downgrade in your financial rating from a particular agency. I mean, it's still a healthy investment grade, but it's -- if -- if it's due to actions that this Commission has taken, if it's speculation about what this Commission may or may not

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1 do, I mean, there's really only one way to prove that, 2 and that's not to settle the cases.

And so, you know, I just want to make sure what my marching orders here are, because I think you're asking us to settle this case.

MR. PARVINEN: We are.
CHAIRMAN DANNER: All right. Thank you.
COMMISSIONER BALASBAS: All right. This question is to all the parties as -- as relates to the provision in the settlement regarding the conservation targets. And in the settlement, it states that the terms from the settlement in Docket UG-152286 regarding conservation targets shall remain in effect.

So this is really a clarifying question, and does that mean that all of Section E from that docket would remain in effect under the terms of this settlement? And whoever wants to take that first, go ahead.

MR. PARVINEN: I'm trying to -- this is Mike Parvinen. I'm trying to recall what Section E actually said. I don't have a copy of the order in front of me. I will say that the settlement in that docket had a number of conditions regarding conservation, and that every other condition is already in -- permanently in place either through other orders or other procedures so

1 that -- that there was no need to act on those. I think
2 the following settlement even -- even in the -- the --

MR. MULLINS: And this is Brad. I would have the same response.

COMMISSIONER RENDAHL: So all of them including the meeting a hundred percent of the target? I see nodding of head from Ms. Laycock.

MS. LAYCOCK: Yes.

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JUDGE PEARSON: Do we have any additional
questions?
Okay. Thank you to the panel of witnesses. We appreciate you being here giving testimony.

Is there anything further that we need to address? Okay. Hearing nothing, that concludes the settlement hearing today, and we will adjourn and be off the record.

Or do you have something?
MS. GAFKEN: I have one thing.
JUDGE PEARSON: Okay.
MS. GAFKEN: It's a very simple thing. The public comment exhibit.

JUDGE PEARSON: Yes.
MS. GAFKEN: I wanted to ask for a due date, and as per our usual request, I would ask for a week. So I think that puts us at November 12 th.

JUDGE PEARSON: That sounds great.
MS. GAFKEN: Okay. Thank you.
JUDGE PEARSON: Okay. Thank you.
Okay. If there's nothing else, we will adjourn and be off the record. Thank you all.
(Adjourned at 9:25 a.m.)

CE RT I F I CA TE

STATE OF WASHINGTON COUNTY OF THURSTON

I, Tayler Garlinghouse, a Certified Shorthand Reporter in and for the State of Washington, do hereby certify that the foregoing transcript is true and accurate to the best of my knowledge, skill and ability.

## Jouplen grarlinghouae

Tayler Garlinghouse, CCR 3358


