

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

WUTC V. CASCADE NATURAL GAS

DOCKET NO. UG-060256

CROSS-REBUTTAL TESTIMONY OF MICHAEL L. BROSCH (MLB-13T)

ON BEHALF OF

PUBLIC COUNSEL

DATED SEPTEMBER 12, 2006

1 **Q. Please state your name and business address.**

2 A. My name is Michael L. Brosch. My business address is 740 North Blue Parkway,
3 Suite 204, Lee's Summit, Missouri 64086.

4 **Q. Are you the same Michael L. Brosch who submitted Direct Testimony**
5 **identified as Exhibit No. __ (MLB-1T) in this matter on behalf of Public**
6 **Counsel?**

7 A. Yes. My qualifications and previous utility regulation experience are described in
8 Exhibit No. __ (MLB-1T) and also within Exhibit Nos. ____ (MLB-2) and ____
9 (MLB-3).

10 **Q. What is the purpose of your Cross-Rebuttal Testimony?**

11 A. My Cross-Rebuttal Testimony is responsive to the Prefiled Direct Testimony of
12 Mr. Steven D. Weiss on behalf of the Northwest Energy Coalition (“NWECC”) and
13 to the Prefiled Direct Testimony of Commission Staff (“Staff”) witness Ms. Joelle
14 Steward on the topic of revenue decoupling. These two witnesses reject the
15 specific revenue decoupling proposal and tariff advanced by Cascade Natural Gas
16 Company (“Cascade” or “CNG”), but recommend alternative revenue decoupling
17 pilot approaches, including a deferred implementation proposal by Mr. Weiss.
18 These alternatives should not be accepted by the Commission, for the reasons
19 described herein and in my Direct Testimony. I will not repeat the discussion in
20 my Direct Testimony of the many problems associated with usage per customer
21 decoupling/tracking, but will instead focus upon the details of the alternative
22 proposals now being advocated by Mr. Weiss and Ms. Steward and their stated

1 rationale in support of commencing decoupling in Washington. Even though Mr.
2 Weiss recommends the Commission not implement even pilot decoupling for
3 Cascade at this time¹, my response focuses on his testimony since it offers an
4 extensive discussion in support of decoupling mechanisms generally.

5 **Q. At page 7 of his testimony, Mr. Weiss refers to “decoupling, or revenue cap**
6 **regulation” which he characterizes as “Breaking the link between the**
7 **utility’s commodity sales and the disincentive to run effective energy**
8 **efficiency programs or invest in or encourage other activities that may**
9 **reduce load.” Does the form of decoupling Mr. Weiss advocates for,**
10 **implementation on a delayed basis, impose any “revenue cap” or fully**
11 **“break the link” as his testimony implies?**

12 A. No. There is no “revenue cap” established or any “break in the link”
13 accomplished by the form of decoupling he recommends. Mr. Weiss’s
14 decoupling proposal is focused solely upon gas usage per customer, ignoring the
15 fact that total gas demand volume is a function of both the number of customers
16 being served and the average usage per customer. Cascade gas margin revenues
17 are not subject to any “revenue cap” under an approach that protects the utility
18 against any continuing declines in usage per customer, while allowing the utility
19 to retain for shareholders all of the margin revenue growth associated with
20 customer growth. His proposal can actually be expected to amplify future CNG
21 margin revenue growth, by ensuring that customers added after the test year

¹ Exhibit No. __ (SDW-1T), page 3, lines 12, and page 17, line 12 through page 22, line 12.

1 produce revenue growth that is no longer offset by the gradually declining usage
2 per customer trend that has existed for many years. This problem with tracking
3 only usage per customer, rather than total usage volumes, was explained in my
4 Direct Testimony at pages 38 through 45.

5 **Q. At page 8 of his testimony, Mr. Weiss states, “Like other automatic**
6 **adjustments, decoupling may reduce the frequency of rate cases compared to**
7 **current ratemaking practice.” Then he describes his view of the “flaw” in**
8 **assuming that current ratemaking is symmetrical, eventually concluding,**
9 **“Decoupling won’t exacerbate this situation; in fact it may improve it. That**
10 **is because decoupling adjustments benefit customers if loads grow faster than**
11 **expected due to, for example, weather, economic conditions or commodity**
12 **prices. These credits to customers would not occur under current**
13 **ratemaking.” How do you respond?**

14 A. I don’t think Mr. Weiss, Cascade or Staff actually anticipate gas usage per
15 residential customer to “grow faster than expected” and be tracked through
16 decoupling, to the benefit of customers. If this were the expectation, Cascade
17 would not have recommended its CAP tariff because to do so would harm its
18 earnings. If this were the expectation, decoupling would not be cloaked in a
19 dialogue about conservation causing declining customer usage and reduced CNG
20 sales volumes. I believe it is highly unlikely that decoupling will produce net
21 credits to customers in future years because it is a device to track and adjust rates

1 for changes in usage per customer, changes that have been persistently negative
2 for many years.²

3 It is also unreasonable to expect weather fluctuations to translate into load
4 growth that would benefit customers if tracked through a decoupling tariff
5 between test years. While in any given year, it is possible that temporary credits
6 arising from extreme weather in a prior period may occur, weather fluctuations net
7 toward zero over extended periods. For Mr. Weiss to characterize occasional
8 revenue credits to customers arising after periods of severe weather to be “load
9 growth” is misleading because the weather tracking element of his proposed
10 version of decoupling is revenue and income neutral over extended periods of
11 time. Additionally, the weather-related decoupling credits Mr. Weiss alludes to
12 would be normalized away in any rate case test year, because utility rates are
13 typically set based upon weather-normalized sales volumes.

14 It is interesting that Mr. Weiss speculates that “economic conditions” and
15 “commodity prices” represent ways in which decoupling adjustments may benefit

² According to page 6 of Cascade’s SEC Form 10-K for the fiscal year ended September 30, 2005: “In addition to the seasonal nature of usage, average consumption per customer has declined since the beginning of this decade. As mentioned earlier, the addition of more efficient homes and other buildings, replacing old appliances with more efficient units, and consumer behaviors drive this trend. Reductions are most pronounced following significant gas cost increases. Cascade’s growth has contributed to offsetting these declines. As discussed under State Regulation, the Company is working with regulators in both states served to restructure rates to recognize this trend.”

1 customers if loads grow faster than expected.³ While it is true that gas commodity
2 prices could decline or economic conditions may improve, there is no testimony in
3 this docket explaining why piecemeal decoupling tariffs are needed for price
4 elasticity or for economic conditions that may impact customer usage. What is
5 revealed by this statement is that the proposed decoupling tariff would track much
6 more than customer usage changes arising from utility-sponsored conservation
7 programs; and would also track demand responses due to price elasticity and
8 economic conditions that influence usage per customer.

9 **Q. In addition to tracking price elasticity and economic conditions, what other**
10 **causes for declining usage per customer are referenced in Mr. Weiss'**
11 **testimony?**

12 A. At page 21 of his testimony, Mr. Weiss states, "The reduction in residential usage
13 is probably due to a combination of factors: significantly lower usage of new
14 homes, higher bills, more efficient replacement appliances, and utility- and
15 customer-financed conservation investments. There is no evidence to suggest that
16 this trend will not continue." I agree that these are all factors impacting declining
17 weather normalized usage levels when evaluated on a per customer basis. An
18 important distinction should be drawn at this point – most of the identified drivers

³ At Direct Testimony of Steven Weiss, Exhibit No. __ (SDW-1T), page 14, Mr. Weiss states, "At a time of unprecedented increases in gas and other energy costs, it is imperative that the Company be both encouraged and required to promote reduced energy usage." This statement does not reflect any expectation by Mr. Weiss that gas commodity prices are expected to reverse, such that elasticity effects would begin to produce the "load growth" hypothesized at page 9, lines 6 through 8. Additionally, Mr. Weiss has not explained why high prices alone would not stimulate customers to conserve on their own, effectively reducing the claimed "imperative for the Company... to promote reduced energy usage" that Mr. Weiss seems to be so concerned about.

1 of declining usage per customer are beyond the control of the utility and are
2 therefore not influenced by the “incentives and disincentives embedded in
3 traditional utility regulation” that Mr. Weiss criticizes at pages 4 through 6 of his
4 testimony. For example, customer price elasticity effects due to price changes
5 flowing through the PGA will occur without regard to the disincentives associated
6 with traditional ratemaking.⁴ Similarly, the replacement of old appliances and
7 furnaces with modern and more efficient units will occur without regard to the
8 scheme of utility regulation that exists.⁵ Unfortunately, Mr. Weiss recommends
9 rate tracking for all of this usage per customer variation from all of these causes
10 (including weather) in his decoupling recommendation. This causes his
11 recommended regulatory remedy – sales decoupling on a “usage per customer
12 basis” – to be overly broad in relation to the conservation disincentive problem he
13 claims to be concerned about.

14 **Q. What is implied by the last statement in the previous quotation from page 21,**
15 **line 6 of Mr. Weiss’ testimony that “There is no evidence to suggest that this**
16 **trend will not continue”?**

17 **A.** I agree with this statement as it is consistent with my experience that gradually
18 declining residential gas usage per customer has been commonplace in the

⁴ In fact, price elasticity effects may be amplified somewhat by decoupling, if gas commodity price increases passed through the PGA cause customer demand reductions through thermostat dial-back or other conservation measures, which in turn contribute to decoupling price increases intended to “make up” for the margin losses from the price-driven lower sales.

⁵ Federal appliance efficiency standards are mandated in 10 *C.F. R.* § 30.432. These standards have been increased in the past, such that older appliances being replaced today usually cannot be replaced without improving efficiency.

1 industry for many years. This statement is also consistent with Cascade's
2 advocacy of piecemeal tracking of this trend through a decoupling tariff, which
3 would be beneficial to its shareholders. What is remarkable is how inconsistent
4 this statement by Mr. Weiss' is with the premise he states at page 8, as quoted
5 earlier, that "...decoupling adjustments benefit customers if loads grow faster than
6 expected due to, for example, weather, economic conditions or commodity
7 prices."

8 **Q. Does Mr. Weiss' recommendation differ from the recommendation of**
9 **Commission Staff witness Ms. Steward?**

10 A. Yes. Mr. Weiss would delay implementation of his proposed version of a
11 decoupling pilot mechanism until after the rate case when certain conservation
12 measures are instituted.⁶ Once this occurs, Mr. Weiss would allow rate recovery
13 through decoupling for differences in usage per customer caused by weather
14 fluctuations above and below normal conditions, where Staff's proposal would not
15 track weather fluctuations.⁷ There are also differences between Mr. Weiss and
16 Ms. Steward regarding other details of their proposals involving the specific rate
17 schedules to become subject to decoupling and various incentives, capping and
18 decoupling pilot program constraints.⁸

⁶ Testimony of Steven Weiss, Exhibit No. __ (SDW-1T), pages 17 through 21.

⁷ Exhibit No. __ (SDW-1T), page 10. Exhibit No. __ (JRS-1T), page 7. Notably, at page 28, line 21 through page 29, line 9, Mr. Weiss states that NWEA would "support a more limited pilot" decoupling mechanism that does not include an adjustment for weather variability.

⁸ See generally Exhibit No. __ (SDW-1T), page 11 and pages 18 through 24 and Exhibit No. __ (JRS-1T), pages 6 through 20.

1 **Q. Please summarize the individual drivers of changing Cascade gas sales**
 2 **volumes and explain whether each party’s decoupling proposal would**
 3 **provide rate recovery for those drivers.**

4 A. The following table sets forth the individually significant drivers of gas sales
 5 volume changes and indicates whether gas usage changes caused by that variable
 6 would be subject to rate recovery through the decoupling tariff proposal of each of
 7 the parties:

8 Table 1: Rate Recovery of Sales Volume Drivers

SALES VOLUME DRIVER	GENERAL ONGOING SALES VOLUME IMPACT	CNG’s Decoupling Proposal	NWEC’s Decoupling Proposal	Staff’s Decoupling Proposal
Number of Customers	Increasing	No	No	No
Weather Abnormality	Variable	Yes	Yes	No
Price Elasticity	Decreasing	Yes	Yes	Yes
Replacement of Inefficient Old Appliances / Furnaces	Decreasing	Yes	Yes	Yes
Construction of Buildings Improved Building Codes	Decreasing	Yes	Yes	Yes
Customer Financed Conservation Investments	Decreasing	Yes	Yes	Yes
Utility Sponsored Conservation Investments	Decreasing	Yes	Yes	Yes

9
 10 This summary illustrates several important points. First, it shows (in the row
 11 named “Number of Customers”) that the decoupling mechanisms endorsed by
 12 Cascade, Staff, and NWEC are imbalanced in favor of shareholders, because they

1 would ignore continuing growth in the number of customers being served. This
2 customer growth can be expected to continue to offset much or all of the last five
3 listed sales volume drivers that have had a negative impact upon sales volume
4 trends.

5 Beyond this fundamental imbalance caused by excluding customer growth,
6 the summary table shows that most of the causes of sales declines that would be
7 tracked through decoupling have nothing to do with utility-sponsored conservation
8 programs that are thought to be subject to disincentives under traditional
9 regulation. For example, the summary shows that the decoupling
10 recommendations of Cascade, Staff, and NWECC would allow decoupling rate
11 increases when customers adjust thermostats or otherwise react to commodity
12 price increases experienced through the PGA. Additionally, the table shows that
13 Cascade would be allowed decoupling rate increases between rate cases for sales
14 volume declines caused by normal replacement of old and inefficient appliances,
15 furnaces and housing/buildings. Further, if customers elect to invest in
16 conservation retrofits at their own expense, the decoupling proposals would allow
17 Cascade to increase rates to account for any resulting sales declines caused by
18 such customer-financed conservation. I believe this table shows that all of the
19 decoupling mechanisms discussed in this Docket, constitute an unreasonably
20 broad response to concerns about regulatory disincentives to utility-sponsored
21 conservation programs. Most of the drivers of sales volumes are not sensitive to
22 regulatory incentives directed at utility management.

1 **Q. At page 14 of his testimony, Mr. Weiss states, “At a time of unprecedented**
2 **increases in gas and other energy costs, it is imperative that the Company be**
3 **both encouraged and required to promote reduced energy usage.” How do**
4 **you respond?**

5 A. The table presented above is helpful in responding. First, it shows on the “Price
6 Elasticity” row that declining usage per customer caused by “unprecedented
7 increases in gas” prices would be tracked through the proposed decoupling
8 mechanisms. Utility management would probably claim that it has little or no
9 control over commodity prices, such that PGA recovery of price changes is
10 appropriate and necessary. Clearly, when faced by dramatically higher prices,
11 ratepayers can be expected to be motivated on their own to respond to those
12 higher prices, reducing the need for management to “be encouraged” through a
13 decoupling mechanism to permit or allow ratepayers to respond to high prices. In
14 some respects, regulatory incentives to promote utility-sponsored conservation
15 may be needed less at times when consumers are painfully aware of high natural
16 gas prices and can be expected to dial back thermostats and independently employ
17 conservation measures. Notably, whenever ratepayers actually do respond to
18 higher gas prices, decoupling would effectively shift all risk of price elasticity
19 demand response from shareholders to ratepayers between rate cases.

20 **Q. At page 29 of his testimony, Mr. Weiss states that “The Commission-**
21 **approved decoupling mechanism must include a schedule of ambitious**
22 **conservation targets to incent cost-effective energy efficiency investments.”**

1 **How do conservation targets relate to usage per customer declines associated**
2 **with improved appliance efficiency or improved building codes?**

3 A. Much of the decline in average usage per customer is not related to company
4 conservation targets. Customers replace defective or obsolete appliances and
5 furnaces with modern, higher efficiency models for various reasons, not just
6 company programs or targets.⁹ Similarly, when building a new residence or
7 commercial building, improved construction standards and materials will be
8 employed and will cause more efficient energy consumption even if no
9 conservation targets have been imposed. The persistent gradual turnover of
10 housing/building stock and routine appliance replacement cycles explain much of
11 the declining trend in usage per customer that has occurred historically.
12 Therefore, while energy conservation should be strongly encouraged by Cascade
13 to ensure that gas is used efficiently, there is no need to adopt extraordinary
14 regulatory measures such as decoupling rate trackers to continue these historical
15 conservation trends.

16 **Q. NWEC witness Mr. Weiss at pages 23-24 and Staff witness Ms. Steward at**
17 **pages 11 through 14 propose adjustments to the Cascade-proposed**
18 **decoupling calculations for “new customers”. Do these changes correct the**
19 **problem associated with how decoupling treats customer growth that you**
20 **addressed in Direct Testimony?**

⁹ See footnote 5, regarding federal appliance efficiency standards.

1 A. No. Modifications in the treatment of new customers that are proposed by NWECC
2 and Staff represent only refinement of details about average per customer usage
3 assumptions¹⁰, while doing nothing to remedy the fundamental piecemeal
4 ratemaking problem that results from carving out revenue increases created by
5 future customer growth for retention by shareholders. As I mentioned in my
6 Direct Testimony, all elements of the revenue requirement calculation are
7 dynamic through time and changes that are favorable tend to offset other changes
8 that are unfavorable. For example, adding customers and the related revenue
9 growth can help “pay for” increases in operating expenses, or declines in usage
10 per customer. The decoupling proposals of Staff, NWECC, and Cascade do nothing
11 to recognize that new gas sales and margins produced by connecting new
12 customers are available to help offset declining usage trends associated with
13 existing customers. This is an extremely problematic form of piecemeal
14 ratemaking. I urge the Commission to consider how one-sided decoupling is for
15 this utility in particular, with reference to the 2005 Annual Report to its
16 shareholders, in which Cascade states, “Prospects for continuing strong residential
17 and commercial customer growth are excellent. Good potential also exists for
18 converting homes and businesses located on or near the Company’s current lines
19 to gas from other fuels, as well as for expanding the system into adjacent areas.

¹⁰ Staff witness Steward, Exhibit No. __ (JRS-1T), page 12, recommends that new residential customer average usage levels be based upon calculations set forth in her Table 2 on page 12, reducing new customers’ average demand levels by 50 therms, in contrast to the average demand of all existing customers. Mr. Weiss, Exhibit No. __ (SDW-1T), page 24, suggests a less specific adjustment, “In addition, the Company would be permitted a different margin revenue for new customers (new service connections) in participating customer classes.”

1 Customer count growth in this sector has been about double the average of U.S.
2 gas utilities.”

3 **Q. Does Staff witness Ms. Steward acknowledge the importance of matching all**
4 **elements of the revenue requirement calculation as well as the inconsistency**
5 **of piecemeal accounting for usage per customer declines between test years in**
6 **her testimony?**

7 A. Yes. At page 16, she states that decoupling should be allowed only as a pilot
8 limited to three years and explains that, “...decoupling addresses the level of
9 revenue the Company is recovering each year, based on what was authorized in a
10 rate case. Decoupling does not address the costs the Company is incurring each
11 year. In a rate case, the Commission examines what costs are incurred to serve
12 customers, overall and at the customer class level. While decoupling provides the
13 utility with the variances between actual and authorized *revenues*, it does not
14 provide for any variances between actual and authorized *costs*.” This reference to
15 a balanced review of overall costs and revenues that occurs in a rate case is what I
16 referred to in my Direct Testimony as the matching principle. In apparent
17 recognition that decoupling violates the matching principle, Ms. Steward then
18 states, “If a decoupling mechanism is allowed to go on too long without a rate
19 case, we risk violating the cost-based principle of regulation by creating a
20 potential mismatch between current costs and rates.”¹¹

¹¹ Exhibit No. __ (JRS-1T), page 16, lines 21 through 23.

1 Despite Ms. Steward’s testimony in support of the matching principle,
2 Staff’s proposed decoupling, based upon changes in usage per customer, will
3 immediately and directly violate this principle. The “mismatch problem” is not
4 theoretical in nature. It is not a question of creating the “risk” of violating the
5 matching principle or the existence of a “potential mismatch” in which the
6 imbalance would exist for only a short period of time. Implementation of a
7 decoupling tracking tariff instantly violates the matching principle because
8 tracking changes in usage per customer in isolation fails to address other factors
9 impacting the Company’s finances. As such, decoupling is improper piecemeal
10 ratemaking that should be avoided.

11 **Q. Referring again to the testimony by Ms. Steward at page 16, what is your**
12 **understanding of her statement, “...decoupling addresses the level of revenue**
13 **the Company is recovering each year, based on what was authorized in a rate**
14 **case”?**

15 **A.** I understand that Staff’s recommended decoupling would ensure that future
16 margin revenues would be recoverable by Cascade from existing customers on
17 rate schedules subject to decoupling, at the dollar levels authorized in the rate
18 case, except for variances caused by weather. The mechanics of the decoupling
19 would “take into account the new customers” that are added, using the approach
20 described at pages 11 through 14 of Ms. Steward’s Direct Testimony, essentially
21 allowing customer-driven margin revenue growth to be retained for shareholders
22 outside of the decoupling tracker. Customer growth was not mentioned by Ms.

1 Steward in her discussion of changing costs and “authorized revenues”, but there
2 is no denying that ongoing Cascade customer growth will add new margin
3 revenues above “authorized revenues” that should not be ignored in the design of
4 a decoupling mechanism.

5 **Q. In his conclusion at page 30 of his testimony, Mr. Weiss concludes that, “The**
6 **main goal of the Coalition in this proceeding is to align the interests of**
7 **consumers and shareholders in order to encourage and empower consumers**
8 **to participate in both utility and non-utility measures that cost-effectively**
9 **reduce gas usage.” Similarly, at page 5, Ms. Steward states, “Further, I**
10 **recommend that the Commission adopt, as a pilot, a partial decoupling**
11 **mechanism that will remove Cascade’s disincentive to promote energy**
12 **conservation by restoring lost margin due to customers’ non-weather related**
13 **changes in usage.” Is decoupling necessary to “align interests” or to promote**
14 **energy conservation?**

15 **A.** No. The decoupling proposals being advanced by Cascade, Staff, and NWEA are
16 over-reaching, unbalanced and unnecessary. These proposals would shift most or
17 all of the risks of declining usage per customer between rate cases from
18 shareholders to customers, whether such usage declines are caused indirectly
19 through price elasticity, ongoing appliance replacements and building upgrades, or
20 are caused more directly through explicit company-sponsored conservation
21 efforts. There has been no showing that customers are better off after absorbing
22 the expected decoupling rate increases from such shifts. On the other hand, every

1 decoupling proposal being advanced in this docket is fundamentally flawed in not
2 properly offsetting future declines in sales per customer with the expected
3 increasing sales volumes and margin revenues from serving new customers.
4 Historically, overall Cascade gas sales volumes are not declining because new
5 customer sales growth has offset declining usage per customer.¹²

6 With respect to the alleged need for decoupling, it should be noted that
7 Cascade has increased its spending on energy efficiency programs in the past 3
8 years, as illustrated at page 16 of Mr. Weiss' testimony, with no decoupling in
9 place. Mr. Weiss speculates at page 15 that at these levels, "Perhaps Cascade's
10 conservation is not impressive because the company did not have a decoupling
11 mechanism to protect it from lost margins." However, there has been no showing
12 by Cascade or Mr. Weiss that decoupling is necessary and cost effective in
13 stimulating more utility-sponsored conservation. Mr. Weiss clearly hopes to
14 leverage regulatory approval of decoupling tariffs that would be highly beneficial
15 to Cascade's shareholders to a commitment for ambitious new utility-funded
16 conservation efforts.¹³

17 **Q. Is Mr. Weiss aware of the fact that decoupling is expected to be highly**
18 **beneficial to Cascade shareholders, to the detriment of ratepayers?**

¹² According to Cascade's response to Public Counsel's Data Request PC-47, over the past three years total residential margin has increased \$800,000 when the effects of adding new residential customers is offset with the declining usage per customer among existing customers. See Table 3 at page 42 of my Direct Testimony, Exhibit No. __ (MLB-1T), for an indication of how stable CNG's total weather normalized margin revenues have been over the past several years.

¹³ Exhibit No. __ (SDW-1T), page 17, lines 12 through 16.

1 A. He seems to be aware of this fact at page 14 of his testimony, where he states,
2 “Decoupling may well provide margin recovery for this attrition – a windfall
3 compared to current rates.” I completely agree with his characterization of
4 decoupling as a “windfall compared to current rates”, but I do not agree that
5 implementing such a windfall tariff is reasonable for the purpose of extracting
6 more utility-sponsored conservation from Cascade, for all the reasons stated in my
7 Direct Testimony.

8 **Q. Mr. Weiss refers at page 13 to his role in supporting the Cascade decoupling**
9 **proposals in Oregon that led to an April, 2006 Stipulation that was approved**
10 **by the Oregon PUC staff and adopted by the Oregon commission. Has the**
11 **implementation of decoupling in Oregon proven to be beneficial to ratepayers**
12 **in that state?**

13 A. Apparently the Oregon Commission Staff now believes that Cascade is over-
14 earning and has initiated a show-cause rate case seeking reductions in Cascade’s
15 rates and revenues. I have attached as Exhibit No. __ (MLB-14) a copy of a
16 memorandum authored by the Oregon Public Utility Commission Staff, requesting
17 the Oregon Commission to open a formal investigation into Cascade’s earnings. I
18 have also attached as Exhibit No. __ (MLB-15) a copy of the press release issued
19 by the Oregon PUC on August 8, 2006, announcing that it has launched a rate case
20 proceeding to determine if the Company’s rates are too high. While the new
21 Oregon excess earnings case will no doubt reconsider the reasonableness of issues
22 thought to be resolved in the Stipulation Mr. Weiss was involved with, the fact

1 that an unprecedented rate reduction investigation is needed so soon after the
2 Oregon Stipulation may be an indication that Mr. Weiss' characterization of
3 decoupling as a potential rate "windfall" is fairly accurate.

4 **Q. At page 8 of his testimony, Mr. Weiss states, "Like other automatic**
5 **adjustments, decoupling may reduce the frequency of rate cases compared to**
6 **current ratemaking practice. Some have argued that this is a serious**
7 **disadvantage to consumers, since it is during a rate case that a thorough**
8 **review of all of a utility's costs and revenues occurs." How do you respond?**

9 A. I respond first by admitting that I believe that the "thorough review of all of a
10 utility's costs and revenues" described by Mr. Weiss should be undertaken before
11 rates are changed. Piecemeal rate trackers such as decoupling mechanisms
12 destroy the matching needed in such a review. It is my conclusion that traditional
13 test year ratemaking, through which all changes in revenues, investment, expenses
14 and cost of capital are measured at a consistent and "matched" point in time, has
15 been effective in aligning and reasonably balancing the interests of Cascade's
16 customers and shareholders. Declining gas usage per customer has existed for
17 years for Cascade and other local distribution companies and has been adequately
18 addressed through traditional ratemaking and without decoupling. Indeed, no
19 changed circumstances exist today that are sufficient to justify adoption of
20 extraordinary and complex piecemeal tariff tracking of changes in usage per
21 customer for Cascade.

1 In Washington, it is notable that Cascade has not required a traditional rate
2 increase for many years, even though there was no piecemeal decoupling tracker
3 in place to increase gas rates as its usage per customer volumes declined. To add
4 such a tracker now would assure CNG of future piecemeal rate increases beyond
5 those approved in this rate case, risking an excessive earnings outcome in
6 Washington similar to that presently unfolding in Oregon.

7 **Q. Does this conclude your Cross-answering testimony?**

8 A. Yes.

9