Exh. DJP-1T
Docket UG-200568
Witness: David J. Panco

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, **Complainant,** **v.** **CASCADE NATURAL GAS CORPORATION,** **Respondent.**	**DOCKET UG-200568**

TESTIMONY OF

David J. Panco

STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Proposed Pro Forma Plant Additions

November 19, 2020

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is David J. Panco, and my business address is 621 Woodland Square Loop SE, Lacey, Washington, 98503. My business mailing address is P.O. Box 47250, Olympia, Washington, 98504-7250. My business email address is david.panco@utc.wa.gov.

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a regulatory analyst in the Energy Regulation Section of the Regulatory Services Division. Among other duties, I am responsible for financial and economic analysis and auditing of regulated companies.

Q. How long have you been employed by the Commission?

A. I have been employed by the Commission since November 2015.

Q. Please state your qualifications to provide testimony in this proceeding.

A. My formal education includes a Master of Business Administration and a Master of Marine Affairs, essentially applied resource economics and public policy, both from the University of Washington in 1989.

Relevant work experience includes bookkeeping and accounting for medium-sized produce and seafood operations in the Pacific Northwest, Alaska, and New

England from 1980 through 1986, and various assignments from 1987 through 2008 with Weyerhaeuser Company. These assignments included product development, environmental project management, facility planning and risk management for major manufacturing sites, and new venture development as part of the company's corporate research and development efforts.

I completed New Mexico State University's rate case basics workshop in May 2016.

Q. Have you testified previously before the Commission?

A. Yes. I provided testimony in Docket UE-161204 regarding proposed modification of Pacific Power and Light's disconnection tariff and establishment of a stranded cost methodology. I also submitted testimony regarding major capital projects for Cascade Natural Gas's previous general rate cases (Dockets UG-152286 and UG-170929), and I drafted testimony regarding pro forma capital projects for Docket UG-190210.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the scope and purpose of your testimony?

A. The purpose of my testimony is to provide the Commission with a recommendation on the appropriate adjustment for pro forma plant. I respond to the testimony of Company witness Peters regarding Cascade's requested pro forma plant additions.

Pro forma plant is incorporated into the Company's revenue requirement through Adjustment P-3.

In my testimony, I first provide a summary of the Commission's standards for pro forma plant adjustments. Next, I describe and characterize the Company's proposed adjustment, and apply Commission's standards to Cascade's proposed adjustment. Finally, I compare these two perspectives and provide Staff's recommendations to the Commission.

Q. Please summarize your recommendations.

A. Cascade seeks to include in rates budget estimates for some 46 separate line items, totaling just over \$66 million. As of October 27, 2020, Cascade has been able to verify that only approximately \$6.9 million of its more than \$66 million request is actually in service, as detailed in Exh. DJP-2 on page 1. As proposed, this Staff adjustment alone reduces the approximately \$12 million revenue increase Cascade seeks through this general rate case by approximately \$8 million, as shown in Exh. DJP-2 at 2, Ln 13, Col. F.

I recommend the Commission include in its revenue requirement calculation a pro forma adjustment for four projects totaling approximately \$6.9 million. Through discovery, Staff has confirmed these projects are in service, used and useful to ratepayers, and with known and measurable costs. These four projects increase revenue requirement by just over \$0.8 million.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. I prepared Exhibits DJP-2 through DJP-7. Exh. DJP-2 shows a comparison between the Company's and Staff's proposed per forma plant adjustments and proposed pro forma plant increase. Exh. DJP-3 shows the Company's response to UTC Staff DR No. 89, requesting update and additional information regarding Exh. PCD-1T.Exh. DJP-4 shows the Company's response to UTC Staff DR No. 91, requesting update and additional information regarding Exh. MCP-6. Exh. DJP-5 shows the Company's responses to UTC Staff DR No. 92, requesting update and additional information regarding Exh, PCD-2. Exh. DJP-6 shows the Company's response to UTC Staff DR No. 124, requesting continuous updates to revised Exh. PCD-2. Exh. DJP-7 shows the Company's supplemental response to UTC Staff DR No.124.

III. BASIS FOR PRO FORMA PLANT ADJUSTMENTS

Q. What is basis for the Commission accepting proposed pro forma plant adjustments?

A. When delegating ratemaking power to the Commission, the legislature delegated the power "to ascertain and determine the fair value for rate making purposes of the property of any public service company used and useful for service in this state."[1] The Commission has recognized that setting fair, just, reasonable, and sufficient

[1] RCW 80.04.250(2).

rates for a future rate-effective period sometimes requires it to include in the valuation of utility property plant placed into service after a rate case's test year.[2]

Q. Has the Commission set out any provisions governing pro forma adjustments by rule?

A. Yes. WAC 480-07-510(3)(c)(ii) provides the Commission's rules on pro forma adjustments, stating, "Pro forma adjustments give effect for the test period to all known and measurable changes that are not offset by other factors."

Q. What ratemaking standards are derived from the Commission's rules on pro forma adjustments?

A. Among the ratemaking standards that arise from this rule are to the "known and measurable" standard and the "offsetting factors" standard.

Q. What is the known and measurable standard?

A. The known and measurable standard provides that, to be included in rates through a pro forma adjustment, a post-test year capital addition must be known to have been placed in service and the final project cost must be measurable. This means that from a practical standpoint, forecasts of costs do not meet the current interpretation of the "known and measurable" standard.[3]

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[2] *See generally*, *In the Matter of the Commission Inquiry into the Valuation of Public Service Company Property that Becomes Used and Useful after Rate Effective Date*, Docket U-190531, Policy Statement on Property that Becomes Used and Useful After Rate Effective Date, 6, ¶ 17 (Jan. 31, 2019) (Used and Useful Policy Statement).

[3] *See Wash. Utils. & Transp. Comm'n v. Avista Corp.*, Dockets UE-090134, UG-090135, and UG-060518 (consolidated); Order 10, 21, ¶ 45 ("Costs that are documented by actual expenditure, invoice, contract, or

Furthermore, as Staff witness McGuire explains, the purpose of pro forma adjustments is to capture known and measurable *changes* to the utility's cost of providing service[4]. Cascade's revenue requirement calculation includes the supposed cost of incremental investments but fails to account for reductions in cost elsewhere in the business. As a result, Cascade's analysis tells us nothing about whether the Company's overall cost of service will increase when (and if) Cascade places the new facilities in service.

Q. What is the offsetting factors standard?

A. The offsetting factors standard gives effect to the matching principle of ratemaking,[5] and requires the utility to account for not only the incremental costs that a utility incurs after the test year, but also the cost reductions that might offset those incremental costs. The standard also requires consideration of the ripple effects of the investment in question on utility operations, such as whether a post-test year investment itself produces additional revenues or reduces expenses. It requires accounting for the fact that an investment affects more than just rate base and depreciation expense.

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other specific obligation usually meet this test. Costs that are the product of forecasts, projections, or budgets generally will not qualify."); *see also*, 2019 PSE GRC Order at 38, ¶ 114 (Justifying approval of pro forma plant projects in part because "[h]ere, we need not rely on projections or estimates."); Used and Useful Policy Statement at 4, ¶ 9; 6, ¶ 17 (The known and measurable standard still applies under the Commission's policy statement. At the time the retrospective review is conducted, costs must be known and measurable: "[T]he Commission's existing standards remain applicable. For property not yet in service, these standards will be critical to the Commission's retrospective review of the property in question.").

[4] McGuire, Exh. CRM-1T at 25-26.

[5] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Dockets UE-090704 and UG-090705, Order 11, 11, ¶ 25 (April 2, 2010).

Q. What are the practical implications of the offsetting factors Standard?

A. With the offsetting factors standard, utilities have the burden of demonstrating *for each and every post-test year plant addition* that either (1) there are no offsetting factors, or (2) offsetting factors have been accurately quantified and incorporated into the revenue requirement calculation.

The practical implication of the offsetting factors standard is that pro forma adjustments are limited to those for which offsetting benefits can be identified and reasonably evaluated. Indiscriminate adjustments to pro forma plant, including aggregate levels of projected plant-in-service, generally fall short of meeting this standard.

Q. Please describe Staff's approach to evaluating pro forma plant additions in this case.

A. In assessing whether a project is appropriate for pro forma treatment, Staff evaluates whether that project conforms to the Commission's standards for pro forma plant additions. Staff considered three questions when reviewing pro forma additions:

1. Is the new plant used and useful to serve Washington customers?
2. Are the costs associated with the new plant known and measurable?
3. Are the costs incremental and not offset by other factors, or if costs are offset by other factors, does the company account for those factors in its revenue requirement calculation?[6]

[6] If the projects proposed by Cascade were in service and the costs known and measurable, Staff would also have considered questions regarding prudence and whether the investment was "major." However, because the projects were not in service and the ultimate costs unknown, these questions could not be answered.

If the answer to all three of the above questions is "yes," then Staff generally supports including the plant additions in rates. If the answer to any of the questions is "no," then Staff cannot attest that the adjustment is appropriate or necessary.

Q. Did Staff consider the Commission's "Policy Statement on Property that becomes Used and Useful after Rate Effective Date" from Docket U-190531?

A. Yes. However, Staff notes that this policy statement primarily addresses property which becomes used and useful *after* the rate effective date.[7] The Company does not propose pro forma treatment for investments to be placed in-service after the rate effective date.[8]

Q. Did Staff consider the Commission's final order of Docket UE-190529?

A. Yes. In the final order of PSE's most recent GRC,[9] the Commission made clear its intention to avoid being overly prescriptive in assessing pro forma plant proposals, while also continuing to adhere to the provisions of WAC 480-07-510(3)(c)(ii), RCW 80.28.020, and RCW 80.04.250.[10] Staff notes that the Commission exercised its discretion to include in PSE's revenue requirement calculation costs incurred beyond the due date for responsive testimony (but before the rate effective date).[11] Staff also observes that in the PSE case the pro forma projects considered were

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[7] Used and Useful Policy Statement at 4, ¶ 9.
[8] Peters, Exh. MCP-1T, 7:17-19 ("As Company witness Mr. Michael Parvinen explains, the Company's intent is to add into rate base only those projects that will be used and useful by the time rates from the current proceeding go into effect.").
[9] 2019 PSE GRC Order at 37, ¶ 112.
[10] *See* 2019 PSE GRC Order at 38, ¶ 113 (Use of an extended pro forma period determined on a case-by-case basis.); *see also* Used and Useful Policy Statement at 8, ¶¶ 21-24.
[11] *See* PSE GRC Order at 2; 9, ¶ 6 (Response testimony filed Nov. 22, 2019, pro forma adjustment approved through Dec. 31, 2019).

limited and substantial, that the approved projects were in use providing service to customers, and their associated costs were known and measurable.[12] Many of these projects were ongoing investments, and PSE sought recovery of only a portion of these projects through pro forma adjustment.[13] For each approved project, the portion of the project that PSE was seeking recovery on through the pro forma adjustment were largely in service well before responsive testimony was filed.[14]

The Commission emphasized multiple times in the PSE Order that the projects approved were in service and the costs were known and measurable.[15] The Commission did not authorize cost recovery for a project that was not yet in service, instead authorizing only a deferral for later consideration.[16]

Q. Did the Commission indicate that the decision it made to include in rates plant placed in service after responsive testimony was a definitive declaration of policy?

A. No. In the PSE case the Commission indicated that use of an extended period for pro forma adjustments is not a "one-size fits all solution," and should be determined on a

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[12] *See* 2019 PSE GRC Order at 37, ¶ 110 ("The update included only amounts that are used and useful and known and measurable, consistent with Commission past practice, and did not include forecasts or estimates.").

[13] *See e.g.*, *Id*. at 38-40, ¶¶ 116-122 (Get to Zero project planned from 2016 to 2021, PSE sought recovery through pro forma adjustment of 32.5 million in costs from Jan. 2019 to June 2019).

[14] *See Id*. at 9, ¶ 6 (response testimony filed Nov. 22, 2019); 39-42, ¶¶ 121 and 130 (Get to Zero projects in service June 30, 2019, pro forma adjustment authorized through Dec. 31, 2019); 49, ¶ 155 (AMI- placed into service on an ongoing basis beginning in 2016, pro forma adjustments approved through Dec. 31, 2019, but excluding recovery of "return on" these investments); 63, ¶ 204 (HR TOPS software- placed in service Jan. 2019, adjustment approved through Dec. 31, 2019); 64, ¶ 209 (High Molecular Weight Cable Replacement- placed in service between Jan. and Dec. 2019, adjustment approved through Dec. 31, 2019).

[15] *Id*. at 38, ¶¶ 113-14; 63, ¶ 204; 64, ¶ 209; 66, ¶ 215.

[16] *Id*. at 55, ¶¶ 174-177 (Tacoma LNG Distribution Upgrade costs deferred rather than approved for recovery in rates).

case-by-case basis.[17] The Commission also took into consideration the short lives of some of the approved projects, which are particularly vulnerable to regulatory lag.[18]

IV. COMPANY'S PROPOSED PRO FORMA PLANT ADJUSTMENT

Q. Please describe Cascade's pro forma plant adjustment.

A. Cascade includes in its adjustment 46 funding projects totaling over $66 million with estimated cost of each funding project ranging from $80,000 to $10 million.[19]

Q. How did Cascade present the plant additions the Company includes in its proposed pro forma plant adjustment?

A. The Company's Exh. MCP-6 as filed in its direct case provides only estimates for pro forma plant costs and in-service dates.

Among the Company's "Proposed Plant Additions" listed in Exh. MCP-6 are columns headed "2020 Total - The Company's budget and plant accounting software" and "Estimated In-Service Date."[20] Purportedly, "The intent of the analysis is to comply with the Commission's previous guidance regarding the parameters for the inclusion in rate base of pro forma adjustments based on the most recent updated capital budget."[21] No specific source of this previous Commission guidance was provided.

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[17] *Id*. at 38, ¶ 113.

[18] *See Id* at 38, ¶ 114; 42, ¶ 130 (Get to Zero assets described as having "relatively short lives"); 63, ¶ 204 (HR Tops assets described as "short-lived investments").

[19] Peters, Exh. MCP-6.

[20] Peters, Exhs. MCP-1T at 8:15-9:5, and MCP-6.

[21] Peters, Exh. MCP-1T at 8:16-19.

Q. Did Cascade provide any other testimony or workpapers to support the proposed pro forma plant adjustment?

A. Yes, Exh. PCD-1T includes an overview of the Company's capital budgeting and project selection process, detail regarding "the Company's major capital projects,"[22] and also describes the Company's blanket funding projects and the Company's Customer Care Billing System Upgrade. Cascade's pro forma plant adjustment is composed of 46 separate line items.[23] Of those 46 line items, only 26 relate to the 15 capital projects Cascade describes as "major."[24]

Q. How many of these projects were in service when Cascade filed its direct case?

A. One. In its direct case, the Company testifies that 14 of the 15 projects it claims are "major" are not yet in service and the actual costs are not yet known. The Company acknowledges that the costs and in-service dates for these 14 projects are budgets and estimates. [25]

Q. For the 14 "major" projects not yet in service when Cascade filed its case, does the Company provide projected costs and in-service dates?

A. Yes. However, Cascade misleadingly labels the projected in-service date as "Actual In Service Date." Two of the listed dates are well into 2021.[26] The Company

[22] Darras, Exh. PCD-1T at 2:16-3:9.
[23] Peters, Exh. MCP-6.
[24] Darras, Exh. PCD-2.
[25] Peters, Exh. MCP-1T at 7:14-16.
[26] Panco, Exh. DJP-3.

indicated intent to "update the actual costs and standing of each project as the case proceeds."[27]

Q. Did the Company's case in this proceeding discuss, define, or quantify any offsetting factors for the 15 projects, and include those offsetting factors in its revenue requirement calculation?

A. No. Although Cascade includes in its pro forma plant adjustment an estimate of revenue it claims captures the offsetting factors for "growth" plant, the Company includes no other offsetting factors in its revenue requirement calculation.

V. STAFF'S ANALYSIS AND POSITION

Q. What is Staff's overall position on Cascade's pro forma plant adjustment?

A. Of the 46 line items in Cascade's pro forma plant adjustment, Staff recommends rejecting 42 as not shown to be used and useful, known and measurable, and because Cascade did not properly consider offsetting benefits. Staff recommends accepting only the four of the 46 line items listed in Exh. MCP-6 which the Company attests to being in service to Washington customers at known and measurable costs, totaling approximately $6.9 million.

[27] Peters, Exh. MCP-1T at 7:16-17.

Q. How did Staff approach its analysis of Cascade's pro forma plant adjustment?

A. Staff first attempted to determine whether the projects Cascade seeks to pro form are both used and useful for the provision of service in Washington, and whether the costs are known and measurable. Staff then assessed whether Cascade had properly accounted for offsetting factors. Through discovery, Staff asked Cascade to provide actual updated plant-in-service costs and actual in-service dates.[28] Staff's primary focus was the 15 proposed major projects listed in Exh. PCD-2 which include 26 of the 46 funding projects in listed Exh. MCP-6.

Q. How many of the projects did Cascade confirm were in service?

A. Cascade responded that three additional funding projects have been placed in service since the Company filed its case. In total, only four of the 26 funding projects related to the major projects listed in Exh. MCP-6 have been placed in service.[29] These four projects are Whatcom Creek Crossing (FP-317060), Arlington HP Reinforcement (FP-300233), Arlington Gate (FP-316586), and Moses Lake PE Reinforcement (FP-318482).

Q. What did Staff learn from Cascade's updated project cost data?

A. Cascade appears to have thus far invested significantly less than the Company's budget, direct testimony, and supporting workpapers indicated it would have made. The table below summarizes Cascade's direct case pro forma cost estimates for

[28] Panco, Exhs. DJP-3, DJP-4, and DJP-5.
[29] Panco, Exh. DJP-3.

projects, and the limited actual cost data provided in response to Staff's data requests.

TABLE 1

Funding Project # and Description	FP Cost Est	Actual Cost
FP-317060 - FRL; 10" HP; BELL; 2900' STATEBRIDG	$ 1,526,471.05	$ 1,512,200.81
FP-300233 - ARLINGTON 6" HP REINFORCEMENT	$ 2,757,265.26	$ 4,130,605.97
FP-318482 RF; 4"; PE; Moses Lake 1,800'	$ 433,146.02	$ 212,170.31
FP-316586 - RP; R-187 ARLINGTON GATE	$ 1,015,615.47	$ 1,005,786.24
Sub-Totals	$5,732,497.80	$ 6,860,763.33
Remaining 22 Projects listed in PCD-2 revised	$ 37,644,956.84	
Remaining 20 Projects listed in MCP-6	$ 22,728,182.64	
Total Proposed Projects	$ 66,105,637.28	

Q. How do these estimates and the actual data provided compare to each other?

A. The Company only confirms in-service status for four projects with actual costs totaling $6,860,763. This is approximately ten percent of the $66 million the Company included in its adjustment.

Q. Has Staff sought additional updates from the Company?

A. Yes. Concerned that Cascade was not treating Staff's previous discovery request as an ongoing request, on September 11, 2020, Staff requested continuing updates on the projects the Company has placed in service. Cascade responded that it has no updates, and that the Company "will provide continuous updates throughout the rate case and discovery process as they materialize."[30] On October 27, 2020, Cascade confirmed that it had not placed any additional pro forma projects in service.

Q. What if some of Cascade's projects go into service between now and the end of the year? Wouldn't the costs be known and measurable at that point?

A. Perhaps, but the final costs for a project being known and measurable is not the be-all, end-all criterion for determining whether they are appropriate (or necessary) to include in a pro forma adjustment. As Staff witness McGuire points out, given that rates should be based on a utility's overall cost of service, pro forma adjustments are appropriate only if they accurately capture changes to the utility's overall cost of service, and not if they account for only additional costs in a vacuum.[31] This concept is reflected in the Commission's rules on pro forma adjustments which require that pro forma adjustments "give effect for the test period to <u>all known and measurable changes that are not offset by other factors</u>."[32]

The fundamental problem with additional projects Cascade may place in service is that even if the final costs become known and measurable, offsetting factors will not. Consequently, a pro forma adjustment that captures only the project's costs cannot be assumed to reflect known and measurable changes to the Company's cost of providing service. Therefore, Staff would still recommend that

[30] Panco, Exhs. DJP-6 and DJP-7.
[31] McGuire, Exh. CRM-1T at 25-26.
[32] WAC 480-07-510 (3)(c)(ii). (Emphasis added).

the Commission deny pro forma treatment for additional projects Cascade may place in service.

Furthermore, as Staff witness McGuire discusses, Cascade's proposal to update its case after parties have completed their reviews and submitted testimony in response to the Company's direct case is unfair to Staff and other non-company parties, produces an incomplete record on issues the Commission must decide, and violates the Commission's procedural rules.[33]

Q. Does the Company mention offsetting revenue related to pro forma plant?

A. The Company admits that "proposed projects are both non-revenue and revenue producing"[34] but does not attribute or associate increased revenue to particular, individual, or specific projects in Exh. MCP-6. Only aggregate offsetting revenue is provided in the Company's Adjustment P-3. That offsetting revenue appears to be derived from forecasted load and customer count and does not appear to be associated with projects that are in service or known and measurable at this time. It appears to be related only to line items marked as "growth projects" that have future in-service dates indicated.[35]

Q. How does Staff's adjustment deal with this offsetting revenue?

A. Staff removed the offsetting revenue as it is based on projected customer growth and associated with "growth projects" which have not been confirmed as being known

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[33] McGuire, Exh. CRM-1T at 23-24.
[34] Peters, Exh. MCP-1T at 7:10.
[35] Peters, Exh. MCP-6; *see also* Parvinen, Exh. MPP-1T at 8:2-4.

and measurable or causing an increase to the Company's overall cost of providing service.

Q. Do you have any reason to believe there are other offsetting factors that Cascade did not account for in its adjustment?

A. Yes. The Company describes but does not provide quantification of the value of equipment replaced and reduced depreciation expense, or of possible reduced O&M expense resulting from maintenance efficiency gained.

Q. Can Staff point to examples of such project related descriptions?

A. Yes, it can. Exh. MCP-6 includes a tab titled "MCP-6 Supporting Explanations" which refers to various of the proposed Adjustment P-3 funding projects. These explanations refer to replacement and relocation of pipe and pressure regulation stations (Note 15, Note 16, Note 18), and to gains in operation efficiency (Note 13, Note 24, Note 25). Note 28 states that the projects it describes "typically have offsetting benefits."[36]

Q. Does Cascade include any of these offsetting factors in its revenue requirement calculation?

A. No, it does not. For replacement project, Cascade does not account for the reductions in depreciation expense and rate base associated with facilities being replaced (i.e. facilities being removed from service), and for projects creating "gains in operational

[36] Peters, Exh. MCP-6, Tab MCP-6 Supporting Explanations.

efficiency," Cascade does not account for the O&M offsets it asserts. Cascade fails to describe – let alone account for – the offsetting benefits the Company cites in Note 28 for its blanket work orders.[37]

Q. Are the adjustments requested by Cascade different than the pro forma adjustments the Commission approved in the 2019 PSE GRC?

A. Yes. The Commission made clear in the recent PSE case that it will decide post-test year pro forma adjustments on a case-by-case basis:

> "[W]e will base our acceptance or rejection of proposed pro forma adjustments on our evaluation of multiple factors relevant to the particular proposed adjustment, **including, but not limited to, the life of the asset, whether the asset is used and useful, whether the costs of the asset are known and measurable, and whether the costs were prudently incurred.**"[38] (Emphasis added)

Every factor specifically mentioned by the Commission in the 2019 PSE GRC Order weighs against approving Cascade's proposed pro forma adjustments.

Q. How so?

A. The proposed pro forma adjustments in this case are nearly the polar opposite of the approved adjustments in the PSE GRC:

Life of the asset- In the PSE case, the Commission considered the short useful lives of some of the approved pro forma adjustments. In this case, only one adjustment could arguably meet this factor.[39]

[37] Peters, Exh. MCP-6 at 5.
[38] 2019 PSE GRC Order at 163, ¶ 560.
[39] *See* Darras, Exh. PCD-1T at 69-71.

Used and useful- As I mentioned earlier in my testimony, all the pro forma projects approved in the 2019 PSE GRC were limited and substantial, the approved projects were in use providing service to customers. Cascade's pro forma projects are not in service and not used or useful.

Known and measurable- Again, in the PSE case the approved projects were known and measurable because costs were already incurred. Here, Cascade asks the Commission to rely on estimates that have thus far proved inaccurate, as noted in Table 1. In addition, during the PSE GRC, the company's demonstration of offsetting factors was not challenged. Here, Cascade's proposed adjustments (with exception to the four that Staff accepts) are not known and measurable, and the Company has failed to account for offsetting factors.

Prudently incurred- The Commission determined that costs approved for recovery through rates in the PSE case were prudently incurred. The costs associated with Cascade's proposed pro forma projects have yet to be incurred at all.

Finally, although this was not a factor specifically listed in the PSE GRC Order, these two cases are distinguishable based on when the proposed pro forma projects were (or in this case, might be) in service relative to when the non-company parties filed responsive testimony. In the PSE case, pro forma plant additions that were approved by the Commission for immediate recovery through rates were largely in service well before responsive testimony was due.[40] Here, it is still unclear

[40] *See* n.14 *supr*a.

whether any of the proposed projects will be in service or the expenses incurred by the end of the year.[41]

Q. Please summarize your conclusions with respect to the projects Cascade includes in its pro forma plant adjustment.

A. I recommend rejecting 42 of the 46 project line items listed in Exh. MCP-6 as Staff cannot attest to those projects being in service to Washington rate payers at known and measurable costs, and with adequate description and consideration of offsetting factors.

Q. Please summarize your recommendations.

A. I recommend considering no more than the four projects which discovery confirmed to be known, measurable, used and useful - Bellingham, Whatcom Creek Crossing (FP-317060), Arlington HP Reinforcement (FP-300233), Arlington Gate (FP-316586), and Moses Lake PE Reinforcement (FP-318482).[42] These four projects total approximately $6.9 million and increase Staff's revenue requirement by just over $0.8 million.[43]

Q. Does this conclude your testimony?

A. Yes.

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[41] The exception being the four pro forma projects that Staff accepts.
[42] Panco, Exh. DJP-3.
[43] Panco, Exh. DJP-2.