

DOCKET UG-152286

**ATTACHMENT A
TO
JOINT TESTIMONY IN SUPPORT OF
SETTLEMENT AGREEMENT**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-152286

JOINT SETTLEMENT AGREEMENT

I. PARTIES

1 This Settlement Agreement (“Agreement”) is entered into by Cascade Natural Gas Corporation (“Cascade” or the “Company”), the Staff of the Washington Utilities and Transportation Commission (“Staff”), the Public Counsel Unit of the Washington Office of Attorney General (“Public Counsel”), Northwest Industrial Gas Users (“NWIGU”), and The Energy Project, jointly referred to herein as the “Parties.” This Agreement represents a full settlement under WAC 480-07-730(1). The Parties agree that this Agreement is in the public interest and should be accepted by the Washington Utilities and Transportation Commission (“Commission”) as a full resolution of the known issues in Docket UG-152286. The Parties understand that this Agreement is subject to approval by the Commission.

II. INTRODUCTION

2 On December 1, 2015, Cascade filed tariff revisions to increase general rates for natural gas service (Docket UG-152286) in all of the Company’s service territories in Washington state. Cascade requested an increase in natural gas rates of about \$10.5 million, or a little more than 4.17 percent above test year levels. On December 21, 2015, the

Commission entered Order 01 suspending the tariff revisions and placing Cascade's request in formal adjudication. Representatives of all Parties appeared at a settlement conference held on April 14, 2016, for the purpose of narrowing or resolving the contested issues in this proceeding. Those discussions led to this Agreement.

3 The Parties have reached a full settlement of the known issues in this proceeding and wish to present the Agreement for the Commission's consideration and approval. The Parties, therefore, adopt the following Agreement in the interest of reaching a fair, just, reasonable, and sufficient disposition of the issues in this proceeding, and hereby respectfully request that the Commission issue an order approving this Settlement in its entirety.

III. AGREEMENT

A. Revenue Increase and Effective Dates

4 Increases in Base Rates and Early Implementation. The Parties agree that, effective with service on and after September 1, 2016, Cascade shall be authorized to implement base rate changes designed to increase its annual revenues from its Washington natural gas customers by \$4.0 million, or approximately 1.6 percent overall. This Agreement would result in a bill increase (including gas costs) for an average residential customer of \$1.39, or 2.55 percent.

5 Early PGA Filing. The Parties agree Cascade will file its purchased gas adjustment ("PGA") and gas cost deferral amortization filings by August 1, 2016, to be effective on September 1, 2016, to coincide with the September 1, 2016, increase to base rates outlined in Paragraph 4, above.

B. Cost of Capital

6 Cost of Capital. The Parties agree to an overall rate of return of 7.35 percent.

C. Decoupling

7 Decoupling Overview. Cascade will implement the revenue-per-customer
decoupling mechanism illustrated in Appendix A concurrent with the natural gas rate
changes included in this Agreement effective September 1, 2016.

8 General Function. The decoupling mechanism will function as a revenue-per-
customer mechanism, similar to those approved by the Commission for Puget Sound Energy
("PSE") and Avista Corporation ("Avista"). A deferral account will be established and will
capture the difference between actual margin revenue per customer and authorized margin
revenue per customer. Each year the Company will file to "true-up" rates under each
schedule to collect or return the deferred amount on an equal percent of margin basis. This
filing will be made with the Company's other temporary technical adjustment filings,
typically to go into effect November 1.

9 Third Party Audit. Cascade will engage an independent third party to audit its
decoupling program following the end of the third full year that the program is in place. The
scope of that audit may be informed by the decoupling-related independent audits conducted
by PSE and Avista. The evaluator will be tasked with reviewing the following areas of
interest:

- a. Decoupling's effect on revenues and conservation;
- b. The degree to which allowed revenues are recovering its allocated cost of
service, by customer class; and

- c. The fixed cost recovery in classes that are not covered by the decoupling mechanism.

10

Earnings Test. The Company will perform an earnings test as follows:

- a. The earnings test will be based on the Company's year-end Commission Basis Reports ("CBR") stated on an average-of-monthly-averages ("AMA") basis, prepared in accordance with WAC 480-90-257 (Commission Basis Report). This report is prepared using actual recorded results of electric or natural gas operations and rate base, adjusted for any material out-of-period, non-operating, nonrecurring, and extraordinary items or any other item that materially distorts reporting period earnings and rate base. These adjustments have been consistently made by the Company when preparing past CBRs and are consistent with the adjustments described in WAC 480-90-257(2)(b). The CBR includes normalizing adjustments to reflect operations under normal conditions. For the earnings test, the decoupling accounting entries adjust revenues from a therm sales basis to a revenue per customer basis. The CBR will not include any annualizing or pro forma adjustments.
- b. Should the Company have a decoupling rebate balance at year-end, the entire rebate will be returned to customers.
 - 1. If the CBR earned return exceeds 7.35 percent, the rebate will be increased by one-half the rate of return in excess of 7.35 percent.¹
- c. Should the Company have a decoupling surcharge balance at year-end:

¹ The 7.35% figure used for the earnings test will be adjusted to reflect any subsequent rates of return approved by the Commission during the term of the Decoupling Mechanisms.

1. If the CBR earned return is less than 7.35 percent, no adjustment is made to the surcharge, if any, recorded for the year.
2. If the CBR earned return exceeds 7.35 percent, the surcharge recorded for the year will be reduced, or eliminated, by one-half the rate of return in excess of 7.35 percent.

11 Maximum 3 Percent Rate Increase from Decoupling. A decoupling surcharge plus interest at the Federal Energy Regulatory Commission (“FERC”) rate cannot exceed a 3 percent annual rate adjustment, and any unrecovered balances will be carried forward to future years for recovery. There is no limit to the level of the decoupling rebate.

12 Deferrals at FERC Rate. Any deferred balance, either in the surcharge or rebate direction, will accrue interest at the FERC interest rate consistent with gas cost deferred balances. The FERC interest rate is currently 3.46 percent.

13 Initial Decoupling Filing. The deferred monthly balances under the decoupling mechanism for September 1, 2016, through December 31, 2016, will be subject to the Commission Basis Report (“CBR”) filed April 30, 2017, for the 2016 fiscal year. This amount will be amortized in a filing effective November 1, 2017, that will be submitted concurrently with the 2017 PGA and gas cost deferral amortization filings.

14 The subsequent decoupling deferral period, January 1, 2017, through December 31, 2017, will be amortized for rebate or surcharge in a filing effective November 1, 2018, and will be subject to the CBR filed April 30, 2018, for the 2017 fiscal year. The 12-month cycle of deferring then collecting after 10 months will continue for the duration of the mechanism.

D. Rate Spread and Rate Design

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Rate Spread Overview. The Parties do not agree on the results of a single cost of service study, but for purposes of settlement the Parties agree to spread the rate increase as follows:

- a. Residential class is responsible for 75 percent of the total proposed revenue increase;
- b. No increase for the Special Contracts class; and
- c. The remaining 25 percent of the total revenue increase is split amongst all other classes (Commercial, Industrial, Interruptible, and Transportation) on an equal percentage of margin basis.
- d. The resulting bill increase (including gas costs) for an average residential customer will be \$1.39, or 2.55 percent.²

Class	Class revenues (after \$4 million increase)	Incremental increase	Margin increase %³
Residential	\$ 43,545,642.00	\$ 3,000,000.00	7.40%
Commercial	\$ 23,155,148.10	\$ 569,398.10	2.52%
Industrial	\$ 3,450,168.58	\$ 84,841.58	2.52%
Interruptible	\$ 248,378.77	\$ 6,107.77	2.52%
Transportation	\$ 13,812,313.55	\$ 339,652.55	2.52%
Special Contract	\$ 5,503,267.00	\$ -	0.00%

16

Basic Charge. The Basic Service Charges for Schedules 505, 511, 570, and 577 will be changed as proposed by the Company. The Company's proposed changes result in a Schedule 505 charge of \$48.00, an increase of \$24.00; a Schedule 511 charge of \$100.00; a Schedule 570 charge of \$130.00; and, a Schedule 577 charge of \$130.00. For Schedule 663,

² See rates shown in Appendix B.

³ Equals incremental increase divided by class revenues less incremental increase. (example; $\$3,000,000 \div [\$43,545,642 - \$3,000,000] = 7.40\%$)

the Dispatch Service Charge is re-named to the Basic Service Charge, but remains otherwise unchanged. The basic or customer charges for all other schedules remain unchanged.

17 Load Study Required. Prior to the filing of its next rate case, the Company will initiate a load study as outlined further in Paragraph 46.

E. Conservation

18 Annual Filings. Cascade must file, at least once per year, a conservation plan for the next calendar year, a conservation achievement report for the previous year, and a conservation tariff adjustment. These filings are discussed further in Paragraphs 21 through 23.

19 Conservation Target. Cascade must achieve at least 100 percent of its annual conservation target.

20 Quarterly Meetings. Cascade shall meet with its conservation advisory group at least quarterly. These meetings may take place by phone when the conservation advisory group agrees to do so. Topics to be discussed with the conservation advisory group shall include, but not be limited to, the following:

- a. Conservation potential assessments;
- b. Proposed tariff revisions;
- c. Annual conservation plans;
- d. Annual conservation reports;
- e. Proposed program changes;
- f. Marketing and communications strategies;
- g. Evaluation, measurement and verification; and

- h. Low-income weatherization.

21 Annual Conservation Plan. The Company shall file, by December 1 of each year, an annual conservation plan that includes:

- a. The Company's conservation target for the ensuing year by program and customer class;
- b. The programs and measures that the Company will employ to achieve its target;
- c. The projected budget by program and customer class;
- d. An estimate of the portfolio's cost effectiveness; and
- e. A list of all measures offered under the conservation programs and the unit energy savings values and customer incentives for each.

22 Annual Conservation Report. The Company shall file, by June 1 of each year, an annual conservation report that details:

- a. The previous year's conservation achievement by program and customer class including low-income weatherization;
- b. All program evaluations completed during the program year;
- c. Total expenditures for the previous year by program and customer class; and
- d. Cost-effectiveness calculations.

23 Cost Recovery Tariff Filing. The Company shall file, by October 1 of each year and with a requested effective date of November 1, a conservation cost recovery tariff filing that includes the following information:

- a. Total forecast budget for the prior program year by program;
- b. Total expenditures during the prior program year by program;

- c. The total dollar amount that the Company is seeking to recover;
- d. The overall rate increase or decrease;
- e. The total monthly bill increase or decrease for the average customer; and
- f. Work papers that support the calculations.

24 Advance Copies. The Company will provide all plans, reports and tariff filings to the conservation advisory group at least 30 days in advance of their filing with the Commission.

25 Evaluation, Measurement, and Verification. The Company shall work with the conservation advisory group to develop an evaluation, measurement and verification framework for use in analyzing its conservation program.

26 Low-Income Weatherization. The Company shall, in concert with the the conservation advisory group and representatives from the Community Action Agencies (“CAAs”), investigate the barriers to low-income weatherization within its Washington territory and develop a proposal for overcoming those barriers. The Company and stakeholders may consider approaches that Cascade has employed in other states, such as the low-income weatherization pilot tariff currently operating in the State of Oregon. The parties shall present a proposal to the Commission by December 31, 2016.

F. Low Income Energy Assistance

27 Adoption of Goals. Cascade will adopt the following four program goals to guide decisions in all aspects of program design:

- a. Keep customers connected to energy service;
- b. Provide assistance to more customers than are currently served;
- c. Lower the energy burden of program participants; and

- d. Collect data necessary to assess program effectiveness and inform ongoing policy discussions.

28 Establishment of the Low-Income Energy Assistance Advisory Group. Cascade will establish an advisory group (“Low-Income Energy Assistance Advisory Group” or “low-income advisory group”) on its Washington Energy Assistance Fund (“WEAF”), involving key stakeholders including Public Counsel, Commission Staff, the Energy Project, Cascade Staff, and representatives from the CAAs. Cascade will, at a minimum, consult the low-income advisory group on the evaluation of program performance, addressing ongoing concerns, determining program budget and exploring alternative program designs.

29 Tariff Updates. Cascade will file a program tariff on WEAF, specifying at least the program’s description, qualification criteria, list of CAAs, program funding level, and benefit level. Cascade agrees to file program tariff updates in consultation with the low-income advisory group. Cascade will also file a recovery tariff that collects surcharges from ratepayers for the purpose of funding WEAF as part of the rate case compliance filing. Going forward, any unspent funds will be returned to ratepayers the next year, and any deficiency in funds will be collected during the next year. The true-up tariff revision may be filed at the same time as the PGA filings, but must be filed under a separate docket. The low-income advisory group will recommend the program’s budget for the next year. The first WEAF recovery tariff will take effect on September 1, 2016.⁴

30 WEAF Funding. The current WEAF funding source will be removed from general rates, and WEAF funding will be provided exclusively through the WEAF recovery tariff discussed in Paragraph 29, above.

⁴ See rates shown in Appendix B.

31 Use of Existing Balance. Any existing WEAF balances or funds will be the beginning balance for the WEAF account. The low-income advisory group will decide how to use the current WEAF balance. The Company must provide the WEAF balance upon request from any stakeholder.

32 Needs Assessment. Cascade will use up to \$50,000 of the WEAF current balance to conduct a needs assessment study. The purpose of the study is to identify the number of households in poverty in Cascade's service area in Washington. The Company and CAAs can use the results of that study to better direct resources to areas with greatest need. Cascade will contract for the study with Eastern Washington University unless the low-income advisory group agrees otherwise.

33 Program Evaluation. Cascade will conduct a program evaluation if customer participation remains low. If the number of benefit recipients and the amount of WEAF support disbursed does not materially increase by the end of the 2016-2017 program year, compared to the 2015-2016 program year, the low-income advisory group may consider using a part of the current balance to hire an independent third party to conduct a program evaluation. The evaluation will, at a minimum, identify the key areas for improvement and align the program design with the program goals.

34 Annual Reporting. Cascade will file an annual report on its low income program and make that report available to stakeholders by January 15 of each year. Cascade's report must include the actual program cost, including support provided to customers, reimbursement for CAAs' program delivery cost, and Cascade's administrative costs for WEAF. The low-income advisory group should specify additional contents for the report. Cascade will also

file an annual budget for its low-income program for the following program year as part of its annual recovery tariff filing.

35 Maximum Grant. The WEAFF maximum annual grant award cap is currently \$500 for each household. The low-income advisory group will evaluate the per-household cap going forward.

36 Credit Balance Threshold. No household may receive an additional WEAFF grant if that customer has a credit balance of \$300 or greater.

37 WEAFF eligibility criteria in lieu of new rules for LIHEAP. WEAFF will generally use federal Low-Income Home Energy Assistance Program (“LIHEAP”) qualification criteria except the requirement for showing documents for proof of legal residence status. WEAFF eligibility will not depend on citizenship status.

38 Remove Monthly Spending Cap for CAAs and Allow Access to Full Annual Allocation. Cascade will remove the monthly spending cap for each CAA. No individual CAA may be denied payment of qualified grants unless the combined total annual disbursement for all CAAs reaches the annual program cap.

39 Reimbursement of CAAs’ Program Delivery Cost. The reimbursement of CAAs’ program delivery cost will change from 20 percent of disbursed WEAFF amount to \$75 per household processed by CAAs.

40 Customer Outreach and Education. The Company will consult with the low-income advisory group to develop and implement a plan to strengthen outreach to potentially qualified customers.

41 Program Design – Alternative Form of Discount. Stakeholders should explore a rate discount program or a percentage of household income program to complement the current

WEAF grant program. The Company may require certification of a person's income for two years instead of only one year.

42 Five Year Plan for Funding Level. The funding level for WEAF will increase by 5.1 percent, which is twice the percentage of the proposed bill increase for an average residential customer in this rate case,⁵ each year for the next five years. These amounts will be set as the “not-to-exceed” caps for each program year in Cascade’s WEAF Tariff. The funding caps for the next five years are as follows:

2016 – 2017	<u>\$1,047,000</u>
2017 – 2018	<u>\$1,100,000</u>
2018 – 2019	<u>\$1,156,000</u>
2019 – 2020	<u>\$1,215,000</u>
2020 – 2021	<u>\$1,276,000</u>

These amounts may be adjusted if another general rate case is filed. The low-income advisory group will advise Cascade on the WEAF budget – the amount to be collected through the WEAF surcharge. The WEAF budget shall not exceed the cap outlined in the table above. Cascade may file a petition with the Commission to modify the cap amounts.

G. Improvements to the Commission Basis Report

43 Investor Supplied Working Capital (“ISWC”). Cascade will calculate ISWC each year by the same methodology the Company used in Docket UG-060256. Cascade will also categorize ISWC accounts to allow for net pension assets but must exclude any accounts which independently earn returns and should be booked to non-operating investment. Cascade will generally review all accounts included under ISWC and re-categorize accounts as necessary.

⁵ Supra Paragraph 15d.

Weather Normalization. The Company will implement the following changes to its weather normalization:

- a. Use 10 years of usage and weather data;
- b. Use National Oceanic and Atmospheric Administration (“NOAA”) weather data for both actual temperature and “normal” temperature benchmark;
- c. Refine regression models to exclude insignificant monthly heating degree day variables;
- d. Include a trend variable in the regression models when appropriate, and correct common statistical problems such as serial correlations. Staff may provide technical assistance;
- e. Identify outliers by comparing predicted usage with actual usage as well as double-checking data accuracy and re-specifying regression models if necessary; and
- f. Use an alternative way of reporting monthly usage if unbilled therms are not trued up monthly: align heating degree days with billing cycles on a monthly basis, rather than using monthly usage data that includes gross estimates of unbilled therms.

H. Other Settlement Components

Cascade’s Obligations Prior to its Next Rate Case; Books. Before filing its next rate case, Cascade must complete the following:

- a. Separate conservation revenues and WEAF revenues from Weighted Average Cost of Gas (“WACOG”) for reporting purposes;

- b. Employ a methodology and accounting procedure for unbilled revenues that are in accordance with accepted industry practices in which unbilled revenues are trued-up monthly and verified for reasonableness;
- c. Bifurcate booked revenues for accounting purposes between true gas cost revenue, margin revenue, and all other revenue sources.

46

Cascade's Obligations Prior to its Next Rate Case; Load Study. Before filing its next rate case, Cascade must:

- a. Initiate a load study, for which the Company may recover as a period cost for costs falling in a test year of a future rate case;
 - 1. The purpose of this study is to determine the class core responsibilities of daily therms at the city gates;
 - 2. It must include an accurate calculation and a report of unbilled revenues by revenue type unless actual usage data is collected and used;
 - 3. It must sample the constituents of the Company's core usage classes in a manner that captures their geographic properties in a representative way; and
 - 4. It must include work papers demonstrating the daily volumes at each of the Washington system's city gates.

IV. EFFECT OF THE SETTLEMENT AGREEMENT

47

Binding on Parties. The Parties agree to support the terms of this Agreement throughout this proceeding, including any appeal, and recommend that the Commission issue an order approving and adopting this Agreement. The Parties understand that this

Agreement is subject to Commission approval. If the Commission does not accept this Agreement, then the Parties shall be free to assert their pre-settlement positions and agree that neither this Agreement nor any statements or admissions contained herein shall be admissible or used for any purpose in this docket or any other proceeding for any purpose; provided, however, that either Party may disclose the existence or terms of the Agreement when required to do so by law.

48 Settlement is a Compromise. The Parties agree that this Agreement represents a compromise of the positions of the Parties.

49 Negotiations not Admissible. Conduct, statements, and documents disclosed while negotiating this Agreement shall not be admissible evidence in this or any other proceeding except in any proceeding to enforce the terms of this Agreement or any Commission Order adopting those terms.

50 Integrated Terms of Settlement. The Parties have negotiated this Agreement as an integrated document. Accordingly, the Parties recommend that the Commission adopt this Agreement in its entirety. Each Party has participated in the drafting of this Agreement, so it should not be construed in favor of, or against, any particular Party.

51 Procedure. The Parties shall cooperate in submitting this Agreement promptly to the Commission for acceptance. Each Party shall make available a witness or representative in support of this Agreement. The Parties agree to cooperate, in good faith, in the development of such other information as may be necessary to support and explain the basis of this Agreement and to supplement the record accordingly.

52 Reservation of Rights. Each Party may offer into evidence its pre-filed testimony and exhibits as they relate to the issues in this proceeding, together with such evidence in

support of this Agreement as may be offered at the time of the hearing on the Settlement. If the Commission rejects all or any material portion of this Agreement, or adds additional material conditions, each Party reserves the right, upon written notice to the Commission and all parties to this proceeding within seven (7) days of the date of the Commission's Order, to withdraw from this Agreement. If any Party exercises its right of withdrawal, this Agreement shall be void and of no effect, and the Parties will support a joint motion for a procedural schedule to address the issues that would otherwise have been settled herein.

53

Advance Review of News Releases. All Parties agree to:

- a. Provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about this Agreement. This right of advance review includes a reasonable opportunity for a Party to request changes to the text of such announcements. However, no Party is required to make any change requested by another Party; and,
- b. Include in any news release or announcement a statement that Staff's recommendation to approve the settlement is not binding on the Commission itself. This subsection does not apply to any news release or announcement that otherwise makes no reference to Staff.
- c. The above restrictions do not apply to internal, non-public communications between NWIGU and its member organizations or representatives.

54

No Precedent. The Parties enter into this Agreement to avoid further expense, uncertainty, and delay. By executing this Agreement, no Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at

this Agreement, and, except to the extent expressly set forth in this Agreement, no Party shall be deemed to have agreed that this Agreement is appropriate for resolving any issues in any other proceeding.

55 Public Interest. The Parties agree that this Agreement is in the public interest.

56 Execution. This Agreement may be executed by the Parties in several counterparts and as executed shall constitute a single settlement agreement.

Entered into this _____ day of May 2016.

Cascade Natural Gas Co.: By: _____
Lisa Rackner
Jocelyn Pease
McDowell Rackner Gibson PC

Commission Staff: By: _____
Brett P. Shearer
Assistant Attorney General
Andrew J. O'Connell
Assistant Attorney General

Public Counsel: By: _____
Lisa W. Gafken
Assistant Attorney General

NWIGU: By: _____
Chad M. Stokes
Tommy A. Brooks
Cable Huston LLP

The Energy Project: By: _____
Brad M. Purdy
Attorney at Law