Exhibit BGM-1T
Dockets UG-200568
Witness: Bradley G. Mullins

BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

RESPONSE TESTIMONY OF BRADLEY G. MULLINS

ON BEHALF OF

ALLIANCE OF WESTERN ENERGY CONSUMERS

November 19, 2020

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EXHIBIT LIST

I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is Vasamatie 1, D36, Oulu Finland FI-90410.

Q. PLEASE STATE YOUR OCCUPATION AND ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am an independent energy and utilities consultant representing large energy consumers before state regulatory commissions, primarily in the Western United States. I am appearing in this matter on behalf of Alliance of Wester Energy Consumers ("AWEC"). AWEC is a non-profit trade association whose members include sales and transportation customers of local distribution companies located throughout the Pacific Northwest, including gas customers of Cascade Natural Gas Corporation ("Cascade" or "Company") in Washington State.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND WORK EXPERIENCE.

A. I have a Master of Accounting degree from the University of Utah. After obtaining my master's degree, I worked at Deloitte in San Jose, California, where I specialized in performing research and development tax credit studies. I later worked at PacifiCorp as an analyst involved in power cost forecasting. I currently provide services to utility customers on matters such as revenue requirement, power cost forecasting, and rate spread and design. I have sponsored testimony in several regulatory jurisdictions around the United States, including before the Washington Utilities and Transportation Commission (the "Commission"). A list of cases where I have submitted testimony can be found in Mullins, Exh. BGM-2.

Q. WHAT IS THE PURPOSE OF YOUR RESPONSE TESTIMONY?

A. I discuss my review of Cascade's request for authority to increase charges and rates for natural gas service by $14,281,139 million, or 12.6% in margin rates, effective July 21, 2020.

Q. WHAT WAS THE SCOPE OF YOUR REVIEW?

A. I reviewed the Direct Testimony of Cascade, including the workpapers that it submitted with its filing. I reviewed Cascade's Supplemental Direct Testimony, filed on July 24, 2020, including the updated workpapers it submitted with its supplemental filing. I also reviewed Cascade's responses to discovery requests submitted by AWEC and other parties to this proceeding. Finally, I performed an independent analysis of Cascade's revenue requirement, which may be found at Mullins, Exh. BGM-3.

Q. BASED UPON YOUR REVIEW, WHAT ARE YOUR RECOMMENDATIONS AND CONCLUSIONS?

A. As a result of the ongoing COVID-19 pandemic crisis, many of the ratepayers in Cascade's service territory are experiencing an unprecedented hardship. For many ratepayers this proposed rate increase could not have come at a worse time. Cascade proposed this rate increase only a few months after the ongoing pandemic situation began, and to compound things, this case is being filed on the heels of a significant rate increase that was approved in Docket No. UG-190210, with rates effective on March 1, 2020, less than five months before Cascade initiated this proceeding. Based on the analysis that I have conducted below, the rates recently approved in UG-190210 are more than sufficient for Cascade. In fact, the only thing that has changed since UG-190210 is that many of the capital projects that Cascade represented would be online in UG-190210 were never actually placed into service, and Cascade is now before the Commission requesting pro forma rate relief for the same investments. As I discuss below, the rate increase that Cascade is seeking is unjustified. Based the analysis I have performed in Mullins, Exh. BGM-3, the Commission would be justified in reducing Cascade's rates by $7,858,520. Notwithstanding, similar to the Commission's decision in Docket No. UE-160228 (Cons), I recommend the Commission find that Cascade failed to carry its burden to show that its current rates are not fully sufficient to meet its needs, and order Cascade to make no change to the existing rates that were recently approved in UG-190210.

In Table 1, below, I detail a step-study between the revenue requirement included in the Company's initial filing and the revenue requirement calculated in my analysis. Brief issue summaries follow the table.

TABLE 1
Washington Revenue Requirement Impacts of Recommended Adjustments
Whole Dollars

1	**Cascade Proposed**		**$ 14,281,139**
2	**Adjustments:**		
3	RoR-1	Cost of Equity	(2,764,543)
4	RoR-2	Cost of Debt	(616,377)
5	RoR-3	Capital Structure	(982,542)
6	Depr-1	Depreciation Study (Staff DR 127)	(2,276,888)
7	R-4	EOP Rate Base	(2,332,145)
8	P-3 (A1)	UG-190210 Pro Forma Additions	(3,970,462)
9	P-3 (A2)	Pro Forma Additions Not in Service	(740,319)
10	P-3 (A3)	Routine Capital Additions	(3,444,897)
11	P-3 (A4)	2020 Customer Growth	1,281,027
12	P-3 (A5)	Pro Forma Retirements	(493,017)
13	P-3 (A6)	Removal Costs	(153,064)
14	R-6 (A7)	Affiliate Bonuses	(784,983)
15	R-5 (A8)	Affiliate Wages and Salaries	(498,092)
16	R-5 (A9)	Cascade Wage Escalation	(1,046,762)
17	A10	Director Fees	(183,351)
18	R3 (A11)	Tax Reform Revenue Normalization	(3,599,982)
19	P-1	Tax Benefit of Interest	466,736
20	**Total Adjustments**		**$ (22,139,660)**
21	**Adjusted**		**$ (7,858,520)**

Revenue Requirement Adjustments:

- *Rate of Return.* Based on the cost of capital that has been approved for other gas utilities in the northwest, including Cascade, I recommend a 9.4% ROE, a 4.54% cost of debt and a debt-weighted capital structure, resulting in a cost of capital of 6.83%.

- *Depreciation Study.* I recommend the Commission accept the depreciation rates established in a settlement in Oregon Docket UM 2073, including adjustments I supported on behalf of AWEC in that docket.

- *End-of-Period Rate Base.* Given its pattern of annual rate cases, I recommend the Commission reject Cascades proposal to use end-of period rate base and calculate revenue requirement using average rate base, the Commission's preferred method.

- *UG-190210 Pro Forma Plant Additions.* I recommend removing pro forma plant additions included in Cascade's last rate case, UG-190210, that were also included as pro forma additions in this proceeding.

- *Pro Forma Plant Additions Not In Service.* I recommend removing the Walla Walla Gate pro forma plant addition since it has not been placed into service at the time of submitting this testimony.

- *Routine Capital Additions.* I recommend removing blanket capital additions, including growth capital, from Cascade's capital forecast because those amounts are not "major" plant additions, and are recoverable through incremental accumulated depreciation in calendar year 2020.

- *Pro Forma Plant Retirements.* I recommend including a pro forma adjustment to consider plant retirements subsequent to the test period based on the retirements that occurred in the test period.

- *Pro Forma Plant Removal Costs.* I recommend adjusting pro forma plant additions for removal costs based on removal costs incurred in the test period.

- *Affiliate Bonuses Payments.* I recommend removing the cost of incentive awards allocated from affiliates, since Cascade has been unable to demonstrate that those amounts benefit Washington ratepayers.

- *Affiliate Wages and Salaries.* I recommend removing escalation assumptions related to affiliate wages and salaries, which are allocated to Cascade through inter-corporate cross charges.

- *2021 Wage Escalation.* I recommend eliminating 2021 wage escalation in consideration of the economic environment and fact that Cascade has been filing annual rate cases.

- *Director Fees.* I recommend an adjustment to remove 50% of director fees, consistent with the Commission's past practice.

- *Tax Reform Revenues.* I recommend an adjustment to remove from margin revenue requirement the sur-credit revenues associated with tax reform, which Cascade recovers through supplemental rate schedules.

II. RATE OF RETURN

Q. WHAT COST OF CAPITAL HAS CASCADE PROPOSED?

A. Cascade has proposed a cost of capital that consists of a 10.3% return on equity ("ROE"), a cost of debt that did not consider recent debt issuances, and a capital structure that is weighted towards the equity component. I have detailed Cascade's proposed cost of capital in Table 2, below:

Table 2
Cascade Proposed Cost of Capital

Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	49.60%	4.74%	2.35%
Common	50.40%	10.30%	5.19%
Total	100.00%		7.54%

Q. DO YOU AGREE WITH CASCADE'S PROPOSAL?

A. No. In recent years the Commission has consistently ordered a 9.4% ROE for standalone gas utilities, and Cascade has failed to meet its burden to deviate from that result. The cost of capital components that that the Commission has approved in recent years for stand-along gas utilities, including for Cascade, has been relatively uniform. The Commission, for example, recently approved a 9.4% ROE for Cascade in Docket UG-190210, and only a few months ago, Cascade stipulated to a 9.4% return on equity in Oregon Docket UG 390. Cascade presents no compelling reason to deviate from its currently approved 9.4% ROE. I also recommend the cost of debt be updated to consider recent debt issuances and that the capital structure be reset to balance the interest between shareholders and ratepayers. A summary of the cost of capital I recommend is detailed in Table 3, below.

Table 3
AWEC` Proposed Cost of Capital

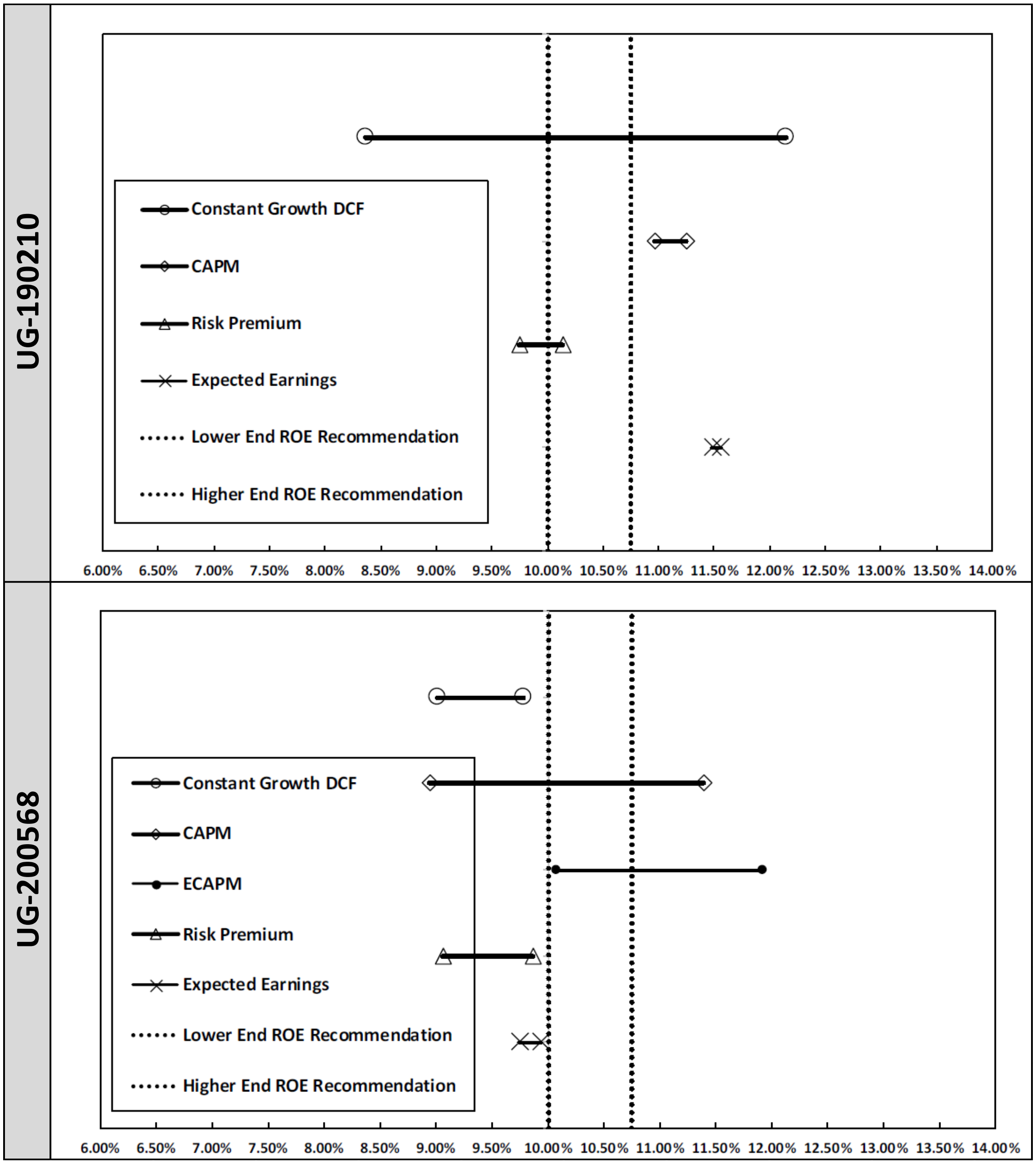
Cost of Capital Component	Capital Structure	Cost	Weighted Cost
Total Debt	52.90%	4.54%	2.40%
Common	47.10%	9.40%	4.43%
Total	100.00%		6.83%

a. Cost of Equity - Adj. RoR-1

Q. WHAT BASIS DID CASCADE PROVIDE FOR ITS 10.3% RETURN ON EQUITY PROPOSAL?

A. Cascade Witness Bulkley provides Cascade's recommendation for a 10.3% ROE. Witness Bulkley's testimony is a nearly verbatim copy of the testimony filed in Docket UG-190210, where Cascade also recommended a 10.3% ROE but ultimately stipulated to a 9.4% ROE. Similar to Docket UG-190210, Witness Bulkley presents a number of analyses to support Cascade's recommendation, including a constant growth discounted cashflow model, capital asset pricing model ("CAPM") analyses and a risk premium model. With the exception of the newly formulated Empirical CAPM ("ECAPM") pricing metric, all of Witness Bulkley's analyses point to a lower ROE. A side-by-side comparison of Figure 1 from Bulkley's testimony in UG-190210 and this docket is presented below.

Figure 1
Comparison of Cascade Cost of Equity Metrics
UG-190210 vs. UG-200568



A review of the table above shows that while the metrics have shifted to the left, Cascade appears to have neglected to update its ROE range to reflect these changes when it updated its testimony from UG-190210 in this proceeding. Cascade makes statements such as "The requested ROE is for the future rate period; therefore, the analyses supporting my recommendation rely on forward-looking inputs and assumptions (e.g., projected growth rates in the DCF model, forecasted risk-free rate and Market Risk Premium in the CAPM analysis, etc.)."[1] Yet, Cascade completely ignores the results of most of its analyses, which suggest a lower ROE. Cascade concludes, for example, that the DCF results "ranging from 7.80 to 8.15 percent, are below an acceptable range of returns for a natural gas utility."[2] Yet, an acceptable range of returns for a natural gas utility is precisely what the DCF results are intended to measure.

Q. DO YOU AGREE WITH CASCADE'S RECOMMENDATION?

A. No. With the current economic environment and low interest rates, there is no compelling reason for the Commission to make a dramatic change to its policy towards the ROE for gas utilities in this proceeding. I recommend the Commission adhere to the regulatory principle of gradualism when setting the cost of capital, and avoid making significant changes in a single case, particularly for a utility whose cost of capital was recently approved only a few months ago. Large changes to a utility's ROE, such as the ninety-basis point increase sough by Cascade, can send conflicting signals to investors and rating agencies and can expose ratepayers to rate shock. The analysis Cascade witness Bulkley prepared actually supports a lower ROE than approved in UG-190210.

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[1] Bulkley, Exh. AEB-1T at 6:7-10.
[2] *Id.*

Notwithstanding, maintaining the status quo, which is what I recommend with respect to ROE, is appropriate in this case.

Q. DO YOU RECOMMEND THE COMMISSION RELY ON THE "ECAPM" MODEL WITNESS BULKLEY PROPOSED?

A. No. Cascade's sole justification for increasing its ROE to 10.3% is the results of the unconventional ECAPM analysis proposed by Cascade witness Bulkley. The ECAPM metric, however, is nothing more than a way to underweight the impact of the beta coefficient on the traditional CAPM calculation. Utility stocks usually have low beta coefficients. Utility stocks are, thus, less risky than the market and reduce portfolio risk relative to the market portfolio. The beta coefficient CAPM is specifically designed to capture the ROE impact of the lower risk profile of utility stocks. Cascade, however, argues that the CAPM method underestimates the cost of equity for companies with low beta coefficients such as regulated utilities.[3] Therefore, Cascade proposes to arbitrarily adjust the beta coefficient using the 25% and 75% weightings to produce a higher ROE. While Cascade cites "empirical" evidence for underweighting the low beta of utility stocks, it did not actually produce any empirical evidence to support these weightings in this proceeding.

Cascade's view that the CAPM underestimates the cost of equity, however, is a false comparison. Cascade has made the same claims with respect to its discounted cash flow analyses. The very reason why different methodologies are consulted to establish ROE in Washington is because no method is perfect. If one methodology is less

3 Bulkley, Exh. AEB-1 at 55:5-7

accurate, that may be a reason to place less weight on that methodology, not a reason to arbitrarily adjust the formula to produce a result that Cascade finds more appealing.

Q. WHAT IS YOUR BASIS FOR RECOMMENDING A 9.4% RETURN ON EQUITY?

A. A 9.4 % ROE has been approved for every natural gas utility that has filed a rate case in the Northwest since 2018, including Cascade. This is detailed in Table 4, below:

Table 4
Approved Cost of Equity for Northwest Gas Utilities

Utility	State	Docket	Date	ROE
Northwest Natural	OR	UG 388	11/1/2020	9.40%
Cascade Naural Gas	OR	UG 390	7/1/2020	9.40%
Avista Cororation	OR	UG 389	5/18/2020	9.40%
Avista Corporation	WA	UG-190335	3/25/2020	9.40%
Cascade Natrual Gas	WA	UG-190210	2/3/2020	9.40%
Northwest Natural	WA	UG-181053	10/21/2019	9.40%
Cascade Natural Gas	OR	UG 347	1/22/2019	9.40%
Northwest Natural	OR	UG 344	11/1/2018	9.40%
Cascade Natrual Gas	WA	UG-170929	7/20/2018	9.40%

Each of these utilities are healthy, and have a strong ability to attract capital. Further, interest rates remain historically low. Accordingly, I believe this is evidence that a 9.4% ROE provides reasonable compensation to Cascade's shareholders, irrespective of the modeling results. If anything, the declining interest rate environment is a reason to adopt a lower ROE than approved in UG-190210

Q. HAS CASCADE RECENTLY STIPULATED TO A 9.4% RETURN ON EQUITY?

A. Yes. Cascade stipulated to a 9.4% ROE in its last rate case UG-190210, which the Commission approved less than a year ago. In addition, on July 1, 2020, only 11 days after it submitted its filing in this docket, Cascade stipulated to a 9.4% ROE in its Oregon rate case, Docket No. 390. Cascade upheld its view that a 9.4% ROE was reasonable and resulted in fair, just and reasonable rates. Given this history its difficult to understand how Cascade can continue to support a ninety-basis point increase to its ROE in this proceeding.

Q. WHAT IS THE IMPACT OF REDUCING CASCADE'S REQUESTED ROE TO 9.4%?

A. The impact of a 10 basis point reduction to ROE is a $307,171 reduction to revenue requirement. Accordingly, reducing Cascade's ROE by ninety-basis points, relative to its initial filing, results in a $2,764,543 reduction to revenue requirement.

b. Cost of Debt - Adj. RoR-2

Q. WHAT HAS CASCADE PROPOSED WITH RESPECT TO THE COST OF DEBT?

A. Cascade's cost of debt recommendation of 7.745% may be found in Nygard, Exh. No. TJN-1T. Cascade's cost of debt recommendation was based on debt issuances as of June 19, 2020, the time that it submitted its initial filing in this proceeding.

Q. HAS CASCADE SUBSEQUENTLY ISSUED NEW DEBT ISSUANCES?

A. Yes. As a result of the historically low interest rate environment, Cascade has issued three tranches of debt since it filed testimony in this proceeding. As noted in response to AWEC Data Request 26, Cascade made two debt issuances in August 2020.[4] As noted in responses to AWEC Data Request 26 and AWEC Data Request 55, Cascade made another debt issuance in November 2020. Each of these debt issuances have had low interest rates relative to Cascade's overall cost of debt, and therefore, reduce Cascade's cost of debt. The August debt issuances, for example had interest rates of 3.59% for 30-

[4] Responses to data requests cited in this testimony may be found in Mullins, Exh-4.

year debt and 3.79% for 40-year debt. Interest rates have continued to decline since then, however, as the November debt issuance had an interest rate of 3.35% for 40-year debt. Compared to a cost of 4.27% for 30-year debt in June of 2019, interest rates have experienced a significant reduction since Cascade filed its last Washington rate case in UG-190210.

Q. WERE THESE NEW DEBT ISSUANCES INCLUDED IN CASCADE'S COST OF DEBT CALCULATION?

A. No. Several months of planning is involved with issuing securities such as these. Despite likely being aware of these expected low-cost issuances, Cascade did not factor these future debt issuances in its cost of debt calculations when it submitted its initial filing in this proceeding.

Q. HOW DO THESE DEBT ISSUANCES IMPACT CASCADE'S OVERALL COST OF DEBT?

A. In Mullins, Exh. BGM-5, I have detailed Cascade's cost of debt after considering these recent debt issuances. After considering these debt issuances, Cascade's cost of debt declines to 4.540%, relative to the 4.745% included in Cascade's initial filing.

Q. WHAT IS THE IMPACT OF THIS LOWER COST OF DEBT ON REVENUE REQUIREMENT?

A. The impact of reducing the cost of debt based on recent debt issuances results in a $616,377 reduction to revenue requirement.

c. Capital Structure - Adj. RoR-3

Q. WHAT CAPITAL STRUCTURE DID CASCADE PROPOSE?

A. Cascade has proposed a capital structure that is weighted 49.6% debt and 50.4% equity.

Q. DO YOU AGREE WITH CASCADE'S CAPITAL STRUCTURE?

A. No. Cascade, through its parent corporation, MDU Resources, is in complete control of its capital structure. Cascade's capital structure is dependent on the amount of dividends that Cascade issues to its parent, and Cascade has the ability to increase, or decrease its leverage ratio by issuing more, or less, dividends to MDU Resources. Considering the capital structure of a peer group, which Cascade has done, does not necessarily result in a reliable or reasonable capital structure that is applicable to Cascade.

Q. WHAT FACTORS SHOULD THE COMMISSION CONSIDER WHEN ESTABLISHING THE CAPITAL STRUCTURE OF CASCADE?

A. For ratemaking purposes, I recommend that the Commission adopt a capital structure that is in the best interest of ratepayers and that results in rates that are fair, just and reasonable. Since Cascade is in complete control of its capital structure, it would be inappropriate to assume a capital structure that benefits shareholders to the detriment of ratepayers. In Order 06 of Docket UE-100749, for example, the Commission described its underlying view towards capital structure as follows:

> A central tenet of ratemaking is that a Company's capital structure must strike an appropriate balance between safety and economy. In other words, the capital structure must contain sufficient equity to provide financial security, but no more than necessary to keep ratepayer costs at a reasonable level.[5]

There are competing factors in determining what capital structure is in the best interest of ratepayers. A capital structure that is weighted more heavily towards debt tends to produce a lower overall cost of capital. Higher leverage, however, tends to

[5] *WUTC v. PacifiCorp, Docket UE-100749*, Order 06 ¶ 39 (Mar. 25, 2011).

increase the overall risk of the utility, and as leverage ratios increase, a utility may be subject to higher financing costs both in terms of debt and equity issuances. Thus, there is a balance that must be established when determining the optimal capital structure from a ratepayer perspective.

Q. HOW LEVERAGED IS CASCADE?

A. As detailed in Table 5 below, Cascade's total debt issuances represent approximately 65.60% of its total rate base.

Table 5
Rate Base Leverage Ratio Calculation
Cascade July 24, 2020 Supplemental Filing

	Washington AMA Twelve Months Ended 12/31/2019
Total WA Plant in Service	835,867,891
Total WA Accum. Depr.	(389,781,048)
Net Plant in Service	446,086,844
WA CIAC	(3,800,413)
WA Deferred Taxes	(75,625,050)
WA Working Capital	7,565,011
Total WA Rate Base	**374,226,392**
Total-Company Debt	325,000,000
WA Rate Base Ratio	75.54%
WA-Alloc. Debt	245,505,000
WA Debt Ratio	65.60%

The above analysis shows that Cascade is a highly leveraged utility, and as a result, ratepayers pay higher financing costs. Relative to the average rate base that

Cascade reported in its July 24, 2020 supplemental filing, the $325,000,000 in debt outstanding results in a leverage ratio of 65.60%. This shows that, irrespective of its peer group, it is inconsistent for Cascade to use a cost of capital that is weighted towards equity, when Cascade's actual capital structure is in fact more heavily weighted towards debt.

Q. WHAT IS YOUR RECOMMENDATION?

A. In the settlement in Docket UG-190210 parties agreed to a capital structure comprised of 49.1% equity and 50.9% debt. Given the leverage ratio calculated above, however, I recommend gradually increasing the debt percentage in Cascade's capital structure to be more reflective of its actual financing costs. Specifically, I recommend a 2% increase to the debt component, resulting in a capital structure comprised of 47.1% equity and 52.9% debt.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. Adjusting to my recommended capital structure reduces revenue requirement by $982,542.

Q. WHAT IS THE COLLECTIVE IMPACT OF YOUR COST OF CAPITAL RECOMMENDATIONS?

A. Collectively, adopting a 6.83% cost of capital produces a $4,363,462 reduction to revenue requirement. This adjustment has been calculated before applying the other revenue requirement adjustments detailed below, and thus, the overall impact of adopting a reduced cost of capital will change depending on the other adjustments the Commission approves.

III. DEPRECIATION STUDY - ADJ DEPR-1

Q. WHAT DO YOU RECOMMENDING WITH RESPECT TO CASCADE'S DEPRECIATION STUDY IN DOCKET NO. UG-200278?

A. Cascade has prepared a new depreciation study in Docket UG-200278 and has incorporated the results of that study into revenue requirement in this proceeding. I understand that this matter will be presented at an open meeting in December 2020. I recommend approving Cascade's new depreciation study, subject to the adjustments stipulated in Oregon Docket No. 2073. In Docket No. UG-200278, Cascade has filed an updated request in Washington incorporating the adjustments stipulated in the Oregon, and in response to Staff Data Request 127, Cascade updated its revenue requirement calculations incorporating the impact of the Oregon settlement adjustments, as well as making a few other technical corrections.

Q. WAS AWEC INVOLVED IN DEVELOPING THE OREGON DEPRECIATION SETTLEMENT?

A. Yes. AWEC was involved in negotiating the depreciation settlement in Oregon Docket No. UM 2073 and found the adjustments approved in the settlement to be reasonable. The settlement resulted in a reduction to depreciation expenses for several key accounts. I supported the depreciation settlement on behalf of AWEC in that proceeding.

Q. WHAT ADJUSTMENTS WERE INCLUDED IN THE OREGON SETTLEMENT?

A. The Oregon settlement include several adjustments that mitigate the impact of the depreciation update. The following depreciation parameter changes were approved in the Oregon stipulation:

Table 6

Depreciation Parameter Adjustments In Oregon UM 2073 Settlement

Account Name	Account	Cascade Proposed	Settled
Survivor Curves:			
Structures and Improvements	375.1	45-R3.5	47-R2.5
Mains - High Pressure	376.2	85-R2.5	80-R2.5
Mains - Plastic (Polyethylene)	376.3	45-R4	50-R3
Services - Plastic (Polyethylene)	380.3	35-S4	43-R2
Regulators	383.0	42-R2	45-R2
Net Salvage:			
Mains - Steel	376.1	-110	-105
Mains - High Pressure	376.2	-25	-23
Mains - Plastic (Polyethylene)	376.3	-35	-33
Meters & Meter Installations	381.0	-5	0
Industrial Meas. & Reg. Station Equipr	385.0	-5	0

As demonstrated from the table above, the life parameters for several key accounts, such as Account 375.1 Structures and Improvements and Account 376.3 Mains – Plastic were lengthened. In addition, the negative net salvage values for several accounts were reduced. Notably, the negative net salvage Steel Mains, one of the large plant accounts, was reduced from (-)110% to (-)105%.

Q. ARE THERE ANY PARAMETERS THAT YOU CONTINUE TO BE CONCERNED WITH IN CASCADE'S DEPRECIATION STUDY?

A. Yes. Cascades depreciation rates include very high negative net salvage percentages for its pipeline main and services accounts. For example, Account 380.1 Services – Steel has a negative net salvage value of (-)160%. This means that over the lives of those assets, Cascade will recover 260% of the associated costs, mostly for the purpose of recovering the negative net salvage amounts. These negative net savage amounts are driven by the removal costs associated with decommissioning old pipelines. While the removal costs are typically small, the original cost of these old pipelines, many of which were built in the 1960s is also very small, leading to high negative net salvage percentages. While I found the settlement to be reasonable in the context of an overall settlement, I remain concerned with including provisions for very high negative net salvage percentages for these accounts, since its not clear what, if any, removal costs Cascade will incur in the future for its existing pipelines. Most of the removal costs that are incurred with respect to Cascade's pipelines are the result of replacing and improving its existing pipelines. A pipeline that is not replaced can usually be abandoned in place with relatively little expense. Since most of the removal costs are associated with replacing and upgrading existing mains, and it is my opinion that the associated removal costs are more appropriately born by future ratepayers benefiting from the replacement equipment, not existing ratepayers. Requiring ratepayers to pay for future replacement activities today results in a subsidy at the expense of existing ratepayers and for the benefit of future ratepayers. Thus, in future depreciation dockets, I recommend the Commission and parties look closely at theses negative net salvage parameters and consider them in the context of the concerns of inter-generational equity.

Q. WHAT IS THE IMPACT OF THE ADJUSTED DEPRECIATION RATES?

A. Cascade updated its revenue requirement in response to Staff Data Request 127 to consider the depreciation adjustments approved in Oregon, as well as making several technical corrections. Cascade did not specifically identify the impact of the depreciation changes, versus the technical corrections, in its response. I estimate, however, that approving the Oregon adjustments to Cascade's depreciation rates results in an approximate $1,500,000 reduction to revenue requirement and the technical corrections that Cascade identified were a further $776,888 reduction to revenue requirement. Collectively the updated calculations that Cascade performed in response to Staff Data Request 127 reduced revenue requirement by $2,276,888.

IV. CAPITAL FORECAST

Q. WHAT ARE YOU RECOMMENDING WITH RESPECT TO CASCADE'S CAPITAL FORECAST?

A. I am recommending several adjustments with respect to Cascade's capital forecast. First, I recommend that the Commission establish revenue requirement using an average-of-monthly-averages rate base calculation, rather than Cascade's proposal to use end-of-period rate base. Second, I recommend that certain pro-forma capital additions that were included in Cascade's 2019 General Rate Case, Docket No.UG-190210 not be considered again in this proceeding. Third, I recommend removing pro form capital additions that have not been placed into serve as of time of this testimony. Fourth, I recommend removing blanket capital items, which Cascade refers to as growth related capital, from the pro forma capital forecast. Fifth, I recommend considering removal costs in the context of pro forma plant additions. Finally, I recommend including a provision for expected plant retirements and removal costs to offset the pro forma plant addition amounts.

<u>a. End-of-Period Rate Base - Adj. R-4</u>

Q. WHY DOES CASCADE PROPOSE TO USE END-OF-PERIOD RATE BASE IN THIS PROCEEDING?

A. The end of period rate base adjustment is described in the testimony of Cascade Witness Myhrum. Cascade, however, does not necessarily provide any justification for its proposal to use end-of-period rate base, in contrast to the Commission's preferred use of average rate base.

Q. UNDER WHAT CONDITIONS HAS THE COMMISSION APPROVED END-OF-PERIOD RATE BASE IN THE PAST?

A. The Commission has approved the use of end-of-period rate base when it has been shown to be appropriate. In Pacific Power's 2014 general rate case, the Commission discussed four conditions under which EOP may be an appropriate regulatory tool:

(a) Abnormal growth in plant,

(b) Inflation and/or attrition,

(c) Significant regulatory lag, or

(d) Failure of utility to earn its authorized ROR over an historical period.[6]

Q. UNDER WHAT CIRCUMSTANCES, HAD THE COMMISSION DECLINED TO APPROVE AN END-OF-PERIOD ADJUSTMENT?

A. In PacifiCorp's 2014 general rate case, for example, the Commission denied PacifiCorp's request to use end-of-period rate base because PacifiCorp filed a rate case less than five months after the Commission had entered an order in PacifiCorp's 2013 general rate case.[7] Similarly, Cascade filed this case less than five months after the Commission

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6 *WUTC v. Pacific Power & Light Company*, Docket UE-140762, Order 08, ¶ 145.
7 *Id.* ¶ 149.

entered its February 3, 2020 Final Order in UG-190210. In PacifiCorp's case, the Commission noted that, due to the short period of time between rate cases, there was "no ability to evaluate whether the use of EOP rate base is an improvement over the AMA approach in terms of reducing regulatory lag."[8] The Commission has justified the use of end-of-period rate base as a mechanism to discourage utilities "from continuing to file one rate case after another, which the Commission found is contrary to the public interest."[9] Where utilities are filing rate cases in short succession, however, end-of-period rate base is not appropriate.

Q. HAS CASCADE SHOWN END-OF-PERIOD RATE BASE TO BE APPROPRIATE IN THIS PROCEEDING?

A. No. Like PacifiCorp, Cascade has not presented any evidence in this case to justify the continued use of end-of-period rate base. Cascade has not made any showing of attrition or undue inflationary impacts. Further, Cascade has been filing annual rate cases, and therefore, is not subject to significant regulatory lag. Further, there has not been sufficient time to determine whether the rates approved in UG-190210 have provided Cascade with a reasonable level of return.

Q. IS THE FACT THAT THE COMMISSION HAS APPROVED THE USE OF END OF PERIOD RATE BASE FOR CASCADE IN THE PAST A REASON TO CONTINUE THAT TREATMENT?

A. No. As the Commission discussed in PacifiCorp's 2014 general rate case, average rate base is the most favored methodology for establishing revenue requirement.[10] The use of

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8 *Id.*

9 *Id.* ¶ 147.

10 *Id.*

end-of-period balances results in a mismatch between revenues, which accrue ratably over the test period, and rate base, which, under the end-of-period method, is measured at the end of the test period.

Q. IS CASCADE EXPERIENCING REGULATORY LAG?

A. No. Cascade's current practice of almost continuous rate cases mitigates the impact of regulatory lag and the need to deviate from the traditional Commission methodology using AMA rate base balances. Cascade also has a Safety Cost Recovery Mechanism that allows it to recover safety related costs in between rate cases. In fact, many of the pro forma plant additions that Cascade proposes in this proceeding were already included in rates in UG-190210 even though the projects weren't actually placed into service. As I discuss below, Cascade has been successful in achieving cost recovery on pro forma capital additions, such as the Wallula Gate project, which Cascade originally represented would be in service on December 31, 2019, but still have not been placed into service. In this respect, it might be said that Cascade has been experiencing "regulatory lead." Accordingly, there is no need for Cascade to use end of period rate base to mitigate regulatory lag, and Cascade certainly has not presented any evidence suggesting that there is such a need.

Q. WHAT DO YOU RECOMMEND?

A. I recommend the Commission establish Cascade's revenue requirement using average-of-monthly-averages rate base balances and reject Cascade's adjustment R-4 related to end-of-period rate base. The impact of this recommendation is an approximate $2,332,145 reduction to revenue requirement. Cascade included the impact of its updated depreciation study in its end-of-period rate base adjustment R-4. Accordingly, when performing this adjustment, it was necessary to recalculate the depreciation study impacts based on average rate base and retain the impact of the updated depreciation study in adjustment R-4. I relied on Cascade's response to AWEC Data Request 20 to perform this updated calculation of the depreciation study impacts.

<u>b. Docket No.UG-190210 Pro Forma Additions - Adj. P-3 (A1)</u>

Q. DOES CASCADE INCLUDE ANY PRO FORMA PLANT ADDITIONS IN THIS DOCKET THAT IT ALSO INCLUDED IN UG-190210?

A. Yes. In Mullins, Exh. BGM-6, I provide an analysis of Cascade's proposed pro forma capital additions. In the analysis, I detail the pro-forma plant additions that Cascade also included in UG-190210, along with the cost and in service dates assumed in that docket. As can be seen, there are a total of four major projects, which Cascade included as pro forma capital additions in UG-190210 and which Cascade also proposes to include as pro forma capital additions in this proceeding: Wallula Gate, Bellingham 8" HP, Arlington Gate, and Aberdeen HP. The total pro forma capital that Cascade has requested with respect to these four projects is $27,328,325, approximately one-half of the total pro forma capital that Cascade proposes in this case.

Q. WHY HAS CASCADE INCLUDED THESE INVESTMENTS AGAIN IN THIS PROCEEDING?

A. The projects were delayed and not placed into service on the dates that Cascade represented in Docket No. UG-190210. In fact, while Cascade represented that the Wallula Gate project would be placed into service on December 31, 2019, nearly 11 months later, that project still has not been placed into service. Further, without explanation, Cascade is also requesting a significantly larger capital budget for each of theses duplicative projects. The Wallula Gate project originally had a forecast capital budget of $11,333,024, yet Cascade now requests a total capital budget of $16,888,815 for that project, which is now $5,555,792 over budget relative to the amount Cascade included in UG-190210. The delays and budget overages that are identified in Mullins, Exh. BGM-6 undercut the credibility of Cascade's capital budget, which is a key driver of the increased revenue requirement Cascade is seeking in this case.

Q. IS IT APPROPRIATE FOR CASCADE TO BE ALLOWED TO RECOVER THE SAME PRO FORMA PLANT ADDITIONS IN TWO RATE CASES?

A. No. The revenue requirement in UG-190210 was established with the expectation that these investments would be online and benefitting customers. Accordingly, existing rates already compensate Cascade for those capital investments. If Cascade is allowed to include those investments again in this proceeding, it over recovers the cost of the investment because it was already recovering the costs through existing rates even though the resources weren't actually placed into service. The fact that Cascade chose to file a new rate case so shortly after UG-190210, is by no means justification for considering these additions again in this proceeding. The fact that these capital additions did not come online as expected, and thus, were not included in Cascade's historical test period results in this case is not a valid reason to consider those additions again on a pro forma basis. Cascade did not wait for its capital plan, upon which it was previously granted rate relief in UG-190210, to come to fruition before filing this rate case. It is not in the public interest for Cascade to be allowed to increase its rates in this case, simply because the projects it identified in UG-190210 have been materially delayed and are now significantly over budget.

Q. COULD CASCADE HAVE WAITED UNTIL THE DUPLICATIVE PROJECTS WERE INCLUDED IN TEST PERIOD RESULTS TO FILE A RATE CASE?

A. Yes. Cascade controls the timing of its rate filings. Cascade could have waited until the duplicative projects were in service and included in historical test period results before filing this rate case. Because Cascade filed this rate case so close to the conclusion of UG-190219, the pro forma plant additions had not yet been placed into service. Accordingly, I recommend against providing Cascade with the ability to consider the investments again on a post-test period basis. Cascade's action of filing this rate case before the pro forma plant additions had been placed into service and included in test period results undercuts the very justification for including pro forma plant additions in rate base altogether.

Q. WHAT DO YOU RECOMMEND?

A. I recommend against providing Cascade with a second bite at the apple. I recommend removing all pro forma plant additions that were also included in Docket No. UG-190210, as identified in Mullins, Exh. BGM-6. The impact of this recommendation is a $3,970,462 reduction to revenue requirement.

c. Pro Forma Pant Additions Not In Service - Adj. P-3 (A2)

Q. HAVE ALL OF THE PLANT ADDITIONS THAT CASCADE IDENTIFIED BEEN PLACED INTO SERVICE?

A. No. Mullins, Exh. No. BGM-5 also details each capital addition that has not been placed into service as of the filing of this testimony. As can be seen, approximately $23,027,799 of capital additions Cascade proposed in its initial filing have not yet achieved commercial operations, including the Wallula Gate project from UG-190210, discussed above.

Q. WHAT DO YOU RECOMMEND FOR THESE ITEMS?

A. Since these items have not been placed into service, I have excluded them from my revenue requirement analysis. Parties will have had no opportunity to review the actual capital costs associated with these investments, and given Cascade's history of project delays and budget overages with respect to its capital budget plan, there is no basis for including theses investments in revenue requirement on a post-test-period basis. These investments have already been delayed relative to the in-service dates Cascade represented in its initial filing. It is not possible to ascertain the prudence of the projects at this time, particularly in light of the delays and budget overages identified with respect to the capital projects Cascade identified in UG-190210.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. Removing the projects not yet in service identified in Mullins, Exh. No. BGM-6 results in an $740,319 revenue requirement reduction.

d. Routine Capital Additions - Adj. P-3 (A3)/(A4)

Q. WHAT ROUTINE CAPITAL ITEMS DOES CASCADE PROPOSE AS PRO FORMA PLANT ADDITIONS?

A. These amounts are also detailed in Mullins, Exh. No. BGM-6. In total Cascade includes $24,453,819 in routine, blanket capital additions. It is not necessarily specified what these investments represent, but they appear to include unspecified capital investments that Cascade believes it will incur in connection with customer growth. In addition to the growth capital items, Cascade's forecast also includes seven pro forma projects with capital budgets less than $500,000. These seven projects comprise $1,688,626 in pro forma capital.

Q. IS ROUTINE CAPITAL APPROPRIATELY CONSIDERED IN REVENUE REQUIREMENT ON A PRO FORMA BASIS?

A. No. The routine capital investments Cascade identified represent a collection of unspecified, small capital projects, which don't necessarily meet the criteria for being considered a "major" pro forma plant addition. These items include vague titles such as 'Main-Growth-Yakima District." Thus, there is no specific project which may be approved, or disapproved, with respect to these budgeted capital accounts. Cascade did not prepare supporting explanations for these amounts. When asked to document all of its pro forma capital additions in discovery, Cascade provided no explanation or justifications for these significant investment amounts. Cascade has already identified several discrete investments that it plans to make to accommodate growth, so it is not clear how these additional blanket accounts relate to the discrete investments Cascade did identify. Since the blanket accounts are not discrete and are not major investments, there is no basis to consider them as a post-test period capital addition. Since the amounts are not tied to any specific investment it is impossible to ascertain whether the investments are prudent in the context of a major pro forma capital additions. Further, these amounts are already recoverable through incremental accumulated depreciation that also accrues subsequent to the test period.

Q. ARE THESE BLANKET PROJECTS APPROPRIATELY CONSIDERED MAJOR CAPITAL INVESTMENTS?

A. No. Cascade's capital forecast includes discrete projects as small as $125,671. Accordingly, the projects which cannot be discretely identified and are being included in the blanket capital accounts, presumably comprises even smaller investment amounts. Accordingly, these projects are too small to be independently reviewed on a case-by-case basis and are not appropriately considered on a post-test year basis. For purposes of establishing what constitutes a "major" pro forma plant addition in this proceeding, I exclude the blanket related capital. I also recommend removing projects with a capital budget of less than $500,000. Those investments are also too small to be considered on a post-test year basis, and as I discuss below, the cost of these routine investments is offset by incremental accumulated depreciation.

Q. WHY ARE SMALL, ROUTINE INVESTMENTS TYPICALLY NOT CONSIDERED ON A POST-TEST YEAR BASIS?

A. Small, routine capital investments, such as those identified above, are typically offset by the effects of incremental accumulated depreciation. Depreciation of existing plant results in a reduction to rate base, which reduces the capital requirements of new investments. Small investments are not typically considered on a post-test year basis, because they are offset by incremental accumulated depreciation associated with existing plant. Considering the incremental routine capital on a post-test year basis, but not the incremental accumulated depreciation, results in a mismatch and incoherent test period results.

Q. DOES CASCADE'S CAPITAL FORECAST INCLUDE INCREMENTAL ACCUMULATED DEPRECIATION IN 2020?

A. No. Cascade's pro forma capital adjustment only considers the incremental accumulated depreciation that will accrue with respect to the pro forma capital projects. Cascade does not consider the incremental accumulated depreciation that will accrue with respect to existing plant already in service in the 2019 test period. Cascade did not, for example, develop a 2020 test period, with all components of rate base stated at 2020 levels. Cascade used the historical rate base balances from 2019 and then applied discrete pro forma capital adjustments, which did not consider that the 2019 rate base balances will otherwise decline in 2020 due to incremental accumulated depreciation. This is the reason that it is critical that only major capital additions be considered on a post-test year basis.

Small, routine investments are typically not considered on a post-test year basis because the incremental accumulated depreciation is sufficient to finance these ongoing investments. Essentially, by including the routine capital investments in its pro forma capital adjustment, Cascade has proposed to include 100% of its 2020 capital budget in rate base on a post-test period basis. Since Cascade does not consider the offsetting impacts of accumulated depreciation that will accrue in 2020, however, its approach is inconsistent and results in an inflated revenue requirement.

Q. HOW MUCH ACCUMULATED DEPRECIATION WILL ACCRUE ON CASCADE'S EXISTING PLANT IN 2020?

A. Cascades results for 2019 included $24,915,118 of depreciation for existing plant, on an average of monthly averages basis. After considering its updated depreciation rates and end of period plant balances, the existing plant in service as of December 2019 will accrue incremental accumulated depreciation of $29,358,446 in calendar year 2020, which Cascade has not considered in its pro forma capital adjustment.

Q. IS THE 2020 ACCUMULATED DEPRECIATION SUFFICIENT TO COVER THE ROUTINE CAPITAL INVESTMENTS?

A. Yes. The blanket and small capital items that I have identified above constitute $26,142,445 in rate base, which is less than the incremental accumulated depreciation expected to accrue on existing plant in 2020.

Q. DOES CASCADE ALREADY HAVE MECHANISMS TO RECOVER THESE TYPES OF INVESTMENTS?

A. Yes. In addition to the effects of accumulated depreciation, Cascade already has mechanisms in place to recover much of the routine capital investments outside of a rate proceeding. Because Cascade uses per customer decoupling, the incremental revenues that it earns from any particular customer through the decoupling mechanism already accounts for some amount of growth related capital. In addition, Cascade has a Safety Cost Recovery Mechanism, which also provides recovery for these sorts of capital investments. Since Cascade has not identified any discrete project with respect to these capital amounts, it is not known whether its proposal is duplicative of the amounts it will recover through these other mechanisms.

Q. WHAT IS YOUR RECOMMENDATION?

A. I recommend that the blanket and small pro forma capital items identified above be removed from revenue requirement. In the alternate, if the Commission is to accept the blanket and small capital items on a post-test period basis, I recommend that the

Commission adjust revenue requirement to include $29,358,446 of incremental accumulated depreciation on existing plant in 2020. Either approach produces approximately the same revenue requirement impact.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?

A. Removing the blanket capital additions, along with the projects with a capital budget of less than $500,000, produces a $3,444,897 reduction to revenue requirement.

Q. DO YOU ALSO PROPOSE TO REMOVE THE CUSTOMER GROWTH REVENUES THAT CASCADE INCLUDED IN CONNECTION WITH THIS ADJUSTMENT?

A. Yes. Cascade's pro forma capital adjustment included $1,281,027 of addition revenues associated with customer growth in 2020. In connection with my recommendation to remove the blanket capital accounts, I have also removed the customer growth revenue adjustment for 2020, which increased revenue requirement and offsets the impact of removing the blanket and small capital items.

e. Plant Retirements - Adj. P-3 (A5)

Q. HOW DO PLANT RETIREMENTS IMPACT REVENUE REQUIREMENT?

A. When plant is retired from service, the original cost of the plant is credited from gross plant and debited against depreciation reserves. The net impact of a retirement on rate base is, therefore, zero, since the reduction to gross plant is offset by the reduction to depreciation reserves. Retirements do, however, have an impact on depreciation expenses. Depreciation expenses are calculated as a percentage of gross plant, and since a retirement reduces gross plant, it also reduces depreciation expenses.

Q. DOES CASCADE CONSIDER THE EFFECTS OF PLANT RETIREMENTS IN THE PRO FORMA PERIOD ON REVENUE REQUIREMENT?

A. No. Cascade only considers the incremental impact of pro forma plant additions and does not consider the offsetting impacts of plant retirements on depreciation expenses.

Q. WHAT AMOUNT OF PLANT RETIREMENTS DOES CASCADE EXPERIENCE ON AN ANNUAL BASIS?

A. In response to AWEC Data Request 10, Cascade provided the plant retirements it experienced in calendar year 2019. Based on that response Cascade retired $11,449,588 of plant in 2019.

Q. DO YOU EXPECT THAT CASCADE WILL RETIRE A SIMILAR AMOUNT OF PLANT IN 2020?

A. Yes. Given the increasing trajectory of plant retirements identified in AWEC Data Request 10, I expect Cascade's retirement activity in calendar year 2020 will exceed the level of plant retirements in 2019.

Q. DO YOU RECOMMEND AN ADJUSTMENT TO CONSIDER THESE PLANT RETIREMENTS?

A. Yes. I recommend including in revenue requirement a provision for pro forma plant retirements in 2020. To estimate this amount, I have used the actual requirements for 2019 as the basis for the expected retirements in 2020.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. These expected retirements have the effect of reducing depreciation expenses. The impact of my recommendation is an $493,017 reduction to revenue requirement.

f. Removal Costs - Adj. P-3 (A6)

Q. HOW DO REMOVAL COSTS IMPACT REVENUE REQUIREMENT?

A. Similar to plant retirements, removal costs also impact depreciation expenses. While removal costs represent an addition to rate base, they are applied as a reduction to depreciation reserves, rather than an increase to gross plant. The cost of removal is considered in the capital forecast, and therefore, also needs to be removed from depreciation expenses when plant is retired. Since negative net salvage is recovered through depreciation expenses, including the negative net salvage amount in gross plant would result in a utility recovering negative net salvage on negative net salvage amounts, which would overstate the recovery for negative net salvage amounts.

Q. WHAT AMOUNT OF REMOVAL COSTS DID CASCADE INCUR IN 2019?

A. In response to AWEC Data Request 64, Cascade provided the amount of removal costs that it incurred in Calendar Year 2019. In total, Cascade incurred removal costs of $3,554,683 in 2019.

Q. WHAT DO YOU RECOMMEND WITH RESPECT TO THESE REMOVAL COSTS?

A. I recommend that the 2019 removal costs be applied as a pro forma adjustment for removal costs expected to be incurred in 2020. This amount is applied as a reduction to gross plant, and the associated depreciation expenses.

Q. WHAT IS THE IMPACT OF ADJUSTING REMOVAL COSTS FROM THE CAPITAL FORECAST?

A. The impact of adjusting removal costs out of the capital forecast is an approximate $153,064 reduction to revenue requirement.

V. WAGES AND SALARIES

Q. WHAT ARE YOUR RECOMMENDATIONS RELATED TO WAGES AND SALARIES?

A. I recommend four adjustments related to wages and salaries. First, I recommend eliminating all incentive payments made to affiliate employees, since there is no evidence that the payments made to those employees was made for the benefit of Cascade's Washington ratepayers. Second, I recommend eliminating all wage escalation associated with Cascade's affiliates. The Commission had no jurisdiction over those affiliates and it is not appropriate to assume that the cross charges to Cascade will necessarily increase as a result of wage increases at Cascade's affiliates. Third, in light of the current economic situation, I recommend that wage escalation for Cascade non-union employees be limited to 2% in 2020, and exclude any further escalation assumptions for 2021. Finally, I recommend removing 50% of directors' fees, consistent with the Commission's practice.

a. Affiliate Bonus Payments - Adj. R-6 (A7)

Q. WHAT AMOUNT OF INCENTIVE PAYMENTS HAS CASCADE INCLUDED IN THE TEST PERIOD?

A. Cascade's test period includes employee incentive payments in the amount of $3,062,654. In its executive incentives adjustment R-6, Cascade removes $1,230,735 of these incentive expenses, leaving $1,831,919 of incentive payments in its revenue requirement. Only part of the remaining amount, however, was actually paid to Cascade employees. Approximately $750,019 of that amount was attributable to incentives paid to employees of affiliates, which were subsequently allocated to Cascade through inter-corporate cross-charges.

Q. IS IT APPROPRIATE FOR CASCADE TO RECOVER THE COSTS OF AFFILIATE BONUS PAYMENTS?

A. No. The affiliate bonuses are allocated costs, so it is not appropriate to include any incentive amount in revenue requirement in connection with those expenses. The individuals receiving the incentive payments are not employees of Cascade, and Cascade has not shown that these employees have a fiduciary responsibility to perform services in a way that benefit Washington ratepayers through reduced expense or improved customer service. In addition, the Commission has no jurisdiction over these affiliate employees. These employees may be receiving bonuses that benefit the affiliate corporation where they work, but there is no way of knowing whether the incentives benefited Cascade's ratepayers.

Q. DO THESE AFFILIATE BONUS PAYMENTS RESULT IN REDUCED COSTS TO WASHINGTON RATEPAYERS?

A. No. The affiliate incentive payments certainly did not reduce costs to Cascade's ratepayers, since the costs were being allocated to Cascade based on the services performed by an affiliate employee. Including the incentive amounts in the allocated amount only increases the cost to Cascade's ratepayers, with no identifiable benefit.

Q. WHAT DO YOU PROPOSE?

A. I recommend removing the incentive amounts charged from affiliates. Removing the affiliate bonuses results in a revenue requirement reduction of $784,983 after consideration of revenue sensitive costs.

<u>b. Affiliate Wage Escalation - Adj. R-5 (A8)</u>

Q. WHAT AMOUNT OF WAGE INCREASES DOES CASCADE PROPOSE WITH RESPECT TO AFFILIATES?

A. As noted, Cascade's revenue requirement includes employee costs that are allocated from its affiliates. In its pro forma wage adjustment P-2, Cascade proposes to increase the expenses allocated from its affiliates in connection with wage increases it expects at its affiliates in the pro forma period. Similar to the affiliate bonuses, these amounts represent time that an affiliate employee has attributed to Cascade's operations and charged to Cascade through an inter-corporate cross charge. Cascade's wage adjustment proposes to increase these cross-charge amounts for two years of expected wage increases. Cascade assumes 4% wage escalation per year, and proposes an additional $475,907 in operating expenses in connection with proposed affiliate wage increases.

Q. DO YOU AGREE WITH CASCADES PROPOSAL TO INCLUDE THESE AMOUNTS?

A. No. These amounts represent inter-corporate charges, not actual wage increases approved by Cascade. The actual amount of inter-corporate charges allocated to Cascade is not necessarily dependent on the wage levels of its affiliates. Rather it is based on time spent by individuals at the affiliate on matters related to Cascade's operations, as well as inter-corporate allocation factors. Thus, it is not accurate to assume that these cross-charge amounts will increase as a result of wage increases approved at Cascade's affiliates.

Q. DOES THE COMMISSION HAVE JURISDICTION OVER THE LABOR POLICIES OF CASCADE'S AFFILIATES?

A. No. Since the Commission has no jurisdiction over the labor policies of Cascade's affiliates, it is not appropriate to make assumptions about the labor policies, including proposals for wage increases, of Cascade's affiliates. Since the Commission does have jurisdiction over the labor policies Cascade applies to its own employees, it may be appropriate to make some assumptions about wage increases at Cascade, since the Commission can hold Cascade accountable for those policies. If, for example, the wage increases at Cascade's affiliates do not materialize, however, the Commission will have no ability to monitor or enforce the labor policies for the affiliate.

Q. IS THE ASSUMPTION OF AN ANNUAL 4% WAGE INCREASE REASONABLE IN LIGHT OF THE CURRENT ECONOMIC ENVIRONMENT?

A. No. Its not clear what factors Cascade's affiliates might consider when approving wage increases of this magnitude. A 4% wage increase, however, is nearly double the annual rate of inflation, and given the economic environment associated with the COVID-19 pandemic, it is not reasonable to assume such a large rate increase. Other utilities are reducing wages in response to the current economic conditions. PacifiCorp, for example, has recently announced that it will be reducing employee compensation by 10% for those employees who continue to work from home. Thus, Cascade's proposal to increase affiliate wages by 4% per year is not reasonable.

Q. WHAT IS THE IMPACT OF REMOVING THE AFFILIATE WAGE ESCALATION FROM REVENUE REQUIREMENT?

A. Removing the affiliate wage escalation results in an approximate $493,017 reduction to revenue requirement

c. Cascade Wage Escalation - Adj. R-5 (A-9)

Q. WHAT ASSUMPTIONS HAS CASCADE MADE WITH RESPECT TO WAGE ESCALATION FOR ITS OWN EMPLOYEES?

A. For non-union employees, Cascade has assumed 4% per year wage escalation in 2020 and 2021, or approximately 8.2% escalation over the test period levels. For union employees, Cascade has assumed 3% wage escalation in 2020 and 2021, or 6.1% over the test period levels.

Q. ARE THESE WAGE ESCALATION ASSUMPTIONS CONSISTENT WITH THE CURRENT LABOR MARKET CONDITIONS?

A. No. As noted above, as a result of the COVID-19 pandemic, the economy has experienced record levels of unemployment and 8.2% wage escalation is not consistent with the current labor market conditions. It is not reasonable to assume such large wage increases in 2020 and 2021, when many of the ratepayers in Cascade's service territory are experiencing hardship as a result of the pandemic situation through lost wages.

Q. IS IT REASONABLE FOR CASCADE TO FORECAST WAGES SO FAR AHEAD OF THE TEST PERIOD?

A. No. Cascade proposes to escalate wages to 2021 which is two years beyond the test period. This is in contrast to the Commission's practice of only considering wage increases that are known and measurable.

Q. WHAT DO YOU RECOMMEND?

A. I recommend removing all wage escalation in 2021 for both union and non-union employees. I also recommend capping the 2020 wage increase for union employees at 2%, which is the approximate rate of inflation.

Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?

A. This recommendation results in a $1,046,762 reduction to revenue requirement.

d. Director Fees - Adj. A10

Q. WHAT AMOUNT OF DIRECTOR FEES HAS CASCADE INCLUDED IN REVENUE REQUIREMENT?

A. In response to Cascade Data Request 50, Cascade identified $350,370 of director fees included in revenue requirement.

Q. WHAT IS THE COMMISSION'S TRADITIONAL PRACTICE WITH RESPECT TO DIRECTOR FEES?

A. In Avista's 2015 General Rate Case, the Commission affirmed its "practice is to allow the Company recovery of 50 percent of director fees from ratepayers."[11]

Q. WHAT DO YOU RECOMMEND?

A. I recommend an adjustment to remove 50% of the director fees that Cascade identified in response to AWEC Data Request 50, consistent with the Commission's past practice. This recommendation reduces revenue requirement by $183,351.

VI. TAX CUTS AND JOBS ACT REVENUES - ADJ. R-3 (A11)

Q. PLEASE PROVIDE SOME BACKGROUND ON THE TAX CUTS AND JOBS ACT?

A. The Tax Cuts and Jobs Act ("TCJA"), HR 1 of the 115th Congress, was signed into law on December 22, 2017, and became effective on January 1, 2018. Among other things, the TCJA resulted in a reduction to the Federal corporate income tax rate from 35% to 21%. Subsequent to the law change, the Commission implemented a number of

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[11] UE-150204, Order 05 at ¶ 220.

supplemental schedules to refund certain amounts back to ratepayers associated with the rate change, including excess deferred income taxes, and interim period tax savings.

Q. HOW MUCH TCJA REVENUES WERE REFUNDED TO RATEPAYERS IN THE TEST PERIOD?

A. In Myhrum, Exh. IDM-7, Cascade detailed $4,257,028 of test period sur-credit revenues that were included in test period results. The composition of these revenues is detailed in Table 7, below.

Table 7
Tax Reform Sur-credit Revenues in Test Period Revenue Requirement

WA Protected-Plus Excess Deferred Income Tax	(1,965,917)
WA Unprotected Excess Deferred Income Tax	(883,177)
WA Temporary Federal Income Tax Rate Credit	(1,407,934)
Total Tax Reform Sur-Credit Revenues in Test Period	(4,257,028)

Q. DID CASCADE ADJUST ITS REVENUE REQUIREMENT TO REMOVE THESE SUR-CREDIT REVENUES?

A. No. The above amounts are recovered through supplemental rate schedules. Notwithstanding, Cascade did not propose an adjustment to remove these sur-credit revenues when it calculated revenue requirement. Because these amounts reduce Cascade's revenues, including them in revenues results in an artificially high revenue requirement.

Q. HOW DO OTHER UTILITIES TREAT SUPPLEMENTAL SCHEDULE REVENUES IN MARGIN REVENUE REQUIREMENT?

A. The tradition way that other utilities treat supplemental schedule revenues—such as decoupling, purchased gas adjustment, and tax reform revenues—in margin revenue requirement is to remove both the revenues and the costs associated with the supplemental schedule from results through a restating adjustment. Review of the rate filings of Northwest Natural, Avista Corporation and Puget Sound Energy shows that this treatment is common practice in the revenue requirement calculated for all of the other gas utilities in Washington. Both the revenues received, and the associated cost associated with these non-margin items are removed from revenue requirement, leaving only the margin costs and revenues included in results.

Q. DOES CASCADE FOLLOW THE APPROACH USED BY THE OTHER UTILITIES?

A. No. Cascade uses a different approach than its peers. Cascade includes both the costs and revenues of these non-margin revenue requirement items in its results. This can be plainly noted in Peters, Exh. MCP-8 Line 5. Cascade's margin revenue requirement includes all of the gas costs, which are normally recovered through the purchased gas adjustment mechanism. Further, in its revenue restating Adjustment R-3, Cascade does not remove the associated purchased gas adjustment revenues from results. For many of theses supplemental non-margin revenue items, the cost and revenues are offsetting. For example, the cost of gas is approximately equal to the revenues Cascade recognized with respect to the purchased gas adjustment mechanism. In response to AWEC Data Requests 32 through AWEC Data Request 37, for example, Cascade confirmed that the costs and revenues for both the purchased gas adjustment and the decoupling mechanism are offsetting in its revenue requirement results. It would have been more straight-forward for Cascade to remove these two non-margin revenue requirement items from its margin revenue requirement calculation, like the other Washington State gas utilities. Since the costs and revenues are approximately offsetting, however, it does not make a material difference whether these two items are included or excluded from margin revenue requirement.

Q DOES IT MAKE A DIFFERENCE WHETHER THE TAX REFORM SUR-CREDIT REVENUES ARE INCLUDED IN MARGIN REVENUE REQUIREMENT?

A. Yes. For the TCJA items that I have identified above, however, it does make a difference that Cascade has not made a normalization adjustment to remove the revenues. Other than an amount of unprotected excess deferred tax amortization included in tax expense, discussed below, there is no offsetting benefit item for these TCJA revenues. Because the TCJA items result in a reduction to revenues, but the associated benefits are not considered in results, Cascade's revenue requirement has been artificially inflated to offset the difference.

Q. ARE THE SUR-CREDIT REVENUES OFFSET BY ANY BENEFITS?

A. Not entirely. In response to AWEC Data Request 48, Cascade provided the workpapers used to calculate tax expenses included in revenue requirement. In the response, only $657,046 of tax benefit related to amortization of unprotected excess deferred income taxes were considered as a benefit in revenue requirement through a reduction to income tax expenses. Thus, Cascade has reduced its operating revenues for the TCJA sur-credit amounts but has not considered the all of offsetting benefits in revenue requirement.

Q. WHAT DO YOU RECOMMEND?

A. I recommend an adjustment to eliminate all sur-credit revenues associated with the TCJA from revenue requirement. I recommend offsetting the amount by the amount of unprotected excess deferred tax amortization identified in response to AWEC Data Request 48. The revenue requirement impact of this recommendation is a $3,599,982 reduction to revenue requirement.

VII. RATE SPREAD

Q. WHAT HAS CASCADE PROPOSED IN THIS DOCKET IN CONNECTION WITH RATE SPREAD?

A. Cascade has proposed to allocate margin revenue requirement on an equal percent of margin basis, with no increases to fixed demand or customer charges.

Q. DID CASCADE PREPARE A COST OF SERVICE STUDY TO SUPPORT ITS RECOMMENDATION?

A. No. In Cascade's prior rate case, the Commission ordered Cascade to allocate its revenue increase on an equal percent of margin basis until it completed a load study. Since Cascade has not completed a load study, Cascade has not modified its rate spread in this docket. Therefore, Cascade did not present a cost of service study because it was not proposing any changes to its rate spread.

Q. DID YOU HAVE CONCERNS WITH THE CASCADE'S PRIOR COST OF SERVICE STUDIES?

A. Yes. Cascade failed to provide a load study to help determine class core responsibilities of daily therms at city gates. Second, even ignoring the fact that Cascade failed to provide a load study, the Commission has come out with new guidance in Docket Nos.

UE-170002 and UG-170003 (consolidated) regarding the methodologies that should be employed when preparing cost of service studies in Washington.

Q. HAS CASCADE AGREED TO INITIATE A LOAD STUDY IN THE PAST?

A. Yes. In Docket UG-152286, Cascade agreed to initiate a load study prior to its 2017 general rate case. Cascade, however, never actually performed the load study in its 2017 general rate case.

Q. WHY DIDN'T CASCADE COMPLETE A LOAD STUDY BEFORE FILING THIS CASE?

A. It is not entirely clear, especially since Cascade controls the timing of its rate case filing. Cascade originally agreed to perform a load study in 2015, yet five years later its not clear that Cascade has even started the process of preparing a load study.

Q. WHY IS THE LOAD STUDY IMPORTANT?

A. The classification and allocation of distribution main fixed costs is usually the largest cost item in a natural gas class cost of service study and important factors in determining class cost of service.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that the Commission affirmatively require Cascade to perform a load study prior to filing its next general rate case. Given Cascade's reluctance to perform such a study in the past, I recommend that a new docket be opened to facilitate a stakeholder process to oversee the creation of Cascade's load study, including periodic workshops where stakeholders can consider the results and the progress being made towards the completion of the load study.

Q. DOES THIS CONCLUDE YOUR RESPONSE TESTIMONY?

A. Yes.