BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Complainant

v.

CASCADE NATURAL GAS CORPORATION

Respondent

DOCKET UG-210755

OPPOSITION TESTIMONY OF BRADLEY G. MULLINS
ON BEHALF OF
ALLIANCE OF WESTERN ENERGY CONSUMERS

April 25, 2022
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# EXHIBIT LIST

Exhibit BGM-2: Regulatory Appearances of Bradley G. Mullins

Exhibit BGM-3: Revenue Requirement Calculations

Exhibit BGM-4: Cascade Responses to Data Requests
I. INTRODUCTION AND SUMMARY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Bradley G. Mullins, and my business address is Vihiluoto 15, FI-90440 Kempele, Finland.

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 Western Energy Consumers (“AWEC”). AWEC is a non-profit trade association whose members are sales and transportation customers of local distribution companies located in the Pacific Northwest, including 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 responsible for power cost forecasting. I currently provide services to utility customers on matters such as revenue requirement, power costs, and rate spread and design. I have sponsored testimony in 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 AWEC’s opposition to the Multi-Party Settlement of Staff and Cascade (the “Settling Parties”) dated March 22, 2022. Specifically, I discuss the negotiation process surrounding the settlement and the reasonableness of the Settling Parties’ recommendation for a $10,692,992 or 8.64% margin rate increase, as well as the continued reasonableness of the Cost Recovery Mechanism (“CRM”). I also discuss the reasonableness of Cascade’s Transportation Schedule 663 overrun entitlement charges.

Q. PLEASE SUMMARIZE YOUR REVENUE REQUIREMENT RECOMMENDATION.

A. Based on the revenue requirement analysis presented in Mullins, Exh. BGM-3, I recommend the Commission approve a margin revenue requirement increase of $87,443.00, or 0.07%. Mullins, Exh. BGM-3 is summarized in Table 1, below, and brief issue summaries follow the table.
Table 1
AWEC Revenue Requirement Recommendation
Whole Dollars

<table>
<thead>
<tr>
<th></th>
<th>Multi-Party Settlement</th>
<th>10,692,992</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>% of Margin</td>
<td>8.64%</td>
</tr>
</tbody>
</table>

Adjustments

<table>
<thead>
<tr>
<th></th>
<th>A1 - Capital Structure</th>
<th>(754,842)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>P-2 - Unbilled Revenues</td>
<td>(2,906,554)</td>
</tr>
<tr>
<td>5</td>
<td>R-3 - EOP Depreciation</td>
<td>(2,870,960)</td>
</tr>
<tr>
<td>6</td>
<td>A2 - Uncollectible Accounts</td>
<td>(81,503)</td>
</tr>
<tr>
<td>7</td>
<td>A3 - Working Capital</td>
<td>(121,687)</td>
</tr>
<tr>
<td>8</td>
<td>A4 - COVID Contra Revenue</td>
<td>(617,091)</td>
</tr>
<tr>
<td>9</td>
<td>R-6 - Board of Directors' Expense</td>
<td>(6,258)</td>
</tr>
<tr>
<td>10</td>
<td>A5 - Protected EDIT</td>
<td>(2,127,568)</td>
</tr>
<tr>
<td>11</td>
<td>A6 - CRM Over Collection Amort.</td>
<td>(1,128,100)</td>
</tr>
<tr>
<td>12</td>
<td>P-1 - Interest Coordination</td>
<td>9,012</td>
</tr>
<tr>
<td>13</td>
<td>Total Adjustments</td>
<td>(10,605,549)</td>
</tr>
<tr>
<td>14</td>
<td>Adjusted</td>
<td>87,443</td>
</tr>
<tr>
<td>15</td>
<td>% of Margin</td>
<td>0.07%</td>
</tr>
</tbody>
</table>

- **A1 – Capital Structure**: I recommend using a 53% debt, 47% equity capital structure, which is more consistent with Cascade’s actual capital structure.
- **P-2 – Unbilled Revenue**: I recommend removing unbilled revenue accrued in the test period from the normalized revenue forecast.
- **R-3 – Depreciation Expense**: I recommend using actual 2020 depreciation expense, recognizing the inaccuracy of Cascade’s calculations and inconsistencies from using the 2021 depreciation expense.
- **A2 – Uncollectible Accounts**: I recommend using bad debt expense calculated over the three-year period 2016-2018, prior to COVID.
- **A3 – Working Capital**: I recommend removing cash from, and adjusting the jurisdictional allocation factor used in, the investor supplied working capital calculation.
- **A4 – COVID Contra Revenue**: I recommend removing contra revenues related to operating expense savings deferred in Cascade’s COVID regulatory account.
• **R-6 – Directors’ Expense:** I recommend removing corporate memberships and dues included in Directors’ expense prior to the application of the 50% adjustment in Settling Parties’ calculation.

• **A5 – Protected-Plus Excess Deferred Income Taxes:** I recommend including protected-Plus excess deferred income taxes (“EDIT”) in base rates, based on the test year levels, and terminating Schedule 581.

• **A6 – CRM Over Collection:** I recommend refunding CRM rate adder revenues Cascade included in its compliance filing not authorized in Order 05 of Docket UG-200568.

Q. **WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE CRM?**

A. Given Cascade’s ability to file a multi-year rate plan, I recommend the Commission terminate Schedule 597, Cascade’s CRM. I also recommend that no additional rate adders for pipeline replacement costs be considered in this docket, other than the projects specifically identified in Cascade’s initial filing.

Q. **WHAT IS YOUR RECOMMENDATION WITH RESPECT TO SCHEDULE 663 OVERRUN ENTITLEMENT CHARGES?**

A. I recommend that Schedule 663 overrun entitlement charges be calculated based on actual overrun entitlement charges assessed to Cascade or 150% of Sumas market prices, rather than the highest market price on the NW Pipeline system.

II. **THE MULTI-PARTY SETTLEMENT**

Q. **PLEASE DESCRIBE THE NEGOTIATION PROCESS FOR THE MULTI-PARTY STIPULATION.**

A. The negotiation process for the Multi-Party Settlement was irregular in that it was reached solely between Cascade and Staff prior to other intervening Parties presenting their specific issues in Reply Testimony, which was originally due on March 15, 2022. Formal settlement negotiations with the Non-Settling Parties were limited to a single
workshop on February 7, 2022, lasting approximately two hours and providing little time
for parties to present potential issues under consideration for Reply Testimony. Prior to
that, Parties convened for approximately one hour on January 10, 2022 to discuss
scheduling a revised settlement conference date and the status of discovery.

Q. WHY DID AWEC NOT JOIN THE MULTI-PARTY SETTLEMENT?
A. Cascade and Staff negotiated the Multi-Party Settlement without involving the other
parties. And more importantly, the level of revenue requirement in the Multiparty
Settlement is not justified and ignores the proposed adjustments of the other Parties.
Settlement negotiations had just started. Staff and Intervenors’ Reply Testimony was
pending, and additional settlement negotiations were scheduled for April 5, 2022.
Settlements can contribute to administrative efficiency, but in this case the opposite was
achieved; it has resulted in a cumbersome procedure without materially resolving any
issues except those specifically identified in the settlement.

Q. HOW DO YOU RECOMMEND THE COMMISSION CONSIDER THE MULTI-
PARTY SETTLEMENT?
A. Under WAC 480-07-750(2), if the Commission decides to consider the settlement, the
Commission has three options. The Commission may: 1) approve the settlement without
conditions; 2) approve the settlement with conditions; or, 3) reject the settlement.¹
Further, the Commission “will approve a settlement if it is lawful, supported by an
appropriate record, and consistent with the public interest in light of all the information

¹ WAC 480-07-750(2)
available to the commission.”² In this case, the Multi-Party Settlement is not supported by an appropriate record because it was submitted before providing parties the opportunity to develop a record on their issues, nor does it address such issues. Further, based on AWEC’s revenue requirement recommendation, the Multi-Party Settlement will not result in rates that are fair, just or reasonable. Accordingly, I recommend against approving the settlement without conditions. If the Commission accepts this recommendation, however, the Commission can either reject or modify the Multi-Party Stipulation. Outright rejection of the Multi-Party Stipulation would result in “the adjudication return[ing] to its status at the time the commission suspended the procedural schedule.”³ Given the statutory suspension date, and Cascade’s prior refusal to extend the suspension date in the context of the Commission’s request to consolidate Docket UG-220198, such an option may not be feasible. Given the procedural complications involved with outright rejection, the Commission could also approve the Multi-Party Stipulation with conditions, although it is possible that Settling Parties would not accept such modifications, in which case the Commission would be left with the same procedural conundrum as in an outright rejection. Alternatively, the Commission could simply decide not to consider the Multi-Party Settlement.⁴ Under WAC 480-07-740(1), a Multi-Party Settlement must afford the Commission the opportunity to, among other things, enter an order prior to any statutory deadline by which the Commission must take

² Id.
³ WAC 480-07-750(2)(c)
⁴ See WAC 480-07-750(1) (“The commission will decide whether to consider a settlement.”)
action. If the Multi-Party Stipulation is rejected or approved with conditions, the
Commission may not be able to enter an order prior to the statutory deadline, which may
be a reason for the Commission not to consider the Multi-Party Stipulation altogether.

III. REVENUE REQUIREMENT


Q. WHAT COST OF CAPITAL IS USED IN THE MULTI-PARTY SETTLEMENT?

A. Neither the Multi-Party Settlement, nor the supporting testimony, addressed the
reasonableness of Cascade’s cost of capital. It must therefore be assumed that the
Settling Parties found the cost of capital proposed in Cascade’s filed case to be
acceptable. Cascade’s filed case assumed a cost of debt of 4.54%, a cost of equity of
9.40% and a capital structure ratio of 50.9% debt to 49.1% equity. These parameters
resulted in a 6.93% overall cost of capital. These parameters were generally consistent
with the parameters assumed in Cascade’s 2020 General Rate Case (“GRC”), Docket No.
UG-200568, with one exception. Cascade adjusted its debt cost for a known debt
issuance.

Q. ARE THE COST OF CAPITAL PARAMETERS CASCADE HAS PROPOSED
REASONABLE?

A. AWEC does not oppose the use of a 9.40% return on equity, nor Cascade’s proposed cost
of debt, including the new debt issuance. Given Cascade’s high leverage and the
issuance of additional debt, however, I recommend that the Commission modify
Cascade’s capital structure to be more consistent with Cascade’s actual capital structure.
Such a change is consistent with Cascade’s proposal to consider new debt issuances.
When Cascade issues new debt, while continuing to pay dividends out to its sole shareholder, Cascade’s capital structure changes. Therefore, in conjunction with considering new debt issuances since the 2020 GRC, it is also necessary to consider the impact of those debt issuances on Cascade’s capital structure.

**Q. WHAT WAS CASCADE’S ACTUAL CAPITAL STRUCTURE IN THE TEST PERIOD?**

A. In response to AWEC Data Request 63, Cascade provided its 2020 FERC Form 2. In the notes to its financial statements, Cascade stated that its “ratio of total debt to total capitalization at December 31, 2020, was 53 percent.” This leverage is directionally consistent with the financial information that Cascade provided in this case. In Nygard, Exh. TJN-2r, Cascade calculated a $360,000,000 long-term debt balance, which equates to $277,344,000 in debt allocated to Washington using a 77.04% rate base ratio. This compares to a rate base, per the Settling Parties’ revenue requirement model of $473,835,780, yielding a debt percentage of 58.5%.

**Q. IS IT APPROPRIATE TO ADOPT A CAPITAL STRUCTURE THAT IS MORE ALIGNED WITH CASCADE’S ACTUAL LEVERAGE?**

A. Yes. While the Commission uses a hypothetical capital structure, it is not necessary for the hypothetical parameters to be entirely divorced from a utilities’ actual capital structure. Rather, it is appropriate for a utilities’ actual capital structure and actual financing cost to inform what an optimal hypothetical capital structure should be. The utility has complete control over its capital structure, which is dependent on, among other

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5 See Mullins, Exh. BGM-4 at 9 (Cascade’s Resp. to AWEC Data Request (“DR”) 63, Attachment C).
things, the amount of debt it issues and the amount of dividends it pays to its parent.

Cascade can increase or decrease its leverage ratio, for example, by paying more, or less, dividends to its sole shareholder, Montana-Dakota Utilities (“MDU”), and these dividends are entirely within its discretion. Accordingly, a utility’s capital structure needs to be established at a level to strike an appropriate balance between the interest of shareholders and ratepayers. The Commission has described this balance 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.\(^6\)

In the circumstances of this case—where a utility is operating at high leverage, and a low equity ratio—it is appropriate to consider the lower equity level, even if such a level is lower than the hypothetical capital structures used in past proceedings. A rational utility will not reduce its actual equity to a level below that which it finds to be sufficient. Therefore, using Cascade’s actual equity percentage reported in its Form 2, will result in a capital structure with sufficient equity to provide financial security, while keeping ratepayer costs at a reasonable level.

**Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?**

**A.** Using a capital structure comprising 53.0% debt and 47.0% equity results in a $754,842 reduction to revenue requirement.

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b. Unbilled Revenue (Adj. P-2)

Q. WHAT IS UNBILLED REVENUE?

A. Unbilled revenue is revenue from customers that has been accrued, but not yet invoiced in a given month. A utility customer consumes services over the course of a month, and at the end of the month, the utility issues an invoice. The utility does not record any accounts receivable until the invoice is issued. Once the invoice is paid, the utility records the cash receipt and reverses the account receivable. From an accounting perspective, the revenue associated with providing utility service accrues ratably over the course of the month when the utility services are provided. A utility, however, tracks its revenue based upon its accounts receivable—that is, based on the invoiced amounts. To account for the timing difference between the issuance of an invoice and the accrual revenue recognized ratably over the month, monthly accounting adjustments for unbilled revenue are performed. These adjustments calculate revenue recognized for services provided in a month, but not yet invoiced. The calculation includes two parts: 1) a provision for unbilled revenue in the current month, and 2) a reversal of the provision for unbilled revenue from the prior month, which would have subsequently been invoiced in the current month. An illustration of unbilled revenue is provided in in Table 2 below.
Table 2
Unbilled Revenue Illustration

<table>
<thead>
<tr>
<th>Mo.</th>
<th>Invoiced Receivables</th>
<th>Current Mo. Unbilled</th>
<th>Prior Mo. Unbilled</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan</td>
<td>500</td>
<td>50</td>
<td>(40)</td>
<td>510</td>
</tr>
<tr>
<td>Feb</td>
<td>500</td>
<td>50</td>
<td>(50)</td>
<td>500</td>
</tr>
<tr>
<td>Mar</td>
<td>300</td>
<td>50</td>
<td>(50)</td>
<td>300</td>
</tr>
<tr>
<td>Apr</td>
<td>200</td>
<td>30</td>
<td>(50)</td>
<td>180</td>
</tr>
<tr>
<td>May</td>
<td>200</td>
<td>20</td>
<td>(30)</td>
<td>190</td>
</tr>
<tr>
<td>Jun</td>
<td>200</td>
<td>20</td>
<td>(20)</td>
<td>200</td>
</tr>
<tr>
<td>Jul</td>
<td>200</td>
<td>20</td>
<td>(20)</td>
<td>200</td>
</tr>
<tr>
<td>Aug</td>
<td>200</td>
<td>20</td>
<td>(20)</td>
<td>200</td>
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<tr>
<td>Sep</td>
<td>300</td>
<td>20</td>
<td>(20)</td>
<td>300</td>
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<tr>
<td>Oct</td>
<td>400</td>
<td>30</td>
<td>(20)</td>
<td>410</td>
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<tr>
<td>Nov</td>
<td>500</td>
<td>40</td>
<td>(30)</td>
<td>510</td>
</tr>
<tr>
<td>Dec</td>
<td>500</td>
<td>60</td>
<td>(a)</td>
<td>520</td>
</tr>
</tbody>
</table>

4,000 410 (390) 4,020

Net Unbilled 20 = (a) + (b)

* Represents Provision from December of Prior Year

Since this rolling calculation is performed every month, over the course of an accounting period, unbilled revenue represents the sum for the provision accrued in in the last month of the accounting period and the provision reversed in the first month of the accounting period. In other words, unbilled revenue in a calendar year equals the unbilled revenue for December of the calendar year, less the unbilled revenue for December of the prior calendar year, which would have been reversed in January of the current calendar year.

Q. **HOW DOES UNBILLED REVENUE IMPACT A UTILITIES’ OVERALL REVENUE?**

A. The impact of unbilled revenue on a utilities’ overall revenue is driven by several factors. In a static scenario, where a utility’s loads are flat and its rates unchanged, unbilled
revenue will have zero impact on a utility’s overall revenue. In such a circumstance, the unbilled revenue provision accrued for December of a given calendar year would be equal to the provision accrued in December of the prior calendar year, leading to a net zero impact. In a scenario where the utility revenue is increasing, however, either due to increase loads and/or increased rates, the unbilled revenue provision accrued in December of a given calendar year will potentially be higher than the unbilled revenue provision from December of the prior calendar year, resulting in a net increase to revenue. Following the same refrain, in a scenario where utility revenue is decreasing, unbilled revenue potentially results in a reduction to overall revenue.

Q. WHAT AMOUNT OF UNBILLED REVENUE DID CASCADE RECOGNIZE IN THE 2020 TEST PERIOD?

A. From the Settling Parties’ revenue requirement model provided in “210755-JOINT Exh-JT-2-3-22-22.xlsb”, Excel Tab “Exh IDM-2, Proof of Revenue”, the unbilled revenue amounts may be observed in column (d). The sum of the current months unbilled revenue provisions in the test period bear the title “Current Month Unbilled +”, or “+CM CA1501A”. Similarly, the reversal of the prior months unbilled revenue provisions bear the title “Previous Month Unbilled –” or “-PM CA1501A.” The sum of these amounts equals a $2,129,998 reduction to overall revenue in the test period. This means the unbilled revenue provision in December 2021 was less than the unbilled revenue in December 2020. The individual customer classes making up this reduction to overall revenue can be observed in Table 3, below.
As can be seen in Table 3, the reduction associated with unbilled revenue predominantly affected gas service customers, indicating that gas costs were a potential contributor to the negative amounts. Further, the negative unbilled revenue is also attributable to commercial service customers which were impacted from COVID in the test period, leading to lower revenue at the end of 2020 than at the end of 2021.

Q. **DID CASCADE MAKE ANY ADJUSTMENTS RELATED TO UNBILLED REVENUE?**

A. Yes. In cell “M513” of Stipulating Parties’ Exh. JT-2 workpaper, Excel Tab “Exh IDM-2, Proof of Revenue,” it can be observed that Cascade made an adjustment reducing unbilled revenue by an additional $776,556 for an amount described as “Net Unbilled Margins Booked.”
Q. WHAT WAS THE PURPOSE OF THE ADDITIONAL $776,556 ADJUSTMENT TO REVENUE?

A. The labeling on the adjustment is somewhat under-informing, as the $776,556 reduction actually represents unbilled revenue booked with respect to Cascade’s decoupling mechanism deferral. Since the margins from the decoupling mechanism deferral are not included in revenue requirement, the associated unbilled revenue from the decoupling mechanism deferral, which is otherwise included in overall revenue in the unbilled balances identified in Table 3 above, must be deducted from revenue requirement. The calculation of this value can be followed through in the Stipulating Parties’ workpapers, Tab “WACAP 2020,” Cell “AD98”. In this case, possibly due to customer growth, the unbilled revenue associated with the decoupling mechanism deferral resulted in an increase in overall revenues. Thus, while overall unbilled revenue were a $2,129,998 reduction to revenue requirement, the portion of the unbilled revenue related to the decoupling mechanism deferral was a $776,556 increase to overall revenue. Stated differently, excluding the unbilled revenue associated with the decoupling mechanism deferral, which Cascade did remove from normalized revenue, the overall unbilled revenue included in Cascade’s normalized revenue forecast was $2,906,554, as detailed in Table 3.

Q. DID THE STIPULATING PARTIES INCLUDE THAT UNBILLED REVENUE IN REVENUE REQUIREMENT?

A. Yes. While Cascade reversed, and deducted, the portion of the unbilled revenue related to the decoupling mechanism deferral, it did not remove any other unbilled revenue from its revenue requirement calculation. Accordingly, Cascade’s revenue requirement
includes $2,906,554 of unbilled revenue, inclusive of the impact of the adjustment for the
decoupling mechanism deferral, discussed above.

Q. IS IT APPROPRIATE TO CONSIDER UNBILLED REVENUE IN NORMALIZED REVENUE REQUIREMENT?

A. No. As noted above, the entries for unbilled revenue are an accounting provision
designed to adjust revenue from an invoiced (i.e. accounts receivable) basis, to an accrual
basis, recognized ratably over the month. They are sensitive to the specific rate changes
and changes in actual billing determinants that occurred over the course of the historical
accounting period. The billing determinants that Cascade uses to develop revenue
requirement, however, are normalized. Cascade’s billing determinants are already
representative of revenue recognized on an accrual basis, and not based on the timing of
invoices. The revenue that Cascade assumes in its revenue calculation is also normalized
based on currently effective rates, with no assumed rate changes over the course of the
normalized period. Thus, there are no assumed changes in revenue, which would
otherwise result in incremental, or decremental, unbilled revenue in normalized revenue
requirement. Finally, as noted with respect to Cascade’s unbilled revenue adjustment for
the decoupling mechanism deferral, the test period unbilled revenue includes amounts
associated with gas costs, and other non-margin charges, which are also not includible in
margin revenue requirement.
Q. HOW ARE THE COSTS ASSOCIATED WITH UNBILLED REVENUE RECOVERED?
A. The timing difference between when the revenue is accrued and when it is billed are recovered as a component of net working capital. The Settling Parties’ workpapers already includes working capital of $15,909,204 associated with unbilled revenues. 

Q. WHAT WOULD THE IMPACT BE IF IT WERE NECESSARY TO CONSIDER UNBILLED REVENUE IN NORMALIZED REVENUE?
A. If one were to conclude, for example, that the normalized billing determinants used in Cascade’s revenue requirement model were in fact stated on an invoiced basis, and therefore required an unbilled revenue adjustment, such an assumption would, as a result of assumed load growth, result in positive unbilled revenue, reducing overall revenue requirement. If one assumes billing determinants are growing, the unbilled revenues in December of the test period will always exceed the unbilled revenues in the December prior to the test period, yielding a positive unbilled revenue amount, not the negative amount in the Settling Parties’ calculation.

Q. WHAT DO YOU RECOMMEND?
A. I recommend removing $2,906,554 in negative unbilled revenue from the Settling Parties’ revenue requirement, inclusive of the impact of the decoupling mechanism amounts, which Cascade did remove.

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c. Depreciation Expense (Adj. R-3)

Q. WHAT DID CASCADE PROPOSE IN ITS INITIAL FILING FOR DEPRECIATION EXPENSE?

A. In its 2020 results of operations, Cascade incurred depreciation expense of $26,511,110. In its initial filing, Cascade proposed a pro forma adjustment, which it described as an EOP depreciation adjustment. In this adjustment, Cascade calculated the end of period plant balances for each FERC account and subsequently applied the approved depreciation rates from Docket UG-200278 to each of the plant balances, to arrive at a total depreciation expense of $32,122,418. This original calculation may be observed in the workpaper version of Settling Parties, Exh. JT-2 in Excel Tab “EOP Depn Exp Adj.” Based on this original calculation, Cascade proposed a pro forma adjustment increasing depreciation expense by $5,611,307, an increase of 21.2%.

Q. DID CASCADE IDENTIFY ANY ERRORS IN THAT ADJUSTMENT?

A. Yes. For a category of cost that is expected to remain relatively stable over time, the magnitude of the increase that Cascade proposed with respect to depreciation expense was a prominent issue in the case. Through AWEC’s investigation of this adjustment, however, it was revealed that there were multiple errors in the calculation. In response to AWEC Data Request 05, for example, Cascade identified an error that overstated depreciation expense by $1,100,000, which had to do with the way that depreciation expense for transportation equipment was being classified. After this, and a few other corrections to its adjustment, as described in the response to AWEC Data Request 05,

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8 Mullins, Exh. BGM-4 at 2-4 (Cascade’s Resp. to AWEC DR 5).
Cascade revised its calculation of proforma depreciation expense to $31,038,617, still a $4,527,507 or 17.1% increase from the test period. Notwithstanding, it was still difficult to understand how moving from average depreciation expense to an EOP calculation, could produce such a significant change to depreciation expense, even considering the correction.

Q. **WHAT WERE CASCADE’S ACTUAL DEPRECIATION EXPENSE IN 2021?**

A. In response to AWEC Data Request 67, Cascade provided its actual results of operations for calendar year 2021. Based on that response, Cascade only incurred $28,455,361 in depreciation expense in 2021, which was just $1,944,251 higher than the depreciation expense incurred in 2020. Since part of this increase in 2021 was attributable to new plant additions that were not included in Cascade’s EOP rate base calculation, it is apparent that there were gross inaccuracies in the depreciation expense assumed in Cascade’s filing, even considering the corrections Cascade identified in response to AWEC Data Request 5.

Q. **HOW DID THE STIPULATING PARTIES ADDRESS THIS ISSUE?**

A. In paragraph 10 of the Multi-Party Stipulation, “Cascade agree[d] to reduce its revenue requirement by $3,000,000 in consideration of the differences between its filed end of period depreciation and its 2021 actual depreciation expense.” In addition to this

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9 Mullins, Exh. BGM-4 at 10 (Cascade’s Resp. to AWEC DR 67).
10 Multi Party Stipulation ¶ 10(1).
adjustment, two other minor changes were made yielding a further net reduction to
depreciation expense of $5,768.\textsuperscript{11}

Q. **DID THE STIPULATING PARTIES EXPLAIN WHY THIS ADJUSTMENT WAS
APPROPRIATE?**

A. No. By implementing this adjustment, the Stipulating Parties apparently recognize the
inaccuracies that existed in the depreciation expense calculation in Cascade’s initial
filing. Yet, the Joint Testimony on this matter, attempts to explain the difference by
making statements such as “[e]ach methodology includes benefits and drawbacks, but no
methodology is clearly ‘better’ or more appropriate than the other.”\textsuperscript{12} In using the term
“methodology,” it is my assumption that the Settling Parties had intended to mean
“method,” and in this case there were not competing methods, there was just one
method—the one proposed by Cascade—which was proven to be inaccurate by actual
2021 data. The Settling Parties did not explain why Cascade’s method for calculating
EOP depreciation expense produced inaccurate results, nor why it was appropriate to use
actual 2021 data in light of the inaccuracy.

Q. **DO YOU AGREE WITH THE JOINT PARTIES APPROACH?**

A. While using actual depreciation expense for 2021 is preferable to the erroneous
calculation included in Cascade’s filing, the approach raises a number of new issues.
First, it incorporates depreciation expense for new plant placed into service in 2021,
which was not considered in rate base or revenue requirement. Second, using the 2021

\textsuperscript{11} Multi Party Stipulation ¶ 10(2),(3).
\textsuperscript{12} Joint Testimony at 5:2-4.
depreciation expense results in an inconsistent revenue requirement, because it does not consider the incremental plant reserves that will accrue over the same period.

Q. **WHY WOULD IT BE NECESSARY TO CONSIDER THE INCREMENTAL RESERVES ASSOCIATED WITH THE 2021 DEPRECIATION EXPENSE?**

A. Regardless of when gross plant is measured, it is still necessary to establish revenue requirement using a test period. While in an EOP calculation, the collection of utility plant considered in rate base calculation might be measured at a static point in time, it is still necessary to consider the underlying assets in the context of a test period. Unlike utility plant, depreciation expense cannot be measured at a static point in time; if it were, it would be zero. For a test period to be consistent, it is necessary for plant reserves to correspond to the depreciation expense assumed in the test period. Because depreciation expense is measured over a period of time, however, the incremental plant reserves accrued over the same period must also be considered in revenue requirement. In this case using 2021 depreciation expense, or forward looking EOP depreciation expense, is therefore not consistent, unless the incremental reserves associated with that depreciation is also considered. Viewed ratably, the incremental reserves accrued on 2020 EOP plant in connection with the 2021 depreciation expense was approximately $14,227,680, which would otherwise result in a further $1,286,000 reduction to revenue requirement.

Q. **WHAT DO YOU RECOMMEND?**

A. Given the inadequacies of the depreciation expense calculation presented in Cascade’s initial filing, and the inconsistencies that arise from using 2021 depreciation expense, I recommend using the actual accrued depreciation expense for calendar year 2020 of
d. Uncollectible Accounts (Adj. A2)

Q. WHAT AMOUNT OF UNCOLLECTIBLES EXPENSE HAS BEEN INCLUDED IN THE SETTLING PARTIES’ REVENUE REQUIREMENT?

A. The Settling Parties’ revenue requirement model provided in “210755-JOINT Exh-JT-2-3-22-22.xlsx” included $984,088 of uncollectibles expense in results prior to adjustments. Uncollectible PGA and other non-margin revenues were 45% of this amount. After removing gas costs and revenues, and performing other adjustments, the total uncollectibles expense was $458,491.

Q. HOW DOES THAT AMOUNT COMPARE TO THE HISTORICAL EXPENSE?

A. In response to AWEC Data Request 68, Cascade provided its historical, Washington allocated bad debts expense over the period 2016-2020. A summary of that response is provided in Table 4, below:

Table 4
Historical Washington-Allocated Bad Debt Expense 2016-2020

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>WA Bad Debt Exp.</td>
<td>765,092</td>
<td>980,606</td>
<td>678,646</td>
<td>964,264</td>
<td>972,241</td>
</tr>
<tr>
<td>3-Yr Rolling Avg.</td>
<td></td>
<td>808,115</td>
<td>874,505</td>
<td>871,717</td>
<td></td>
</tr>
<tr>
<td>Delta from Filed</td>
<td></td>
<td>(164,126)</td>
<td>(97,736)</td>
<td>(100,524)</td>
<td></td>
</tr>
<tr>
<td>Margin %</td>
<td></td>
<td>45%</td>
<td>45%</td>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>Margin Impact</td>
<td></td>
<td>(73,898)</td>
<td>(44,006)</td>
<td>(45,261)</td>
<td></td>
</tr>
</tbody>
</table>

13 Mullins, Exh. BGM-4 at 11 (Cascade’s Resp. to AWEC DR 68).
As demonstrated on Table 4 bad debt expense were relatively high in calendar year 2019 and 2020 likely due to the impacts of COVID. The three-year rolling average has been detailed on line 2 of Table 4. In all years analyzed, the rolling-average was less than the amount for 2020 included in Cascade’s results. On line 5, I impact the margin impact of the variance.

Q. WHAT DO YOU RECOMMEND?

A. I recommend that margin revenues be reduced by $77,898 based on the use of the three-year average bad debt expense over the period 2016 through 2018. This change results in a $81,503 reduction to revenue requirement.

e. Working Capital (Adj. A3)

Q. HOW IS WORKING CAPITAL CALCULATED IN WASHINGTON?

A. Working capital is based on an Investor Supplied Working Capital, which calculates working capital based on Cascades GAAP financial accounts, and allocates the working capital requirements to Washington regulatory operations based on the portion of total invested capital to the amount of capital included in Washington rate base. This calculation was provided in the Settling Parties’ revenue requirement model “210755-JOINT Exh-JT-2-3-22-22.xlsb,” in Excel Tab “Working Capital (AMA).” Based on this workpaper, the Settling Parties calculate a working capital requirement of $13,038,376.

Q. HAVE YOU IDENTIFIED ANY CORRECTIONS OR MODIFICATIONS TO THE SETTING PARTIES’ CALCULATION?

A. Yes. I have identified two corrections, as discussed below.

First, the Settling Parties included working capital of $1,322,172, associated with cash accounts. These amounts can be observed on Excel rows “49:60” of the working
capital workpaper. Since Cascade earns interest on cash and cash equivalents, however, including this amount as a working capital requirement is not appropriate. I recommend allocating these balances to the non-utility category, similar to the treatment of Cascade’s investment accounts. Removing this amount from the working capital category results in a $828,769 reduction to working capital requirements.

Second, the calculation used an outdated 3-factor allocator of 75.5%, rather than the 74.89% factor used in Cascade’s filing. Making this correction results in a $24,074 reduction to working capital requirements.

Q. WHAT IS THE REVENUE REQUIREMENT IMPACT OF THESE CHANGES?
A. These changes result in a $121,687 reduction to revenue requirement.

f. COVID Savings Contra Revenues (Adj. A4)

Q. HOW HAS CASCADE HANDLED THE SAVINGS ASSOCIATED WITH COVID IN ITS CALCULATION OF REVENUE REQUIREMENT?
A. In response to AWEC Data Request 04, AWEC observed that Cascade had booked $430,634.04 in Washington-allocated costs to FERC Account 921 for its COVID Deferral approved in December 2020. These amounts were identified in Attachment A to AWEC Data Request 04 in the Excel Tab “921” under document number 57031. In response to AWEC Data Request 95, Cascade stated that the purpose of this entry was “to record the excess “savings” and excess “costs” because of the COVID-19 pandemic to a deferred liability and deferred asset, respectively.”

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14 Mullins, Exh. BGM-4 at 1 (Cascade’s Resp. to AWEC DR 4).
15 Id. at 12-18 (Cascade’s Resp. to AWEC DR 95).
Request 95, Cascade identified that the entry was based on savings of $589,799 and costs of $159,164, both stated on a Washington-allocated basis.\(^\text{16}\)

Q. **WHAT DO THE SAVINGS AMOUNT REPRESENT?**

A. The $589,799 in COVID related savings represent contra revenue that Cascade has booked to operating expense. The calculation included savings associated with items such as lodging, meals and entertainment, and commercial air services. In other words, since Cascade was returning the savings associated with these items to customers through the deferral, it increased its cost in the test period for the savings returned to customers. This savings does not represent an actual expenditure, but rather, a cost imputed as a result of the regulatory accounting approved for returning the COVID savings to customers through the deferral.

Q. **ARE THE CONTRA REVENUE AMOUNTS APPROPRIATELY CONSIDERED IN REVENUE REQUIREMENT?**

A. No. By including the contra revenues associated with COVID savings in revenue requirement, there is an implicit assumption that the COVID savings Cascade quantified in response to AWEC Data Request 95 are non-recurring, that is that the savings will not be recognized on a going forward basis and that costs will increase to pre-pandemic levels. That assumption, however, is not necessarily accurate. Based on what we know today, it appears that COVID will have a lasting impact on the way that work is performed. Further, to the extent that Cascade does expect a change in operating expense as a result of the end of the pandemic, such a change must be supported by a specific pro

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\(^{16}\) *Id.* at 15 (Cascade’s Resp. to AWEC DR 95, Attachment A).
forma adjustment. Simply assuming that costs, following the pandemic, will be equal to the 5-year average over the period 2015 through 2019 prior to the pandemic, as Cascade’s deferral calculation does, is not reasonable in light of the changes that have occurred as a result of COVID.

Q. **IS THE SAME TRUE FOR THE DEFERRED COVID RELATED COSTS?**

A. No. The deferred COVID related costs include items such as bad debt expense and incremental interest cost of short-term debt. Unlike savings, these cost items are expected to be eliminated following the pandemic. Accordingly, it is reasonable to retain the deferral accounting entries removing these expense from operating expense.

Q. **WHAT DO YOU RECOMMEND?**

A. The Settling Parties did not address this issue in their revenue requirement proposal. Accordingly, I recommend a $589,799 reduction to operating expense reversing the contra revenues that Cascade booked to FERC account 921 for its COVID deferral. The impact of this recommendation is a $617,091 reduction to revenue requirement.

g. **Directors’ Expense (R-6)**

Q. **WHAT ADJUSTMENT DO THE SETTLING PARTIES MAKE FOR ITS BOARD OF DIRECTORS’ EXPENSE?**

A. In Adjustment R-6, the Settling Parties make an adjustment in the amount of $178,117 to remove 50% of directors’ fees and expense incurred in the test period. Cascade had booked $356,234, in allocated costs from MDU in connection with its directors’ fees and expense booked to FERC Account 930.2, with the title ““MDUR Cross Charge.”” In the transaction data provided in Response to AWEC Data Request 04, the specific transactions underlying the directors’ fees and expense were not provided. Accordingly,
in AWEC Data Request 100, AWEC requested that Cascade provide the specific
transaction data underlying the $305,528 in MDU directors’ fees allocated to Washington
in the test period.\textsuperscript{17}

Q. **WHAT TYPES OF ITEMS WERE INCLUDED IN THE $356,234 OF
DIRECTORS’ FEES AND EXPENSE IN THE TEST PERIOD?**

A. Apart from the actual directors’ fees and expense, there were a number of other
miscellaneous charges included in the amount, which are not appropriate to consider in
Washington rates, whether at the 50% level, or not. It included $11,962 for items such as
Company Organizational Dues to the North Dakota Newspaper Assoc, the Bismarck-
Mandan Chamber of Commerce, the Wyoming Taxpayers Association, and the Nd
Lobbyists Association. I recommend that these amounts be removed from revenue
requirement, prior to the application of the 50% adjustment. The impact of this
recommendation is a $6,258 reduction to revenue requirement.

h. **Protected Plus Excess Deferred Income Taxes (Adj. A5)**

Q. **HAVE THE SETTLING PARTIES PROPOSED TO MODIFY ITS TREATMENT
OF PROTECTED EXCESS DEFERRED INCOME TAXES?**

A. No. In Docket UE-190529 *Consolidated*, Puget Sound Energy requested a private letter
ruling addressing, among other things, the permissibility under IRS normalization
requirements of adjusting EDIT in a supplemental rate schedule with a true-up based on
actual volumes variances.\textsuperscript{18} Like Cascade’s Schedule 581, Puget Sound Energy had been
recovering such costs through a supplemental rate schedule, which was being trued-up

\textsuperscript{17} Mullins, Exh. BGM-4 at 19 (Cascade’s Resp. to AWEC DR 100).
\textsuperscript{18} See *WUTC v. Puget Sound Energy*, Dockets UE-190529 et. al., Order 14, 11, 09, Amending Final Orders
(Sep 28, 2021).
annually. On July 26, 2021, the IRS issued Private Letter Ruling (“PLR”) 101961-21 in response to a request from PSE and found that PSE’s treatment would violate the normalization requirements of Internal Revenue Code (“IRC”) § 168(i)(9). While this ruling was issued before Cascade filed this case, and substantially before the Settling Parties reached their settlement, the treatment of EDIT was not addressed in the Multi-Party Stipulation.

Q. WILL THE MULTI-PARTY STIPULATION RESULT IN A NORMALIZATION VIOLATION?
A. Yes. Because the protected EDIT is being considered in Schedule 581 outside of base rates through a supplemental schedule, the Multi-Party Stipulation is inconsistent with the normalization requirements of IRC § 168(i)(9). To be consistent with the normalization requirements, the protected EDIT in rates needs to be based on the amount incurred in the test period.

Q. HOW MUCH PROTECTED-PLUS EDIT WAS INCLUDED IN THE TEST PERIOD?
A. The unadjusted test period results included amortization of protected-plus EDIT. The protected plus amortization amounts, however, were reversed in Adjustment R-7, where both the Schedule 581 surcredit revenues and the associated test period reversals were adjusted from revenue requirement. In the adjustment, the Settling Parties increased its operating expense by $2,033,473, which represented the pre-tax level of protected-plus EDIT reversals plus the net effect protected-plus EDIT deferrals in the test period. This value may be found in the Settling Parties’ revenue requirement model “210755-JOINT Exh-JT-2-3-22-22.xlsb,” in Excel Tab “Suppl Sch Adj,” Cell “C26.” On a pre-tax basis
this adjustment amounted to protected-plus EDIT reversals of $1,606,444. Based on
Cascade’s response to AWEC Data Request 38 Cascade identified protected EDIT
amortization of $1,300,396 in the test period, although this response appears to have
excluded the unprotected portion of protected-plus reversals.19

Q. HAS CASCADE SUBSEQUENTLY MADE A FILING TO ADDRESS
PROTECTED EDIT UNDER PLR 101961-21?

A. Yes. On March 23, 2022, Cascade submitted a tariff filing in Docket UG-220198, in
which Cascade made a number of proposals related to protected EDIT in relation to PLR
101961-21. That filing was submitted the day after Cascade and Staff submitted the
Multi-Party Stipulation in this case. Following the submission of that filing, the
Commission requested Docket UG-220198 be consolidated into this proceeding.
Cascade, however, was unwilling to accommodate the request, as doing so might require
an extension of the suspension period for this case. Given Cascade’s refusal to modify
the schedule in this case to address the issue related to EDIT, and the fact that it was not
addressed in Cascades filing or the Multi-Party stipulation in this case, AWEC requests
that ratepayers be held harmless in the event there are any negative impacts from
Cascade’s decision to not address this issue in a timely manner.

Q. WHAT DO YOU RECOMMEND IN THIS CASE?

A. Failure to consider protected-plus EDIT reversals based on the test period would result in
a normalization violation. Consistent with PLR 101961-21, I recommend that Schedule
581 be eliminated and that protected-plus EDIT reversals included in revenue

19 Mullins, Exh. BGM-4 at 4-6 (Cascade’s Resp. to AWEC DR 38).
requirement be limited to the 2020 test period amount. To affect this change, revenue
must be increased for Schedule 581 surcredit revenues, which already occurred in
Adjustment R-7. It was also necessary to add back the EDIT of $1,606,444 that was
reversed through the same adjustment. Making these changes produces an overall
$2,127,568 reduction to base rate revenue requirement.

IV. COST RECOVERY MECHANISM

Q. PLEASE PROVIDE AN OVERVIEW OF THE COST RECOVERY
MECHANISM.

A. The Schedule 597 CRM was initially implemented effective November 1, 2013 in Docket
UG-131959, following the Commission policy statement issued in Docket UG-120715.
The structure and design elements of the CRM are not specifically detailed in Schedule
597, nor were they detailed through supporting testimony in Docket UG-131959.
Cascade’s CRM filings rely solely on the design elements in the Commission policy
statement issued in Docket UG-120715. The policy statement itself, however, was not
explicit on all design elements of a CRM. Therefore, Cascade’s implementation of the
CRM is unclear in some respects.

Q. HAVE THE SETTLING PARTIES ADDRESSED CRM RECOVERY IN THE
MULTI-PARTY STIPULATION?

A. No. However, the CRM and the general rate case filings are interrelated. Accordingly,
the fact that the CRM was not addressed is an uncertain element of the Multi-Party
Stipulation.
a. The CRM is No Longer Necessary

Q. WHAT DID THE COMMISSION’S POLICY STATEMENT IN UG-120715 SAY?

A. The principal outcome of Docket UG-120715, captioned as “The Policy of the Washington Utilities and Transportation Commission Related to Replacing Pipeline Facilities with an Elevated Risk of Failure,” was the requirement of gas distribution service companies to file biennial pipeline replacement plans targeting replacement of pipe that poses an elevated risk of failure. Ratepayer protections were not disregarded in these plans, as the Commission stated that “[t]he measured and reasonable response in relation to the elevated risk and such a program must not unduly burden ratepayers.” In addition, the Policy Statement provided distribution companies the opportunity to request a CRM by preparing and submitting the information described in the Policy Statement.

Q. WHAT DESIGN ELEMENTS WERE PROVIDED IN THE POLICY STATEMENT FOR CRM?

A. The CRM was to be designed to recover the return on the prior year’s plant investment and recover depreciation expense associated with the investments in the Pipeline Replacement Plan, effective November 1 of each calendar year. Further, the final costs included in the CRM were intended to be based on actual transfers to plant through September, with an estimate of October additions included in the PGA filings, an estimate which was to be trued up in later CRM filings. The CRM was also supposed

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20 UG-120715 Policy Statement at ¶¶ 53-55
21 Id. at ¶¶ 67-68
22 Id. at ¶ 69, see also fn 32.
to include a cap for annual expenditures recoverable through the CRM, although it does not appear that Cascade has ever proposed such a cap.

Q. WAS THE POLICY STATEMENT ALL INCLUSIVE?

A. No. The Policy Statement was prescriptive for many elements of a CRM, although many of the elements were not explicitly defined. The Commission stated “[t]he elements identified in this section are not all-inclusive of the elements the Commission may require in the public interest.”

Q. HOW LONG WAS THE CRM TO BE IN PLACE?

A. The CRM was not meant to be a permanent mechanism, but a temporary mechanism put in place before which the costs could be included in base rates. The Commission stated that “the CRM will have a life of up to four years before including the investment covered by the program in base rates.” The Commission anticipated that it would review, and potentially modify the CRM mechanisms after the four-year term, stating that it “will review this policy after it acts on the second round of CRM filings in 2015, and periodically thereafter, to determine whether it has accomplished the hoped-for results.”

Q. HOW WERE PIPELINE REPLACEMENT COSTS TO BE CONSIDERED IN GENERAL RATE CASE FILINGS?

A. When a utility files a general rate case, all costs associated with the pipeline replacement plan were to be included in the utility’s filings. The Commission stated, “any general rate case filing must include all plan investment in base rates and reset the tariff to

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23 Id. at ¶ 74.
24 Id. at ¶ 79.
25 Id. at ¶ 77.
exclude any CRM recovery.” 26 The Commission also stated “[i]f a company files a
general rate case within the four year life of the CRM, investment would be included in
base rates.” 27

Q. HAS CASCADE CONTINUED CRM RECOVERY BEYOND THE FOUR-YEAR
TERM CONTEMPLATED IN THE UG-120715 POLICY STATEMENT?

A. Yes. AWEC’s understanding was that the CRM was only meant to last four years, and
that Cascade’s CRM would have otherwise expired with Cascade’s 2016 filing, with rates
effective November 1, 2016 through October 31, 2017. While the Commission allowed
the subsequent CRM filings to go into effect, the CRM on a going forward basis is no
longer necessary for Cascade to recover pipeline replacement plan costs, particularly
given the expansion to the Washington used and useful policy, as well as Cascade’s
ability to file a multi-year rate plan.

Q. WHAT IS WASHINGTON’S POLICY TOWARDS MULTI-YEAR RATE
PLANS?

A. The Clean Energy Transformation Act (“CETA”) of 2019 expanded the Commission’s
authority to consider plant that is used and useful beyond the rate effective date of a rate
case and to consider multi-year rate plans. Following the passage of CETA, in early
2020, the Commission issued a policy statement in Docket U-190531, where it outlined
the procedures that utilities must follow with respect to multi-year rate plans. Further, on
July 25, 2021, well before Cascade submitted its filing in this docket, Senate Bill 5295

26 Id. at ¶ 70.
27 Id. at ¶ 75.
was enacted which mandated that all utilities filing a rate case after January 1, 2022 include a multi-year rate plan.\textsuperscript{28}

**Q.** DID CASCADE FILE FOR A MULTI-YEAR RATE PLAN IN THIS CASE?

**A.** No. While Cascade acknowledged that it had the opportunity to prepare a multi-year rate plan in this case, it elected not to do so. Cascade has also stated that it intends to file such a case later this year, or in early 2023. Thus, Cascade had the opportunity to consider forward looking estimates of pipeline replacement plan costs but elected not to do so.

**Q.** HOW DO YOU RECOMMEND THE COMMISSION ADDRESS CASCADE’S CRM GOING-FORWARD?

**A.** AWEC recommends that the CRM Schedule 597 be terminated. The CRM is no longer necessary to achieve the objectives of the Policy Statement in UG-120715, which itself was only to apply for a four-year term. With the changes in regulatory policy since the Commission issued its Policy Statement in UG-120715, Cascade now has more than adequate opportunity to recover pipeline replacement costs in general rate cases, if it elects to do so. Further, Cascade’s statements that it will be filing another rate case shortly after the resolution of this one reinforces the notion that Cascade does not need the single-issue rate recovery for pipeline replacement costs prior to its next rate case.

\textsuperscript{28} RCW 80.28.425
b. **Cascade Improperly Adjusted its Rates in Its Compliance Filing in Docket UG-200568**

For CRM Costs Not Included in Its Filing (Adj. A6)

**Q.** DID CASCADE ADDRESS CRM COSTS IN ITS PRIOR RATE CASE, DOCKET UG-200568?

**A.** As noted above, a distribution utility’s general rate case filing must include all pipeline replacement plan investment in base rates, with the CRM rates set to zero. In Docket UG-200568, Cascade did not specifically address CRM related investments in its filing, although it is be assumed that all such costs were considered in its filing, consistent with the Commission’s requirements.

**Q.** WHAT ADJUSTMENT DID CASCADE MAKE WITH RESPECT TO CRM COST IN ITS COMPLIANCE FILING IN DOCKET UG-200568?

**A.** While the pipeline replacement plan investments were not specified in Cascades filing in Docket UG-200568, Cascade made an ad hoc adjustment to base rates in its compliance filing for additional pipeline replacement plan investments. This adjustment was not included in its initial filing, nor was it discussed at any point in the proceeding. There was no mention of this adjustment in the Commission’s final Order 05 in the docket. Notwithstanding, in Cascade’s June 11, 2021 compliance filing in that Docket UG-200568, Cascade made a new adjustment, increasing revenue requirement approved by the Commission in Order 05 by $966,943 for pipeline replacement costs.

This adjustment may be observed in Cascade’s workpapers supporting its June 11, 2021 filing, in the Excel Tab “Exh 4, Revenue Distribution”, Excel Column “M”. While from that workpaper, it has the appearance that Cascade’s tariff would otherwise reflect the “Proposed Rate” in Excel Column “F,” the actual rates that Cascade included in its tariff were those in Excel Column “N,” which included a CRM rate adder in Excel
Column “M”. Thus, while the Commission’s order required Cascade to reduce its rates by $390,563, Cascade actually increased its rates by $576,379 by incorporating the CRM rate adder in column “M” of the referenced compliance filing workpaper.

Q. WAS THE CRM ADDER INCLUDED IN CASCADE’S INITIAL FILING IN DOCKET NO UG-200568?

A. No. Review of Myrthrum, Exh. IDM-4, from that case shows that the CRM adjustment was not considered nor contemplated in Cascade’s initial filing. Review of the supporting workpaper, “UG-200568- CNGC Exh IDM-2-5 and WP-1, 6.19.20.xlsx,” Excel Tab “Exh 4, Revenue Distribution” also supports this finding.

Q. WAS THE CRM ADJUSTMENT IN CASCADE’S COMPLIANCE FILING APPROPRIATE?

A. No. The Commission’s Policy Statement required such costs to be included in the utilities filing, not as a supplemental adder in the compliance stage. The CRM that was in effect at the time that UG-200568 rates went into effect was for plant additions placed into service through October 2020. Those additions, were squarely within the pro forma period that was being considered in the case, and therefore, there is no reason for them to be included after the fact in the compliance stage.

Q. HOW DO YOU RECOMMEND THE COMMISSION ADDRESS THIS ISSUE?

A. First, I recommend that the Commission not allow a similar ad hoc CRM adder adjustment in this case. Second, WAC 480-07-880(7) provides the following in instances such as this:

“[i]f the commission allows a compliance filing to become effective but later discovers that the filing does not fully comply with the order authorizing or requiring the filing, the commission may take any necessary and lawful steps to secure full compliance with that order. The commission’s
erroneous acceptance of a compliance filing does not validate the noncompliant elements of the filing or modify the final order requiring that filing."

In this case, Cascade did not comply with Commission Order 05 in UE-200568 because it added in new revenues that were not authorized in the Order. Therefore, I also recommend that Cascade be required to refund $1,128,100 of revenues because the rates that Cascade has charged were not compliant with Order 05 as Adjustment A7 in my revenue requirement calculation. This amount was calculated through simple proration of the annual over collection amount over a 14-month period July 1, 2021 through August 31, 2022, the suspension date for this docket. In my revenue requirement model, I have applied this refund as a base rate amortization over a one-year period. Cascade has stated that it plans to file a new rate case later this year, so a one-year return of the funds is reasonable.

V. SCHEDULE 663 OVERRUN ENTITLEMENT CHARGE

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION FOR SCHEDULE 663 OVERRUN ENTITLEMENT CHARGES.

A. I recommend that the charge applicable to unauthorized overrun volumes in Transportation Schedule 663 be modified such that it is calculated based on 150% of Sumas market prices or a customer’s allocated share of actual overrun entitlement Charges actually assessed to Cascade. This is an issue that I have addressed on behalf of Tree Top, Inc., in Docket UG-210745. Specifically, I recommend that the second sentence of the second full paragraph in Sheet No 663-H be modified as follows:

The overrun charge that will be applied during any overrun entitlement period will equal the greater of 1) $1.00 per therm, or 2) 150% of the highest
midpoint price for the day at NW Wyoming Pool, NW south of Green River, Stanfield Oregon, NW Canadian Border (Sumas), or Kern River Opal supply pricing points (as published in Gas Daily), converted from dollars per dekatherms to dollars per therm by dividing by ten, or 3) the customer’s allocated share of actual overrun entitlement charges assessed to Cascade by an upstream pipeline for the overrun entitlement. A customer’s allocated share of actual overrun entitlement charges shall be calculated by multiplying the actual overrun entitlement charges assessed to Cascade by a ratio equal to the customer’s entitlement overrun divided by the sum of all customers’ entitlement overruns, including Cascade’s entitlement overruns.

Q. WHAT IS AN OVERRUN ENTITLEMENT PERIOD?
A. An entitlement period occurs in certain operating conditions, such as those defined in Section 14.6 of the General Terms and Conditions of the Northwest Pipeline tariff. In an entitlement period, Cascade is required balance its gas requirements on a daily basis. In the case of an Overrun Entitlement, the physical quantity of gas delivered must be equal to, or less than, the total quantity of gas which the customer had nominated for that particular day, plus a stated Entitlement Percentage. For a Stage II Overrun Entitlement, for example, the Entitlement Percentage is 8%, meaning gas usage exceeding 108% of the gas volumes nominated would be subject to an overrun entitlement charge.

Q. WHAT COSTS DOES CASCADE INCUR IN CONNECTION OVERRUN ENTITLEMENT?
A. Cascade as the Receiving Party is responsible for managing entitlements from Northwest Pipeline in an entitlement period, including the entitlements attributable to its transportation customers. In the case of an Overrun Entitlement, if Cascade’s daily imbalance results in exceeding the authorized entitlement amount, Cascade will incur an entitlement charge from Northwest Pipeline (per dth) equal to “the greater of $10 or 150 percent of the highest midpoint price at NW Wyo. Pool, NW s. of Green River, Stanfield Ore., NW Can. Bdr. (Sumas), Kern River Opal, or El Paso Bondad as reflected in the
Daily Price Survey published in “Gas Daily.” Other pipelines have similar methodologies.

Q. HOW DOES CASCADE PASS THE ENTITLEMENT CHARGES ON TO ITS TRANSPORTATION CUSTOMERS?
A. While the obligation to pay Northwest Pipeline entitlement charges lies with Cascade, Schedule 663 contains language mirroring the entitlement charges imposed by Northwest Pipeline. As discussed below, however, applying this identical language to individual transportation customer accounts is not necessarily appropriate, as doing so may result in the situation where an entitlement charge is assessed to an individual account, even though Cascade was never required to pay any entitlement charges to Northwest Pipeline with respect to that transportation customer’s daily imbalance.

Q. UNDER WHAT CONDITIONS IS AN ENTITLEMENT PERIOD DECLARED?
A. Entitlement periods are declared by interstate pipelines based on operational conditions resulting from a system constraint, requiring pipeline customers to monitor their gas nominations more closely. The Northwest Pipeline tariff, for example, generally defines an entitlement period as circumstances when underruns or overruns jeopardize system integrity. For purposes of Cascade’s system, Schedule 663 states that “[t]he Company may declare an Entitlement on any day the Company, in its sole discretion, reasonably determines a critical operational condition warrants the need.” As a practical matter, however, the reliable operation of Cascade’s individual system is rarely impaired. Rather, it’s the pipeline conditions that result in the declaration of an entitlement period.
Q. WHY DOES NORTHWEST PIPELINE’S TARIFF APPLY A RATE THAT IS BASED ON THE HIGHEST PRICED MARKET HUB ON ITS SYSTEM?

A. Northwest Pipeline is responsible for balancing the entire interstate pipeline, from Canada to the Colorado-Oklahoma boarder. When supplies are out of balance, Northwest Pipeline must purchase and sell gas in the market to maintain gas flows. In connection with their transportation services, all customers, including Cascade’s transportation customers, pay a commodity charge to cover Northwest Pipeline’s cost of system balancing. In an overrun entitlement, when the system is constrained, Northwest Pipeline requires shippers to balance on a daily basis, in part to avoid excessive system balancing costs. Accordingly, the use of the highest market hub on Northwest Pipeline is reflective of the incremental costs of an entitlement overrun to Northwest Pipeline, since that represents the marginal cost of system balancing on such days.

Q. DOES THE SAME LOGIC APPLY TO CASCADE?

A. No. Cascade is not responsible for balancing the interstate pipeline, and in fact, benefits from Northwest Pipeline’s balancing activities. Cascade does not purchase the balancing gas to serve the imbalances of its transportation customers. To the extent there is an imbalance between the gas nominated and the gas delivered to Cascade’s system by a transportation customer, including entitlement overruns, it is Northwest Pipeline that covers the imbalance, not Cascade. Thus, the marginal cost of system balancing in the various market hubs on the Northwest Pipeline have no bearing on the costs incurred by Cascade in connection with an overrun of one of its transportation customers because Cascade is not responsible for procuring the balancing gas to supply the overrun.
Q. HOW ARE CASCADE’S TRANSPORTATION CUSTOMERS HANDLED IN THE CALCULATION OF NORTHWEST PIPELINE ENTITLEMENT CHARGES?

A. Under Sections 14 and 15 of the General Terms and Conditions of Northwest Pipeline’s tariff, entitlement charges are calculated for each “Receiving Party,” defined as “the party who controls the facilities into which the gas is delivered for Shipper.” Cascade is the Receiving Party for the gas supplied by its transportation customers to Cascade’s system. Therefore, the imbalances between the gas nominated and the gas used by transportation customers are considered towards Cascade’s entitlement charges in entitlement periods. These charges, however, are not calculated on a contract-by-contract, or account-by-account, basis. They are assessed to Cascade as the Receiving Party as a whole. Since Cascade has a diverse set of customers, individual customers may consume more or less than their specific entitlement amount without causing Cascade to incur overrun entitlement charges from the pipeline, so long as, in aggregate, the gas delivered was less than the entitlement threshold amount. Northwest Pipeline does not, for example, assess overrun entitlement charges to Cascade’s individual transportation customer accounts.

Q. IS IT REASONABLE FOR CASCADE TO ASSESS AN OVERRUN ENTITLEMENT CHARGE BASED ON THE HIGHEST PRICE ON THE NW PIPELINE SYSTEM?

A. The language in the Schedule 663 calculates an overrun entitlement based on the highest market price on the NW Pipeline system is not reflective of Cascade’s actual costs. Such a charge is only reasonable if Cascade is actually assessed a charge from the NW Pipeline specifically as a result of a particular customer’s overrun. Due to the diversity in customer requirements, some customers will over forecast their requirements and others
will under forecast their requirement in an overrun entitlement, and as a result, Cascade
will not necessarily be assessed an overrun entitlement charge as a result of a particular
customer’s overrun.

Q. **HOW DO YOU PROPOSE TO ADDRESS THIS ISSUE?**

A. While it is necessary to send a signal to transportation customers to balance their system
daily in an overrun entitlement, using the markets identified in Schedule 663 could lead
to unintended results, as was recognized in Docket UG-210745. Accordingly, I
recommend that the overrun entitlement charge be calculated based on 150% of Sumas
market prices, except where a customers’ allocated share of actual entitlement charges
actually assessed to Cascade exceeds that amount. I recommend the modified Schedule
663 to contain the language below to implement this recommendation.

The overrun charge that will be applied during any overrun entitlement
period will equal the greater of 1) $1.00 per therm, 2) 150% of the midpoint
price for the day at NW Canadian Border (Sumas) converted from dollars
per dekatherms to dollars per therm by dividing by ten, or 3) the customer’s
allocated share of actual overrun entitlement charges assessed to Cascade
by an upstream pipeline for the overrun entitlement. A customer’s allocated
share of actual overrun entitlement charges shall be calculated by
multiplying the actual overrun entitlement charges assessed to Cascade by
a ratio equal to the customer’s entitlement overrun divided by the sum of all
customers’ entitlement overruns, including Cascade’s entitlement overruns.

Q. **DOES THIS CONCLUDE YOUR OPPOSITION TESTIMONY?**

A. Yes.