

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-152286

ORDER 04

FINAL ORDER APPROVING
SETTLEMENT AGREEMENT

BACKGROUND

- 1 On December 1, 2015, Cascade Natural Gas Corporation (Cascade or Company) filed with the Washington Utilities and Transportation Commission (Commission) revisions to its currently effective Tariff WN U-3, designed to effect a rate increase for natural gas service provided to customers in the state of Washington. Cascade requested an increase in annual revenues of approximately \$10.5 million, or 4.17 percent.¹ The Commission entered Order 01 suspending operation of the tariffs on December 21, 2015.
- 2 The Commission convened a prehearing conference on January 26, 2016. The Commission granted the petitions to intervene filed by Northwest Industrial Gas Users (NWIGU) and The Energy Project and established a procedural schedule.
- 3 On April 22, 2016, counsel for the Commission's regulatory staff (Staff)² informed the Commission that all parties had reached a full settlement of the disputed issues in the case. The Commission suspended the procedural schedule and established deadlines for filing the parties' agreement and supporting testimony. In compliance with those deadlines, the parties submitted their Joint Settlement Agreement (Settlement) on May 13, 2016, and filed joint testimony in support of the Settlement on May 27, 2016. On

¹ The Company last filed a general rate case in 2006.

² In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

June 14, 2016, the Commission conducted a hearing on the Settlement. The Commission also held public comment hearings on June 14, 2016, in Mount Vernon, and on June 17, 2016, in Kennewick.

- 4 Lisa Rackner, McDowell Rackner & Gibson PC, Portland, Oregon, represents Cascade. Chad M. Stokes and Tommy Brooks, Cable Huston LLP, Portland, Oregon, represent NWIGU. Brad M. Purdy, Attorney at Law, Boise, Idaho, represents The Energy Project. Lisa W. Gafken, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Unit of the Washington State Attorney General’s Office (Public Counsel). Brett P. Shearer and Andrew J. O’Connell, Assistant Attorneys General, Olympia, Washington, represent Staff.

SETTLEMENT

- 5 Cascade, Staff, Public Counsel, NWIGU, and The Energy Project (collectively Parties) are all signatories to the Settlement, which includes the following terms.
- 6 **Revenue Requirement.** The Parties agree that Cascade’s rates should be modified to provide the Company with the opportunity to increase its annual revenues by \$4 million, or 1.6 percent, effective September 1, 2016, with an overall rate of return (ROR) of 7.35 percent. The Settlement does not establish an authorized return on equity (ROE) or capital structure for Cascade. In its initial filing, Cascade proposed an ROR of 7.647 percent based on a 50/50 common equity ratio with an ROE of 10.0 percent and a debt cost of 5.295 percent.³ The revenue requirement to which the parties agreed is a “black box” that is not demonstrably the result of mutual acceptance of specific adjustments to the Company’s original filing.
- 7 **Rate Spread.** The Parties agree to assign 75 percent of the proposed revenue increase (\$3 million) to the residential class, resulting in a bill increase of \$1.39 or 2.55 percent for the average residential customer. There is no change in the residential basic charge. The remaining 25 percent of the revenue increase (\$1 million) is assigned to Commercial, Industrial, Interruptible, and Transportation classes on an equal percentage basis. There is no increase for the Special Contracts class. Prior to filing its next general rate case, Cascade must initiate a load study to determine the class core responsibilities for the amount of gas that the Company distributes on a daily basis to each local service area.

³ Chiles, Exh. No. MAC-1T at 4, Table 1.

8 **Decoupling.** Cascade will implement a decoupling mechanism similar to those the Commission has approved for Puget Sound Energy (PSE) and Avista Corporation (Avista).⁴ The allowed revenue per customer will be determined by rate group for bundled residential, commercial, and industrial customers. The mechanism includes a 3.0 percent maximum annual rate adjustment. Cascade will perform an earnings test against the agreed-upon ROR of 7.35 percent, based on the Company's year-end Commission Basis Report (CBR). A third-party will conduct a program audit of the decoupling mechanism following the end of the third full year.

9 Deferrals will accrue interest at the Federal Energy Regulatory Commission interest rate of 3.46 percent. The deferral period will be January 1 through December 31 with a rebate or surcharge effective date of November 1 each year after the initial decoupling filing. The initial decoupling filing will defer monthly balances for the September 1, 2016, through December 31, 2016, timeframe, subject to the 2016 CBR to be filed on April 30, 2017, with an effective date of November 1, 2017.

10 **Conservation.** The Settlement requires Cascade to achieve at least 100 percent of its annual conservation target. The Parties state that the conservation commitments in the Settlement solidify the conservation efforts that Cascade is already undertaking and add structure and accountability.⁵ Other commitments define the planning and reporting requirements associated with Cascade's conservation obligations. Cascade must file an annual conservation plan, annual conservation achievement report, and annual conservation cost recovery tariff adjustment, as follows:

- Annual Conservation Report: June 1
- Conservation Cost Recovery Tariff: October 1 (effective Nov. 1)
- Annual Conservation Plan: December 1

11 Cascade must meet with its Conservation Advisory Group quarterly and provide copies of all plans, reports, and tariff filings to the advisory group at least 30 days in advance. Cascade will work with its Conservation Advisory Group and the Community Action Agencies (CAAs) to investigate the barriers to low-income weatherization within the Company's Washington territory, and will propose a means of overcoming those barriers by December 31, 2016. The Parties agree that this investigation is necessary to ensure

⁴ Exhibit No. JT-1T at 12:1-4.

⁵ *Id.* at 14:6-8.

weatherization programs are available to all customers, especially low-income customers.⁶

- 12 **Low-Income Assistance.** The Settlement adopts a five-year funding plan for Cascade’s Washington Energy Assistance Fund (“WEAF”) and includes substantive commitments to improve the WEAF and to better align the program with other companies’ low-income assistance programs:

Funding Plan: As of April 30, 2016, the WEAF program had an unspent balance of \$394,129.⁷ The Parties nevertheless agree to increase WEAF funding by 5.1 percent in the 2016-17 program year and in each of the following four program years. Based on this schedule, WEAF funding will increase from \$1.05 million in the 2016-17 program year to \$1.28 million in 2020-21. The Settlement stipulates that these amounts may be adjusted if Cascade files another general rate case. The Company currently collects \$800,000 per year for the WEAF program through general rates.

Cost Recovery Tariff: The Parties agree that, as part of its compliance filing in this docket, Cascade will remove WEAF funding from general rates and collect it through a cost recovery tariff, subject to annual true-up. If the amounts the Company collects through surcharges exceed WEAF expenditures in a given year, Cascade will return the unspent amounts to ratepayers the following year. If actual WEAF expenditures exceed the amounts collected, Cascade will collect the deficiency from customers through surcharges in the following year.⁸

Program Modifications: The Parties agree to adopt the four program goals for low-income assistance the Commission adopted in Docket UE-140188, Avista’s 2014 general rate case, and to establish a low-income advisory group.⁹ The low-income advisory group will include Public Counsel, Staff, The Energy Project, Cascade, and representatives from the CAAs that administer WEAF funds.¹⁰

⁶ *Id.* at 17:4-8.

⁷ *Id.* at 19:3-4.

⁸ *Id.* at 18:13-21.

⁹ *Id.* at 17:14-22. The four program goals are: (a) keep customers connected to energy service; (b) provide assistance to more customers than are currently served; (c) lower the energy burden of program participants; and (d) collect data necessary to assess program effectiveness and inform ongoing policy discussions.

¹⁰ *Id.* at 18:1-2.

Other program modifications, such as implementation of a \$300 credit balance threshold for eligible customers,¹¹ revision of the CAA reimbursement fee, and removal of the monthly CAA spending cap, are designed to improve the distribution of WEAFF funds.¹² Cascade will consult with its low-income advisory group on the evaluation of program performance, program budget, alternative program designs, and the contents of the annual low-income assistance report. The Company will file an annual low-income assistance report and make that report available to stakeholders on January 15 of each year.

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

Needs Assessment: Cascade commits to conduct a study to identify the number of households in poverty in its Washington service territory. The Company may use up to \$50,000 of the existing WEAFF fund balance for this purpose.¹³ If WEAFF participation does not materially increase by the end of the 2016-17 program year, the low-income advisory group may consider using part of the current WEAFF balance to hire an independent third party to conduct an evaluation.

- ¹³ **Reporting.** The Parties agree to several changes in Cascade's reporting practices. Cascade must calculate Investor Supplied Working Capital (ISWC) each year by the same methodology the Company used in Docket UG-060256 and review all accounts included under ISWC to re-categorize accounts as necessary.¹⁴ The Company must modify its weather normalization adjustment to refine regression models, improve data accuracy, use an alternative way of reporting unbilled therms, and use 10 years of usage data in conjunction with the corresponding 10 years of weather data per the National Oceanic and Atmospheric Administration.¹⁵

¹¹ This threshold "will prevent or postpone any WEAFF grant to a household with a current credit balance of at least \$300 until a portion of that credit balance has been used to support the needs of the customer. The aim of this threshold is to ensure that a customer's unused credit balance will not limitlessly accumulate and that funds will be efficiently distributed to other customers in need." *Id.* at 24:4-8.

¹² *Id.* at 21:21-23, 22:1-23.

¹³ *Id.* at 19:10-12. The Parties agree that Cascade will contract with Eastern Washington University for this study, unless the low-income advisory group agrees otherwise.

¹⁴ *Id.* at 24:7-12.

¹⁵ *Id.* at 24:14-25:5.

- 14 Prior to Cascade's next rate case, the Company must (1) separate conservation revenues and WEAF revenues from the Weighted Average Cost of Gas for reporting purposes; (2) utilize an accounting procedure for unbilled revenues that are trued-up monthly and verified for reasonableness in accordance with accepted industry practices; and (3) bifurcate booked revenues for accounting purposes between true gas cost revenue, margin revenue, and all other revenues sources.¹⁶
- 15 **PGA Filing.** Cascade will submit its purchased gas adjustment (PGA) and gas cost deferral amortizations filings by August 1, 2016, instead of November 1, 2016. The Parties represent that this element of the Settlement will offset the rate increase for delivery costs and may result in a net rate decrease.¹⁷

DISCUSSION AND DECISION

- 16 The Commission's statutory duty is to establish rates, terms, and conditions for natural gas service that are "fair, just, reasonable and sufficient."¹⁸ In doing so, the Commission must balance the needs of the public to have safe, reliable, and appropriately priced service with the financial ability of the utility to provide that service. The rates thus must be fair to both customers and the utility; just, in that the rates are based solely on the record in this case following the principles of due process of law; reasonable, in light of the range of potential outcomes presented in the record; and sufficient, to meet the financial needs of the utility to cover its expenses and attract capital on reasonable terms.¹⁹
- 17 "The commission will approve settlements when doing so is lawful, the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission."²⁰ The Commission may approve the Settlement, with or without conditions, or reject it. We have reviewed the Settlement and supporting evidence and conclude that the resulting rates, terms, and

¹⁶ *Id.* at 25:22-26:6.

¹⁷ *Id.* at 10:7-11.

¹⁸ RCW 80.28.010(1); RCW 80.28.020.

¹⁹ *Federal Power Commission v. Hope Natural Gas*, 320 U.S. 591 (1944); *Bluefield Water Works & Improvement Company v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923); see *People's Organization for Washington Energy Resources v. Washington Utils. & Transp. Comm'n*, 104 Wn.2d 798, 807-13, 711 P.2d 319 (1985) (describing rate setting process in Washington).

²⁰ WAC 480-07-750(1).

conditions are fair, just, reasonable, and sufficient. Accordingly, the Commission should approve the Settlement without conditions.

- 18 **Revenue Requirement.** The overall ROR of 7.35 percent to which the Parties have agreed is in line with rates of return that the Commission has approved for other natural gas utilities,²¹ and is 30 basis points lower than the Company's original request. We believe this is a reasonable outcome and are satisfied that the Company's costs justify the resulting 1.6 percent rate increase. The Settlement does not specify the ROE or capital structure on which the Parties based the ROR, the establishment of which would be a prerequisite to any expedited rate filing the Company might make in the future. Cascade's witness at the settlement hearing, however, confirmed that the Company does not anticipate making such a filing prior to its next general rate case.²²
- 19 **Rate Spread.** The rate spread to which the Parties have agreed is a reasonable distribution of the increase in light of the current allocation of cost recovery among the Company's rates for different customer classes. The load study the Settlement requires Cascade to initiate will provide a more accurate basis for determining the extent to which each class contributes to the Company's costs. We are concerned, however, that Cascade will only begin conducting that study prior to its next general rate case but will not complete it before making its next rate filing.²³ We understand that the breadth and geographic diversity of Cascade's service territory increases the complexity and time required to complete a study, but we encourage Cascade to provide as much information as possible about its customers' gas usage in its future rate filings to support an appropriate rate spread.
- 20 **Conservation.** The added structure and accountability to which the Parties have agreed is a welcome enhancement to the Company's conservation program. Especially valuable is Cascade's agreement to work with its Conservation Advisory Group on a regular basis, including to investigate the barriers to low-income weatherization within the Company's Washington territory and to develop proposed means of overcoming those barriers by the end of this year.

²¹ See, e.g., *In re Puget Sound Energy*, Dockets UE-121697 – UE-130137, Final Order on Remand ¶ 158, n.207 (June 29, 2015) (ROR of 7.77 percent for PSE).

²² Parvinen, TR at 33:11 – 34:8.

²³ Parvinen, TR at 35:1-14.

- 21 **Low-Income Assistance.** The revisions and enhancements to Cascade’s low income assistance program in the Settlement further the Commission’s goal of providing consumers who have insufficient means with financial assistance to meet their energy needs. We are concerned with the annual true-up provision in the Settlement that would require the Company to return to the ratepayers any unused funds the Company collects. Those funds are dedicated to low-income assistance, and they should be used for that purpose. Intuitively, any fund surplus would more likely to result from failure to identify sufficient eligible participants than from lack of need.
- 22 The Parties explained, however, that the true-up provision is designed to work both ways, that is, if the funding is insufficient, Cascade will collect a surcharge from ratepayers to make up the difference between the amount collected and the funds required.²⁴ The Company’s witness also testified that Cascade anticipates that a surplus is unlikely and that any fund balance that must be returned to ratepayers would not be significant.²⁵
- 23 We provisionally accept the Parties’ explanation and expectations. We also note that this aspect of the Settlement provides an additional incentive to Staff, Public Counsel, and The Energy Project to maximize the use of the low-income assistance funds the Company collects. We nevertheless will review the operation of this funding in future rate cases to assess the results of the annual true-up and to determine whether that mechanism operates as anticipated or should be modified.
- 24 We also commend the Company for its agreement to work with the Conservation Advisory Group to develop an evaluation, measurement, and verification framework for use in analyzing Cascade’s conservation program. We view this as an important commitment. We expect this framework to be consistent with best practices and to include an independent third-party evaluation of the conservation portfolio.
- 25 **Decoupling, Reporting, and PGA Filing.** The other aspects of the Settlement are also consistent with the public interest. The decoupling mechanism is comparable to the mechanisms the Commission has previously approved for other natural gas utilities. The reporting changes will increase the consistency and reliability of the information the Company provides to the Commission. Accelerating the PGA filing to August 1 will enable the Company to coordinate the resulting anticipated decrease in rates with the

²⁴ Erdahl, TR at 31:18 – 32:4.

²⁵ Parvinen, TR at 30:15 – 31:8.

increase authorized in the Settlement so that customers will have a single adjustment to their monthly bill, which for most customers will likely be a net rate reduction.

26 The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission. The rates, terms, and conditions are fair, just, reasonable, and sufficient. We therefore approve the Settlement without conditions.

FINDINGS AND CONCLUSIONS

27 (1) The Commission is an agency of the State of Washington vested by statute with authority to regulate natural gas companies in Washington, including Cascade.

28 (2) The Commission has jurisdiction over Cascade and the subject matter of this proceeding.

29 (3) The Settlement terms are lawful, supported by an appropriate record, and consistent with the public interest in light of all the information available to the Commission.

30 (4) The rates, terms, and conditions in the Settlement are fair, just, reasonable, and sufficient.

31 (5) The Commission should approve the Settlement without condition.

ORDER

THE COMMISSION ORDERS:

32 (1) The Commission approves the Joint Settlement Agreement, which is attached as Exhibit A to, and incorporated into, this Order, and adopts the Joint Settlement Agreement as the final resolution of the disputed issues in this docket.

33 (2) The Commission rejects the revisions to Cascade Natural Gas Corporation's currently effective Tariff WN U-3 previously filed and suspended in this docket. Cascade Natural Gas Corporation must file tariff sheets in compliance with this Order no later than 10 business days prior to their stated effective date.

- 34 (3) The Commission retains jurisdiction to enforce the terms of this Order and delegates to the Executive Director and Secretary the authority to confirm compliance with this Order.

Dated at Olympia, Washington, and effective July 7, 2016.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

ANN E. RENDAHL, Commissioner

NOTICE TO PARTIES: This is a Commission Final Order. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.