CASCADE NATURAL GAS CORPORATION®
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VIA Electronic Mail

September 14, 2012

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Pk. Dr. SW
PO Box 47250
Olympia, WA 98504-7250

RE: Commission Investigation into the Need to Enhance the Safety of Natural Gas Distribution Systems, Docket UG-120715
Comments of Cascade Natural Gas Corporation

Dear Mr. Danner:

In response to the Washington Utilities and Transportation Commission (Commission) request for comments issued on August 24, 2012, regarding proposed interim cost recovery mechanisms enhance the safety of natural gas distribution systems. Cascade Natural Gas Corporation (Cascade) submits the following comments.

Interim Cost Recovery Proposals

A. Capital Cost Deferral and Recovery Mechanism (CCDR)

This proposal would allow a company to recover costs incurred on funds used during an interim period between rate cases for pipeline integrity projects. The Capital Cost Deferral and Recovery Mechanism (CCDR) mechanism would be designed to permit a company to defer its allowed net-of-tax return on eligible replacement projects for later recovery.

Response: Cascade is appreciative of the Commission's view to create a mechanism that is simple, straight forward, and easy to understand and administer. Cascade, however, is concerned that bare steel replacements are explicitly excluded from the CCDR mechanism. It appears that the remaining pipeline replacement program would/could be included. Cascade's pipeline replacement focus, as described in our initial comments, is focused on bare steel and pre-Cascade owned pipe (meaning systems that are older than 60 years). Cascade's original comments on June 14, 2012, suggested the Commission should focus on specific types of pipe. Upon hearing at the workshops the differences between the individual company's systems and replacement focuses, Cascade would suggest that the focus be based on the outcomes of the Distribution Integrity Management Program (DIMP). Cascade asks the Commission if the goal of this process is to focus on making the systems safer by encouraging additional investment in replacing problematic pipe or is it interested in getting certain type of pipe replaced even though it may not be the most problematic per the Integrity Management Programs.

Providing a deferred return with no recovery of associated expense increases (particularly depreciation and property taxes) does not provide an adequate incentive to encourage investment. Also, providing a return on the deferral and amortization of the deferral over the life of the investment hampers customers with long-term impacts on rates that could be avoided with the IPL-CRM model.

B. Interim Pipeline Replacement Cost Recovery Mechanism (IPL-CRM)

> **Staff's second proposed cost recovery mechanism would allow a company to recover costs that it occurs due to its pipeline replacement program in the interim periods between rate cases comparable to the method adopted by the Public Utility Commission of Oregon. These costs include incremental O&M costs, income taxes, property taxes, depreciation and related return on investment associated with the pipeline replacement.**

Response: Allowing recovery of pipeline replacement costs sooner than traditional ratemaking principles does provide an incentive to expedite additional investment. Cascade supports the IPL-CRM approach as the preferred mechanism to achieve such goal. The mechanism allows more immediate recovery of costs. Therefore, it does provide an incentive to invest in replacing more problematic pipe and appears to be simple to understand and administer. The long term impacts to customers as in the CCDR are also removed. The IPL-CRM proposed mechanism is designed to take into account the unique situations of each utility regarding the types of problematic pipe to be replaced which Cascade sees as beneficial.

Cascade would suggest that, absent a recent general rate case, that the last one to three years of similar replacement investment be used to determine a normal or expected level of investment.

Cascade would recommend a soft cap of something less than a three percent impact on rates per year in order to encourage investment without significant rate shock. If a company were to prudently invest a level that would go beyond the soft cap it could petition the Commission for a waiver of the cap upon adequate demonstration of the prudence of such level of investment.

Cascade appreciates the opportunity to submit comments and participate in the workshops on this topic. Please direct any questions regarding these comments to the Mike Parvinen at (509)734-4593.

Sincerely,

Michael Parvinen
Manager, Regulatory Affairs