

**Exh. MAC-4T
Docket UG-210755
Witness: Mark A. Chiles**

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,**

Complainant,

v.

**CASCADE NATURAL GAS
CORPORATION,**

Respondent.

DOCKET UG-210755

REBUTTAL TESTIMONY OF

MARK A. CHILES (CASCADE NATURAL GAS CORPORATION)

IN SUPPORT OF

MULTIPARTY SETTLEMENT STIPULATION

MAY 2, 2022

REBUTTAL TESTIMONY (NONCONFIDENTIAL)
IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION

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REBUTTAL TESTIMONY OF MARK A. CHILES
IN SUPPORT OF MULTIPARTY SETTLEMENT STIPULATION

I. INTRODUCTION

Q. Please state your name, title, and the party you represent in this proceeding.

A. My name is Mark A. Chiles. I am the Vice President of Regulatory Affairs and Customer Service for Cascade Natural Gas Corporation (“Cascade” or “Company”) and Intermountain Gas Company. I represent Cascade in this proceeding, and I am the same Mark A. Chiles who previously submitted direct testimony and exhibits in this proceeding. My professional qualifications are described in my prefiled direct testimony, Exh. MAC-1T.

Q. What is the purpose of your Rebuttal Testimony?

A. This rebuttal testimony responds to the testimony submitted by the Alliance of Western Energy Consumers, (“AWEC”), the Public Counsel Section of the Attorney General’s Office, (“Public Counsel”), and the Energy Project (“TEP”).

1 contradict public policy, which favors the resolution of disputes through the
2 settlement process.

3 **B. REVENUE REQUIREMENT**

4 **1. Capital Structure**

5 **Q. AWEC witness Bradley Mullins recommends the Commission modify**
6 **Cascade’s proposed capital structure.¹ Did Cascade propose changing its**
7 **capital structure from what was approved in the Company’s last general rate**
8 **case?**

9 **A.** No; Cascade did not propose any change to its capital structure, which the
10 Commission approved only months before Cascade’s filing. In fact, Cascade
11 recommends the capital structure be maintained at the ratio of 49.1 percent equity
12 and 50.9 percent long-term debt, which is the same capital structure approved in
13 the Company’s last two general rate cases. On page 23, paragraph 82, of Order 05
14 issued in Cascade’s 2020 general rate case, Docket UG-200568 (“Order 05”), the
15 Commission states “... we conclude that it is reasonable to maintain Cascade’s
16 equity ratio at 49.1 to provide stability in the Company’s capital structure in the
17 face of increased gas costs. Cascade’s capital structure should therefore be
18 maintained at a ratio of 49.1 percent equity and 50.9 percent long-term debt, as
19 approved in the Company’s last general rate case.”

¹ Mullins, Exh. BGM-1T at 7:20-21.

1 **Q. AWEC suggests that actual 2020 data would necessitate a change in the**
2 **capital structure. Did the issues underlying the establishment of Cascade’s**
3 **current capital structure change significantly between UG-200568 and the**
4 **current case?**

5 A. No. The issues that resulted in the Company’s current capital structure did not
6 change significantly between the time Order 05 was issued in the Company’s
7 most recent, fully litigated general rate case, and this current case. The
8 Commission’s order affirming the capital structure at a ratio of 49.1 percent
9 equity and 50.9 percent long-term debt was issued on May 18, 2021. This general
10 rate case was filed on September 30, 2021, just over four months later. As the
11 Commission states in Order 05, “From 2015 to 2017, Cascade’s equity ratio
12 ranged from 47.1 percent to 49.2 percent. In 2018, the Company’s equity ratio
13 was 49.1 percent. Following the Enbridge pipeline explosion in British Columbia,
14 however, Cascade faced increasing gas costs and higher debt reflected in the
15 deferred PGA balance. In 2019, the Company’s equity ratio decreased to 46.6
16 percent.” See Order 05 at ¶ 75.

17 The Rebuttal Testimony of Company Witness Tammy J. Nygard in Docket UG-
18 200568 included the table below. The Capital Structure table, normalized for the
19 impact of the Enbridge costs on the Company’s equity ratio, had been updated in
20 that rebuttal testimony to include 2020, which is the test year in this current
21 proceeding. See page five of Exh. TJN-4Tr in Docket UG-200568.

Capital Structure				
	<u>Adjusted</u> <u>12/31/2018</u>	<u>Adjusted</u> <u>12/31/2019</u>	<u>Adjusted</u> <u>12/31/2020</u>	<u>Average</u>
Total				
Debt	49.2%	49.9%	49.9%	49.7%
Common				
Equity	50.8%	50.1%	50.1%	50.3%

1
2 Because the circumstances surrounding the establishment of Cascade's current
3 capital structure remain similar, the capital structure established in Docket UG-
4 200568 is still appropriate for this case. It is Cascade's goal to maintain the
5 optimal capital structure of 50 percent debt and 50 percent equity.

6 **2. Unbilled Revenues**

7 **Q. How has Cascade treated unbilled revenues in this proceeding?**

8 A. Cascade's treatment of unbilled revenues is the same in this case as it was in
9 Docket UG-200568. The Company removed the unbilled revenue associated with
10 its decoupling mechanism. In addition, the Company removed the supplemental
11 schedules in this general rate case per the Commission's Order 05. Consequently,
12 the unbilled revenue associated with the supplemental schedules was also
13 removed. The remaining unbilled amounts were left in the case in the same way
14 unbilled revenues have been treated in previous Cascade general rate cases.

1 **Q. Did AWEC correctly identify the amount of unbilled revenue that was**
2 **included in the test year?**

3 A. No. When AWEC calculated the Total 2020 Unbilled Revenue in Table 3, page
4 13 of Exh. BGM-1T, unbilled revenue associated with the decoupling mechanism
5 was incorrectly added to the total unbilled revenue. Instead, the unbilled revenue
6 associated with the decoupling mechanism should have been reversed the way it
7 was in Cascade's initial filing, as reflected in Exh IDM-2 and Exh MCG-5
8 (adjustment P-2). Next, AWEC should have removed the unbilled revenue of
9 \$1,492,986 associated with the supplemental schedules because it was removed in
10 Cascade's initial filing, as reflected in Exh MCG-5 (adjustment R-7). These two
11 unbilled revenue items were correctly excluded from Cascade's initial filing, and
12 AWEC incorrectly treated them both in the calculation of Total 2020 Unbilled
13 Revenue.

14 **Q. What about the remaining unbilled revenue?**

15 A. The remaining unbilled revenue of \$637,012 is mainly associated with large
16 volume customers, who typically are billed at the beginning of the following
17 month. In this case, most of the unbilled revenue is associated with Schedule 511
18 large volume customers since non-core customers. Schedule 663 customers and
19 Special Contract customers, had a positive \$84,526 of unbilled revenue that
20 increased revenues and decreased revenue requirement.

1 **Q. Why should the remaining \$637,012 of unbilled revenue be reflected in the**
2 **Settlement?**

3 A. According to Leonard Saul Goodman, when a regulated company is unable to bill
4 all its customers in the test year, it properly adjusts year-end test year revenue for
5 unbilled revenue.² At the time the unbilled revenues were recorded on the
6 Company's books, shareholders had advanced the cash necessary to fund the costs
7 of the service represented by the unbilled revenues. Consequently, the post-test
8 year unbilled revenues should be included to match the costs incurred in the test
9 year. AWEC even illustrates this situation in Table 2 of its testimony, when it
10 shows costs incurred that should be matched with the revenues those costs
11 represent while removing prior post-test year revenues associated with prior
12 services rendered. The Full Multi-Party Settlement accounts for this unbilled
13 revenue in a manner consistent with public policy and the Commission's
14 matching principle.

15 **3. End of Period Depreciation**

16 **Q. AWEC proposes the use of actual accrued calendar year 2020 depreciation**
17 **expense. Is that proposal valid?**

18 A. No. It creates a mismatch between depreciation expense and the associated plant.
19 As outlined in the Direct Testimony of Company witness Nicole Kivisto, one of

² The Process of Ratemaking by Leonard Saul Goodman, 1998, Public Utilities Report, Inc., pg. 257.

1 the key drivers in the need for this limited issue rate case is the continued,
2 significant investment in system improvements to ensure the safety and reliability
3 of Cascade’s system. See page 4, line 3 of Exh. NAK-1Tr. The use of end of
4 period rate base, which Cascade proposed in this case, is critical in reversing the
5 trend of underearning experienced by the Company. In the Full Multi-Party
6 Settlement, the Settling Parties acknowledge there are different methods to
7 calculate end of period depreciation and include an adjustment in recognition of
8 that fact. See pages 4-5 of the Full Multi-Party Settlement Stipulation. Therefore,
9 the Full Multi-Party Settlement already addresses and incorporates AWEC’s
10 concern. The proposal to use actual accrued calendar year 2020 depreciation to
11 further reduce depreciation expense would impact the benefits that end of period
12 rate base treatment affords in reducing underearning. Depreciation expense
13 represents the ‘recovery of’ plant investment while the return is the ‘recovery on’
14 plant investment.

15 **4. Uncollectible Accounts**

16 **Q. Is the uncollectible amount used within Cascade’s test period representative**
17 **of past uncollectable amounts?**

18 A. Yes. The last three general rate cases filed by Cascade had uncollectible amounts
19 of:

GRC Test Year	Uncollectible Amount
2017	\$980,606
2019	\$964,264
2020	\$972,241

1 The current 2020 test year's uncollectible amount is representative of past
2 amounts and does not reflect an elevated level due to the coronavirus pandemic,
3 as Mr. Mullins testifies. Mr. Mullins claims on page 22, lines 1-2 of Exh. BGM-
4 1T, that "bad debt expense were [sic] relatively high in calendar year 2019 and
5 2020 likely due to the impacts of COVID". Mr. Mullins' assumption is not
6 accurate. According to the Center for Disease Control and Prevention's timeline,
7 the coronavirus was first detected in Wuhan, China on December 12, 2019, but
8 the pandemic was not declared until March 11, 2020.³ Thus, 2019 uncollectible
9 levels represent a normal calendar year of business, and 2020 uncollectible levels
10 are in line with the levels seen in Cascade's past two test years. The only reason
11 for normalizing is if the test year was not representative of a "normal" year. As
12 demonstrated above, the uncollectible amounts during Cascade's test year are at a
13 reasonable level when compared to previous test years. Therefore, no
14 normalization is required.

15 **Q. Other than AWEC's characterization of uncollectibles, are there any issues**
16 **with AWEC's uncollectible proposal?**

17 A. Yes. The Commission currently has a mechanism in place as part of the
18 Commission's response to the pandemic in Docket U-200281, Appendix A, where
19 utilities defer the difference between a five-year baseline (2015-2019) and the
20 actual amount collected from customers as determined in the utilities' last general

³ See <https://www.cdc.gov/museum/timeline/covid19.html>.

1 rate proceeding. This has resulted in a credit of \$612,935 as reflected in Cascade's
2 recent deferred accounting quarterly report filed on April 26, 2022, in Docket
3 UG-200479. Changing the method by which uncollectibles are calculated would
4 alter the deferral treatment within the accounting deferral and likely reverse the
5 current credit that customers are receiving to help offset the corresponding
6 pandemic assistance program costs.

7 In addition, AWEC is suggesting the use of a three-year average of bad debt
8 expense based on the period 2016-2018.⁴ As previously discussed, AWEC is
9 suggesting that 2019 was influenced by the impacts of COVID, which ostensibly
10 provides the rationale for excluding it from the average. This theory is flawed,
11 however, because 2019 was not impacted by COVID. AWEC could have used
12 2017-2019, which was also pre-COVID, but that would result in a smaller
13 adjustment. Instead, AWEC hand-selected the period that resulted in the largest
14 impact, even though it is the period that is furthest from the test year in this
15 proceeding.

16 **5. Working Capital**

17 **Q. What is working capital?**

18 A. Working capital represents the funds provided by shareholders to run the day-to-
19 day operations of the business. In other words, it takes money up front to cover

⁴ See Mullins, Exh. BGM-1T at 22:7-8.

1 costs before the Company receives revenues. A prime example is gas inventory,
2 where gas is purchased and included in inventory in the summer months, but that
3 inventory is not used and billed to customers to generate revenue until winter.

4 Another example is cash. Cash is needed to pay for expenses but those expenses
5 haven't been incurred yet so there is a timing lag. Cash is a classic example of an
6 item that makes up working capital.

7 **Q. Do you agree with AWEC's proposed adjustment to eliminate the**
8 **Company's cash accounts from working capital?**

9 A. No. Cascade does not agree that removing the cash accounts from working capital
10 is appropriate.

11 **Q. What explanation did AWEC give for excluding cash from working capital?**

12 A. AWEC's argument is that because the Company is compensated with interest, the
13 cash accounts should not be included in working capital.

14 **Q. Is AWEC correct that the cash accounts earn interest?**

15 A. No, the cash accounts do not earn interest and should therefore remain part of
16 working capital.

1 **6. COVID Deferral**

2 **Q. Did AWEC misinterpret COVID deferral data?**

3 A. Yes. AWEC reflected only the savings and costs as of November 2020. AWEC
4 did not include the savings and costs for a full 2020 calendar year. The full 2020
5 calendar year amounts are \$377,697 in costs and (\$635,080) in savings, which is a
6 total of (\$257,383). However, these totals do not reflect the offsetting revenues
7 related to late payment fees that have not been charged since 2020, which amount
8 to \$360,422. Cascade imputed late fee revenue in its initial filing and the imputed
9 fees can be seen in Exh. MCG-5, adjustment R-8. Thus, the net deferral impact of
10 all COVID related items of \$103,039 reduced the overall revenue requirement.

11 **Q. Are AWEC's assumptions correct, that costs will not increase to pre-**
12 **pandemic levels?**

13 A. No. Attachment A to Cascade's recent deferred accounting quarterly report filed
14 on April 26, 2022, in Docket UG-200479, shows on a monthly basis that both the
15 costs and savings have reversed their trend from the high of the pandemic. This
16 trend is even more pronounced when looking only at calendar year 2022, where
17 the net of costs, savings, and late payment revenues equals \$17,517. The trend
18 suggests that business operations are returning to pre-pandemic levels.

19 **Q. Should the COVID deferral be reversed as AWEC suggests?**

20 A. The COVID deferral should not be reversed unless the Commission also reverses
21 the deferred costs and imputed late payment revenues that Cascade included in

1 Exh. MCG-5, adjustment R-8. As previously discussed, the net result of removing
2 all COVID adjustments would increase the revenue requirement by \$103,039.

3 **Q. Did Cascade consider removing the deferred accounts?**

4 A. Yes. However, doing so would increase the revenue requirement, and Cascade
5 preferred to err on the side of caution. The accounting deferral application
6 normalized costs and savings as part of the Commission's response to the
7 pandemic in Docket U-200281. Imputing the late payment revenues was the final
8 step to reflect fully normalized books.

9 **7. Protected Plus Excess Deferred Income Taxes**

10 **Q. AWEC addresses and proposes to modify Cascade's treatment of protected**
11 **Excess Deferred Income Taxes ("EDIT"). Is this an issue that should be**
12 **addressed in this proceeding?**

13 A. No. As AWEC points out in its Opposition Testimony, Cascade's treatment of
14 protected EDITs is currently being adjudicated in Docket UG-220198 ("EDIT
15 Tariff"). That case is open and pending and was filed to address the exact issues
16 relating to protected EDITs that Mr. Mullins raises in his Opposition Testimony.
17 Thus, the proper forum for raising issues relating to protected EDITs is in Docket
18 UG-220198. As explained below, AWEC is aware that this issue is not
19 appropriate for this proceeding, and Cascade filed a motion to strike AWEC's
20 testimony regarding protected EDITs and a separate issue regarding Cascade's

1 Schedule 663 tariff. Cascade's Motion is currently pending before the
2 Commission; therefore, Cascade submits the following brief testimony in rebuttal:

3 **Q. Why did Cascade not include the issue of protected EDITs in this rate case?**

4 A. Cascade filed this limited issue general rate case in September 2021 to address the
5 most significant drivers of Cascade's continued under earnings; actual rate base
6 investment and 2021 wage increases. This proceeding was initiated shortly after
7 the Commission issued the final order in Cascade's prior rate case, UG-200568,
8 and Cascade filed this current rate case with the intent to correct issues and
9 implement direction received from the Commission in that final order.

10 Cascade filed the EDIT Tariff on March 23, 2022, as soon as the Company
11 determined the appropriate way to address issues regarding the amortization rate
12 for a historical level of protected EDITs prospectively, consistent with a Private
13 Letter Ruling issued by the Internal Revenue Service to Puget Sound Energy
14 ("PSE"). See Cascade's Response to Bench Request No. 1 for details regarding
15 the timing of Cascade's EDIT Tariff filing. In short, issues raised in the EDIT
16 Tariff were not included in this general rate case because Cascade's rate filing
17 occurred six months before Cascade was prepared to file its EDIT Tariff.

18 **Q. Is there sufficient time in this proceeding for parties and the Commission to**
19 **address AWEC's testimony relating to protected EDITs?**

20 A. No. The procedural schedule in this case does not allow for consideration of
21 AWEC's proposals relating to protected EDITs, nor does it provide an

1 opportunity for other parties to respond to AWEC's testimony on this issue. The
2 five business days for filing rebuttal testimony does not even allow time for the
3 Settling Parties to issue and receive a response to a data request regarding
4 AWEC's proposals.⁵ This is especially prejudicial to Cascade as the party bearing
5 the burden of supporting its request for a rate increase. Cascade must have the
6 opportunity to analyze the impacts of AWEC's proposals, yet that is simply not
7 possible, nor is it appropriate, in this proceeding.

8 Indeed, AWEC was aware before filing its testimony in this case that the EDIT
9 Tariff is not part of this proceeding and is currently being adjudicated in Docket
10 UG-220198. AWEC proposed modifying the procedural schedule to
11 accommodate its testimony, but the Commission declined to do so.⁶

12 **Q. Do you agree with Mr. Mullin's calculations and recommendations on how**
13 **protected EDITs should be treated in this case?**

14 A. No. It appears Mr. Mullins' calculations are incorrect. Cascade is concerned that
15 there are certain inaccuracies and mistakes in Mr. Mullins' testimony and exhibits
16 relating to protected EDITs. These concerns are better addressed in Docket UG-
17 220198.

⁵ *WUTC v. Cascade Natural Gas Corporation*, Docket UG-2201755, Order 05 at page 4, note 1 (March 11, 2022).

⁶ AWEC's Response to Notice of Intent to Consolidate at ¶ 2 (April 5, 2022).

1 **C. COST RECOVERY MECHANISM (“CRM”)**

2 **Q. AWEC raises two issues regarding the CRM. Please summarize those points.**

3 A. First, AWEC recommends elimination of Cascade’s CRM mechanism, arguing it
4 is no longer necessary. Second, AWEC claims Cascade improperly adjusted rates
5 in its compliance filing in Docket UG-200568.

6 **Q. Do you agree with either argument presented by AWEC?**

7 A. No. AWEC’s recommendations rely heavily on an inaccurate conclusion from the
8 Commission’s policy statement in Docket UG-120715. AWEC states that the
9 policy was only intended to be in place for four years, referencing paragraph 75 of
10 the Commission’s policy statement. AWEC ignores the last sentence of the
11 paragraph which states, “The CRM process would commence again within the
12 framework of that general rate case.” The Commission states further in paragraph
13 77 that it will review this policy after it acts on the second round of CRM filings
14 in 2015, and periodically thereafter, to determine whether it has accomplished the
15 hoped-for results of more proactive replacement of elevated risk pipe. Until the
16 Commission determines that such hoped-for results have been accomplished,
17 there is no reason to conclude that the CRM is no longer necessary, and the CRM
18 should remain unchanged.

19 **Q. Does AWEC address the policy statement’s criteria that the CRM be tied**
20 **specifically to a pipeline replacement plan that is filed every two years,**

1 **addressing the most at-risk pipe in the system, and that plan must be**
2 **approved by the Commission?**

3 A. No. AWEC is silent regarding this very key component of the CRM. Only
4 investments for projects that are specifically identified, verified, high risk, and in
5 the public interest to replace, are allowed to be recovered through the CRM.

6 **Q. In Cascade's view, is the mechanism working as intended?**

7 A. Yes. The requirement to develop a Distribution Integrity Management Program
8 was an excellent initial step, and following up with developing a replacement plan
9 and annual focus based on the results has become a priority for the Company. The
10 CRM and its ability to reduce regulatory lag has allowed Cascade to make needed
11 updates to its distribution system to ensure the continued safety and reliability of
12 service. AWEC's position ignores the positive results the mechanism has
13 achieved and continues to achieve.

14 **Q. AWEC relies on the Company's ability or requirement to file multi-year rate**
15 **plans as a reason to eliminate the CRM. Do you agree?**

16 A. A multi-year rate plan may be able to reduce regulatory lag associated with
17 replacing the most at-risk pipe, however, it is premature to eliminate the
18 mechanism until that mechanism can be evaluated in the context of such multi-
19 year proposal. That is not before the Commission in this proceeding. Cascade is
20 required to file a multi-year plan in its next general rate case and the Commission

1 will evaluate at that time whether it is appropriate for the CRM to be either
2 modified or eliminated based on a multi-year rate plan proposal.

3 **Q. AWEC states that Cascade's compliance filing in Docket UG-200568 was**
4 **inappropriate and violated the policy statement in docket UG-120715, do you**
5 **agree?**

6 A. No. The CRM portion of the compliance filing in Docket UG-200568 was
7 consistent with the policy statement and all of Cascade's rate cases since the
8 CRM was implemented in 2013.

9 **Q. Please explain how the compliance filing was in alignment with the policy**
10 **statement.**

11 A. First, the policy statement requires no special accounting or tracking of
12 investment made under the replacement plan (see paragraph 66 of the policy
13 statement). This means that all pipeline replacement investment in service at the
14 end of 2019 (the test year in Docket UG-200568), was included in rate base. No
15 adjustment was required in the case for the CRM investments.

16 **Q. How did the Company treat the associated revenue from the CRM?**

17 A. Since rate base included investment through the end of 2019, it was also
18 appropriate to include the associated revenue. The Company annualized the CRM
19 rates that were approved effective November 1, 2019 (See page 16 of Exh. IDM-
20 1T in Docket UG-200568).

1 **Q. If the Company treated the investments and revenues correctly, can you**
2 **explain why there was an increase in rates as part of the compliance filing in**
3 **Docket UG-200568?**

4 A. Yes. The impact was driven by two key factors. The first is timing and the second
5 is the annual October true-up that occurs each year in the CRM filing to true-up
6 the previous year's October estimate to the previous year's actual investment for
7 the month of October.

8 **Q. Can you explain why timing is an issue?**

9 A. Yes. The rate case is typically built on a calendar test year, but the CRM is based
10 on investment through October 31 of each year. Hence, there is an inherent timing
11 mismatch related to CRM. Also, since a rate case takes eleven months to
12 complete there is typically a new CRM filing made before the completion of the
13 general rate case proceeding that will update older investment to reflect an
14 additional year of depreciation, as well as an October true-up.

15 Cascade's 2020 general rate case, Docket UG-200568, which was based on a
16 2019 test year, was filed on June 19, 2020, and was effective July 1, 2021. On
17 November 1, 2020, nearly 6 months after the general rate case was filed, a CRM
18 was approved based on new investment from January 1, 2020, through October
19 31, 2020. However, the filing also reflected that the investment from the previous
20 year's CRM, November 1, 2018, through October 31, 2019, had further
21 depreciated a year, thus creating a mismatch to the revenue component in the rate

1 case. Investments made prior to January 2020 were included in the rate case; so,
2 as part of the compliance filing, the only rate component remaining in the CRM
3 was for investments made after January 1, 2020.

4 The 2020 CRM filing was unusual in that it included a large adjustment for
5 October 2019, which is important in understanding the increase shown in the
6 compliance filing.

7 **Q. Can you explain why the October 2019 true-up is so important in**
8 **understanding the increase recognized in the compliance filing?**

9 A. The policy statement allows an estimate for the month of October to be included
10 in each CRM filing. However, the following year's CRM filing must true up the
11 prior October based on actual investment. If the actual investment is different or if
12 the investment is not actually placed in service by the end of October, there is a
13 discrepancy, and the difference is trued-up the following year. The October 2019
14 CRM filing included a project that was not completed and placed into service
15 until November of 2019. In compliance with the policy statement, the Company
16 trued up the CRM filed in 2020 to reflect the fact that the project included in the
17 October 2019 estimate was not actually placed into service until November 2019.
18 This true up resulted in a decrease in the CRM rate that went into effect on
19 November 1, 2020.

1 **Q. Why did the Company provide the October true-up if the investment related**
2 **to it was already included in the rate case test year?**

3 A. The Company felt that it was fair to customers given the policy statement. The
4 CRM true-up would be in place from November 1, 2020 until the rate case
5 became effective July 1, 2021. Once the rate case was completed, the general
6 rates included the rate base and the proper revenues related to CRM investments
7 through the end of 2019. At that point the CRM rates were adjusted to remove
8 anything related to activity through December 31, 2019. The only items thus
9 remaining in the CRM were investments that occurred outside of the general rate
10 case test year, specifically investments from January 1, 2020, through October 31,
11 2020.

12 **Q. So, in essence, are you saying the compliance filing removed the November 1,**
13 **2020 decrease in CRM rates related to the October true up?**

14 A. Correct. Because the investment that was the basis of the October true up was
15 included in general rates at the conclusion of UG-200568, the compliance filing
16 recognized that fact. Although the compliance filing appeared to increase rates, it
17 was actually a reversal of the true up that was no longer necessary because the
18 investment that was being trued up was now embedded in rates. Had October
19 2019 actual plant investment been higher than forecast, the true up would have
20 been in the opposite direction, and the compliance filing would have resulted in a
21 net decrease. There will always be a timing and possibly October true-up
22 component associated with the compliance filing.

1 **Q. The timeline related to investments included in UG-200568 and investments**
2 **included in the CRM is complex. Would you please summarize the timeline?**

3 A. Certainly. The timeline is as follows:

4 1) November 2019: The annual CRM goes into effect and includes an estimate of
5 October 2019 investments.

6 2) June 2020: The Company filed UG-200568 which included plant investments
7 through December 31, 2019.

8 3) November 2020: The annual CRM goes into effect and includes a true up of
9 October 2019 (per the policy statement) but only includes investments made
10 from January through October 2020.

11 4) July 2021: UG-200568 rates went into effect. All plant, including the October
12 2019 true-up plant is included in rate base. The compliance filing recognizes
13 the fact that all investment through the end of 2019 is now included in general
14 rates and is properly removed from CRM rates. The only component
15 remaining in CRM rates going forward is additions from January 1, 2020,
16 through October 31, 2020.

17 5) September 30, 2021: Current general rate case filed reflecting CRM
18 investment through December 31, 2020, and CRM revenue as of November 1,
19 2020.

- 1 6) November 2021: Annual CRM goes into effect including updating 2020
2 investment with a second year of depreciation, October 2020 true-up, and
3 investment from January 1, 2021, through October 31, 2021.
- 4 7) August 2022: Compliance filing for current filing, UG-210755 will include
5 removing all investment in CRM through December 2020 and the October
6 2020 true-up. Only investment from January 2021 forward will be included in
7 CRM rates. Base rates include the CRM rate components shown in the rate
8 case (See pages 3, 6, 9, 12, 15, 18, 21 of Exh. IDM-2).

9 **Q. Will there be a similar component in the compliance filing with this rate**
10 **case?**

11 A. Yes. As Cascade explained in response to data requests, all investment through
12 December 31, 2020, that is currently included in the CRM, will need to be
13 removed from the CRM rates following the conclusion of this proceeding. This
14 includes the true-up for plant investments that were estimated for October 2020
15 and then trued up to actual in the November 2021 CRM rates. The compliance
16 filing will ensure that only CRM investment placed in service after January 1,
17 2021, will be included in the CRM rates and updated in the next CRM filing
18 which will be effective November 1, 2022.

1 **Q. In summary, is AWEC justified in its request to refund the compliance rates**
2 **implemented in UG-200568 and eliminate the CRM?**

3 A. No. AWEC's recommendation to eliminate the mechanism is unreasonable and
4 does not consider how the mechanism works in conjunction with a general rate
5 case's timing. AWEC's request would mean that the CRM rates would be
6 incorrect from the conclusion of the current proceeding until the next general rate
7 case is completed because there would be no process for removing or updating the
8 CRM rates.

9 **D SCHEDULE 663 OVERRUN ENTITLEMENT CHARGE**

10 **Q. AWEC witness Bradley Mullins proposes revisions to Schedule 663 Overrun**
11 **Entitlement Charge. Is this an issue that should be addressed in this**
12 **proceeding?**

13 A. No. As Mr. Mullins points out in his Opposition Testimony, Cascade's Overrun
14 Entitlement Charge is currently being addressed in Docket UG-210745. The
15 Company believes it is premature to address potential revisions to Schedule 663
16 prior to the resolution of Docket UG-210745. Moreover, to the extent the
17 Commission is inclined to consider potential revisions to Schedule 663, it makes
18 sense to raise that issue in a separate proceeding following the conclusion of
19 Docket UG-210745. Cascade submitted a motion to strike AWEC's testimony
20 related to Schedule 663. That motion is still pending before the Commission;
21 therefore, Cascade submits the following brief testimony in rebuttal:

1 **Q. Is Cascade's Overrun Entitlement Charge unique in the region?**

2 A. No; Cascade's Overrun Entitlement Charge is the same or very similar to the
3 other Washington natural gas utilities' tariff language.

4 **Q. Why does Cascade include the Overrun Entitlement Charge in its tariff?**

5 A. The Overrun Entitlement Charge is meant to create an economic incentive for
6 customers to deliver adequate natural gas supplies to their delivery point on
7 Cascade's system during an entitlement period. Absent a substantial charge,
8 customers, or their marketers, would have an economic incentive to purchase less
9 gas than they know they would use and pay a penalty rather than paying an
10 expensive rate for spot gas. Additionally, if customers use more natural gas than
11 they schedule for delivery on critical days, it could threaten the operational
12 integrity of Cascade's system or result in an overrun penalty charged to Cascade
13 by Northwest Pipeline, LLC (Northwest). The Overrun Entitlement Charge is an
14 important tool to ensure Cascade can meet its obligations to Northwest and to
15 protect Cascade's core customers during entitlement periods.

16 **Q. Does Cascade profit from Overrun Entitlement Charges billed to customers
17 being served by Schedule 663?**

18 A. No. The Overrun Entitlement Charges billed to customers do not in any way
19 increase Cascade's earnings. Instead, any Overrun Entitlement Charges received
20 from Transportation customers are passed on to the Company's core customers
21 through the PGA to ensure that core customers do not subsidize Transportation

1 customers that choose not to or otherwise fail to abide by the requirements of an
2 Entitlement period. Potential impacts to core customers include not only
3 entitlement penalties that Cascade could face as a result of Transportation
4 customers not delivering enough gas during an entitlement period, but also
5 additional natural gas that must be withdrawn from storage or spot gas that must
6 be purchased to balance Cascade's system.

7 **Q. If the Commission is inclined to consider proposed revisions to Schedule 663,**
8 **why do you believe that inquiry should occur in a separate proceeding?**

9 A. As this Commission has recognized, it is critical to have all interested parties at
10 the table to discuss a major policy change such as is proposed by AWEC.

11 AWEC's website states they have 40 members and five associate members.

12 Cascade currently has 240 Transportation customers, which means even if all 45
13 AWEC members are Cascade customers, AWEC still represents less than 20
14 percent of Cascade's Transport customers.

15 In the event the Commission is inclined to consider modification of Schedule 663,
16 Cascade is not opposed to engaging in further discussions regarding the tariff
17 language and, if appropriate, modifying the language in a way that considers the
18 interests of all Transportation customers while still protecting Cascade's core
19 market customers from any impacts related to gas deliveries by Transportation
20 customers during entitlement periods. However, all Cascade Transportation
21 customers—including those not represented by AWEC—should have the
22 opportunity to be involved in discussions around this proposed policy change.

1 Second, there are significant issues with Public Counsel's adjustments to restate
2 revenues, including an error within Public Counsel's formulas to calculate the
3 customer growth and CRM revenue impacts. Also, Public Counsel did not
4 account for the offsetting decoupled terms within its weather normalization
5 adjustment to restated revenues. Because Cascade has a decoupling mechanism,
6 the Company's test year is already weather normalized. Public Counsel did not
7 take this into consideration in its calculations. If it had adjusted for these items
8 alone, it would be an additional reduction of approximately \$3.7 million to Public
9 Counsel's restated operating income. These few issues reverse Public Counsel's
10 \$2.1 million revenue requirement reduction related to restating revenues to a \$5.0
11 million revenue requirement increase. The result would be a \$7.1 million revenue
12 requirement correction swing. Cascade's initial rate case, and in turn the Full
13 Multi-Party Settlement, reflect these offsetting decoupling and unbilled
14 adjustments.

15 Third, Public Counsel takes Cascade's fully adjusted 2020 settlement results and
16 adjusts those results to 2021 unadjusted books, which they label as their 2021
17 AMA result adjustment. This is an apple to orange comparison, which could have
18 any number of errors. As an example of the types of errors this process produced,
19 the workpapers to Exh. MEG-5 show a revenue increase of over \$16 million,
20 while both Cascade's federal income taxes and other taxes decreased by over \$2.1
21 million. The directional difference in these items does not make sense.

22 Additionally, the revenue increase that was calculated would require over 10
23 percent customer growth year over year, which Cascade did not see. Another

1 important difference is that Cascade's test year results reflect the removal and
2 adjustment of incentives, removal of supplemental schedules, restating of
3 revenues, adjustment of director fees, and multiple other restating and proforma
4 adjustments while Public Counsel's starting point does not. Without calculating
5 an entirely new general rate case based on a 2021 test year, it is impossible to
6 correctly account for these required adjustments.

7 The final example is that Public Counsel uses the 2020 test year conversion factor
8 instead of adjusting the conversion factor to be based on the underling revenue
9 sensitive costs in 2021 which was Public Counsel's test year proposal. This
10 should have a minor impact, but it shows that there are multiple flaws in Public
11 Counsel's proposal to create a 2021 test year out of a 2020 test year plus
12 adjustments. There could be other issues with Public Counsel's proposed test
13 year, but again it is impossible to know what they are or their impacts without
14 doing an entirely new general rate case based on a 2021 test year. Additionally,
15 Public Counsel's results assume that Cascade would make no proforma
16 adjustments to wages or plant. These are typical adjustments for Cascade and
17 would have likely been included had Cascade filed a general rate case based on a
18 2021 test year.

19 However, incorporating just the known issues outlined above would revise Public
20 Counsel's revenue requirement results from \$5.2 million to approximately \$12.6
21 million. The Company's limited analysis thus demonstrates that the current 2020
22 test year and Settlement revenue requirement are appropriate and representative.

1 In summary, rather than responding to Cascade’s general rate case, or even the
2 Full Multi-Party Settlement, Public Counsel has essentially proposed a completely
3 different rate case based on a 2021 test year. Public Counsel has cherry-picked
4 adjustments without recognizing offsetting adjustments that would benefit
5 Cascade.

6 **IV. REBUTTAL TO THE ENERGY PROJECT’S RESPONSE**
7 **TESTIMONY**

8 **Q. How do you respond to the testimony and proposals of The Energy Project?**

9 A. Cascade and its low-income advisory groups have been working through the
10 proposals TEP outlines in testimony. TEP has been an important participant in
11 those stakeholder discussions, and the result is Cascade either already conforms
12 with, or is in the process of establishing, the items included in TEP’s proposal.
13 Pursuant to Order 05 in Docket UG-200568, Cascade is to provide a
14 disconnection reduction plan by May 18, 2022. Cascade's disconnection reduction
15 plan will include the considerations regarding how to increase engagement of
16 Community-Based Organizations. It will also propose the ability to qualify
17 customers for assistance based on either 200 percent of the federal poverty level
18 or 80 percent area median household income. Cascade plans to incorporate these
19 proposals in future filings before the Commission, some as soon as June 2022.

20 Accordingly, Cascade does not object to TEP’s proposed three improvements to
21 the Washington Energy Assistance Fund (“WEAF”). Cascade would not object to

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the Commission conditioning approval of the Full Multi-Party Settlement on instituting the proposals presented by TEP in Exh. SMC-1T.

V. CONCLUSION

Q. Does that conclude your rebuttal testimony?

A. Yes, it does.