BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	**DOCKET NO. UG-060256** **REPLY BRIEF OF CASCADE NATURAL GAS CORPORATION**

DATED: December 5, 2006

Cascade Natural Gas Corporation

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I. INTRODUCTION AND OVERVIEW OF RESPONSE TO PARTIES

1. The comprehensive settlement ("Settlement Agreement") among all the active parties, which was filed with the Commission on October 11, 2006,[1] sets forth a proposed resolution of the various contested issues in this proceeding. In fact, nearly all the parties agree with (or do not oppose) the Settlement Agreement's proposed resolution of all the issues in this proceeding. The remaining contested issues concern the adoption of a proposed partial decoupling mechanism for Cascade for a three-year trial period, and the associated impacts, if any, on Cascade's cost of capital. Public Counsel, the non-settling party on these issues, presented its position in its Initial Brief. This Reply Brief sets forth Cascade's brief response to Public Counsel's arguments on these issues, and includes the following points:

- No party disputes that decoupling is a departure from "traditional" ratemaking (*i.e.*, where revenues and expenses are examined only in the context of a general rate proceeding). Whether the Commission wants to make this departure is a policy issue for the Commission to decide, and the Commission has gathered substantial evidence and commentary on these policy questions in recent years. The Settlement Agreement offers the Commission with an opportunity to implement for a three-year trial period a partial decoupling mechanism that also includes performance benchmarks by which to measure Cascade's progress in delivering conservation savings.

[1] Parties to the Settlement Agreement are Cascade Natural Gas Corporation ("Cascade" or "the Company"), the Public Counsel Section of the Office of Attorney General ("Public Counsel"), Northwest Industrial Gas Users ("NWIGU"), NW Energy Coalition (the "Coalition"), The Energy Project and Cost Management Services, Inc. ("CMS").

- The record contains substantial evidence that in the absence of a decoupling mechanism, Cascade is penalized financially when customers reduce consumption through conservation.
- The record contains sufficient evidence for the Commission to be satisfied that associated cost of capital effects, if any, were taken into account in the Settlement Agreement, and that the Settlement Agreement provides a basis for regulating Cascade in the intervening three-year period until Cascade's next general rate case in Washington.

II. DISCUSSION OF REMAINING CONTESTED ISSUES

A. The Record Provides a Sound Basis for the Commission to Approve the Partial Decoupling Proposal for Cascade for a Trial Three-Year Period

2. In Docket No. UG-050369, the Commission commenced a "Decoupling Rulemaking" to consider the possible adoption of administrative rules under which natural gas companies would "decouple" their recovery of fixed costs from the volume of commodity sales. The Commission conducted a workshop and received a round of comments from several interested parties. These comments examined a wide variety of issues, including the design and scope of decoupling mechanisms and the policy issues associated with the implementation of decoupling for natural gas companies in Washington. Following the Commission's review and analysis of the comments it received, the Commission determined that decoupling proposals should be considered in the context of proposals by individual utilities "[g]iven the wide variety of alternative approaches to the various issues that have been identified and the significant geographic, economic and technological differences between the four natural gas companies doing business in Washington and the populations they serve."[2]

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[2] *Docket No. UG-050369, Summary, Analysis of Comments and Decision to Close Docket without Action, (Oct. 17, 2005) ("Rulemaking Decision").*

3. Addressing the policy issues associated with decoupling, the Commission stated as follows:

> As a matter of policy, the Commission favors utility efforts to accomplish cost-effective conservation that reduces both the utility's costs and enables consumers to manage their natural gas bills. Companies that perceive that a decoupling mechanism would overcome disincentives to their offering such conservation programs should include a decoupling mechanism in a future general rate case filing. Any such proposal would necessarily be designed to fit with the utility's particular circumstances and needs and be accompanied by sufficient financial information to allow the Commission to thoroughly analyze its implications for customers and the utility.[3]

4. The Commission provided additional guidance for utilities seeking to implement decoupling in PacifiCorp's most recent rate case, Docket No. UE-050684. In its Order 04, the Commission identified twelve items of detailed information that a utility should include in a request for approval of decoupling.[4]

5. Accepting the invitation extended by the Commission in its Rulemaking Decision, Cascade "perceive[d] that a decoupling mechanism would overcome disincentives to [its] offering such conservation programs" and included a proposed decoupling mechanism in this general rate case filing.[5] As required by the Commission's Rulemaking Decision, the record contains "sufficient financial information to allow the Commission to thoroughly analyze its implications for customers and the utility."[6] Moreover, the record also contains the demonstration which the PacifiCorp Rate Order states would be necessary in order to support a request for decoupling, as reviewed in Staff's Initial Brief in this proceeding.[7]

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[3] *Id.* at 10.
[4] *Docket No. UE-050684, Pacific Power & Light Company, Order 04 (April 2006) ("PacifiCorp Rate Order").*
[5] *Rulemaking Decision* at 10.
[6] *Id.*
[7] *Staff Initial Brief* at ¶¶ 14-24.

6. Given the extensive discussion of decoupling mechanisms and the associated policy issues, Cascade sees little value in debating ratemaking theory, and whether or not decoupling is a warranted departure from "traditional" ratemaking. This is a policy decision for the Commission to make, and the Commission has been provided with ample evidence on the policy issues in this and other proceedings, including the Decoupling Rulemaking. The record in this proceeding certainly offers substantial evidence to support adoption of the limited form of decoupling mechanism recommended in the Settlement Agreement, as noted above. The Settlement Agreement offers the Commission an opportunity to implement for a three-year trial period a partial decoupling mechanism that also includes performance benchmarks by which to measure Cascade's progress in delivering conservation savings. As a result of the debate among the parties on these issues in the rounds of testimony that preceded the negotiation of the Settlement Agreement, the final "product" was shaped and informed by all the parties' positions. It represents a consensus recommendation that addresses the issues raised by nearly all of the parties.

B. The Record Includes Substantial Evidence Demonstrating the Disincentive that Is Removed by Implementation of Decoupling

1. So Long as Fixed Costs Are Recovered Through Volumetric Charges, Utilities Are Financially Harmed by Promoting Conservation

7. Public Counsel makes the following extraordinary claim in its Initial Brief opposing adoption of the proposed decoupling mechanism:

> **There is no evidence whatsoever supporting the disincentive theory of decoupling.**[8]

In fact, the evidence on this point is substantial, and compelling.

[8] *Public Counsel Initial Brief* at p. 32 (emphasis in original).

8. Mr. Stoltz' direct testimony explains that the total fixed costs for serving a residential customer is $269.13 annually.[9] (Under the cost of service recommended in the Settlement Agreement, this figure is reduced to $228.00 annually.)[10] Under the rate design recommended in the Settlement Agreement, the residential basic charge would remain unchanged at $4.00 per month.[11] Thus, only $48 of the $228 in annual fixed costs, or about 21 percent, would be recovered through the basic charge. The remaining $180, or 79 percent, of fixed costs would be recovered through the per-therm or commodity rate. *In other words, 79 percent of the Company's fixed cost recovery for residential customers is tied to volume of sales.* The basic charge would need to be increased to $18.98 per month in order to avoid recovery of fixed costs through volumetric rates.[12] The facts are similar for commercial customers, where the basic charge would need to be increased to $75.60 per month, as compared to the $10 per month recommended in the Settlement Agreement.[13] Staff witness Steward includes a similar discussion in her testimony,[14] as does Coalition witness Weiss.[15]

9. Because such a large portion of fixed costs is recovered through volumetric rates, Cascade suffers an economic penalty when use per customer declines. Cascade – and any other gas distribution utility with similarly low basic charges that fail to recover fixed costs – therefore has a strong disincentive to promote any conservation that would contribute to this declining consumption. As stated by Coalition witness Weiss:

> Traditional rate design ties recovery of fixed costs directly to commodity sales. This encourages increased use and discourages even the most economic investments if they are likely to reduce

[9] *Exh. No. 21-T* at 23:16-17.
[10] *Exh. No. 1* at Attachment C.
[11] *Exh. No. 1* at ¶ 17(b).
[12] *Stoltz, Exh. No. 21-T* at 24:2-4.
[13] *Id.; Exh. No. 1* at ¶ 17(b).
[14] *Exh. No. 421-T* at 9:5-12.
[15] *Exh. No. 311-T* at 9:16-20.

> throughput. If sales go down, Company shareholders forego cost recovery of recognized and prudent costs with every unsold therm.[16]

10. This is the disincentive associated with utility promotion of conservation. It is not a theory; it is a fact and, in this proceeding, is amply supported by cost of service testimony which quantifies the extent of fixed cost recovery through volumetric charges. Breaking the link between Cascade's commodity sale and revenues removes "the disincentive to run effective energy efficiency programs or invest in or encourage other activities that may reduce load."[17]

11. Moreover, in addition to quantitative facts clearly demonstrating the existence of such a disincentive, other utility commissions have also recognized that the current rate structure includes a disincentive towards promotion of conservation. For example, the Connecticut Department of Public Utility Control (the "Department") commented:

> Traditional approaches to ratemaking have linked [the utility's] financial health to the volume of electricity sold, thus providing a disincentive to the investment in cost-effective demand-side resources that reduce sales . . . Therefore, the current rate design provides a barrier to maximizing utility sponsored energy efficiency because energy-based revenues provide an incentive to maintain or increase throughput.[18]

The Department approved a decoupling mechanism for United Illuminating Company, and remarked upon the need for such mechanisms:

> [F]ixed recovery of revenues, *i.e.*, decoupling, provides an opportunity for the distribution company to partner with its customers to aggressively pursue strategies that will reduce throughput, demand and ultimately cost. This should become a primary function of distribution companies.

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[16] *Id.* at 4:23 – 5:4.
[17] *Id.* at 7:3-6.
[18] *Docket No. 05-06-04, In re Application of the United Illuminating Company to Increase Rates and Charges (Aug. 30, 2006).*

In similar recognition of the need for a partnership between customers and the utility to promote conservation, the North Carolina Utilities Commission noted that its approval of a decoupling mechanism was a way of reconciling the "inherent conflict between the utility and its customers" caused by reduced per customer use and that it would "help open opportunities for conservation of energy resources, savings for customers, and downward pressure on wholesale gas prices, while also helping the utility recover its margin and earn a reasonable return."[19] Accordingly, contrary to Public Counsel's assertion that there is "no evidence whatsoever" supporting the disincentive theory of decoupling, the theory is, in fact, well recognized and has been approved of in other jurisdictions.

2. Cascade's Past Record of Being Able to Overcome These Disincentives through Cost Savings and High Customer Growth Cannot Be Expected to Continue into the Future

12. Public Counsel's Initial Brief includes strident accusations about the parties' "blatant failure" to incorporate Cascade's previous ability to achieve margin increases due to customer growth, and argues that this amounts to "intentional (or at least reckless) ignorance" about Cascade's actual performance.[20] According to Public Counsel, this "planned ignorance throws open the door to over-earnings."[21]

13. The allegation of "planned ignorance" is shocking in its tone and substance. It implies, without foundation, that parties – presumably Staff and the Coalition – have done an inadequate job of investigating and evaluating Cascade's financial circumstances and the likely impact of

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[19] *Docket No. G-9, Sub. 499, In re Application of Piedmont Natural Gas Co. for Partial Rate Increase (Nov. 3, 2005); see also Docket No. 05-1444-GA-UNC, In re Application of Vectren Energy Delivery of Ohio Inc. for Approval of a Tariff to Recover Conservation Expenses and Decoupling Revenues (Sept. 13, 2006)* (approving conservation rider consisting of conservation funding and decoupled sales components for two-year test period).
[20] *Public Counsel Initial Brief* at ¶ 50.
[21] *Id.* at ¶ 56.

implementing a decoupling mechanism for Cascade. The allegation also ignores the substantial evidence in the record which establishes the following:

- Cascade has been able to avoid seeking rate relief due to an internal culture of pursuing operating efficiencies.[22] Cascade has exhausted readily available internal cost control measures,[23] and thus similar cost savings in the future are much less likely.[24]
- Cascade has been able in recent years to increase net margins due entirely to its high growth rate: an annual growth rate in customer base of 3 percent to 5 percent over the past five years.[25] The increased margin due to customer growth, however, was almost entirely offset by reductions in gas usage per residential and commercial customers.[26]
- Cascade thus happens to be in the fortunate position of having such high customer growth in recent years that it can overcome the consequences of declining use per customer. It is not "planned ignorance" to recognize that, *regardless of a particular utility's starting point in terms of operating margins*, the utility will suffer an economic penalty when use per customer declines, so long as rates are designed to recover fixed costs through volumetric charges.[27] Cascade therefore has a disincentive to promote any conservation that would contribute to this declining consumption. It is Public Counsel which chooses to ignore the undisputed economic evidence on this point; Public Counsel would have the

[22] *Stevens, Exh. No. 11-T* at 4:6-8.
[23] *Id.* at 5:24-25.
[24] *Stevens*, TR 225:1-7.
[25] *Stevens, Exh. No. 11-T* at 3:1-3.
[26] *Exh. No. 20* at 22.

Commission believe that, based on Cascade's short-lived ability in recent years to overcome these disincentives through cost cutting and growth in customer numbers, the disincentives do not exist. They plainly do, and decoupling is intended to address them.

- Claims of potential over-earnings as a result of an "insidious" decoupling mechanism and "throwing money at a utility" in a manner that "could be characterized is irresponsible" are similarly overstated.[28] Any over-earnings will likely result from a colder-than-normal winter – since the weather-related portion of the proposed decoupling mechanism is stripped away under the Settlement Agreement – and this is no different than under the current arrangement.[29] The conservation-related adjustment that decoupling will permit is expected to be no larger than 1 percent of revenues.[30] Moreover, rather than "throwing money" at Cascade in the mere "hope" that it will "result in a new age of utility sponsored conservation,"[31] the Settlement Agreement includes conservation performance measures designed to ensure that any benefits from decoupling must be accompanied by achievement of actual conservation savings.[32]

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[27] As described above, a substantial portion of Cascade's fixed costs are recovered on a per-therm basis.
[28] *Public Counsel Initial Brief* at ¶¶ 6, 12.
[29] TR. 289:20 – 290:6.
[30] *Steward*, TR. 276:20-24.
[31] *Public Counsel Initial Brief* at ¶ 12.
[32] *Exh. No. 1* at ¶ 15(e).

C. The Terms of the Settlement Agreement Address any Cost of Capital Impacts Associated with Decoupling, and Provide a Basis for the Commission to Regulate Cascade in the Intervening Three-Year Period Until Cascade's Next General Rate Case

14. Public Counsel mistakenly claims that the Settlement Agreement "fails to address the rate of return implications" of implementing decoupling, as "it does not contain a rate of return."[33] As explained in Cascade's Initial Brief, Section 12(a) of the Settlement Agreement reflects a revenue requirement of $7,480,632 with respect to the overall return.[34] This revenue requirement, which is in the middle of the range between the positions of the two parties offering testimony on cost of capital issues (Staff and the Company), reflects the impact, if any, of the implementation of decoupling on Cascade's required rate of return.[35] Staff reached the same conclusion in its Initial Brief.[36] It is not necessary to identify a specific rate of return, as Public Counsel suggests, in order to demonstrate that the Settlement Agreement incorporates the rate of return implications associated with decoupling.[37]

15. Similarly, the absence of a specific rate of return recommendation is not "fatal" to the approval of the Settlement Agreement.[38] The Commission can perform its statutory function of setting fair, just, reasonable and sufficient rates without making a specific determination on

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[33] *Public Counsel Initial Brief* at ¶ 114.

[34] It should be noted that Public Counsel's Initial Brief incorrectly refers to this figure ($7,480,632) as the "increased revenues" recommended under the Settlement Agreement. *Public Counsel Initial Brief* at ¶ *39*. In fact, this figure is the revenue requirement associated only with the return recommendation, and does not reflect the other revenue requirement adjustments. *Exh. No. 1* at ¶ 12(a). The revenue requirement increase recommended under the Settlement Agreement is $7,061,356, or an increase of approximately 2.69 percent. *Id.* at ¶ 12.

[35] *Cascade Initial Brief* at ¶ 53; *see also Narrative Statement, Exh. No. 2* at ¶ 5.

[36] *Staff Initial Brief* at ¶ 19.

[37] Based on the analysis described in the Company's initial brief (¶ 53) and Staff's Initial Brief (¶ 19), the evidence suggests that the Commission would be required to make an *upward* adjustment to Cascade's overall rate of return requirement in the event it rejects the recommendation in the Settlement Agreement to implement partial decoupling.

[38] *Public Counsel Initial Brief* at ¶ 111. In support of this argument, Public Counsel cites RCW 80.04.140 and *MCI Telecommunications Corp. v. GTE Northwest, Inc., Docket No. UT-970653 (1997),* which is a case decided under RCW 80.36.140, not RCW 80.04.140 (which involves joint action by two or more public service companies). As noted below, given the difference in the requirements under RCW 80.36.140 (applicable to telecommunications

Cascade's overall rate of return. As explained in Cascade's Initial Brief, the Commission observed in previous proceedings involving proposed settlements that "ratemaking is not an exact science."[39] When examining specific adjustments in the context of a settlement proposal, the Commission stated that "close scrutiny of individual adjustments is not required" as long as "the overall result in terms of revenue requirement is reasonable and well supported by the evidence."[40] The evidence offered in support of the Settlement Agreement shows that the proposed settlement is consistent with the law and the public interest, and represents a reasonable resolution of the issues at hand. Thus, the requirements of WAC 480-07-740 – the standard applicable to Commission review of proposed settlements – are satisfied.

16. Public Counsel also suggests that in the absence of a specific finding on rate of return, the Commission will not be able to determine in the future whether the Company is over-earning.[41] In fact, however, the Commission frequently approves a stipulated revenue requirement without making specific findings on return on equity ("ROE") or an overall rate of return. In Northwest Natural Gas Company's most recent general rate case in Washington, for example, the Commission adopted a "black box" settlement that adopted an overall revenue requirement without making any finding as to overall rate of return or ROE.[42] In PacifiCorp's 2004 general rate proceeding, the Commission approved an overall rate of return of 8.39 percent without identifying a particular ROE.[43]

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companies) versus those under RCW 80.28.020 (applicable to energy companies), even if the argument were valid with respect to telecommunications companies, it fails to establish the point with respect to gas companies.

[39] *Docket No. UE-032065, WUTC v. PacifiCorp d/b/a Pacific Power & Light Company, Order 06 at 27, ¶ 62 (2004).*

[40] *Id.* at 27, ¶ 61-62.

[41] *Public Counsel Initial Brief* at ¶ 113.

[42] *Docket No. UG-031885, WUTC v. Northwest Natural Gas Company, Order 04 at ¶ 8 (2004)* (approving rate increase of $3.5 million with no findings on overall rate of return or ROE).

[43] *Docket No. UE-032065, WUTC v. PacifiCorp d/b/a Pacific Power & Light Company, Order 06 at ¶ 57 (2004).*

17. As a practical matter, whether or not a utility is over-earning is determined not by reference to the utility's allowed ROE or rate of return, but by costs of capital prevailing in the financial markets at the time the analysis is performed. In Cascade's previous general rate proceeding in Washington, for example, rates were set on the basis of an ROE of 11.25 percent.[44] As capital costs varied during the near-decade following that rate order, any claimed "over-earning" would not necessarily be determined by reference to the 11.25 percent ROE approved in 1996, but instead by reference to an ROE that would be appropriate under then-prevailing market conditions. The situation will be no different here. In fact, the requirement that Cascade submit a general rate filing within the next three years in order to extend decoupling[45] will allow its return requirements to be evaluated under circumstances existing at that time.

D. Cascade's Response to Other Issues Raised in Public Counsel's Initial Brief

1. Any Alleged "Over-Earnings" by Cascade in Oregon Is Unrelated to the Implementation of Decoupling in Oregon

18. Public Counsel's Initial Brief attempts to create the false impression that there is some relationship between Cascade having decoupling in place in Oregon and the Company's claimed "over-earnings" situation in Oregon. For example, Public Counsel criticizes Staff witness Steward for taking a position that over-earnings are unlikely to occur during the three-year pilot period "even after acknowledging that Cascade is over-earning in Oregon, where it has a decoupling mechanism."[46] Public Counsel similarly attacks Coalition witness Weiss for supporting Cascade's decoupling proposal in Oregon given that "an unprecedented rate reduction

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[44] *Docket No. UG-951415, WUTC v. Cascade Natural Gas Company, Fourth Supplemental Order (1996).* ROE and capital structure were resolved at an early stage of the proceeding, and the remaining revenue requirement issues were addressed in the Settlement Agreement adopted by the Commission in the Fourth Supplemental Order.
[45] *Exh. No. 1* at ¶ 15(c).
[46] *Public Counsel Initial Brief* at ¶ 59, citing TR. 278:17-22.

investigation" was initiated so soon after the decoupling stipulation was approved in that state.[47] Yet the evidence upon which Public Counsel relies in support of this allegation completely disproves it.

19. Exhibit No. 264 is the memorandum prepared by Staff of the Public Utility Commission of Oregon ("OPUC") to support commencing a "show cause" investigation into the Company's earnings in Oregon. It was prepared on the basis of an audit conducted on the Company's results of operations for ***2005***.[48] Yet under the stipulation in OPUC Docket UG 167 under which Cascade was permitted to implement decoupling in Oregon, ***Cascade did not implement decoupling until May 1, 2006***.[49] There is absolutely no relationship between any claimed over-earnings situation for the Company's operations in Oregon and its implementation of a decoupling mechanism in Oregon. Any authorized deferrals under the decoupling mechanism in Oregon did not commence until May 1, 2006, and thus could not have had any impact upon the earnings in 2005 upon which the OPUC Staff memorandum was based.[50] The evidence clearly establishes this chronology, and it is unfair for Public Counsel to malign both Staff witness Steward and Coalition witness Weiss on the basis of this obvious mischaracterization of the evidence.

2. Public Counsel's Characterizations of the Company's Conservation Program Are Inaccurate and Misleading

20. As an alternative to approving decoupling for Cascade, Public Counsel urges the Commission to use its authority "to enforce a minimum level of conservation."[51] According to Public Counsel, "[i]t is difficult to imagine that Cascade would attain this minimum standard in

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[47] *Id.* at ¶ 65.
[48] *Exh. No. 264* at 2.
[49] *OPUC Docket No. UG 167, Order No. 06-191 entered April 19, 2006*, Appendix A at 2.
[50] *Id.* at Appendix A, pages 12-24 (showing tariff sheets with a proposed May 1, 2006 effective date).

the near future."[52] This, too, represents an unfair maligning of Cascade's current conservation programs.

21. The evidence in the record establishes that Cascade's evaluation of conservation measures meets, if not exceeds, the Commission's current guidelines under its Integrated Resource Planning ("IRP") rules.[53] As a dual-state utility, Cascade must meet the IRP requirements of both Washington and Oregon, and must achieve the guidelines of the more-stringent jurisdiction. With respect to conservation resource analysis, Cascade has used the Oregon demand-side management ("DSM") approach, which requires that the utility assume an additional 10 percent non-energy benefit associated with conservation programs beyond any quantifiable non-energy benefits that would be used in developing the total resource cost, or TRC.[54] With respect to programs in Washington, the Company implemented new conservation programs for both low-income customers and commercial and industrial customers in Fall 2005.[55] Both of these programs were outlined in the Company's 2004 IRP, were part of the overall least cost portfolio, and as a result were included in the Company's 2-year action plan.[56]

22. Similarly, Public Counsel refers to Cascade's lost margin from conservation programs as "truly miniscule."[57] Yet the evidence shows that these figures were based upon Cascade's responses to data requests from the Coalition that addressed only those savings associated with utility-sponsored rebate programs.[58] Use-per-customer figures are also affected by therm savings associated with soft conservation or customer-initiated conservation; in this regard, the Company

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[51] *Public Counsel Initial Brief* at ¶ 101.
[52] *Id.*
[53] *Barnard, Exh. No. 111-T* at 11:8-19.
[54] *Id.*
[55] *Id.* at 8:1-6.
[56] *Id.*
[57] *Public Counsel Initial Brief* at ¶ 80.
[58] *Barnard, Exh. No. 111-T* at 14:13 – 15:2.

has been providing customer education on low cost/no cost conservation programs since the early 1990s, along with promoting the wise use of natural gas.[59] This information has likely resulted in the additional declines in usage per customer beyond the amounts attributed to utility-sponsored programs.

23. Public Counsel also draws unfavorable comparisons between Cascade's conservation program and Puget Sound Energy's ("PSE"), claiming that "PSE has a much more aggressive program under a tariff rider than Cascade would have under decoupling."[60] In a way, this statement illustrates the point: PSE has a tariff rider under which it collects for conservation expenditures before it even spends them, and has ramped up its program – and the costs and employees devoted to it – accordingly. In contrast, Cascade recovers its conservation expenditures only after it has spent them, and through the PGA process rather than through a separate tariff rider. With nearly three times the number of customers as served by Cascade, it is simply inapposite to compare PSE's estimated conservation potential to Cascade's estimated therm saving potential.[61]

3. Public Counsel Cites Irrelevant or Misinterpreted Authority in Its Arguments Regarding the "Matching Principle" and "Single-Issue Ratemaking."

24. In support of its argument that the Commission will not generally engage in "single issue" or "piecemeal" ratemaking, Public Counsel's Initial Brief cites RCW 80.36.140 which, according to Public Counsel, "clearly militates toward a comprehensive review of a company's rate base and operating expenses in order to earn a proper rate of return, and allocate rate changes

[59] *Id.* at 14:13-18.
[60] *Public Counsel Initial Brief* at ¶ 103.
[61] *Barnard, Exh. No. 111-T* at 14:4-10.

equitably among ratepayers."[62] That particular statute, however – as well as all of Chapter 80.36 RCW – refers to telecommunications companies. The companion provision for energy companies, RCW 80.28.020, is much more limited in scope, and thus the telecommunications utility precedent under RCW 80.36.140 would have little, if any, bearing on the ratemaking practices for a natural gas utility.

25. Public Counsel also cites the PacifiCorp Rate Order from April 2006 as standing for the proposition that the Commission rejected a proposed inter-jurisdictional cost allocation methodology (the "Revised Protocol") because it violated the "matching principle."[63] According to Public Counsel's Initial Brief, the Revised Protocol was rejected as a violation of the matching principle "because it failed to include depreciation adjustments that properly matched the inclusion of plant additions used and useful at the start of the rate period."[64] As is apparent from the cited portion of the PacifiCorp Rate Order, however, the rejection of Revised Protocol had nothing to do with the matching principle. Rather, the decision was based on a requirement under RCW 80.04.250 that the utility demonstrate that a resource proposed to be included in rates under the Revised Protocol must be shown to produce benefits to Washington customers.[65] The excerpt cited by Public Counsel concerned a proposed adjustment to update rate base to include plant additions after the close of the historic test year, and the need to similarly update the associated rate base depreciation reserves to achieve a matching as of a similar point in time.[66] That concept of the matching principle – ensuring that a common point in time is used for looking at all cost of service components when rates are set in a particular rate proceeding – is

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[62] *Public Counsel Initial Brief* at ¶ 28.
[63] *Id.* at ¶ 24.
[64] *Id.*
[65] *PacifiCorp Rate Order* at ¶¶ 51-2, 58, 62.
[66] *Id.* at ¶ 194.

distinctly different than the argument raised here by Public Counsel, which concerns the deviations in revenues and expenses that are likely to occur over time in the periods that follow the setting of rates in a rate proceeding.

III. CONCLUSION

26. For the reasons set forth above and in Cascade's Initial Brief, the Commission should adopt the Settlement Agreement. The terms of the Settlement Agreement are lawful and consistent with the public interest, and provide a reasonable basis for resolving the issues in this proceeding.

27. Respectfully submitted this 5th day of December, 2006.

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